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Special Committee on the Financial, Economic and Social Crisis

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DRAFT REPORT

on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report)
(2009/2182(INI))

Special Committee on the Financial, Economic and Social Crisis

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report)
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The European Parliament,

– having regard to its decision of 7 October 2009 on setting up a special committee on the financial, economic and social crisis, and its powers, numerical composition and term of office, adopted under Rule 184 of its Rules of Procedure,

– having regard to the conclusions of the public hearings, of the discussions on the working documents and exchanges of views with high-level personalities, and of the delegation visits made by Parliament's special committee on the financial, economic and social crisis,

– having regard to the Treaty of Lisbon, amending the Treaty on European Union and the Treaty establishing the European Community,

– having regard to the declarations of the G20 summits,

– having regard to the reports by the IMF, the World Bank, the Bank for International Settlements, the OECD and the ILO,

– having regard to the recommendations by the High-Level Group on financial supervision chaired by Mr Jacques de Larosière,

– having regard to the Presidency Conclusions of the Brussels European Council of 8-9 March 2007, and of subsequent European Councils,

– having regard to the declarations by the Heads of State or Government of the European Union of 11 February 2010 and 25 March 2010,

– having regard to its resolution of 18 November 2008 on the EMU@10: The first 10 years of Economic and Monetary Union and future challenges[1],

– having regard to its resolution of 11 March 2009 on a European Economic Recovery Plan[2],

– having regard to its resolution of 17 December 2009 on the amended proposal for a decision of the European Parliament and of the Council amending the Interinstitutional Agreement of 17 May 2006 on budgetary discipline and sound financial management as regards the multiannual financial framework - Financing projects in the field of energy in the context of the European Economic Recovery Plan[3],

[1] OJ C 16E, 22.1.2010, p. 8.
[2] Texts adopted, P6_TA(2009)0123.
[3] Texts adopted, P7_TA-PROV(2009)0114, A7-0085/2009.

– having regard to its legislative resolution of 25 February 2010 on the proposal for a Council regulation concerning the notification to the Commission of investment projects in energy infrastructure within the European Community and repealing Regulation (EC) No 736/96[1],

– having regard to its resolution of 10 March 2010 on financial transaction taxes – making them work[2],

– having regard to its resolution of 25 March 2010 on the Report on the 2009 Annual Statement on the Euro Area and Public Finances[3],

– having regard to its resolution of 25 March 2010 on the ECB Annual Report 2008[4],

– having regard to its legislative resolution of 10 February 2010 on the proposal for a Council directive on administrative cooperation in the field of taxation[5],

– having regard to Rule 48 of its Rules of Procedure,

– having regard to the report of the Special Committee on the Financial, Economic and Social Crisis (A7-0000/2010),

A. whereas the financial, economic and social crisis, which occurred in 2008 and from which the world, and Europe in particular, have not emerged, is a severe crisis in the current economic system,

B. whereas this crisis is a serious warning signal about the fragility and vulnerability of this system; whereas there is no guarantee that even more serious crises could not occur in the future unless there is a thorough reform of the system,

C. whereas the crisis is above all a catastrophe for the women and men on the planet that it affects, particularly the most vulnerable sectors of society,

D. whereas the crisis has clearly highlighted all the limits and flaws in the current system, which is characterised by insufficient - and, in some fields, non-existent - regulation, excessive and immoral profit-seeking by a bloated financial sector that has a profoundly destabilising influence which completely contradicts its original function, growing inequalities through income distribution that is increasingly unfavourable to the middle and low-income classes, and a lack of global and European governance that is up to the challenges posed,

E. whereas there is a historic responsibility upon the current political class, and especially its leaders, to fully grasp the implications revealed by the crisis and to draw all the necessary conclusions for a truly visionary reform project,

F. whereas the crisis was revealed on 9 August 2007 by the injection of 94.8 billion euros of liquidity by the European Central Bank following the suspension of SICAV trading, and

[1] Texts adopted, PE_TA-PROV(2010)0034, A7-0016/2010.
[2] Texts adopted, P7_TA-PROV(2010)0056, B7-0133/2010.
[3] Texts adopted, P7_TA-PROV(2010)0072, A7-0031/2010.
[4] Texts adopted, P7_TA-PROV(2010)0090, A7-0010/2010.
[5] Texts adopted, P7_TA-PROV(2010)0013, A7-0006/2010.

became a solvency crisis with the fall of Lehman Brothers on 15 September 2008, triggering a systemic crisis and, in December 2009, a crisis in the eurozone with the revelation that Greece was on the brink of default,

G. whereas in September 2007, some were claiming that the situation was one of a "major market correction",

H. whereas in spring 2008, while the IMF was publishing worrying forecasts about the prospects for growth in the European Union and car sales in Germany fell for the first time in many years in the first quarter of 2008, European leaders continued to deliver speeches aimed at bolstering household confidence on the basis of what they considered to be the quality of the fundamentals of the European economy, even though the Union was seeing growth that fell short of its potential on account of the pressure on wages and the weakness of domestic demand,

I. whereas in July 2008, the ECB raised its benchmark rate to 4.25%,

J. whereas, up until August 2008, there were two financial and economic channels for transmitting the crisis which affected the different parts of the world and the EU Member States in very unequal ways, depending on the level of complexity of their financial markets,

K. whereas, up until August 2008, central bankers had kept control of drip-feeding the financial markets without sufficiently alerting the public authorities about the existence of toxic products on the markets that could alter the nature of the crisis and whereas the injection of liquidity alone could not address the problem,

L. whereas between August 2007 and September 2008, governments allowed central banks to act alone, one of the reasons being not to undermine household confidence, until the crisis became systemic,

M. whereas before this crisis modern capitalism had been given warnings that were misinterpreted or underestimated, such as the crisis in south-east Asia at the end of 1997, the LTCM crisis at the end of 1998 or the stock market crash in 2000, and the bursting of the Internet bubble to be replaced by a property bubble,

I. Main effects of the crisis

1. Notes that the bail-out of the banking sector will have cost countries worldwide 650 billion euros, and the IMF estimates the direct budget cost to be 2.7 % of GDP in the G20 countries, with 17.6 % of GDP actually being mobilised;

2. Notes that this subsidy to the banking sector by taxpayers only represents a tiny part of the costs inflicted on society by the financial crisis while the costs of the recession and the increase in public debt will be substantial with, for example, GDP in the United Kingdom being 10% lower than it would have been without the crisis and, according to the Bank of England, some 60 trillion dollars being lost worldwide;

3. Notes that the public deficit in the European Union rose from 2.3% of GDP in 2008 to 7.5% in 2010, and from 2% to 6.3% in the eurozone according to Eurostat, with the

public debt-to-GDP ratio rising from 61.6% of GDP in 2008 to 80% in 2010 in the European Union and from 69.4% to 78.7% in the eurozone, brushing aside in two years all the efforts at budgetary consolidation made over almost two decades;

4. Notes, at the same time, that growth is projected at 0.7 % in 2010 and that unemployment rose from 7.1% in the Union in 2007 to 9.1% in 2009, and is forecast to reach 10.3% at the end of 2010, amounting to almost 25 million people, almost 8 million of whom will have lost their jobs because of the crisis;

5. Notes that the attacks made on Greece and its problems in financing its debt on the markets reflect a dysfunction of the eurozone and are a serious matter for the eurozone as a whole, including its capacity to get through the recession;

6. Notes that even before the crash, the European Union was experiencing low growth due to domestic demand that fell short of its potential at a time when it was already facing the challenge of an ageing population, and that growth and inflation within the European Union are currently low, whilst unemployment and public debt are high;

7. Notes that the European Union is finding it more difficult than other regions in the world to get out of the crisis, largely on account of inappropriate, insufficient and belated political responses to the crisis and the structural weakness of its governance capacity and that, as a result, there is a risk that the crisis will seriously and permanently weaken its economic, and thus political, position on the world stage;

8. Considers that the full effects of the crisis have not yet been unleashed and that a relapse, as in a W-shaped recession, cannot be ruled out, particularly as regards the unemployment level;

9. Points out that experience has taught us that adjustments in the European economy are generally slower than in the United States and that signs of an upturn in economic activity should therefore be analysed with caution;

10. Notes that a rapid return to policies to balance public finances may result in the dismantling of systems of social protection and public services, even though these have been unanimously welcomed for the role they play as automatic stabilisers in mitigating the crisis, and by sluggish growth over a long period accompanied by persistent unemployment and thus the inexorable erosion of Europe's global competitiveness;

11. Notes the excessive cost of unemployment to society in that the unemployed cannot contribute much to domestic demand and pay less taxes and social security contributions, whilst receiving benefits for a greater or lesser period of time;

12. Notes that on the basis of the figures for 2007, which are the last available and thus date back to before the crisis, there were 30 million working poor in the European Union, and this number has probably risen since then;

13. Notes that the social effects of the crisis are very different depending on the Member State, as whereas the unemployment rate is 10 % on average, in some countries it reaches 20%, escalating to over 40% of young people;

14. Notes that, as with any crisis, this will have a considerable impact on the distribution of wealth that cannot yet be fully appraised but should be anticipated and which, according to the ILO, will lead to poorer income distribution, a wage squeeze and, despite a temporary decline in capital markets, the strengthening or consolidation of non-labour income;

15. Notes that the onset of recession has had a particularly strong impact in certain sectors and has led to restructuring;

16. Notes that this crisis marks the limits of a system of self-regulation and over-reliance on the capacity of markets to assess risks and maintain moral hazard;

17. Considers that the crisis leads to the massive transfer of private debt to public debt;

18. Notes that the cohesion instruments which were supposed to be the Union's tool for responding to the need for convergence have not prevented widening divergences and have not been able to ensure that economies have caught up when they needed to; considers that the crisis has had a knock-on effect on divergences in cohesion within the Union;

