

CIDOB'S Conversations with ...



04

JUNE
2013

PAT COX

Former President of the European Parliament (2002-2004) and former President of the European Movement International (2005-2011)

L'Europe, c'est l'espoir?

Francesc Badia & Oleguer Sarsanedas, CIDOB

A television current affairs presenter in a previous chapter of his life, Dublin-born (but Limerick-raised) Pat Cox, unlike many of his colleagues in politics, speaks very clearly so as to make himself understood. He clearly has a special relation with language: his words are carefully chosen and structured into vivid expressions. His discourse is thus both playful and precise, denoting perhaps his academic background as a lecturer in Economics. Just turned 60, his seniority in EU affairs makes him a privileged witness of the unfolding of the current European drama.

We met right after the Cyprus crisis (March 2013) and Cyprus was, obviously, our very first topic. He stared at us with his clear, blue eyes and, sounding almost businesslike, he proceeded to set forth his analysis of what he called "the Cyprus dimension" –that is, for the very first time the Eurozone has seen a bank rescue program "with the concept of bail-in rather than bail-out" (with significant "hair-cuts" to bondholders and depositors). This is noteworthy, Cox says, because it is the first time that such a thing happened and also because it signals intent as regards future bank resolution, as the EU embarks on a process aimed at establishing a banking union. This banking union will have three pillars: first, a single supervisory mechanism; second, a deposit guarantee scheme (for example up to 100,000€), and third, a bank resolution mechanism (that is, how to close down or fix broken banks). Cyprus touches on two of these pillars: "The discussion on whether small depositors should pay a price or not was most unhelpful", Cox remarks, "because it raised doubts as to the trustworthiness of the deposit guarantee scheme. On the other hand, it became clear that bank resolution (as shown in the Laiki Bank case) also may become a future methodology for troubled banks for example in Ireland or Spain or elsewhere in the EU. The toxic link between broken banks and sovereign states has to be cut."

The Irish experience, of course, happened before these talks on an EU banking union “It was the socialisation of bank debts by the sovereign that pushed Ireland over the edge.” Cox uses his broad smile to lead us on to a short master class on the EU. Under the treaties, he explains, the conduct of economic policy is a matter of ‘common interest’. The EU opted for a centralised monetary policy and a theoretically constrained but decentralised fiscal policy. But “if you follow retrospective data for the euro, you’ll see some states have never obeyed the rules, others not always. Common interest exists in law, but it had ceased to be effective in practice as regards spillovers, if ever it was such.” This is pretty hard talk coming from a highly respected European figure such as Pat Cox, but he insists: “Since so many states broke the rules, the Eco Fin ministers developed a practice of lax mutual comprehension, ignoring and ultimately exacerbating the problem” –which is just the opposite of what you might have expected in an increasingly integrated Europe. Moreover, the problems of the past several years have revealed negative spillovers not just in the domain of fiscal policy.

Cox leans forward, as if to share a confidence: “I used to teach Economics and there is a phrase which I like from a book, I think it is, ‘The Worldly Philosophers’ by Robert Heilbroner, where, referring to neo-classical economics, he spoke of it being able to ‘boast of rigor but alas also of mortis.’ In the EU today we *have the rigor*. Without rigor, sustainable growth is not possible --I am somewhat Germanic here”, he jokes. “However, the combined pressure of factors such as - flat line or negative growth - balance of payments deficits and high unemployment - risks to generate a Doom Loop, a downward spiral in the economies most affected in which they can boast simultaneously alas of rigor but also of mortis. If you want *rigor* but not *mortis*, you have to find new tools.” Such as? Cox suggests that Eurobonds and a sufficiently resourced Treasury function at EU level could be among the relevant tools.

The collective budget deficit in the Eurozone is of the order of 3% of GDP. In the US it is twice that and yet they have less economic problems. Why? Most of all it is because in Economic and Monetary Union we lack the necessary policy tools and because our stress points, such as the size of budget deficits, are very unevenly distributed.” Another asymmetry: “many EU states have balance-of-payment deficits, opposite to Germany for example which has a surplus --but if you take the EU as a whole, they compensate each other.” What is needed in the longer term, Cox states, is a European Economic Authority and a Eurozone Treasury: “This is a key issue for discussion, but I don’t know if I’m hearing so much about it!”

What will happen after the German general elections (due in September 2013), nobody knows. This we do know: nothing dramatic will happen before then and perhaps not much change after. Let us wait and see. There also will be the European Parliament elections in the EU as a whole (May 2014). The European Commission will have to be renewed, as will the presidency of the European Council. The unemployment and social crisis is real, present and urgent but the political cycle is operating to a different, less immediate, time scale, “We have a synchronisation problem here”, Cox warns, “putting the credibility of the political centre ground under great stress in states in crisis.”

