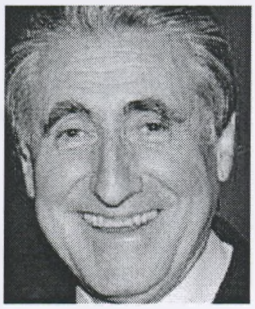
A crisis-busting plan from Europe's boardrooms



We need to take practical steps right across Europe if we are to streamline our labour markets and create new jobs to replace the millions lost so far, says **Ernest-Antoine Seillière**, who sets out a four-point recovery plan

In those balmy days before the financial crisis struck, Europe's labour markets were in a healthy state. Private sector companies had created 10m jobs between 2006 and 2008, and with employment rates on the increase unemployment had by the beginning of last year sunk to its lowest level in over 20 years.

But that was then, for the crisis has had a savage impact on the EU's labour markets. Now that we are in the deepest recession in decades, unemployment rates for both skilled and unskilled workers are climbing fast.

Job losses in the EU, warns BUSINESSEUROPE's Spring 2009 Economic Outlook, are expected to reach 4.5m this year, with Spain and the UK each accounting for almost 1m unemployed people. By 2010 Europe's unemployment rate could reach 10%. Unemployment will not strike every EU country equally, but it is clear that the majority of them will be faced with unemployment rates of over 10% by the end of this year. Forecasted unemployment in countries like Spain could rise to 16-19% by December.

All this is inevitably going to have a really severe impact on our social protection systems. They are already struggling with long-term financial sustainability problems because of shrinking working-age populations and higher dependency rates, and they will now be coming under even greater pressure as the proportion of unemployed people rises.

Any chances Europe has of a speedy economic recovery will depend on our agreement on a concerted response. We at BUSINESSEUROPE have therefore set out a four-pronged strategy for dealing with the crisis.

The first priority must be to restore companies' access to finance. This is indispensable if we want to ensure the survival and future development of companies both large and small. Unless they have access to credit there will be no economic recovery, and without economic recovery there will be no job creation.

Second, EU member states must adopt and implement effective recovery programmes. Bold, well-designed and targeted economic stimulus packages are needed, and should look to the future with new infrastructure, by investing in research, development and innovation, and by improving the functioning of our labour markets.

But these recovery programmes are just building blocks. The third measure needed is to speed up structural reform. The present crisis should not be allowed to cloud our view of the long-term challenges facing Europe. Instead, the crisis should act as a catalyst for reforms to structurally improve Europe's competitiveness in a rapidly changing international environment where major new trading partners have already emerged. In other words, our short-term emergency measures must be consistent with the ambitions goals that were set nearly a decade ago in the EU's Lisbon strategy.

Back in 2000, the Lisbon strategy was launched with the aim of transforming Europe into "the world's most competitive knowledge-based economy" by 2010, and in 2005 was revised to focus on the creation of more growth and jobs. Despite the good results in terms of jobs created since 2005, there is widespread agreement that the Lisbon strategy has not fully lived up to the ambition of boosting both employment and productivity. BUSINESSEUROPE's Spring 2009 Reform Barometer found that although

Commentary

By Philippe Herzog

And a heartfelt plea from the factory floor for real reform

It is welcome news that Ernest Seillière is seeking to lessen the impact on working people of the financial crisis. He is using his influence among employers to avoid redundancies and to praise companies that have instead adopted a shorter working week. And he reminds business leaders that they need to invest more in education and in apprenticeships.

So far so good, but we need to look more deeply into the real changes that need to be made to secure a prosperous future for all Europeans. Seillière speaks of continuity, but capitalism as practised in the West has failed, as it keeps massive human potential unemployed and has broken the link between productivity and wages. We are not succeeding in building a knowledge society. And now unemployment is soaring despite all the efforts to contain it.

He favours what we might call "continuity", and as part of that, he wishes to speed up the use of flexicurity. I wouldn't say that the whole idea of flexicurity is dead, but it's certainly not in excellent health. It is all about bargaining with staff so that companies will be well placed to innovate and take advantage of globalisation, but the strength of management in many large companies far outweighs that of the employees in most countries, so the reality is that flexicurity isn't creating much excitement among workers as a key to their futures. The European Commission has argued, Austria, Finland, the Netherlands, Norway and Cyprus had made good progress in improving their employment rates, Hungary was Europe's worst performer. Weak progress was also registered in Latvia, Denmark, Slovenia, Bulgaria, Germany, Portugal and Belgium. Now that it's experiencing its worst rise in unemployment in decades, it is abundantly clear that the EU has no chance of reaching its own employment target by next year.

