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IS THE STUPIDITY PACT STILL STABLE?

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António Vitorino takes a stand on the issues on the European Council agenda for 14-15 March 2013, addressing the implementation of the "European semester", the deficit reduction strategy, the strategy towards countries in difficulty and the main priorities of the "growth and employment pact", especially with regard to the single market. He also refers to the new EU financial framework and to expectations from the European foreign policy.

1. This European Council spring summit is an important step for the new "European semester": What results do you expect from the debate?

The most interesting thing to emerge from this European Council meeting will be that it will tell us more about the real political impact of the succession of "economic governance" reforms adopted over the past few years, ranging from the review of the "stability pact" to the imminent adoption of the "Two Pack", and including the ratification of the "fiscal compact".

This European Council meeting is going to tell us first and foremost whether the heads of state and government leaders really have learnt any lessons from a crisis that has shone the spotlight on the European countries' very major degree of interdependence, and thus the usefulness of an approach both broad and coordinated in the field of national social and economic decisions; or whether, on the contrary, the EU is going to confine itself primarily to managing national budget policies in a disciplined manner and to issuing a few economic recommendations with no truly tangible impact.

Following President Prodi's remarks, I said back in 2002 that it was not the stability pact that was stupid but the stupidity pact that was stable... I hope that the reforms recently embarked upon, for instance taking private debt or macro-economic imbalances into account, are now going to prove me wrong; and thus that this European Council meeting is going to allow us to witness progress being made in the way the member states coordinate their policies – because it is in their interest to do so, of course, not because Brussels is forcing them to do so.

In this latter connection, I also expect this European Council meeting to dispel the enormous confusion reigning at grass-roots level between the status of "countries under programme," i.e. countries that have *de facto* temporarily alienated a part of their economic and budget sovereignty, and the situation of the other member states in the euro zone and in the EU. These latter countries have been urged to improve the way they run their economic and social policies, but without necessarily adding any additional constraints to the situation as it existed before the crisis. The three "countries under programme" are responding to IMF recommendations, while the others are the recipients of "country-by-country recommendations" which leave them relatively free aside from the need to meet the 3% public deficit to GDP ratio, in connection with which they have an obligation to show results but not to achieve those results by set means. It would be truly welcome if people were reminded of that, in order to dispel the lethal belief that "Brussels" now governs the economies of the EU member countries as a whole.

2. Should the European Council review its deficit reduction strategy or timetable?

The strategy being pursued at the European level where deficits are concerned is necessary primarily from a political viewpoint because, just like the bank crisis, the sovereign debt crisis is first and foremost a "crisis in confidence". Thus it is important for the member states to be reassured regarding each country's ability to adopt a serious approach when it comes to managing their public finances, in view of the commitments made when the euro was launched.

Thus this public deficit reduction strategy must be implemented with some sensitivity in both economic and social terms. Otherwise, a strategy of this kind is bound to help undermine the political foundations of the European construction process, especially if it does not produce more convincing results in eyes of the people.

I am happy to see that the Commission and the Council have both shown understanding towards countries such as Portugal and Ireland in the past, and more recently towards such countries as France. This confirms that the governance of the EMU allows that kind of flexibility, particularly in the way in which it refers to the structural balance and to exceptional circumstances – which is, of course, what we are facing, as the eurozone is going through a second year of negative growth!

It is crucial for the EU not to constantly call to order those governments and peoples that have undertaken adjustments which are both necessary and paintful, otherwise it will be seen as a mere budgetary consolidation factory with no political vision. It is of course necessary to consolidate public accounts, but the most important thing is the direction in which the EU governments are heading rather than their timetable for doing so, which needs to be reviewed whenever needed.

3. Do you think that the European Council should send out a specific signal to countries in difficulty, for instance Cyprus or Italy?

It is always a good thing when the European Council shows concern for countries in difficulty, especially when their citizens have just taken part in a general election.

Cyprus's situation appears to be fairly simple: a new president has been elected with a broad majority and he has clearly voiced his wish to sign a "memorandum of understanding" to enable his country to benefit from EU financial assistance. Cyprus is a country that has been very hard hit by the Greek crisis, in particular because its banks have suffered from the private credit cancellation granted to that country. The benefit for the EU is that, at this juncture, it has all of the tools it needs to swing into action: in that connection, I hope that the European Council is going to address the operational framework allowing the European Stability Mechanism to directly recapitalise the banks, because such a move would be very useful, both for Cyprus and for Spain. I also note that the guarantees and loans to be provided (in the region of 18 billion euro) are a small sum for the EU even if they do represent the equivalent of Cyprus's annual GDP. Of course, it is necessary for the aid granted to Cyprus to be matched by offsets, especially as regards the integrity of its banking system. But I trust that the heads of state and government leaders will prove wise enough to grant it without fuelling excessive controversy, because that would offer fresh fuel to those who make it their business to speculate on the euro zone's difficulties.

Italy's situation appears to be far more complex. This, first and foremost, because it is difficult to see what kind of government is going to emerge from the recent general election, which is a necessary precondition if any progress is to be made. And secondly, because while the election result has a very strong domestic dimension, no one can deny that it also has a European dimension, in particular where its implicit criticism of austerity is concerned. The irony of the situation is that, while Italy is not a "country under programme", nevertheless its citizens may have felt that they were being governed from abroad. The other ironical aspect is that the Italians have made a genuine effort to adapt, an effort whose results should become visible in the short term, yet they are groaning under the weight of an "old debt" built up since the 1980s.

In this context, the EU would be issuing a useful message to the country if it were to seriously address the adoption of a "redemption fund" for debts, along the lines of that proposed by Germany's Five Wise Men, and as provided for in the compromise recently thrashed out between the Council and Parliament for the adoption of the "Two Pack".

