“EUROPE RESPONDS TO THE CRISIS:
ECONOMIC INSTRUMENTS DEVELOPED BY THE EUROPEAN INSTITUTIONS FOR A SMART GROWTH”

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INTRODUCTION

From the economic crisis to the smart growth

The global financial crisis set off in 2008 by the collapse of Lehman Brothers proved to be the trigger of the subsequent economic crisis that has severely hit the European Union and in particular the Euro-zone. In fact, after several months of raise in the prices of petroleum products, raw materials and property with a consequent increase in interest rates to fight inflation, in the fall of 2008, the financial crisis exploded in the United States (as part of the subprime mortgage) and then spread across the world including the European Union. The crisis has evolved in three stages. The first one that began exactly at the end of 2008 was marked by the collapse of the interbank market and the lack of liquidity with the consequent risk of bank runs. The intervention of the European Central Bank in this case was crucial. In fact, from 9 October 2008, the ECB has provided to reduce the gap between the deposit rate and the marginal borrowing rate. Somehow it replaced the market to ensure the necessary liquidity to banks for remaining operational. Subsequently, the financial crisis turned into an economic crisis with consequences that are still particularly acute in some of the Member States (especially in the so-called PIGS - Portugal, Ireland, Greece, Spain). At the end of 2009, data showed a decline in GDP of 4% and a stoppage of industrial production to the levels of the nineties. In addition, over the years the percentage of unemployed has reached 10% of the active population (23 million people). The last phase, typical of the Euro-zone, is remembered as the "debt crisis" as it has affected most of all the public finances of the Member States. There has been an increase of the debt of 80% and the deficit has jumped to about 7% of GDP. This has highlighted the shortcomings of European governance mainly from three points of view:

- ineffectiveness in the mechanisms of control and sanctions of the Stability and Growth Pact (SGP)
- need for a better coordination of economic policies
- requirement to save some Euro-zone countries from bankruptcy
The limits of the Stability and Growth Pact have emerged explicitly during the Greek crisis. In the years preceding the crisis a series of measures to control / sanction had been introduced to avoid the "free riding" behaviors of some states. In fact, ex ante governments were called upon to submit both to the Commission and to the Council, their national stability programs to avoid the occurrence of excessive deficits. Yet, the crisis has shown the main shortcomings of this mechanism since on the one hand, it has taken into account only few economic indicators and on the other information of the states have not always been true. The most striking example is Greece. In January 2009, the Greek government declared in its SP a deficit / GDP ratio of 3.7%, but during the course of the months, it has been realized that the data were clearly “counterfeit” because at the end of the year the deficit arrived to 12.7%. Instead, the second measure was the identification ex post of untenable situations in terms of deficit that would activate sanctions. Yet, even in this case, some states have tried to circumvent the obstacle. An example has been the proposal by France and Germany to increase the flexibility of the SGP but this has made it totally ineffective because, despite many slippages, no European government has never been sanctioned.

The other aspect that the crisis has highlighted is the need of a closer-ordination of economic policies. It was thought that with the introduction of the single currency, a convergence of European economies would have been generated also thanks to the introduction of the “one-fits-all model” in the monetary field. Yet the analysis of the World Bank have revealed profound differences between the center and the southern suburbs especially in administrative systems, in compliance with laws and in rate of corruption. A greater control of macroeconomic imbalances between countries ought to be imposed also taking into account their competitive position and the soundness of their banking system.

Last, the lack of a fiscal back-stop for the common currency has prevented from using it to inject liquidity in the government securities markets; this has brought to the drying up of the flows of private financing from abroad. Furthermore, the EU found itself unprepared and vulnerable to speculative attacks. In fact, the existence of a general guarantee of the states over their banks, which were over-indebted, has increased the crisis of the Euro-zone1.

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1 "La riforma della governance economica europea”. Osservatorio di Politica Internazionale – April 2011, No 27.
Hence the call for a reform of the European Economic Governance, able to create new and appropriate institutional arrangements. In 2010, the European Commission had taken action by presenting the strategic plan “Europe 2020”\textsuperscript{2} which will be analyzed in chapter one. Born from the ashes of the Lisbon Strategy, it aims to boost the economy of the Union focusing on five key areas such as employment, innovation, education, social inclusion and climate/energy over a period of about ten years. Then there are the so-called three pillars that include various proposals to ensure both a budgetary discipline and a better convergence of the economies\textsuperscript{3}. They will be better defined in chapter two.

The first pillar is articulated into the new legal tools as the Six Pack, the Two-pack and the European Semester. In this way both the economic policies and the national budgets are decided jointly by the EU institutions and Member States during the first half of the year and then are implemented by each country in the second half of the year. Noteworthy is also the Fiscal Compact which has introduced the constraint of a balanced budget.

The second pillar of stabilization of the crisis is the new permanent system of funding for countries hit by a financial shock. It has been called the European Stability Mechanism (ESM) and has an effective lending capacity of 500 billion euro.

Last but not least there are the new ways of intervention in the sovereign bond markets of the ECB. With the explosion of the sovereign debt crisis the debate about what should be the mandate of the ECB has been intensified. On the one hand it was not allowed to pump liquidity in support of the government bond markets while, on the other, the statute of the institution itself did not contain any express restriction of the operations it could have performed. Over time, also to compensate the drying up of the interbank market, the ECB has started to injected liquidity in increasing quantities and after the establishment of the ESM it has been able to commit to intervene limitless in support of the sovereign bonds.

Finally, EU have realized that to survive in the medium-long term and to restore consistency, there is a need of an institutional evolution of the Euro-zone. The “Road Map” that has been

\textsuperscript{2} Europa 2020, \url{http://ec.europa.eu/europe2020/index_it.htm}

\textsuperscript{3} “Economic Governance in the EU: A big step forward”. MEMO/11/364.
endorsed, contains four chapters: an inclusive financial system, a scheme of integrated budget, a common framework for economic policies, democratic legitimacy and accountability. These measures will be developed in chapter three.
Chapter one
NEW UPDATED GOALS

1.1 Europe 2020: Definition and Priority Initiatives

The economic crisis on the one hand has crumbled years of economic and social progress and on the other hand has accentuated some structural weaknesses of the European Union. To cope with the processing stage that it is experiencing and to boost its economy, the EU has set an ambitious goal that can be contained in the formula: Europe 2020. The Europe 2020 ten-years strategy is nothing more than a willingness on the part of both the European institutions and national governments to act collectively and to take the reins of their own future. It is not only to overcome the crisis that continues to plague the economy of many countries, but it also wants to fill the gaps in the developing model by creating the conditions for a different kind of economy, more clever, sustainable and complete.

Three are the priority initiatives which have been identified. First of all there is Smart Growth which is aimed to promote knowledge and innovation as means to overcome the economic emergency and to continue to grow. This implies an improvement in key areas such as education, research and data transfer throughout all the territories of the Union. To achieve it, the action of the European institutions ought to be associated with entrepreneurship and market opportunities. The second initiative goes under the name of Sustainable Growth and its main goal is the construction of an efficient economy in terms of resources and competitiveness. In fact, because of the heavy pressure on the export market, Europe require a step up to be able to compete with other major trading powers and this can be achieved only by a higher productivity. Farther, a wiser use of the available resources would lead Europe to a reduction of the CO$_2$ emissions, a saving in financial terms and also an improvement in the quality of life of people. Last there is Solidarity Growth. EU wants to increase the level of employment because nowadays only two-thirds of the population in working age has a job (unemployment due to the crisis has hit particularly young people – over 21% rate) and to invest in skills because it is necessary to facilitate both the access to formal education and an higher qualification. Moreover it has to fight against poverty that, with the crisis, has reached
very high levels. In fact the 8% of the population do not earn enough and live below the threshold of poverty\(^1\).