19. Notes with concern the impact of the crisis on developing countries, especially the poorest among them;

II. Causes

The transformation of capitalism

20. Notes that the crisis triggered in the United States by the subprime explosion can be traced back to thirty years of upheaval in global balances characterised by the transition from primarily national market economies to an increasingly global market capitalism, the over-financialisation of the economy, the development of new technologies and important financial innovations, the abandonment of the Bretton Woods system, the fall of the Berlin Wall and the fact that the generation that had experienced the 1929 crisis left office;

21. Notes that this transformation has been accompanied by growing inequalities, the concentration of assets and a significant drop in the contribution of wages and salaries to value added, as the IMF calculated in 2007 that the share of wages and salaries in GDP fell in Europe from 73% in 1980 to 64% in 2005 and that between 1998 and 2005 in France, for example, the average salary of 0.01% of the top earners rose by 51%;

22. Considers that these development have led to a crisis of values and ethics;

23. Notes that this has led to the development of a very speculative form of capitalism, particularly in the property sector, which has discouraged other long-term investment, penalised European industry and undermined social cohesion in the European Union and its Member States;

24. Notes that the theory of the virtues of reducing risk associated with the diversification and dispersion of risk, especially through the proliferation of complex off-balance-sheet

products (SPVs, CDOs, CDS, etc.) and securitization arrangements, has led to the development of a parallel (or shadow) banking system which has been found seriously deficient in this crisis; notes that this theory has been widely applied, except by the main investment establishments, which themselves are largely behind this type of thinking about risk;

25. Points out that the financial industry's percentage of the US economy's profits rose from 15% on average over the period from 1948 to 1988 to 25% between 1988 and 1999 and to 30% in 2000;

26. Realises that much attention has focussed on the way in which financial sector remuneration and the enormous growth in finance as a percentage of GDP have both contributed to the fragility of the global economy; both factors raise an underlying issue concerning the huge and persistent gap in profitability between the financial sector and other economic sectors over the last 40 years; in the UK, for instance, the return on bank equity averaged around 7% in 1921-1971 and 20.4% in 1971-2009, while the real return on equity for companies in general has remained around 6%; this hyper-profitability helps explain why finance has grown to assume an increasingly dominant role in the economy – raising issues both of stability and of resource allocation; it also explains how banks have been able to afford remuneration out of line with other sectors;

27. Notes that as a result of this trend, the "financial industry" accounts for a very wide-ranging share of GDP in different countries, averaging 4.5% within the European Union, but rising to 8% in the United Kingdom, 13-14% in Switzerland and 20% in Luxembourg;

28. Considers that the proliferation of conflicts of interest, vested interests and cases of operators who are 'too close to talk' has aggravated the crisis;

29. Notes that, faced with the emergence of global operators, the public authorities (Finance Ministries, regulators and supervisory bodies) yielded to regulatory capture in a system in which users were under-represented, whilst, at the same time, the negotiating power of employees and their representatives inside companies diminished as a result of the new composition of capital and its distribution;

30. Notes that the financial industry invested 4 billion dollars in developing its strategy to influence the United States Congress during the ten years leading up to the crisis;

31. Notes that the asymmetry in information available to financial market operators does not help to re-establish balance in the market but encourages new bubbles;

32. Considers that the crash is not so much the result of a global excess of cheap money as of an excess of poorly invested and poorly distributed money;

33. Notes that the massive reduction in public debt which started at the beginning of the 1990s freed up a substantial amount of liquidity in the form of private savings that were held in banks and were then channelled *en masse* towards other assets; considers that these funds fed, on a very large scale, higher-risk and more speculative forms of investment, as a result of which the reduction in public debt seems to have had a destabilising effect on the economy;

Global imbalance and global governance

34. Notes that after the collapse of the Bretton Woods system, the currency of one country, the United States, became the global reserve currency, creating an exorbitant privilege and installing a contradiction and imbalance between the needs of one country and those of the rest of the world;

35. Notes that America's gross debt in relation to exports of goods and services is 5.38 billion dollars, which puts it between Zambia (5.3) and Malawi (5.84)[1] in the world ranking;

36. Notes that the USA's expansionist monetary policy, that extended beyond its needs to support economic activity, encouraged an excess of liquidity in search of high returns and the development of domestic demand based on consumer credit and thus household debt;

37. Notes that the salary squeeze linked to the development of high-yield short-term investments outside the United States, the laxity of the mechanisms for monitoring financial market operators and the assumption of growth in property prices led to the development of a "subprime" mechanism and the granting of mortgages under very onerous conditions to people who, given their ability to repay these loans, did not have access to normal market conditions;

38. Notes the massive purchase of US Treasury bonds by the Chinese authorities linked to low domestic redistribution and the development, throughout the Asian region, of strong savings following the 1997 crisis and the radical intervention of the IMF; notes that the transfer of capital from an emerging country to one of the world's richest economies led to a drop in US interest rates, despite FED policy, and a decline in vigilance regarding risk;

39. Considers that the abundance of liquidity encouraged the formation of a property bubble in the United States; notes that this abundance combined with patchy and ineffective supervision based largely on trust led to the development of a shadow banking system;

40. Condemns the role played by tax, regulatory or money-laundering havens with regard to the amounts diverted away from redistribution and solidarity schemes and in hosting toxic and complex financial products;

41. Notes that globalisation has developed without the emergence or parallel evolution of global governance structures to accompany market integration, especially as regards global balances or imbalances and financial markets;

42. Notes that the links between the institutions born in the aftermath of the Second World War and those that came later are not strong enough to organise arbitrage on currency, exchange and trade issues, as well as on social and environmental matters, which has allowed global imbalances to develop without being arbitrated and without any operational early warning mechanisms;

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[1] See: *The Economist world figures*, quoted by Jacques Mistral in Revue d'économie financière, January 2010.

43. Notes that when the Union talks today about external trade, it is the Commission which does so on behalf of the 27 Member States; that when it talks about exchange rates, it is a trio made up of the Member of the Commission, the President of the Eurogroup and the President of the ECB on behalf of 16 Member States; that the Union has 7 seats out of 24 in the IMF, 5 of which are for eurozone Member States; and that when it comes to the environment, it is the 27 Member State themselves that voice their opinions; states that this fragmentation impairs the Union's capacity to impose its weight in discussions on the major macroeconomic imbalances, particularly with the United States and China;

44. Considers that the structures in place at the onset of the crisis, be these at global level, in the USA or within the European Union, lacked consistency in separating macro- from micro-prudential supervision;

45. Notes that the structures which have developed had done so more as ad hoc structures than as genuine institutions; observes that these either worked on the basis of self-regulation (IASB), or were not able to give full consideration to all stakeholders and reciprocity (Basel Committee),or had no enforcement capacity (Financial Stability Committee (FSC), or did not have the continuity mechanisms or the virtues of international institutions (G6 to G8);

Regulation and supervision

46. Notes that the European Union recognised the free movement of capital in July 1990 without harmonising taxes on savings, and without regulation or supervision;

47. Points out that the mandate given to Baron Lamfalussy's Committee of Wise Men to draw up the Financial Services Action Plan (FSAP) in 2000 did not include the parallel introduction of supervisory structures;

48. Points out that the Internal Market Commissioner has argued since 2004 for a regulatory pause and has unsuccessfully sought to obtain self-regulation by market operators, be this in the organisation of back-office activities or the creation of a CDS clearing house;

49. Regrets that, despite the European Parliament's repeated requests, there is no section of the competition policy that allows for investigation into mergers and oligopolies formed in the areas of major investment banks, the organisation of back-office activities, credit rating agencies or audit firms;

50. Notes that the development of systems for the internalisation of banking risks, in the spirit of the Basel II agreements, has hampered a global approach to these problems, and that very inadequate stress tests have exacerbated matters;

51. Considers that the inability of stock market operators in the eurozone to build a common structure, in the absence of a desire by the political authorities to intervene, means that there is no eurozone stock market and prevents the eurozone playing the role that it should in the European Union and on the world stage, particularly in the organisation of the CDS market and back-office activities;

52. Notes that the European Parliament had unsuccessfully sought to obtain information on the Memorandum of Understanding (MoU) on crisis management of 18 May 2005

between the Finance Ministries, supervisory authorities and European central bankers; notes that the result of the stress test on the effectiveness of this MoU had given great cause for concern without ever having been fully publicised or debated and without any lessons having been drawn;

53. Notes that the mathematical models chosen to establish accounting standards are pro-cyclical;

54. Notes that Canada, where securitisation has been restricted and where the authorities have opposed bank mergers, seems to be more resistant to - or even to have escaped - the crash;

55. Is aware of the specific problems associated with the importance of banking and insurance sectors held by foreign establishments in many of the new Member States, both from the point of view of supervision and the independent line taken by these establishments;

56. Deplores the behaviour of banks which, after having secured the adoption of broad support plans by the public authorities, repatriated their assets held in other Member States, leading Hungary to the brink of default;

57. Condemns the role played by foreign banks in Latvia in preventing a devaluation of the lat, obliging this country to go for drastic wage deflation resulting in sustained emigration by its youngest and most qualified workers; considers that the markets pushed this country to implement a very restrictive policy;

58. Condemns the major investment banks which, after having been saved by State intervention, then turn against certain Member States;

Economic and Monetary Union (EMU)

59. Considers that neither the Member States nor the Commission have correctly implemented the Maastricht Treaty, Article 99 of which (Article 121 of the TFEU) lays down that: "Member States shall regard their economic policies as a matter of common concern";

60. Points out that in the Exchange Rate Mechanism (ERM) that preceded the changeover to the euro, the discussions between partners basically focussed on the substance of the policies adopted, rather than numerical criteria;

61. Considers that the principle behind the Growth and Stability Pact whereby it is sufficient under Economic and Monetary Union that each country's house is in order and that each country manages its public finances has not worked and has not led to an optimum outcome or the creation of value added, thus demonstrating that it is not because each party settles its own affairs that the whole house is necessarily in order;

