

Citizens for Europe Consultations

E.L.E.C-France, 16 October 2018

“What improvements are desirable and realistic for the eurozone from an economic and social point of view?”

Introduction

The European League for Economic Cooperation-French section (ELEC-F) has organised a Citizens for Europe Consultation, approved by the ministry in charge of European Affairs, on the topic: “What improvements are desirable and realistic for the eurozone, from an economic and social point of view? ”.

This Consultation took place in two stages.

- On 18 September, an initial meeting was held in order to pool the expectations, questions and proposals of the participants and to discuss them with three well-known economists: Agnès Benassy-Quere, Patrick Artus and Xavier Timbeau, as well as the President of ELEC-F, Olivier Klein. This debate was led by Emmanuel Cugny, editorial writer at France Info. Around 90 people participated.
- On 16 October, a second meeting was held to summarise the conclusions and recommendations of this Consultation.

The two meetings were held in the BRED auditorium, 18 quai de la Rapée, 75012 Paris.

Summary : findings, proposals

1. Findings

• The single currency

In the wake of Robert Schuman's statement of 9 May 1950, the euro is one (and not the least) of these "concrete achievements which first create a de facto solidarity" that punctuate the construction of Europe. The 12 Signatory States of the Maastricht Treaty (1992) which took the major decisions, declared themselves “[determined] to promote economic and social progress [...] through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty”. Under the name of the euro, adopted in 1995, this single currency came into force in two stages, on 1 January 1999 and 1 January 2002, and the eurozone currently has 19 members. What is our view today on the usefulness of the euro and desirable improvements?

The single currency brings a basic economic benefit to its members by eliminating exchange fees between them. Above all, however, it eliminates exchange risk, facilitating the movement of capital and business within the zone. A second advantage is the sharp fall in interest rates brought about by the creation of the euro in many countries in the zone, be it through the effect of markets until 2010, or later through the action of the ECB. These lower rates facilitate business investment and reduce the burden of sovereign debt (government bonds in the financial market); without the euro, France's public debt service, for example, would cost an additional €50 billion per year, or 2.5% of GDP. It should be noted, however, that the low interest rates experienced by some Southern countries prior to 2010 led to overindebtedness in the private sector.

It is also worth adding that, if the eurozone were a complete monetary zone as in the case of the United States for example, it would allow for differentiated growth rates within the same zone due to the coexistence of current account balances, some of which are in deficit and some of which are in surplus. In this kind of situation, countries with current account deficits would not be led to seek a lower growth rate than that corresponding to their needs (demographic needs for example). With an optimal organisation of the eurozone, the external constraint would only apply to the boundaries of the zone and not to the limits of each country forming it. From a consolidated point of view, the eurozone is currently one of the healthiest areas in the world in terms of its current account and public debt as well as enjoying a stable currency.

The usefulness of the euro has also been demonstrated in major recent upheavals the freezing of interbank loans after the collapse of Lehman Brothers and the recession caused by the severe financial crisis; the explosion of "spreads" on the public debts of Member States, the threat of deflation, etc. The single currency protected every country in the zone in 2008 and 2009; if each country had kept its own currency they would have certainly been weaker in the midst of the major financial crisis. The ECB has since been able to implement an extremely active, useful monetary policy. In addition, during the crisis specific to the eurozone, the institutional mechanism was expanded, in order to strengthen the resilience of the single currency, with the establishment of the Banking Union and the European Stability Mechanism.

As is demonstrated by the opinion polls in all member states, citizens currently see the benefits of the euro in a positive light, as the single currency not only facilitates travel but also more importantly offers protection. However, the advantages of the euro need to be highlighted and explained more effectively.

It would then be clearer to citizens that a complete eurozone could provide Europe with the capacity to act as a global player on the same levels as the United States with the dollar today and China with the yuan tomorrow. This renewed impetus at European level should also enable us to combat the effects of the extraterritoriality of American power. All in all, the citizens of each nation could therefore have more control over their own destiny.

- **Macroeconomic imbalances**

"Convergence between European countries", a major objective of successive treaties, was effective until the 2008 crisis, with the notable exception of the issue of current accounts.

Since the crisis, however, it has been replaced by differences in living standards and a widening of macroeconomic imbalances between the member states of the eurozone. Thus, after an initial period of convergence, the situation since the financial crisis specific to the euro zone is one of divergence between its Member States which is structural, cumbersome and multidimensional and which will inevitably take time to lessen.

One of the major difficulties is the lack of movement of capital between member states of the eurozone since 2010. Northern countries accumulate huge current account surpluses (currently amassed outside the eurozone more than within the zone), but deposit all these savings outside the eurozone.

In the United States the private sector accounts for two-thirds of financial stabilisation (cross-capital flows between different States) with the remaining third being provided by the federal budget. The eurozone currently has neither.

This situation also reflects a geographical polarisation of production, which is concentrated in the northern countries and snowballs. Wage costs per unit produced have varied for a dozen or so years in a non-cooperative manner. Adjustments have therefore only affected southern countries in the form of "internal wage devaluations" and lower investment expenditure. These internal devaluations also have the collateral consequence of increasing actual debt (which is not devalued in parallel) and have had extremely problematic social and political repercussions. Salary re-evaluations in the northern countries are as yet in their infancy. Labour mobility is beneficial for northern countries but detrimental to those in the south. The divergent process is therefore cumulative.