Within this framework, the European Commission proposed five objectives to be achieved at both European and national level by the end of the decade. They concern:

- **Occupation**: 75% of people aged between 20 and 64 years ought to have a job
- **R&\textendash;S**: 3% of the GDP of the European Union has to be invested in research and innovation
- **Climate change and sustainable energy**: reduction of greenhouse gas emissions by 20% (or even 30%, if the conditions are right) compared to 1990, 20% of energy needs proceeds from renewable sources, 20% increase in energy efficiency
- **Education**: reducing rates of early school leavers under 10% and increasing the percentage of young graduates at university
- **Combating poverty and social exclusion**: reducing the risk of poverty for at least 20 million people

The European Commission has calculated that the achievement of these objectives could be an increase in GDP of 4%, and creation of 5.6 million jobs by 2020. In order to realize this, a stronger economic governance is needed. That is the reason why the Europe 2020 strategy will be based on two pillars: on the one hand the so-called thematic approach, which combines priorities and main objectives. By focusing on the seven flagship initiatives and by relying on an extensive collaboration between institutions and Member States, it aims to reset the sustainability of growth and public finances. However, on the other hand, there will be an increased supervision at the level of individual countries. Their reports should contribute to achieve the objectives of the strategy as it would help Member States to restore a macroeconomic stability. Particular attention will be paid to the functioning of the euro zone and to the interdependence between Member States\(^2\).

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2 Policy recommendations will be addressed to Member States that will be formulated in the form of opinions on the stability / convergence programs under Regulation (EC) n. 1466/97 of the Council and they will be accompanied by recommendations made in the context of the broad economic policy guidelines (Article 121, paragraph 2).
1.2 Objectives and Flagship Initiatives

To measure the progress in achieving the three priorities of the Europe 2020 strategy five “quantitative” targets and seven flagship initiatives have been concurred for the entire European Union. Then these are translated into national targets to reflect both the condition and the specific circumstances of each country.

1.2.1 Employment

The first goal that emerges from the European agenda is employment. The Union has set the goal to achieve an employment rate of 75% for people aged between 20 and 64 years by 2020.

The data, however, are not so good. In fact, the economic crisis has lowered the employment rate to 69% and has pushed the unemployment rate to 10% (23 million people). The unemployment rates if held too high over time will cause a loss of human capital because it will discourage workers who are faced with two possibilities: the premature withdrawal from work or the social exclusion. This means that on the one hand EU must produce reforms capable of guaranteeing equal opportunities and making transactions convenient and on the other hand if it wants to reach the goal an average employment growth of more than 1% per year is required. The recovery should be based both on the harbinger growth of employment and on creating the fair conditions of work. An example could be the selective reduction of non-wage labor costs to encourage the recruitment of unemployed or of those who plan to leave the labor market.3

All these requirements have been incorporated in the flagship initiative "Agenda for New Skills and Jobs" whose main goal is to modernize the labor market both from a professional point of view and from a productive one. In fact European institutions ought to be able to keep up with the changing in the world of work and adapt the legal framework to new schedules, new risks to health and safety in workplace. Moreover they have to facilitate the

labor mobility within Europe and promote a greater cohesion in demand and offer of labor (also thanks to financial support from the European Social Fund – ESF).

With regards to the national level, States are concerned with improving the tax and the benefit systems to make work more productive and to promote both equality between the sexes and a better balance between work and private sphere. Moreover, they will develop partnerships between education or training and the world of work in order to facilitate access to it.

1.2.2 R&S

The second objective of the strategy is under the acronym R&S. Until now, the EU spending for research and investment has been less than 2% mainly due to lower levels of private investment. Europe has decided to focus on the impact and composition of spending to improve the current conditions. The main purposes are to increase investment in research and development to 3% of EU GDP and to refocus the R&S policy regarding the challenges posed to our society such as climate change, an efficient allocation of resources and demographic change. The measures in this area will be taken with the aid of two flagship initiatives.

First there is “Innovation Union”. Innovation offers real benefits for citizens, consumers and workers. It is the key medium not only for the creation of more jobs or the construction of a greener society but for the improve in the quality of life, and also for the maintenance of competitiveness in the global market. Its main objectives are the removal of obstacles to innovation (i.e. expensive patenting, market fragmentation) and the return of Europe as a world-class science performer. Why is it so important? Europe is in a kind of emergency. It is spending each year 0.8% of GDP less than the U.S. and 1.5% less than Japan for research and development (R&D). This involves the transfer of the best researchers and innovators in countries where conditions are more favorable. Although the EU market is the largest in the world, it remains fragmented and not always favorable to development. If EU is able to invest 3% of GDP in R&S by 2020 3.7 million jobs will be created and the annual GDP will be increased.

Innovation Union contains over thirty action points which includes the strengthening of the basic knowledge of Europe. It proposes measures to complete the European Research Area by 2014. This means more coherence between European and national research policies, cutting red tape and removing obstacles to the mobility of researchers. In the education field, the Commission will support business-university collaborations to develop new curricula on innovation gaps. Then, noteworthy, is the maximization of regional and social benefits. To avoid a “watershed” between the strongest regions and all the others, the Commission will assist Member States to make a better use of the remaining structural funds programmed for the period 2007-2013 for research and innovation. Furthermore, there should be more collaboration at an international level. This means that both the European Union and its Member States should treat scientific cooperation with third countries as a matter of common interest, and develop common approaches to protect its own interests.

The second flagship initiative goes under the name of “Digital Agenda for Europe”. Its goal is to benefit from a socio-economic Digital Single Market based on fast or ultra fast internet which will ensure to everyone an access to broadband by 2013. By 2020, it wants both to speed the connection up to 30 Mbps and to have an internet subscription above 100 Mbps by least 50% of households. The Digital Agenda contains 101 actions which will help to restart the EU economy allowing its citizens and businesses to make the most from digital technologies. The general framework can be seen from the scoreboard which assesses progress with respect to the targets settled out:

Thanks to the reduction of barriers, the free flow of online services and entertainment across national borders will be guaranteed and with it there can be an increase in the activity of downloading music, in creating a unique space for online payments, and above all a further protection of EU consumers in cyberspace (the EU is committed to the establishment of requirements to improve the protection of personal data). Noteworthy is also the ICT because it can carry out the digitalization of European cultural heritage providing an online access for all.

1.2.3 Climate change and sustainable energy

Climate change and sustainable energy is the third objective that the institutions have set. In addition to the reduction of greenhouse gas emissions by 20% (or even 30%, if the conditions are right) compared to 1990, the European Commission, in November 2010, redefined the contours with the communication “Energy 2020 - A strategy for competitive, sustainable and secure energy”\(^6\). Through this communication have been outlined both the objectives of EU energy policy for the next ten years and the actions to be taken to promote energy savings, to make the supply more secure, to affirm the European technological leadership and to establish effective international partnership. On the one hand there is the need of an implementation of the legislation on the internal energy market and the development of a plan for the construction of large infrastructure for the decade 2020-2030. On the other one there is a call for the strengthen of the external dimension of EU energy police. In fact the EU is the largest importer of energy in the world and it consumes (as a whole) one-fifth of the energy produced. Despite this, there is not a common position in the relations with non-EU countries. The measures that should be adopted concern the integration of energy markets and their regulatory frameworks with those of neighboring countries, the creation of privileged partnerships with some key countries in the field of energy supply and the promotion of the role of the EU in a future scenario of energy with low carbon emissions.

\(^6\) Council of the European Union, (28/02/2011).
1.2.4 Education

The fourth objective of Europe 2020 strategy is education in terms of the reduction of “the phenomenon of early school leaving and the increase in the number of young people in higher education, so that they can develop their full potential” as stated by Androulla Vassiliou, the European Commissioner for Education. Sustaining the development of education and training systems of Member States is the only means to ensure the attainment of personal, social and professional fulfillment of all citizens as well as economic prosperity and employability. Therefore, it has to invest urgently and effectively in the modernization and reformation of education in order to pursue the two goals that the EU has set. First of all, it aims to reduce the dropout rate to a level below 10% and also to increase the share of individuals who reach university studies (at least 40%). In fact, once the difficult period of crisis has been overcome, the increase in the number of highly qualified graduates can boost substantially the prospects for growth, encourage innovation and help prevent a future crisis. In particular, the Council invites Member States in respect of the principle of subsidiarity to ensure the support of both the social aspects of education and training and the equal access to the system. In this way, the promotion of social cohesion, sustainable development, active citizenship and personal fulfillment in European societies can be assured. Individual countries should be able to promote excellence in education, to improve outcomes for young people at high risk of dropping out and above all to strengthen the professional profile of teaching. Furthermore, within the flagship initiative “Youth on the move”, the Commission will take care of enhancing mobility programs (Erasmus, Erasmus Mundus, Tempus and Marie Curie) and enabling the younger generation to a more favorable entrance into the labor market through training or learning experiences (noteworthy is the program “Your first job” – EURES).

