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« Europe is not yet convinced that it risks to play a secondary role on the international stage. »

This text is the translation of the interview by Teresa de Sousa published in the portuguese newspaper "Público" on 3 July 2011 and available in portuguese at www.publico.pt (restricted access).

Thinking about Europe is once again his contribution to the national debate. António Vitorino has just accepted the presidency of the think tank *Notre Europe*, founded by the former president of the European Commission Jacques Delors. He therefore sees no disconnection between the realities at national and European level. Conversation with António Vitorino, former minister and main author of the 2005 Socialist electoral manifesto, begins with the still-unresolved European crisis and concludes with the national obligations of the Socialist Party.

For the last year the European Union has been on the edge of a precipice, unable to resolve for once and for all the sovereign debt crisis or to convince the markets that the euro is permanent. For how much longer will it be possible to continue this way?

Europe must learn quickly to speak a language which is understood by the markets. It has not yet found it. It needs to do so for two main reasons. Firstly, because a common thread is lacking. Solutions are found on a case-by-case basis as one-off responses to crises, coming in general at the last minute. And secondly, because we are at a critical moment in crisis management where we risk a confrontation between two types of democratic legitimacy. On one hand, there is the democratic legitimacy of a country which is applying austerity and needs acceptance by public opinion. On the other, for those who are helping to finance such solutions there is the problem of responsibility to public opinion, and we cannot ignore this. Political leaders on both sides are allowing a gulf to open between these two democratic legitimacies.

Could this lead to a situation where case-by-case crisis management gets out of control?

It is a dangerous situation. There must come a time when the situation is reversible. And that will be a question of shared responsibility. The countries implementing rescue plans must do so with the clear intention that austerity is not austerity for its own sake. Austerity must be done in the name of better prospects for the future, which is what is missing now.

Is it missing because Europe will not allow it?

Europe must show that this is a matter of strict and scrupulous respect of the stability and growth pact (SGP) – putting public finances in order – but also that it is about dealing with asymmetric competitiveness, which is a core reason for the slow growth of indebted countries. And the question of economic growth, of job creation and better competitiveness, will not be solved overnight.

There is a third dimension which is very important. If Europe wants to be taken seriously by the markets it must find a solution which shows that a shared responsibility exists to honour at least a part of the debt in the long term. Jacques Delors has called this the mutualisation of a part of the accumulated debt.

But this has already been put on the table, and Germany rejected it. How can this rejection be overcome?

I think that Germany's leaders must also tell the truth to their voters.

Which they have not done up till now?

Which they have not done, at least not fully. Angela Merkel explained last week, for the first time, that it was in Germany's interest to guarantee the sustainability of the euro, since 70% of German exports go to the euro zone and are thus exempt from transaction costs. This is a first explanation of the euro's fundamental importance for Germany. A second explanation, just as important, concerns the degree of exposure of German banks to the debt of periphery countries. This exposure shows perfectly that by supporting the payment of these countries' debts Germany is also protecting its banking system – whose weaknesses have often gone unremarked, and which would have difficulty avoiding a crisis in the event of a catastrophic default by the

indebted countries. And when we talk about crisis among German banks we are also talking about contagion at the European level.

And beyond Europe?

Absolutely. President Obama's – and China's – insistence that Europe resolve the Greek problem is a sign of this.

China, which recently stated that the euro's stability is "vital"...

The Chinese always choose their words carefully. This term was pronounced for the first time by the minister-spokesperson of the Chinese prime minister, just before his trip to Europe. It must be interpreted as a clear message: Germany cannot shirk its responsibilities.

But do you see a certain change in the German position?

Yes, but it is slow and insufficient. Today's whole debate on the mechanism allowing a voluntary "rollover" of the Greek debt by creditor banks, for 30 years, is a somewhat surreptitious way of opening the way to change.

And that could be sensible for Greece and other countries in the same situation. It gives them better conditions for escaping the debt trap.

Above all because it is proven – there are studies on the subject – that there can be no genuine, sustainable path to debt reduction if the debtor countries cannot generate a primary surplus. Which means economic growth of about 3%. Certain studies indicate that a reduction of debt to 60% of GDP – the SGP's limit – would take up to 20 years.

