

The European Commission

Re.: Public debate on the review of the EU economic governance

The following response constitutes the official position of the Swedish Union of Tenants¹ regarding the Public Debate on the EU Economic Governance Review²

The Euro zone would need to codify the relation between each member and the zone as a whole, regarding national debt guarantees. Furthermore, the Euro zone must take a greater responsibility for all types of investments and as a consequence establish some form of on-going transfer system channelling resources from more economically dynamic members towards less dynamic ones. Lastly the Euro zone needs a stimulus system for economic downturns.

However, non-Euro zone members do not require the same investment assistance, transfer system or stimulus aid as the Euro-zone members. Thus, regulations regarding debt could be loosened, leaving to each state a wider spectrum of decisions regarding debt and investment levels.

For some time been, the European Union has been accumulating economic imbalances between the member states. This is best depicted by the north–south divide, represented by two of the most populous countries in the European Union; Germany (north) and Italy (south). Germany has had a steady economic growth for many years, whereas Italy has experienced stagnation. Adding to the picture France, with severe and permanent trade deficits, complicates the issue of economic imbalance within the union. Since 2008 these relations have been amplified, but the pattern is visible since around 2003, and coinciding with the introduction of the Euro.

Countries, that before the introduction of the Euro experienced economic stagnation, would over time see their interest rates rise and currency depreciate. This development limited their possibility to carry excessive debt and as long as the debt was denominated in the domestic currency, high inflation limited the debt-to-GDP ratio over time. This raised the possibility for stagnant countries to increase debt and stimulate their

¹ The Swedish Union of Tenants have 534 000 household members and represent 3 million tenants in annual collective bargaining of rents in Sweden.

² https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/economic-governance-review_en

economies in economic downturns. With the introduction of the Euro, this is no longer an option.

As a result of the the debt crisis of 2009, the Euro zone effectively came to guarantee the national debt of its member states and since interest rates (and official inflation) are stable and relatively low regardless of the debt-to-GDP ratio of each member state. This development combined, lead to the further integration of the Euro zone members, creating the necessity of a common set of rules regarding national debt.

What the Euro member states are experiencing is integration, and more intimate coexistence. However, it does not necessarily imply harmonization and members growing more economically alike. Instead, this process of integration is relating member states to one another in the same way that different regions within each member state relates to one another, with some regions being relatively stagnant and others relatively dynamic.

Stagnant regions of all countries would always benefit economically from a regional currency depreciation that would improve regional trade balance, increase inflation and over time lower the regional debt-to-GDP ratio. This is not possible, instead regions take on the debt they can carry, and as a consequence rarely see the debt level decrease. When economic downturns appear, stagnant regions can't stimulate the regional economy and thus, rely on the state to finance and distribute the stimulus. These stimuli are rarely distributed as loans to the stagnant region, and if the region fails to deliver basic government services to its population the state will take on some part of that responsibility too. If the region cannot make good on its regional debt the state will always be the last guarantee of that debt. How and whether this relation is codified differs between countries. For similar reasons the state also carries some responsibility for infrastructure investments and in some cases, that basic government services are provided to the public. This is always a process of transfers from more economically dynamic regions to more stagnant ones. The Euro zone lack these kinds of specific transfers that are needed in a single currency region.

Instead the EU has adopted a set of regulations that apply to all member states regardless of Euro membership status, regulating accepted debt and deficit levels. The combined consequence is that government investment to GDP are below historical levels in the union, Euro members performing worse than non-Euro members, while debt levels remain high among stagnant Euro members.

Since the Euro members are jointly guaranteeing the national debts of all Euro members, rules regulating national debt is a necessity. That is,

however, not the case regarding non-Euro members. Non-Euro members are not experiencing problematic levels of government debt and if debt levels were to rise to unsustainable levels, depreciation of national currency would aid the situation. Thus, the current national debt regulation is an unnecessary constraint on the possibility of non-Euro member states to invest and stimulate their economy as they see fit.

Since the consequences of national debt and ability to adjust to economic downturns differ between Euro members and non-Euro members, rules and regulations also should. Also, the Euro zone will have to establish some continuous transfer from its economically more dynamic members towards its more stagnant ones. In times of economic downturn, the Euro zone will have to carry the responsibility of stimulating the economies of its member states since the more stagnant members will have debt levels that will hinder them from creating that stimulus.

This implies that the EU rules regarding national debt among non-Euro zone members can be largely abolished. When exchange rates, interest rates and official inflation are all determined within a member state and no debt guarantee is implied by the union, the decisions regarding optimal debt and investment level ought to be decided within that single state.

Establishing a system or procedure for investment aid, only concerning Euro members, while simultaneously abolishing debt regulations regarding non-Euro members, would optimize investment levels throughout the union and help create a positive coexistence among all EU members.

Housing shortage is a general phenomenon in the EU and decreasing public investments often entail a worsening of the housing shortage since housing construction often dependent on necessary public investments. Also, social and affordable housing is often a direct part of public investment.

The specifics of Sweden relate to the rules regarding national debt, deficit and investments. Despite low debt to GDP ratio and somewhat high levels of public investments, Sweden is experiencing investment shortages, especially regarding housing. The investment hindering EU-regulations regarding public support for affordable housing and infrastructure are steering needed investments away from housing and infrastructure resulting in sub optimal investments decisions.

About the Swedish Union of Tenants

The Swedish Union of Tenants is a democratic membership organisation for current and future tenants. We are politically independent and in excess of half a million households are members. This makes us one of the largest social movements in Sweden and also the main representative

of tenants across the country. Our mission is everyone's right to quality housing at a reasonable cost. In addition, all tenants should be guaranteed accommodation that is secure over which they have influence in the context of their community.

The Swedish Union of Tenants negotiates for any tenant requiring our assistance – we represent nine out of ten rented households in the collective bargaining process. Each year more than 100,000 members require advice and help from the organisation in their dealings with landlords. Approximately 10,000 members have also chosen to get involved as elected representatives.

More information:

<https://www.hyresgastforeningen.se/in-otherlanguages/>

The Swedish Union of Tenants

Ragnar Bengtsson

Housing market analyst

Norrlandsgatan 7 Stockholm

T: +46 10 459 11 42

E: ragnar.bengtsson@hyresgastforeningen.se