1.2.5 Combating poverty and social exclusion

Last but not least the focus should be placed on the flagship initiative "European Platform against poverty and social exclusion" through which EU leaders have pledged to bring at least 20 million people out of poverty and exclusion by 2020. In fact, the ultimate goal that the institutions have set is the fight against poverty and marginalization. The current data are not so comforting and the consequences of the crisis have particularly affected the most

7 Council conclusions on Investing in Education and Training - Annual Growth Survey for 2013 (2013/C 64/06)
vulnerable people of society such as women and children. They live under the poverty line (19% of children in the EU are currently in or at risk of poverty). Unemployment has increased especially among young people, immigrants and low-skilled workers. In addition, the 8% of Europeans live in conditions of severe material deprivation and cannot even afford the essential services as heating, lighting and other household uses to be able to have a dignified existence. The aim of the platform is to build a dynamic framework of action to ensure social and territorial cohesion and to actively reintegrate all those who are victims of social exclusion like those with disabilities, ethnic minorities and migrants. To do so, the open method of coordination on social protection is used by EU institutions. It is a kind of political cooperation based on the definition of common objectives and common indicators, which show the progress achieved by each country. Among the common objectives, beyond social cohesion, there is equality between men and women, a greater economic growth, more and better jobs and above all a good governance characterized by transparency and participation of stakeholder. Instead, among the indicators, noteworthy are the percentage of the risk of poverty, the material deprivation index and the percentage of people living in households with very low work intensity. Through the open method of coordination, the EU will be able to provide the general guidelines for the development of national strategies on poverty, health care and pensions.8

1.2.6 Other flagship initiatives

There are two flagship initiatives that are missing in the list. The first is named “A resource-efficient Europe”. Resources play a key role both in the European economy (as well as in the world one) and in our everyday lives. Yet, in the last years, this role has been threatened by a massive use of resources with the consequence of a risk of its supply. Only when Europe starts raising its resource efficiency will there be both a security in growth and occupation and an enhancement in productivity and competitiveness. Three conditions are necessary to fulfill this objective: first a coordinated action in different policy areas, then long investment

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lead-times and last an empowerment of consumers to let them have a resource-efficient consumption able to lead to a constant innovation\textsuperscript{9}.

Specifically, the European Commission will strive to mobilize EU financial instruments (Structural Funds, TEN, EIB), to facilitate the implementation of strategic projects and especially to complete the internal energy market. It has also the task of present effective proposals to modernize and 'decarbonise' the transport sector as for example an intelligent traffic management and a better logistics. Last, the Commission have to define the structural and technological changes needed to arrive by 2050 to an economy with reduced CO\textsubscript{2} emissions and able to withstand climate change (i.e., prevent and respond to natural disasters, improve agricultural and sea policies to reach food security)\textsuperscript{10}.

Instead, Member States will have to incentivize energy saving instruments, designed with the aim of improving energy efficiency, in key sectors such as those based on the use of ICT. They will both ensure the development of intelligent infrastructure in the fields of transportation and energy and utilize structural funds to invest in power efficiency in public buildings and recycling. Finally, they ought to re-evaluate the urban dimension of transport in order to avoid the emergence of excessive congestion and CO\textsubscript{2} emissions.

Instead the second initiative is aimed to stem the structural weakness of the European industry highlighted by the recent economic crisis. “An Integrated Industrial Policy for the Globalization Era” wants to point out how the industry especially the manufacturing sector, is still crucial for the competitiveness of the European economy and that is why it ought to be prepared to reinvent itself in the light of new business opportunities. From an institutional point of view the EU will take two main measures: the definition of an industrial policy capable of generating a wiser use of resources and the improvement of the business climate by reducing transaction costs and facilitating trade financing.

It is also important to remind that there should be a Europe-wide coherence between industrial policy and competition policy. Competition creates incentives for companies that increase

\textsuperscript{9} The European Union has already demonstrated that it can achieve a similar goal. Since 1990, by recycling, greenhouse gas emissions have been reduced by more than 10% with a growth of economy of about 40%.

\textsuperscript{10} COM(2011) 21.
their productivity and therefore improve their position in the global market. Through three measures such as the control of State aid, the Antitrust and the merger control, the Commission will seek to ensure an undistorted competition in the internal market.

With regards to the Member States, they ought to promote a development in entrepreneurship through incentives for innovation and protect intellectual property. In addition they should reduce the administrative burden for companies and collaborate with different sectors such as trade unions or consumer organizations.

1.3 Other tools for growth

1.3.1 The single market

The single market has been, for years, the area of free movement for goods, persons, services and capital. It has evolved since 1993, thanks to economic integration, the creation of the single currency and the development of policies of solidarity and cohesion. However, with the advent of the crisis a number of shortcomings have also emerged, highlighted both by Mario Monti in the report “A new strategy for the Single Market”, as well as by Louis Grech, MEP, in the “Report on the creation of a single market to consumers and citizens”. Every day, businesses and citizens encounter obstacles that prevent them from enjoying the full benefits of the single market. Among these, emerge an insufficient interconnection of networks and a lack of homogeneity in the rules of the single market (often for the same transaction you have 27 different legal systems). The Union has decided to run for cover so that the single market can develop its full potential. The Commission has identified twelve levers to boost the development of the internal market. They are contained in the First Act for the Single Market of April 2011 and they include for example a well-functioning market for services, intellectual property rights and more confidence of consumers. Afterward, the European Commission has gone over by drawing up a Second Act (March 2012) and identifying four key drivers of growth, around which to focus the different actions.

First there is the development of fully integrated networks in the Single Market particularly in the areas of transport and energy which are used every day by both citizens and entrepreneurs. In addition to promoting the efficient use of existing networks, the EU is committed to
finance the further development through Structural Funds and Cohesion Funds. Attention has been paid in the areas of rail, air and maritime transportation as well as in the electricity and gas markets. In the first case, the Commission has presented a package that will allow all railway undertakings licensed in the EU to provide services in the EU internal transport of passengers and to participate in tenders for the award of public service contracts. The package will give all citizens across Europe a more well-organized national rail services, at lower prices. In relation to maritime transport, according to the general procedure, ships carrying goods from one Member State to another one should follow the same complex administrative formalities for vessels coming from third countries. The Commission is working to develop the so-called package "Blue Belt" which, thanks to modern technology in information, will allow a good traceability of vessels and goods within the Single Market. The third key action covers the airline area and it has been intended to accelerate the implementation of a “Single European Sky, to improve safety, and to reduce pollution and environmental impact. In terms of the energy field, the major aim is the improvement of the execution of the “Third Energy Package”.

The second driver is the promotion of cross-border mobility of citizens and business. On the one hand, EU will strengthen the EURES network which connects national public services and provides information on job vacancies and working conditions in other Member States; on the other hand, it will stimulate long-term investment in the real economy by facilitating access to investment funds in the long period. Finally, Europe must adopt a modern company law which could help inactive businesses to survive and allow creditors to grant loans on easier. Moreover, a bankruptcy law, in view of the times, will allow failed entrepreneurs to start over an activity.

Thirdly, there is the sustenance of the digital economy for all of Europe. Through the adjustment of both national and European legislation and especially the rules on liability, warranties and delivery, the reliable circulation of content can be promoted.

