THE EUROPEAN UNION AND THE LESSONS OF THE FINANCIAL AND ECONOMIC CRISIS

Ambassador Ferdinando Nelli Feroci

(Permanent Representative of Italy to the EU)

Distinguished Speakers Lectures
No. 6/2010

UNIVERSITÀ DEGLI STUDI DI SIENA
DIPARTIMENTO DI SCIENZE STORICHE, GIURIDICHE, POLITICHE E SOCIALI

This lecture was held on the inauguration of the
Graduate School in Political Science, University of Siena
Academic Year 2010/2011.

Siena, October 11, 2010.

Ambassador Ferdinando Nelli Feroci is Permanent Representative of Italy to the EU since June 2008. He holds a University Degree in International Law at the University of Pisa and a Post doctoral specialisation in International Relations at SIOI, Rome.

He entered the diplomatic career in 1972. After a period in Rome, at the Ministry of Foreign Affairs, Directorate General for Political Affairs, he served as First Secretary at the Italian Permanent Mission to the United Nations in New York, and later as Economic and Commercial Counsellor at the Italian Embassy in Algiers. Back in Rome, he served as European Correspondent and responsible for the European Political Cooperation at the Ministry of Foreign Affairs. He was then First Counsellor at the Italian Embassy in Paris, and Minister Counsellor at the Italian Embassy in Beijing. He has also been Diplomatic Advisor of the Vice President of the Italian Council of Ministers and Minister of Culture, Director General for European Integration and Chief of Staff of the Minister of Foreign Affairs.

Over the course of his career, he has also been actively engaged in various academic activities, having served as a Fellow at the Centre for International Affairs of Harvard University in Boston, USA, Visiting Professor at the Istituto Universitario Orientale in Naples, Italy and Member of the Steering Committee of the Institute of International Affairs (IAI), and of the Italian Society for International Organizations (SIOI).

The European Union and the Lessons of the Financial and Economic Crisis

Before addressing the subject of my presentation, I need to recall that the Lisbon Treaty entered into force on December 1, 2009. This implies that, from the point of view of the functioning of the EU institutions, the first months of 2010 have coincided with a transition process towards the full implementation of the most relevant dispositions of the Lisbon Treaty itself.

One aspect which is affecting the functioning of the Union more than others, and which is more relevant for what I will be saying later, is the transformation of the European Council into a full-fledged institution of the Union, chaired by a permanent and elected President, and no longer by a rotating president on a six- month basis. Another important innovation concerns the European Parliament, which has acquired new powers and larger responsibilities, thanks to a significant expansion of the procedure of co-decision. Both institutions have clearly shown, in these first months after the entry into force of the Lisbon Treaty, a protagonism and an assertiveness that has provoked a redefinition of roles in relations among EU institutions.

In fact the most important innovations of the Treaty have to do with institutions and their functioning. A judgement on such innovations, is probably premature; and it will only be possible at a later stage, even though some lessons can already be drawn. But certainly there has been very little innovation in the Treaty in the area of common policies, including of some policies directly connected with economic management, which due to the economic crisis, would have later manifested their weaknesses or inconsistencies.

As a result, the agenda and priorities of the Union have in the recent past been mostly dictated by external events, developments that originate outside of the Union and impose on the Union the need to provide responses, possibly common responses. The prevailing impression is, as a consequence, that of a Union which is called to adapt its agenda to external crisis, more than that of a Union guided by an autonomous, self-defined and shared blueprint for the future of the common European project. This is probably also the consequence of the fact that the European project has reached a stage where it is problematic to define a meaningful common ground among member States on the sense of direction, or even on the opportunity, of further developments towards integration. After the realisation of the four fundamental freedoms, the creation of the common currency, and the completion of an enlargement of the dimensions of the one of 2004 and 2007, substantial differences of views persist among member States on the sense of direction of the European project.

But let's be clear: such developments have not lead to a paralysis of the Union. On the contrary they have created a situation where the Union is playing an increasingly active role because it is stimulated by external challenges. Global economic and trade competition, climate change, energy security, international terrorism, and more recently the economic and financial crisis are only some examples of such challenges and, at the same time, also elements of an updated EU agenda.