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This doesn't mean we should give up on the Lisbon strategy. It's obvious that its reforms and its disciplines are as crucial as ever to unlocking Europe's growth potential. That means we must actually step-up the rate of investment in R&D and innovation, and make improving the EU's regulatory environment a higher priority than at present, while above all achieving a true single market.

The fourth and last part of BUSINESSEUROPE's proposed response to the crisis is resisting all forms of protectionism, whether inside or outside the EU. A well-functioning EU single market is the key to growth and the creation of more jobs. For every job apparently saved by protectionism, many more are lost in the longer-term. The message must be that we should all stand up against any actions that restrict the free movement of services, goods, capital and workers.

We have witnessed recently how tensions on the labour market have led to actions against foreign workers. While workers are understandably concerned about their jobs in the current difficult circumstances, we cannot tolerate obstacles to the free movement of workers. The posting of workers directive prevents social dumping. Although this was recognised by a Forum organised by the European Commission in October 2008 a lot could still be done to improve its practical implementation. This is the duty of national governments.

We're going to need extraordinary measures because we face unprecedented challenges in our labour markets. That means timely, targeted yet temporary measures to cushion the impact of the economic crisis on employment. Three specific types of practical intervention are called for: First, working hours flexibility will be an important measure for companies to take if they are to keep their workforce in the downturn, but still have them readily available when the upturn comes. Companies across Europe are already avoiding laying off employees by using temporary measures, and by March 700,000 workers in Germany were on shorter a week and France expects 330,000 workers to be doing the same by the end of this year. Second, although it won't be at all easy during the recession, greater investment in education and training is going to be essential if European workers are to be better equipped to move into new jobs. For without a pool of sufficiently-qualified people, the next economic upswing won't be sustainable. Third, it will be essential to keep the cost of labour under control if we are to foster job creation and avoid even higher unemployment.

Of course, emergency measures have to be taken to improve the situation, but we must also be aware that this is a crisis that will have a long-lasting impact. Whole business sectors and industries are likely to be profoundly changed by it. Workers will be forced to leave shrinking industries and move into jobs in sectors with greater growth potential. So the crisis is set to reinforce the need to rapidly implement the so-called flexicurity approach. A year and a half ago, in December 2007, EU leaders adopted some common flexicurity principles to improve both job flexibility and security. Now the time has come to act on these, because the conclusions of the European social partners' joint labour market analysis in October 2007 are today more relevant than ever. Flexicurity offers a way of facilitating transitions in the labour market.

The past few years were marked by a resistance to change that considerably slowed much-needed labour market reform. So the current crisis should be seen as an opportunity to demonstrate how effective flexicurity can be.

Job-friendly social protection systems and investment in lifelong learning are key ingredients in enhancing flexibility and making our labour markets function better. It's going to be the EU countries that

in vain so far, for "quality jobs", and it's an idea that needs to be persisted with.

Ernest Seillière is right to say that investing in the retraining of Europe's workforces is an essential first step towards economic recovery. I couldn't agree more but national and community political commitments at either national or EU level are still lacking. It was especially shocking that member states cancelled a special European Council meeting on employment that had been due to take place in May. The last time the Council considered the idea of a jobs pact was back in 1997.

The key question is the EU's future economic performance and how it will affect working people. Although Seillière is rightly critical of the results of the Lisbon strategy, he accepts its principles and method. I disagree with him, and have told him so. The Union's strategy needs more than an update expressed in a flight of rhetoric. If we are to achieve worthwhile reform we first need to have a wide-ranging pan-European public debate.