62. Notes that the changeover to the euro and steering the coordination of economic policies, as the report on the first ten years of the euro has shown, have been accompanied by a widening of divergences in competitiveness between the eurozone economies, and that the debate on this clearly identified problem has been hampered by

the severity of the crisis, thus exacerbating its consequences; notes that substantial trade imbalances have arisen within the eurozone, with Germany recording a surplus amounting to 6.5% of its GDP in 2006 and Spain a deficit of 9%;

63. Considers that the Growth and Stability Pact has helped continue the debate and put pressure on the sustainability of public finances; recognises, however, that its repressive nature, in addition to poor enforcement, has not given sufficient leverage for optimising the economic policies of each of the Member States and of the eurozone as a whole; considers that this economic policy instrument has not been designed to manage periods of crisis or of very low growth;

64. Notes that even where it has been applied in a satisfactory way, as in Spain, the stability Pact has not always prevented the outbreak of a serious crisis associated with a lack of competitiveness;

65. Points out that the other integrated economic areas in the world do not have the equivalent of the stability pact because they have other more effective and operational adjustment mechanisms through a central budget or their own fiscal policy;

66. Considers that the absence of a predefined crisis management mechanism on the grounds that one should not alarm markets with expectations that may turn out to be self-fulfilling has seriously handicapped the Union, particularly in finding a rapid solution to the Greek crisis, showing that it is very difficult to invent a framework at the same time as trying to implement it;

Economic governance and internal market

67. Notes that the poor distribution of wealth has encouraged speculation and tax evasion, weakening domestic demand and thus growth;

68. Appraises how much, in the era of globalisation, company activities relocated outside the Union cost society in terms of job creation, technology transfer, and capital overpayment, and encourage the introduction of tax evasion strategies;

69. Notes that the Union has reached the limit in creating an internal market based on a narrow conception of fair and undistorted competition and consumer rights alone;

70. recognises that within the European Union the construction of the internal market without tax harmonisation or a definition of the components of social protection has led to competition between territories in which Member States seek to attract those who are better off, reducing solidarity to an exercise between the middle classes and the most disadvantaged, whilst the earnings of those who are best off can be exempt from tax and contribute to speculation and the development of bubbles;

71. Notes, echoing the work carried out by Mario Monti, that the construction of an internal market without paying attention to tax competition has introduced a bias in Member States' fiscal systems that has encouraged the mobility of capital by lowering the level of tax on capital to the detriment of tax on labour whilst, at the same time, increases in public revenue linked to good economic performance have generally led to tax cuts;

72. Considers that the method of coordination favoured especially by the Lisbon Strategy has not helped to optimise Union action; is therefore surprised that it remains the backbone of the EU 2020 Strategy as proposed by the Commission; considers that this method leads to an intrusion into Member States' policies that extends beyond the areas coordinated in federal States, even though it is of limited effectiveness and decision-making is difficult because decisions are taken almost unanimously;

III. The challenges

73. Considers it essential that everyone learn from past mistakes and take on board the lessons from the 1929 crisis after which the new political leaders came up with the "New Deal" or follow the example of the founding fathers of the European Union who, after the Second World War, managed to overcome bitterness and distrust, as Jacques Delors shows, whereas the generation currently in power has not experienced any of these dramatic events;

74. Considers that it is necessary to restore certain values and points out that the choices made by society cannot be prone to the arbitrary actions of markets and shareholders;

75. Calls on the Union to rediscover its *raison d'être* which is first and foremost to unite people, rather than to monitor and punish them;

76. Warns against the risks of a return to nationalism which undermines the European project; remains convinced that "nationalism is war";

77. Considers that in the aftermath of the crash European citizens are hoping to rediscover the political meaning of the European project, and that this is inseparable from solidarity between territories and generations within each Member State, between Member States and internationally;

78. Considers that, in the eyes of European citizens, any further impression of indecision regarding the course to be taken will undermine their confidence in the institutions;

79. Appraises the impatience of European citizens who have noted the speed with which the State intervened to save the financial system that is now turning against certain Member States, and have seen that the employment situation is worrying;

80. Considers that the main challenge facing the European Union lies as much in looking 10 years into the future as in attacking 10% unemployment;

81. Considers that firm and resolute action on employment is all the more necessary as there is a risk that economic recovery in the Union may not be accompanied by job creation, in view of the low growth prospects and the fact that in the ten years leading up to the crisis the Union saw relatively strong periods of growth in which few jobs were created;

82. Urges the Union to link its actions on employment with measures to combat poverty and social exclusion so that the crisis does not further increase inequalities and worsen the distribution of wealth;

83. Considers it a priority to restore hope to a generation of young people with or without

qualifications blocked on the threshold of the labour market by the effects of this crisis;

84. Notes that the crash has shed new light on the demographic challenge and the challenge of funding pensions; considers that the funding of pensions cannot be entirely exposed to the whims of the financial markets but the latter should, on the other hand, help contribute towards financing solidarity between generations; considers that the increase in life expectancy raises cross-cutting issues regarding the organisation of society that have not yet been anticipated;

85. Welcomes the strategy adopted in 2007 by the European Council aimed at increasing the EU's energy independence and setting out specific commitments to combat climate change; considers that the crisis has done nothing to detract from the relevance of this strategy and has rather reinforced it on the condition that an objective be added with respect to employment; considers, however, that for this strategy to be successful, it requires direct action by the Union on top of measures to regulate the single market;

86. Notes that whereas in 2000, the European Union hoped, through its Lisbon Strategy, to rise to the challenge of globalisation, it now faces the challenge of the crisis in globalisation, or at the very least the crises in global governance and globalised finance;

87. Considers that no single element alone will be sufficient to rise to the challenge facing the Union; therefore deems it essential that the policies implemented be consistent; considers in this respect that action by the public authorities will be decisive, this being, at European Union level, that of the permanent Council Presidency and the Commission in cooperation with the European Parliament;

IV. Responses to date

National bank support plans

88. Notes that the Commission has not wanted, or has been unable, to formulate a proposal to come up with a European definition of conditions for devising national bank support plans; considers that these could have covered preferential access to credit for SMEs, the payment of dividends and bonuses, activity in tax havens, State involvement in the organs of the banks supported, repayment conditions, restructuring or dismantling;

89. Notes that in the absence of regulation and supervision and thus of instruments for managing the banking crisis that were adapted to the reality of developments in its market, the European Union showed in the cases of Fortis and Dexia, regardless of the solutions finally devised in these two cases, that it is not equipped to deal with a cross-border bankruptcy;

90. Calls for a vision at European Union and Member State level of the dynamics of the recovery of lending activity by banks depending on their size, the type of credit and the profile of their clients;

National recovery plans

91. Points out that in October 2008, the European Union adopted a recovery plan amounting to 1.6% of its GDP, compared to 5% in China and 6.55 % in the United States;

92. Notes that the Commission proposal for a European dimension to the recovery plan, that is often and rightly considered as modest, met with opposition from the Council on the revision of the financial perspectives;

93. Calls on the Commission to give a very precise report on the effectiveness of the national recovery plans decided over the autumn and winter of 2008-2009 with respect to the Union's long and short-term objectives, particularly energy and climate aspects;

94. Notes that in some Member States, structural funds have become the main form of leverage in investment decisions in the banking sector;

95. Condemns the situation of wage deflation created in Latvia following the decision not to devalue the currency due to non-Latvian interests, that resulted in its lifeblood, and particularly young graduates, leaving the country, undermining the recovery potential offered by the innovation and vitality of young people, with the result that readjustment was carried out to the detriment of the country's human capital;

96. Warns against the notion that, after having waited for the ten years preceding the crash to see its growth follow that of the USA, the European Union should now expect its growth to follow that of the emerging countries, and particularly China, when trade with this country, whose GDP is equivalent to that of Germany, is not substantial enough to give the necessary leverage; considers that the European Union should rely on its own strengths by making use of its internal market, especially since the bulk of its growth is linked to domestic demand;

Reform and regulation

97. Notes the work being carried out in the European Parliament and the Council and the proposals in the field of financial regulation;

98. Considers that the preparatory work carried out by Jacques de Larosière's working group gave the European Union the means to rise to the level of response that European citizens are entitled to expect in the area of supervision; regrets that the compromises agreed within the Council reduce the original level of ambition and make negotiations with Parliament more difficult; notes that the delay is even longer for the regulation of financial markets, leading to impatience and incomprehension among taxpayers;

99. Notes the number of proposals in the Union programme to complete the prudential arrangements or manage a crisis: an increase in bank capital, the introduction of dynamic provisions, giving greater consideration to liquidity, the definition of leverage, a framework for securitisation, the separation of banking activities or a ban on deposit banks dealing on their own behalf, a ban on short-selling, the regulation of derivatives and bonuses, the regulation of depositories, the creation of deposit-guarantee funds and resolution funds;

100. Notes that the calls for transparency, particularly regarding the real situation of bank balance sheets and the importance of the toxic products they could contain, that were made in the autumn of 2007 by the head of a major investment bank or in April 2008 when the G7 meeting in Washington, upon a proposal from the Financial Stability Committee, gave banks "100 days" to reveal their level of exposure, had no chance of

succeeding, given the risk of self-fulfilling prophesies and damage to reputations that would be involved, as they were not accompanied by a mandate given to supervisory bodies to go in and carry out on-the-spot checks;

101. Notes that during the previous parliamentary term when the directive on Eurostat was being revised, the Council – and France and Germany in particular – was opposed to giving Eurostat the power to conduct the on-the-spot checks advocated by the European Parliament;

102. Points out that when the balance of payments facility was increased in October 2008, a discussion was held in the European Parliament on inviting the Commission to anticipate the risk of a eurozone Member State requiring support and to set up a European Monetary Fund;

103. Notes that the Union, under the balance of payments facility (Article 143 of the TFEU), has made a loan available to Hungary at 3.4%, to Latvia at 3.2% and to Romania at 3.1%, whilst the Member States are granting bilateral loans to Greece at a rate of 5%;

