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## Interview with António Vitorino

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***"Germany's problem is not so much that it is right but that it has to learn how to be right"***

*There may be no one better than António Vitorino to take us by the hand through the twists and turns of the decisions reached at the recent European Council meeting, decisions that are considered crucial to staunch the euro crisis. Beating the iron while it is still hot, the former commissioner and current chairman of Notre Europe, draws our attention to the risks involved in attempting to reform the treaties outside the framework of the European Union, and to the need for decisions to enjoy democratic legitimacy; he also urged a more tolerant attitude towards Germany.*

**The first question may be the most difficult one. Are the results achieved by the summit sufficiently convincing to pave the way for a solution to this crisis and to offer guarantees to the markets?**

We will only have the answer to that question as the coming week unfolds, but as a careful observer I have to admit that the results do not seem sufficient to me. A response was thrashed out for an important part of the issue, in connection with what is known as the "fiscal pact": the medium-term indications for budget consolidation and for the construction of an economic union are all there in their basic elements. We achieved less than was expected and, above all, less than was necessary in connection with short-term liquidity guarantees. And in that regard the ball is now in the European Central Bank's court.

**Before this summit, the ECB fostered expectations of a stronger intervention on its part in the event the "pact" were agreed on, but it then reneged on those expectations. And no signal emerged from the summit in that sense. Indeed, quite the opposite.**

The ECB is already working on facilitating the banking system's access to liquidity. That points to more active intervention, including loans that come to maturity only after three years, and an expansion of the kinds of collateral accepted in refinancing the banking system. The issue here is to find out whether it is going to be more active in its intervention on the sovereign debt markets. But in that connection we are just going to have to wait and see. The ECB president's indications were contradictory in some ways. But there is still a missing link: the possibility for the ECB to intervene directly in financially reinforcing the EFSF. Not only did that not happen, but at the same time a parallel path was defined involving a strengthening of the IMF with the bilateral funding by member states to the tune of 200 billion euro, which can only have a leverage effect if other global partners, the United States and China in particular, support that strengthening...

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<sup>1</sup> Translation by Notre Europe. The major parts of the interview are published here.

### **But we already saw that movie at the G20...**

With a subtle difference. These partners' response was: if the Europeans fail to put their own money into it, we will not do so either. The Europeans ended up deciding that they would do it, and very rapidly, what is more. For those like President Obama or the Chinese president who displayed such concern over resolving the euro crisis, this European decision is more than a mere invitation – it creates a moral obligation.

But obviously, Europe's direct responsibility within the European space is still missing. The summit also decided that the combined endowment of the EFSF and the ESM will amount to 500 billion euro...

### **Which was already foreseen...**

Which was indeed already foreseen, but which will be reviewed in March if the need arises. And that is the first hint suggesting that it may become necessary to boost the European countries' direct participation in their own rescue funding. The doubt still hovering in the air is whether a collection of small measures represents a major intervention or not. Given that these measures' basic aim is to allay market pressure, we are going to have to watch what happens over the next few days to see whether we are going to be forced to adopt additional measures.

**The major political issue at the summit was this: the German chancellor got almost everything she wanted in connection with her vision of how the euro zone should function. But she made no concessions in return. All of the recommendations contained in the Van Rompuy-Barroso report were ignored. Only those that the chancellor had already negotiated with Nicolas Sarkozy, and which were contained in the two leaders' letter, were countenanced.**

The letter was translated into the European Council's decisions.

### **How can that be possible? Or is Germany's strategy right?**

There are two issues to address concerning Germany's strategy. The first is that Germany is basically right. Germany's problem is not so much that it is right but that it has to learn how to be right. That is the most difficult issue to manage from a political standpoint. In practice, the decision-making process that has prevailed up to now was extremely negative for the European spirit. A careful inspection of former Chancellor Helmut Schmidt's splendid speech to the SPD congress allows us to draw conclusions on which the present chancellor should perhaps meditate too. Nothing healthy has ever been built on a foundation of resentment. Germany, which is right in many things, has managed its "being right" badly, and that is going to trigger resentment which is eventually going to turn against it.