Like Ernest Seillière, we at Confrontations Europe are putting forward proposals to use this downturn in economic activity to train staff for tomorrow's jobs, and we believe they are more ambitious and face realities better than Seillière's. We're calling on employers to commit to a far-reaching review of their social responsibilities. They need to anticipate the re-structurings that lie ahead and discuss their strategies with their social partners to create more and better jobs, while also co-operating with institutions to manage transitional arrangements for their employees. Most small and medium enterprises (SMEs) should be included in these arrangements.

implement these policies that will emerge stronger from the crisis. Just as companies can help speed the way to Europe's economic recovery by retaining their human capital and further developing skills, public authorities and trade unions also share responsibility for addressing the crisis. Social partners have an important role to play in designing and implementing effective responses, and we all know from experience that constructive social dialogue can ensure that both companies and workers will suffer less in a crisis. That's why the European social partners – BUSINESSEUROPE with the European Association of Craft, Small and Medium-sized Enterprises (UEAPME), the European Centre of Employers and Enterprises providing Public services (CEEP) and the European Trade Union Confederation (ETUC) – have agreed on a new Social Dialogue Work Programme for 2009-2010. By negotiating an agreement on inclusive labour markets, monitoring the implementation of the common principles of flexicurity, drafting a joint opinion on the post-2010 Lisbon strategy, we hope to make a real contribution to overhauling Europe's labour markets and making them more efficient.

We Europeans have to view the crisis as an opportunity to move ahead with structural reforms, and improve our competitiveness in the global market place. If we can do this, the EU will come out of the crisis stronger and better prepared to seize the opportunities the global economy offers.

Ernest-Antoine Seillière is President of BUSINESSEUROPE, the Brussels-based European association of industries and employers.

COMMENTARY

Philippe Herzog

The EU will have to take special responsibility for cross-border re-structurings, and must also encourage companies to play their part in stimulating the economic recovery of regions hit by plant closures. EU industries are badly hit and competition will grow, but we need to devise industrial policies that prepare a sustainable recovery and promote long term investment.

The EU's member states must engage in a massive training programme; The Lisbon strategy's call for "excellence" overlooked the fact that there is now an army of industrial workers who need to be retrained in such skills as new digital technologies. Instead, it sentenced unqualified workers, chiefly in the services sector, to remain as unskilled as ever. At a political level, we have to put education and training on top of the agenda, put an end to corporatism and bureaucratic barriers and accept that there is an understandable reluctance among some employees to sign up for training courses when they know that in the past they have frequently heralded job losses.

The EU is going to have to devise attractive incentives for companies to undertake lasting social investments, and that in turn means reforming the structural funds. The Commission currently makes its recommendations to member states, but doesn't follow up on how the money is used. Brussels needs to get much more involved on the ground, even if that means a member government may object to being closely monitored.

Philippe Herzog is the Director of Paris-based Confrontations Europe. pherzog@confrontations.org.

Edmond Alphandéry
President of the Supervisory Board of CNP Assurances and a former French Minister of the Economy

"It's up to Europe to set a global example of concertation"

What is most needed is concertation, cohesion and decision-taking at a global level. The European Union must set an example on the four topics that are high on the G20 agenda.

The banking sector's toxic assets. This issue will only be solved by isolating them from the banks' balance sheets. Massive loans are needed to buy these assets and public funds are also required for recapitalisation. The EU must be associated with national clean-ups because cross-border banking has created a transnational dimension and to apply the competition rules. I therefore strongly support the idea of a bond issuing EU stability fund (Gros and Micossi, *Europe's World*, Spring 2009).

Eastern and Central Europe: An even deeper crisis in the new member states could have major consequences for all the EU. The proposal by Franz Nauschnigg of the Austrian National Bank for the eurozone to create a counter-cyclical facility and for the launch of an EU facility for balance of payments and macro-financial assistance, deserves serious examination.

Macro-economic coordination: A failure of global coordination is at the heart of global imbalances, so what is now needed is a reallocation of demand from countries with current account deficits (mainly the U.S.) to those with structural surplus like China, Japan and Germany. And as the EU has a similar problem with France, Italy and Spain in deficit and Ireland or Greece at risk of insolvency. The EU therefore needs a political framework to enforce macro-economic discipline and tackle intra-European imbalances.

Regulatory reform : The de Larosière group's proposals for allocating tasks and responsibilities in regulation and supervision between national and European levels should be fully adopted so as to become operative as soon as possible.

This crisis offers the EU a major opportunity to reinforce its institutions and to emerge all the stronger.