Last but not least, institutions are looking for ways to improve the safety of products that circulate in the EU through the adoption of a new regulation on market surveillance and to give all EU citizens access to a basic payment account, ensuring the transparency and comparability of bank charges.
1.3.2 The budget of the European Union

The financial crisis has prevented both the companies and European governments to finance investment and innovative projects. To overcome this kind of stagnation, the EU needs a regulatory environment that ensures the effectiveness and safety of financial markets and innovative instruments to finance the necessary investments, including forms of collaboration between the public and private sectors. These requirements have been outlined by the Commission in its proposals for the next Multiannual Financial Framework (2014-2020). Janusz Lewandowski, commissioner for Financial Programming and Budget has underlined that through a smart reallocation of the budget, a “space” to finance the new priorities such as cross-border infrastructure for energy and transport, research and development, education and culture could be created. In the Council conclusions of 7/8 February 2013 on the same matter it has also been underlined that a careful distribution of the European Union's budget is the only vehicle which can ensure that the available resources are invested effectively to support a smart, sustainable and inclusive growth as required by Europe 2020 strategy. Thus spending should be mobilized to maintain both competitiveness and convergence. Moreover an appropriate level and the quality of expenditure shall be guaranteed. This includes an improvement in the governance of the policies in all the levels.\footnote{Under Article 318 TFEU, the Commission will transmit each year to the Council and to the European Parliament a summary report for the CSF programs (based on the annual implementation reports of the Member States) as well as a synthesis of all available evaluations of Programs.}

1.3.3 Instruments of foreign policy

To boost the growth and thus to be able to participate in all markets around the world, the European Union should use the tools of external economic policy properly. This also includes the domestic policies of individual countries in the field of energy, transport, agriculture and above all trade. Internally the EU ought to widen its capacity to reap the profits from trade, as not all Member States carry out uniformly in the international marketplace. Externally, it requires a determined trade cooperation and enforcement agenda. The commercial strategy for Europe 2020 that the European Commission outlined in November 2010 concerns exactly this agenda. In time of crisis, when the temptation to choice protectionism is high, the EU’s main concern ought to be the safeguarding and the reinforcement of the multilateral trading system. The Free Trade Agreements (FTA) can arrange the ground for the next stage of multilateral
liberalization and regulation production. It is necessary to prioritize those negotiations that will offer more benefits in terms of development and jobs, above all the US and Japan as well as big emerging economies with long-term prospective. Data show that more than 15 million people are employed by European companies in the US or US companies in Europe\textsuperscript{12} and this transatlantic connection has all the credentials for being wholly pushed. Furthermore since July 2011, the EU-Korea FTA has visibly instituted the presence of Europe in Asia, unlocking East Asian market for EU exports. Exports of entirely liberalized products improved by 54% and the European trade deficit has decreased to just above 3.5 billion in 2011 from more than 11bn in 2010. Last, the European Union has created a true partnership with countries in the developing world to eradicate poverty, to promote growth and to achieve the Millennium Development Goals (MDGs). This should lead to the correction of global imbalances and the opening up of emerging economies in the global market.

1.4 Rule of different Institutions and Involved Subjects

In order for the strategy to be successful, it is essential that a cooperation both among the different institutions of the European Union and between the parties are involved. As the economies interconnect, there will be a real growth only if all Member States will move in the same direction still respecting their starting positions.

The European Council should play a leading role in the strategy as it represents the last step of the decision-making process. It is able to secure and manage both the integration of different policies and the relationships between the different countries. During its meetings, the European Council could be asked to focus on specific topics such as the development or innovation.

With regards to the Council of Ministers, it will be responsible for achieving the goals in the areas of its competence. In particular, during meetings, the representatives of the Member States will be invited to intensify the exchange of information of good practice.

Instead, the European Commission will annually monitor the situation with the aim of verifying the progress made by individual countries within the three key priorities such as

\textsuperscript{12} http://ec.europa.eu/trade
smart, sustainable and inclusive growth. Through the use of indicators of development will be easier to assess the level of employment, productivity and social cohesion. Then the Commission will formulate an assessment of the progress made and it might make recommendations or policy warnings to facilitate the achievement of the goals of the strategy.

Two are the main tasks that over the years the European Parliament will have to play. First of all, it will serve as co-legislator, and then it should be able to raise awareness and mobilize both individual citizens and national Parliaments of the Member States.

Moreover, there should be a greater involvement of both the Economic and Social Committee and the Committee of the Regions. The exchange of good practices, the benchmarking and the networking could be useful tools for Member States to activate a large number of successful reforms.
Chapter two

RESPONSES TO THE ECONOMIC CRISIS: THREE PILLARS

2.1 Economic Governance

The economic and financial crisis that, in recent years has hit the European Union, has triggered deep changes. There has been the need for a radical restructuring of economic governance to lay the foundations for growth and for a greater competitiveness in the future. The European Union, on the one hand, and Member States, on the other, have adopted a number of key decisions that will lead to better coordination of economic policies and budget with particular attention to the euro zone. The new economic governance is based on three main anti-crisis measures:

- **Strengthening the common economic agenda with closer surveillance at EU level.** The European Commission has proposed to give to the EU more effective tools able to prevent unsustainable public deficits and imbalances in the various states. In addition, the system provides penalties for those countries in the euro zone that do not respect the regulations. To monitor the commitments at the European level, the institutions have also another “device” that is called the European Semester. In the first half of each year, the economic agenda of the Union will be discussed by the Commission in January, and the priorities of the individual states will be presented in spring. Finally, in June, country-specific recommendations will be presented.

- **Safeguard the stability of the euro.** In 2010, the Union has established support mechanisms to cope with the economic crisis. In 2013, these will be replaced by a permanent instrument called the "European Stability Mechanism" (ESM) developed by close cooperation with the IMF.

- **Remedy to the problems of the financial sector.** The Union believes that a “healthy” financial sector is the only mean indispensable to ensure that both businesses and families have access to credit. That is why it has established new rules to deal with

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any problems and to guarantee an adequate supervision for financial institution (i.e. stress tests on banks)

2.1.1 Six Pack

In recent years the EU has not been able to meet the targets it has set in matters of economy and budget. This is mainly due to the mechanism of surveillance which was not sufficiently rigorous. To solve this issue, on 29th September 2010, the European Commission presented six legislative proposals which are remembered as the Six Pack. It corresponds to the most inclusive reinforcement of economic governance in the EU and in the euro zone since the start of the Economic Monetary Union almost 20 years ago. This kind of reinforced Stability and Growth Pack (SGP) has effectively entered into force on 13th December 2011 and it has been applied to all the 27 Member States with explicit rules for the euro zone especially with regard to financial penalties. The Six Pack has two main objectives: first of all the catching of stronger preventive and corrective action to ensure fiscal sustainability. Member States have to “share” their economic policies and try to avoid excessive deficits. This set of laws are kept both in the Treaties and in the SGP. Secondly, Member States have to reduce macro-economic imbalances and promote competitiveness through fiscal policies due to their internal situation.

This new measure is composed by five regulations and one directive. In particular, it refers to:


To ensure a greater oversight over national budgets and a higher-ordination of economic policies (as stated in the Article 121 of the Treaty), each year Member States are required to present stability or convergence programs to illustrate the structural reforms that they have planned to undertake to ensure an adequate maintenance of public finances. Member States with unsustainable public finances will be required to make significant progress towards the

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2 MEMO/11/898

3 MEMO/11/627
medium-term budgetary objectives (MTO) in order to meet the deficit standard of 3%. In case of a non-compliance with the granted principles, the Member State in question will receive a warning from the Commission. Furthermore, if the breach is serious or persistent the Commission will draw up a “specific” recommendation for the country to undertake corrective measures (the recommendation will be adopted by the Council unless a qualified majority of Member States is opposed).

2. Regulation amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the implementation of excessive deficit.

Member States shall avoid both excessive government deficits above 3% of GDP and excessive debt above 60% of GDP with the aim of not putting at risk the sustainability of public finances. Those countries whose public dept is over 60% will have to reduce the gap between its debt level and the reference by 1/20th annually on average over three years. If the 60% suggestion is not respected, the country concerned will be placed in excessive deficit practice after taking into account all relevant features and the economic impact. Taking into account that the largest part of the States (23 out of 27 countries) is already in excessive deficit practice and that they have to meet the terms with agreed economic consolidation paths, a transition period is foreseen to guarantee no rushed change in these agreed paths.