### **You mentioned a second issue...**

And that is a conceptual issue. Germany has not yet perceived the full magnitude and nature of the crisis. The markets do not expect only stringency, austerity, and fiscal consolidation measures. The markets understand better than anyone else that the credibility of the struggle against the sovereign debt crisis demands economic growth. Germany has not yet given any sign as to what the economic growth strategy is, yet without that strategy it is impossible to reassure the markets. The markets know that austerity in itself leads only to a recession, and a recession translates into greater difficulty in meeting debt commitments.

**What you are saying only underscores the inconsistency between the very demanding goals of the new "fiscal pact" and the prospect of a lasting recession, which the Europeans are going to find it very tough to swallow, never mind the markets.**

The 17 euro zone leaders' statement makes some kind of open door to the possibility of coordinating economic policies among the member states on the basis of an enhanced cooperation. There is a paragraph on it. It is more detailed in the Merkel-Sarkozy letter, which identifies certain crucial areas for this cooperation, for instance the financial markets, the labour market and the creation of a common corporate tax base. But when we gauge the relative weight of that component in the overall decisions taken by the European Council, its importance diminishes.

That is why there is going to have to be something in our future which is unavoidable, and that is the need for a partial mutualisation of the debt...

**Which the chancellor refuses to accept. The other countries have agreed to budget discipline, but they did not get in exchange the sovereign debt mutualisation, which would have been logical.**

I think that the solution is unavoidable. But we cannot help admitting that the Germans are right in one connection. A strategy involving the partial debt mutualisation bears the risk of extending the so-called "moral hazard", prompting countries either now benefitting from aid programmes or coming close to it – which is the case with Italy and with Spain – to relax the implementation of budget consolidation measures. That is what the Berlusconi government did... The Germans have an argument that cannot be simply dismissed in this European debate.

**Reading between the lines of Germany's strategy as hallowed at this summit, do you think that this solution might be implemented later on?**

Germany's strategy consists in saying: we are going to pursue the austerity policy to the bitter end and that will in the end restore markets confidence; only once it has been exhaustively proven that that policy is not going to be sufficient, will they be able to move on to the next stage. That is how I see it, at any rate. But we can't ignore the German debate. The group of "five wise men" has proposed what it calls a "redemption pact", based on the creation of a transitional fund allowing the concentration of member states' surplus debt, above the 60 per cent mark, which then becomes the object of a 20-year payment strategy. That proposal has been welcomed by German Finance Minister Wolfgang Schäuble. There is tension in the German domestic debate over this issue. We have to argue in favour of such a solution being adopted in the medium term.

**To some extent, Germany's pig-headedness is fostering the resentment that you were mentioning at the level of the public opinions who are going to have to adopt the new measures.**

I may sound paternalistic, but it is necessary to help the Germans to get their message across. That is my view. People are calling this Germany's "unipolar moment", and unipolar moments are always very dangerous. It is very important to note that, after a long moment of hesitation, all of the German chancellor's statements today point to a desire to remain anchored to the European project. The proposals put forward by the chancellor at the CDU congress also point in this direction.

**Was a treaty necessary to adopt this new "budget union"?**

Some of the measures contained in the "pact" are not in line with the treaties currently in force. The Van Rompuy-Barroso proposals pointed in the direction of a surgical revision. But they were totally ignored. The decision was made to go for a broader intervention which, given that it was not accepted on account of the United Kingdom's opposition, is now going to spawn an intergovernmental treaty...

**But was it necessary?**

It was the price we had to pay to ward off any doubts, but those doubts will now return. In opting for an intergovernmental treaty, we are creating a new entity, possibly along the lines of the Schengen agreement which was also adopted outside the structure of the treaties until it was incorporated into them in Amsterdam. The European Council's conclusions also state that this treaty might end up being incorporated too... But an intergovernmental treaty raises very complex political and legal issues which would not have arisen if there had been a direct reform of the treaties. For instance, to what extent is it going to be possible to get the European institutions, in particular the Commission and the Court of Justice, to perform tasks and to address competences in the context of a strictly intergovernmental treaty?

**It seems that it will not be possible?**

There are precedents, but it is not an exercise devoid of obstacles. Indeed, the oversight whereby the Council's conclusions make no reference to the European Parliament's or the national parliaments' role in this intergovernmental treaty is no mere coincidence.