Jerzy Buzek
Member of the European Parliament's Committee on Industry, Research and Energy and a former Polish Prime Minister

"Let's return to the grassroots and base growth on savings and productivity"

Europe needs to get back to the grassroots of its market economy and base its economic growth on savings and productivity. EU governments should be careful about the future effects of their actions. By lowering interest rates and injecting money into the economy, governments can, to some extent, tackle current problems, yet in the long term these actions can have the negative effect of risking high inflation, heavy debt servicing cost and therefore substantially increased taxes.

What we need is to recreate the sort of institutional framework that will ensure confidence in the system. Markets have to be based on principles of transparency and have a regulatory framework that is understood by all. Instead of being at the heart of the economy, the financial sector ought to be ancillary to the real economy.

This crisis may yet turn out to have a beneficial side, in that it makes us understand that a business may be worth more than the price of its stock. We have to encourage a new philosophy of financial rewards that is not based on short-term gain but on sustained growth and long-term contributions to the economy.

Mark Eyskens

Former Prime Minister of Belgium

"My 10-point rulebook for the globalised economy"

- There is no need for a return to state collectivism, but collective decisionmaking should be as international as possible with a maximum level of transnational cooperation.
- Governments and political parties should advocate and organise a new complementarity of market and public authorities. Modern societies are in search of "co-opetition", an intelligent mix of cooperation and innovative competition
- More legislation is needed to monitor and control the financial sector, but it should avoid cross border regulatory arbitration.
- Protectionism in all its forms must be resisted worldwide.
- More Europe is needed, i.e. by the approval of the Lisbon treaty and strengthening of EMU. The United Kingdom should be allowed to join the EU's monetary union while keeping the pound trough the creation of a Euro-Sterling zone.
- Closer cooperation between multilateral agencies is highly desirable: IMF, World Bank, WTO, G20, Eurogroup, leading towards a Bretton Woods II.
- In the short run the banking system should be stabilised by means of: government loans, state guarantee, the creation of a "bad bank' and temporary nationalisations. Savings banks should be separated from risky investment funds and central banks should apply negative interest rates on the incoming liquidities of commercial banks to encourage them to maintain inter-banking credit flows.
- Keynesian recovery measures are called for, but governments should watch out for possible strong inflation, increases of public debt and huge budget deficits, all of which are incompatible with financing Europe's ageing population.
- Considerable promotion and encouragement are needed for research and development, clean energy, environment, infrastructure, education and healthcare.
- More ethical behaviour has to be promoted in business and financial decisionmaking. Let us fear our own fear. Apprehension with respect to apprehension is now required. We must believe in hope. Please neither pessimism nor naive optimism, knowing moreover that an optimist often happens to be a wrongly informed pessimist. I am advocating meliorism, based on the firm conviction that people and things can be ameliorated.

Franz Fischler

Chairman of Ecosocial Forum Europe and a former EU Farm Commissioner

"What we need first and foremost is a change in public consciousness"

Sustainability and global justice must form the central pillars of a new approach to global governance. Financial markets and the international economy need considerably more transparency and clearer rules, but a noticeable "change" in our collective social consciousness will also be needed to make the economy sustainable. In a globalised world, common problems like climate change, hunger and unequal allocation of goods can only be solved by common actions. The market economy, social justice and a workable interaction between the environment and scarce natural resources are equally essential. But first a change in the public consciousness is essential.

The G20 must manage to regulate financial markets, close down tax havens and make short-term speculative transactions less profitable by introducing a transaction levy. We also need an agreement in Copenhagen at the end of this year on a just climate policy with a worldwide CO_2 market. Trade rules need to be strengthened and made fairer to developing countries if they are to catch up with the developed world. They therefore deserve temporary social und differential treatment in trade, and much greater financial support to combat hunger and make their economies grow in a more sustainable way than industrial countries.

Nicole Gnesotto

Senior research fellow at the Institut français des Relations Internationales (IFRI) and former Director of the EU's Paris-based Institute for Security Studies (2002-2007)

"We need a new global political deal now the West is no longer master of the world"

A new architecture for a globalised economy cannot be built without a political dimension. Globalisation is not a phenomenon restricted to the economic sphere because it affects all aspects of international relations, including the trends, factors and actors of the post-Cold War order. The same principles seem unavoidable in both the economic and the political spheres; the world needs more solidarity, more justice, a greater sharing of power and more legitimacy. China and India, along with other emerging powers need a greater say in the decision-making of international institutions, be it the UN or the IMF. They have to be actively involved in the writing of any new rulebook, as the West is no longer the master of the world.