It is both in the interest and in the responsibility of Member States whose currency is the euro, the conduction of economic policies that promote the proper functioning of the Economic and Monetary Union. To avoid that economic policies of individual countries are not monitored by budgetary surveillance set by the Union, the Commission has proposed further sanctions. Member States in the euro zone which are currently in excessive deficit process ought to fulfill with specific recommendations the Council addressed to them to solve the situation. In case it does not respects its obligation a financial sanction can be imposed by the Council on the basis of a Commission recommendation. All this will happen unless a qualified majority of Member States vote against it, the so-called “reverse qualified majority”

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4 2010/0278 (COD)
voting procedure. Moreover the Commission has developed a mechanism to ensure compliance with its recommendation. It is based on Article 136 of the Treaty and it includes the setting up of an interest-bearing deposit amounting to 0.2% of Gross Domestic Product (GDP) of the previous year of the Member State concerned.


The key word is transparency. The task of the Member States is to ensure that their fiscal frameworks at all levels of government (local, regional, national), reflect the EU’s budgetary structure. This implies that all the items such as public accounting systems, statistics and forecasting practices will comply to EU standards.

5. Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances

Both the Commission and the Council have the power to adopt proceedings, thanks to the Article 121.2 of the Treaty, before the imbalances become too big. In case a Member State is stuck with an excessive disparity, it will have to propose a counteractive action plan. Surveillance will be increased by the Commission on the basis of ordinary advancement reports submitted by the Member State. Moreover, an alert system has been set. It is composed by ten indicators covering the main sources of macro-economic imbalances. The evaluation of these indicators will not be mechanical but will be carried out by the European Commission thorough checks on the national programs on stability or convergence.

6. Regulation of the European Parliament and of the Council on the enforcement measures to correct excessive macroeconomic imbalances in the euro area

A new enforcement regime has been established for the euro zone. It consists of a two-step approach whereby an interest-bearing deposit can be imposed after one failure to comply with the recommended corrective action. After a second compliance failure, the interest-bearing deposit can be converted into a fine (up to 0.1% of GDP). Sanctions can also be imposed for failing twice to submit a sufficient corrective action plan.

In case the Member State concerned faces a notice under Article 126(9), the financial sanction will be adopted by qualified majority voting as foreseen by the Treaty – MEMO/11/898.
2.1.2 Two Pack

To reinforce the economic pillar of the Economic and Monetary Union, Member States of the euro zone have to overstep the Six Pack legislation approved in 2011. To fulfill this purpose, in November 2011, the Commission projected two complementary Regulation to strengthen euro area budgetary surveillance, the so-called Two Pack. On March 12, 2013 both the European Parliament and the EU Council of Ministers have approved it. The new procedures are based on article 136 of the EU Treaty and they will be applied only to the euro area. They are build on both the European framework for fiscal surveillance and the European Semester for economic policy coordination. In fact, on the one hand, the Two Pack combines some of the elements of the Fiscal Compact Treaty into EU law, and that includes the requests for Member States in EDP to prepare economic partnership plans and the requirement for ex-ante management of the dept. On the other hand, it intensifies the measures of the European Semester because it expects an autumn focus on the budget of the euro area countries (in addition to that provided in the spring according to the standard procedure). Moreover, it complements the SGP by giving the Commission a wider power of action in economic matters.

The first Regulation affects all member States in the euro area, with special rules for countries in the excessive deficit procedure (EDP). It brings in a system of monitoring according to which the Member State concerned ought to give further information to the Commission on the decisions it has taken to amend its excessive deficit. Then the Commission will take note of the situation and it will try to address the State on a less risky path in order to avoid it financial sanctions.

The second Regulation lists a set of rules to increase the surveillance over those State that are either facing harsh hitches on their financial stability or having a financial assistance. The Commission might suggest to a Member State taking additional measures to make sure that its unstable internal situation does not affect the stability of the entire euro area. Besides, it introduces a system of post-surveillance for those countries that are coming out from economic assistance. As long as the State does not return at least 75% of the "loan" received it...
will remain under the watchful eye of the Commission for the guarantee of its fiscal sustainability.

Furthermore, the Two Pack sets up a common budget timeline. The details are as follows:

- By 30 April, Member States have to make known their medium-term fiscal plans together with their National Reform Programs in terms of growth and employment
- By 15 October, Member States in the euro zone have to make public their budget in draft for the next year
- By 31 December, Member States in the euro zone have to assume their budgets for the next year

The last innovation assigns to the Commission an unprecedented role: the opportunity to comment on the national budgets of the 17 euro zone countries (from the 2014) and the possibility to veto it (until now it could only make recommendations). The Commission will examine and give an opinion on each draft budget, by 30 November. If it notices that the obligations stipulated under the Stability and Growth Pact could not be reached, it will request to the country concerned to propose a revised arrangement. This greater coordination and transparency is counterbalanced by a partial loss of sovereignty for the 17 euro area countries in the economic sphere because they could no longer decide all by themselves.

2.1.3 European Semester

In the past, EU institutions examined the economic policy in spring and the budgetary framework in autumn. However, from now on, both Member States and the Commission will confer in parallel about structural reforms, measures to support growth and the oversight of individual financial statements. The consultations, which will take place at the Union level from January to June, are called European Semester. This rule, approved by the European Council of Finance Ministers (ECOFIN) in 2010, came into force in 2011.7

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7 MEMO/11/14
The basic stages of the European Semester are essentially four.

In January, the Commission will assess the economic situation of the EU taking into account what has emerged from its “Annual Growth Survey”. It will also highlight the priority actions at both the Union and Member States. Instead, the month of March is characterized by the political endorsement of the European Council. In fact, during the spring session, it will discuss and then approve the economic and financial reforms while the heads of state and government will try to apply in their respective countries the common economic agenda proposed by the Commission. The third step occurs in April when Member States have to submit to the Commission and to the other countries their national reform programs and their stability programs (for euro area countries) or convergence ones (for other countries). After the accurate assessment of the national reports, the Commission will submit to the Council, in the month of June, a number of specific recommendations for each country highlighting both its strengths and its deficiencies. The European Council of June will discuss the proposals that in the end will be adopted by the Council of the European Union. Member States should take

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into account all the information received especially for the preparation of the budget of the following year.

As for Italy, the European Semester is part of the budget session, in particular, in April with the approval of the Document of Economics and Finance (DEF). Under the current accounting law (passed in 2009 and reformed in 2011 just to comply with Community legislation) the previsions of April constitute the basis for the preparation of the budget bill (now "Stability Law") and the state budget for the following year.

2.1.4 Fiscal Compact

Reinforce the economic pillar of the Economic and Monetary Union by adopting a set of rules designed to strengthen the fiscal discipline and to improve the governance of the euro zone: this is what states the first article of the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union”. It is better known under the name of Fiscal Compact and it is nothing more than an agreement approved on March 2, 2012 by 25 of the 27 Member States of the European Union with the only exception of the UK and the Czech Republic. The Fiscal Compact was strongly supported by virtuous countries such as Germany with the ultimate aim of ensuring the stability of the euro. It entered into force on January 1, 2013 having been ratified by at least 12 of the 25 countries that have signed it (Article 14, paragraph 2) ⁹.

In its main features it claims that the budgetary position of public administration of a contracting party should be in balance or in surplus. The rule is considered to be respected if the annual structural balance of public administration is equivalent to the objective of medium-term specific for the country (lower limit of deficit equal to 0.5% of GDP). This limit is increased to 1% for those countries with a debt / GDP ratio below or equal to 60%. If the debt / GDP ratio exceeds 60%, the debt have to be reduced each year by one-twentieth of its starting value. In case of failure in achieving the agreed targets, countries are obliged to implement corrective measures within a defined period. Violation of these restrictions may

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⁹ Up to January 17, 2013 the Treaty has been ratified from 17 of the 25 countries that have signed it, including 13 Members of the euro zone.
result in fines of up to 0.1% of GDP of the state defaulting. Then, the Treaty identifies as organs of control and supervision both the European Commission and the European Court of Justice. In particular the ECJ has the task of both monitoring the effective implementation of the Treaty rules within the national laws and the application of sanctions to non-compliant states. Farther, it is stated that the Heads of State or Government of the contracting parties whose currency is the euro shall meet at least twice a year in European summits together with the President of the European Commission. The President of the ECB is invited to participate. Last, the Article 16 specifies that within five years after its entry into force, it will be incorporated into the legal order of the EU and in different ways it will be applied also to those countries that have not adopted the euro yet.

