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Resilience and governance of the European Union

Faced with accelerating climate change and repeated economic crises, the notion of resilience is growing. It is not so much the ability of an ecosystem, a species or an individual to recover its functioning or normal development after a disturbance, but its ability, after a shock, to recover a viable a new environment. In this definition, the important thing is that the initial phase of development, before the shock, leaves the possibility of a multiple functioning, a plasticity. This plasticity must be found in the political, economic and judiciary system, in institutions and behaviours. It assumes the diversity of the environment, pledge of multiple possible and serendipities.

In a shock, the Maastricht approach excludes the bailout of a Member State and violates the principle of sovereignty of member states only for the monitoring of public debts and deficits. In practice, faced with a difficult situation for one of its member states, Europe shows solidarity, but this solidarity is not explicitly planned and occurs ex-post. The Achilles' heel of the European Union is the control of deficits weakened by the lack of political will to intervene upstream, at the moment when the rigour would be the least expensive.

Since the 2008 crisis, progress has been made to strengthen the Stability and Growth Pact by the introduction of the "Six Pack" and "Two-Pack, and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union[1]. In particular, the "Two-Pack" reform package[2] includes an external review of fiscal policies. This review by independent budgetary councils composed of experts validated by the European Union is useful, but miracles cannot be expected on the capacity and legitimacy of this budgetary council to impose immediate and corrective action. Indeed, current populist tendencies work against improving the Maastricht approach, which does not answer the question of what to do on the day a country does not respond to warnings. An Italy in the hands of the Lega populists could soon be a test. However, a punitive response through financial sanctions is undesirable when a country is in financial difficulty.

A new European governance beyond Maastricht

To be resilient and to define a long-term vision with democratic support, the new European governance should be founded on the principles of solidarity, responsibility and independence. It is a question of addressing the concerns of what Proudhon referred to as "To be governed is to be kept in sight, inspected, spied on, directed, legislated, regulated, parked, indoctrinated, preached, controlled, valued, appreciated, censored, ordered, by beings who have neither title, nor science, nor virtue... To be governed is to be, at each operation, each transaction, each movement, noted, recorded, recorded, listed, priced, stamped, stamped, toasted, quoted, contributed, patented, licensed, authorized, apostilled, admonished, prevented, reformed, rectified, corrected. It is, under the pretext of public utility, and in the name of the general interest, to be called upon, exercised, ransomed, exploited, monopolized, mugged, pressed, mystified, stolen; then, at the slightest resistance, to the first word of complaint, repressed, amended, vilified, vexed, hunted down, muffled, stunned, disarmed, garroted, imprisoned, shot, strafed, tried, sentenced, condemned, deported, sacrificed, sold, betrayed, and to make matters worse, played, fooled, outraged, dishonored. This is the government, this is its justice, this is its morality! "[3].

Solidarity : to go beyond the limits of solidarity

No solidarity can be expressed if a Member State is already fragile and on the verge of bankruptcy even before signing the solidarity and risk-sharing contract in the event of bankruptcy. It is also clear that countries that choose institutions with unemployment rates of 5% will not want co-insurance with those that produce 20%.

In Northern Europe, Germany has a savings surplus equivalent to 8% of its GDP and uses these surpluses to finance the public deficit...of the United States, of which it has become the largest creditor, ahead of China. In so doing, it destroys growth in Europe.

In the South, Grexit is a risky option, as is the continuation of the current trend[4]. While Greek debt of

180% of GDP, which is also characterized by a high rate of external ownership, is huge for a country with limited fiscal capacity, it has a long average maturity, about twice that of other sovereign debt and a relatively low interest rate, following the restructuring in 2010 and 2012. However, payments will become substantial after 2022 and therefore, for many years.

Solidarity can be expressed if the German investors, who have every interest in it, redirect their savings to Germany and Europe, to prepare the industries of the future and to the countries of the European Union where demand has to grow. Greece and the countries of the South must accept the principle of non-bailout, which must be strictly enforced.

Responsibility: fight against moral hazard

Moral hazard refers to a situation in which the behaviour of one party negatively affects the well-being of another party. Moreover, this behaviour cannot be specified in advance and in a credible way by mutual agreement.