Budgetary stability rules cannot be the only regulatory instruments applied in the monetary zone. In all events, they most certainly need to be simplified and revised. Structural convergence tools (structural funds) are abundant, poorly coordinated, ineffective and highly concentrated in non-eurozone countries. The European Stability Mechanism established in 2012 is an important non-monetary instrument in terms of guaranteeing financial support if a member state encounters an asymmetric shock. However, its working methods are felt to be too intrusive by beneficiary states and the European Parliament and are difficult to implement due to the established unanimity rule.

Overall these socio-economic divergences contribute to the mistrust of public opinion and the rise of sovereign populism.

Europe must find the path towards upwards convergence. It needs to rediscover the real reasons behind this community of interest. Subsidiarity must not get in the way of interdependencies between member states, which fully justify interactive cooperation. Northern countries have a long-term interest in maintaining solidarity with those in the south as, if producers were to continue to move significantly closer to purchasers, a large dynamic, sustainable European internal market would be a major asset and preferable to commercialism. In addition, and above all, a possible break-up of the eurozone would certainly have dramatic consequences for countries in difficulty but would lead to a major revaluation of the currencies of northern countries, which would considerably weaken their own economy.

2. OUR PROPOSALS

In our view, it is absolutely essential to maintain and consolidate the euro by completing the organisation of the eurozone:

- 1.** The fundamental role of the ECB must be maintained as a lender of last resort in the event of systemic shocks in order to preserve the euro whatever it takes, while ensuring its stability.
- 2.** Citizens of the European Union need to be aware that the European currency represents power and autonomy at world level against the US dollar and against the Chinese yuan in the future. The development of the role of the euro as an international currency against the dollar is to be recommended in order to move away as far as possible from the extraterritoriality of the laws of the United States.
- 3.** The Banking Union needs to be consolidated: the aim is to finalise the resolution mechanism by implementing a safety net for public funds and introducing a common guarantee for bank deposits alongside the acceleration of provisioning of defaulting loans (classified NPLs) on the banks' balance sheet.
- 4.** We need to develop an IMF-type institution (based on the European Stability Mechanism), which can help countries in asymmetric balance of payments crises, without the creation of money.
- 5.** In addition to this balance of payments risk management instrument, we need an actual cyclical stabilisation fund or a specific eurozone budget with a counter-cyclical and/or risk-sharing focus. This budget, which would be financed by own resources, would have to be put to the vote of a democratic institution, such as one stemming from the European Parliament. Further risk-sharing mechanisms may be possible within the eurozone which can take different forms (partially pooled unemployment insurance system, pooling of a proportion of public debt, etc.).
- 6.** These risk-sharing systems must be conditional on the responsibility exercised by each country (structural reforms, budgetary situation, etc.). It is pointless to appeal for solidarity without responsibility. It should be pointed out, however, that whilst moral hazards must not be ignored, neither must they inhibit solidarity. A balance between these two principles needs to be obtained.
- 7.** The return of capital mobility between eurozone countries is absolutely key so that the current account surpluses in certain countries can finance the deficits of others and encourage a healthy allocation of capital within the eurozone. The proposals outlined above should make a significant difference in this respect as they would restore the confidence of the financial markets in the unity and cohesion of the zone. We therefore need to pursue the course laid out by the Juncker Plan. The Capital Markets Union (CMU) should also be prioritised.

8. Surplus savings should be used to finance projects for the future (ecological transition, biotechnology, digital etc.) as well as to finance investment projects of this kind in southern countries. These could include public-private projects. This would also provide greater visibility and a better understanding of the usefulness of Europe.

9. In order to reduce the cumulative geographical polarisation of production systems and to encourage a cooperative development trend in all the member states of the eurozone, there is a need for a system which creates a productive rebalancing vision for the different areas within the eurozone to support the above-mentioned points and to rethink the instruments used (structural funds, incentives and private investment guarantees).

10. The current mechanism for monitoring macroeconomic divergences needs to be adapted particularly in terms of stepping up the monitoring of imbalances in current accounts and wage costs per unit produced. Greater emphasis needs to be placed on dialogue between social partners at eurozone level, in particular to avoid a social downward spiral.

3. CONCLUSION

It is important to highlight the benefits of the euro and the ways in which it protects citizens. It is also vital to stress that the single currency strengthens the bond within the zone and creates de facto solidarity. It is a means of promoting peace. The destruction of the euro would have severe consequences for Europe.

We therefore believe that it is necessary to promote an educational campaign, notably in the form of a dictionary of received ideas, in order to combat inaccurate or even malicious rumours which abound concerning the history and outcome of European construction.



E.L.E.C is a network of European entrepreneurs of goodwill, aimed at putting timely intellectual pressure on European decision makers to further economic integration in Europe. It acts in complete independence from national or private interests, public authorities or any pressure group. ELEC is built as a federation of national sections present in 11 European countries. The membership of its national sections is drawn largely from economic and financial circles; but it also maintains close contacts with senior national and European civil servants as well as academics and policy makers.

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