2.2 Stabilization of the crisis: ESM

The economic crisis has exposed the public finances under pressure. For this on May 10, 2010 both Member States of the euro area and the European Commission decided to set up two temporary financial support mechanisms able to provide up to 500 billion euro to support those countries of the Union in need of financial assistance. They are: the European Financial Stabilization Mechanism (EFSM) based on guarantees of the Community budget up to 60 billion euro and the European Financial Stability Facility (EFSF), an intergovernmental body that provides up to 440 billion euro. The European Council settled on December 17, 2010 on the need for euro zone Member States to institute a lasting stability mechanism. This European Stability Mechanism (ESM) will take on the “mission” before performed by both the EFSF and the EFSM. The European Stability Mechanism (ESM), also called bail-out fund, has been established by amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro. In fact the European Council added the following part to the Article: “The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the entire euro zone. The granting of any required

10 Two nations have resorted to the assistance of these mechanisms: in November 2010, 85 billion of euro have been allocated for Ireland and in May 2011 78 billion have been granted for the resumption of Portugal.

11 http://www.esm.europa.eu/
financial assistance under the mechanism will be made subject to strict conditionality”\textsuperscript{12}. The ESM may provide stability support by: giving credit to countries in financial difficulties, acquiring bonds of an ESM Member State in primary and secondary debt markets, supplying preventive financial assistance in the form of a credit line and financing re-capitalizations of monetary institutions through lending.

In the beginning the Treaty Establishing the ESM was signed by finance ministers of the 17 euro zone countries on 11 July 2011. Yet, a modified version of the Treaty, adding in adjustments aimed to better the efficacy of the mechanism, was signed in Brussels on February 2, 2012. The ESM Treaty entered into force on September 27, 2012 and the European Stability Mechanism was inaugurated on 8 October 2012 following ratification by all 17 euro zone Member States. It is headquartered in Luxembourg. It has assumed the role of genuine intergovernmental organization under public international law (on the model of the IMF), because of the structure based on a Board of Governors and a Board of Directors, assigned by the Treaty of Establishment, to impose macroeconomic policy choices to the participating countries.

2.2.1 Structure and voting rule

The fund is primarily managed by the Board of Governors composed by the finance ministers of the euro area. Each ESM Member is entitled to appoint one governor and one alternate governor in power to act when the latter is not present. It is chaired by the President of the Euro-group, Mr. Jeroen Dijsselbloem. Then, there is a Board of Directors appointed by the Board of Governors in the sense that each governor has the possibility of selecting a Director and an alternate Director chosen among persons of high competence in economic and financial matters. Its main task is to ensure that the ESM is performed in accordance with its Treaty and the Statute. It is presided over by a managing director chosen from candidates having the nationality of an ESM member, pertinent international experience and an high level of capability in economy. He is appointed by the Board of Governors for a term of five years. The current director in charge is Klaus Regling. Moreover both the Member of the European Commission in charge of economic and monetary affairs and the President of the ECB may participate in the meetings of the Boards as observers. The decisions shall be taken

\textsuperscript{12} The European Council adopted the Decision 2011/199/EU on March 25, 2011.
by mutual agreements, qualified majority of simple majority as specified in the Treaty (a quorum of 2/3 of the members must be present).\textsuperscript{13}

2.2.2 Financial Assistance

An apply for economic support from one of the ESM Member State is done to the Chairman of the Board of Governors of the institution. After its receiving, he relies on both the European Commission and the ECB (where possible, also on the International Monetary Fund) with the charge of assessing the subsistence of a risk to financial stability of the euro zone as a whole and where the public debt of the country is sustainable. Based on this assessment, both the managing director of the ESM and the Board of Governors start to draw a Memorandum of Understanding (MoU) specifying the terms for funding. At this point the European Commission subscribes the MoU on behalf of the ESM, and it in cooperation with the ECB will have the “mission” of monitoring fulfillment with the conditionality close to the financial assistance mechanism.\textsuperscript{14}

2.2.3 The ESM’s shareholders contributions

The ESM is supposed to have a share capital of 700 billion, of which 80 billion are paid-up capital, and the remaining 620 billion will be made available in case of necessity through the issuance of particular obligations of the institution in the capital markets. The ESM treaty provides for the payment of the capital in five annual installments, but the Euro-group decided on March 30, 2012 principal payments ought to be accelerated and the entire capital picked up in the first half of 2014. When ESM has received all its paid-in capital from the euro zone countries, it will be endorsed to approve bailout transactions for a maximum amount of 500 billion, while the remaining 200 billion of the fund will be allocated as securely invested capital reserve (to assure the release of ESM bonds in the uppermost AAA

\textsuperscript{13} The adoption of decision by mutual agreement requires the unanimity of the members participating in the vote. Abstention do not prevent the adoption of the decision. The adoption of a decision by qualified majority requires 80% of the votes cast while the one by simple majority requires a majority of the votes cast (Article 4).

\textsuperscript{14} On February 5, 2013, the ESM paid € 1.865 billion to Spain for the recapitalization of its banking sector. This is the second loan bestowed by the institution. The first happened on December 11, 2012 always to Spain in response to the inquiry of the country of the delivery of almost € 39.5 billion of funds.
The explosion of the sovereign debt crisis has brought into the light the dangers for the stability of the euro area caused by the limited mandate of the European Central Bank which did not allow interventions to support liquidity of the market for government bonds. The statutes of the ECB is confined to identify as its main task the implementation of monetary policy and as its ultimate goal the price stability. However, even following the persistent calls made by the previous President of the ECB, Jean-Claude Trichet, for the governments to create a fiscal back stop able to preserve the Bank from loss of securities held, it started to take on a more interventionist role.

On December 8, 2011, the EBC applied new measures outside its usual tasks: settled funds through fixed rate tenders, with full allotment and due in 36 months instead of the standard week. With two Long-Term Refinancing Operations (LTRO), between December 2011 and February 2012, it lent to European banks over 1000 billion euro in order to normalize the

2.3 ECB Interventions and other “remedies”

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15 FAQ about European Financial Stability Facility (EFSF) and the new ESM – January 21, 2013.

parameters of the credit in the euro zone and above all to avoid a credit crunch. Furthermore, the Governing Council decided to reduce the required reserve ratio by 2% to 1% (only temporary). Yet, these interventions were detected insufficient and it has been realized that the Central Bank should assume the role of lender of last resort, for example buying directly government bonds of those countries under markets pressure to allow a decrease of interest. Moreover it ought to conduct an expansionary monetary policy, following the quantitative easing strategy operated by the Federal Reserve. In 2012, the ECB in order to safeguard the single currency and moderate spreads, threatened by the market turmoil, has begun to carry out monetary transactions directly (Outright Monetary Transactions, OMT) by buying government bonds on the secondary market. However, this action is conditioned by the demands of the country that is considered to be in difficulty and its adherence to a specific economic program\textsuperscript{17}.

2.3.1 Growth Compact

The Compact for Growth and Jobs was approved by the European Council of June 2012\textsuperscript{18}. It provides the framework (but not legally binding) for the adoption of measures to stimulate growth both on a national level, in the euro area and the EU-27. In particular, the Pact provides for the mobilization at the EU level of 120 billion euro (equivalent to about 1% of EU GNI) combining different interventions such as a boost of 10 billion Euros of paid-up capital of the EIB in order to raise the total capacity of loan of 60 billion euro, thus freeing up to 180 billion euro of additional investments and the reprogramming of the Structural Funds not spent (for a total amount of approximately 55 billion). Then, it has been suggested to start a pilot phase of the bonds for the financing of infrastructure projects in transport, energy and broadband infrastructure (so-called project bonds), able to mobilize, according to Commission estimation, up to 4.5 billion euro of investments.