But we are still a long way from Delors's idea of mutualising debt – that is, Europe taking responsibility for at least a part of the Greek debt.

Several methods are possible, and it is not worth going into the details. What is important is the principle, and making markets perceive that the debt-reduction trajectory of these countries must be taken seriously. Europe has not yet given the markets this signal. It would also be the signal that in the euro zone monetary and political authority are convergent, something which is lacking today.

That takes us back to the underlying question. Is this crisis uniquely the responsibility of periphery countries or can it rather be explained, in the first place, by an intrinsic flaw in the architecture of economic and monetary union, which never involved economic governance and greater political union?

In a complex world, theories of a unique cause are not plausible. There is never a single cause and we should accept that simplistic explanations are in general wrong.

But this debate about the euro's architecture began when the single currency was created.

That is true. But we must not forget that over the last two years major steps have been taken in the building of a European economic governance. We can also observe that the decision-making rhythm of European institutions is slow compared to the changes in the global economy. It must be taken into consideration that other economically successful countries – China, Brazil, South Africa, even the USA – have political systems which allow them to respond quicker than the EU.

This response, currently underway, is a step in the direction of greater economic and political integration. It seems that European citizens are moving in an opposite direction. Could this not become Europe's greatest problem?

What I will say might seem unorthodox, but if we focus the debate on European institutions we lose sight of the wider overall problem. What this sentiment and this drift in opinion reveals is the weakness of national democracies. It is the inability of national leaders to find a political support base where Europe is considered a central axis of democratic legitimacy. Today this problem concerns European issues, but also other themes of internal politics, including migration and the rejection of foreigners.

Which is a European question...

The issue is of European scale but a substantial part of these policies is national. The growth of populism, xenophobia and suspicion of foreigners is a sign that our national democracies are confronted by resurgent ghosts of the past which must be fought – in the name not only of European integration but also of strong national democracies.

Jacques Delors said recently that there is a crisis worse than that of the euro – the crisis in the “meaning” of Europe. The European narrative emerging from this crisis is one of division. Of North and South, top and bottom of the class. Could this be linked to the growing weakness of Europe’s institutions?

I do not want to avoid your question, but let us be clear: if we are not capable of resolving the euro crisis then it is not worth speculating that some European narrative could overcome the costs of failure in this field.

That said, there is a second dimension which seems to me important. Europeans are not yet convinced that the changes happening so quickly at the world level are gradually pushing Europe towards insignificance and a secondary role on the international stage. Today the essential meaning of the European narrative is precisely to stop Europe from falling into this insignificant, secondary role. Not only from a political or security perspective but also in economic terms, crucial to the sustainability of Europe’s social model. It is this joining of different elements into a connecting thread which Europe’s leaders have been unable to do up till now.

And neither have European institutions. Their voice has been absent from this crisis.

From a historic point of view, the European institutions are strong only when they can count on support from the motor of European integration. And the historic paradigm of the “Franco-German motor” has disappeared. Due to the new weight of reunified Germany, and France’s gradual subordination to Germany. No redemptive institution can assert itself outside of this reality.

Greece and Portugal are in different situations. Even so, can Portugal learn from the Greek experience?

I repeat what I have already said several times: the memorandum of the troika had the benefit of learning from the Greek case, and it must therefore be acknowledged that what Portugal accepted is different from what Greece accepted. It seems to me wrong to see events in Greece as a sort of historical inevitability for the Portuguese.

That said, some questions cannot be cast aside. The cause of Greece’s trouble involves factors both reproducible and unreproducible. Reproducible factors include capital flight and reduced tax receipts following recession. But Greece also suffers from a poorly functioning tax administration – here there is no comparison with Portugal. However, a third dimension is also relevant to Portugal: the question of how to use EU funds available to both Greece and Portugal in order to counter recession-generating measures.

But is this a real possibility or just good intentions?

Where there’s a will there’s a way. We need to give ourselves the means. If this is possible, it is in our interests to do it. We need to prove that we have plans which are genuinely aimed at competitiveness. And we must look again at the conditions of “national co-participation”, whether this be public or private.

Many have advocated that the troika’s programme include reforms that Portugal should have implemented long ago. Will resistance from state machinery and vested interests disappear just because Portugal needs money that only Europe can provide?

