A manifest for Europe

What binds us together is stronger than what separates us.

At a time of extreme tensions on the financial markets, the atmosphere among Europeans is getting less amiable and more confrontational. Unnecessary comparisons and strongly worded recriminations, stereotypes and prejudices (re-)appear, whilst xenophobic parties and media are having a field day. The strong medicine of austerity and budget restraint, on the one hand, and the financial assistance given to nations who are denied access to markets on normal terms, on the other hand, have brought up the worst in some of us. Resentment about "having to bail out Southern Europeans" or "having to adopt Northern European attitudes" coupled with misinformed utterances even by high-level politicians threaten to poison the atmosphere. It is time we put an end to this bickering and find common solutions so that we may jointly exit the crisis that erupted over the past years, not separately exit the community we have built over 60 years. When we adopt attitudes of assistance, cooperation and altruism – normal and necessary for any union amongst humans – we may be able to leave behind us the worst arrogance, ignorance and selfishness, realising that *what binds us together is stronger than what separates us*.

The undersigned believe that the unprecedented crises we are confronted with provide us with an opportunity to re-invent our cooperation and joint enterprise and to strengthen the common base from which to address challenges ahead. When Treaty change is being contemplated, we should seize the opportunity to develop common platforms from which to work together without fear for lack of powers. Fear and lack of adequate competences have prevented us from acting decisively thus far. We identify seven points for immediate further action.

Stronger economic governance

Building on the major steps adopted, and working on the basis of developments the contours of which have already been agreed by the European Council and the Euro Summit, we should:

1. *impose not only austerity but stimulate the economies of the peripheral States, as well*
   The combined effects of major cuts in public and social security spending and of balanced budget provisions in each of our Member States will be a joint contraction that is neither in our interest nor that of the world at large. Targeted, well-audited spending on programmes of investment, in public transport, education and alternative energy, should begin imminently and focus on the States in Europe whose financial position is worst. Our

structural funds are available and their under-exhaustion gives us room for immediate action that can balance the most pronounced effects of necessary but severe budget cuts and give hope on the ground in the form of new work places and better railroads, schools and hospitals. Similarly, our focus on budgetary reform should not blind us for the need of structural reform. Our strengthened economic policy coordination mechanisms may assist in bringing home this truth. Yet, beyond this, national and regional authorities and social partners alike should strive to agree measures that will unblock entrepreneurial potential and lead to income, innovation and inclusion instead of stagnation.

2. *adopt EU-wide economic policy measures instead of only coordinating national policies*

   The crisis has taught us that Economic and Monetary Union is lopsided, limping, with the "E" underdeveloped compared to the "M". Intensified national coordination cannot be the only answer. Joint economic policies effected at the supranational level should help us move forward without relying solely on the national political process, firmly embedded in a Union context now. Such joint policies could act as a precursor to the next element

3. *introduce automatic stabilisers*

   Just as within national economies the income from richer regions automatically supports the deficits of those that lack behind or undergo a recession, the European economy needs automatic stabilisers, with funds flowing automatically from growth regions to those that undergo restructuring or decline. Such transfers don't have to be on a grand scale but they have to operate without political decision-making or distribution agents preventing their full effects. This requires that part of tax income is immediately received at Union rather than at national level, and that some spending comes directly from federal coffers, as well. The Financial Transaction Tax (FTT), proposed by the Commission, and the Union part of VAT may be appropriate items for direct income of the Union. A contribution by the EU to national and regional unemployment schemes and/or social security is the counterpart to this. It should be organised in new regulations that leave the organisation and level of such schemes at national level but provide financial support on the basis of sound auditing and proper organisation, verified by independent outside accountants. This element requires a Treaty provision permitting direct contributions to the Union budget.

Strong financial sector regulation, supervision and resolution powers

4. *organise European supervision of cross-border financial institutions and, if needed, resolution on the basis of European rules and mechanisms*

   Based on the recently established joint supervisory authorities for securities markets, banks and insurance companies and pension funds, and the European Systemic Risk