104. Considers that whilst some parties wish to interpret Article 125 of the TFEU as a "no bail out" clause banning subsidies between Member States, there is nothing in the Treaty to oblige Member States who display the solidarity needed within the eurozone to do so through loans with interest;

105. Considers that the authors of the Maastricht Treaty had not anticipated the divergences in competitiveness between Member States in the eurozone and that, as a result, the amendment, after the changeover to the euro, of Article 143 of the TFEU, which excludes eurozone Members from benefitting from the balance of payments facility, does not incorporate the risk of a return to market arbitration through the differentiation of the rating of countries' sovereign debt;

Global governance

106. Recognises the transformation of the G8 into the G20 as an advance but notes that, so long as the forum remains a structure for informal discussion, without a legal basis or the attributes of an international organisation for preparing its decisions, supervising their implementation and monitoring their reciprocal application, it will be a weak governing structure; the same comments apply with regard to the transformation of the Financial Stability Forum (FSF) into the Financial Stability Committee (FSC);

107. Notes that the issue of correcting global imbalances has so far received very little attention at G20 meetings, even though certain economic recovery strategies pursued without improvement in domestic imbalances have the effect of perpetuating the global imbalances that played a major role in triggering the crash; similarly deplores the fact that the questions of reserve currency and regional currency areas and their interaction are not being addressed;

108. Welcomes the adoption of healthcare reform in the USA and the establishment of a pension system in China, steps which help to lessen global imbalances;

109. Is aware of the proposals currently being voiced by some in China under which the

dollar would no longer be the sole reserve currency but notes at the same time that Chinese exchange rate policy remains tied to the dollar;

110. Severely criticises the manner in which the EU took part in the 2009 Climate Conference in Copenhagen, where – through failure to speak with one voice – it was dispossessed of its agenda; where it ought to have played a lead role but where its failure to transcend the level of the various national strategies left it a passive spectator at a dialogue of the deaf between the US and Chinese governments;

V. Post-crash: sustainability and solidarity, investment and redistribution

111. Considers that a new development model, based on the universally declared desire not to return to the status quo, needs to make the link between sustainability and solidarity; proposes that the Union's future strategy be sustainable in terms of financial markets, economic and social impetus, climate and the environment;

112. Proposes that, recognising the impossibility of a return to the old status quo, the Union should refer to its 'entry strategy for a new era', unless the term 'exit strategy' reflects acknowledgement of the need to exit from the situations that caused the crisis; warns against interpreting the concept of a crisis exit strategy as the expression of a call for public bodies to withdraw from any form of economic intervention;

113. Asks the Commission to set out EU strategies and proposals making parallel use of alternative indicators, based notably on the work of Amartya Sen or Joseph Stiglitz, so that the public policies being proposed can be shaped and evaluated with more effective reference to their economic, social and environmental impact;

114. Considers that the current crisis may call into question the use that has been made of certain mathematical models; asks the Commission to encourage awareness and use of those mathematical models best able to factor in uncertainty, to reflect the reality of developing technologies and changes in the organisation of information and to achieve a better fit between mathematical modelling, accountancy standards and unforeseeable types of behaviour;

Governance and shared competences

115. Points out that the Union's greatest successes have come from the achievement of practical projects and the implementation of substantive policies, such as the CAP, the internal market and the euro, which the Commission has worked to drive forward;

116. Believes that what Europe needs is a more united Union, and not just more coordination; believes that the Commission, whose task it is to determine the general European interest, must, as a priority and in line with its right of initiative, commit to action on behalf of the Union in those fields where it has shared competences or competence to coordinate Member States' actions, and that it must not be content merely to set boundaries for action by market or state players;

117. Believes that, in all those areas where the Union exercises competence to coordinate Member States' policies, it must do so compellingly, so that the Member States are encouraged to contribute to the process, thus creating a win-win situation;

118. Points out that Article 4 of the Treaty on the Functioning of the European Union gives the Union competence in relation to the environment, transport, trans-European networks, energy, research and development and some aspects of social policy, and that, under Articles 6 and 153 it has competence to coordinate or supplement the actions of the Member States with regard, notably, to industry, education and vocational training and combating exclusion;

119. Considers that the Union has a responsibility of its own in relation to the creation of European public goods and that, to exercise that responsibility, it needs specific tools which are not available to it merely through the coordination of Member States' resources and the corresponding funding;

120. Deems it unacceptable for the Union to be the only integrated area in which the question of energy is not regarded as a strategic one both internally and in the context of relations with partner countries; considers that initiatives on energy need to be taken by a public authority and, accordingly, taken at Union level, so that they are not hostage to Member State protectionism; considers, therefore, that it should be the task of the EU to ensure the supply of energy to its Member States, notably by negotiating supply contracts and organising storage capacity;

121. Regards the aim of reducing energy dependence as particularly important inasmuch as, if petrol prices remain high – as they look set to do – over a long period in a low-growth context, imported inflation will become more likely;

122. Proposes that the Commission intervene directly to ensure the steering and financing of projects in the following fields:

- new investment in research and the development and deployment of renewable energy sources, including wind power at sea and on land, marine energy, all forms of solar power, biomass, geothermic energy, carbon storage and small-scale hydro-electric plants,

- strengthening the European energy network by interconnecting national networks and distributing power from major centres of renewable energy production to consumers, as well as introducing new forms of energy storage to offset fluctuations in wind and solar energy output, with the resulting European super-network also becoming a 'smart' network enabling consumers and producers to make more efficient use of the energy available,

- a public rail service connecting the Union from east to west and north to south,

- an Internet search engine and critical infrastructure in public ownership,

- construction of a broadband network serving all areas,

- completing the development of electric vehicles;

123. Asks the Commission to organise, where necessary, sector-based round tables so that all the stakeholders in a given market can work together with a view to encouraging the

relaunch of a genuine European industrial policy as well as fostering innovation and job creation;

124. Proposes that *ex ante* assessment by the Commission of transnational restructuring operations should address the question of their impact on employment, with clear rules and monitoring mechanisms similar to those that exist in respect of mergers and acquisitions with regard to price competition;

125. Considers it vital that any long-term EU investment strategy be linked to results in terms of job creation;

126. Believes that education ought to constitute a public good in the eyes of the Union, which would thereby acquire specific responsibility in that field, investment being needed in all aspects of the education system, in quality of education and in broadening access to higher education; proposes the introduction of a permanent and inclusive European-level system of lifelong learning, under which the Erasmus and Leonardo programmes for education and training mobility would become more generally accessible;

127. Makes the point that employment is one of the key drivers of the economy because it determines spending power; considers that the EU should pursue the aim of full, high-quality employment and that the sustainable functioning of the internal market depends on a labour market offering decent work and furthering the cause of innovation;

128. Hopes that new sources of employment will be fostered, including locally based jobs in personal care and in services to SMEs;

129. Considers that the Union needs to achieve greater consistency between its internal and its external policies;

Financial resources

130. Believes that, while there may be agreement on matters of governance and on EU activity in terms of shared competence and supplementary action, the Union requires resources, especially financial resources, to pursue such a strategy;

131. Believes that the success of such an investment strategy will depend not only on linking the Union's direct action with the action of Member States but also on linking public investment with private investment, particularly from funds the nature of whose liabilities give them substantial long-term investment capacity;

132. Considers, in the light of experience in the past 20 years, that a relatively high level of public debt that is wisely used for spending with a view to the future (on education, training, infrastructure, research, etc.) can stabilise the economy in two ways, namely by depriving the banks of excess liquidity to fuel short-term speculation schemes and by nourishing healthy and sustained growth over time; takes the view that high-quality public spending intelligently managed can drive economic and social progress;

133. Believes that, given how important it is for the Union to intervene directly in the areas of shared competence, and given the need for it to maintain a high level of public

investment during the current period of economic uncertainty, it must increase its budgetary capacity, *inter alia* by identifying new types of 'own resources', for example the levy of a certain percentage of corporate tax for the benefit of the EU; proposes that, alongside the specific structures that the EP will set up internally to conduct the debate on revision of the financial perspective, it should seek to forge close links with the national parliaments of the Member States, in the form of a convention;

134. Considers that, taking their lead from the Union, the Member States should help to fund the effort thus undertaken and that they should therefore publish a breakdown of their public spending under the headings of the relevant aims; calls on the Commission and the Council, with Eurostat's support, to improve the comparability of spending under national budgets in order to identify policy complementarity or convergence;

135. Considers that public investment can have a major leverage effect on long-term investment; proposes that the European Investment Bank (EIB) should be the lead body in implementing the strategy defined by the Union and that it should engage in lending – which could also take the form of Eurobonds, attracting private savings – to finance that strategy; deems it essential, at the same time, to adjust the EIB's governance arrangements and resources so that it does not find itself trapped by its increased responsibilities;

136. Recommends the introduction of a tax on financial transactions, the revenue from which would help to finance global public goods, and which would affect the functioning of the market; considers that such a tax ought to be as broadly based as possible but, failing that, that the Union should take the initiative on it;

137. Favours a carbon tax and a 'green' tax system with the potential to influence consumption, cut CO_2 emissions and reduce labour costs, but points out that any fiscal reform must help to re-establish a progressive pattern of taxation;

138. Believes that the Union must work towards the introduction of fiscal principles that will cease to encourage indebtedness and short-term remuneration and will include bonus/malus mechanisms based on criteria relating to decent work and the environment;

139. Believes it is vital that the Commission should relaunch proposals for harmonising the consolidated tax base for companies;

140. Considers that, with a view to promoting social justice, reducing inequalities and combating poverty and exclusion, there is a need to review the balance of the tax base and the redistribution of revenue, in order to avoid a situation in which solidarity works within too narrow a revenue band, effectively reducing it to solidarity between the poor and those on middle incomes;

141. Advocates a tax structure geared to easing the burden on labour and shifting the balance between capital and labour in the financing of redistribution;

