Notre Europe
Thinking a united Europe
Penser l'unité européenne

EGMONT
Royal Institute for International Relations

EXTRACT

Mario Monti,
Open issues on economic governance

The Euro, the investors and the governance

Proceedings of the seminar in honour of Tommaso Padoa-Schioppa,

Brussels, 4 April 2011

Michel BARNIER

Peter BOFINGER

Etienne DAVIGNON

Jacques DELORS

Mario DRAGHI

Philippe LAGAYETTE

Mario MONTI

Erik NIELSEN

Jean PISANI-FERRY

Didier REYNDERS

Proceedings
Brussels
April 2011
of seminar

Open issues on economic governance

Mario Monti, *President of the Bocconi University*

I first met Tommaso Padoa-Schioppa in 1962, when we both were students at Bocconi University in Milan. I saw him for the last time on 13 November 2010 in Paris at the *Comité d'orientation* of *Notre Europe*; I will make a brief reference to that below. Between those two dates, I had the privilege of a frequent dialogue with Tommaso, sometimes in the form of close cooperation, often in common fights conducted in the name of a vision – about Italy, Europe, Italy's role in Europe – which was usually the same, although on many occasions it definitely tended to be a minority view.

I will briefly touch upon four aspects of the newly emerging economic governance of the Economic and Monetary Union (EMU) and, more broadly, of the European Union: 1. governance and semesters; 2. governance towards what?; 3. governance of what?; 4. governance by whom?

1. Governance and semesters

I wish to begin with a simple, semantic observation. As the EU entered the first half of 2010, something relevant happened as to what “semester” in fact means to EU governance. Off went the “semester” as an obstacle to good governance of European affairs; at the same time, entered the scene the “semester” as a facilitator of good governance. The first fact was the result of a deliberate institutional change, the Lisbon Treaty, which put in place a permanent President of the European Council. The second fact, the “European semester” which will now occupy the minds and the policy processes of Member States and the Community institutions during the first half of each year, was not, of course, the result of mere voluntarism. Whereas such innovation had been proposed by the European Commission for years and it was always rejected, in 2010 it has been accepted, due to the pressure of the crisis. But, I see a link between the two facts, because I am convinced that the emergence of the permanent President of the European Council, by exercising authority in a discrete but continuous way, has allowed the EU to draw lessons and to work out policy responses and reforms, in terms of improved governance, more effectively and more rapidly than it would have been possible if we still had the rotation of the President of the European Council. I think this should not be neglected. In a sense, we were “lucky” that the Greek crisis did not appear until a permanent President of the European Council was in place. Incidentally, had the crisis emerged in the course of the first three quarters of 2009, both Greece and Germany – i.e. the two most crucial countries for the management of the crisis – would have seen their margins for key decisions (severe austerity measures, for Greece; adherence to the decision to support Greece, for Germany) further restricted by the imminence of national elections (which took place in September 2009 in Germany and in October 2009 for Greece).