If you ask Member States what they have in mind as the final objective of the process of integration, you would probably receive 27 different answers. But Governments of Member States agree on the principle that the dimension and scope of these challenges require collective action. Similarly they agree that the national dimension is no longer adequate or sufficient to face problems of a global dimension. Only common strategies or common responses are likely to provide a credible contribution to such large scale problems. This was evident since some time in the area of foreign and security policy; and it has become equally true for climate change, energy security or the management of migratory flows. It has finally appeared to be particularly true in the case of the recent economic and financial crisis. Whatever the judgment that can be formulated of the performance of the Union in facing the economic crisis, one cannot but recognize that there were no alternative to the common effort which has become the central priority of the Union in the last two years. Whether or not the Union will have been successful, the very fact that we were able to act collectively, that we proved to be united and in many cases to show creativity and determination, is already a sign of the vitality of the Union and of confidence for the future.

In describing the Union's reactions to the economic and financial crisis, I will proceed by artificially dividing the crisis into three different phases or stages: a first one being the financial crisis, the crisis that appeared in all its dimension with the bankruptcy of Lehman Brothers and that affected important systemic financial institutions first in the U.S. and later in Europe; the second phase being the crisis that affected real economies, provoking sharp decreases of rates of growth and employment; and the third one, probably the most delicate for the future of the Union, being the crisis of the sovereign debt of some of the Member States of the Euro area, affecting the stability and solidity of the Euro itself. This division is of course artificial because elements of these crisis have co-existed and still co-exist. And it would be wrong to assume that they can be examined as if they had succeeded one after the other in a chronological order. I will therefore divide my analysis of the crisis into three different stages only for the sake of an orderly presentation.

And I will start with the financial crisis. As you may remember, the financial crisis emerged in all its gravity in the US. It did not originate in Europe, but Europe, which had relatively minor responsibilities, was immediately affected. It exploded in the U.S. between the summer and fall of 2008. The bankruptcy of Lehman Brothers was the event that made the crisis evident to everybody, but it was preceded by a number of signals and episodes. And it immediately affected Europe and its banks and financial institutions; even though- and this is very important- it did so at different levels and degrees of intensity according to the various Member States. Thanks in particular to dynamism and capacity of reaction of the then acting President of the Council of the Union (the French President Sarkozy) and the support of both the European Commission and the European Central Bank, it was rapidly perceived as a threat to Europe as such; and immediately stimulated the awareness of the need of a coordinated reaction. A number of high level emergency meetings were called during the fall 2008, both within the Eurogroup, and by the Union as such. And it was rapidly and collectively decided that there was a need to intervene with urgent measures of support for banks that were either in a situation of illiquidity or at risk of default. Such measures of support were mainly if not exclusively national, because the Union does not dispose of own means to intervene to support banks in a difficult financial situation. But they were coordinated at the Union's level.

So those Member States, whose banks and financial institutions had been more severely affected, adopted, to different degrees, a number of measures ranging from financial support, recapitalisation, or nationalisation. Interventions by Governments were dictated by the consideration that, given their dimension, the default of these banks could have created a systemic risk of financial instability. But what is important to note is that it was decided that such interventions would be adopted in the context of a framework of coordination both at the European level, and with our partners in the G-20, a new framework for coordination among the world major economies, created in that period on the basis of a European initiative, with the precise mission of coordinating a reaction to the financial crisis by agreeing on a set of common goals and recommendations.

Since, according to a fundamental principle of the single market, measures of financial assistance by member states are strictly regulated in the context of the so called Framework for State Aid, and State Aid must be compatible with Treaty principles (otherwise they would be illegal because in violation of Treaty dispositions), the Commission elaborated a set of directives establishing criteria that would make such interventions legal and Treaty compatible. It was thus defined a set of modalities and conditions that would make it possible for member States to adopt financial interventions to assist banks without distorting or violating the fundamental rules of the internal market and competition. In parallel with the decision to make the common rules on the State aid by member states more flexible, the European Central Bank intervened autonomously (because this is a fundamental rule for the Bank) by massively injecting liquidity in the banking system in Europe, thus providing a decisive relief to a very serious situation of growing illiquidity. The two sets of measures made it possible to avoid in Europe destabilizing defaults of major systemic banks.

