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75 EUROPE'S WAY OUT OF THE CRISIS: Time for a "Grand Bargain"

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"A disconcerting amount of optimism" came out from the snowed peaks surrounding Davos this year", as editorialized by the Financial Times at the beginning of 2013. The world elite looked a little more cheerful, compared with last year's meeting where "many expected the disintegration of the euro to add to the problems of depressed economies in Europe and the US. Their worst fears, however, have not been realised."¹

The fact has been that financial markets' mood improved during the months which followed, sovereign bond spreads decreased, ECB backing yielded better financing conditions and steps towards a banking union were taken in Brussels, even if the main disagreements persist, as Germany wants to have joint supervision, but no mutual deposit guarantees. All this certainly helped to create a

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The financial problems – which added to the already preexisting problems of legitimacy of the European institutions due to their "democratic deficit", and the evidence of the lack of real capability from governments to confront corporations and financial markets, have prompted an alarming process of potential political disintegration in Europe.

While it is true that addressing structural imbalances and weaknesses of the southern economies demands hard work and sacrifice, the disregard of the social plight of millions of people is dangerous. A politically disunited Europe (or rather a Europe only united by the debt problem) will have a negative systemic impact in the global economy.

Europe is –and the world sooner than later will be– confronted with an ageing society, with the challenge of providing welfare without macroeconomic growth, with inventing a low carbon economy, with providing accountability but losing sovereignty, and with managing a multilingual and culturally diverse democracy.

Only a "grand bargain" between major European political, economic and civil society actors and institutions can revert this critical situation. True, for that bargain to materialise there are persistent powerful obstacles such as the nonexistence of an articulated European public opinion and the difficulties of the emergence of actors –not least political parties– able to go beyond the national linguistic boundaries.

Europe finds itself at a crossroads: it either undertakes a collective action that takes responsibility and fosters a political and democratic Union, or falls over and disintegrates. Again, only a "grand bargain" among European major players and the people can bring a better, peaceful and democratic future for all.

more positive climate in Europe throughout the first half of the year.

And yet, the global financial climate deteriorated again by mid June and turmoil came back to European markets, including sovereign bonds' spread in southern countries. As seen from the dry plains of Spain, with a GDP plunge of -1.3 % in 2012, a further -0.7% in the first half of 2013, unemployment skyrocketing well above six million people (one in four Spanish workers is out of job), and with Portugal, Greece and Italy in a permanent political instability and deepened economic downturn, Europe's crisis does not seem to have receded much.

While the way out of Europe's economic and financial crisis, it is said, is an already foreseeable development for 2014, present political and social scenarios depict a far more gloomy state of affairs than the atmosphere reportedly perceived from the luxury Swiss skiing resort at the beginning of the year.

1. Financial Times, Editorial, Saturday January 26, 2013

The upcoming German elections in September seem to have frozen any of the urgent stimulus measures that have been gathering momentum among most governments across the continent, not least in Paris, Rome and Madrid, once the failure of the one-dimensional policy of austerity and overall cuts in public spending is becoming apparent.

With European parliament elections already in the horizon for late May 2014 and Euro-skepticism on the rise, it is becoming increasingly urgent to put in place a comprehensive political action that would push Europe out of a deep governance crisis that is proving to be dangerously toxic for the European Union project as a whole. It is time in Europe to broker a Grand Bargain.

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Interlocking Crisis

Over the last few years, Europe has been affected by at least three serious interlocking crises that are hitting different parts of the European Union asymmetrically: an economic and financial crisis, a crisis of legitimacy and efficiency of the EU institutions, and a crisis of democracy – both at a European level and at the level of the different national democracies. This latter crisis is manifested in the estrangement of citizens from democratic institutions and an erosion of the values of freedom, accountability and trust through representation that have been at the base of the political systems of European societies.