Among the tax havens in Europe (Monaco, Channel Islands, Switzerland, Liechtenstein etc.) Holland is home to an impressive number of holdings outside the tax countries where companies market their products (Renault/Nissan, BP, Amoco, Anglo American, Rio Tinto, Trafigura, Yandex etc.) in order to have a taxation rate below 5%: companies in particular companies of the extractive industry, set their trading activity and tax home in Switzerland, a Dutch holding company for the temporary storage of global income, and one or more vehicles in tax havens for the final destination of profits. On their side, Ireland and Portugal give out-of-the-box tax benefits on income that is neither Irish (tax at 12.5% for internet service company and software domiciled in Ireland, but with their services provided outside Ireland) nor Portuguese (retirement pensions received by non-Portuguese are exempted of tax during 10 years).

In this context, Holland plans to adopt in 2021 a withholding tax system with respect to royalty and interest flows to jurisdictions with low taxes and cases of abusive arrangements for taxes. Existing legislation for trust offices will also be tightened[5]. It is still to be seen whether these measures will be implemented and sufficient so that Holland will no longer be a channel to low-tax countries.

Cyprus offers Russian and Chinese citizens European passports in exchange for real estate investment on the island, which stimulates the real estate bubble and tax evasion. In addition, the government authorizes low-cost employment contracts for poor Asian workers who are often employed at home. These workers live in conditions of medieval exploitation entirely subject to the goodwill of their Cypriot employer, without any respect for European rules[6].

France and Germany are developing arms export policies and deny that their weapons are being used against civilian populations. In addition, arms exports and unilateral interventions (France to Mali, France/England to Libya, etc.) make Europe's foreign intermediation policy unreadable. European Member States should lift the ambiguity of their EU Common Position on arms exports left on the goodwill of each Member State : Criterion 2 of the Common Position requires that Member States deny an arms export licence "if there is a clear risk that the military technology or equipment to be exported might be used in the commission of serious violations of international humanitarian law."[7]. The EU should add a European Parliament and EU Court of Justice's right of scrutiny over the regularity and conformity of arms export procedures.

These are just a few examples of moral hazard for which the European Union must fight by enforcing the rule of law and conditioning its structural transfers on the end of these negative behaviors for the other Member States.

Establish European independence

By accumulating debts and in the absence of the euro recognition as a main reserve currency, Europe has created conditions of dependence on the United States of America (defense, digital and space industry) and China (infrastructure, energy, machinery and agriculture) which no longer allow Europe to be autonomous. Europe should not be trapped in the Cold War between the U.S. and China, it ought to have its own balanced view. While the threat to European autonomy from the U.S. is more obvious as the U.S. President drives to "Make America Great Again" by launching a trade and legal war and massive surveillance of his European allies, the "Made in China 2025" plan of the Chinese President should be viewed as an equally serious threat." The Chinese plan calls for transforming China into a "major manufacturing power" by 2025, reaching an "intermediate level among world manufacturing

powers" by 2035 and becoming "the leader among the world's manufacturing powers" by 2049, the centennial of the founding of the People's Republic[8]. President Xi said in a 2013 speech that "Advanced technology is the sharp weapon of the modern state," [...] Our technology still generally lags that of developed countries, and we must adopt an asymmetrical strategy of catching up and overtaking, bringing our own advantages to bear" .

The Chinese Presidency has identified 10 key fields: information technology, automation and robotics, aerospace and aeronautics, oceanographic engineering and high-tech shipping, high-speed rail, electric vehicles, electric power equipment, agricultural machinery, new materials, pharmaceuticals and medical equipment.

For Europe the conquest of its independence requires the implementation of a common defense, digital, spatial and technological strategy which, beyond compliance with competition rules, reviews the impact of foreign acquisitions and trade agreements (standards and intellectual property) in the light of European political and financial decision-making autonomy (number of jobs affected, head office in Europe, tax paid in Europe, impact on the trade deficit, innovation and intellectual property, etc.). It also requires a European Central Bank's strategy to establish the euro as a reserve currency and an alternative to the dollar.

The new European Commission, Parliament and the European Council must put European independence at the heart of the Union's policy by creating and monitoring entire political and financial sections of strategic sectors controlled by multiple European actors (Internet, 5G, defense/space, natural and mining resources, transport, energy), and open intellectual property rights to stimulate innovation. The German initiative in February 2019 (National Industry Strategy 2030)[9] that was designed to push back against powerful Chinese state-backed enterprises should be revised to not only nurture a few German champions ported at the European level. The goal should be to develop a diverse European ecosystem attracting foreign scientists with innovative SMEs and cooperative fintechs able to challenge large players and oligopolies.