**The treaty is going to be negotiated solely by the governments and they will have themselves to implement it?**

Obviously, and with a serious problem in terms of democratic legitimacy. Given that it is an intergovernmental treaty which is going to adopt rules regarding fiscal policy in the member states, it is impossible for there to be no form of democratic and parliamentary monitoring of the exercise of the powers conferred by this treaty. This is the major institutional question: what role will be played by the institutions that represent the 27 in narrower fields, be it the 17 euro zone members, or the 26 that are willing to cooperate further in that field?

**Are we about to set up a parallel Europe, which is not the one with which we are familiar with, with a Commission, a European Parliament and strict compliance with the rule of equality among member states?**

There is that risk. However even if those who criticise the Community method may not like it, 54 years of experience with the method have conferred on all of the member states, regardless of their size or of their wealth, the guarantee of mechanisms that safeguard the principle of equality among states.

**Is that a more important issue when it is a matter of approving a transfer of sovereignty in the budget field?**

Of course. The leaders' statement refers to the Commission's role. I think that it is in the interest of countries such as Portugal that the Commission's crucial clout is very clearly stated when negotiating this treaty.

**Do we have to worry about the fact that penalties are semi-automatic?**

We would be well advised to remember that some penalties already exist. Penalties in connection with the cohesion fund have been a possibility since 1997. And more recently it has been possible for a member state to have its structural funds frozen. The real innovation today is the additional fact that the penalties are now semi-automatic. The most important aspect of penalties is their power of dissuasion. It is in the member states' interest to ensure that they never reach that point.

**But now there is the prospect of political sanctions. For instance, the suspension of voting rights...**

I think that that is inconceivable, because it would change the very nature of the European Union. It would raise some very serious questions. There is only one instance in which such a thing is

admissible – namely a member state's serious and reiterated breach of fundamental rights as provided for in Article 6 of the treaty. Common sense must prevail.

**A new issue is about to be debated: the loss of budgetary independence. Does that raise a problem of democratic legitimacy, as you put it before?**

There can be no greater limitation of sovereignty, including of parliamentary sovereignty, than the situation in which Portugal and certain other countries currently find themselves. But this treaty has no option but to contain a clause providing for the democratic and parliamentary monitoring of decisions reached centrally.

**By "parliamentary", do you mean by the European parliament or by the national parliaments?**

Or jointly, by both. Joschka Fischer has suggested that it might be possible to set up a chamber comprising delegates from both the European Parliament and the national parliaments. I do not want to discuss that particular proposal right now, but it is a debate which has to be held and we cannot just overlook it as though the problem did not exist.

**Numerous press sources' headlines on Saturday read more or less thus: "United Kingdom isolated; New Europe gets off the ground!" What are the political implications of that?**

To be honest, I think that the British Prime minister made a colossal mistake, overestimating Germany's will to achieve a 27-strong agreement and submitting a list of claims, in the name of maintaining the internal market's unity, which in actual fact would destroy it. It was an error of judgment as well as an error of substance.

The argument in defence of the City does not hold water. The practical upshot is that not only did he fail to gain anything, but he managed to place the City in a more vulnerable position by failing to take a seat at the table where the negotiations are due to be held. History tells us that no crucial vote on financial services has ever been adopted with the United Kingdom voting against it. Indeed, quite the opposite: the directive on derivatives, the regulation of rating agencies and the supervision of Europe's banking system were all changed after the United Kingdom intervened. The British should have learned by now, with General De Gaulle, that the "empty chair policy" does not pay.

**How about the consequences for Europe...**

The United Kingdom's isolation is a bad thing for Europe. It is bad for the internal market, for foreign and security policy and for the balance between an excessively continental vision and more pro-Atlantic vision, which ensures Europe's diversity and cultural wealth. And we Portuguese should be particularly concerned about this because Britain's isolation represents an impoverishment of the Atlantic dimension, to which we belong. Having said that, I believe that there is still room for negotiation. The question of how the institutions are going to participate in the intergovernmental treaty in their capacity as a bridge between the new treaty and the 27-strong Europe may open up some room for the United Kingdom to find a compromise solution.

**The Portuguese Prime Minister Pedro Passos Coelho has made no secret of his disappointment in the outcome of the summit. Is the way forward going to become more difficult?**

It is indeed. As long as there is no prospect of partial debt mutualisation or a strategy for economic growth at the European level, the situation of all of the countries that are receiving financial aid or that are in danger of receiving it is going to be more difficult.

(...)