142. Believes that re-establishing healthy markets depends not only on 'fashionable' initiatives but on resolutely tackling tax evasion, the existence of 'havens' whether from tax, regulation or supervision, and money laundering; takes the view that this effort must be undertaken both at world level and within the EU, and that those who supervise

the market or are active in it must have a duty to monitor the structures for which they are responsible;

143. Proposes that the EU should set a minimum wage, in accordance with the principle of subsidiarity and on the basis of European criteria scaled to reflect the standard of living in each Member State, as well as a child allowance, the aim being to help reduce poverty and social exclusion;

144. Considers that the cohesion funds should be regarded as one of the pillars of the Union's economic policy and that reform of the structural funds must focus on genuine convergence towards the long-term EU investment strategy and on supporting SMEs, notably in the fields of home renovation, in order to reduce CO_2 emissions, and infrastructure and transport development;

145. Calls on the Union to promote its web of SMEs – which are at the forefront of job creation – by facilitating their access to credit, notably through support for guarantee schemes and the creation of new standard products to combine loans and equity for smaller companies; calls, too, for the development services to SMEs as well as social dialogue structures;

146. Believes it is vital to complete the internal market – or the single market, as Mario Monti prefers to call it – because it is one of the EU's major assets and a compelling reason for defending the Union model on the international stage; believes that the market must use the Union's diversity as a source of strength rather than an arena for location and wage competition; believes, therefore, that it is vital to make progress on tax harmonisation, consolidation of the European social model and the setting of basic social standards;

147. Asks the Commission to analyse the impact of the crisis on public services; calls on the Commission to propose a high quality legal framework for public and social services on the basis of Article 14 of the Treaty on the Functioning of the European Union, as Commission President Barroso undertook to do in September 2009 in his 'political guidelines for the next Commission';

148. Asks the Commission to make an annual report to Parliament and the European Council on public and private investment needs and how they are being met or ought to be met;

149. Asks the Commission urgently to investigate, by means of a full competition review with wide-ranging terms of reference, how financial sector players make so much money; believes high returns may be explained in part by high risk-taking by the financial sector – subsidised by the taxpayer both through biases in the tax system and through explicit or implicit guarantees of a government bailout in the event of a liquidity or solvency crisis; believes high returns appear also to reflect weaknesses in competition within the financial sector, related, for example, to anti-competitive market structures or to asymmetrical or privileged access to information that may have been aggravated as a result of restructuring in the sector during crisis;

EMU and economic governance

150. Points out that the crash originated in behavioural excesses on the part of the financial

markets, not in excess public spending;

151. Recognises that good governance and economically efficient government will not, in themselves, be enough to provide the EU with the investment strategy it needs in order to tackle the crisis and square up to global competition; is convinced, however, that 10 years of EMU have demonstrated – in the unique context of the euro – the absolute need for such a strategy;

152. Considers that the task of introducing crisis-management measures for the eurozone should not compromise the essential establishment of economic governance measures for both normal and crisis times, given that the overall experience of 10 years of EMU has clearly shown that increasing differences in levels of competitiveness among the eurozone Member States are unacceptable;

153. Proposes, as a contribution to the debate launched with the creation of the economic governance working group chaired by European Council President Herman van Rompuy, that a group of 'wise men', comprising independent figures with relevant multidisciplinary experience, be set up within the working group;

Institutional machinery and ex ante governance

154. Proposes that responsibility for economic and monetary affairs at the Commission should be given to one of its vice-presidents; proposes that that person be tasked with ensuring that EU economic activity is consistent, with overseeing how the Commission exercises its economic, monetary and financial-market-related responsibilities and with coordinating other aspects of the Union's economic activity; that he or she should participate in the work of the European Council, chair the Ecofin Council and the Eurogroup and represent the EU on relevant international bodies; proposes that he or she should also be placed in charge of managing economic and financial affairs and financial services as well as general management of the internal market;

155. Considers that, as the first step in *ex ante* coordination of economic policies, the budgets of the eurozone Member States must be drawn up – as was proposed in 2005 when the stability pact was reviewed – according to a harmonised timetable and using a single set of forecasts for the major external variables (per-barrel oil price, exchange rates, etc.) and for growth rates as jointly agreed on the basis of a Commission proposal; notes that, for 2011, the French Government forecasts a growth rate of 2.5%, compared with the Commission forecast of 1.5%, while for Germany the corresponding figures are 2% and 1.7%, and for the UK 3.3% and 1.9%;

156. Considers that the broad economic policy guidelines established jointly with Parliament should be used as a framework for discussion and evaluation of the Member States' budgets – before their presentation to the respective national parliaments – under the authority of the Commission vice-president acting in the capacity proposed in this resolution, at open meetings of the Eurogroup at which each national minister would be accompanied by the chair of the relevant parliamentary committee, the general rapporteur on the budget and a member of the opposition;

157. Considers that levelling out the existing major differences in competitiveness within the eurozone could have the effect of increasing inflation where it is currently at its lowest

levels, and that all concerned will have to shoulder their responsibilities in that situation; considers that there will then be a need for differentiated evaluation criteria based on the starting-points of the respective economies, and that the differentiation must be made on the basis of a Commission proposal adopted by the Eurogroup and the Council following consultation with Parliament;

158. Proposes that the public-spending targets of eurozone Member States be fixed on the basis of multiannual plans;

159. Calls for substantial improvement in the social dialogue on macro-economic issues, which must entail more than merely informing the social partners about guidelines proposed or adopted;

Multilateral surveillance and the stability pact

160. Considers that the Member States should hold debates in their respective national parliaments prior to adoption of their stability programmes;

161. Believes that multilateral surveillance and requests for adjustment must be directed at situations of both deficit and surplus, taking account of each country's specific circumstances, in relation to demography for example, and that they must have regard to levels of private debt, trends in wages and employment – especially youth employment – and current-account balances; considers that these factors, if they cannot be employed in the same way as the current stability pact criteria, should be used as warning signals;

162. Believes that, having a single currency, the eurozone countries should go a step further by making arrangements for a mutual issue of a proportion of Member States' sovereign debt managed by a European monetary fund thus providing a basis for more complex multilateral surveillance, for ensuring that the eurozone market as a whole is more attractive and for joint debt management;

Crisis management

163. Considers its paradoxical to open debate about the possibility of a Member State leaving the eurozone when, with the exception of the two countries that have a derogation, all the Member States of the Union aspire to join it; warns, moreover, against the devastating economic and political impact of such a prospect not only for the state concerned but also for the eurozone and the entire Union;

164. Considers that the Union should equip itself with anticyclical economic policy management instruments;

165. Proposes that a financial stability mechanism to address the risks of default by sovereign borrowers be set up through the establishment of a fund to which the Commission would supply monies by borrowing on the financial markets, as it does for non-eurozone Member States under Article 143 of the Treaty on the Functioning of the European Union; proposes that this crisis-management tool should be independent of eventual arrangements for mutualisation of sovereign debt, should be based on Article 122(2) of the Treaty and should be contingent on the introduction of a plan to restore economic health and sustainability;

166. Considers that, in managing a eurozone crisis, the apparently strange solution of calling on the IMF to supply a third of the aid required is a useful one, given the Fund's expertise and the fact that Europeans see it as the main world-level player in this type of crisis management; considers it to be in the interest of Europeans that the IMF should be able to interact directly with other world-level bodies;

167. Asks the Commission and the Council to consider how the Paris Club arrangements for rescheduling, restructuring or cancelling certain public debts might be tailored to the current situation and utilised via a European debt resolution mechanism;

Financial players, products and markets: less complex and more responsible and publicly usefully

168. Points out that the ultimate purpose of the financial system is to provide appropriate instruments for saving and for putting savings to use in the form of investment to promote economic efficiency, optimise long-term financing and pensions, and create jobs; notes that this function is especially important in a situation where new means of growth are needed, entailing substantial investment in clean technologies; emphasises that financial development must also be put to use in the cause of fairness by extending access to credit – subject to adequate safeguards – to sections of the population currently cut off from it and thereby handicapped in terms of economic integration; insists that regulatory reform in the financial sector must not be carried out for the sole purpose of ensuring financial stability but must also reflect the aims of sustainable growth and fairness;

169. Acknowledges that compromises may have to be made between growth, fairness and financial stability and that such compromises must be the subject of political decision-making; asks the Commission to present financial development proposals that take these aims into account, particularly with regard to the EU 2020 strategy, and to explain the types of compromise on which political choices may have to be made; hopes that this will provide a basis on which the Union can facilitate debate and permit policy comparisons following consultation with all parties that have a stake in financial-market reform (banks, investors, savers and the social partners);

170. Is concerned that the current pattern of package-by-package negotiation on reform of essential regulations could reintroduce the risks of a short-term, inconsistent approach, with financial-market players deciding which reforms they will accept while arguing that there is a danger of jeopardising recovery; warns that such an approach will not result in the best possible overall structure for addressing the challenges we face;

171. Believes that putting in place sound and effective rules for an economic area, following a crisis on the scale of the one we have experienced, makes a significant contribution to competitiveness; is convinced, therefore, that scattered signs of recovery on the markets should not deflect us from the pursuit of reforms so recently regarded as vital; considers that the EU authorities have a particular responsibility for ensuring that the agenda is adhered to, *inter alia* by national political authorities;

172. Acknowledges that it is important to approach these regulatory matters from a perspective as global as that of the markets, and specifically from a transatlantic one, but remains convinced nonetheless that the EU needs to position itself in the vanguard –

just as it did on standard-setting for the use of chemical products (with the REACH directive) or on efforts to combat global warming (with the 4 x 20 strategy) – taking into account the specific characteristics of European economic financing and of the history and dynamics of market integration in Europe;

173. Considers that, once the Union adopts exacting rules for itself, be it with regard to financial regulation or supervision, corporate governance, or social or environmental standards, it must insist that such rules are applied even-handedly by all those involved in its own marketplace and that, externally, they result in fair exchange, which is a basic prerequisite for the pursuit of market-regulation efforts within the Union; believes that negotiations informed by the concept of reciprocity must take into account relative market circumstances and especially imbalances between producer and consumer markets; considers that international cooperation must take account of the capacity of various systems properly to oversee institutions based on their territory and to lessen any systematic risk;

