



# IPRIS Occasional Paper

NOVEMBER 2012

## Europe – a Promethean Partnership – Against the Odds

MANUEL MARCELO CURTO\*  
Ambassador of Portugal to Sweden

### **A Project of Peace and Prosperity**

It was a good surprise that the European Union (EU) was given the Nobel Peace Prize of 2012. We don't have a "pax optima rerum", but the European project was and is a project of peace and prosperity. And this one should indeed be our "politische Heimat", to quote Goethe, our political home. We live in peace for now almost 70 years, and that is new in the European continent. That fact should already tell us that we must avoid wrong policies, at the European and the national level. Frederick the Great said about Gustav II the he had "zu viel Ehrgeiz, ein Fehler, der leider den meisten grossen Männer eigen ist" ('too much ambition, a fault that unfortunately is the one of the greatest people') – but indeed ambition is needed, specially when all the securities, all the trust in political, social and societal order, as well as all beliefs, are in danger of failing.

And when euro-centrism is lost. With the added loss of an euro-morphic set of architectural rules that are still the main basis of world peace and stability. Europe is more important for the world order than we sometimes tend to consider – or consider, but wrongly supposing that euro-centrism is still valid, and taking euro-morphism for granted. It is rather amazing that the politics of the EU remained

– or became – national on this hour of crisis, even when such a crisis affected the whole of the European project. We need a thoughtful comprehensive economic and monetary union and creative financial engineering to resolve the situation. And to strengthen the real economy and restore growth. We must act together. John Kenneth Galbraith said about the 1930's crisis: "When the cake was disappearing everyone wanted the biggest slice. We all ended up with crumbs".

### **The Case for Portugal**

We are abiding by our compromises fully and in time, despite all the hurdles and problems. Budget consolidation is the first pillar of the Memorandum of Understanding (MoU) between Portugal, the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). And budget deficit came indeed from -9.4% in 2010 to -4.2% in 2011 and, after a reappraisal of the situation with the Troika last August, it should be of -5% this year – of -4.5% in 2013 and -3% or less, -2.5%, in 2014. The primary structural deficit was reduced by 6% in 2011-2012. The consolidation of the financial sector, the second pillar of the MoU, was also addressed thoroughly. The Basel III criteria are being applied, even reinforced,



namely to ensure a bumper against systemic shocks or unexpected events, further improving the sustainability of the adjustment program and, further on, to recuperate a full reliance on market funding. The structural reforms, the third pillar of the MoU, are being approved and implemented. The labor laws package, a 'sea-change' vis-à-vis former legislation on the matter, assuring agility and flexibility to the labor market, was a step of utmost importance – but one among others. Of course, structural reforms take time to pay off, but some – e.g. microcredit (which was extremely useful in the 1970's when we reintegrated the thousands of Portuguese coming back from Africa) or startups – can provide results in much less time.

The trade balance is now positive, for the first time in decades, the current account balanced will be stabilized in 2013, the first time since 1993. The consolidation effort represented 10% of the GDP, i.e. €17 billion, the effort in the expense having been of 62%. Public expense decreased 10%, i.e. €12 billion. Those figures are, I gather, quite similar to the ones of the Swedish recovery of the 1990's crisis – despite the fact that we cannot devalue our currency. But we listen to good lessons – we do our continuous jogging, with the iPod in our ears, listening to and keeping track of good experiences and good advice.

Exports, despite the serious economic contraction caused by the financial austerity measures, grew by a two-digit percentage last year, and are still growing, even if the GDP will be down by -3% this year.

But, there is indeed a fatigue with the adjustment, in politics there is no 'time-out', and there was an erosion of the social basis of support – not surprisingly, taking into consideration the high social costs of the measures taken. Unemployment is close to 16%. However, we know that a timely adjustment is a basic element of credibility, and the real way to put our public finances on a sound

and sustainable track. Sang-froid must be kept, and determination. "Failure? It is not a possibility", I would repeat, akin as it is such a saying to an Atlantic people as the Portuguese.

But high unemployment must be quickly addressed, investment, favorable and of quality, being needed. In fact, the private sector will have to ensure the structural transformation of the economy. The deleveraging of the

banks, aiming at their solidity and their financing capacity, should allow for a more balanced economy, friendlier to enterprises able to create growth and employment. The strains felt by the business tissue, notwithstanding the resilience it has been showing, are an essential element here. We are, therefore, looking for strategic partnerships and cooperation with foreign enterprises, bringing up operational scaling, necessary to perform in a globalised economy. We are working with Swedish enterprises precisely in that direction.

Financing is, in such a general context, understandably a major concern. We are glad that the European Council of October 2012 decided an increase of the capital of European Investment Bank (EIB) by €20 billion, a step that increased the overall lending capacity of the bank by €60 billion. However, shortcomings in the granting of credits

will have to be overcome. These funds, I would stress, are important once they allow companies to access financing on more favorable terms than current market conditions. Project Bonds are there, but still at a pilot phase, involving only €100 million (though €130 million more are to be mobilized during 2013). The Multiannual Financial Framework (MFF) is the other – and major – and strategic step.

#### Europe Today

In the negotiations for the Council of November 2012, the political actors will exhaust their options and rhetoric,

There is indeed a fatigue with the adjustment, in politics there is no 'time-out', and there was an erosion of the social basis of support – not surprisingly, taking into consideration the high social costs of the measures taken. However, we know that a timely adjustment is a basic element of credibility, and the real way to put our public finances on a sound and sustainable track. Sang-froid must be kept, and determination. "Failure? It is not a possibility", I would repeat, akin as it is such a saying to an Atlantic people as the Portuguese.



before a last-minute agreement – I do hope! As in Bach – every recitative is an élan to the next one, with moments, when the orchestra plays a pizzicato and from the piano fall like drops of rain, before the whole gains in intensity and movement, from the pathos – the panic, sometimes – arising an all expanding melody. Allow me this “escape”, but it might be a good description of the present situation.

