European and External Affairs Committee

EUR(3)-12-10 : Paper 4 : 21 September 2010

Update on EU Developments and Activities - Paper from Dr Kay Swinburne

Extracts from Transcript of EEAC Meeting 22 June 2010:

[90] Rhodri Morgan: If the Greek Government cannot ultimately maintain its position in the euro or has to default on its national debt repayments, what are the consequences of that on all of the other European priorities?...

...how soon do the European Parliament's ECON committee and the Governments of all the European countries expect to get back to the 3 per cent gross domestic product public sector deficit in any one year, which was seen as being very important at the time of the Maastricht treaty; that is, that everyone should try to abide by the 3 per cent figure. After the recession, the mindset changed and the view was that you could not hold to that figure in the face of the banking crisis that Lehman Brothers and others had set off. Are you ever going to be able to go back to the 3 per cent figure, and what happens if Greece defaults? Is there much talk of how much of an impact it would have on everything else that the European project is about?

[95] Okay, but when you talk to your colleagues from one of the 16 eurozone countries in your groups or on your committees, are they turning white as a sheet at the prospect that the euro could lose a few members around the south, or is there bad blood between northern and southern eurozone members in the sense that the northern members wonder why they are having to bail out these people in southern Europe who do not seem to be able to get a grip on their national finances? Or is the general feeling of European solidarity much stronger than the feelings of 'Why are we subsidising them?' or 'Why are they getting the whole Europe project into difficulty?'?...

[100]...We would very much like to hear Kay's view, from the ECON committee, on how dominant that theme is of how to deliver 3 per cent and what happens with the north-south divide between those who seem to have their budget deficits under control and those who still do not.

Response from Dr Kay Swinburne MEP:

At the moment there is very strong sentiment in the ECON committee that a default by a euro zone country can not be allowed to happen. The very idea that a country could leave the euro or default is not something MEPs or Member States will consider - from across the political spectrum. Having questioned Oli Rehen, Commissioner for Economic and Monetary Affairs on this point, he is very clear that there is no mechanism for leaving the euro, and nor should there be. As only 2 member states have a derogation from agreeing to join the euro as a treaty obligation it is argued that leaving the euro could only happen if the country left the European Union as well.

As such, discussions have moved to how to strengthen the different economies in Europe and there has been much disagreement over what the best way to do this is. The most high profile of these has been disagreements between France and Germany over the best way to handle the sovereign debt crisis, which can be broadly characterised as Germany wanting Member States to enforce existing rules more strictly and France wanting to introduce a new concept of "economic governance" which would bind the economic policies of the euro zone countries even more closely together.

In terms of the north-south divide and potential conflict, it is interesting that countries like Sweden and Poland, both outside of the euro and with more fiscally conservative attitudes to public spending, have chosen to contribute to the Stabilisation Mechanism, and all 27 member states have agreed to allow the leveraging of the EU budget to raise money if a larger fund is necessary. In this sense the feeling that the economies of Europe are closely tied together due to the wide reaching nature of the single market is strong.

It is unclear how the sovereign debt crisis will affect the dynamics of future negotiations in the EU in areas such as CAP, Structural funds and negotiations of the EU budget more widely. One would expect that those more economically sound countries who might be perceived by public opinion to be paying for unsustainable public spending in other countries would fight to continue to receive benefits from the EU in the future, but as long as recovery is not guaranteed and the need to "save the euro" persists, it is likely there will be trade offs in all areas. Transparency and accountability as well as sanctions for misbehaviour will no doubt be extended to all areas of spending, partially because of the perception that certain Member States reported misleading statistics in the past, but also because Member States will be undergoing strong austerity measures at home, they will put more pressure for scrutiny in EU public spending as well.

It is hard to characterise the overall feeling of the Economic and Monetary Affairs Committee on this issue as the committee's agenda is currently full with new financial services regulation - aimed at making the markets safer and better able to finance the real economy. However there is a definite feeling that one of the few institutions to successfully navigate the banking crisis and the sovereign debt crisis so far is the European Central Bank, whose responsibilities are likely to increase with the establishment of the European Systemic Risk Board in January 2011.

Dr Kay Swinburne MEP
September 2010""