

# **The Future of the Euro zone**

## **Own-initiative report**

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## I. Executive summary

A. Matters related to European policies are still subject of little debate considering the influence that the options taken at European level have on the national economy and on the lives of Portuguese citizens. The ESC aims to contribute to this debate by presenting this report on the future of the Euro zone.

B. The experience of the last years, since the Euro was introduced as single currency in countries of the Economic and Monetary Union, evidenced the need for effective answers to the new challenges which the Euro zone and the European Union both face nowadays at different levels. On one hand, it is important to ensure positive planning of productive activities and trade within the globalization scope, a condition for the survival of the European social model and, at the same time, reconfigure policies and *communitary* institutions, in order to avoid straying towards a directorate logic and to prioritize national interests maintaining, without concessions, the demand to conciliate the principle of free competition with the principle of economic and social cohesion.

C. The European Union has been able to handle globalization neither on the internal front, where it presented fragilities in the control and monitoring of imported products, nor at the external front where it has not been able to influence the content of free trade agreements with third countries to include clauses which contribute towards balancing trade flows, the protection of ecosystems and the promotion of values associated with human rights, democracy and freedom of association and expression, social justice, equality of rights and opportunities, namely between men and women and social cohesion.

D. The reform of the World Trade Organisation, as well as the pledge to fulfil the fundamental conventions of the International Labour Organization worldwide are key issues for a new and more just globalization.

E. The loss of influence of the Euro zone in terms of competitiveness, compared to other regions of the planet, may compromise the observance of the high values which are in the essence of the European project, namely those regarding freedom, justice and humanism.

F. The fragility of the institutions for regulation and worldwide financial supervision as well as the insufficiencies detected in the European Union's answer to the economic crisis were the cause of many problems in the region and very specifically in the Euro zone. Due to that fact, the implementation of a set of decisions aimed at a new architecture of financial supervision in Europe is now taking place, although other proposals such as implementing a tax on banks with the goal of sharing the cost of the current and of future crisis, the creation of a tax on financial transactions, the introduction of stricter regulation



on various financial products and a better regulation or even the elimination of off shores, are still facing strong resistance.

G. The monetary policy will not be able to ensure the sustainable growth of employment on its own and therefore there is a call for a discussion of the role and statutory functions of the European Central Bank which includes the possibility of a more active intervention aimed at economic growth and employment.

H. There is also the need for better regulation and supervision of the world financial systems which particularly requires a reconsideration of the role of the international financial institutions such as the International Monetary Fund and the World Bank.

I. Some countries of the Euro zone have been taking positions privileging short-term national interest over the safeguard of the cohesion of the European Union itself, which is not acceptable in terms of the objectives for the deepening of the *communitary* project.

J. The inexistence of an efficient coordination of macroeconomic policies hinders the adoption of anti-cyclic policies, representing fragility for the Euro zone and added difficulties for convergence.

K. Regarding economic governance, adequate and feasible measures should be taken for the coordination of economic policies, taking into account the works resulting from the adoption of the Europe 2020 strategy by the European Council in July 2010.

L. Mechanisms should be created to limit the growing trend of *debudgeting* of public expense by Member-States which they increasingly apply in order to comply with the strict budgetary rules of the Maastricht Treaty. This *debudgeting* originates unrealistic and deflated expenditure results, compromising the economic and social stability of the European Union in the long-term as there is an effective transference of current expenditure to future generations.

M. *Communitary* budget reform is essential, especially regarding its financing model which should contemplate the origin of income in own resources, as stipulated in the Rome Treaty.

N. It will be difficult for the Portuguese economy to execute the needed adjustments – particularly in the balance of the current account – in an efficient and socially acceptable way if there is a permanent lack of an articulation between the economic, financial and social systems of the Member-States.

O. Although the lack of real convergence of the Portuguese economy with the European Union in the last years could be partially due to factors related to the creation of a single currency, it is understood that the inadequate policies taken



in our country, at an initial stage after joining the Euro, also played an important role.

P. Credit may become unaffordable and scarce for the most vulnerable countries of the Euro zone. For this reason, the governments of those countries should re-examine the decisions on public investments and the evolution of the State's current expenses thoroughly.

Q. The ESC is of the opinion that, from all the scenarios described herein, the one which best defends national interests is the creation of new *community* mechanisms for the planning, coordination and supervision of the economic, budgetary and social areas, aimed at reducing the imbalances between Member-States and, in particular, those of the current account.

R. Some recommendations are made regarding the strategic interests of the European Union in four priority areas: energy, production policy, agriculture and fisheries and globalization.

S. The European cohesion policy should face the situation of the most affected regions by changing global trade and production patterns and which may undergo a process of continuous decline in competitiveness and, consequently, of escalating impoverishment. Accordingly it should be allowed a positive discrimination of economic activities in terms of fiscal and credit tools and of companies' capitalization and investment while, on the other hand, interfering with the rules of the internal market only if strictly necessary. It is also important to clearly consider this reality in the application of structural funds.

T. Despite the difficulties felt in the European Union and Euro zone, it is essential that the European Union safeguards its European social model; otherwise it will jeopardize the bases of the European project itself. Therefore, the modernization of social protection systems while maintaining their original values, as well as the integration of a social dimension in all *community* policies are both fundamental issues.

U. Due to the present economic and social situation of the Euro zone, it is fundamental that solid compromises are established at a national and European level between social partners through the development of talks, social dialogue and collective negotiation.



## II. General framework

1. The ESC considers that the first decade of the existence of the Euro was a mix of successes and failures. The Euro became a relatively stable currency and is presently the second reserve currency in the planet, being able to guarantee price stability and low interest rates, even in economies which had significant inflation rhythms in the past. On the other hand, the ESC finds that the reduced growth verified in the last years in some Euro zone economies, together with the weak competitiveness and high deficits of the current account and the public sector, greatly hinders the promotion of social wellbeing in those economies.

2. The ESC reminds that the present crisis has in its origin the fragility of the regulatory and supervisory institutions which have allowed the irresponsible use of financial practices and instruments. This situation led to the need for the Member-States to take action in order to rescue the financial systems and, at the same time, provide support to economies and people in a context of tax and contributory revenue loss and escalating expenditure. Consequently the public deficit, as a percentage of GDP, in the European Union (EU), which was 2.3% in 2008, rose to 6.8% in 2009 (in Portugal it went from 2.8% to 9.3% in the same period)<sup>1</sup>.

3. The ESC finds that, during the process of speculative and global attack to the Euro initiated towards three States which are now in a more fragile situation, namely Greece, Spain and Portugal, some EU countries have been assuming positions in which the most immediate national interest has taken precedence over the defence of cohesion of the European Union itself, thus allowing the idea that the dissolution of the Euro zone is a possibility to be considered. The ESC reminds that, in this context, some Member-States hesitated and the European Union only acted when it verified that the situation jeopardized the banking system of the countries with the majority of treasury bonds of those States most affected by the sovereign debts crisis.