All this adds up into a major governance crisis. We are witnessing a general weakening of the offering of public goods to the citizens and of the quality of our democracies that is hampering the fundamental social pact that cements the institutions of our governance system. Hence, the crisis in the EU is not only economic, but also, more worryingly, political. To give just an example, as a recent paper published by the Istituto Affari Internazionali (IAI) in Rome rightly points out, “A key dimension of it concerns the democratic legitimation by national parliaments of the measures taken to face the crisis. Perpetuating the general trend of de-parliamentarization triggered by European integration, national parliaments find it ever more difficult to control their executives in times of these drastic economic measures.”² On top of this, representation has been weakened and the policy

agenda has been captured by transnational corporations that are “too-big-to-fail”, namely in the banking sector, but also, in a more nuanced and complex way, in the telecom and energy sectors. Any attempt to make them comply with regulation, transparency and greater accountability has revealed a certain powerlessness of governments. This in turn leads to peoples’ disengagement from politicians and political institutions. This is not only true in continental EU, but also in Great Britain and in the US. While the burden of adjustment and austerity has been put on the shoulders of citizens through unemployment and deep cuts in welfare spending, banks were rewarded with bailouts and unlimited liquidity provision.

Recalling some facts from the origin of the global financial crisis might prove, at this point, illustrative of its mutating nature.

When the G-20 met in Washington (November 2008), London (April 2009) and again in Pittsburgh (September 2009) it managed to put together a decisive intervention that fostered what looked like a sharp V-shaped recovery of economic growth that soon turned into a rather long fragile U in hindsight. Dramatic calls for rethinking capitalism at the peak of the crisis ended up in “business as usual” only a few months later.

The financial problems – which added to the already pre-existing problems of legitimacy of the European institutions due to their “democratic deficit” (a legitimacy still vested with the nation states in the absence of a fiscal union and a common foreign policy), and the evidence of the lack of real capability from governments to confront corporations and financial markets, have prompted an alarming process of potential political disintegration in Europe.

Scenarios

Neither a collapse of the Eurozone, nor a continuation of hitherto unsuccessful austerity, looks very promising. In its place, a “grand bargain” on a European level is needed to prevent worst case scenarios that have been hampering the confidence indispensable for the economy to come back on its feet.

The broken Eurozone scenario, with some member states exiting, is a dreadful prospect that was seriously contemplated not that long ago and remains, albeit remotely, a true possibility. In such a scenario, defaults and political resistance would force southern countries out of the Euro (e.g. Greece, Spain, Portugal). External valuation afterwards might increase competitiveness to a certain extent, but will affect the ability to serve Euro debt even more: more defaults would follow, which would affect everybody, including the northern creditors. A Northern exit (Germany, Finland, Netherlands etc.) would be more palatable, but elaborating that scenario would require further extensive discussion that would look too speculative at this point of the crisis.

2. “The Democratic Legitimacy of the EU’s Economic Governance and National Parliaments”, Claudia Heffler and Wolfgang Wessels, IAI Working papers, 13, April 2013

If the defaulting scenario looks ugly, the current muddling through scenario does not look much better. The fact that the German prescribed panacea of austerity does not work is becoming more and more evident and yet little is being done to overcome it. The current scenario envisages the consequences of an internal devaluation of the heavily indebted countries through the adoption and implementation of tough austerity measures. It involves accelerated debt reduction through huge expenditure cuts, public administration shrinks, and job market liberalization reforms. This set of austerity policies is the one currently fostered by policies designed in Frankfurt and Berlin and obediently endorsed by Brussels.

According to this view, the overall aim of these policies is to build a current account surplus that will enable the Eurozone to export both capitals and goods “made in Europe” to the rest of the world. The idea is to revert the delocalization and outsourcing trends that globalization brought to Western economies and, thus, to re-industrialize creating wealth and jobs at home which will revert in economic growth. Yet the likelihood that demand from the US or China could function as an engine of growth for Europe is slim, unless Europeans manage somehow to compete in innovation. The truth is that not everybody in Europe can be Germany: that would not work and will end up becoming pernicious, especially for Germany with its reliance on exports. Both sides have to change: Germany needs to consume more, Mediterranean countries need to export more.

