SOME OF THE EUROPEAN UNION'S ECHONOMICAL AND JURIDICAL MEASURES TO THE CRISIS

CÂTEVA DINTRE MĂSURILE ECONOMICE ŞI JURIDICE LUATE DE UNIUNEA EUROPEANĂ ÎMPOTRIVA CRIZEI

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Abstract: *The EU has taken decisive action to deal with the crisis: as a result, the deterioration of public finances and the increase in unemployment have been less marked than in other parts of the world. The EU's high levels of social protection cushioned the worst impact of the crisis but because of its weak productivity growth, recovery is slower in Europe.* According to the latest forecasts, there are signs of economic recovery albeit still uneven. While financial markets remain volatile, the real economy has shown signs of improvement in some quarters, led by growing exports after the resumption of global trade. Nonetheless uncertainties remain. Periods of renewed confidence in the return to growth alternate with setbacks, also due to the risks associated with the sovereign debt market. European economies face major adjustments. The financial sector has not yet returned to normal conditions and there are situations of vulnerability to stress and dependency on state-support. Credit conditions are not yet back to normal and in a number of Member States household and corporate debts are still excessive.

Key words: *action, economic activity, market, reform, household*

INTRODUCTION

In spite of the prompt response given by the EU, the legacy of the crisis is far reaching. It has resulted in a large loss in economic activity, a substantial increase in unemployment, a steep fall in productivity, and badly weakened public finances. By the end of 2012, eleven Member States are expected still to remain at output levels below those preceding the crisis.

In 2010, EU gross government debt rose, on aggregate, to around 85% of GDP in the euro area and to 80% EU-wide. The budgetary impact of the crisis will compound the effect of demographic change, which will add a

fiscal burden of some 4.5% of GDP in the long term. Structural weaknesses that were not tackled before the crisis have become more apparent and urgent. The crisis has taken a heavy toll on Europe's societies, despite the cushioning provided by welfare systems. The rise of unemployment is a central problem. On aggregate, 9.6% of the working population is unemployed. In some countries, youth unemployment can be as high as 40%. Around 80 million people are estimated to live below the poverty line in Europe.

The economic crisis was a global crisis, but its impact is very different across the world. While unemployment and public deficits increased more sharply in the US than in the EU, the crisis has aggravated the labour productivity gap between the EU and the US. Price and cost competitiveness remain problematic. Emerging economies are returning to growth at a faster pace although some of them also face major economic challenges. Therefore, the EU needs this crisis to address decisively the issue of its global competitiveness. The crisis could have a lasting effect on potential growth. Medium term potential growth for Europe is projected to remain low and estimated at around 1.5% up to 2020 if no structural action is taken namely to resolve the labour productivity gap with our main competitors.

Given its cyclical nature, recovery alone cannot provide the impetus for leading Europe backto the pre-crisis economic situation and absorb the deficit accumulated. To avoid stagnation, unsustainable debt trends, and accumulated imbalances and ensure its competitiveness, Europe needs to accelerate the consolidation of its public finances, the reform of its financial sector and to frontload structural reforms now. That is why the European Council adopted the Europe 2020 strategy with ambitious targets for a new growth path1.

The preliminary indications of Member States on their national targets in the five areas agreed under the Europe 2020 strategy clearly show the road that the EU has to travel to deliver its own ambitions. If fully implemented, this strategy will help the EU come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity, competitiveness and social cohesion. This will deliver the competitive social market economy of the twenty first century, boosting confidence of market actors, companies and citizens alike.

MATERIAL AND METHOD

In this context, the EU has also decided to change its economic governance. January 2011 launches the first European Semester of ex-ante policy co-ordination starting with this Annual Growth Survey which is anchored in the Europe 2020 strategy. This Annual Growth Survey brings together the different actions which are essential to strengthen the recovery in the short-term, to keep pace with our main competitors and prepare the EU to move towards its Europe 2020 objectives.