2. Governance towards of what?

The two key words, as regards the objectives, are obviously stability and growth. The objective of stability has been served rather better in the previous Stability and Growth Pact (SGP), where the reference to growth was little more than a lip service. But now the new apparatus makes an unprecedented effort to bring in elements of a growth policy to be coordinated at the EU level and to be instilled into Member states. I refer to the rather disorderly but rich map of instruments – included in the Europe 2020 Strategy and the Euro Plus Pact – where considerable progress has been achieved in providing a framework and some incentives towards growth. In my view, however, insufficient consideration has been given to two fundamental drivers of sustainable growth in the EU economy as a whole: integration and investment. “Integration” is a key vehicle for structural reforms in the Member States. Therefore it is a very important pre-condition for real growth. The Commission has undertaken a major policy initiative to make the Single Market deeper, stronger and more accepted. That initiative, now embodied in the Single Market Act, should become part and parcel of a more organic growth strategy, including a renewed commitment by member States as regards both the implementation of and compliance with existing Single Market rules, and the prompt support in the Council of the new initiatives in the Single Market Act to foster integration. Concerning “investment”, I think it is still an under recognised component of European policies. Of course, the growing role of public-private partnerships has to be fully praised. At the same time, I continue to believe – as I first underlined as a member of the Commission in 1996/97 when we “manufactured” the first SGP – that the approach adopted did not, and still does not, recognize to a sufficient extent the nature of the expenditures whereas the sector which makes the expenditure receives an exaggerated attention. Thus, in the original SGP, but even in the Maastricht Treaty before it, the source of evil is the public sector, so any spending made by the public sector - be it current expenditure, be it for investment – is suspect and needs to be capped, in terms of deficit generation; whereas any expenditure made by the private sector is not suspect, irrespective of whether it is private investment, private consumption or even private consumption financed through consumer indebtedness, mortgages, etc. No surprise, then, if we have seen for years considerable discipline put on budgetary development of Member States and a total lack of surveillance or even attention paid to the dynamics of private sector expenditure and private sector indebtedness. It was not an occurrence which should have came by surprise. It came by surprise only because we were to some extend obsessed by a scheme of analysis that gave exclusive role to the distinction by sectors, not by economic nature. Incidentally, that is not in line with another, and earlier, key pillar of European integration. If we look at the former article 295 of the Treaty (number before Lisbon), it stipulates the total neutrality of the EU as regards private or public ownership of companies, but imposes on both privately or publicly held companies the obligation to comply with competition and state aid rules. It is when it comes to creating the single currency – and therefore to protect ourselves from the excesses of the public sector, because historically that had indeed been the main ultimate source of monetary and financial instability in many countries – that a grossly approximated analytical scheme has acquired unique political relevance. This means that Europe is inflicting upon itself an anti growth bias. It is perfectly correct not to pursue growth through the illusions of inflation-creating policies or budget deficits; but I've always seen the merits of putting a very sharp cap on government deficits due to current expenditure but allow for greater room for public sector investment expenditure. I know perfectly well that it is very hard in practice to define what investment is but I maintain that, had we started in 1996/97 to put at work the Commission, Eurostat and the competent services of the Member States with a view to arrive at an agreed, and even extremely stringent definition of what is a worthy public investment, we would now be in a position to apply a policy apparatus that, while protecting Europe and the euro from fiscal profligacy, would do so without penalizing the growth of Europe, thus ultimately the ability of many Member States to comply in a sustainable way to the ceilings on deficit and debt as a proportion of their GDP. This was the point with which Tommaso Padoa-Schioppa concluded his response closing a highly fruitful discussion, stimulated by his thorough and inspired initial presentation, at *Notre Europe*'s *Comité d'Orientation* last November. I had raised this point and he totally agreed and we both went back to the fact that in the initial negotiations for the Maastricht Treaty, Germany had tried to introduce into the Treaty this "golden rule", namely that government indebtedness is allowed, but only to the extent that it finances government investments, not government current expenditures. That was the golden rule that at the time was enshrined in the German constitution, and applied in practice. Incidentally, I consider that rule to be more appropriate than the one that was subsequently introduced in the German constitution (the so called "debt brake"). Tommaso – it emerged clearly from his reply – was now much more favorable to the "golden rule" than he had been in the past, when he was a central banker. He concluded by proposing that *Notre Europe* should promote research specifically on this topic, so that in the future a proper place for public investment may be secured in a EU policy framework for disciplined and sustained growth. Let me add that there is simply no hope in the long term of maintaining the needed budgetary discipline – and perhaps even the necessary consensus on European integration – unless we achieve a more satisfactory growth rate. Finally, more investment-based growth is required if Europe is to fulfill its responsibilities towards future generations. The EU has the merit that it tends to be the ally of future generations, protecting them for example from the degradation of the environment or from excessive public debt. Why then should it not be able to recognize what is in the interest, and what is not in the interest, of future generations in what a government does. Does a government in fact expropriate future generations by financing current expenditures in deficit? Or does it borrow funds to prepare a larger and better endowment of productive and social capital for the future?