Bela Kádár

Former Hungarian Minister for Foreign Economic Affairs

"To save the market economy and democracy, governance has to step in where corporations ruled and markets failed"

The nature of this crisis is that it includes not only financial and cyclical roots but that it also reflects institutional and value differences. A sound international system that aspires to run and strengthen a market economy as well as a political democracy has to be based on institutional checks and balances.

During the past three decades, increasing imbalances and asymmetries have emerged in our international power structures. The global economy has become dominated by large transnational corporations, and in the absence of global political governance and control mechanisms, unfair and irresponsible business practices have gained ground and led to the crisis we all face.

The inadequacy of our capacity to respond to global challenges, and even to correctly diagnose the crisis, suggests the therapy. If we wish to save both the market economy and democracy, governance has to step in where corporations ruled but markets failed. Regulation, supervision and auditing at global, regional and national levels all have to be strengthened and given teeth; international co-operation has to be intensified, particularly when determining financial, trade and cyclical policies.

Noëlle Lenoir

President of HEC's European Institute and the "Cercle des Européens" and a former French Minister of European Affairs

"My five courses of action"

Three words encapsulate my view of the way forward: transparency, supervision and ethics. They mean that we need to take five clear-cut courses of action:

- We must ensure global oversight of financial markets and their functioning so that their virtual nature can no longer lead to systemic crisis. Whatever institution is responsible for this, it must be a public entity set up by the international community.

- We have to make sure that banks' balance sheets reflect the reality of their financial commitments, instead of allowing the externalisation of their liabilities.
- We must set up a global supervisory system based on a network of national bodies.
- Tax havens have to be eliminated so that states have the resources and financial strengths needed to play their role at national and international levels.
- We need to seek to increase the profits for all stakeholders in a business, whether they be owners, managers or employees, because ultimately they are all consumers.

John Monks

General Secretary of the European Trade Union Confederation

"The financial markets are where the re-building must start"

This crisis originated in the behaviour of financial markets and that is where the rebuilding must start. I would favour banks having to keep a higher ratio of assets, an end to off-balance sheet transactions like hedge fund operations, and a return to distinctions between retail and investment banking and insurance.

The whole scam of derivatives and the selling on of debts also needs urgent attention. If you have taken out a loan with a bank, you do not want to have it sold on to "A Spiv & Son, Vulture Fund Specialist", who will steal your asset and close you down.

Poul Nyrup Rasmussen

President of the Party of European Socialists and a former Primer Minister of Denmark

"The EU must pull its weight and demonstrate real leadership"

The key is to make globalisation fairer and more sustainable. We in the Party of European Socialists argue that this requires us to work together at a global level to coordinate simultaneous investments in smart green growth and jobs, to complete the Doha Development Round, and to achieve the UN's Millennium Development Goals and the ILO's Decent Work Agenda.

Global financial institutions need to be subject to greater democratic scrutiny, and just as the IMF's resources are being strengthened so should new financing instruments be developed to keep developing countries' inward investment, aid and trade levels.

New instruments are also needed to regulate all financial players and to put an end to tax havens, and these measures should include new obligations to disclose assets, remuneration, regulation and risk, limits on excess debt financing and new capital requirements. To make these bold goals a reality, the European Union must pull its weight and demonstrate real leadership.

Klaus Regling

Fellow at the Lee Kuan Yew School of Public Policy and a former Director General for Economic and Monetary Affairs at the European Commission

"Better regulation and supervision, and the greater legitimacy of international financial institutions"

The key objectives must be to avoid the excessive build-up of leverage and risk, and to reduce the system's pro-cyclicality. In the first place, this requires the following changes in regulation, supervision and policies

- All financial markets, products

and participants must be subject to regulation or oversight.
- Financial market transparency must be enhanced through comprehensive disclosure requirements for systemic, cross-border financial institutions, and for complex financial products.
- Regulatory capital requirements for activities not previously covered, for liquidity risks, and during economic upswings must be increased.
- International cooperation among supervisors in crisis prevention, management and resolution has to be improved.
- Incentive structures that encourage excessive short-term risk taking have to be changed.
- Macro financial stability should become an additional, complementary focus for banking supervision with a stronger involvement of central banks.
- Fiscal and monetary policies need to play a larger role in reducing the pro-cyclicality of the system.