In some cases (but not in the case of Italy which had a relatively stable and solid banking system), these measures of assistance for banks and financial institutions resulted in a serious deterioration of the fiscal situation of the State concerned, as it will become evident later. National budgets suffered and are still suffering for the measures of support that governments were forced to adopt in support of banks. But in general, thanks to this set of measures, consisting of coordinated interventions at national level, the introduction of elements of shared flexibility in the rules of state aid, and injection of liquidity by the European Central Bank, Europe was able to avoid major instabilities in its financial and banking system, and consequently to avoid a devastating impact of potential massive bankruptcies of major banks on the economies of member States.

But this could not prevent, in a few months, the financial crisis from rapidly moving in the direction of affecting the real economy. As shown by a number of indicators, negative developments rapidly characterised major trends in the economies of the vast majority of member Sates. Already at beginning of 2009, negative growth of GDP, increased level of unemployment, and a sharp decrease in the volume of trade both within the members and the EU and third partners emerged as the signals of the beginning of a recessionary cycle.

What could the European Union do to afford this situation? The Union disposes in fact of very limited instruments of its own to intervene. It thus had to operate once more mainly through coordination of national measures. Given the constraints and limitations of the EU budget, the Union was only able to adopt a limited, rather symbolic, measure of support, in the form of a special programme called the European Economic Recovery Plan. This plan, intended to mobilise around 5 billion Euros, to be financed by the EU regular budget and within the ceilings of the current financial perspectives, was meant to finance projects in the area of transport and infrastructure for energy (gas and oil and electricity). The approval of this programme proved to be particularly complex, because the 5 billion Euros were actually not available in the budget, and had to be found utilizing unspent funds, originally committed for the Common Agricultural Policy and

Cohesion Funds. Furthermore the distribution of these funds among beneficiaries States, each one wanting to get his fair share of the 5 billion Euros, proved to be another complication, which contributed to make the approval of this programme particularly challenging. In general terms the overall amount made available through this programme financed by the EU budget, to stimulate demand and growth, it is quite modest, given the need of our economies at that particular juncture. But it was symbolically meant to show that the Union, despite the limitations of its budget, was ready to contribute, at least symbolically, to the general effort to provide some stimulus for the European economies in a very negative juncture.

The other component of the action of the Union was the agreement on a set of guidelines, proposed by the Commission, meant to temporarily adapt the rules on State aid so as to make it possible for national governments to intervene in support of specific sectors of their economies, with measures of stimulus and support of productive sectors most seriously sector affected. Even if it might appear as a minor contribution to alleviate the effects of the crisis, such decision was nevertheless an important element of the coordinated response. In fact, in the absence of such agreed guidelines at the European level, each member State would have adopted measures of State aid only on the basis of its own possibilities, with the result of serious distortions of basic fundamental rules of internal market and competition.

In the meantime, the European Council has adopted in March 2009, on the basis of a proposal of the Commission, a new common strategy, meant to substitute and to succeed the previous Lisbon strategy, with the aim of contributing, over the next decade, to create conditions for more growth, more competitiveness and more employment in the European Union. This new strategy, which had been planned as a relatively routine exercise, became particularly urgent, and important in a situation where there was a need to concentrate on common objectives and instruments to stimulate economies Europe-wide, because of the recession that affected the greater majorities of our countries. The strategy, known as "EU 2020", is supposed to build on the weaknesses and loopholes of the preceding Lisbon strategy. Nevertheless, despite some improvements in its governance, it remains characterised by the same fundamental structural weaknesses of the previous Lisbon strategy. And this major weakness is the fact that the strategy does not dispose of autonomous means of implementation at the European level. It is, instead, merely designed to indicate fundamental objectives which are shared Europe-wide, but whose implementation remains the responsibility of national governments.

