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03/13/03 11:20 AM

To: N.Themelis@primeminister.gr
cc: antonio.manuel.guterres@cgd.pt
Subject: urgent

Dear Nicolaous,
I attach the second paper which earlier was titled Financial Instruments and Guidelines, but now is more concerned with a social investment led recovery programme funded by EIB Euro Bonds.
The Alternative Traffic in Towns project launched by the British Presidency includes Athens and Thessalonika. I shall send a one page list of its cities later. Commissioners and ministers support it but none of the present micro projects of the Framework Programmes can accomodate it.
A further paper on Innovation Agreements, which I drafted for the Lisbon Council, follows shortly.
Best regards
Stuart Holland

- Finance, Recovery and Cohesion 12 March 03.doc

Financial Instruments, Economic Recovery and Social Cohesion

1. Treaty and Council Decisions and European Recovery

The Presidency of the European Council –

In view of:

- the commitment of the Single European Act to the twin pillars of the Internal Market and Economic and Social Cohesion;

- the aim of the 1993 Commission White Paper on Growth, Competitiveness, Employment to create 15 million jobs;

- the call by the Prime Ministers of the UK and Portugal in February for an action programme to create 15 millions jobs within ten years;

- the commitment of the Lisbon European Council to promote innovation, improve competitiveness and assure full employment;

- the reality that technical progress and efficiency gains in the economic sphere does not assure an increase in overall employment;

- the therefore justified call of the Essen European Council to increase labour intensive employment in the social sphere;

- the Amsterdam Special Action Programme and the Luxembourg Council decision that the European Investment Bank should issue Euro Bonds to finance investment in the social spheres of health, education, urban renewal and urban environment;

- the agreement by the Luxembourg Council that the EIB should set specific targets for increased investment in these spheres,

- the proven experience of the EIB in funding these and other investment projects in transport and environment infrastructure;

- the institutional status of the EIB as the as the principal borrowing and investment agency of the Union since 1958;

- the scale of EIB operations, which are larger than those of the World Bank;

- the pre-eminent credit rating of the EIB in view of its status, scale and operational success;

- the reality that borrowing by most member states from the EIB is not counted by them against national debt on the grounds of such proven creditworthiness;

- the under-recognised parallel in this regard with US Treasury Bonds which do not count against the borrowing and debt of member states of the US;

- the fact that the debt of several member states as a share of their national GDP still exceeds the 60% provisions for a single currency;

- the contrast with the debt of the Union as a whole which, in terms of the borrowings of the EIB, is less than 1% of Union GDP;

- the manner in which the US administration during the 1930's financed the recovery programme of the New Deal by the issue of bonds rather than by increasing taxation which would have further depressed its economy:

- the success with which the issue of such bonds shifted the high savings typical of low growth into labour creating and socially useful employment;

- the reality that Europe is faced with high unemployment and a recession which threatens both further employment and economic and social cohesion;

- the case that the current recession is includes Europe, the US and Japan, and threatens also recession and unemployment in other countries;

- the high levels of unemployment in some of the Accession States;

- the imperative of assuring the peoples of the Accession states that voting for accession is not voting for austerity;

- the lack of venture capital finance for employment generation through small and medium firms in many of the Accession states;

- the Maastricht Treaty provision that the deficits of member states should not exceed 3% of GDP;

- the regard of member states which have observed such budgetary limits to ensure that they are not exceeded by other member states;

- the recovery and rise in value of the Euro against other currencies;

- the stability of prices throughout the Union;

- the main risk to economic and social cohesion in the Union now being deflation rather than inflation;

- concern with current pressures on the dollar that the Euro may become over-valued and reduce the competitiveness of European firms in exports to the rest of the world;

- the scale of the success of the Internal Market in that some 95% of member states' trade is with other members of the Union;

- the consequence that Europe needs to pursue its own recovery programme when external market trade and demand growth in the other countries is low;

- the gains to the rest of the world economy in the event that a European Recovery Programme should change the Union's current surplus with other countries into a deficit with such countries;

- the improbability of such a recovery programme leading to a significant depreciation of the Euro;

- the offsetting gain in the event of a Euro depreciation the global competitiveness of European exporters will be increased;

- the Treaty provision that member states shall conduct their economic policies with a view to the achievement of a high level of employment and social protection (article 2)

- the provision of article 99.2 (ex 103.2) that the Council shall formulate a draft strategy for the broad guidelines of the economic policies of the member states and of the Union'.