3. Governance of what?

As to the scope of governance, we have seen recently, mainly as a result of the crisis, a belated recognition that after all there is a "E", not only a "M" and a "U", in "EMU". Only in the last year or so has it become common to underline that it is necessary to care about economic union not just monetary union. But in my view we are not yet there. Almost everybody now refers to "Economic Union" as meaning the improvement of the coordination of those aspects of economic policies which are not monetary policy. Because monetary policy is a single one, proper governance requires also economic union, they say, in the sense of having more coordination of non monetary policies. Whilst this is of course important, I consider it to be the less important of the two elements of which, in my view, economic union must consist: firstly, a really integrated and fully-fledged single market (the structural component of economic union); secondly, for sure, a high degree of coordination – if not unity – among non-monetary economic policies (the governance component of economic union). To forget the first element would be equivalent to calling "monetary union" a set of countries where there was some coordination among their respective monetary policies, but not a single currency. An economic disunion, an imperfectly integrated economic space, a deficient single market does not become an economic union only because there is, as there should be, coordination of the non monetary aspects of economic policies. Put differently, if we really want the euro zone to be a currency area that approximates, even vaguely, an optimum currency area, we have to have an economic union in the structural sense of the word: a deep market integration. Hence the importance of further steps towards integration, particularly in the services sector. But I would go a step further. There is a seldom recognized paradox: many euro zone countries are behind non euro zone countries; they are holding back the EU's overall competitiveness because they maintain obstacles, and sometimes even create new obstacles, to the full completion and development of the economic union and of the single market. Those of us who are citizens of euro zone countries believe that they are more advanced protagonists of European integration because their countries have embraced monetary union. But that can hardly be regarded as a genuine *avant-garde* if at the same time those countries lag behind in terms of effective participation to the economic union. In fact, countries like the United Kingdom, Denmark, Sweden and many of the new Member States are more complying with existing single market, competition and state-aid rules, and more supportive of new initiatives to foster a competitive single market, than are most of the countries within the euro zone. In a sense, the earlier formidable engines of real economic integration, like Germany and France, have in the last ten year or so turned into brakes. They also seem to be less warm than several non euro zone countries in pressing for more openness in the single market for services, in the single market for energy or in the digital single market. For the above reasons, it is to be welcomed the fact that in the Euro-Plus Pact, for the first time, we see the appearance of some commitments concerning real economic integration and the single market. This is a positive first step. One might even have wished to see a more explicit engagement, like for example: "We, the Heads of State or Government of the euro zone Member States, take the commitment that our respective Member States will be, within one year, at least as compliant as the average of the three non-euro zone Member States showing the best compliance indicators with regard to existing single market rules. In addition, we take the commitment that our respective Member States will strongly support, in the forthcoming negotiations within the different formations of the Council of Ministers and at the European Council, the proposals presented by the Commission in the Single Market Act".

4. Governance by whom?

With 27 Member States, with a permanent President of the European Council, with the declared intention of some Member States (possibly, for the first time, of the largest Member State, witness the recent Bruges speech by Chancellor Angela