Board (ESRB), a further step is needed. The post-DeLarosière structure that came into being this year is a step forward to harmonised supervision and oversight of systemic stability but it falls short of real powers. Only in situations of enhanced risk and need is there a feeble option for these authorities to override the national supervisors, and then through the European Commission and without impinging upon national budgetary powers. The ESRB can only issue warnings and recommendations. When considering Treaty change, the option of granting true powers of Union-wide supervision, including resolution competences, should be given serious thought. The dismal examples of Fortis and Dexia show that national authorities will not always act in the common interest, and that powers of recovery and resolution (R&R) are lacking at EU level. National R&R powers have been, or are being, introduced, notably in the United Kingdom which was first to do so. But without adequate competences at the Union level for supervising and, when necessary, winding up, firms operating across Europe, we will fall back on partial solutions and ad hoc quibbles on taxpayers' money. Also, we see financial firms retreat to their home markets and reduce out-of-State exposure, so that the crisis has diminished the level of integration of the single market for financial products. At least for the larger financial institutions that engage in cross-border activities on a significant scale we need a European framework for authorisation, supervision and resolution. Of course, moral hazard should be reduced. This may require Europe to look to the UK example and copy the separation between retail banking and investment banking proposed by the Independent Commission on Banking. Banks should remember that they serve clients and society at large when they perform functions such as payments services or savings accounts and the provision of mortgage and other forms of credit to individuals and enterprises. Should it nevertheless prove necessary that taxpayers' money be spent in the interest of continuity in a well-functioning financial market, this should be EU money according to a distribution of contribution agreed prior to any financial distress.

Permitting joint issuance of ´eurobonds´

5. *provide the legal basis for joint issuance of governments bonds ("EMU bonds")*

   Joint issuance of government bonds would have prevented the worst of the current sovereign debt crisis. Such issuance can be reconciled with budgetary prudence. Several schemes have been proposed which would not undermine market or Treaty restraints but, rather, combine the benefits of a deep liquid market of "EMU bonds" with incentives for appropriate fiscal behaviour and ceilings on budgetary outlays. In so far as the current Treaty may be an obstacle to such joint issuance of government bonds, this restriction should be removed. A simple sentence added, along the lines of the Treaty amendment to allow the euro area Member States to establish the European Stability Mechanism (ESM) as a successor to the current European Financial Stability Fund (EFSF), would suffice.

It´s the culture, stupid!

6. *emphasise the cultural element of our cooperation and joint monetary union*

   It is clear that the discourse on the crisis and on preferred solutions is still national. The instruments for European policy-making are used but they hardly play a role on the ground: day-to-day debates are in national media and among national politicians, in their own languages. This reduces the chances of finding common ground, and adds to the divisions. Also, the EU institutions stand accused, wrongly, of being undemocratic and unelected. Furthermore, the integrated single market hardly functions when it comes to labour mobility except for the newest Member States (the ‘Polish plumber’ and his compatriots who work in other Member States by the hundreds of thousands) or in times of crisis (with emigration from Ireland and Latvia and an exodus of well-trained young people from Portugal). All of this tells us that the cultural dimension of EMU has been neglected, from language teaching to cross-border media integration. We will have to work on improved education, wider language capabilities and emphasis on Europe-wide issues instead of keeping strictly to our local focus. There is a role here for forward-looking governments and for educational institutions and concerned citizens. Our ability to move across the continent, and to move opinion in neighbouring States, depends on our linguistic powers and on our educational basis.

Europe and the world

7. *retain an open outlook to the world*

   Whichever road we take, as Europeans, we should keep, or regain, an open attitude towards the world around us. Not only does our internal bickering do no good for our standing in the world, it actually risks growth in emerging markets, among Atlantic partners and in Africa. We should acknowledge the external effects of our ways of tackling the crisis, or of not tackling it effectively. The world outside of Europe is rightly concerned and impatient. We need not only to act firmly to end the corrosion of the euro debt crisis on the world economy but also to join others in tackling issues we are confronted with as humanity. Europeans have a contribution to make. To finding solutions to the ecological and climate change crisis, to the divide between ‘haves’ and have-nots’ in a world where 40% of people live below the global poverty line, to the many conflicts and to the urgent need to find ways to live together in this global village in spite of our religious and other divisions.

We profess that joining hands on the above seven issues will help us get out of the current impasse and focus on the future. Three out of the seven issues require Treaty change. We urge our leaders to seriously consider these elements in the context of their current endeavour to strengthen the European Union and the euro area. If at all possible, such changes should be undertaken by the 27, allowing the 17 to proceed and others to join at a later stage. If not, the 17 euro area nations should seek to go beyond the current level of ex post crisis containment to management with foresight and fortitude. Thus, we may use th present conundrum as a way towards a European Republic, an entity serving the common good.

René Smits
9 November 2011