4. Regardless of the general benefits contained in the globalization process, the ESC finds that the EU has not been able to deal with this phenomenon on the internal front, where it showed fragility in the control and monitoring of imported products, with a negative impact on various European regions and leading to social and environmental dumping. Also, on the external front, the EU was not able to influence the underlying conditions of free trade agreements with third countries based on the adoption, from those countries, of environmental and social practices which contribute towards balancing trade flows, the protection of ecosystems and the promotion of values associated with human rights, democracy and freedom of association and expression, social justice, equality of rights and opportunities, namely between men and women and social cohesion.

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<sup>1</sup> General government deficit (-) and surplus (+), percentage of GDP, Eurostat.



5. The loss of influence of the Euro zone in terms of competitiveness compared to other regions of the planet, within a framework of economic growth recovery at a global level<sup>2</sup>, increases shifting risk of economic activities towards emergent economies and may compromise the values at the core of the European project, of social Europe and of many good intentions which are dear to all those who see in the European integration the possibility of perpetuating practices based on superior levels of freedom, justice and humanism. The European social model which has prevailed after the Second World War was not born by some “miracle” – although it was stimulated and empowered by the enormous growth and development which occurred in the “thirty magnificent” years following the conflict – instead, it was the result of a global recognition by society that the best social-political balance would be maximized by a model in which all had sufficient resources: of social, political cultural and material nature based on a high level of work relations and a Government role. The political compromise deriving from the acknowledgment of global interests resulted in the best balance achieved to this date in the development of human history.

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<sup>2</sup> According to IMF estimates presented in table 1.1 of page 2 of its publication entitled “*World economic outlook: rebalancing growth*” of April 2010, the Eurozone should register an economic growth of 1.0% in 2010 and 1.5% in 2011, which compares with estimates of 3.1% (2010) and 2.6% (2011) for the U.S. and 6.3% (2010) and 6.5% (2011) for the group of countries designated in this publication as “Emerging and developing economies”. Available at <http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf>



### **III. Determining factors of the economic performance of the Euro zone**

6. The inexistence of sufficient articulation between the economic and financial systems of the Member-States and the inadequacy of the Euro zone institutions have contributed to the difficult situation we are now facing. Should this situation continue it will prove difficult for the Portuguese economy to implement the adjustments needed – particularly in the balance of the current account – in an efficient and socially acceptable way.

7. The fragility of the European economic system is evident in the defensive attitude of some countries regarding their strategic sectors. Whilst larger countries such as the United Kingdom (UK), which defends financial services, Germany, which cares for the equipment industry, namely its medium and high technology which is expanding to the east and Scandinavia, which tries to protect the new technologies niche, the EU has not been supplying an adequate framework so that weaker countries such as Portugal can find sufficient margin to protect some of their strategic sectors. On the other hand, there is a distinct lack of synergy between the economic systems of Member-States, without a true European economic policy in the industry and service sectors.

8. Regarding financial regulation and supervision, the ESC finds that the EU has been having a reduced and late intervention. To make matters worse, it must be said, as shown by the current crisis, that the transparency of the financial markets is far from desirable. The ESC registers the fact that the EU has been deregulating capital flows and opening markets, namely through competitive policies which have been allowing the creation of cross-border mergers between important retail banks. If this movement enabled the development of pan-European financial groups, it was not followed by regulation and comprehensive prudential supervision which an integrated market needs in order to ensure stability and integrity.

9. The ESC is concerned that the objectives of the Action Plan drafted in 1999 by the then Commissioner Mário Monti for the Financial Services, which consisted on the creation of conditions for the emergence of a real European market of financial services, were not achieved for the most part.

10. However, the ESC registers a significant set of initiatives aimed at implementing a new financial architecture in Europe. It must be said that the first regulating bodies at a European level will only start operating in 2011. In the field of supervision, the proposals are divided between the macro prudential supervision, with the creation of the European Systemic Risk Board, which will monitor the global risks of the European financial system, and micro prudential supervision, with the creation of the European System of Financial Supervisors. The latter will be composed of three new supervisory European authorities (for banking, insurance and securities market) acting in coordination with the network of national supervisors which will maintain direct powers of day-to-day supervision of the financial institutions.



11. Apart from centralizing into a single authority the supervision of the rating agencies registered in the EU, there are other areas in which it is expected that the supervising European authorities may contribute towards financial stability namely through the creation of mandatory technical standards, binding arbitration of conflicts between national supervisors, acting in case of emergency and enforcing compliance with community legislation.

12. With regards to financial regulation, there are several initiatives being studied, with an emphasis on the revision of the directive on the bank's own funds requirements, the regulation of alternative investment funds - including hedge funds - and of the rating agencies. Mistakes made by these agencies were obvious, significant and very serious as it has been widely recognized by academics, governments, supervisory institutions and specialized media and therefore there is a call for control mechanisms which will discipline and make this activity accountable. These and other initiatives, such as imposing a fee on banks with the goal of sharing the cost of the current and of future crisis by the financial institutions, the creation of a tax on financial transactions, issues related to Credit Default Swaps (CDS) and a better regulation, or even the abolishment of the off shores, are still facing resistance from several countries.

13. However, the ESC registers the creation of a permanent mechanism for the resolution of financial crisis within the European Union as positive.

14. Whereas the creation of the Euro paved the way for an effective articulation of monetary and exchange rate policies, the ESC notes the inexistence of an efficient coordination of macroeconomic policies which can only be well managed on the basis of an understanding between the EU and the Eurogroup. The ESC also registers weak articulation between monetary, budgetary, fiscal and other policies at European level.

15. The ESC notes that the Economic and Monetary Union (EMU) limits the macroeconomic policies of its Member-States to fiscal and budgetary policy and that this presents a significant constraint mainly for the less developed countries, such as Portugal, insofar as it hinders the correction of economic imbalances and the adoption of anti-cyclic policies which also leads to increased difficulties of convergence.

16. The ESC understands that there is a lack of interconnection between monetary and exchange rate policies and the remaining economic policies, which greatly limits the adoption of a properly articulated policy mix, both at Member-State and at a community level. This situation, in addition to having a negative impact on responsiveness when faced with imbalances or shocks, is undoubtedly a fragility factor for the Euro zone.

17. The ESC nonetheless registers the effort which has been made aimed at economic coordination and governance. It is the ESC's opinion that the recent crisis in the Euro zone has rendered them indispensable and awaits with expectation the results of the works being carried out by the task force headed by the president of the European Union Council, Van Rompuy, provided that the



defined standards are compatible with the development needs of the most vulnerable countries of the Euro zone.

18. The ESC points out that, under the present circumstances, it is very difficult to adopt anti-cyclic policies at a national level, which clearly hinders innovation and economic growth. The difficulties faced by small and medium-sized enterprises (SME) for which financial conditions are decisive, especially during times of slow economic activity, are a good example of that. The ESC considers that SMEs which were financed by the market and are surprised by a negative phase of the economic cycle mirrored by a reduction of demand are confronted with financial difficulties which may become intolerable unless there is a sufficient proactive response.

