Europe must plan a reform, not a pact

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The next two weeks will reveal whether European Union leaders have the stomach to address Europe's underlying economic problems. Some member states remain outside the eurozone, but even they are not insulated against the risks of unco-ordinated growth strategies. The last time EU leaders met, in early February, a Franco-German proposal for a competitiveness pact was thrust upon them. It received short shrift from many around the table, as much for the indelicate manner of its presentation as for its content. Now an alternative is needed.

The French and German governments were right to note that Europe needs more effective economic governance. It just requires leaders to agree on the areas to include and the means to achieve it. And therein lies the rub. There are a variety of economic models across the EU from Scandinavia to the Mediterranean, and including both low tax, high consumption economies and high tax, low consumption economies. Finding a formula that works for all is no easy matter. But that task should be the preserve of the European Commission, not a cabal of two or three countries imposing a model on the rest.

The Franco-German proposal was also based on an intergovernmental model of peer pressure that has proved repeatedly ineffective. It lacks the discipline and impartial adjudication to deliver results. Both the Lisbon strategy for growth and the stability and growth pact failed to live up to expectations, because member states are reluctant to sanction each other. Instead, the Commission was envisaged 60 years ago to oversee and enforce commonly agreed decisions. This is the key to addressing our current crisis.
Instead of the competitiveness pact, EU leaders should adopt a "Community Act" for economic convergence and governance. This would aim to push forward in the most vital economic fields where closer alignment and co-ordination is needed. These should include pension reform, wage levels, corporate taxation rates, research and development, and investment in transport, telecommunications and energy infrastructure.

Given the diversity among Europe's economies we do not envisage a one-size-fits-all policy. Rather, we need a clear and united path to convergence on an agreed set of policy measures. Presenting proposals to this end should be the task of the Commission, after a strengthened social dialogue at the European level with trade unions and corporate organisations.

For each proposed measure the Commission should establish – with the agreement of the member states and the European Parliament – a range of standards or goals, within which member states are expected to converge by a given date. Central to this process would be aims to approximate both the retirement age and to develop a common corporate tax base. The same would be true of R&D investment levels, and wage to productivity ratios.

Progress would have to be regularly monitored, again by the Commission, which should have the power to apply pressure (and ultimately sanctions) for non-compliance, just as it does for breaches of competition rules or infringements of internal market legislation. To manage this process the Commission should also create a new cluster of commissioners whose portfolios focus on economic governance and competitiveness. This group should then take a stronger lead in bringing direction and momentum to a policy area that is currently lacking.

The EU must get a grip on the issue of economic governance. It is not solely a matter of restoring liquidity and confidence in the banking sector, but of laying the foundations for a new economic model that will give Europe a global competitive edge. It is clear that Europe needs a common and concerted plan of action for growth based on a high degree of consensus if it is to surmount the considerable challenges its economies will face in the years ahead.

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