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# The Euro Zone and the Global Crisis

By JEAN-CLAUDE TRICHET

BERLIN — The epicenter of the worst global financial crisis since World War II, located in the United States since 2007, crossed the Atlantic at the beginning of 2010. As Fed Chairman Ben Bernanke told me at that time: "Now it is your turn."

Three years down the road, four questions should be raised: Are we witnessing a "European" crisis or a global crisis? Why did the epicenter of the sovereign debt crisis of advanced economies move to Europe? What should the Europeans do in the short run? And what should they do in the long term?

One: We are observing a global crisis of the advanced economies — not only a European crisis. Some have argued that the subprime crisis and post-Lehman Brothers developments were an American crisis. We learned the hard way that the financial crisis was global, even if its epicenter was in the United States. Now that the nature of the financial crisis has directly challenged sovereign signatures (that is to say a treasury's credit worthiness), it is still global — but the epicenter of sovereign tensions is in the euro zone.

Two: The euro zone is indeed at the epicenter of sovereign risk tensions because its specific economic and fiscal governance has revealed four major weaknesses. First, the rules of the Stability and Growth Pact — which was the core of fiscal governance and the quid pro quo for the absence of a federal state in the euro area — were not respected. Second, there was no established surveillance of the evolution of national competitiveness, and of national external imbalances. Third, there was no banking union. Fourth, there was no stabilization mechanism to cope with dramatic financial circumstances.

Three: Since 2010, the Europeans have advanced toward a better understanding of their own situation and a proper diagnosis of what should be done. They have decided to correct the four major weaknesses listed above and to embark on reinforced economic financial and fiscal governance — a strongly reinforced Stability and Growth Pact with the solid foundation of the "fiscal compact"; a new pillar for monitoring imbalances and competitiveness, which is now called the Macroeconomic Imbalance Procedure (MIP); a banking union; and the European Stability Mechanism to make crisis management more effective.

This new concept of reinforced financial, economic and fiscal governance — together with the renewed strategic political commitment of all European governments to preserve the integrity of the euro area; the resolute and courageous adjustment pursued by the countries with imbalances; and the determination of the European Central Bank to preserve the transmission of its monetary policy — explain the remarkable alleviation of the tensions over the past eight months.

Confidence is returning and paving the way for growth and job creation. But many challenges are still there. Whatever has been decided should be implemented resolutely, comprehensively and swiftly by governments.

This is no time for complacency. We should never forget that the growth potential of Europe depends on the enhancement of education, creativity, innovation and research and development. This, with the indispensable structural reforms, was part of the Lisbon agenda, and it is part of the "2020" endeavor. It should be at the top of all priorities.

The stability and prosperity of the euro area itself — those already in it and those preparing to be — depends on the success of this endeavor in the European Union as a whole.

Four: "Political union" is often presented as the culminating and final stage of European Union. The paradox is that a lot of political union is already being implemented — the decisions made recently to reinforce fiscal economic and financial governance are significantly fostering political union. The crucial issue is that it should be accompanied by comprehensive, effective and fully legitimate democratic control.

Innovative proposals are being made, in particular by the president of the European Council, Herman Van Rompuy; the president of the European Commission, José Manuel Barroso; academics and many others. All must pass the litmus test of the following four principles: full democratic accountability, effectiveness, fairness and subsidiarity — that is to say, putting at the level of Europe what can be solved only at that level.

I am convinced that new, innovative ideas could meet the four principles. A common factor would be a significant reinforcement of the powers of the European Parliament, in liaison with national parliaments where and when necessary, as foreseen in the Fiscal Compact. The next election of the European Parliament in June 2014 will be of extreme importance.

The future of credible European governance is among the topics being discussed this weekend at a meeting of the Trilateral Commission in Berlin.

Jean Monnet, the chief architect of European unity, famously said that he did not know what the Europe of tomorrow would be because today's changes would bring unexpected evolutions. We see now that past and present changes are paving the way for major steps in Europe's unification process — including a full and necessary democratic accountability of a political union.

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