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EU AND GROWTH: THREE PACTS RATHER THAN ONE

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Debates on bailing Cyprus out, on the implementation of the Stability Pact or on the adoption of the EU budget prompt to remind us that growth can be lastingly undermined when we disregard certain basic principles: this is the objective of this Viewpoint signed by the members of our Board of directors.

Poor growth prospects in a majority of European countries and the debates on bailing Cyprus out, on the implementation of the Stability Pact or on the adoption of the EU budget make it more necessary for us to highlight the obvious: while growth cannot be conjured up by decree, it can certainly be lastingly undermined when we disregard certain basic principles that underpin pacts we need to honour.

1. Consolidating the Financial Confidence Pact

The row over bailing Cyprus out tells us first and foremost that the EU is facing a crisis which is also of a banking nature, and that the consolidation/restructuring of European banks' balance sheets is an indispensable precondition for the return of confidence, and thus of growth.

The European authorities were guilty of a mammoth error of judgement when they approved the principle of taxing all accounts held in Cypriot banks rather than just those with a considerable sum of money on them. They have since proved capable of correcting that mistake, but unfortunately it has had such an impact on the pact of confidence that exists between banks and their customers that it has even prompted people to fear that the same procedure may now be extended to countries other than Cyprus.

It is only normal that taxpayers, whether Cypriot or European, should not be the only ones to have to shoulder the cost of salvaging the banks, as they did in Ireland. But it is risky to force bank shareholders (as in Spain) or investors (as in Greece) to contribute, without arousing their mistrust. The fact to require contributions from the richest bank account owners in extreme situations (as in Cyprus) could in no way constitute a precedent, as the ECB has underlined it. Thus it is crucial for such decisions to be thoroughly explained and clearly adopted, and for their exceptional nature to be highlighted on each occasion: the European and national authorities have "made default" in connection with that issue, too, in the Cypriot affair.

This new incident must naturally prompt the EU's member states to make even more rapid progress towards a genuine European banking union. A single supervisory mechanism under the aegis of the ECB is currently being set up, and thus the European Stability Mechanism will soon be in a position to directly assist those banks that require aid, for instance in Spain. Given the turmoil that the Cypriot crisis has triggered throughout Europe, it has undoubtedly also revealed just how useful the two other pillars of a genuine banking union would be: it is more urgent than ever to create European mechanisms designed to guarantee bank accounts and to resolve bank crises!

2. Implementing the Stability Pact in a More Realistic Fashion

The European authorities showed greater foresight during the European Council meeting on 14 and 15 March when they built greater flexibility into the way the "Stability and Growth Pact" is implemented, in order to achieve a better balance between excessive deficit cuts and support for economic activity.

This, because the Council's conclusions underscore the need for "differentiated budgetary consolidation" tailored to reflect the different situations in countries in difficulty, but also the need to afford priority to the notion of a structural deficit, in accordance with the measures enshrined in the recent "fiscal compact". They very usefully pave the way for granting a more realistic deadline to countries such as Portugal or

France to bring their economies back below the 3% deficit-to-GDP threshold, also in view of the efforts that they are already making in that direction.

The benefit of these extensions is linked primarily to the current economic situation because they make it possible not to strangle demand, and growth with it. Yet in no way do they excuse the countries involved from having to implement structural reforms at the national level: in fact we should remember that such structural reforms are the first item in the "Growth Pact" adopted in June 2012. Much has already been done on this matter, especially in "countries under programme", but much remains to be done to go beyond mere incantations.

In the context of the current recession, it goes without saying that the package of budget measures envisaged in that pact, to the tune of 120 billion euro, must be implemented without further delay. At this juncture, the lack of visibility surrounding the extension of the EIB's lending capacity, the use of unused structural funds, and the launch of "project bonds" also undermines the confidence that citizens have in the material implementation of the EU's decisions, and thus ultimately also in its credibility.

Lastly, acting in a structural manner must prompt the European authorities to commit to the creation of a debts Redemption fund, as envisaged in the compromise thrashed out by the Council and the European Parliament over the adoption of the "two pack". A country such as Italy, for instance, has made major efforts of budgetary adjustment and reform, and it has been enjoying a primary surplus for several years now. Helping European countries to shake off their "old debt" together would unquestionably contribute to encouraging their growth prospects while at the same time rebuilding their citizens' hopes.

3. Devising a Youth Pact via the European Budget

The current crisis is reaping numerous victims, especially among young people: in fact they may soon turn into a "lost generation" both for the EU and for its member states; and this, at a time when the room made for them in an ageing Europe is of the utmost importance. Thus while adopting a "European Pact for Youth" may not be a new idea, it is nevertheless more urgent than ever before.

Here again, it is of course at the national level that the primary effort needs to be made in order to improve education, training and labour market entry conditions for young people. But it is crucial for those young people also to be able to benefit from a subsidiary yet visible contribution from the EU, in particular via its budget.

On a more detailed level, there are three initiatives that deserve to be encouraged both via the budget for 2013 and in the context of negotiations on the next multi-annual financial framework: first the "youth employment initiative" which planned budget of 6 billion euro must be increased and which priority must be apprenticeship; then, within this initiative, the adoption of a "European youth guarantee" allowing the EU to help member states to offer training or a job to all of their young people; and lastly, "Erasmus-style" mobility programmes, which really do help young Europeans to effectively acquire linguistic and cross-border skills, and for which funding needs to be increased even further. It is also in the light of the resources granted to these three initiatives that we will be able to gauge whether the EU is adequately mobilising its budget, which is first and foremost a tool for solidarity that can, in this particular instance, become a useful tool for growth if it benefits young people more directly.

Beyond these targeted measures, Europe's young people will also be able to benefit from the new "package" that the EU is due to adopt in order to deepen its internal market while simultaneously adjusting its budget. The implementation of a single market for digital services seems to be a particular priority in this connection, as does the increase of funding for R&D and innovation, or for trans-European transport and energy networks, which are at the basis for any sustainable growth.

Financial stability, budgetary stringency, and support for the younger generations: it is by combining efforts for solidarity and support for growth at every opportunity that the European Union will be able to more effectively help its member states to rediscover more favourable economic and social prospects, and thus to strengthen the pact of confidence binding it to its citizens.

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