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What do you think ?

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Subject: Guardian

Guardian Article

By Ed Balls & Peter Mandelson

The coming months are critical for the future of Europe. Jobs and business investment - in Britain and across the Euro area - depend on Europe's leaders choosing the right course. There is now a real danger that Europe will get locked into a sterile argument between growth and deficit reduction. The truth is that we need the right combination of both - action now to get Europe's economies growing and creating jobs, tough medium-term action to get public finances back into shape and a long term strategy for growing the continent's productivity and skills base.

It is true that the two of us disagreed on the case for British membership of the single currency. We agree however that the single currency needs to survive and succeed and we are worried that Europe has so far identified only half the solution. There is a real danger that binding countries which are struggling to reduce their deficits by ever larger cuts and tax rises to meet the new structural deficit and debt targets will become self-defeating - economically and politically. A collective strategy too focused on cutting away at the demand created by public

spending is compounding Europe's problems just as it has Britain's. Markets are worrying that the policy mix has become imbalanced, to the detriment of economic recovery.

It is vital that Europe's strategy permits a more sustainable approach to debt reduction through growth and long term fiscal responsibility. Growth needs the demand that comes with reviving confidence. Many European corporates and consumers are struggling under a heavy burden of debt and deleveraging. But many also lack the confidence to spend and invest because they see only an uncertain future. Countries cannot duck tough decisions on tax and spending. But nor can they ignore the vital need for economic growth if deficits are to be brought down successfully and done so in a fair way. Europe needs a plan for growth.

At the heart of Europe's problems is the fact that the Eurozone does not have the institutions or political machinery to project confidence in its own future. So, first, it needs a new political settlement. It needs an ECB willing explicitly to stand in the way of sovereign cost contagion from the periphery. It needs an active European Stability Mechanism able meaningfully to support short term sovereign liquidity and the recapitalising of a European banking system that needs to deleverage before it can start lending again.

It needs a system of collective economic governance among Eurozone states that ensures everyone plays by the rules: some form of greater fiscal union. Those rules need to recognise that Germany's persistent current account surplus undermines the currency bloc as much as Greece's fiscal imprudence or Spain's current account deficit. It needs a clear acceptance in Germany that it faces a period of above-Eurozone average wage rises and inflation in order to fix the imbalance. This means challenging a basic view of the Eurozone in Germany, but German finance minister Wolfgang Schäuble is already recognising this must happen.

Second, Europe needs to boost public investment in the demand that will help drive growth, the European Commission is urging. A serious

capital list for the European Investment Bank is desirable in order to help provide fresh sources of infrastructure investment, as are infrastructure bonds that help counter a stalling private appetite for large scale project finance. Unused structural funds must also be re-cycled into fresh programmes for these funds' use, targeted in investment projects in the weaker Eurozone states that help plug them better into the large markets of northern Europe. A huge new wave of European infrastructure investment would not only provide short term demand, but leave us with a better networked, better integrated, more energy efficient singlemarket.

Third, in the longer term, growth will depend on structural reforms so that struggling Eurozone countries become more competitive. Europe needs to raise economic participation rates, make it easier for businesses to grow and take on workers, improving competition in some product markets, and improve its skills base. These reforms were set out in the Europe 2020 plan. They need to be genuinely owned by European governments, who like the best and most innovative of the American states, should be watching and learning from each other in testing new approaches and defining best practice. The European Commission's key role should be to help spur this informal race to the top in public policy.

And Britain's role and place in this process? It should be at the centre: bringing its own experience in banking reform and labour and product market reform to the table, irrespective of the fact that it is not in the Eurozone. The reality is that there is no bad outcome for the Eurozone that is not a bad outcome for Britain, so this is a perilous time for Britain to be increasingly isolated and politically disengaged. We are not simply doing our European neighbours a favour by playing our part in a revived European economy. We are securing our own economic future.

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