

The Waterloo Commentaries

FINANCIAL TRAVAILS

Time is a precious commodity. The European economy is still in the doldrums, and Europe's competitiveness continues to fall behind that of some of its main competitors.

The financial crisis has blown efforts towards fiscal consolidation, pursued over ten years out the window. EU member states now have deficits averaging 7% of GDP; and debt levels now amount to- again on average- 80% of GDP. While the most alarming deficit problems- and the consequent credit problem- have tended to be for those member states not participating in the euro- we have seen that euro membership is a guarantee neither of fiscal rectitude and discipline, nor of immunity from the consequences.

Much attention has been paid to the financial travails of Greece and some of the southern European Euroland countries, but in truth none of the sixteen euro countries today respects the 3% of GDP debt ceiling which is stipulated in the Pact for Growth and Stability which accompanied the introduction of the single currency.

In its response to the financial and economic crises the EU seemed at first to be more surefooted than the US. And at the G20 meetings has generally arrived at a clear-cut position. But internally, the EU's decision-making capacity has been disappointing, with the necessary decisions taken late, exacerbating the initial problem, and only intervening at the eleventh hour, with the pistol from the markets pointing at its head.

But on 10 May at 2am in the morning the Finance Ministers did take the necessary decisions; and these are of the greatest importance. In short, for the first time the Union has given itself the means and the resources to defend its currency. For the first time the Central Bank has been given the authority to intervene, and the institutions the access to finance to support vulnerable member states. In parallel, a form of economic governance is being brought into play, with member states who seek support to overcome their deficits having to subject their fiscal and spending policies to review by their peers.

For the single currency countries we have rules to safeguard stability, but no sanctions to ensure that they are applied.

The European Central Bank is still constitutionally limited in any help it can provide to member states in financial difficulty. And in the absence of a permanent European Monetary Fund, the IMF is called in to supplement efforts of our Finance Ministers.

Without resources, far greater than those available under either the EU's current budgetary system, or through mechanisms like the European Investment Bank, then any notion of a European economic policy is essentially one of exhortation and encouragement- the cruel limits to the effectiveness of which we have witnessed in the past ten years.

There is no shortage of proposals- for a European bonds issue, for a debt management agency, for a European Monetary Fund, for a public European ratings agency, for sanctions to be applied to member states that mire themselves in debt. But we are told that any major reforms to 'economic governance' would require Treaty changes and that that places them off the agenda. And it is true, of course, that some vaunted the idea that the Lisbon Treaty was the last word on institutional reform- and that there should be no further institutional debate for ten, twenty or even fifty years.

But should we accept this approach? Is this really the best Europe can do? To close off this discussion would be to accept that the new building will forever lack a roof and fittings.

The State of the Union economically is troubling: this is a problem for the Europeans, but, because the EU remains the world's largest trading bloc, it is also a problem for our partners. The structural economic weaknesses can only be resolved if Europe's leaders can summon up the political will to address the shortcomings in the existing institutional framework, and, possibly to create a new one.

The Lisbon Treaty was a significant but modest step in the right direction of making an enlarged European Union work better. But the task is far from complete.

Ten years ago, before the most recent enlargement, the EU set itself the ambitious goal of becoming the world's most competitive economy. The process by which this was supposed to happen was called, confusingly, the Lisbon agenda. The target date was this year. But even before the global economic and financial crises, the targets were being missed.

Now we see that in many respects, the EU's relative economic position has actually deteriorated during the past decade. In 2009, GDP shrunk by 4%- the worst figure since the 1930s. Industrial production fell by 20%. EU unemployment levels this year will exceed 10% with a truly shocking figure of 21% for young unemployed.

The demographic backdrop is also alarming. The population in the EU is going through an ageing surge. But we have been spectacularly unsuccessful in keeping older workers in the labour market (46% compared with 62% in Japan and the US).

In terms of research and support for tertiary education, we continue to miss the targets set ten years ago, and to lag behind our competitors in both the public and private sectors. If one takes a narrow but significant statistic; fibre optics provide high-speed high capacity broadband for 50% of computers in Japan, 40% in Korea and a paltry 1% in Europe.

For its longer term economic competitiveness, the EU is currently examining the successor approach to the Lisbon strategy. The basis is a Commission communication called 'EU 2020'. The analysis is sober. The prescriptions are almost certainly correct. Member states will very probably be able to subscribe to its conclusions. What is lacking is still the means to ensure the meeting of the targets.

For, in reality, what we have in talking about a European economy is unfinished business. We have a set of rules to allow a large domestic market to function. We have a single currency, for a majority of members of the EU. But, at least until the ad hoc decisions this weekend, we lack a European Treasury, or an authority to access capital on the scale required to underpin the structural changes that are essential to Europe's competitiveness step-change.

Europe has always been a question of the self-interest of its members. For some this is largely economic- a large market, the support for agriculture, the structural aid which has transformed the economies of the less developed member states. For others it has been more political- greater stability, security against any return of Russian expansionism, the way for small countries to punch above their weight, the anchoring of Germany in a peaceful Europe, the means of preserving Europe's way of life.

Hence all 27 member states have come to the view that their destiny is a European one. In practical terms that means making a success of Europe's institutions, and getting them to work more efficiently in an enlarged Europe.

Let me take a recent example. For many years Europe has talked about common management of its air space. For years, the negotiations stalled. It took a cloud of volcanic ash from Iceland in the middle of April this year to unblock the talks, paving the way for ministerial agreement at the beginning of May. So Iceland has at least in this area made one involuntary but positive contribution to European integration.

The methods by which the successive EU Treaties have been drafted, the particular topics covered, the way in which citizens were involved has varied. But the overriding objective has remained the same: make the enlarged EU work better, more efficiently and more democratically. So each Treaty has tried to extend the number of areas where a majority could decide, and where the directly elected European Parliament could shape decisions. This culminates in the Lisbon Treaty which stipulates that for all basic legislative and financial decisions, support from a majority of the 27 member states and a majority of MEPs would be necessary.

But Lisbon goes further. It seeks to tackle more than just the way that decisions are taken. It tries to improve the way the Union is led and represented. And it tries to enhance the efficiency of the Union in its activities outside its own frontiers.

Of course, Europe being Europe, the first few months of the new dispositions have been characterised by some wrangling, uncertainty and confusion. The six-month rotating presidency of Council continues for other policy areas- like transport, agriculture, competitiveness, the budget. And at first, these national presidencies did not seem to realise that the new Treaty brought to an end their primacy in the political and external spheres.



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The initial appointments of Herman Van Rompuy and of Catherine Ashton as, respectively, President of the European Council and High Representative, gave rise to much press criticism- in part fuelled by the belated promotion of the former UK Prime Minister's candidature for the Presidency which most observers had ruled out.

The nominees were portrayed as compromise candidates who would in no way cast a shadow over national leaders in Germany, France and the UK. I would only say that it is sometimes better to reserve judgment, and that in this complex, diverse Europe, leading great charges from the front is rarely an option.

There has since been an ongoing squabble about the competences of and influence over the new external Action Service. This was perhaps inevitable as national foreign ministries finally woke up to the significance of the service they had contributed to creating. The final launching of the service must now be as quick as possible; once established, it will take some time to start operating smoothly; and delays will inevitably hinder the effectiveness of the activities of the High Representative.

Our partners may watch these developments with a mixture of bemusement and scepticism. They should not underestimate the audacity and the novelty of the task undertaken. In the end, the service will be established, it will play a role, and the difference will be notable. But it all takes time.

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