



church and society commission

EU financial and debt crisis

Briefing paper for the CSC Plenary Meeting

May 2011

An economic and financial crisis has been at the centre of attention of political and public life for more than two years. Its consequences have fundamental repercussions on the functioning of the European Union: from searching for programmes aimed at stimulating economic performance and fighting against unemployment, through seeking financial stability in rapidly increasing public debts, to far-reaching questions about the future of the European currency and, in some instances, even the future of the European project as such.

Churches in Europe, a number of them individually, as well as through the ecumenical organisations, especially the CSC/CEC, expressed their position on many occasions and contributed to the wider public debate, in addition to addressing the European political institutions. The relevance of the theme and its urgency give good reason for the continual attention of churches to this theme. This short overview offers basic information about the current state of affairs in the EU, as well as an overview of relevant churches' inputs.

European Union

The extents of the crisis and its far reaching impacts have been acknowledged on many occasions by the top EU representatives. The words used by the President of the European Commission provide a guideline for EU efforts in responding to the crisis: "The crisis that we face is not just a financial or an economic crisis. It is also a crisis for the values of our societies. ... For Europe, this is a moment of truth. Europe has to answer a decisive question. Do we want to lead, shaping globalisation on the basis of our values and our interests – or will we leave the initiative to others and accept an outcome shaped by them?"

Soon after the first impacts of the crisis, in terms of a deep economic recession accompanied by rapid growth of unemployment, its other dimension - the rapid rise in public debts of the EU Member States - began to dominate European politics as well as the public discourse. The EU, and in particular its western Member States, has reached unprecedented high living standards. The argument, now receiving increasing support is that EU politics have overlooked the fact that the cause of current problems is an over-consumption financed in recent years by increasing debts. At the current stage, EU GDP is growing only because of an increase of state debts. In 2010 the EU Member States needed on average €2.9 of new debt to increase GDP by €1. The outlook for the future is even more pessimistic.

After Greece and Ireland, in April 2011 Portugal became the third country of the Eurozone to declare its inability to pay its debts and requested financial assistance

from the EU. For this purpose, the European Financial Stability Facility (EFSF) has been established in the Eurozone. EFSF is a special instrument of the 16 members of the Eurozone adopted on May 2010, aimed at preserving financial stability in Europe by providing financial assistance to Eurozone states in economic difficulty. The EFSF is in a position to provide a financial safety net of up to €750 billion. It was meant to be a temporary mechanism in use until 2013.

In the course of 2010 it was proved that the temporary mechanism was not sufficient. Therefore, it was proposed and decided by the European Council to establish a new permanent crisis mechanism, the European Stability Mechanism (ESM), which will be set up in the euro area as of mid-2013. The new mechanism will have a capacity of €700 billion. In order to enable ESM, it is necessary to modify the EU Treaty. The process has been put into motion. All EU Member States are requested to ratify the Treaty amendment in their respective Parliaments by 2013.

The crucial and controversial question of ESM is the involvement of the private sector. ESM has been established in a way which counts on the participation of the private banking sector on a case-by-case basis. After a heated debate, the decision has been taken that participation of the banking sector and its contribution to the rescue programmes will be not automatic. This causes a fundamental problem for some EU Member States. As it was announced already at this stage, this form of ESM will not be supported by some of the relevant political parties needed for approval of the mechanism in the national parliaments.

The ratification process of the ESM and the setting up of the rescue mechanism raise a number of disputed questions. On the technical side these are in particular:

- Involvement of the banking sector;
- Possibility of declaring state insolvency / bankruptcy.

An underlying question is who should bear responsibility for the financial difficulty of the state? Is the socialising of private losses, as exemplified in particular in the case of Ireland, a sustainable solution in which tax payers should participate? What is the responsibility of the banking sector?

The EU debt crisis opens then a number of further questions related to the basic functioning of the EU. In a quite unexpected and dramatic way, there are now on the table questions linked with the basic character and parameters of European integration, which it was supposed had been solved in the past.

In particular:

- What is the link between economic and political integration? Can economic integration function without an appropriate political component? Are we on the way to establishing further elements of political integration in the EU?
- How should solidarity, declared as one of the pillars of the EU value setup, be understood? Is it appropriate to ask in the name of solidarity for the debts of a private company (bank) in one country to be paid by tax payers in another country (or even all over the Eurozone)?

The theme of the economic and financial crisis and possible ways out of it is another area which deserves attention as a topic on its own. A number of churches in Europe, CEC as well as ecumenical partner organisations, at various

stages raised their voice to underline in particular the ethical dimension of the crisis. The following is a short overview of the most significant arguments presented in the churches' contribution to this debate and indication of the position of some relevant stakeholders.

