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Editorial

Finally Some Good News from Europe in 2014?

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The lengthy, ongoing crisis has had an enormous impact on European cooperation. Many people see the way in which European politicians have handled the debt crises in various Member States as amateurish and not exactly indicative of effective policy. It could be argued in politicians' defence that Europe has never previously had to deal with a situation of this nature and so has had to find out by experience how best to respond. The worst of the crisis now seems to be behind us and we are starting to emerge from the economic depths of recession. However the protracted crisis has resulted in EU citizens' purchasing power falling, albeit by very varying degrees, as a result of higher prices and increases in taxes and social security contributions. It will be some time, therefore, before domestic demand for consumer goods starts picking up and having a positive impact on economic growth. Although the European Council, the European Commission, and the European Central Bank (ECB) are all continuing to argue for reforms in Member States' employment and housing markets, for example, I have the feeling that, in practice, most of the changes being made are fairly minimal. Attempts to push through far-reaching reforms in times of economic crisis are bound to meet considerable resistance from the general public and usually equate to political suicide, which is why changes tend to be phased in over a period of years. The big question, however, is whether governments in the Member States have actually implemented reforms in their own apparatus? Companies have drastically reduced their workforces in recent years, but what about governments? No one likes having to make spending cuts at home, and governments consequently prefer to pass the buck of spending cuts to taxpayers and businesses.

Governments, banks and businesses built up huge levels of debt in past decades, and this is simply untenable in times of economic crisis. The business sector has been forced into reducing its debts in the past few years, but what about governments and banks? Although Eurozone governments have to keep their public debt quota to a maximum of 60% of Gross Domestic Product (GDP), several Member States still have debt levels well in excess of this limit. These states consequently have little room for manoeuvre and are relying on the hope that the ECB will keep interest rates at their current low level for some time to come. Otherwise their interest payments will rise. In November 2013, the ECB cut its interest rate to 0.25%, and the possibility of negative interest rates can no longer be ruled out. In the meantime, these Member States need to get their economies growing again in order to bring their debts back to acceptable levels. Owing to the sheer length of the crisis, however, governments have become weary of spending cuts and are putting their efforts to reduce national debt levels onto a backburner, which in turn represents a major risk to the Eurozone's economic recovery.

The year 2014 promises to be a challenging year for banks. The first phase of the banking union is now underway, with the ECB being made specifically responsible for overseeing systemic banks in the Eurozone. Before this supervisory mechanism finally comes into force in September 2014, however, the systemic banks will undergo rigorous stress testing, and any problems encountered will be for the Member States themselves to resolve. There is also a second and third component of the banking union; in other words, the recovery and resolution mechanism, including the mechanism for resolving problem banks, and the European deposit guarantee system. Although the European Commission issued a proposal for a resolution mechanism on 10 July 2013, Germany and France opted in November 2013 to pursue a different solution. It is clear, therefore, that the Member States want to keep a firm grip on resolving the difficulties at the problem banks, and the Commission is very likely once again to draw the short straw. The third and final step will be to launch the deposit guarantee system by setting up a fund to be filled by the banks themselves. A lot of work therefore still has to be done in 2014 before the banking union is fully in place.

The 1997 Growth and Stability Pact has not worked. It was Germany and France themselves that caused this

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pact to fail by wilfully ignoring its rules back in 2003. After the eruption of the Greek budget crisis, however, which was swiftly followed by the problems in Ireland and Portugal, and then Cyprus, lengthy political negotiations were able to produce the Six-Pack and subsequently, in spring 2013, the Two-Pack reforms. Under the European Semester, which has been in operation since 2012/2013, Eurozone Member States now have to submit their initial draft budgets for the next year to the Commission by 1 May, together with details of any planned reforms. Olli Rehn, the EU Commissioner for Economic and Monetary Affairs, has to assess these budgets against a scorecard of indicators so as to identify any excessive macroeconomic imbalances in good time. Under the Two-Pack reforms, each Member State then has to submit its final draft budget for the coming year; the Commission has to examine and give an opinion on this before it can be submitted to the Member State's national parliament for approval.

The important question here concerns the extent of the EU Commissioner's powers. The Member States clearly have to seek to achieve structurally balanced budgets, and it has been agreed that the Commissioner can make suggestions as to how they should go about this. But what exactly are macroeconomic imbalances? One of the studies commissioned by Olli Rehn concerned the residential mortgage debt burden in the Netherlands. He concluded that this constituted an economic imbalance and needed to be reduced, while conveniently forgetting that a considerable share of this debt mountain is matched by endowment insurance policies that can be used to repay the mortgages. Furthermore, the actual number of problem cases arising during the crisis has been very limited. So what exactly is the problem? The problem relates in fact to the banks. Ahead of the Basel III requirements that are shortly to come into force, it would be very helpful if some of the mortgages granted by banks in the past could be liquidated as this would strengthen the banks' balance sheets. All the fuss that has been made of residential mortgages has hit the Dutch housing market extremely hard. This in turn has created another economic imbalance, which, in my view, is worse than the original imbalance referred to by the Commission. Society will not be helped by politicians and policymakers focusing only on the economists' version of events, without taking appropriate account of the societal context. The 2014 *Alert Mechanism Report* of 13 November 2013 specifically mentioned the persistently high current account surpluses in Germany, the Netherlands, and Luxembourg and encouraged these countries to take steps to boost domestic demand. I am very curious to see whether Germany, but also the Netherlands, will actually take any notice of this criticism.

The Member States will be holding elections for the European Parliament between 22 and 25 May 2014. The turn-out at previous European elections was depressingly low. Will EU citizens be more willing to go to the polls this time around? The European Parliament was given more powers by the Treaty of Lisbon and is now an important player on the European political scene, as evidenced by the heated discussions surrounding the multi-year budget for 2014–2020 and the budget for 2014. Strangely enough, however, the treaties signed after the start of the Euro crisis, including the ESM Treaty, have all been intergovernmental, thus in effect bypassing the European Parliament. Democratic legitimacy is at the level of national government leaders and the national parliaments in the Eurozone. From an institutional perspective, therefore, European cooperation increasingly seems to be turning into a patchwork quilt, with very strong intergovernmental threads running through it and much of the power still concentrated in the European Council. Angela Merkel, for example, has already made it clear that choosing the European Commission's President is primarily a responsibility of the Council.

Members of the European Parliament will have to come down from their ivory towers over the coming months if they are to convince European citizens of the importance of Europe and also of the European Parliament itself. On the one hand, the Euro crisis has pushed Member States into cooperating more intensively with each other in economic and budgetary matters, while, on the other hand, developments in the extent to which citizens trust the EU have been anything but positive.

This time around, and certainly more so than at the time of the previous European Parliament elections, the political parties can largely be divided into two camps: one in favour of ever-greater European cooperation, and the other specifically seeking to restrict cooperation primarily to the internal market. Those wanting Member States to pursue increasing cooperation and move towards a federal Europe are keen for the EU to have tax-raising powers of its own, while conveniently forgetting that this is simply not feasible in the current institutional structure. In today's political climate there is absolutely no prospect of a federal Europe on the horizon.

EU citizens face a clear choice. The Treaty on European Union (TEU) and Treaty on the Functioning of the European Union (TFEU) give EU citizens the right to have their voices heard, but European politicians will only pick up the signals if enough voters actually choose to exercise this right. The year 2014 is certainly going to be a special year, but we will have to wait and see whether this will also mean good news from Europe.