19. The ESC recognizes that the single market, as it has evolved until now, presents many advantages, albeit unequally divided, which demand for further thought particularly regarding the articulation which should exist between the deepening of the single market and the full respect for the values and principles of the European construction. It is true that it helped many companies to become stronger as they benefit from a larger, more integrated and competitive market but, on the other hand, the single market did not reinforce specialization due to strong competition within each sector. This effect was of considerable importance given the growing globalization. Brazil, China and India are rapidly growing and already competing at a global level in areas which traditionally belong to the EU with Member-States whose industry incorporates medium and low technology, such as some southern European countries.

20. The ESC considers that the current method of preparing the EU budget is not in accordance with the Rome Treaty which clearly stated that the European Union financing should be based on revenue or own financial resources and not on national contributions. At present, 85%<sup>3</sup> of the EU financial resources are not true own resources, as they originate from the national budgets of the Member-States. The two greatest sources of revenue, VAT<sup>4</sup> and the national contributions based on Gross National Income (GNI)<sup>5</sup> are collected by the national treasuries and are sometimes presented as an expense item in national budgets. In this way, Member-States tend to judge EU policies and initiatives more in terms of investment return compared to their respective national contributions, instead of analyzing those expenses from a global point of view taking into consideration the value of the policies carried out at a European level.

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<sup>3</sup> "The European Union budget at a glance: budget reform" European Commission. Available at [http://ec.europa.eu/budget/reform/budget\\_glance/where\\_from\\_en.htm](http://ec.europa.eu/budget/reform/budget_glance/where_from_en.htm)

<sup>4</sup> Value Added Tax is an indirect tax on the commercialization of goods and services, embracing all stages of the economic circuit, from production to retail.

<sup>5</sup> Gross National Income is equivalent to GDP minus the primary income paid by resident units to non-resident units plus the primary income received from the rest of the world by resident units.



21. The ESC is of the opinion that the current EU budget is insufficient considering the goals of the Europe 2020 strategy and in view of the problems of the Union. The maximum limit for payments made from this budget has remained at 1.24% of the GNI of the Union for the last two decades. Meanwhile, the European Union has ratified three treaties, carried out two enlargements and assumed many more responsibilities.

22. The ESC alerts also to the existence of the so called budgetary “corrections” or “permanent correction mechanisms” which include the “UK rebate” and were introduced following the Fontainebleau agreement of 1984. This correction that benefits the United Kingdom consists on the reimbursement of 66%<sup>6</sup> of the difference between the contributions made by this country in terms of GNI and VAT and the funds it receives. The Netherlands, Germany, Austria and Sweden also benefit from other adjustments. The ESC clarifies the understanding that the maximization of results in terms of growth, convergence and cohesion of the Union is not compatible with individual defensive policies that seek national balances – financial or others – as it is not compatible with government practices at national level that do not comply with a clear identification of priorities and a proper management of the financial means involved.

23. The ESC finds that the community budget is very limited in its autonomy and transparency and has a core problem which has to be solved and that translates in a debate during budget negotiations in which there is an attempt to find out, line by line, who is and who is not a net contributor. This exercise is limited to mere accounting comparisons which do not incorporate the macroeconomic effects of globalization within the context of the Union itself.

24. The ESC points out that the financing sources and mechanisms should be judged according to the principles of economic efficiency, equity, stability, visibility, simplicity, cost-efficiency, financial autonomy and sufficiency. The point is that none of the current funding sources of the Union satisfies all these principles.

25. The ESC emphasizes that the efficient use of human resources, namely through the constant improvement of the educational system, vocational training, research and development and of the connection between the economic activity and the production of knowledge are equally crucial to boost competitiveness in the European Union.

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<sup>6</sup> “Budget review: consultation paper”, European Commission. Available at [http://ec.europa.eu/budget/reform/issues/article\\_5959\\_pt.htm](http://ec.europa.eu/budget/reform/issues/article_5959_pt.htm)



## IV. The first decade of the single currency until the present day

26. In the last decade, the EMU has made available financial resources for the promotion of economic convergence of the “cohesion countries”. However, the ESC finds that during that period, Portugal has been showing some inversion in this convergence process. From 2001 there is a divergence, considering the GDP<sup>7</sup> per capita in proportion of the community average<sup>8</sup> which went from 81% in the previous year (2000) to 80% that year. Between 2001 and 2009, Portugal could not exceed 79% and the figure for 2009 remained at 78%. On the contrary other countries such as Spain and Greece went from 97% and 84% in 2000 to 98% and 87% in 2001 and 104% and 95% in 2009, respectively. However, the speculative “bubble” of the real estate sector in Spain may have contributed to the evolution registered in this country. Although the ESC admits that lack of real convergence may be partially due to factors related to the creation of a single currency, the inadequate policies adopted in our country, in an initial phase after the adoption of the Euro, have also played an important role.

27. During the first years after the adoption of the Euro, Portugal registered a growth period of the economy associated with low interest rates and a credit rise. This situation led to a strong increase in consumption and consequently the rise of family and company indebtedness. With this scenario, budgetary policy should have become more prudent. However, and until today, in spite of having been implemented, or being in the process of implementation, some reforms namely within the framework of budgetary consolidation - initiated in 2005 - social security, labour market, education and training, there are still worrying imbalances.

28. To aggravate the consequences of this unfulfillment, the weak performance of productivity of both labour and capital has originated a competitiveness loss. Labour productivity in Portugal registered the worse performance of the Euro zone in 2008, having generated 28 USD per worked hour compared to a regional average of 47 USD<sup>9</sup>. However, the hourly productivity has been growing since 2000, with the exception of the years 2003 and 2008<sup>10</sup>. On the other hand, Portugal was, between the years 2000 and 2005, the second country of the OECD at 19<sup>11</sup> in which productivity of the factor capital suffered

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<sup>7</sup> Gross Domestic Product.

<sup>8</sup> GDP per capita in purchasing power parity (PPP), Eurostat.

<sup>9</sup> Labour productivity: GDP generated by worked hour, OECD.

<sup>10</sup> Ratio between the annual variation of the GDP and the annual variation of the number of worked hours, Bank of Portugal, Annual Reports (1999 to 2009).

<sup>11</sup> In this case, “OECD at 19” refers to the following countries: Finland, Spain, New Zealand, France, Ireland, Sweden, Belgium, Germany, Australia, United Kingdom, U.S.A., Greece, Holland, Canada, Japan, Austria, Italy, Portugal and Denmark.



the largest fall<sup>12</sup>, although this indicator also decreased in the majority of OECD countries over the last decades.

29. The unit labour cost increased between 1999 and 2008 in countries such as Germany (0.1%) at a much slower rhythm than the one registered in Ireland (3.2%), Spain (3.1%), Portugal (2.8%) or even France (1.8%) which has allowed that country to accumulate a large competitive advantage<sup>13</sup>.