In short, the new strategy identifies five targets: the first is in the area of employment, with the objective of reaching a rate of employment of men and women, between the age 20 and 64, of 75% at the deadline of 2020; the second is in the area of research and development, with the reaffirmation the already utilized target of 3% of the GDP of member states to be devoted to research and development; the third objective is in the area of the so called green economy, with the reaffirmation of targets that the EU has already been decided, i.e. a 20% reduction in carbon emission, 20% share of renewable sources of energy of total energy production, and a 20% increase in energy efficiency (a series of targets that have been the object of decisions, in some cases binding, but with a new focus to reaffirm that green economy should be a major component of the new strategy for growth and competitiveness); the fourth is in the area of education, with the aim of reducing school drop-out rates to less than 10% and of increasing the share of the student population aged 30 -34, who will complete their tertiary, or equivalent university education, to the rate of 40%; the fifth is in the area of social inclusion (a very discussed and very controversial target), with the objective of reducing poverty for about 20 million citizens by the end of 2020. It must be recognized that in some cases these objectives may appear even too weak or not sufficiently ambitious. But at the same time one must also acknowledge that the Union has few instruments available to force member States to actually implement and realise these objectives, and only a limited political leverage to encourage member Sates to take them seriously. As a consequence, the success or failure of the Strategy will, to a large extent depend on political will by national Governments, and by their willingness to take advantage of a common set of targets and benchmarks to promote reforms and investments needed to promote growth and competitiveness.

As I have briefly mentioned, something has changed, if compared with the previous Lisbon strategy, in the area of governance of the strategy. Primary responsibility for its implementation is now in the hands of Heads of governments. There is no longer of delegation of power to specific ministers or high officials. Instead, it had been retained idea of centralising the responsibility of implementation at the highest level in the structure of governments at national level. Whether this will be enough, it is hard to predict. Certainly there will be a need for effective peer review, for rigorous monitoring, for scoreboards aimed at comparing the performances of individual member States, with some “name and shame” to determine sufficient moral suasion or political pressure to stimulate member States to adopt effective reforms and implement the objectives of the Strategy. A number of initiatives will also be taken by the European Union, based on proposals by the Commission, in areas where the EU can deliver by itself: digital agenda, youth and mobility, innovation, a new industrial policy, new skills and jobs, and energy efficiency. Furthermore, new initiatives will be needed for the re-launching of the internal market, on the basis of the proposals contained in the Monti Report, a new start of trade negotiations, and, to the extent possible, a better utilisation of structural funds, in the future cycle of planning, in a manner that should be consistent with the objectives of the EU 2020 strategy.

The third phase of the crisis, which developed from January 2010, is the crisis of sovereign debts of some member States, which has also affected the stability and functioning of the Euro. Some of the symptoms were evident for some time, but the crisis assumed a dramatic turn in Greece at the beginning of the year. At that time, under the pressure of financial markets and the growing spreads between the rate of interest of its bonds and the bonds of other euro members (in particular those of Germany, the benchmark), Greece, no longer in a position to refinance its public debt with own means, was obliged to ask for a substantial package of aid in the form of lending by other euro zone member States and IMF. In exchange Greece accepted to disclose the actual situation of its public finances, was requested to redefine a new stability and convergence programme, and accepted a more binding control and monitoring of the management of its public finances.

Retrospectively it must be recognized that between March and April, it was not easy to convince other member states, Germany in particular, that, for the sake of the Euro itself, it was necessary and urgent to intervene with measures of assistance to Greece. In Germany in fact the decision was preceded and followed by a though public debate over whether profligate Greece should have been left to its own destiny, or whether an intervention would have been a necessary precondition to avoid undesired consequences on the stability of the common currency. The sentiments were split, because German public opinion and political parties were in principle contrary to any form of intervention, but German banks were heavily exposed with Greek debt, and in case of bankruptcy or default of Greece, they would have been seriously affected. At the end of the day, the decision was taken to intervene with a set of bilateral loans by Euro member States coordinated by the Commission and complemented by a parallel intervention in the form of a loan by the International Monetary Fund, for a total amount of 110 billion Euro, 80 of which were provided for by the Euro member States and 30 by IMF.