174. Wishes to encourage financial innovation where it leads to the development of simple and transparent tools for financing technological innovation, long-term investment, pension funds, jobs and the green economy; asks the EU authorities to engage in cooperation with financial-market players, in the context of financial innovation, to bring about the development of products for mobilising savings;

175. Deems it vital that future rules for financial-sector players, products and markets should cover all types of activity, ban 'shadow' banking systems and off-balance-sheet banking transactions, harmonise trading books and tightly regulate – including restricting the scope for – direct awarding of contracts;

176. Deems the criterion of systemic risk to be ineffective as the basis for categorising financial institutions, especially within the EU; considers that use of that criterion entails asking in how many Member States institutions operate and how big they are, whereas what needs to be assessed is the capacity of a given institution to disrupt the internal market – a point underscored when the crisis demonstrated the absence of any correlation between the size of institutions and the nature of risks taken;

177. Deems it vital that the EU should taken into account, in the definition of new rules, threats to the structural diversity of its financial sector and believes that the European economy needs a sound network of neighbourhood banks;

178. Proposes that, following the entry into force of the Treaty on the Functioning of the European Union, all new EU legislation on rules for financial-sector players and markets should spell out the obligation to respect the letter and spirit of Article 9 of the Treaty, a step that should, specifically, require banks to consider loan applications in the light of their impact on employment in the EU;

179. Asks the Commission to prepare, without delay, a legislative proposal for setting up a European deposit guarantee fund based on contributions from the banks according to their level of business; recognises that this will have to entail harmonisation of calculation methods and of the products to be covered as well as attention to the specific circumstances of SMEs and local authorities;

180. Deems it vital to mobilise savings and believes that the capacity to do so depends on the markets functioning smoothly and, even more crucially, on the savings being protected; advocates that the European Securities and Markets Authority should have the responsibilities of a savings protection agency and, in that capacity, should register and approve prototypes and marketing practices that arise from financial innovation, authorise their placing on the market, monitor their development and have the power to withdraw them temporarily or permanently if need be;

181. Calls on the Member States to boycott Goldman Sachs;

182. Considers that the business model of the credit rating agencies results in conflicts of interest, given that the agencies are used to ensure the good reputation of, and to promote, the companies that pay them and that their model does not enable them to evaluate the macroeconomic aspects of decisions; proposes research to determine whether a system whereby investors and savers pay for access to the information they need in order to shape their strategies would be more reliable;

183. Asks the Commission to set up a public European credit rating agency and considers that courts of auditors, as independent bodies, ought to contribute actively to the rating of sovereign debt; believes that this development would introduce a welcome plurality of standards;

184. Believes that the EU, and particularly the eurozone, should have a clearing facility for derivatives – products that can present systemic risks – and should command access to information on the behaviour of derivatives-market players;

185. Asks that particular attention be directed to the risk of new speculative bubbles forming; asks the Commission to propose the tools required for regulation and supervision of the raw materials markets;

186. Demands as a matter of urgency that, in addition to the Supervision Package currently in the process of adoption, the Commission should introduce machinery for crisis management and burden sharing, lender-of-last-resort arrangements and harmonisation of systems of penalties and bankruptcy law; takes a positive view of moves towards a system of dual supervision with investor protection on the one hand and prudential supervision of financial institutions on the other; deems it vital to reinforce the independence, competence and expertise of certain national supervisory bodies;

Corporate governance

187. Advocates closer alignment between the financial markets and companies' needs, to be achieved through development of robust corporate governance principles at the core of risk management; considers that financial groups' boards of directors and supervisory boards ought to be independent, diverse in terms of profile and sex balance and highly qualified; highlights the OECD's ongoing work in this area;

188. Recommends that the Union draw up legislation for involving employees and their representatives in the definition of company strategies via participation on boards of directors and development of the social dialogue; considers that particular attention should be paid to pension-fund policyholders' and minority shareholders' representation

at, and involvement in, general meetings and their use of voting rights; believes that specific provisions are needed to enable stakeholders, when they need to do so, to access information they require as well as consultancy tools; believes it is vital to optimise the social dialogue – *inter alia* with regard to the sharing of added value – as a component of corporate governance;

189. Considers that the pernicious effects of moves to stimulate short-term increases in share value, for example through takeovers, need to be corrected; believes that performance-related remuneration, particularly in the form of stock options and bonuses, should be reviewed and reorientated and should be assessed in the light of the aims of long-term sustainability and social responsibility; believes that particular attention needs to be paid to companies' salary and earnings scales;

190. Strongly supports the concept that, in the field of financial services, the data used by supervisors in their evaluation of risks should include information about remuneration management;

191. Calls on the Commission not to promote shareholder democracy but rather to shift its policies on shareholder voting rights by providing for greater transparency in respect of shareholders' identities and strategies and by encouraging long-term investment, for example through systems of voting rights and levels of dividend differentiated according to the length of time for which shares are held;

192. Believes that particular attention must be directed to social economy structures such as cooperatives and mutual associations;

193. Calls on the Commission to propose legislation on corporate social responsibility, requiring companies to prepare social and environmental – as well as financial – balance sheets;

194. Asks the Commission to draw up legislation on joint and several liability to ensure that sub-contracting companies within the production chain are socially responsible;

Governance at world level

195. Considers that the Union has a particular responsibility for the redefinition of governance at world level and that the current period offers a historic opportunity in that regard; calls on the European Council to convene a G20 summit devoted solely to the reform required in governance at world level;

196. Considers that, if Europeans want to ensure that international financial institutions are legitimate and effective, they must enhance their involvement in those institutions, speak with one voice and accept redistribution of their seats and voting rights;

197. Proposes that the G20 should be integrated into the structure of the IMF to become the council of ministers of that institution; believes that efforts should be made to involve parliamentarians more closely in the work of international financial institutions;

198. Considers that the world monetary order needs to be rebuilt; recommends that the Union, drawing on its experience with the adoption of the euro, should make proposals

to that effect;

199. Acknowledges that, among financial-market players, banks operating at world level have the best developed international organisation; considers that the agreements reached under the auspices of the Basle Committee on Banking Supervision should come into force in the form of international treaties;

200. Proposes that the Basle Committee, the International Organisation of Securities Commissions (IOSCO), the International Accounting Standards Board (IASB), etc. should be incorporated into a global structure – possibly the IMF – in order to establish proper organisation of the world of finance and to ensure that all stakeholders are involved in drawing up the rules and that there is sufficient capacity for checking that they are implemented;

201. Notes the progress on fiscal governance made by the OECD and in the G20, but advocates action based on qualitative values to strengthen the legal basis for OECD blacklisting of non-cooperative jurisdictions so as to give it legal consequences; asks for rapid, practical steps to be taken on the automatic, multilateral exchange of information as standard procedure worldwide, with a view to improving fiscal transparency and combating fraud and tax evasion;

202. Considers that IASB governance needs to be thoroughly overhauled and that the 'monitoring group' has effected a shift in that organisation from self-regulation to self-supervision; considers that the governance arrangements must be such as to ensure the presence of stakeholders with a concern for the stability of the financial system and for end-users' needs;

203. Welcomes the holding in April 2010 of a special meeting of the G20 employment ministers and the contribution by the ILO entitled 'Promoting employment recovery while meeting fiscal goals' which argues, in the interests of balancing public finances, against a premature exit strategy and in favour of employment-orientated policies;

204. Proposes that, following the entry into force of the Treaty of Lisbon, the EU should become a direct signatory of the ILO conventions and that it should sign all the conventions considered by the ILO to date;

205. Proposes that the European External Action Service should have a strong pool of expertise in the fields of social and environmental affairs, and that these matters should be the subject of binding clauses in agreements concluded by the Union with third countries;

Green investment and regional planning

206. Believes that only the very rich and the very poor today are truly mobile and that the vast majority of European citizens do not aspire to mobility because they are concerned to maintain networks of family solidarity and many of them engaged in investment to buy their own principal places of residence, with the encouragement of public authorities;

207. Believes that mobility should be encouraged where it is useful and possible but that

public regional-planning policies should foster strategies to attract businesses to set up in areas where people live and study, an approach that would also help to cut expenditure on energy and to promote the development of a sustainable transport strategy;

208. Notes that labour mobility needs to go hand in hand with the improvement of working conditions and calls on the Union to review its legislation, particularly in respect of posted workers, in order to underpin that principle;

209. Considers that there is a strong area of potential for European industry in the development of renewable energy for heating and air conditioning as well as for clean forms of transport such as electric cars, public transport and second-generation biofuels;

210. Considers that investment in the renewal of housing stock and public transport needs to be prioritised in order to reduce energy costs and energy poverty and to initiate a virtuous circle; recognises that a lack of incentive mechanisms, due to the differing interests of property owners and tenants, has a depressing effect on renovation of housing stock in the rented sector; calls on market players, as part of the financial innovation process, to introduce products designed to finance the necessary transformation, with a concern for social justice, and calls on trade unions and cooperatives to contribute to the establishment of such mechanisms;

211. Asks the Commission to devise, and organise the introduction of, a social threshold energy entitlement that would give the poorest sections of the population affordable access to energy, bearing in mind that the most disadvantaged households spend a proportion of their budget on energy that is more than double the corresponding figure for the richest;

212. Advocates a fair and equitable transition to a green economy; believes that the job losses resulting from the transition need to be anticipated with measures to step up training and improve workers' skills in the new technologies; believes that the benefits of the shift to a green economy must be fairly shared and that, for low-income groups, the additional costs involved must be offset through redistributive measures;

213. Points out that some green jobs may also be low-skilled jobs and that a concern for the concept of decent work must therefore inform the creation of such jobs;

214. Underscores the importance of European legislation to combat employment insecurity, so that equality of treatment for all atypical workers may be ensured, and of a European charter for quality work placements so that young people are not exploited on the labour market;

215. Believes that the quality of redistribution and social dialogue in Europe needs to be seen as a factor capable of attracting investment, notably because it allows transition to be facilitated and managed[1]; emphasises in that regard the urgent need for an EU directive on cross-border arrangements to strengthen social dialogue at European level;

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[1] Wilkinson, R., and Pickett, K., *The spirit level, why more equal societies almost always do better*, Penguin Books, 2009.

emphasises the importance of improving European legislation on informing and consulting workers, including the directive on European works councils, and of applying it more effectively;

Conclusion

216. Acknowledges the failure of the current legislative programming procedure which is cumbersome and focused entirely on the Commission, although the Council's role has grown steadily and the European Council now plays a major part in managing the Union's priorities, and therefore calls for the conclusion of a contract for legislature between the Union institutions, in accordance with the Treaty on European Union and particularly Article 17(1) thereof, in the interests of sustainability and solidarity and, specifically, on the basis of this report;

217. Instructs its President to forward this resolution to the Council, the Commission, the President of the Eurogroup, the European Central Bank, the Economic and Social Committee, the Committee of the Regions, the governments and parliaments of the Member States and the social partners.