30. There is a study<sup>14</sup> stating that, between 1991 and 2006, the loss of competitiveness in Portugal was not aggravated by the evolution of the wage policy. According to that study, the accumulated loss of competitiveness in the Portuguese economy in that period was 17.3% from which 60% was due to “a maladjusted exchange rate policy namely in terms of the parity used to enter the EMS<sup>15</sup> which was too high and joining the Euro itself”; 0% was due “to a wage evolution which was too fast”; 40% was due “to structural factors and to variations of prices for the use of primary factors other than labour”.

31. The ESC understands that the positive impact of the relatively low and stable interest rates in the Euro zone has been, until recently, overcoming the negative impact resulting from differences of competitiveness between member countries. However, as the economies contract, it becomes increasingly difficult to conceal these differences, which is visible through various signs which have been mainly affecting its most fragile members, such as Portugal.

32. The great increase in spreads, registered at least since January 2009, between the interest rates of treasury bills issued by Euro zone countries which are more indebted in relation to those issued by Germany, is due to higher premiums demanded by investors in order to buy the debt of the most vulnerable countries which are now living the worse of both worlds: a serious lack of competitiveness and high interest rates. The speculative attack associated to the debt increase of our country – which translates into systematic and significant deficits of the current account balance- , should it continue, it would worsen the conditions of external loans, increase the difficulty in the financing and refinancing of debt and its associated spreads.

33. Regarding the balance of the current account, Germany went from a deficit which was higher than 1%, before the creation of the Euro, to a surplus of almost 5% in 2009<sup>16</sup>. On the contrary, the ESC notes that France, Italy and Ireland went from a surplus to a deficit. This evolution has led to the worsening

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<sup>12</sup> OECD Compendium of Productivity Indicators, 2006, page 21, 1<sup>st</sup> graphic, OECD.

<sup>13</sup> Own calculations based on the statistics “Unit Labour Cost, total economy, annual growth rate” of the OECD available at

<http://stats.oecd.org/Index.aspx?QueryName=426&QueryType=View&Lang=en>

<sup>14</sup> “Study of the recent evolution and the future of the Portuguese economy”, João Ferreira do Amaral, February 2009.

<sup>15</sup> European Monetary System.

<sup>16</sup> Balance of the current account in percentage of the GDP, Eurostat.



of the regional imbalances which had already inflated as a consequence of globalization.

34. After indicating some of the causes which condition the economic growth of the Euro zone and some factors which may be associated with greater regional imbalances in face of the current economic and financial crisis, it seems possible that after a contraction of 4.1% in 2009 the GDP of the Euro zone should rise only 0.9%<sup>17</sup> in 2010. The budgetary consolidation which is simultaneously taking place in several countries of the Euro zone in very short periods of time may condition the attainment of higher economic growth rates and originate noticeable social costs.

35. The ESC also alerts to the fact that the increase of public debt will make access to credit by those governments more difficult. Consequently, credit may become unaffordable and scarce for the most vulnerable countries of the Euro zone. It is for this reason that the policy-makers of those countries should thoroughly re-examine the decisions on public investments and the evolution of the government's current expenses.

## **V. The future of the Euro zone: an analysis of various scenarios**

36. Based on the analysis carried out, the ESC believes that several theoretic scenarios can be considered for the Euro zone and an attempt should be made to evaluate the practical possibilities of their implementation.

37. In the first scenario, the financing difficulty faced by the countries of the Euro zone with higher deficits may force their governments to take increasingly drastic measures in order to strengthen their finances, namely cuts in public spending and/or tax rises. Therefore, there is the risk of a deeper recession which in itself may prevent the improvement of the budgetary situation. This scenario may also include turning into a permanent solution the European Financial Stabilisation mechanism which is financed by Member-States and aims at the supply of short-term liquidity, under certain conditions, to the most vulnerable countries of the Euro zone.

38. The second scenario might consist on the creation of new *communitary* mechanisms for economic planning, coordination and supervision aimed at reducing the imbalances between Member-States and particularly those of the current account. This scenario could be completed by the creation of a single issuer of public debt in the Euro zone which would mean stronger political integration followed by some kind of "fiscal federalism". In this case, the

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<sup>17</sup> GDP real growth, Eurostat.



European debt would have a single rating. Although from the point of view of the economic theory the creation of a central issuer would be the most compatible scenario with the Euro sustainability its implementation would require extensive institutional and political changes.

39. The third scenario, which the ESC deems as less likely, would lead to the declaration of insolvency with the restructuring of debt by a Member-State. Keeping this Member-State in the EMU could accelerate the conditions which would allow it to restart issuing debt. There is also the possibility of another break-up scenario in which that Member-State would leave the EMU or even the end of the Euro, abruptly or phased with the gradual exit of the most vulnerable countries and/or the exit of the most developed ones, namely Germany.

40. However difficult and complex these scenarios may seem, the ESC understands that the country should take them into consideration in due time and get prepared for all possibilities. Preparing and anticipating a difficulty may mean half the solution to a problem.

41. Notwithstanding the analysis of each presented scenario, an extension of the deadline for budgetary balance could be considered at a *communitary* level. This would facilitate an adequate articulation between economic growth and the overcome of the imbalances in public accounts and at external level.

## **VI. Recommendations**

42. It is increasingly more difficult to distinguish internal policies from European policies and, therefore, in face of what was analyzed and described, it would be convenient to define how Portugal may position itself in the future in view of the evolution in the EU, especially when, under the present circumstances, namely financial, we fear that our country may not assume a sustained convergence process with the European Union average, resulting in the increase of that distance, a process which may go on for another decade.

43. The ESC is apprehensive about this situation and understands that it is crucial to overcome current obstacles, at internal and external level, which seem to be condemning us to stagnation.

44. In light of the analysis of all possible scenarios for the Euro zone carried out in point V, the ESC understands that the first scenario described, which would lead to an increase of the financing difficulty faced by countries with higher deficits may force their governments to take increasingly drastic measures in order to strengthen their finances, that is, indiscriminate cuts in public spending



and/or tax rises which spells isolation, hardships and perhaps political instability, insecurity and the increase of poverty in the next years. This scenario should therefore be analyzed for its consequences in terms of economic and social development.

45. The ESC understands that one way of avoiding this situation would be to turn into a permanent solution the European Financial Stabilisation mechanism which has started this year within the Euro zone and consists of a fund financed by all its Member-States.

46. However, given the current circumstances, the ESC considers that the strategy which best defends the national interests consists, as referred in the second scenario, on the creation of new *community* mechanisms for economic, budgetary and social planning, coordination and supervision aimed at reducing the imbalances between Member-States and particularly those of the current account and to promote a sustainable economic and social development. Given the political and institutional implications and a greater conditioning of the fiscal and budgetary policy that a central public debt issuer would origin, the ESC recommends a thorough evaluation of the advantages and inconveniences of this option, namely in terms of economic growth and employment.

47. The ESC recommends a strong interconnection between European structural policies which may influence economy on the medium-term and macroeconomic policies which should determine cyclic adjustments with the purpose of increasing and stimulating employment, mainly through SMEs, whose success largely depends on their capacity for innovation and expansion throughout the world.