2. Broad Economic Guidelines

Recommends that the European Council should adopt the following broad economic guidelines:

The re-confirmation of the 15 millions jobs target of the Delors 1993 White Paper on Growth, Competitiveness, Employment to be achieved by:

1. increased investment in health, education, urban renewal and urban environment (Amsterdam Special Action Programme) as well as the trans-european transport and communication networks, to be financed by the EIB through enhanced issues of Euro Bonds;

2. more labour intensive employment in the social sphere (Essen Council) thereby enabling fulfilment of a European Social Agenda (Nice Council) by increasing employees in health care, reducing class size and gaining more individualised teaching, improved social services to the young and the elderly, and more intensive policies for combating social exclusion such as personalised life skill assessment and customised training (Lisbon Council and ECIL);

3. innovative methods of work organisation and more flexible work practices negotiated by the Social Partners through Innovation Agreements, including the right to career planning, skill extension and a better reconciliation of individual work time and non-work time (Lisbon Council);

4. more extensive Union venture capital for small and medium firms through the European Investment Fund, including expansion of its facilities and more direct operations in all member states including the Accession countries;

5. Union funding to assist success for city based initiatives such as the Alternative Traffic in Towns environment project, already supported by half the EU capitals and 100 other cities in the Union and Accession states (British Presidency).

3. Presidency Conclusions

Recommends also that the Presidency Conclusions should inform debate both in the Union's institutions and the wider public by highlighting:

- the degree to which a sustained European Recovery Programme requires both competitiveness and demand generated by increased investment;

- that the key areas for an cohesion based and investment led recovery are health, education, urban renewal and urban environment (Amsterdam and Luxembourg Councils);

- that such a recovery led by social investment can enhance both the success and scale of the Internal Market and Economic and Social Cohesion (Single European Act) by expanding mutual income and trade, increasing public revenues and restoring growth to the Growth and Stability Pact;

- that Innovation Agreements negotiated by the Social Partners (Lisbon Council) can achieve flexible methods of work organisation and competitiveness by consent in the private sector and continuous improvement in public administration and the social sphere, thereby also fulfilling the call of the Lisbon Council for 'a dynamic welfare state';

- that the negotiation of Innovation Agreements as combining efficiency and reinforced individual rights represents a central challenge to the Social Partners to which they are invited to respond and advance;

- that these policies are not a device to respond to current pressures but the outcome of a decade of design and decision (Delors White Paper, 1993; Essen, Amsterdam, Luxembourg and Lisbon European Councils);

- that the relevant Union institutions and instruments for a cohesion based and investment led recovery are already in place;

- that the key institution to finance recovery is the Union's own investment bank, the EIB, and its key instrument Euro Bonds;

- the fact that most member states already do not count EIB borrowing on their national debt;

- the precedent in this regard of US Treasury Bonds which do not count on the debt of US States;

- that, as with the major issue of US Treasury Bonds to fund the New Deal, enhanced issue of Euro Bonds can finance a European Recovery Programme without increasing taxation or contributions from own resources;

- that Euro Bonds bought by financial intermediaries, and in particular pension funds, increase the security and earnings from guaranteed interest on such borrowing and generate retirement income on savings for an ageing population;

- that the areas of health, education, urban renewal and urban environment decided for EIB social investment programmes (Amsterdam and Luxembourg Councils) represent the major share of current borrowing, investment and expenditure of national governments;

- that transferring a share of net investment in these areas to EIB borrowing would enable EU member states more readily to fulfil 3% per deficit rules over an economic cycle by reducing national debt serving costs on the borrowing for such investment while releasing a higher share of national budgets to finance more labour intensive employment in he social sphere.

Recommends also that:

on the basis of the precedent and success of issue of US Treasury Bonds, the role of the Euro Bonds issued by the EIB should feature centrally in the new Constitution for Europe.

End

Note: ECIL – European Certificate of Informal Learning