And for the first time, a new form of control and monitoring of the conditionality attached to this intervention was organised, and managed in conjunction by the Commission and the International Monetary Fund. It is worth noting that the decision to involve IMF was not an easy one, and was taken after a rather difficult debate among those that considered that the bail-out of Greece should have been the sole responsibility of members of the Euro, and those that felt that IMF capital and expertise in monitoring the conditionality component of the package were decisive to ensure the success of the operation. But the decision to intervene in support of Greece was possible only because the other members of the Euro accepted the request advanced by Germany as a precondition to establish a Task force (chaired by the President of the European Council, and composed mainly if not exclusively of the Ministers of Finance of the 27 member states) with the mission of proposing a set of recommendations to improve the governance of the Euro, in order to avoid for the future other situation similar to that of Greece.

This Task force was then formally established in March by the European Council and began its work by mid-April, adopting from the outset a very ambitious programme of work, with the idea of redefining important aspects of the governance of the Euro. But in the meanwhile, at the beginning of May, as the Task force was elaborating its mid term and long term recommendations, another very serious crisis hit two other Euro member States, Spain and Portugal, with potentially devastating effects over the stability of the Euro as such. Under an unprecedented pressure by financial markets on bonds of the two countries concerned, and in a dramatic context, two decisive emergency meetings were held, of Heads of States and Government on May 7, and of Ministers of Finances on May 9. And in that occasion it was decided to move from interventions on ad hoc basis to a more systematic approach, with the establishment of a new and innovative mechanism: a temporary joint EU-IMF facility authorised to intervene in support of members of the Euro in a situation of insolvency and at risk of default. The total resources available for the mechanism were set at the level of 750 billion Euros, 440 being the contribution of members of the Euro (defined as the European Financial Stability Facility) to be funded through bonds supported by Governments' guarantees, 60 to be made available by the Commission in the form of loans guaranteed by the EU budget, and the rest, 250 billion euro, by the IMF. In parallel the European Central Bank decided to intervene in support of the stability of the Euro with a program of purchases, in secondary markets, of bonds of Euro member States at risk, a decision contested by some in Germany, but which demonstrated the political sensitivity of the Central Bank in a moment of very serious stress for the common currency

The creation of this (temporary) mechanism is important for many reasons. Firstly, it is a decision of a highly political nature. It shows that, when confronted with very serious threats and challenges, the Union is capable of taking decisions that are innovative, substantive, and radical. Secondly, the decision has shown a rather unpredictable degree of creativity. The mechanism is new and innovative. It was not foreseen by the Treaty or by secondary legislation. On the contrary, both the

Treaty and secondary legislation not only had not anticipated a scenario where a member of the Euro might become insolvent; but had excluded the possibility of a bail-out of a member of the Euro (article 125 TFUE). In substantive terms one may conclude that the decision of May 9 corresponds to a "de facto" Treaty revision, based on a very flexible and innovative interpretation of the Treaty itself (a conclusion confirmed by the subsequent request by Chancellor Merkel to obtain a formal Treaty revision to transform the facility from temporary to permanent). But the creativity was demonstrated also by the idea of utilizing a combination of sources of funding for the facility: IMF resources, loans guaranteed by the EU budget, and bonds to be guaranteed by the budgets of the member States of the Euro: a new form of bonds that may be credibly defined as eurobonds, even though of a different nature from the ones that were conceived (by Delors and others) to finance long term infrastructure projects

In parallel, the Task force is working on the definition of new rules for a more efficient and effective economic governance, with the objective of defining a set of policy recommendations addressing different aspects and related weaknesses of such governance. The first idea, which has in the meanwhile already been agreed, aims at ensuring a better *ex ante* coordination of fiscal policies of member States through the so-called European Semester. According to this principle, already in 2011, member States will anticipate the main elements of draft national budget and major orientations of economic policy to the first half of the year (by April); will then submit such outlines of draft national budgets to the examination of the Commission and the Council; will receive comments and observations by the end of June; and will only submit such draft national budgets to national Parliament, after completion of this process of peer review at the end of the semester. And the examination of the outline of national budgets, and the national Plan for Stability and Convergence will be examined together with National Reform Plans, to be elaborated by April each year on the basis of the principles agreed in the EU 2020 Strategy. The objective of this process is that of ensuring a better "ex ante" coordination of both national fiscal and reform policies of member States, thus reducing the need to intervene with "ex post" corrective measures.