CEC, Assembly in Lyon, Statement on Economic and Financial Crisis, July 2009

"The crisis calls into question many basic assumptions about the economic order that have been unexamined for decades. The substance of the current crisis is not limited to the realm of economics, but has also highlighted, for example, the relationship between economics and politics and between economics and the environment. In revealing the scale and impact of economic factors on human life, the crisis has also highlighted its significant ethical and spiritual dimensions. The crisis reminds us that debt has underpinned the economic fabric of society and it needs to be subjected to serious reconsideration. Prosperity built on the levels and patterns of debt of recent years cannot be accounted as real prosperity. We have heard little from responsible decision makers that indicates an intention to address in a fundamental way these structures of debt within the global financial system that led to the current crisis.

As churches in Europe we ask the public authorities:

- To consider the ethical dimension of the crisis and to evaluate the effects of our current economic and financial system on different stakeholders in society.
- To introduce greater accountability in leading financial institutions and greater transparency in the current financial systems.
- To improve the situation of the poorest and most vulnerable members of society as the primary responsibility of public authorities.
- To ensure a financial system that is subordinated to the principles of justice and sustainability in order to not destroy the means of livelihood of future generations."

Church and Society Commission, an open letter to the Presidents of the EU institutions, May 2009

In view of the meeting of the Presidents of the EU Institutions with religious leaders on 11 May, the Church and Society Commission of the Conference of European Churches addressed an open letter to the Presidents of the European Parliament, the European Council and the European Commission.

The churches are concerned that the measures that have been taken by the EU and its Member States so far may not solve the economic crisis, but may simply deal with its symptoms: "We are convinced that the current crisis is much more profound than the analysis of the EU institutions has suggested so far. The crisis calls into question a number of assumptions, which have underpinned the EU's economic policies over the last decades, such as deregulation, the primacy of economic criteria in all areas of life as well as an overemphasis on profit and growth. The current crisis is to a large extent a crisis of trust towards the financial and political institutions and towards the system, which provoked it."

In their open letter, the churches stress the ethical dimension of the economic crisis: "Our societies are suffering from a lifestyle which is focusing on individual profit, consumption and greed rather than taking responsibility for the common good, the well-being and the future for all people and for the world we are living in."

Church and Society Commission, Response to EU Strategy 2020, January 2010

"The success of the social market economy scheme substantially depends on the value basis and the ethical behaviour of all stakeholders. In a global and interdependent economy, in which the risks of abuse have sharply increased, it is more imperative than ever to increase awareness of moral obligations and social values and to sharpen consciences."

CSC-CLAI joint document, April 2011

"The economic order itself, the relationship between economy and politics, as well as between economy and society, economy and environment, and economy and individual is being questioned

- We recognise that GDP is not an adequate measure of well-being and often not relevant when attempting to assess just distribution and improved life options for the majority. GDP often hides gross inequality and systemic injustice. Apart from the inadequacy of GDP as a proof of the success of globalisation, we should also stress that any mention of economic growth needs to seriously and critically view how this growth was obtained...
- The current global crisis has revealed, along with dramatic economic and financial losses, what caused or contributed directly or indirectly to the crisis: deregulation, loss of efficient control over financial transactions, the existence of tax havens, the rise of virtual money, the virtual economy, speculation detached from the real economy and an unsatisfied desire for virtual wealth...

There is a deep-seated recognition of the need for change. Technical improvements in the existing model of state supervision over the finance market are not sufficient. What is required is the reform of basic principles of the system in order to improve the service given by the economy to the community and the common good. The financial markets on all levels, from local to global, are very important for the economy and society. But they are not a goal in themselves; they have to be a service for a human-centred economy."

Conclusion

The current crisis is one of the deepest challenges the EU has had to face since its founding. Its scope and character give a number of reasons to pose the core question as to whether it is possible to find a solution to these complex problems within the existing economic system. Has not the time come for more radical questions and proposals, for example, the adoption of new indicators of economic performance which go beyond GDP and take into account social and environmental factors? How can prosperity based on debts be sustainable? Should a new work time scheme be adopted, etc.? Along with these questions, those putting up front again the basic parameters and values of modern European construction should not be underestimated. In particular, the values of solidarity and justice are being challenged in facing the current crisis. What is the meaning of solidarity in the European and global context? How can justice be established in view of current challenges? The involvement of churches, their contribution to the debate and raising the right questions may be of crucial importance in this process.

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