48. Regarding economic governance, the ESC recommends the immediate implementation of possible and adequate measures, taking into consideration the works being carried out within the scope of the Europe 2020 strategy.

49. The ESC is in favour of taking political decisions leading to the conciliation of the budgetary discipline with a European policy in the industry and service sector which stimulates long-term investment in strategic areas.

50. The ESC advocates that the reform of the community budget, regarding its financing model, should include the origin of the revenue in own resources, which however should not be perceived as a “European tax”.

51. The ESC finds that the reform of the EU budget does not pertain exclusively to the area of finance. On the contrary, this issue is comprehensive and essentially political. Therefore its discussion cannot be exclusively confined to the European Council and European Parliament. An essential condition for the success of this reform lies in the involvement of not only European but also national stakeholders and political institutions in the whole process. The ESC therefore recommends that the Portuguese Parliament participates actively in the debate of the reform of the community budget. The European public opinion



should participate in the debates namely through the Economic and Social Councils of the different countries and through social dialogue at European level.

52. The ESC understands that the European Union can only be successful in defending its interests on an international level if capable of preserving its economic and social cohesion. In the framework of reforms to be implemented at European level, any path which is based on the existence of a directory – formal and informal – of large countries with powers to decide on the future of the Euro zone should be rejected.

53. The ESC considers that the European cohesion policy should face the situation of the most affected regions by changing global trade and production patterns and which may undergo a process of continuous decline in competitiveness and, consequently, of escalating impoverishment. Exceptional regional actions should be considered which may lead to a recovery of these regions. This is not about increasing *communitary* funds but rather of allowing, more than what is possible nowadays, for a positive discrimination of economic activities in terms of fiscal and credit tools and of companies' capitalization and investment while, on the other hand, interfering with the rules of the internal market only if strictly necessary. It is also important to clearly consider this reality in the application of structural funds.

54. The ESC makes the following recommendations regarding the strategic interests of the European Union, in four areas which it considers as a priority.

54.1. The first one concerns energy. Initiatives regarding climate change will only be successful if the EU is capable of implementing an integrated policy, in energetic terms. Energy saving and efficiency are strategic and therefore initiatives should be triggered in order to improve the energetic performance of the productive sector and buildings as well as an increase in the use of collective transport and railway transport of passengers and goods. The energetic efficiency and the use of renewable energy, consistent with territory planning, the preservation of nature and of existing resources in conjunction with an adequate and competitive balance with other energy sources, are the best solution for this challenge. In what concerns the policy of energy supply at EU level, the ESC considers pertinent to strive for a long-term cooperation with Russia. At a national level, the ESC understands that, in addition to continuing to foster the development of renewable energies, it is relevant to open a participated debate regarding the energy issue in a global and integrated way which addresses efficiency issues as well as the possibility of nuclear power use.

54.2. The second is related to the productive sector. A European production policy will only exist on the basis of strategic specialization and investment options. It is crucial to do it in present circumstances. The ESC considers that the EU needs, in a very particular way, of companies producing tradable goods and services that concentrate on their potential growth beyond the Union's borders and not only on their intra-*communitary* competitiveness. Partnerships



and the harmonization of legislation are fundamental instruments in order to move in this direction.

54.3. Thirdly, the ESC also finds it essential to re-evaluate agriculture, forest and fishery as strategic sectors in terms of security in food supply and in the world trade, reinforcing protection measures for resources, namely soil quality as well as biodiversity.

54.4. Regarding the reduction of carbon dioxide emissions, the EU shall have to continue with its efforts towards trying to guarantee the collaboration of the remaining world powers, namely the U.S.A. and China, in order to avoid maladjusted situations regarding economic and social competition on an international scale. The ESC emphasizes the importance of environmental policies in the EU, with a positive impact on several levels, including the creation of productive activities and employment.

54.5. Fourthly, the ESC notes that globalization should not continue on a planetary scale without regulating issues related to public goods such as water, climate, health and food which will lead to a reform of the World Trade Organization. The globalization of production conditions shall not cause the destruction of social and political models which took many generations to be achieved and have generated global satisfaction. On the contrary, the intensification of globalization and the opening of world trade shall foster the improvement of life and work conditions for everyone, which means giving this phenomenon a social dimension. Given the major role of the EU at worldwide level it has considerable responsibility in fostering such conditions, namely defending the full compliance with the fundamental conventions of the International Labour Organization (ILO) as well as the introduction of social and environmental clauses in the framework of world trade and the regulation of globalization. The ESC further points out the need for deeper financial regulation and supervision at worldwide level which implies the debate of the role and functioning of international financial institutions, such as the International Monetary Fund and the World Bank, namely in terms of their articulation with other bodies namely the ILO.

55. The ESC recommends the creation of mechanisms to limit the growing *debudgeting* trend of public expense amongst Member-States which is increasingly more common and aims at complying with the rigid budgetary rules of the Maastricht Treaty. This *debudgeting* originates unrealistic and deflated expenses and therefore compromises the long-term stability of the European Union in economic and social terms as there is an effective transference of present expenses to future generations.

56. The ESC considers that the need to renovate the commitment of the EU with a social Europe takes on vital importance for the reestablishment of the citizen's trust in the European project and in its ability to foster economic growth, employment and prosperity. In that sense, the single market being an objective of the European Union, shall be pursued in line with the values, principles and pillars of the construction of the *communitary* space, namely in



social terms, without forgetting the positive contribution which may be given by the social economy, as mentioned in the European Parliament resolution of 19<sup>th</sup> February 2009<sup>18</sup>.

57. The ESC is perfectly aware that employment and social policy are still, in general terms, national competences but it points out that the EU is also competent in this matter as per the Treaties. The EU needs to create a more solid economic and social framework that allows Member-States to implement the necessary reforms at national level, according to their economic, social and political conditions.

58. The ESC considers that decent work is a decisive factor for social inclusion and consequently it calls for the implementation of reforms which can direct public expenditure towards economic growth and the improvement of purchasing power thus breaking the vicious circle of poverty and other forms of social exclusion. It also calls for special emphasis on the most vulnerable people to unemployment, such as the young and women. It considers equally important the elimination of inequalities between men and women in the job market, the acknowledgment of equal pay for equal work and the need to abolish differences in wages which tend to penalize women in the professional sphere during their contributory trajectories and retirement pensions.

59. The ESC is aware that in some Member-States the current contributions for social protection systems may not be adequate to respond to citizens' expectations. It considers that the Member-States should think about alternative ways of funding those systems while respecting the principle of solidarity and subsidiarity. It is important to bear in mind that some countries, such as Portugal, have already started comprehensive reforms of the security and social protection systems.

60. The ESC understands that the coordination between Member-States' fiscal policies should be improved in order to prevent damaging competition at tax level, to ensure the sustainable financing of social security and to render the fiscal policy more favourable towards employment.