A second direction of the reform of economic governance aims at a better functioning of the Stability and Growth Pact, with a focus mainly on two new elements. The first element is a new attention to the criteria of debt, in addition to deficit, with the possibility of opening an excessive debt procedure, in parallel or as a separate procedure than that for excessive deficit. The underlying idea is that the deficit criterion alone will not any longer be sufficient to provide adequate indications of the financial stability of a country; and the debt criterion, so far substantially neglected in the multilateral surveillance procedures, should acquire a new relevance. In practical terms, new specific, and possibly quantified, requests for yearly reductions of public debt could be addressed to member States, which have a level of debt higher than the threshold of 60%. The second element of the reform of the Pact should be a new set of sanctions for non-complying member States. The idea is to introduce a more effective system of sanctions, much more automatic than they have been so far, to be adopted already in the preliminary phase of the procedure for excessive deficits, and to be applied both in the so-called preventive and corrective arms of the Stability Pact. According to the recommendations being drafted by the Task force, the Commission may sanction a non compliant country with interest producing deposit, non- interest producing deposit, and actual fines; and in principle the sanctions will become operational upon proposal by the Commission, unless the Council decides otherwise with a qualified majority. Both the new focus on debt, and a new more credible system of sanctions are meant to make more effective the functioning of the Stability Pact, which so far has shown its inability to keep under effective control fiscal policies of member States.

A third element of the reform of the economic governance should address the problem of structural imbalances, through the establishment of new procedure of multilateral surveillance on competitiveness factors of member States. The assumption is that one of the major weaknesses of the governance of Euro has so far been the lack of a sufficiently binding mechanism for economic coordination, and that as a result growing divergences of competitiveness among member States have led to growing structural imbalances among countries belonging to same monetary area. The proposed remedy is the idea of ensuring a certain control over the performances of individual member States in the area of competitiveness, through a procedure for surveillance led by the Commission, which would utilize to this end a set of criteria and benchmarks. According to the recommendations of the Task force, the Commission should examine the performances of member States on the basis of these criteria, should address, if necessary, country specific recommendations, and, in case of non compliance, could open a procedure for excessive imbalances and even impose sanctions on non compliant member States.

Finally a further element of the proposed reform should be the transformation of the temporary European Financial Stabilisation Facility created in May (for a period of there years) into a permanent stabilisation mechanism, that would become integral part, as an essential component, of the new system of governance of the Euro. At the time of this conference the idea is still being debated, given its rather controversial nature particularly in Germany. It is already assumed that in any case the creation of such permanent mechanism should presuppose a Treaty revision (to overcome the no bail-out clause), and that such mechanism should operate under strict and effective conditionality, and should be utilized as a last resort instrument.

From what I have said so far it appears with clarity that the Union, and even more so the members of the Euro area, are in the process of redefining the fundamental rules of the game for the functioning of he common currency. More and more effective coordination of national fiscal policies, a Stability and Growth Pact that would impose more commitments to countries with an excessively high level of debt (and not only deficit), and which will contain more credible sanctions for non compliant States, a new system of control on the performances on competitiveness and structural imbalances, are all measures that go in the direction of addressing the major inadequacies of the Euro and of introducing more common "government" of the economies at the European level, thus reducing in the future margins of manoeuvre, and as consequence sovereignty, of national Governments. They are all developments of great significance, even though it is difficult to anticipate whether they will be sufficient to manage the crisis of sovereign debt, which is the main feature of the present crisis, if and when it will provoke a situation of illiquidity/insolvency of a member of the Euro.

At moment of this conference these are the main elements of the programme of work of the Union. The follow up of the recommendations of the Task force and the subsequent legislative proposals will be the subjects of difficult negotiations, where many and complex details will have to be defined. Just to give you an example, Italy is uncomfortable with the idea of numerical benchmarks for debt reductions, and considers that public debt alone would not be an adequate indicator of a country's financial stability (given the role of private debt in determining the degree of a country's financial stability). Germany, so far the strongest advocate of fiscal discipline and of a reform that would impose restrictions on fiscal policies, may have problems with a procedure for multilateral surveillance on structural imbalances that might impose an expansion of internal demand to redress structural imbalances. And many have raised reservations over the idea of sanctions, that may imply suspensions of payment of EU funds, that could have a cyclical impact on countries already under stress for the repayment of their debt.