4. The European Council is due to review the progress made in implementing the "growth and employment pact", with particular with regard to the single market: what are the main priorities?

The members of the European Council will not need to discuss the summary report on the annual growth survey to realise that most of the EU's member countries are currently facing the prospect of a recession, or even of a depression. Thus their main priority must be to confirm the pledges formalised in June 2012 in the "growth pact", which quite rightly dwells on the central role played by the decisions that need to be adopted at the national level, but which also refers to the tools available at the European level, focusing primarily on the need to impart a fresh thrust to the single market.

In this field the priorities have been common knowledge since the Monti Report and the two « Single Market Acts » adopted under the impulsion of Michel Barnier, with the digital and service industries heading the list. Yet what is missing is a political will comparable to that which Jacques Delors managed to mobilise when he established "Objective 1992". Thus we need to hope that, as happened back in the mid-eighties, Europe's flat growth rate will encourage the European leaders to show greater flair and greater courage.

In any event, it is important to implement the financial aspect of the "growth pact" without delay, in other words, to confirm: the mobilisation of the 60 billion in unused structural funds; increased lending capacity for the EIB; and the launch of "project bonds". In fact, this is even more necessary than it was a year ago both because of the way growth has evolved and because of the nature of the Community budget compromise recently thrashed out by the European Council...

5. The European Council is expected to assess the new multi-annual financial framework and the legislative proposals that it has spawned. What message should it issue?

We have no choice but to admit that the European Council meeting last February did not issue positive signals. It approved a slight drop in the available commitment appropriations, which is regrettable, but there you go. What is far more worrying is that that drop is not merely a reflection of the current crisis: I think that it reveals damaging confusion over the purpose of the Community budget, and that confusion needs to be cleared up urgently! Sure enough, the Commission, the European Council and the European Parliament have subscribed for almost a decade now to the idea that the end purpose of the EU budget is to produce growth and jobs. Unfortunately this is another development which might illustrate the temptation to go forward into a wrong way…

The Community budget should of course be put to better use as a tool for imparting a fresh boost to growth at a time when national public finances are suffering from such strong constraints. But it is also, and above all, a tool for solidarity designed to accompany the functioning and deepening of the single market while funding a number of useful actions in the field of cooperation, for instance in external policy or in the justice, migration and asylum fields. From that point of view, the narrative used back in the days of the "Delors Packages" was far more consistent and convincing!

Having displayed a certain reluctance to shoulder that solidarity-related aspect, Europe's leaders are now facing a doubly absurd situation. On the one hand they are desperately attempting, though without admitting as much, to obtain sufficiently advantageous funding for their own country, funding which *de facto* reveals an exceptional level of solidarity among sovereign states. But on the other hand, they are having to field the criticism of those who play down the intrinsic solidarity of such a budget, underlining the regrettable cuts in funding for the Aid for the Most Deprived Programme and for the Globalisation Adjustment Fund.

And we encounter this absurdity again in the broadly negative appraisal of the two main spending areas in the EU budget, namely the CAP and cohesion policy, despite the fact that those two areas reflect major expectations on the part of the people of Europe: sufficient food of decent quality at reasonable prices, territorial dynamism, the development of struggling areas, environmental protection and biodiversity. It is true that these two policies are part and parcel of the history of Europe's construction, but that does not mean that they are old "relics" which need to be jettisoned on principle. Their modalities certainly need to be adapted, especially to make their more fair and growth friendly, but those adaptations must be approved at the legislative programme level.

In this context, the least that we can expect from the European Council is that it will show a certain amenability towards the will to negotiate evinced by the European Parliament, which has adopted a positive and constructive stance on several major issues – I am referring in particular to flexibility among headings or to the need to envision new own resources. In the short term, the European Council should indicate, at the very least, that it is in favour of a mid-term review of the multi-annual financial framework. Its members cannot say, quite rightly, that it is necessary to take the current crisis context into account, while aspiring at the same time to carve in stone a budget that would continue to be used in its current configuration in 2020, i.e. at a time when the effects of this crisis will have long blown over.

6. The European Council is due to debate the EU's foreign policy. Can we expect any concrete results to emerge?

Foreign policy issues are always systematically built into the agenda of each European Council yet in a very faint-hearted way, as though everyone knew that it is necessary to address them as events warrant but they are afraid of doing so in earnest…

And yet we have several deadlines which we cannot afford to miss in 2013, and which demand that a fresh boost be imparted to the EU's external action strategy. These deadlines include a review of Europe's response to the Arab Springs in June, a review of the External Action Service's organisation before the summer, and a debate on Europe's defence capabilities ahead of the European Council meeting in December.

The latest developments in the Arab Spring countries, whether we are talking about Tunisia, Egypt, or of course Syria, demand that the Europeans adopt a stance that is at once more earnest and more innovative, and that they reach some courageous decisions at a time of major budget constraints. They do not require that we merely adjust our policies, but that we adopt a long-term view of the influence that the Europeans intend to wield in their neighbouring areas. Also, the situation in Mali tells us that we must not restrict our strategic vision simply to our immediate neighbours.

The current neighbourhood policy tools, and more specifically the conditionality pegged to them, do not provide the EU with a sufficient lever for reform because they are so far removed from our neighbours' expectations. A long-term reflection allowing us to foster broader regional economic integration and thus to facilitate the stabilisation of the countries on the shores of the Mediterranean demands that we more actively mobilise all of the EU's external action tools, starting with trade policy and mobility partnerships.

Otherwise we can go on arguing till the cows come home about the EU's ability to be a "global player", but unless it successfully invests in its immediate neighbourhood, its credibility to go any further will be serious weakened, whatever future European Councils may say.

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