

EUROPE'S HIGH NOON APPROACHES

Pressure is building on the Germans. Every international forum, G7, G8, G20 now turns into a coordinated onslaught to get the Berlin coalition government to change tack, to support a banking union, to underwrite the sovereign debt of other euro countries, to accept a change in the role of the Central Bank, and to modify its view that ever greater austerity represents salvation for errant member states.

Throughout this crisis, Berlin has reacted too little and too late. A clear signal in April 2010 could have halted the speculative undermining of the sovereign debt countries, kept their borrowing costs low and created a firewall around the currency. Obfuscation and denial have caused the costs of shoring up the euro to skyrocket to the extent that serial bail outs may be too testing not just for the mechanisms in place, but for the ECB even were it to be allowed to intervene directly.

The apparently hubristic obstinacy of Berlin ("if only the Greeks could be more like the Germans") cannot be fully understood if the constraints are ignored. As others have commented, the new Germany has a strong economy but a weak political system: federation means that regional elections are taking place on average three or four times a year somewhere creating a climate of perpetual electioneering; public opinion and an increasingly eurosceptic press is unsympathetic towards the profligate south, and mistrusts European institutions; a cautious and sometimes vacillating Chancellor presides over a fissiparous coalition, one partner in which while under threat of extinction openly flirts with euroscepticism; any new measure requires the explicit approval of the Bundestag and in practice gives a veto to the SPD opposition; and the increasingly assertive Constitutional Court may on any occasion block any measure which is interpreted as ceding power to supranational institutions. The markets may 'demand' immediate action from Europe and from its largest member state in particular, but the German political system is poorly placed to oblige.

Paradoxically, the notion of 'a great leap forward' to political union begins to make sense in this context. Everybody can now see the institutional design faults in the original euro governance. It is also understood that guarantees for the debts of others require elements of multilateral supervision and even control of national budgets. The only way forward which would be compatible with German ideology and its constitutional requirements would be some transforming act of integration; with a quasifederal political union as an essential precondition for a fiscal and banking union. Hence in the last few days, Eurobonds and a banking union are no longer dismissed out of hand, but viewed as problems of sequencing, as things which might be possible were the road cleared for political union. Hence the Chancellor and in particular her Finance Minister have upped the rhetoric on federal union. Hence her Foreign Minister has convened a working group to prepare constitutional proposals, and, paradox of paradox, intends inviting Laurent Fabius, the new French foreign minister, widely seen as the man who scuppered the Constitutional Treaty, to join.

The trouble with this scenario, by which the chastened European Union, recognising the need for stronger mechanisms to underpin the euro, and to build confidence between the virtuous northern states and the spendthrift south, decides on a qualitative reform of the way the union works, is not simply that any result from this

process would take more time than the markets may be prepared to allow. It is that the politics of it may not now work.

Even were an 'à la carte' European vanguard to move forward to political union (using the precedent of the Fiscal Compact) it would still require the participation of all or nearly all the euroland countries, all having their own political complexities, all having public opinions to square. And to put it bluntly, this is about the worst time to persuade people that more Europe is what the doctor ordered. Take the French, the indispensable partner in any new venture, already unhappy with the fiscal compact: how to persuade French public opinion and indeed French political parties to accept a new and substantial transfer of sovereignty from Paris to Brussels? Would the French Finance Ministry really go along with handing to a Finnish Commissioner the last word on their national budget? Would the Dutch and the Austrians nod through meekly a transfer of sovereignty simply to permit putting in place automatic mechanisms to underwrite Portuguese or Irish debt?

Not for the first time in the Union there is a degree of mutual incomprehension between the Germans and their European partners. And not for the first time all member states are now paying the price for not having even tried to bring along public opinion with the reality of European integration which if it is to mean anything at all must be based on the principle of solidarity between states.

So will it all end in tears? To be positive there is a growing realisation that any defection from the euro would cause grief all round, would cost member states and the banks, and indeed the world economy many multiples of the sums that had they been advanced in the first place would have averted any crisis. It is also now recognised everywhere, including in Berlin, that the German economy would be rocked to its foundations if the euro were mutilated or dismembered. Talk of greater union may be helpful in addressing long term problems of an incomplete and dysfunctional union. But this cannot be a prerequisite for decisions now- and now means this month- on bank recapitalisation, on marshalling the European Investment Bank's resources for infrastructure, on access to ECB money for ailing banks, and a timetable at least for deciding Eurobonds.

The German leadership is moving even on its own austerity measures, but the pace must quicken. If Mrs Merkel and her colleagues make political union the precondition for measures to save the euro, then Armageddon is at hand. But a successful summit this month- the first in twenty- with real resources to guarantee financial stability and to promote growth could be the prelude to a considered move to greater integration.

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