61. The ESC considers that, notwithstanding the major responsibility of the Member-States in this field, the "Green Paper on adequate, sustainable and safe European pension systems"<sup>19</sup> recently published by the European Commission, presents an opportunity for an extensive debate to be organized concerning everyone's rights to pensions of an acceptable level.

62. This debate should analyze, namely, the fear that pension reforms implemented in many Member- States will increase the number of beneficiaries already living in poverty; positive measures in order to stimulate and enable

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<sup>18</sup> European Parliament Resolution on social economy (2008/2250(INI)) of 19<sup>th</sup> February 2009. Publish at the Official Journal of the European Union (C 76 E/16) of 25<sup>th</sup> March 2010.

<sup>19</sup> Green Paper on adequate, sustainable and safe European pension systems, SEC(2010)830, 7th July 2010, COM(2010)365 final.



workers of an older age to stay or re-enter the labour market; the need to introduce greater complementarity in work, pensions and retirement regimes, without prejudice of guaranteeing inter and intra-generational balance and the universality of the general regime of public responsibility. The ESC urges the European Commission to study national efforts in order to face the impact of demographic change on the sustainability of the pension systems and on the poverty of retired people as well as to monitor more efficiently the implementation of the existing legislation against age discrimination.

63. The ESC recognizes that the monetary policy will not be able to solve the sustainable growth of employment on its own and therefore considers desirable to have a discussion of the role and statutory functions of the European Central Bank which nowadays concentrate on price stability regardless of its impact on the remaining economic and social areas. This debate should include the possibility of a more active intervention aimed at achieving the economic and social goals of the European Union which aim at economic growth and employment.

64. The ESC rejects any action that aims through social deregulation at questioning the essential core of the European social model. It understands that the values associated to this model shall be preserved otherwise the whole European project may run the risk of sinking. The defence of the European social model demands readjustments to the evolution of the economy and society without compromising the protection level it can guarantee. The ESC also considers that growth and sustainable development shall gain importance in the definition and application of policies and no longer be only complementary to the main goal of price stability, this being the most effective way of guaranteeing the sustainability of the European social model.

65. The ESC recommends taking up measures for reinforcing the systems of social protection, namely aimed at their sustainability while preserving their original values and trying to adapt them to the demographic evolution and fighting unemployment, social differences, poverty and social exclusion.

66. ESC understands that the current economic and social situation of the Euro zone conditions in a considerable way the action of the sovereign bodies and social partners. However, it believes such situation, both at a national and European level, cannot prevent the achievement of a set of solidarity compromises agreed on the basis of social dialogue and collective bargaining. The ESC believes that this form of structured dialogue will lead to increased trust in economic and social agents and will enable the development of a strategy and a set of actions aimed at economic growth and productive employment.



## VII. Explanations of vote

### **General Confederation of Portuguese Workers (Confederação Geral dos Trabalhadores Portugueses – Intersindical Nacional, CGTP-IN)**

*Recognizing that the own initiative report on the euro zone, has suffered throughout its preparation within the works of the commission, a significant improvement by means of the integration of many amendment proposals, CGTP-IN abstains from voting due to the following reasons:*

- 1. In spite of the mentioned improvement, the report is still lacking a suitable analysis of the Portuguese situation and of the impact in the country's economy following its integration in the Euro zone;*
- 2. On the other hand, it does not carry out a thorough analysis of the effects of the Euro on the different European economies in order to understand the results, advantages and disadvantages of that integration;*
- 3. Those shortcomings allow for no clear recommendations for overcoming the difficulties faced by our country;*
- 4. The report deals with some of the sovereign competences in the sense of their alienation, with the subsequent loss of instruments required to put in place an economic policy leading the country to the real convergence with more developed countries of the European Union (EU).*

*For CGTP-IN, the report we have just voted should mean a moment to present a development perspective of the country within a context of change of the current situation in the EU, a framework to setup a project that guarantees the application of cooperation principles, on equal terms, amongst Member-States and in which the real convergence is a core reference of the development model, founded on the guarantee of the right to decent work and the enhancement of the productive capacity of each country, so as to ensure workers and the populations' welfare.*

*26th July 2010  
Lisbon, ESC Plenary Session  
Fernando Gomes  
Joaquim Dionísio  
Manuel Carvalho da Silva  
Ulisses Garrido*



**National Agricultural Confederation  
(Confederação Nacional da Agricultura, CNA)**

*President of ESC,  
Ladies and Gentlemen,*

*We should start by recognizing the opportunity for debate and ESC's initiative, as well as the preparation and synthesis efforts of the respective Rapporteurs.*

*However, the articles we are faced with makes me feel divided between the fairness of much of the carried out analysis and, let me put it this way, the political innocence of certain premises and the same number of postulates.*

*In fact, the system which oppresses us is a violent one and therefore it requires answers of a different impact level.*

*In this system the law of the jungle rules through unrestrained speculation. The casino economy rules. Some estimate that there is 20 times more paper currency in circulation in the market, than the value of the commodities produced!*

*And even more "dough" circulates, at light speed, through the internet over the borders and the Nation-States.*

*Therefore, it is too innocent to state that the deep routes of the global economic and financial crisis – and that of the Euro zone in particular – lay mostly on the failure of the monitoring, conciliation or supervision systems.*

*Now, those sub-systems are the legitimate children of the global financial system and are genetically faithful to it.*

*From a very practical point of view, those sub-systems – created within the general system of free and monetarist economy – which means, they are supposed "to chase the thief". Let us say that the thief is the major speculator, the major international swindler, and these are the ones who hold the initiative if not even the "power". Because, for instance, what are the companies or credit "rating" agencies, the police or the "thief"??*

*On the other hand, many times it is even surprising to witness the accessory way allegedly such global system control and supervision sub-systems behave.*

*The greatest financial scandals of our times exploded first in the Citizens' pockets and the Public Opinion. Only then, and only apparently, the so-called system "controllers" became aware of them. In fact, just among us and our domestic scandals, some of the major alleged financial system "controllers" were always ready to play the role of being the "last ones to become aware"...*

*And this will go on being so, I don't know for how long, within this global system, despite the strong stroke it suffered and which its current condition.*



*Ladies and Gentlemen:*

*I am definitely not the best expert on the subject, but from the diversified information I have been provided with, I am convinced that the instability of the Euro zone is due, first of all, to the attack of the Dollar on the Euro, above all a strategic, financial and economic war, in a process which started as soon as the Euro was created. It is one more “surgical” attack on the Euro by the great speculators and their “made in USA” instruments penetrating, easily through the more vulnerable EU Member-States where Spain has been also included after being punished with a high-level unemployment for years on end. It is said that the penetration of the attack on the Euro was accelerated through the use of “submarines”, in a specific country. Bu the problem is that seemingly it is going to happen in another country... our own country!*

*At the same time, it is the economic and social crisis as well as the institutional one.*

*On the other hand, it is pure “political innocence” to trust the solution with the supranational instances – or quaestors of this new and alleged federal empire, quaestores such as those at the Rome of the Cesars...*