As for institutional changes, the legitimacy of international financial institutions must be strengthened by giving major emerging market economies a larger weight in decision-making. These countries should also become full members in global fora and standard-setting bodies. European representation in them should be streamlined. □

Onno Ruding

Chairman of the CEPS Board of Directors and a former Dutch finance minister

"Implement de Larosière and then consider further reform"

We are in the midst of a very serious financial crisis and must act now. No new architecture or rulebook can beat this crisis, and each country should actively contribute to managing and resolving it, domestically and through close international cooperation, in Europe and at a global level. Any measure to fight the crisis must resist protectionism, which would be particularly harmful in Europe as this would endanger the Single Market. International action should be coordinated within the framework of existing multilateral institutions.

We must all work at developing new or amended architecture to prevent a next crisis. This would not necessarily require new rules; frequently the improvement of existing regulations, coupled with closer supervision of their implementation, is called for.

For financial institutions and markets, the de Larosière-Committee report offers a wealth of analysis and recommendations to improve this regulation and supervision. I hope EU member countries realise that these ambitious yet realistic recommendations are appropriate and needed and that they deserve support. Once implemented, we should consider whether further steps towards reform are required. □

André Sapir

Senior Fellow at the Bruegel think tank in Brussels and author of the Sapir Report on the economy of the European Union (2003)

"Restoring the health of banking is no longer a financial problem but a political one"

Beating the financial crisis means first and foremost restoring the health of the banking sector by sorting bad assets and recapitalising it. This is no longer an economic or financial problem but rather a political one because it demands decisions affecting the opposing interests of bank shareholders, bondholders and managers, to say nothing of taxpayers. In some instances the decision will be temporary bank nationalisations so as to protect the interest of taxpayers.

Preventing another crisis means strengthening macro-prudential supervision and regulation along the lines that had been suggested for many years by the Basle-based Bank for International Settlement (BIS), and more recently by the de Larosière Group's report to the European Commission.

Tøger Seidenfaden

Editor in Chief of the Danish daily newspaper *Politiken*

"We urgently need much stronger international institutions"

What will beat this crisis and what will prevent another are two very different questions, both intellectually and politically.

In terms of crisis-prevention, the answer to the first question seems much more urgent than the second. There are many things in the financial rule-book that ought to be fixed – including extreme short-termism in rewards, off-balance-sheet vehicles that make a mockery of solvency requirements, lack of transparency in bizarre derivate-markets and so on. As the next crisis will be different, these steps will not in themselves prevent future, unpredictable follies.

What is urgently required to alleviate the present crisis, and strengthen our defences against prolonged and future storms, is the creation of much stronger international institutions with the capacity to act globally and collectively. Unfortunately, those who want to act now are not interested in strong institutions, and those who are interested in strong institutions don't want to act now. The result being that the crisis will most likely be long and deep.

Constantine Simitis

Prime Minister of Greece from 1996-2004

"Fiscal stimuli, yes. But social goals are also crucial"

Capital markets and the financial sector must come under uniform regulatory control, both within countries and internationally. A common set of regulatory standards must be imposed so that a global market is subjected to global requirements. Global standards favour the creation of world enforcement authorities, a much needed form of international governance. The IMF has been such an authority but only for weak countries and not strong countries like the U.S. that over-borrow.

Existing world organisations must be politically realigned: their charters must empower developing countries and their mandates should focus on recovery under a regime that encourages development with a reduction of inequality. Why not tax international capital gains in favour of a world stability fund? Why not agree internationally that interest on corporate debt not be "tax-expensed" after a certain limit? Taxing financial profits to build stability reserves could be the road to a stable new global order.

The crisis imposes fiscal expansion, as only states are able to create demand. Fiscal expansion will increase world public debt but this could lead to inflation as recovery takes off, thus crippling it. Fiscal expansion must therefore be geared towards investment that fuels growth. National investment is not enough, so international public goods should become a priority. International infrastructures have a network aspect: environmental protection, global health care, global education, energy management and distribution, security of transport and data transfers are examples.

Recovery and stability are not just economic goals but underlie an urgent social agenda. Regulation should be oriented towards maintaining stability and decreasing inequality. If states, along with the private sector, are again to become important managers of social surplus, they must reform themselves, with transparency, democratic accountability and codes of conduct for public management of social goods making up the elements of a "reform for recovery".