Meanwhile, austerity continues unabated. No matter how alarming the symptoms of corrosion of the social climate are, *Eurocrats* in Brussels and in Frankfurt are keeping the status quo of current policies running, as if the world outside hardly existed, insensible to the deterioration of the democratic quality of the European project. Growing tensions in both the north and the south (including tensions among them) must be tackled before the whole situation deteriorates further and consolidates the worrying rise of toxic ideologies of populism, chauvinism, racism, prejudice and hate.

While it is true that addressing structural imbalances and weaknesses of the southern economies demands hard work and sacrifice, the disregard of the social plight of millions of people is dangerous. A politically disunited Europe (or rather a Europe only united by the debt problem) will have a negative systemic impact in the global economy and, should Europe become relevant, it will not be as a global actor –as it is supposed to- but rather as a global problem.

Finding a Comprehensive Solution

In spite of all the above depicted negative realities and prospects, there are also elements that one could put together to build a positive scenario, one that will overcome the present difficulties and bring the EU project back on its feet.

Elements for some optimism come from recognizing that current contradictions experienced by Europe are not exclusive from the old continent, a land that has shown in the past the capacity of imagining and implementing innovative policies and institutions envisioning a better future for all. Providing a prospective vision for a long-term governance of global problems –from climate change to currency wars- has been an asset that could not be neglected.

We can acknowledge a number of problems identified as European that are clearly present elsewhere. Europe is –and the world sooner than later will be- confronted with an ageing society, with the challenge of providing welfare without macroeconomic growth, with inventing a low carbon economy, with providing accountability but losing sov-

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ereignty, and with managing a multilingual and culturally diverse democracy, as opposed to further fragmentation of old nations triggered by enhanced territorial tensions and internal nationalisms.

All these set of challenges will be faced by the rest of the planet in the coming future. If Europe builds on its strengths and manages to find balanced solutions to this systemic contradictions, those solutions could be valid and inspiring at a global scale in the mid to the long term. Overcoming the current difficulties and putting together imaginative solutions will show the world that these deep systemic contradictions are manageable and can eventually be solved.

Not long ago, the European Union project –including the embattled Euro- was a success story and an example of intelligent, innovative and forward-looking policies for countries and regions around the world. And yet the consequences of the financial crisis and its mismanagement have shown the structural weaknesses of the single currency, the “democratic deficit” of the institutions, and the fundamental difficulties of overcoming ancient national rivalries, deeply embedded into the old European psyche.

Time for a “grand bargain”

We have argued the current coexistence of at least three interlocking crises (finances, legitimacy, democracy) in Europe and described a set of scenarios that go from the very negative *conflict and disintegration* one, to a muddling through scenario, and proposed the idea of a *balanced way out* of the crisis, where Europe rectifies its current direction, finds solutions and goes back to stability, growth and an improved democratic governance and political integration.

This more optimistic set-up will mean finding a sustainable solution to systemic contradictions that are not only European, but of global matter.

A few things have to change, though. In spite of the efforts of the Lisbon treaty, foreign policy very much remains on the national level. The old saying of Kissinger still holds true: What number shall foreign politicians dial if they want to call Europe? Catherine Ashton's? It is unrealistic, albeit the European External Action Service (EEAS) is slowly becoming a true interlocutor and a whole new Euro-diplomacy is paving its way. The problem may rely, nonetheless, on the fact that European elites have been obsessed with the idea of Europe becoming a self standing actor (of playing a major role at the world stage) but should go back to a more humble position that recognizes the European project more as an advanced laboratory of globalization than as a well established classical power and/or an example to follow by other regions.

Next year's European elections must mobilize as from today as much national parties as possible into a real European contest and engage as much as possible the citizens in discussing the political programs to be implemented. Finding the right leaderships will be key for a desperately needed success

Under the present conditions, a solid way out of the current crisis could only be achieved through putting in place a "grand bargain" between major European players at the political and economic level, a bargain that would overcome the current governance crisis and could thus be fully endorsed by the European citizens, building the momentum required for taking a big leap forward.