Of course many questions related to the proposed reform remain open. To what extent such an emphasis on public debt is correct, when the recent experience too often shows that it is private debt (primarily of banks, but also of households) at the origin of unsustainable pressures on sovereign debt? Is it wise to impose a fine in the form of a financial levy on countries already in a difficult situation because of excessively high level of indebtedness? Is it correct to utilise sanctions as means of pressure? And is it politically and legally sound, given the previous experience, to entrust the Commission alone with the task of monitoring the process and imposing sanctions if needed? Where does the Commission derive its legitimacy? To whom would the Commission be accountable if it does something wrong? To what extent the proposed system of surveillance on competitiveness will be operational end effective given its complexities? How should the Commission choose the criteria to evaluate the performances of individual countries? And finally the most controversial question: is there an actual risk that such an emphasis on fiscal consolidation might negatively affect the already modest prospects of economic growth in Europe? How will it be possible to reconcile budgetary discipline with the necessary stimulus for an economy which is suffering, at continental level, for rates of growth much lower than those of other continents? How will the Union be able to reconcile rules that are sufficiently binding in the area of control of fiscal policies to ensure fiscal discipline and consolidation, with much weaker instruments of intervention to stimulate growth and competitiveness?

Finally let me observe that the reform of the economic governance is not the only response by the European Union to the economic and financial crisis. An impressive programme of work, partly agreed upon in the context of the G20, is being implemented to ensure a better regulation of the financial and banking system. Since the crisis originated as a solvency crisis of major U.S. banks, which rapidly affected European banks as well, it was considered essential to develop a more detailed, more articulate and more stringent regulation of financial markets and services, in the context of a loose form of coordination, that would include Governments of countries considered to be main protagonist in the financial markets. The European Union is thus elaborating and implementing an impressive number of new legislative measures aimed at providing more prudential rules and more control on the operations of, in particular, of banks of a systemic dimension, with the objective of ensuring more transparency, more stability and solvency. The approval of a new system of supervisory authorities at the European level, comprising a Systemic Risk Board to monitor developments at systemic and macroeconomic level, and three European Authorities competent to supervise the banking, insurance and markets sectors, is the first proof of a new interventionism by the European countries and institutions in the area of supervision. In parallel new regulations have been adopted on alternative investment funds, like hedge funds or private equity; new rules have been established for the operations of rating agencies; new rules on capital requirements for banks and insurances were introduced last year, but new rules on capital requirements again will be introduced as a follow up of the Basel III agreement, to increase the level and improve the quality of capital requirements; and soon a new draft legislation will be examined to regulate “over the counter derivatives”(trade of financial products which is managed without utilizing the banks), short selling and trade of credit default swaps. And finally a communication is being elaborated by the Commission on the very controversial question of crisis resolution for banks and financial institutions, with the idea of proposing a frame for a coordinated set of measures to prevent and to manage risks of insolvency of major banks.

But for reasons of time, as well as for the complexities of the subject, I will leave to another occasion, or to others, this part of the actions undertaken by the Union to afford the crisis. And I will conclude simply confining my final remarks to note that, despite much criticism, Europe has been able to define a rather comprehensive response to the crisis. This response is still in the process of being completed and implemented; and many details remain to be negotiated. Only future developments will tell us whether this response will be sufficient or adequate. I am rather optimist that in any case the Union will know how to show, if needed, political determination and the necessary creativity also to face new challenges, including by adapting its complex decision making machinery to new scenarios.

CIRCaP

Direttore/Director: Maurizio Cotta

Consiglio direttivo/Executive Committee:
Sergio Amato, Sergio Cesaratto, Francesco Francioni,
Andrea Garulli, Pierangelo Isernia, Riccardo Pisillo Mazzeschi

Segretario scientifico/Scientific Secretary: Nicolò Conti

CIRCaP
Centro Interdipartimentale di Ricerca sul Cambiamento Politico
Via A. Mattioli,10   53100 – SIENA
Tel. ++39 0577 235299 Fax ++39 0577 235292
e-mail: circap@unisi.it   web: http://www.gips.unisi.it/circap