EXPLANATORY STATEMENT

Mandate and objectives

By decision of 7 October 2009, the European Parliament set up a Special Committee on the Financial, Economic and Social Crisis which has as its objectives:

- to analyse and evaluate the extent of the financial, economic and social crisis, its impact on the Union and its Member States, and the state of world governance, to propose appropriate measures for the long-term reconstruction of sound, stable financial markets able to support sustainable growth, social cohesion and employment at all levels, and to provide an assessment of the effect of those measures and the cost of inaction;

- to analyse and evaluate the current implementation of Community legislation in all the areas concerned and the coordination of the measures taken by the Member States to support sustainable qualitative growth and long-term investment, with a view to combating unemployment and responding to demographic and climate challenges, while complying with the subsidiarity principle;

With this end in view, the Committee was to establish the necessary contacts and hold hearings with the European Union institutions, national, European and international institutions and forums, the national parliaments and governments of the Member States and of third countries, and representatives of the scientific community, business and civil society, including the social partners, in close collaboration with the standing committees.

The special committee may make recommendations regarding the measures and initiatives to be taken, in close collaboration with the standing committees.

Method and work programme

Promptly after the constituent meeting of CRIS Committee (15 October 2009), CRIS Coordinators have started elaborating the work programme, which the Committee needs so as to pursue its mandate.

In order to allow the CRIS Committee to successfully achieve the objectives set by this mandate, the work programme needed to be structured on the basis of the following elements: fact finding, analysis and conclusions.

Fact finding

A thorough fact finding element is key to understand the causes of the crisis and the interconnectedness between different policy fields and areas of society.
Keeping this in mind, the CRIS Committee work programme relies on the following main fact finding methods:

- *Public Hearings*

Public hearings provide the opportunity for Committee Members to acquire the opinions of

renowned experts and to exchange views with them. To that end, the CRIS Committee held 7 public hearings on different topics and policy areas included in its mandate:

- The Financial Crisis: causes, consequences and challenges
- The Spread of the Crisis - on the real economy and on public finances
- The Social Impact of the Crisis: unemployment and the social state and demographic challenges and the pension system
- Financial regulation and supervision: main failures of the current system and possible future models
- European Economic Governance and EU Tools for Economic and Social Recovery: Stability and Growth Pact, reform and sustainability of public finances and budgetary policy
- Global Governance: global imbalances, climate change challenges, impact of the crisis on developing countries and trade
- Economic Exit Strategies: financial and monetary aspects and job creation, internal market, innovation and sustainable green growth.

A number of experts provided evidence to the CRIS committee, including representatives of EU, national and international institutions, governments of the Member States, academia, business community, social partners and civil society.

- *Studies and Briefing papers*

The CRIS Committee has commissioned two major studies: an impact assessment on the costs of non-action and insufficient coordination and on crisis management. In addition the Committee has ordered a series of briefing papers to external experts; these provided essential information on the topics of the individual public hearings to prepare substantially the exchange of views at each of the hearings.

- *Workshops*

Compared to public hearings workshops provide external expertise on more targeted subject matters and enable a more detailed discussion. To this end, the following workshops were scheduled:

- The Nordic Financial Crisis - Lessons from the Nordic Countries in the Early 1990s for the Present Crisis
- The impact of the crisis on SMS
- The impact of the crisis on new Member States and the role of cohesion instruments
- EU-China: a revisited partnership in the aftermath of the global financial, economic and social crisis (to be held in Shanghai on 29 May)
- Transatlantic Relations (to be held on the 31 May).

- *Delegation visits*

Delegation visits allow fact finding missions to countries of a particular relevance or where key institutions are based; they provide an excellent opportunity to meet counterparts and key players, who would have been otherwise unable to give evidence to the Committee meetings. For that purpose CRIS has planned the following delegation visits:

- Basel and Geneva, Switzerland: to meet key players in the global institutional framework in WTO, the BIS, the Basel Committee and the Financial Stability Board
- Riga, Latvia: to exchange views with the main institutions of a Member State, particularly hard hit by the crisis that has benefit from the balance of payment facility with the intervention of the IMF
- Beijing and Shanghai, China: to explore, in particular, the issue of global balances as one of the issues at the origins of the crisis and to discuss the future global governance framework
- Washington and New York, USA: to gather knowledge from the source of the financial crisis and to discuss the future developments in their regulation and supervision reform and the global governance of the financial system

- *Expert panel*

As a type of sounding board for its analysis and recommendations, the CRIS Committee has established an expert panel. It consists of well known experts in different policy areas covered by the CRIS mandate and provides advice to the Rapporteur and to Committee members on particular topics.

Analysis

Using the information and knowledge gathered during the fact finding exercises, the CRIS committee elaborated and discussed several thematic papers on different topics covered by its mandate. Most political groups have been allocated the responsibility to elaborate upon certain topics and to present it to Committee members. The following thematic papers have been drafted and discussed by the Committee:

- *The spread of the crisis on real economy and public finances in the EU* - Alain LAMASSOURE (EPP)

  Recommendations:
  - The EU should focus its policies towards a central goal of doubling growth potential through greater coordination and restructuring of the budget.
  - Each Member State must consider how best to adapt its model for economic development and should consider its role as an industrial power.
  - The EU must address the challenge of an aging population, in particular by employment and worker training.
  - Each Member State must bring its public finances back under control; a reallocation of resources will be needed to strengthen investment in sectors with strong growth potential and to reduce the deficits brought about by the crisis.
  - European solidarity must take precedence over international solidarity; the Union must endow itself with appropriate mechanisms, instruments and political agreements, in accordance with the Lisbon Treaty.
  - The external economic policy for the EU in the world after the crisis should be question.

- *The social impact of the crisis on employment demographic challenge and pension system* - Nikolaos CHOUNTIS (GUE)

Recommendations:

- The EU needs to focus on solidarity, job protection and social justice.
- Improving competitiveness by undermining labour rights must be discouraged; the focus should be on improving product quality, on education, innovation, new sources of energy, science and technology.
- The EU budget must be increased substantially and the priorities of the EIB need be refocused on employment and social cohesion, the development of education, research and innovation, economic growth with environmental protection, and the adoption of new, clean and renewable sources of energy.
- The EU social security scheme needs be reorganised aiming at notably eliminating uninsured employment; integrating working migrants; supporting the long-term unemployed and groups at risk from social exclusion; detaching the management of assets in the scheme from the possibility for financial speculation by subjecting it to strict management rules and control by the State and the social partners; and the coordination of an independent source of funding raised by financial transaction tax and available at a European level assisting those who may not have managed to obtain a full pension due to losing their jobs.

- *Financial regulation and supervision - future model* - Anne E. JENSEN (ALDE)

  Recommendations:

  - There is a need for an overhaul of EU financial market regulation and supervision to address regulatory gaps, guard against future crises, restore confidence and create a viable and sustainable financial system which protects growth and jobs.
  - Prudential regulation should be: calibrated to the different financial institutions; provide incentives for prudent behaviour; impose constraints to reduce excessive risk taking; and encourage "real entrepreneurship".
  - Policy making should focus on the "boom-bust" cycle since better regulation during boom periods could limit the amplitude of the bust.
  - Regulatory emphasis needs to ensure that financial institutions do not become too risky and make it easier to resolve them when things fail.
  - Accounting standards should be revised to enable them to provide verifiable information to market participants.
  - The MiFID model has to be complemented by product regulation.
  - EU needs to play active role at the global stage in pursuing a major reform of the global financial system. Where, however, progress at international level is not sufficiently far reaching, EU should lead by example.

- *The role of cohesion instruments and solidarity in the process of recovery and restructuring the European economy* - Danuta HÜBNER (EPP)

  Recommendations:

  - The EU needs to enhance coordination and make better use of synergies between different levels of public governance and different policies.
  - Territorial specificities and the asymmetric impact of the crisis should be taken into account when designing crisis exit policies.
  - Exit investment patterns should be aligned with long term growth priorities.
  - Local lending should be strengthened through strong regional banks and backing of the EIF.

- Cohesion policy should be the main delivery mechanism of the EU2020 Strategy.