Such a European "grand bargain" should not be grandiloquent but stay focused. Rather than be permanently worried about finding a unified voice, it is more relevant to the global governance how Europe finds balanced and sustainable solutions that could, if proven successful, be replicated at a global scale. Thus, Europe should concentrate in finding long-term solutions and in fixing and reinforcing its governance institutions and engagement of its citizens, hence consolidating the legitimacy of its democratic project. Next year's European elections must mobilize as from today as much national parties as possible into a real European contest and engage as much as possible the citizens in discussing the political programs to be implemented by a renewed Parliament, a new Commission and a new Council. Finding the right leaderships will be key for a desperately needed success.

At this stage, the idea of pushing forward a banking union that will end up with a political union, in spite of strong criticism -not least from the directly concerned financial markets-, should by no means be abandoned. Pushing the process will mean going through a profound haircut, involving

significant debt reduction in its southern member states (plus Ireland and the UK), a deeper integration between the eurozone and the EU -including a comprehensive reform in the financial sector-, and a thoughtful evolution to do away with macro-economic imbalances.

All these are perfectly identified technical economic measures that will only require a strong political will. Yet that can only come from a reinvigorated European Parliament and executive institutions resulting from a strong turn up to the elections. The prospects of an increasingly fragmented parliament with a myriad of small parties (often carrying a very local and anti-European agenda) should mobilise all national parties, right and left, mainstream or alternative, to become more vocal and articulated in their utter defense of a truly renovated and enhanced European project, a project that is ever more inclusive and situates people at the centre of the political agenda.

Optimism is a duty

We have argued that the current political agenda has been captured by large corporations, characterized as "too-big-to-fail", while the real problems are not being addressed in a responsible, transparent and just manner. Or rather, as political analyst Jordi Vaquer has put it in a CIDOB's interview³: "... current problems in Europe

have to do with the inability of national and EU Democracies to arbitrate amongst interests in a fair manner, as proven by simple, straight-forward facts: governments are being soft with the powerful and hard on the weak (as shown by the different treatment of debt and bankruptcy for families, punished with evictions, and for banks, which are bailed out) and unable to regulate all-powerful markets".

And therefore only a "grand bargain" between major European political, economic and civil society actors and institutions, on the eve of the European elections -once the German ones in September are out of the way, can revert this situation. True, for that bargain to materialise there are persistent powerful obstacles such as the nonexistence of an articulated European public opinion and the difficulties of the emergence of actors -not least political parties- able to go beyond the national linguistic boundaries, as they have persistent state interests and little intention to lose power and capacity to influence the agenda. They are there to work in favour of their corporate interests, among others that of the survival of their own organisations, and evolving into trans-national pan-European actors will take time until they realise that the cleavage of becoming European is actually more strategic than the cleavage to stay national.

3. http://www.cidob.org/es/publicaciones/queestions_cidob/n1_22/democracy_in_europe_the_expressions_of_a_european_disease

If the Euro goes down in history as the failed experiment Euro-skeptics are trumpeting, the probability of a sound governance of global problems will diminish accordingly. And yet, as nobody wants to face such a *Hobbesian* set-up, our duty is to build scenarios able to inspire a positive way out of the present crisis.

The future of Europe is open, and thus what its individual citizens and societies favour and work for can lead to a better outlook. Optimism, Karl Popper once said, is a moral duty. "The future –he wrote– depends on what we do. We bear every responsibility. It's our moral duty, not to predict evil but to fight for a better world".

Europe finds itself at a crossroads: it either undertakes a collective action that takes responsibility and fosters a political and democratic Union, or falls over and disintegrates. Again, only a "grand bargain" among European major players and the people can bring a better, peaceful and democratic future for all. Even though it is not at all with a capital "O", some are starting to see some signs for optimism. With the European elections just around the corner, it is time to create the right transformational momentum: our fellow citizens and our friends in the rest of the world would appreciate if we do so.