By watering the euro area in cash, the European Central Bank (ECB) gives it time and the opportunity to get out of the crises. But the ECB cannot solve the problems. It is imperative that countries collectively benefit from the time allowed by the ECB to adjust their institutions. Indeed, it is only a respite, not a situation that can persist in the long term. As a result of the 2008 financial crisis, the intervention of the ECB, the massive and unconventional takeover of government bonds ("quantitative easing") and the fall in interest rates to 0, or to a negative rate, led to an unprecedented increase in the ECB's balance sheet reaching 4,702 Bio EUR at the end of 2018[10], which represents 40% of euro area net banking income. It will require an orderly deflation of this balance to avoid a sharp rise in the destructive inflation of European savings. Moreover, prudential reserves (a few billion euros in France) are far from guaranteeing the bank deposits of European citizens in case of bankruptcy of one or more banks. The Banking Union, which covers both the creation of a Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM) to deal in banks with difficulties, has yet to be confronted with a systemic crisis.

The European Union for greater risk sharing and a no-bailout rule

In order to create the conditions for this new governance, it is necessary to go beyond the Maastricht convergence criteria and to set European objectives and policies for convergence of productivity, trade balance, and unemployment at the regional level.

Overcoming the virtual and inapplicable Maastricht rules

The uniformity of the Maastricht rules makes no economic sense. What is bearable in terms of deficit and debt for one country is not bearable for another and depends above all on the ability to collect and increase taxes, its economic growth rate, domestic debt ownership and the cost of default.

In addition, the calculation data is also incorrect. For example, the 60% of GDP as a debt limit only takes into account the public debt due with certainty, but ignores the "off-balance sheet" such as pensions (90% of pensions in France), guarantees given to various corporate debts and public systems (the bailed-out company of Crédit Lyonnais or Dexia in France and Belgium etc.) which are considered as contingent liabilities. French State assets are 1 051.9 Bio €, its liabilities 2 347.5 Bio ...and its off-balance sheet liabilities amount 4 208.1 Bio €[11].
This 60% rate is not only arbitrary, but it leads to aberrant behaviour by focusing States' attention on liabilities and ignoring income: it pushes to sell

assets and even sometimes to sell off sources of income in exchange for cash or debt reduction. This is the case for motorways and airports in France and ports in Italy (Naples) or Greece (Athens), but also, more seriously, for mining and hydrocarbon resources (Greece, Cyprus)[12].

The paradox is that the state subject to the Maastricht criteria reduces its role as a welfare state and puts social debt "off-balance sheet" while continuing to go into debt to cover market deficits (climate risks, bank indebtedness, real estate bubble, etc.). The weight of the state in GDP is increasing as the welfare state is unravelled and its protective role questioned without Europe having proposed any real social aggiornamento that could reconcile Europe with its citizens.

The irony is that the European Union insists on these criteria, but does not enforce them: the first bulwark for monitoring public deficits and debts has been broken many times, particularly by France and Germany; the second bulwark for non-bailout has also fallen as the EU has come to Greece's rescue and the ECB has bought up the public debt of countries in trouble and accepted low-quality collateral. The size of the ECB's balance sheet and the weakness of collateral are now a problem in the event of a new crisis.

Converging in productivity, unemployment and commercial balance

Since the creation of the euro, wages have diverged from productivity (Labour productivity is defined as output per person employed) in all the countries that will be at the heart of the eurozone crisis: Greece, Spain, Italy, Portugal and France[13]. Thus from 1999 to 2015, the wages of these countries increased by 40% when productivity increased by only 7%. For Greece, even though wages have fallen by 20% since the 2008 crisis, in 2008, they had increased by around 180% of the 1999 value. During this period, Germany, the Netherlands, Sweden etc. experienced significant wage moderation[14]. This divergence in the euro area has led to low prices for northern goods and services and high prices for those from the South, net importing countries. In order to finance their net imports, southern countries (including Ireland and France) have sacrificed part of their wealth by selling assets to individuals, investment funds and foreign states.
This credit consumption, coupled with high unemployment, is unsustainable, especially since climate risk calls for massive new investments in ecological transformation.