Merkel) to go beyond the community method, towards a still rather unclear "Union method", the pure symmetries of the community method to which we were accustomed (and which many of those in this room worked hard to implement effectively, impartially and consistently over time) are perhaps a thing of the past (although I still hope that the ineffective and inequitable consequences of abandoning the community method might deter such evolution). So, it is not out of place to look, openly and candidly, at the issue of leadership in the emerging structure of power. At least judging from the decision-making process on the new economic governance, the most crucial and sensitive dossier of recent times, at the top of de facto leadership seems to be Germany, which tries hard – so far – to present its key demands in a blend that can be perceived as much as possible as a Franco-German proposal. Then comes a critically important duo, consisting of the President of the European Council and the President of the Commission, normally working harmoniously to give the proposal at the same time at least a decent degree of conformity with the requirements of Community institutions, laws and traditions; and a substantive acceptability by consensus at the European Council. Three open issues must be mentioned here. First, what will be the long-term consequences, for the consistency and effectiveness of EU policies, of the fact that the power of initiative of the Commission is, substantively if not formally, somewhat constrained, perhaps self-constrained, relative to earlier stages of the European construction? Secondly, to what extent and through which processes will the ascending power and assertiveness of the European Parliament be able to corroborate the quantum of community approach, reinvigorating the Commission's ultimate ability to stick to its mission, and making the final outcomes of an otherwise reinforced intergovernmentalism in fact more acceptable in terms of democratic accountability? Thirdly, can the EU withstand a leadership structure that, as regards Member States, is more asymmetrical than ever before? Here my view is that a German leadership of Europe in terms of political culture, particularly in economic principles and policies, has been there since the early days of the Community. I believe that such leadership has been fundamentally positive, essentially because over the decades it has brought Europe a consistent call, even a flavor, of a longer term, more structural orientation than most of us would have been able to achieve autonomously. My concern is that recently, whilst German influence on the EU has never been greater, that influence is exercised by a Germany which is becoming more and more similar to many other countries, in at least one respect: short-termism in politics, particularly in political decisions on Europe. We have seen, recently, manifestations of some short-termism even in the exercise of discipline. The immediate concern appears to be to satisfy the hunger for discipline of a domestic electorate vis-à-vis which no effort is made to explain that German companies, banks and citizens are after all among the key beneficiaries – we all are – of European integration and of the Euro. Unless this effort is made we are bound, I am afraid, to have a de facto German leadership that, although it has been highly beneficial in the past, risks shaping EU policies in a way that might not be in the long term interest of Europe and Germany alike. It would be regrettable if certain biases were to be introduced in EU policies simply because their objective becomes, so to say, to indemnise a public opinion which sees itself as being penalized by the process of European integration. There are symptoms of this at the present time. Perhaps more leadership at home is a pre-requisite for a more beneficial and accepted leadership in Europe. Those who, like myself, have always seen positively a strong German influence in orienting Europe towards the social market economy, the culture of stability and some sort of *Ordnungspolitikcan* only hope that a more proactive pedagogical effort is undertaken by the political leadership in Germany: not in order to call the public opinion to be more open in terms of solidarity, but simply – and more importantly – to be more open to an attitude of enlightened self-interest.

Legal Mentions

This publication has been realized with the support of :

With the support of the European Commission :
support to active entities at European level in the field of active European citizenship.

Notre Europe also receives the financial support of the French Government, the Compagnia di San Paolo, the Macif and the Grand Duchy of Luxembourg.

Dépôt legal

Michel BARNIER
European Commissioner for Internal Market and Services

Peter BOFINGER
Member of the German Council of Economic Experts

Etienne DAVIGNON
President of the Egmont Institute

Jacques DELORS
Founding President of Notre Europe

Mario DRAGHI
Governor of the Banca d'Italia

Philippe LAGAYETTE
Vice-Chairman of Barclays Capital Investment Banking France

Mario MONTI
President of the Bocconi University

Erik NIELSEN
Former Chief European Economist at Goldman Sachs

Jean PISANI-FERRY
Director of Bruegel

Didier REYNDERS
Deputy Prime Minister and Minister of Finance of Belgium

Jean-Claude TRICHET
President of the European Central Bank

The Euro, the investors and the governance

Tommaso Padoa-Schioppa, this convinced and far-seeing European with his deep interest in economic and financial issues, dedicated a large portion of his life to both the European currency and the management of global monetary affairs. To pay tribute to him, *Notre Europe* and the Egmont Institute joined together to organise a seminar entitled "The Euro, the investors and the governance". The seminar, held in Brussels on 4 April 2011 in the presence of some sixty personalities, allowed us to address issues that have been the subject of passionate debate since the global financial crisis first rocked the euro zone.

Overall, Firstly, to conduct a thorough assessment of the project undertaken in 1999, while clearly separating the first nine years from the 2008-2011 period. Secondly, to respond to the doubt financial and monetary specialists have placed upon the future of the euro. What do investors expect from a common European currency? What do they dislike about the current system? Do they have any proposals for reform, be they institutional or technical? Finally, the third objective was to ascertain what type of EU governance will be able to guarantee both euro zone stability and European Union economic and social development (i.e. job creation, competitiveness and purchasing power).

This publication, a collection of the speakers' interventions, draws an outline of possible answers to these fundamental questions.

www.egmontinstitute.be
e-mail: info@egmontinstitute.be

www.notre-europe.eu
e-mail: info@notre-europe.eu