*In this EU and, most of all, in this EU that resulted from the Lisbon Treaty, in this system, of who pays gets to be the boss. The Euro is the strong deutschemark. And who pays more – Germany and France (and we are speaking not only of the Euro zone) – have given orders and have imposed their will on others several times. They did that very recently with the excuse of the financial crisis and the crisis within the Euro zone.*

*And let us not forget, ever, that Germany –Germany Banking – has imposed the inclusion, in the Lisbon Treaty, of that prohibition of the European Central Bank (ECB) – the resources of which come, mostly, from the contributions of the EU Member-States – the “prohibition” of ECB to lend money to those Member-States to allow them to deal with problems related to their external debts. Therefore, ECB lends money to private Banking (at low interest rates) and then this private Banking, speculates with loans made to the Member-States in need of them! It is a refined perversion! If the Euro is the strong deutschemark, then ECB is BundesBank in “its family size”...*

*Therefore, any supranational instances, created or to be created by the system, will always reflect, the will of the mentioned directory of powers and their respective economies. Otherwise, the former shall be quickly eliminated, let us say, following one or two conversations between chancellor Merkel and president Sarkozy, advised or not by one or more of their congener parties.*

*Ladies and Gentlemen:*

*Of the three scenarios provided for in the “Report” under analysis – which from their description are scenarios spotted from Brussels – none of them seem to*



*provide any safe guarantees to our country, after all, although I also think that some of the paths are worse than others. Therefore we need a fourth and better scenario spotted from Portugal...*

*It should be understood when we speak of the core situation, I wonder what my future will be as technical staff, nowadays with a salary greater than the national average salaries? And as a future retired professional? And what will the retired people's future be? And our Agriculture and our Food? And what about our independence?*

*Most sincerely, I prefer to try to stabilize my present and my future, and that of my fellow citizens and of my country, even if for that purpose, it will be necessary to "disrupt" completely the Euro if we have to. No, let's not speak of fundamentalism. The Euro is not my "God" nor chancellor Merkel its "prophet"...*

*And most of all, what is this capitulation they want from us in face of the alleged "inevitable"? Before a destiny that others want to impose on us even against our will as a People and a Country, Sovereign and Independent?*

*...*

*It seems to me, and I thus conclude, that first of all we need to build a protective shield to best defend us from the speculation within the Euro zone we belong to. To start with, it is necessary to produce more and of better quality, giving priority to the domestic consumption.*

*Portuguese people need higher income, guarantees of work and more tranquillity. As difficult as this is to be accepted by a few Bankers (among others) who live among us, arrogant, but almost begging for even more public resources because, poor them, they "only" earn one million Euros a day!...*

*Therefore I will let you know in advance my vote: I will vote against.*

*26th July 2010  
Lisbon, ESC Plenary Session  
João Dinis*



## **Women Democratic Movement (Movimento Democrático de Mulheres, MDM)**

*Some of the remarks of MDM which justify our abstention*

*Generally speaking we will say that despite some statements which we find possible to agree with, for the basic points, the recommendations we submit are proposals with an implementation which is not new or with predictable effects of a positive change with a minimum of safety. When a European approach is privileged, the national situation and its position within the Euro zone ends up not being considered as thoroughly as it should be.*

*The recommendations we submit are based mainly on measures that should be developed in rules of international organizations and, therefore, are not likely to be controlled by the Portuguese authorities or government. These recommendations are focused mainly on reforms in different areas to take place in different bodies, namely within the community. We mention some points of the Report, which illustrate this statement:*

*“The ESC understands that one way of avoiding this situation would be to turn into a permanent solution the European Financial Stabilisation mechanism which has started this year within the Euro zone and consists of a fund financed by all its Member-States.*

*“However, given the current circumstances, the ESC considers that the strategy which best defends the national interests consists, as referred in the second scenario, on the creation of new community mechanisms for economic, budgetary and social planning, coordination and supervision aimed at reducing the imbalances between Member-States and particularly those of the current account (...)”*

*“The ESC recommends a strong interconnection between European structural policies, which may influence economy on a medium-term, and the macroeconomic policies which should determine cyclic adjustments to the economy with the purpose of increasing and stimulating employment, mainly through SMEs, whose success largely depends on the capacity for innovation and expansion throughout the world.”*

*(...)*

*“The ESC advocates that the reform of the community budget, regarding its financing model, should include the origin of the revenue in own resources, which however should not be perceived as a “European tax”.*

*“Fourthly, the ESC alerts to the fact that globalization should not continue on a planetary scale without regulating issues related to public goods such as water, climate, health, food, which will lead to a reform of the World Trade Organization.”*



*“Given the major role of the EU at worldwide level, it has considerable responsibility in fostering such conditions, namely defending the full compliance with the fundamental conventions of the International Labour Organization (ILO) (...) The ESC further points out the need for greater regulation and world supervision in the financial sphere, which implies the debate of the role and functioning of the international financial institutions – International Monetary Fund and the World Bank – namely in terms of their articulation with other bodies such as the ILO.”*

*Reporting the solution of the identified problems to the reform of different international bodies, the Portuguese government is exonerated as far as the national policies in the framework of the Euro zone are concerned and the mentioned entities are charged with the responsibilities for the created situation and respective solution. Therefore there are still no guarantees that the solution to be found, even if taken in the context of the reform of the international organizations, will contribute to overcome the identified problems.*

*Even at the level of the regional policies, recommendations are made towards an improvement of the integration, namely of the respective enlargement, for the creation of integrated energy policies, at the level of the productive sector (“Partnerships and the harmonization of legislation are fundamental instruments in order to move in this direction.”) and tax policies:*

*“The ESC understands that the coordination between Member-States’ fiscal policies should be improved in order to prevent damaging competition at tax level, to ensure the sustainable financing of social security and to render the fiscal policy more favourable towards employment.”*

*In some cases, recommendations addressed to the EU with which it is possible to agree are presented, although they are not, in practical terms, more than ideas, possibly to support within the community framework, such as*

*A positive discrimination of “the economic activities should be permitted, from a fiscal point of view, of credit, capitalization of companies and investment (...).”*

*A positive discrimination of “regions (...) which could go through a process of continuous decline in competitiveness and consequently of escalating impoverishment”.*

*Nevertheless, the development of human and endogenous resources in order to create wealth and for the defence of national sovereignty is never mentioned*

*We underline positively the proposals for the need to:*

*Reassessment of “agriculture, forest and fishery as strategic sectors in terms of security in food supply and in the world trade, reinforcing protection measures for resources, namely soil quality as well as biodiversity.”*



*We believe it is not enough to speak about resources protection therefore we propose to go one step further into that topic also with “the development and valuing of the resources ”.*

*“(…) Limit the growing tendency to debudgeting by the Member-States’ public expense (…)”*

*“The ESC considers that the need to renovate the commitment of the EU with a social Europe takes on vital importance for the reestablishment of the citizen’s trust in the European project and in its ability to foster economic growth, generate employment and prosperity.”*

*“The ESC rejects any action that aims, through social deregulation, at questioning the essential core of the European social model.”*