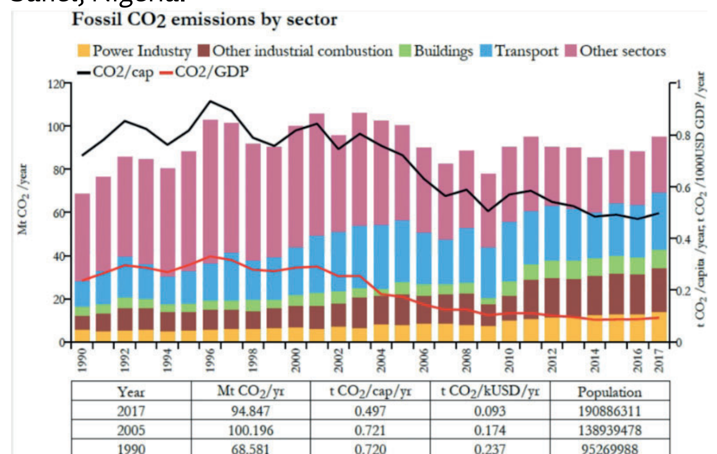
The convergence of the productivity/remuneration ratio, the balance of trade and services and the unemployment rate must, therefore, become key elements of European policy. Once the convergence of unemployment rates has been achieved, the ECB may include an objective of maintaining this rate in its objectives and statutes like the U.S. Federal Reserves.

The European Union for greater risk sharing

The countries of Northern Europe will then be ready to put in place a real policy of European solidarity. Solidarity is expressed in a European social contract where systemic risks are contained and shared. This solidarity contract should be expressed in debt (the famous Eurobonds), unemployment insurance, a climate fund (it is estimated that climate investments in new technologies and infrastructure projects should be financed at a rate about four times higher than the current rate) and an insurance system for European bank deposits. Structural transfers must replace structural funds and provide significant and systematic subsidies to poor regions. It is clear that it is necessary to establish a language, French, and a common European feeling to generate such unidirectional transfers from rich regions to poor regions of Europe so that everyone receives roughly the same resources per capita.

To preserve Europe's independence, this solidarity must be expressed with Africa and in particular with the Sahelian states, for which Europe must invest in human capital, training and good governance.

Take the example of an emblematic country of the Sahel, Nigeria.



Year	Mt CO_2/yr	t CO_2/cap/yr	t CO_2/kUSD/yr	Population
2017	94.847	0.497	0.093	190886311
2005	100.196	0.721	0.174	138939478
1990	68.581	0.720	0.237	95269988

Data Source : Joint Research Center of the European Commission on global CO2 emissions

As we can see, Nigeria saw its population more than double between 1990 and 2017, and it could exceed 400 million in 2050 , according to the UN. The boom in GDP, oil production, megacities growing rapidly suggest favorable development. Furthermore, its per capita emissions of CO_2 are still very low, with about 0.5 tons per year (ten times less than France, thirty times less than the United States of America). Above all, they diminish. But, it has nothing to do with a climate policy. In reality, what CO_2 tells us is that the explosive social situation increases as slums spread and emigration in Africa and Europe is seen as the way out of poverty. Nigeria has joined international coalitions, including the Extractive Industries Transparency Initiative and the New Petroleum Producers Group, that offer voluntary guidance and transparency requirements to help countries manage their commodity wealth soundly. Still, oil-funded governments often become less accountable to their citizens.

However, in the context of climate and demographic changes, the time is not to finance extractive industries despite the fact that multinationals are discovering more oil and gas in the Niger Delta[15].
The urgency is for Europe to set a Sahelian Climate Fund under the management of the European Central Bank (ECB) and the Central Bank of West African States (BCEAO) in order to diversify the Sahelian governments 'funding and compensate the Sahelian countries for the non-export of their oil and natural resources. The funding should be provided by increased carbon prices (carbon taxes, and carbon trading schemes' revenues with more restrictive quotas for extractive companies)[16]. The point is to keep African oil and natural resources for domestic usage and fund the fight against desertification: fertile land becomes barren desert, which affects as much as 60% of Nigeria's land, exacerbated by drought and climate change. As water and farmland become scarcer, land conflicts in countries with strong ethnic divides are poised to get far worse[17].

In this sense, economic resilience must be rethought and contain strong elements of political governance.

***Arnaud Leconte** holds a Ph.D in finance and economics. His main research interests are the climate and digital economics and governance for sustainable development. He is currently Director of the Master in Global Economic Governance & Public Affairs jointly organized by the European Institute of CIFE and the School of Government of the University of Rome LUISS Guido Carli*

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