Ask not what Europe can do for you - ask what you can do for Europe

When he became President of the United States in 1961, John F. Kennedy found a country that was going through a tough time. To exit the recession, clear leadership and broad citizen support were required for the programme of reforms to be implemented. This spirit was reflected in his investiture speech when he pronounced some words that, over time, have become famous: «ask not what your country can do for you - ask what you can do for your country». Like the US economy at that time, Europe's economy is currently going through a tough period. In this case, however, it seems impossible to imagine any European leader speaking similar words.

The very nature of the crisis has meant that, to date, a large part of the debate has focused on the improvements that must be made to Europe's institutional design; in other words, what Europe must do for us. The international financial crisis highlighted important structural problems both at a national level and also in the very foundations on which Economic Monetary Union (EMU) was built. These have not been easy to identify as the origin of the crisis was different in each country. The trigger for the crisis in Greece, for example, was the huge decline in national accounts and the country's inability to sort them out; in Ireland, however, it was the bursting of the real estate bubble and its impact on the financial system; while, in Portugal, it was structural competitiveness problems that raised doubts regarding the sustainability of the country's economy.

Three crises with a different origin but which have ended up affecting the euro area as a whole and serve to illustrate the three areas in which it's believed European institutions must play a key role from now on: greater fiscal control, macroeconomic imbalances and the financial system. Identifying these three areas of action was no easy task but it has been even more difficult to agree on their content and draw up a roadmap: i.e. to define an ordered list of priorities and the pace of action. At certain points, the meetings of Ecofin and of the European Council, covered very little by the media before the crisis, have become crucial for the euro's future. The different positions defended by each country, which have sometimes appeared irreconcilable, have attracted everyone's attention, forcing into the background the significant progress already made in each one of the three aforementioned areas.

In the fiscal area, a Europe-wide schedule has been defined to coordinate the production and approval of budgets for each country so that European institutions can be involved. A mechanism has also been established to supervise macroeconomic and financial imbalances. European institutions aim to detect potential imbalances early on, both macroeconomic and fiscal, and make recommendations for the different governments of each country to take into account when producing their budgets for the coming year. For those countries under an excessive deficit procedure, however, the European Commission's recommendations will be obligatory as, if they're not met, penalties could be imposed of up to 0.2% of GDP.

Significant progress has also been made in what is now called banking union. The most relevant: the European Central Bank (ECB) will become the ultimate body in charge of all Europe's banks. In principle, it will only directly supervise those banks with assets over 30 billion euros but, if deemed necessary, it can also oversee smaller institutions.

The progress has therefore been considerable but there's still a long way to go. For the moment, the roadmap drawn up in the area of banking union is the only one that seems to be advancing at a good rate. At the European

Council summit held in December 2012, it was agreed that the ECB would start to exercise its supervisory functions as from March 2014. Moreover, it was agreed that, at June's summit this year, the operational framework would be defined for direct bank recapitalization, as well as bank resolution mechanisms and the deposit guarantee scheme. Among other things, this will serve to definitively break the link between bank risk and sovereign risk which has been fuelling the sovereign debt crisis until now.

On the other two fronts, however, the progress made at the last summit was practically zero. This was hugely disappointing as, a few weeks before, a document had been published signed by the four presidents of the top European institutions detailing an ambitious roadmap both in the fiscal area and regarding the role that should be played by European institutions in preventing and cushioning macroeconomic imbalances.(1) Among the different proposals made, of note is the development of the European Union's budget capacity to help those countries whose economies have been hit hard to make adjustments. It was also argued that this budget capacity could additionally be used to help implement structural reforms to improve a country's competitiveness and growth potential. Lastly, the document reopened the door to new formulas for creating public debt assets at a European level.

Once again, the most ambitious proposals have not been taken up. It's true that there have been significant advances but a change in attitude will be required to continue with the process of European integration. The reforms that will have to be carried out from now on entail a significant loss of sovereignty. Such steps must be accompanied by greater democratic legitimacy on the part of European institutions. The time has come for European leaders to start thinking about what their countries can do for Europe.

(1) Herman Van Rompuy, President of the European Council, José M. Barroso, President of the European Commission, Jean-Claude Juncker, Head of the Eurogroup, and Mario Draghi, President of the ECB.

This box was prepared by Oriol Aspachs
European Unit, Research Department, "la Caixa"