*Regarding these topics we believe that there is the need to clarify the meaning of the European project which, according to us, should be the one which concerns social justice, equal opportunities and equal treatment, especially the equality between women and men.*

*Also regarding the issues of “social commitment” the statements are accompanied with others which open the way to their own adulteration. The used “reforms” word is not clear as to the type of reforms and there is no consensus on the word’s meaning. Therefore we think the word policies should be used instead of reforms.*

*“The ESC considers that decent work is a decisive factor for social inclusion” and it appeals to reforms.*

*On this subject of decent work the Report could go one step further, namely by characterizing aspects of non compliance with international standards in force, which are causing new scourges, such as the non-stopping growth of trafficking in human beings, for labour and sexual purposes.*

*The proposal of Report underlines the urgent need to encourage positive measures in the sense of encouraging and enabling the older workers to stay or re-enter the labour market.*

*It recommends the use of reinforcement measures of social protection measures aiming at its sustainability “preserving their original values and trying to adapt them to the demographic evolution and fighting unemployment, social differences, poverty and social exclusion”.*

*On this topic the Report could go one step further if it addressed the issue of evolution (this is the technical word, but politically we may speak of a demographic involution). In fact, there is a higher percentage of elderly people because there are fewer births, people postponing more and more the maternity/paternity age and in fact this issue has to do with the people’s life quality and the social protection of maternity, including amongst young people.*



*We also think it is a positive fact that recommendations include, as for the reform of the community budget, the participation of national institutions, the Portuguese Parliament, the ESC and the European social dialogue, rejecting “any path which is based on the existence of a directory – formal and informal – of large countries with powers to decide on the future of the Euro zone.”*

*The diagnosis shows some important statements which, although holding the Member-States and the European institutions accountable for the crisis, pave the way simultaneously to many of the recommendations:*

*Responsibility for the weakness of the regulation and supervision institutions “which allowed the irresponsible use of financial practices and instruments.”*

*“The inexistence of sufficient articulation between the economic and financial systems of the Member-States and inadequacy of the Euro zone institutions (...)*

*The inexistence of an efficient coordination of macroeconomic policies (...)*

*(...) weak articulation between monetary, budgetary, fiscal and other policies at a European level.*

*(...) lack of an articulation between the economic, financial and social systems of the Member-States. (...)*

*The ESC understands that there is a lack of interconnection between monetary and exchange rate policies and the remaining economic policies, which greatly limits the adoption of a properly articulated policy mix, both at Member-State and at a community level.”*

*However it is stated also:*

*“ESC reminds that, in this context, some Member-States hesitated and the European Union only acted when it verified that the situation jeopardized the banking system of the countries with the majority of treasury bonds of those States most affected by the sovereign debts crisis.”*

*The defence of the so-called European Social Model: “ The loss of influence of the Euro zone (...) increases the risk of the economic activities shifting to emergent economies and may compromise the values at the core of the European project, of social Europe and of many good intentions which are dear to all those who see in the European integration project the possibility of perpetuating practices based on the observation of superior levels of freedom, justice and humanism. The European social model which has prevailed after the Second World War, was not born by some “miracle” (...) instead, it was the result of the recognition of the society in general that the best social-political balance would be maximized by a model in which all had sufficient resources: of a social and political nature, cultural and material based on a high level of work*



*relations and Government role. The political compromise deriving from the acknowledgment of global interests resulted in the best balance achieved to this date in the development of human history.*

*The EU does not provide "an adequate framework so that weaker countries such as Portugal can find sufficient space to protect some of their strategic sectors".*

*The restriction of the macroeconomic policy of its Member-States to tax and budget policy "presents a great limitation mainly for those countries which are less developed, such as Portugal, insofar as it hinders the correction of economic imbalances and the adoption of anti-cyclic policies, which also represent increased difficulties of convergence."*

*"The ESC points out that, under the present circumstances, it is very difficult to adopt anti-cyclic policies at a national level, which clearly hinders innovation and economic growth".*

*"The ESC recognizes that the single market (...) presents many advantages, albeit unequally divided (...) It is true that it helped many companies to become stronger by benefiting from a more extensive, integrated and competitive market but, on the other hand, this single market did not reinforce specialization, due to strong competition within each sector. This effect was of considerable importance within the context of a growing globalization.(...)"*

*"The ESC is of the opinion that the current EU budget is insufficient considering the ambitions of the Europe 2020 strategy and in view of the problems which the Union is facing."*

*"The ESC finds that the community budget is very limited in its autonomy and transparency and has a core problem which has to be solved and that concerns the debate taking place during budget negotiations and in which there is an attempt to find out, almost line by line, who is and who is not a net contributor. This exercise is limited to mere accounting comparisons which do not incorporate the macroeconomic effects of globalization within the context of the Union itself".*

*And, however, these statements only very lightly have some translation in the presented recommendations.*

*As far as the Portuguese economy is concerned, in the essential, we will say "it hedges one's bets" either holding the internal policies accountable or exculpating them. Even so, in the carried out analysis regarding the Portuguese economy, the goodness of the reforms is often mentioned, despite their dramatic effects, which are well known to everyone.*

*Although the references to are positively underlined (...) the weak performance of productivity, both of labour and of capital, originated a loss in competitiveness (...). On the other hand, Portugal was,*



*between the years 2000 and 2005, the second OECD country at 1920 where the productivity of the factor capital suffered the largest fall (...)*

*“However, the hourly productivity has been growing since 2000, with the exception of the years 2003 and 2008<sup>21</sup>. (...) There is a study stating that, between 1991 and 2006, the loss of competitiveness in Portugal was not aggravated by the evolution of the wage policy (...) which was 60% due to “a maladjusted exchange rate policy, namely the fact that the parity used to enter the EMS<sup>22</sup> exchange rate mechanism was too high and joining the Euro itself”, and 0% “to a wage evolution which was too fast” and 40% “to structural factors and to variations of prices for the use of primary factors other than labour”.*

*Relevant warnings are added to the analysis which result in highlighting precautions regarding public investments which, if taken into account those mentioned precautions, would prevent investments in public infrastructure such as transports, health, education energy, etc. However, in our opinion those investments are economy leverages as they generate immediate employment and wealth growth provided, obviously, they are duly managed and on behalf of the public interest. This is a critical issue with which we disagree.*

*Although the discussion in plenary session has contributed for some clarification of concepts, these remarks and reflections justify our abstention.*

*26th July 2010  
Lisbon, ESC Plenary session  
Regina Marques*

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<sup>20</sup> In this case, “OECD at 19” refers to the following countries: Finland, Spain, New Zealand, France, Ireland, Sweden, Belgium, Germany, Australia, United Kingdom, U.S.A., Greece, Holland, Canada, Japan, Austria, Italy, Portugal and Denmark.

<sup>21</sup> Ratio between the annual variation of the GDP and the annual variation of the number of worked hours. Bank of Portugal Annual report (1999 to 2009).

<sup>22</sup> European Monetary System.