In the present state of affairs, where there are tensions between the North and the South, creditor and debtor states and balance of payments deficit and surplus states inside the Euro Zone, relations are strained. Creditor states and Germany in particular but not only fear and resist an open ended transfer union of funds to deficit states. “They have insisted on bringing budget deficits into balance. Open ended deficits over a prolonged time period are not on. However, open ended austerity over a prolonged period also is not on, if centre ground political and

broader European consensus is to hold.” Germany and others states of a like mind also should remember that “no bird ever flew with one wing”, which is to say, “Europe cannot afford to insist on one highly developed budget discipline wing while ignoring in substance, as distinct from rhetoric, the development of another counterbalancing wing to address asymmetric shocks.”

Turning to the United Kingdom - On British Prime Minister David Cameron’s announcement that, if reelected in 2015, he will call a referendum on UK membership of the EU, Cox points out that the Lisbon Treaty anticipates the possibility of a divorce –which, however, would not be easy to manage politically. “Cameron’s strategy is unclear”, says Cox. “What he wants to renegotiate, the balance of competences with a return of sovereignty over some policy areas, as regards detail so far remains unspecified. Interestingly David Cameron is among the most outspoken advocates of the urgent need to solve the euro crisis --which needs more Europe, not less.” Cox admits we are living in interesting times, “where the quickening pace of events signals tendencies both towards more European integration and possibly some level of disintegration.”

Whether David Cameron will find an opportunity to promote his ideas, a negotiating table, may depend more on the appetite of other EU states for greater integration leading to significant Treaty change than on his own preferred timetable for the UK. If and when the EU or Euro zone states opt for sharing more sovereignty that will be Cameron’s opportunity to press his case. “A case for reform could find allies. A case for creeping disintegration is likely to isolate the UK. Clearly, the UK tail, in the end, cannot wag the EU dog”, he explains, “yet, at the limit, a negotiated exit, a divorce, is possible. It is not what the British Prime Minister says he wants. But a UK ‘in or out’ referendum could end up at the exit door whatever the current official intentions in Downing Street.”

On Greece, Cox recalled the remarks of the President of the European Council, Herman Van Rompuy, when delivering the first Greek bailout, that it was like “Constructing a lifeboat while still drowning at sea.” This reflected the sense of crisis management and of scrambling to find a solution, any ‘solution’, however temporary. Much has been done since then to a point where, for the moment, the crisis is contained but not eliminated or cured. “If the centre is to hold in stressed states such as Greece, it manifestly must be seen to deliver the basic employment and welfare needs of citizens. If the socioeconomic prospect over a prolonged period of time is one despair the centre ground risks to lose all.”

Our most serious challenge in the EU today, according to Cox, is that collectively we have not discovered yet “the wisdom to manage our heightened interdependence and the multi-level governance complexity that goes with it.” The human-rights violations committed by Greece’s far-right Golden Dawn party, for example, are appalling – but real, see the human rights organisations’ reports. “This is the price of failure, staring us in the face, of the failure to develop the necessary and essential tools to govern our increasingly interdependent economies, especially in the Euro zone.”

It must also be accepted that all the faults were not to be found in ‘Brussels’, or Frankfurt or Berlin. Externalising the blame game is popular among national political elites as a means of deflecting local responsibilities for national or regional policy failures. Cox is adamant: “The cheap credit boom financed the Irish and Spanish property bubbles. It was not reined in by the European Central Bank. But, for example, nobody forced us to buy and sell our own property, our own countries, to each other at inflated prices. Nobody obliged us to settle for lax domestic banking supervision or virtually uncontrolled and unlimited household and corporate access to credit at the peak of the boom. This we did to ourselves.”

Cox quotes Danish Nobel-prize physicist Neils Bohr “Prediction is very difficult, especially when it is about the future” before confessing he believes we find ourselves at a real turning point: “If we do not find Europe, as distinct from the current non-Europe that too often prevails, a popular and not necessarily populist debate may arise, for the first time in several generations, as to whether the European Union is worthwhile, whether it is serving the public interest and needs.” The EU needs both input, democratic, and output, results, legitimacy.” If Europe solves its systemic problems, however, Cox is convinced it can regain its place in the hearts and minds of its citizens and its standing in the wider world. “But our immediate and urgent task is to solve our problems. Technically, we know how to fix them; politically we are at too much of a standstill, notwithstanding the progress that has been made.” A positive thinker himself, he believes that we stand to lose so much, many or all of the benefits of EU integration if we fail, that the negative scenario is too bad, too costly to contemplate, socially, economically and politically.” This should be our spur to success: “In spite of the many fault lines, North/South, creditor/debtor, and the diverse capacities and interests of member states and regions, my own sense is that the technical fix is not hard to find intellectually – though it has proved elusive politically, so far. Failure would mark a legacy of shame for today’s European leaders. If and when we again can say ‘*l’Europe, c’est l’espoir!*’, as was the case for earlier post Second World War generations, the crisis truly would be over. We are not there yet. For Europeans when, how and whether we get there is the question of the moment on which the future of European integration turns.”