It will not disappear, but history shows that Portugal has always been better at responding to outside pressure than finding in itself the motivation for change. To this can be added the fact that – unlike Portugal’s results in athletics – in economics and politics we are usually better sprinters than marathon-runners. We fail in long-term sustainability, but when we have an objective, a deadline and pressure we have succeeded. There will naturally be resistance, but the pressure for us to succeed is enormous. Struggle and resistance could vary in scale. It will depend on how things are done, because there are different ways of applying the troika’s memorandum. But for now, and from a political viewpoint, there is a consensus for applying the measures.

And from a social viewpoint?

The social partners are facing a critical test. They must show whether or not they are equal to the challenge. They must be able to find the necessary agreement which will guarantee the viability of the reforms.

And will that be possible?

Today the greatest challenge is facing the trade unions, which need to understand that simply defending protest and acquired privileges leads nowhere. There are two ways to respond to a difficult situation like this. One is to dig oneself in, probably knowing that a slow death is inevitable. The other is to contractualise the sharing of unavoidable sacrifices. And to create the rules for the new economic package in which the interests of trade union members are protected.

For example?

It is more important to know the values underlying the reduction in the “unique social rate” than whether it

will be one, four or eight points. If it is to strengthen the competitiveness of businesses, this might include job creation; if it is simply a way of increasing profit margins, there might be no beneficial impact on jobs. The trade unions should embrace debate and impose their conditions.

In spite of everything it is difficult to imagine the situation in Athens repeating itself in Lisbon. People have just voted for the parties of the troika.

My response is perhaps only a sign of hope: I hope not. But there is a question which must not be ignored: carelessness over the way sacrifices are shared leads to hopelessness. Those who refuse all forms of contractualisation end up at an impasse, at which point violence becomes almost inevitable. It must be explained that reforms take time to generate the promised effects, and in the meantime people must be given hope.

Before the financial crisis there had already been a major change of paradigm in the world economy, a result of globalisation and the emerging economies, which changed the rules of international competition. Does this new reality pose problems for social democracy, which today has practically disappeared from European governance?

The debate over why parties of the right apparently gained from the subprimes crisis – when the crisis was one of capitalism – is an interesting one. Can this be seen as axiomatic, in terms of ideology or theory? I would not go that far.

In 2000, of the 15 EU countries 12 had socialist or social democratic prime ministers, and we were tempted to proclaim the death of liberalism or Christian democracy. The problems faced by European social democracy come essentially from two factors.

Firstly, from the changing social paradigm linked to an ageing population and the demands of the middle class, two factors which social democracy managed badly. The second factor relates to globalisation, which generates prosperity but does not automatically guarantee a fair distribution of it. On the contrary, inequality is rising. And at the national level this is all the more important given that social democracy's historic instrument against inequality, fiscal redistribution, no longer exists. Tax competition does not allow it.

To what extent does this affect the defence of the social model, that defended by social democracy? This model is the main policy argument of social democratic parties, including Portugal's one.

I do not subscribe to the theory that defence of the social model is social democracy's last remaining argument. There are other values. Citizenship, human rights, equality of opportunity, among others, which are not limited to the simple issue of social cohesion and wealth redistribution.

This was the essence of the "Lisbon strategy" and the "third way", which did not produce extraordinary results.

It is a long-term issue. Investment in education is not economically productive in the short term. And all the while, the Chinese are educating themselves, as are the Brazilians, the Indians. There is a race to the top. It's true. The European economy seems less willing to extract the full growth potential from this factor, while societies which started far behind us are achieving better results. It is a complex situation.

The Socialist Party has been in power for practically all of the last 15 years in Portugal. A period has come to an end and the situation is complicated. Is the party in a state to underwrite the troika's programme, which the government will apply?

Naturally the Socialist Party is linked to the objectives contained in the programme. There are very concrete measures which I have no doubt about. But there are others where the way of reaching the objectives remains open. Democracy is not suspended with the troika's memorandum, in the sense that there is a place for democratic dialogue and for the presentation of alternative solutions. And the Socialist Party, being linked to the objectives, must also say how it intends to achieve them, by presenting concrete proposals. If these converge with those of the government, all the better; if not, discussion will be necessary. But they must be presented.