- *European economic governance and EU tools for economic and social recovery* - Magdalena ALVAREZ (S&D)

  Recommendations
  - Better governance of the European financial system is necessary. At national level mechanisms must be defined to ensure that measures to strengthen and recapitalise national financial systems comply with EU guidelines. At an EU level there should be: an acceleration and expansion of the reforms initiated in the European financial system; a stability fund; a European deposit guarantee fund; a European rating agency; a list of financial instruments according to their associated risk; creation of clearing houses in unregulated or unofficial markets; and anti-cyclical ratios.
  - European fiscal policy needs to be coordinated, sustainable and anti-cyclical. To this end:
    - Member states should focus on combating tax fraud; hence the adoption of the directives on savings and administrative cooperation EU needs to introduce a series of pan-European taxes such as financial transaction tax, bonus taxes and tax on carbon use.
    - Member states must make profound changes to their spending policies: promote active employment policies; give strong support to SMEs; help to restructure the industrial sector; clearly commit to investment in the 'knowledge triangle'; and prioritise green technologies.
    - National policies must be coordinated within the Stability and Growth Pact (SGP), as the only tool for budgetary harmonisation and the main tool for economic governance in EMU. The planned reforms of Eurostat in relation to the control of public finances must be speeded up.
    - At an EU level the role of the EIB could be reinforced.
  - EU needs a new model of growth: it should focus on restructuring the financial sector making it more stable and transparent and serves the real economy.

- *The European economy and industry facing the climate change challenge* - Bas EICKHOUT (Greens)

  Recommendations:
  - Environmental effects should be internalised by: tightening the EU ETS cap, full auctioning, border levelling and an auction reserve price; introducing a carbon tax for the non-ETS sectors,; introducing a tax on financial transactions; introducing a market-based instrument for biodiversity; and by phasing out environmentally harmful subsidies.
  - Legislation on energy savings, soil, recycling and renewables should be improved; speeding up the adoption of a soil directive; improving recycling targets and definitions; introducing an emission performance standard for power plants; and developing an interconnection plan for a European smart grid.
  - These developments can be financed by: introducing subsidies for the development of innovative and sustainable technologies and enabling businesses and individuals to access financing for energy saving measures; prioritising climate change in the forthcoming budget reform; linking the EU Structural Funds with social and environmental conditions; offering preferential rates to finance

projects with a high social and environmental value through the EIB; and the Commission should issue green bonds with Member States guarantees in order to finance green investments.
  - Climate should also be mainstreamed in other EU policies.

- *Global Governance, international monetary policy and tackling global imbalances incl. the issue on tax havens)* - Kay SWINBURNE (ECR)

  Recommendations:
  - Considerations should include: the implementation of a pro-cyclical monetary policy with respect to interest rates; whether a higher target inflation rate globally would be warranted; the state of the oil market, imbalances in oil producing countries and OPEC; and closer co-ordination of taxation policies globally through G20 to minimise tax arbitrage opportunities;
  - Further consideration should be given to: the role of subjective judgement by regulators and directors at times of market stress; less reliance on mathematical modelling; a ban on buying back and cancelling previously issued equity to limit organic growth in financial firms; "living will" to detail their orderly liquidation; and minimising tax incentives which favour debt financing over equity financing;
  - For Member States there should be a requirement by Member States to publish financial statements that are accurate and transparent.

- *Economic exit strategies: financial and monetary aspects, SMEs, innovation and new opportunities for sustainable growth* - Regina BASTOS (EPP)

  Recommendations:
  - SMEs as a driving force for EU recovery and future growth and welfare:
    - Strengthening the social market economy avoiding competition restrictions;
    - full use of Internal Market capacities and new business opportunities throughout EU for SMEs;
    - a new Social Small Business Act;
    - a one-shop-stop for every administrative issue for SMEs;
    - establishing a European seniors consultancy network;
    - coordinating taxation policy concerning SMEs; providing tax incentives and subsidies for them
    - providing external dimension to SMEs policy to enable them to compete internationally
  - Innovation:
    - creating a stronger link between industry and innovation;
    - new partnerships between business, science and university research;
    - backing knowledge-based innovations.
  - Sustainable growth:
    - boosting employability by "One SME- One Job" Project;
    - using SMEs as a tool for restoring the community economic and social tissue;
    - devolving power to the communities: local implementation of global decisions;
    - seeking out a proactive approach towards exclusion, which often responds to poverty;

- using the full potential of the emerging information society in order to engage locals in sustainable society planning.

Recommendations by the rapporteur

With regard to the first aspect of the special committee's mandate, the rapporteur takes the view that the financial crisis which has unfolded since the summer of 2007 was in some way expected. Its starting point was the US subprime market, but it could have started elsewhere. What is striking is the extent of its spread, as the subprime market in 2007 only accounted for 13% of outstanding mortgage loans in the USA, its impact on other markets and primarily the European market, the social damage it is causing and the uncertainty about how it will end.

As with any financial crisis, there are **multiple causes**. It first of all reflects a real economic situation related to the means of growth in the United States in the new age of capitalism with the advent of globalisation and global imbalances and the massive need for adjustment that ensues. Widening social inequalities both globally and within individual countries, coupled with the diminishing share of value added accounted for by wages and salaries since the beginning of the 1980s, the dwindling purchasing power of households and the development of consumption based on excessive household debt, all played a decisive role in the development of these imbalances and of certain "financial innovations".

This crisis is finally the outcome of the abuses spawned by an excessive reliance on risk-taking to boost profits in an inadequately regulated or supervised globalised financial system. It helps shed light on an economic system and system of governance that had reached certain limits.

Moving on to the second aspect, the rapporteur considers that **the main lesson to be learnt relates to a dysfunction in decision-making processes.** It is clear that there was no desire to take action on this crisis until it was essential to do so ("As long as the music is playing, you've got to get up and dance[1]") and the full scale of the cost of non-cooperation was felt by a globalised world and by the European Union. When panic took hold of the markets, the initial reaction by the Member States was uncoordinated and was immediately punished. It was only once the Member States sent out signals of their desire to tackle this global crisis together that the situation was reversed, as the markets kept an eye on the Member States. When one looks back at how the crisis was managed, questions clearly need to be asked about the role of global governance beyond the proliferation of international fora and the role of political authority with respect to the position of the ECB in ensuring the effective management of Economic and Monetary Union. It took a crisis to bring about the organisation of a Eurogroup at head of state and government level, a body that we have long been calling for. Looking forward, this should result in the Union being equipped with economic governance mechanisms that are suitable both for normal times and times of emergency.

At the Commission, leaving aside the role of individuals, what has been striking has been the difficulty experienced in coping with this sort of crisis and the unfitness of an organisational approach involving, on the one hand, the pursuit of macroeconomic policy via established procedures and, on the other, legislation for the financial markets and liaison with the

[1] Quote from the CEO of Citigroup, Charles O. Prince, in an interview with the Financial Times in July 2007.

coordination function of national supervisory bodies. There is no provision here for addressing the impact of the one on the other or for the essential interconnection of macroprudential and microprudential analyses.

Given these dysfunctions, the rapporteur believes that our economic model must in future be made much more crisis-resistant through a profound re-balancing of its key components. The Union must rely on its own strength in order to be effective. In areas of shared competence with the Member States it must play its part to the full and it must draw on its internal strength in order to pull its weight in shaping globalisation. The Union can no longer gamble on the growth of other world regions; it must assert not only its interests but also its values at world level.

The second point to be made with regard to responses to the crisis so far concerns the swiftness and scale of the support given to the financial sector. There is a widely held view that, since the outset of the crisis, we have seen profits privatised and losses taken into public ownership. In a situation characterised by reduced purchasing power, the spectacle of governments releasing huge sums over the space of a few days to rescue the banking sector could result in a widespread sense of bafflement. The onset of economic recession in Europe forced the Member States to pump vast amounts into underpinning economic recovery. Their support remains crucial and any premature withdrawal of public input would weaken the recovery. The serious nature of the situation also requires the EU to prove itself *inter alia* in the sphere of social affairs because, whatever the reality of its competences, ordinary people in the Union make a connection between the social circumstances they experience and the way the EU functions. If it fails to prove itself, we shall see a resurgence of nationalism in various quarters, as well as protectionism, and a worsening of the anti-EU mood. Job-creation via the knock-on effects of the forthcoming 'green' industrial revolution, while certainly useful, will not in itself be enough. **So one of the big challenges in the current phase of the crisis is to keep the political pressure sufficiently sustained** to ensure that what has gone wrong with the market today is put right and to re-establish a system that serves to finance the real economy. In the task of rebuilding the financial markets there has to be a shift of direction, with a restructuring around the economy's needs, around long-term investment, the challenge of climate change and population ageing. So far, we have not grasped what is required to bring about that shift because the crucial negotiations are conducted solely between financial-market players and public authorities.

Conclusions, challenges and further work

With the Union experiencing the most serious social and economic crisis in its history – a crisis undermining what have to date been its core components, from the internal market to competition policy and the stability pact – projections for the decade ahead are not possible unless they take as their starting point the current situation, i.e. the issues recognised and the challenges identified in this report. Definition of the EU 2020 strategy ought to have been part of the overall effort, part of the process of crisis management and of strategic planning beyond the crisis.

This strategic exercise by the Union also ought to have been conducted in close cooperation with the national parliaments, the social partners and civil society, and to have involved the European Parliament to a much greater extent. The Special Committee on the Crisis has identified cooperation – an area of shortcoming at both the Council and the Commission – as

the third aspect of its remit and the intended focus of its work under extended terms of reference. The Committee's work to date may have yielded conclusions and provided a basis for specific recommendations on certain points, but more intensive efforts need to be invested in exchanges on that basis with national parliaments and in transforming the recommendations into legislative proposals and from there into a work programme.

Were the Special Committee to be wound up, it would create the impression that the crisis has been overcome, whereas in fact the situation on the financial markets has not stabilised and the full economic and social repercussions of the crash are still unclear, although they will be deep and lasting. In all the areas in which initiatives are under way or are to be taken (on EU 2020 and new political guidelines, on economic governance, the financial perspective, regulation and supervision, reform of governance at world level and the Union's representation) it must first be recognised that the current model is in crisis. That is why we are asking that the terms of reference of the existing Special Committee be extended. Such an extension would provide a means of monitoring this multifaceted agenda in a thorough way, studying the issues in greater depth and producing more meaningful policy recommendations based on a work programme to be established, with a follow-up report to be produced in the second half of 2011.