\textsuperscript{17} The purchase of government bonds in the primary market is instead provided by the European Stability Mechanism (ESM), which does not involve the ECB.

\textsuperscript{18} EUCO 76/12
Also keeping in mind the key points of the Europe 2020 strategy, the Pact envisages the adoption or the submission to the EU institutions of specific legislative and non-legislative measures for both the completion of the single market (with the approval of those proposals which are still pending i.e. public procurement, electronic signature and recognition of professional qualifications), and the achievement of a functioning digital single market by 2015. The latter will be achieved both by giving priority to measures for a further development of cross-border e-commerce and by spurring the demand for an high-speed Internet. Then, there is the need to complete the internal energy market by 2014, ensuring that no Member State will remain isolated from the European network of distribution and last but not least fiscal policy should contribute to budget consolidation and growth.
3.1 General Framework

The main objective of Economic and Monetary Union (EMU) is to ensure stability and growth within the whole Europe. To do this, however, Member States have to coordinate and act on the basis of common rules. They have been proposed by the European Council President Herman Van Rompuy in the report of 26 June 2012. It identifies four essential building blocks which, in the coming years, will give life to an architecture capable of ensuring long-term prosperity in all the territory. It is better known as the “Road Map” and includes1:

- an integrated financial framework capable of ensuring financial stability in the euro area. It is based on both the supervision at European level and the guarantee of customer deposits
- an integrated budgetary framework through a close cooperation of all the countries at both national and European level in order to have greater coordination in decision making and in issuing common debt
- an integrated framework of economic policies with instruments capable of ensuring sustainable growth, a high rate of employment and competitiveness
- legitimacy and democratic accountability of decision-making

3.2 Integrated Financial System

In recent years, as a result of the economic crisis, there has been an increasing coordination between supervisors and it took 4,500 billion euro from taxpayers to bail out banks in the EU. However, this has not been enough as there is a need for a common decision-making mechanism able to curb the risk of fragmentation of the banking markets which could undermine the single market. The first step of the Road Map responds to this “lack” by

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1 “Towards a true Economic and Monetary Union”. EUCO 120/12.
developing an integrated financial framework which should be extended to all EU Member States by taking into account the differences between those countries which belong to the euro-zone and those which do not. There are three central elements: a Single Supervisory Mechanism (SSM), a common deposit guarantee which would both strengthen the credibility of the system and provide a greater assurance to lenders, and finally there is a system of European resolution whose main task would be to provide assistance in the implementation of resolution measures of those institutions sunk in order to protect taxpayer funds. The first element, the most important one, has been analyzed by the European Commission on September 12, 2012. On that occasion, it was decided to transfer to an European level, the specific basic tasks of supervision of those banks which are located in the euro-zone. In fact, the ECB, according to a predetermined schedule, will apply the single rulebook for financial stability to the whole single market with the ultimate goal of identifying the risks that could threaten the soundness of banks. Over the power to impose to national banks any obligation to take the necessary corrective measures, the EBC will be the competent authority allowed to commission credit institutions, to ensure both the adequacy of internal capital and the supervision of financial conglomerates. All tasks not specifically allocated to the ECB will remain in the hands of national supervisory authorities such as for example the consumer protection or the fight against money laundering. While on the one hand the ECB will be independent in carrying out its surveillance operations, on the other hand the proposal of the European Commission provides for guarantees of liability in respect of both the European Parliament and the European Council to ensure a kind of democratic legitimacy. Last issue worthy of note is that relating to amendments to the Regulation establishing the European Banking Authority (EBA) thanks to which it can fulfill its tasks in a more direct and effective way. In addition to its control over the 27 Member States, it will carry out its mission even to the ECB. The EBA will work out a single supervision handbook and its voting procedures will be adapted so as to ensure equal treatment between the participating and the non-participating countries.

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2 “The SSM applies to all the euro-area Member States. Non-euro area Member States may decide to join the SSM by establishing a close cooperation between their competent authorities and the ECB” – MEMO/13/251
3 COM(2012) 510 final
4 The supervision of the ECB will be introduced automatically: on July 1, 2013 for the main banks of systemic importance for the European level and on January 1, 2014 for all the other banks.
5 José Manuel Durão Barroso, Speech on the State of the Union. Strasbourg, on September 12, 2012, during the plenary session of the European Parliament.
3.3 Budgetary framework

The Integrated Budget does not provide, for the time being, a true fiscal Union but, it is aimed to a greater sharing of decisions on budgets between Member States mainly to avoid risks that are not sustainable in each countries. For this goal, it has been proposed to set an upper limit regarding both the annual budget balance and especially the public debt of the Member States concerned. In the case of an issue of public debt over the threshold, it requires a prior approval. Various proposals have been put forward by the European Prime Ministers on the credibility of fiscal discipline and the risks of sovereign debt. The German Angela Merkel is in favor of establishing a new figure, that of the European Minister of Finance, in hand with broad power. It includes the right to discontinue or change the budget proposal of a state in the Euro-zone, if it proves to be not aligned with the policy established by the European Semester. This suggestion has found the stop both of the French President Hollande, and of the former Italian Prime Minister Mario Monti. They both believe that the need of approval by the European Council and the European Parliament both in the framework of the European Semester and of the Two-Pack implies an endorsement of the individual national budgets (without taking into account that there is a new system of sanctions provided in the Fiscal Compact)6. Worthy of note are the findings present in the interim report on the Road Map submitted by the President Van Rompuy at the European Council last October. It has been suggested the construction of instruments for risk sharing able both to amortize the impact of specific shocks of individual countries and to prevent them to infect other nations. The conception of the function of shock absorption should be based on several guiding principles, in harmony with those that are the hallmarks of the EMU. First of all, the elements of risk sharing of the financial statements, relating to the absorption of country-specific shocks, should be structured in such a way as not to generate unidirectional and permanent transfers.

6 “Eurozona: dalla crisi alla Road Map verso l’Unione economica e monetaria”. Stefano Micossi - Inaugurazione dell’Anno Accademico 2012/2013, LIU/C – Università Cattaneo.
from country to country (depending on the position of a country in the economic cycle, it could be either the beneficiary or the payer in the system). Yet, this function should not interfere with what is the national policy of the financial statements. In fact, in the function of shock absorption, could be included mechanisms to limit moral hazard and to safeguard the structural reforms. Finally, the design capacity of the budget should be consistent with the principle of subsidiarity, leaving the process transparent and able to be controlled democratically 7.

3.4 Economic Policies

In order for the Economic and Monetary Union to function properly, the financial and budgetary framework should be accompanied with a greater economic integration, in accordance with the principles set out both in the European Semester and the Euro Plus Pact. First of all, this would encourage the convergence in various areas between the euro countries and it would also allow to adapt to shocks and to compete globally in the economic field. If needed, the Union has proposed to adopt itself measures to integrate the administration and the national policies in order to ensure the uniform application of the reforms in all the countries. Thereupon, two communications have been presented by the European Commission on March 20, 2013. The instrument of convergence and competitiveness should, according to the Commission, support Member States in economic and financial difficulties to undertake the necessary reforms in a short time. In essence, Member States concerned, by undertaking contractual agreements, on the one hand would implement (following an agreed timetable) the measures necessary to carry out the reforms in question while on the other hand, they would get financial support. According to the Commission, the instrument of convergence and competitiveness should cover all Member States of the euro area, except those countries which are subject to a macroeconomic adjustment program under the new discipline of the two pack. This is justified by the fact that either they are experiencing or they are threatened by serious difficulties with respect to their financial stability and to the sustainability of their public finances. Moreover they are requiring or receiving financial assistance from other Member States, from the European Stability Mechanism (ESM), or

7 Developing a genuine Economic and Monetary Union - Report of the President of the European Council Herman Van Rompuy – December 5, 2012.
from other international institutions (International Monetary Fund). Also excluded are Member States who are preparing to join the euro.

