

Waterloo Commentary 6

Europe's Long Hot Summer

The past 6 months have been among the most difficult in the EU's history: we have been living through crisis that is financial, economic, institutional and political.

No-one emerges well from the Mediterranean debt crisis at the origin of these difficulties:

- not financial institutions, which have fuelled the crisis by the irresponsibility of their decisions, most obviously through stoking up a quite unsustainable property boom;
- not spendthrift governments, one of which appears to have wilfully deceived its partners about its GDP/debt ratios over ten years;
- not the EU's institutions some of which knew of the problems but stayed silent; and which until recently have acted too late and too little;
- not member state governments which for years thwarted any project for economic governance, including refusing to subject national statistics to some form of European oversight; and who are now competing in a kind of austerity Olympics, threatening long term depression in the debt crisis countries, and sluggish growth throughout the Union which would completely undermine the Europe 2020 targets, just adopted.

In this sorry saga, the media have played a particularly nefarious role. To read in supposedly serious newspapers that the poor showing of Mrs Merkel's candidate for the German presidency could lead to the downfall of her government and the collapse of the euro; or that the results for Mr Bart de Waver's party in the Belgian elections presage the dissolution of Belgium and the disintegration of the Union is to understand how far the eurosceptic hysteria has reached.

Every week a new bout of speculation is triggered. We are told one day that Euroland countries will not be able to service their debt- a minor market panic ensues; when next day contrary to the media reports the deadlines are met and the payments made, this is deemed as not being newsworthy. We are informed 'on good authority' that even now the German central bank is secretly printing deutschmarks in preparation for the collapse of the euro.

This is not simply nonsense; it is garbage with a political agenda.

The 'inconvenient truth' here is that the euro is not going to collapse; that belatedly and half-heartedly perhaps, the measures are being taken to restore its fortunes, and to provide a more solid basis for the management of the currency in future years.

Despite all the difficulties, progress is being made on economic governance;

- There was a balanced rescue for Greece with a massive debt reduction plan 2010-2014;
- a more substantial backstop package for others for the future;
- stress controls for European banks;
- multilateral surveillance measures including early checks on national budget proposals in the pipeline;
- more authority for the European Statistics Office to prevent misleading massaged statistics from national capitals.

And, in the future it now seems realistic to expect;

- an early, final agreement this autumn over new rules for credit institutions;
- some form of European restrictions on short term speculative selling;
- new European-wide rules on bank deposits;
- European-wide bank levies;
- and, subject to the outcome of the Van Rompuy task force - now expected to conclude its work in September- other measures later to strengthen economic institutional governance, with perhaps tougher penalties than those in the Stability Pact, as well as the first proposals for new European instruments to counteract speculative flows (a European Monetary Fund? European bonds?).

In the long run, some of these measures may require Treaty change, as the Germans want. Van Rompuy was right to be cautious, but it may be the only way forward. Interestingly the British have signalled that they will not oppose Treaty changes to bolster the euro, provided of course that they do not apply in the UK. But at least this is recognition that a faltering euro would be bad for the economies of all member states, not just of those in the euro.

In short, there have been more changes in the way the euro is being managed and more progress towards a common economic policy in the last two months than in the previous ten years.

All member states have been quick to produce plans to cut public spending. And at the G20 they managed to put up a more or less united front. What is still missing is any sense of coordinated action to stimulate domestic demand, and to improve Europe's long term competitiveness.

The paradox is that Greece and Ireland are now proving to be a magnet for Chinese and Indian inward investment. Beijing and New Delhi are filling the vacuum in the absence of decisive economic cooperation measures from Brussels, Berlin or Paris.

The review of EU finances, which will kick off with a Commission communication in September, should be the start of a serious debate as to how to harness the albeit very limited budgetary resources of the EU to promote the longer term competitiveness of member state economies.



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This economic crisis comes at a time of political unease in Brussels and in the leading member states. The new Commission appears to have lost territory during this crisis, with the lead role being taken by the European Council, and its President. And there would seem to be a consensus that because its flagship programme, 'Europe 2020'- drawn up before the crisis of the past two months- relies so much on the instruments of the Lisbon Agenda, that it is destined to suffer the same fate.

Many of the governments of the member states are also in the doldrums and no longer have sufficient political will or authority to pursue ambitious European objectives.

This is in general bad for Europe. But the weakness of the member states may also be a chance for others although not probably for the Commission.

The European Council is now a very different body; does not fit the classification of either a purely intergovernmental or community institution; and has a President who is seizing the opportunities that Europe's state of political flux has provided. If Van Rompuy, on the basis of the proposals from his task Force can come forward with strong initiatives to prevent a recurrence of these monetary crises, and put forward achievable reforms to the governance of the Euro, his political contribution can be a great one.

It is also a chance for the European Parliament whose growing seriousness and proficiency as legislator- where time and again it is acting as the lead institution in finding the necessary compromises, and whose political cohesion has been even stronger since the 2009 elections- has yet to translate to a wider political profile.

Europe will soon have its customary shut down for the summer. It has weathered the immediate storm, but renewed turbulence is likely to test it in the autumn.

Bonnes vacances!

Julian Priestley,
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