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The Crisis, Europe, and Long-Term Investment[1]

No ordinary economic cycle affects our economy – it is crisis that confronts us.

Coined by the ancient Greeks, “crisis” signals a detour, a break in continuity, an alternative path or directional change. Europe need only agree on priorities and commit to a sense of common purpose to overcome current challenges for ours is a generation of unusual resources and potential, a generation eager to shape its destiny.

A common market and currency, successfully span the continent, yet unified “governance” has been lacking. In the wake of the crisis, a new architecture is issuing forth, one that is not just economic but also political in nature.

The structure rests on a foundation of four pillars: The European Central Bank (ECB); the European Financial Stability Facility (EFSF); the mew Stability and Growth Pact (SGP); and a common austerity in fiscal policy that argues for a more disciplined and rigorous approach. Two of the pillars shield

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against external threats, while the remaining pair are intended to enhance domestic order and security.

The external pillars include a next-generation ECB, conceived pre-crisis yet compatible with the Treaties, which resembles, in some functions, the Federal Reserve. The EFSF furnishes further support, drawing on the political power of the Union to fortify its currency, and thereby insures greater security and reinforces the cohesion of the European people.

The internal pillars consist of the "new" Stability and Growth Pact, essentially a political mechanism cementing the core of the Union and providing for a progressive transfer of power from the individual states to the European community. "Discipline," the fourth pillar, congenial with the essence of the Pact, is a call for temperance and heightened responsibility in an effort to reverse the continental tide currently showing Europe producing more debt than wealth, more deficit then GDP.

New policy must imprint itself on reality: For the first time in decades, without historic colonial revenue providing a convenient escape hatch for debt, governments no longer control "the numbers;" rather, it is "the numbers" that dominate governments. While today's numbers within government budgets do not allow much space for manoeuvring, supporting economic growth is crucial for achieving Europe's ambitious financial consolidation goals.

To strengthen fiscal policy and increase market competitiveness, significant effort must be focused on long-term investment in such strategic sectors as infrastructure, energy, environment, research, and biotechnology.

Government resources alone are insufficient to finance the tremendous demand for European long-term investments as well as to promote attractive conditions to increase the inflow of private capital for long-term Euro-denominated financial instruments.

Savings in global markets are accelerating especially in upcoming and high-growth countries, and increased demand for long-term, low-risk financial instruments is coming from pension funds, insurance companies, and sovereign wealth funds.

With the adoption of new financial instruments and commitment to a new common framework of rules, a flow of foreign funds could finance Europe's strategic investments, ignite an engine of growth, stimulate healthy competition, and spur the Union's social cohesion.

The message of the Long-Term Investors Club is spreading throughout Europe and beyond: New accounting rules for long-term investors and investments; fiscal incentives and disincentives respectively designed to strengthen long-term investments and discourage speculation; and a fresh set of financial instruments created by Europe's large national development banks, together with the Commission and the EIB. The European Fund for Energy, Infrastructure, and Environment (The Marguerite Fund), which I proposed at the Autumn 2008 Ecofin and now fully operational, is an example of what can be accomplished with your positive determination and efficient organization. Such effective cooperation and successful implementation augur well for Europe's collective future.

While attracting capital to Europe is essential, also needed is correction of the distortions caused by a regulatory framework that favours short-termism and speculation while disfavouring long-term investments in key sectors of the economy critical to the promotion of sustainable growth and higher levels of social cohesion.

Long-term vision must inform and animate the general principles of the *new world governance;* the development of enduring constructive assets in a healthy united world community will permit Europe and her global partners to thrive.

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