According to the Commission, the instrument of convergence should only intervene to support reforms that have two requirements:

- a potential repercussions on other Member States, the euro area and the EU as a whole
- would not have been undertaken in normal circumstances because of their costs

In the communications, the Commission proposes the following articulation of the procedure for the conclusion and implementation of contractual arrangements. In the first step, the Commission would assess the reform plans of the Member States in accordance with the monitoring and supervision provided for by law, focusing on the adequacy of the proposed measures and on the manner in which they are intended to address the deficiencies reported in the relevant economic country specific recommendations. Subsequently, on the basis of this assessment, the Commission would negotiate the details of the plan with the Member State and formally it would propose to the Council to approve the contractual agreement relating to the plan itself.

Then, the Council would approve (making modifications where appropriate) the specific actions proposed in conjunction with the agreed timetable. In case of disagreement between the Member State which proposes actions and the Commission, or if the Council does not approve the contractual agreement, this will not be terminated and, no financial support will be granted. For all the duration of the transaction, the Commission would oversee the implementation of the agreement under the European Semester and Member States would report annually on progress in national reform programs. If necessary, the Commission and

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8 COM (2013) 165

9 COM (2013) 166
the Member State may propose amendments to the contractual agreement under which it would start a new negotiating process. 

3.5 Legitimacy and Democratic Accountability

The fourth and final chapter of the Road Map is facing with several problems. First of all the one that concerns the European Council which, on the one hand, over the past few years has increasingly assumed the role of executive power of the Union and on the other hand, however, does not respond to any elective assembly. According to the common opinion this legitimacy problem could be solved through the direct election of the President of the European Commission using the options contained in the Lisbon Treaty to unify the two posts of President in the same person (otherwise it would not be eliminated the self-reference of the Council). This possibility, however, is not exempt from some defects among which is remembered the politicization of the Commission which could compromise its role as guardian of the Treaties. An alternative solving could be the one proposed by Stefano Micossi in his speech during the inauguration of the Academic Year 2012/2013 at the University LIUC - Cattaneo. He believes that the President of the Council should be elected by National Parliaments (i.e. the constituencies used for the election of the President of the USA). In addition, the Council should be “federalized”. This means that the majority vote rule should be used in all the matters of its competence, but, at the same time, it have to bring its decisions to the European Parliament.

10 http://documenti.camera.it/Leg17/Dossier/Testi/ES001.htm
CONCLUSION

In its report to the European Council of June 20, 2013, the European Commission has highlighted those that are still the gaps between the different Member States, such as for example a high rate of youth unemployment. Unfortunately, the objectives that had been set after the economic crisis through projects like Europe 2020 or The Compact for Growth and Jobs, have not been fully respected and that is why both the EU and the single Member States should take further action to pursue structural reforms and boost competitiveness. The European Council itself, in its conclusions of June 27/28, 2013\(^1\) has considered necessary to act urgently in particular to cope with the high human and social costs. It has identified four key points from which to break down and they are:

- Youth Employment
- Growth and Competitiveness
- Completion of Economic and Monetary Union (EMU)

With regard to the first point, the fight against youth unemployment is the priority also considering the high number of young Europeans unemployed. The principal goal is to ensure both to the young unemployed and to those who are out of each cycle of education or training to undertake a new job or a course of education or training within a period of four months as set out in the Council recommendation on “Warranty Young People”. Both the Commission and the Member States will exploit all the possibilities offered by the European Social Fund (ESF) which represents one of the main financial instruments for this purpose at the EU level. A high-quality apprenticeships will be promoted thanks to the European Alliance while the quality framework for traineeships should be put in place at the beginning of 2014.

On the national level, where are handled most of the matters in the field of employment, Member States should carry out their reforms such as for example the modernization of education and vocational training or the strengthening of cooperation between education and

\(^1\) EUCO 104/2/13
business to facilitate the transition from learning to work. It is important to make the participation in the labor market of vulnerable groups easier; that is way the European Council has recalled the importance of alleviating the tax burden on labor, with a possible reduction of social security contributions as a means both to increase employability and to foster the creation of jobs and competitiveness.

Different are the measures that have to be taken enclosed in the second point, the one related to the growth. First of all, the European Council has concluded the European Semester of 2013 by endorsing the country-specific recommendations. Therefore, it is up to the Member States to put into practice the decisions on the budget, structural reforms, labor market policies and social policies (the Council will regularly review the economic situation in the European Union). Secondly, a new investment plan has been drawn up because it is necessary to restore the normal lending of the economy and to facilitate the financing of investment, especially for the SMEs\(^2\). Moreover, the European Council welcomed the agreement reached on the Multiannual Financial Framework (MFF) for the next seven years because it will play a vital role both in sustaining the economy and in multiplying the impact of productive investment and human capital. Finally, there is the *Compact for Growth and Jobs* which was approved a year ago by the European Council and supported by a grant of 120 billion euros. Good progress have been achieved, some of which are already giving results, but further efforts are needed as shown by the data presented by the European Commission on June 20, 2013.

\(^2\) The European Council invites the EIB to implement the scheme whose aim is to step up, in the EU territory, the lending activities of at least 40% between 2013 and 2015, taking full advantage of the recent capital increase of 10 billion euros.
The Compact for Growth and Jobs: one year on
Report to the European Council, 27-28 June 2013

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<thead>
<tr>
<th>Overall State of Play:</th>
<th>On track</th>
<th>More effort required</th>
<th>No / little progress</th>
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<td>Action</td>
<td>What has Commission contributed?</td>
<td>Agreed at EU level?</td>
<td>What happens next?</td>
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<td><strong>COMPLETING EUROPEAN RESEARCH AREA BY 2014</strong></td>
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<tr>
<td>Strengthening the European Research Area</td>
<td>Communication</td>
<td>09/2012</td>
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<td>Investment in research and innovation (Horizon 2020 and COCR)</td>
<td>Legislative proposal</td>
<td>11/2011</td>
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<td>Key enabling technologies (KETs)</td>
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**INVESTING IN GROWTH**

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<th>What happens next?</th>
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<td>Increase in EU Capital by Dec 2012</td>
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<td>Project bonds</td>
<td>Commission and EU cooperation agreement</td>
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<td>Reprogramming EU structural funds</td>
<td>Action team initiative with Member States</td>
<td>01/2012</td>
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- Budget 2013: Budget proposal 04/2012 X Agreement required on amended budget
- MIF 2014-2020: Budget proposal 06/2013 X Political agreement required
- Future cohesion policy: Legislative proposal 10/2011 x Political agreement required

Overall State of Play: [ ] On track [ ] More effort required [ ] No / little progress
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my public procurement markets
Both the EU Institutions and the Member States will make every effort in order to ensure that all the elements which have not been firmly and resolutely dealt yet will be rapidly implemented, in particular in relation to single market, innovation, digital agenda, services, energy and taxation.

The third and last point in question is the completion of Economic and Monetary Union (EMU). In the short term the priority is the completion of the banking union in line with the reports of the European Council of both December 2012 and March 2013. It represents the crucial step to ensure financial stability, to reduce the financial fragmentation and to restore the normal lending of the economy. Farther, the European Council stressed the importance of blocking the vicious circle between banks and states also thanks to the new rules on capital requirements for banks (CRR / CRD) and the new single supervisory mechanism (SSM) that will have a key role in ensuring the stability of the banking sector. In October 2013, it will examine both the indicators and the policy areas for an enhanced coordination of economic policies, as well as the social dimension of the EMU.

Noteworthy is also the position taken by the European Central Bank in the recent months. In fact, the data show that the recovery begins to dawn for the Eurozone, but there are still risks and so the ECB has decided to leave rates on hold at 0.5%. Even the deposit rate will remain unchanged at zero while the marginal rate at 1%. This is what has come from the press conference of President Mario Draghi held in Frankfurt last August 1. He reiterated the unanimous position of the Eurotower on the “forward guidance”, in the wake of the measures taken by the Federal Reserve. The tool, which was introduced only the last 4 of July, is nothing more than a communication strategy. The headquarters has decided to provide to financial operators, in a more explicit and precise way, the directions and the expectations of the future behavior of the interest rates, so as to influence market expectations about their future performance.
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22) European Commission, (20/03/2013). COM (2013) 165
27) Treaty establishing the European Stability Mechanism – T/ESM 2012/ en 1
28) Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – T/SCG/it 2
30) Mario Draghi Press Conference, (01/08/2013),