Given the urgency, the Commission has chosen to present 10 priority actions. The Commission will continue its work on a broad range of other policy areas, including trade and a host of internal policies. In this Communication the Commission focuses on an integrated approach to recovery concentrating on key measures in the context of Europe 2020 and encompassing three main areas:

– The need for rigorous fiscal consolidation for enhancing macroeconomic stability

– Labour market reforms for higher employment

– And growth enhancing measures

This first Annual Growth Survey is designed to apply to the EU as a whole but will need to be tailored to the specific situation of each Member State. The proposed course of action is particularly relevant for the euro area which is currently affected by the sovereign debt crisis. Fiscal consolidation, structural reforms and growth enhancing measures are necessary ingredients for the comprehensive response the euro area must give to the crisis. But such a comprehensive response will have to include other elements, e.g. the review of the European Financial Stability Facility (EFSF).

As regards the latter the Commission considers that the effective financing capacity of the EFSF must be reinforced and the scope of its activity widened. This Annual Growth Survey also constitutes a contribution to the comprehensive response of the euro area to the sovereign debt crisis. Moreover, progress in establishing a permanent mechanism for resolving sovereign crises is needed to provide certainty and stability in markets. The new European Stability Mechanism should complement in 2013 the new framework for reinforced economic governance, aiming at an effective and rigorous economic surveillance, including reviewing the effectiveness of current financial backstops.

A more detailed analysis underpinning the Commission's assessment is set out in 3 reports that accompany this Communication and include an assessment of the initial setting up of the Europe 2020 strategy at Member State level.

A. Implementing a rigorous fiscal consolidation

The most urgent task for the EU is to restore confidence by preventing a vicious cycle of unsustainable debt, disruption of financial markets and low economic growth. Public expenditure must be put on a sustainable track as a pre-requisite for future growth. Annual adjustments of the structural budget balance in the order of 0.5% of GDP will be clearly insufficient to bring debt ratios close to the 60% requirement. Therefore, stronger consolidation is needed and should be implemented on the basis of the reinforced fiscal rules proposed by the Commission.

All Member States, especially those in excessive deficit procedure, should keep public expenditure growth firmly below the rate of medium term trend GDP growth, while prioritizing sustainable growth friendly expenditure in areas such as research and innovation, education and energy. All Member States should demonstrate that their Stability or Convergence Programmes are based on prudent growth and revenue forecasts.

Member States in excessive deficit procedure should set out the expenditure path and the broad measures they intend to take in order to eliminate of their excessive deficits. Member States facing very large structural budget deficits, very high levels of public debt or high levels of financial distress need to frontload their efforts in 2011. Where economic growth or revenues turn out to be higher than expected, fiscal consolidation should be accelerated.

Some Member States may need to increase taxes. Indirect taxes are more growth-friendly than direct taxes and broadening tax bases is preferable to increasing tax rates. Unjustified subsidies, e.g. environmentally harmful subsidies, should be eliminated.

B. Correcting macro economic imbalances

Large and persistent macroeconomic imbalances are a major source of vulnerability, especially within the euro area. Many Member States need to tackle their lack of competitiveness with greater urgency.

Member States with large current account deficits and high levels of indebtedness should present concrete corrective measures (these could include strict and sustained wage moderation, including the revision of

indexation clauses in bargaining systems). Member States with large current account surpluses should identify and tackle the sources of persistently weak domestic demand (including further liberalization of the service sector and improving conditions for investment). However, where domestic demand still remains subdued due to a policy or market failure appropriate policies should be put in place.

C. Ensuring stability of the financial sector

At EU level, the regulatory framework must be further reinforced, while the quality of supervision should be enhanced by the ESRB and European Supervisory Authorities, which had become operational at the beginning of 2011. Bank restructuring must be accelerated to safeguard financial stability and underpin the provision of credit to the real economy.

Restructuring of banks and particularly those which received significant amounts of state aid is essential to restore their long-term viability and ensure a properly functioning credit channel. Public financial support for the banking sector as a whole should be gradually withdrawn, taking into account the need to safeguard financial stability.

In accordance with the recently agreed Basel III framework, banks will be required to progressively strengthen their capital base so as to improve their capacity to withstand adverse shocks. The Commission is also working on a comprehensive bank crisis resolution framework. In addition, another more ambitious and stringent EU-wide stress test will be conducted in 2012.

D. Mobilizing labour markets, creating job opportunities

There is a risk of a return to growth without sufficiently dynamic job creation. Tackling unemployment and preventing long term exclusion from the labour market is essential. One of the five EU targets of the Europe 2020 strategy is to raise the employment rate to 75% by 2020. Current indications are that the EU will fall short of this target by 2-2.4% - a shortfall that can be made up through the adoption of measures to create jobs and increase labour participation. Given the ageing of the EU population and the relatively low utilization of labour compared to other parts of the world reforms are needed to promote skills and to create incentives to work.