Loukas Tsoukalis

President of the Hellenic Foundation for European & Foreign Policy (ELIAMEP)

"To be a major player on the new global architecture, Europe must end its IMF over-representation"

Europe wants to be a major player in the negotiations for a new global financial architecture. This will have to involve a stronger and reformed IMF with a substantial redistribution of power in its governance structure. We know that European countries are grossly over-represented at the IMF executive board, while intra-EU coordination leaves much to be desired.

The gains from a single representation of EU countries, or more realistically of the eurozone, are obvious: a clear message of European unity to the rest of the world, stronger collective influence of Europeans in international finance compatible with a re-weighting of votes in favour of the large emerging economies.

Apart from a few well-paid jobs and remaining illusions of national sovereignty and prestige, the losses are more difficult to identify for countries with a common currency. Are we Europeans ready to put our votes where our mouth is?

Alvaro de Vasconcelos

Director of the European Union Institute for Security Studies (EU-ISS)

"Now it's the West that needs the Rest"

The G20 London meeting in April symbolised the end of an era. Now the West needs the Rest. But the emerging powers won't be able to participate effectively in the new order until they get fair representation. As a forum, the G20 isn't up to the job of providing guidance and orientation when the world is in the tails of global turmoil. It doesn't have the institutions to ensure continuity, and most important of all, it lacks the capacity to implement and enforce decisions.

G20 is just the first step in a process that will demand of the Western powers much more painful ones. They will need to share with the new global powers control of international organisations like the IMF. New multilateral organisations based on the WTO model will be needed to regulate international finance.

All of which means an opportunity now exists to rebuild the foundations of the multilateral system. But if this opportunity isn't seized, there is a real danger that the trend towards bilateralism and *ad hoc* groups such as a G2 tandem of the U.S. and China and nationalist fragmentations arising from power politics, will prevail.

George Vassiliou

Former President of the Republic of Cyprus

"How to beat this crisis and head-off another"

The first task to address immediately is that of 'toxic assets'. Even if this requires the nationalisation of a substantial number of banks governments shouldn't hesitate to do so. Nationalisation is the only fair policy. Instead of lending or giving money to banks, by selling them bank shares once recovery begins, governments can recoup their taxpayers' money.

Looking to the future, if the financial system is to function well we need our markets to have a social dimension. To avoid repetition of this crisis we must:

- Introduce an effective system of global supervision of the financial sector in its widest definition.
- Put an end to banking secrecy and tax paradises.
- Conclude and implement the Doha Round of world trade liberalisations, and thus defend globalisation.

Nicolas Véron

Research Fellow at the Bruegel think tank in Brussels

"Institutional innovation, not streamlining, is today's priority"

No perfect global institutional architecture can exist in our imperfect and largely undemocratic world. "All politics is local" while "all economics is global". There is a fundamental trade-off between legitimacy, conferred by long-established national political systems, and efficiency, which transcends borders. "Creating new institutions that will better balance the requirements of legitimacy and effectiveness will be the prime task for the coming generation", as Francis Fukuyama put it back in 2006.

The idea of having the IMF or FSB or any other three-letter-acronym as the coordinator of all global action is a pipedream. The G20, or a similar group of heads of government, is way too large and diverse to run everything itself. All it can and should do is endorse specialised institutions, fill the gaps between them, arbitrate turf conflicts, and when necessary push for reforms of their governance. Let's hope the next decade is remembered as a time of exceptional institutional innovation, like the late 1940s. Streamlining is not today's priority.

Sir Stephen Wall

EU Adviser to Prime Minister Tony Blair and former UK Permanent Representative to the EU

"We need a eurozone regulatory structure, and if Britain wants a role it must manage its eurozone entry"

The credit crunch is global in its reach, but its cause lies in the United States and Europe, especially Britain, and its cure has be found in Europe and the U.S. A global understanding of the issues and an agreement on a framework to handle them better will help and the G20 will play its part. But it will probably be a modest part.

For years, Britain touted its model of financial governance as the example for the rest of Europe and the world, and in the face of the UK's apparent success, the rest of the EU had no answer that could not be dismissed as bureaucratic regulation. Now, we need EU wide rules and a single regulatory structure within a single currency. If Britain wants to play a leading role in this new management, then it needs to manage its own entry into the eurozone.