E. Making work more attractive

The combination of high unemployment rates, low participation in the labour market and fewer hours worked compared to other parts of the

world undermines the EU's economic performance. The participation rate of low income earners, young people and second earners is worryingly low. The most vulnerable face the risk of long term exclusion from employment. In response, training and job search should be tied more closely to benefits.

Shifting taxes away from labour should be a priority for all Member States in order to stimulate demand for labour and create growth. Tax benefit systems, flexible work arrangements and childcare facilities should be geared to facilitating the participation of second earners in the work force. Efforts need to be stepped up to reduce undeclared work both by strengthening the enforcement of existing rules and reviewing tax benefit systems.

F. Getting the unemployed back to work

European welfare systems have worked to protect people during the crisis. However, once the recovery has gained ground, unemployment benefits should be reviewed to ensure that they provide incentives to work, avoid benefit dependency and support adaptability to the business cycle. Member States should design benefits to reward return to work or incentives to go into self-employment for the unemployed through time-limited support, and conditionality linking training and job search more closely to benefits.

Member States need to ensure that work pays through greater coherence between the level of income taxes (especially for low incomes) and unemployment benefits. Member States need to adapt their unemployment insurance systems to the economic cycle, so that protection is reinforced in times of economic down-turn.

RESULTS AND DISCUSSIONS

The EU will only meet its ambitious Europe 2020 targets for sustainable and inclusive growth if urgent structural reforms are frontloaded in services and product markets to improve the business environment. To remain competitive in a globalised economy Member States must urgently begin the deep structural reforms needed to enhance the excellence of our research and our capacity to innovate, turning ideas into products and services that meet the demand of high-growth markets, taking advantage of the technological capabilities of our industry and helping SMEs to grow and internationalize.

The EU's reform agenda will also have to exploit new sources of growth by turning the limits of traditional resource-based development into new economic opportunities through increased resource efficiency. It must also exploit the EU's first mover advantage on competitive environmental goods and services. The Single Market can be an important source of growth –as outlined already in the Communication on a Single Market Act- provided quick decisions are taken to remove remaining obstacles. To strengthen it, the Commission will therefore give priority in the Single Market Act to growth enhancing measures in 2011-2012 as illustrated below.

Barriers to market entry and obstacles to entrepreneurship remain acute in the single market. Cross-border services only represent 5% of GDP, less than a third of trade in goods and only 7% of consumers buy on-line because of the numerous restrictions which prevent the development of cross-border on-line sales. All Member States should fully implement the Services Directive. The Commission is evaluating its implementation, and the potential for further growth enhancing measures through a further opening of the service sector.

Member States should identify and remove unjustified restrictions on professional services such as quotas and closed shops together with restrictions on the retail industry, such as disproportionate limitations on opening hours and zoning. The Commission will propose in 2012 measures to rule out geographically based differentiation in e-commerce inside the Single Market. It will also propose a European framework for intellectual property, as this is a key factor for developing both e-commerce and digital industries. In addition to continuing to press for the conclusion of the Doha

CONCLUSIONS

In 2011, legislation will be proposed to enable rapid and interoperable standard-setting including in ICT. Although sensitive, work should be taken forward on taxation. This has an important economic potential to stimulate growth and job creation, reduce administrative burden and remove obstacles in the Single Market. Tax treatment disadvantaging cross-border trade or investment should be eliminated. In particular the Commission will propose in 2012 measures to modernize the VAT system, to introduce a common consolidated corporate tax base, and to develop a coordinated European approach to taxation of the financial sector. Progress

on taxation also implies reducing taxes on labour to the minimum necessary and adapting the European framework for energy taxation in line with the EU energy and climate objectives.

The most urgent task in 2012/2013 is to prevent a vicious cycle of unsustainable debt, financial market disruption and low economic growth. The first priority of this Annual Growth Survey is to set budgetary policies on a sound footing through rigorous fiscal consolidation, and to restore the normal functioning of the financial sector. The second priority is a rapid reduction in unemployment through labour market reforms.

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