Considerable work has to be done about the Banking Union until December 2012, for the approval by January 1, 2013, of the legal framework of the Single Supervisory Mechanism (SSM). The further work on the SSM will have to move forward quickly next year. The Single Resolution Mechanism (SRM), and the Euro area wide deposit guarantee scheme will have to be put into place rapidly. The time-bound proposals are now concrete and credible. The ECB must have the means to develop its operability. Those advances are basic to the credibility of the European institutions, to start with of the European Council.

One should stress that belonging to the EU is not supposed to be measured by the contribution to the budget. If this was the case, factors such as capital transfers, trade volumes and the outcome of the investments would have to be ascertained to come to the question:

Who has won more? However, after 1945, the finger pointing is what we have avoided, when we decided to move beyond the “right” or “wrong” that the ones and the others might have done. And this is what made the European project possible. If we take the other path, tomorrow, who knows, Länder such as Bavaria or Hesse might ask Berlin or Bremen to be given less money under the German federal equalization system. National efforts – and we all have fragilities – and European solutions, this should be our motto.

In the Banking Union, the supervision must encompass all financial institutions, those of systemic risk and the

others, even if with differentiated responsibilities between the ECB – its present and future functions, the coordination of monetary policy and the supervision, being decoupled – and national supervisors, the ECB having nevertheless the possibility to act in all of them, if need be. The conditions must be put into place for the European Stability Mechanism (ESM) to be able to directly recapitalize the banks. Indeed we must guarantee the

unity of the EU, the integrity of the Single Market, and the voice, at the right volume, of the MS not in the Euro area, namely at the European Banking Authority (EBA).

The European Monetary Union (EMU) will have to be open and transparent, and fully compatible with the Single Market in all respects. Insistence on the pursuit of excellence could however cause delays in establishing the SSM. The operational phasing in arrangements must have that in mind. Governance in the EU must be given a solid legal basis. But, above all, political will is needed. We must break the vicious circle involving the sovereign and the banks debt. And create the possibility of applying outright monetary transactions (OMT) to situations that would otherwise seriously hamper progress already made. The insufficiency of liquidity must not cause the insolvency of the states. The sus-

tainability of the debt situation of the MS under assistance depends on the ability to stop the liquidity crisis, matched by resolve in addressing the solvency crisis.

Democratic legitimacy and accountability must be a nuclear preoccupation. In this process there is a real opportunity to enhance the potential of national parliaments, coping with the new powers of the European Parliament. All in all, governance in the EU has changed and very much improved – the Six-Pack, the Fiscal Pact and now the Two-Pack will enhance an already very different financial and economic governance in Europe. We must, after all, trust in the capacity of the member states and

We have been seeing and will be seeing transfers of sovereignty that we had not seen for centuries in Europe. But we must break the crisis of confidence through bold measures. OMT, for one, don't burden the taxpayers, don't bring along inflation, and are subjected to a strong conditionality in the interest of the ones and the others. The MFF is, in this context, one of the most basic levers, as a strategic element for the policies of the EU, and for its agenda of growth and employment. We have our differences, but we pursue the same objectives.



their governments to abide by compromises. Conditions are difficult. Uncertainty, weakened financial systems and budget restrictions are elements of an equation in which a rethinking, also of budgetary multipliers, must go on. We have been seeing and will be seeing transfers of sovereignty that we had not seen for centuries in Europe. But we must break the crisis of confidence through bold measures. OMT, for one, don't burden the taxpayers, don't bring along inflation, and are subjected to a strong conditionality in the interest of the ones and the others. The MFF is, in this context, one of the most basic levers, as a strategic element for the policies of the EU, and for its agenda of growth and employment. We have our differences, but we pursue the same objectives. As far as Cohesion is concerned, as the nuclear element of correcting asymmetries and, thus, allowing for the proper balances within the Single Market, we favor indeed a link between the objectives of this policy and the EU 2020 Agenda. At the same time, conditionality is a political question, and it should not create a double sanctioning of member states, when sanctions are already foreseen in the Six-Pack. Quality cannot be applied only to Cohesion. And flexibility for sure, but not when reductions in Cohesion are so enormous, by comparison to the increases in other headings. As for excellence, it exists – I must strongly stress, the Swedish Project Giraffe incorporates no small contribution of Portuguese software – everywhere in the EU, the bet for R&D and innovation cannot result, such as allocations for certain regions, in no more than an increased favor of wealthier member states and of already best-off regions. We are, in Portugal, already using Cohesion for education, for innovation, for support of Small and medium enterprises (SME) or to tackle youth unemployment. Allow me to quote former Indian Prime Minister Rajiv Gandhi. "I can live with a brain drain,

but not with a drain in the brain". That reduction is indeed extremely difficult to understand, it is in fact unreasonable, Cohesion being the main instrument for the creation of employment and reform, a vital instrument to implement Europe 2020 Strategy.

### Finish to Continue

We should have the MFF approved until the end of the year – it will take not less than 12 months to make operational the decisions taken. The integrity of the institutions and the unity of the Union are essential, and such is the respect for the framework – legal and institutional – of the EU, the convergence of Euro area member states and non-Euro area member states. But we need swift decisions. Political credibility is cardinal. Progress about the Single Market and the perspectives for the Single Market Act II are after all dependent on the decision regarding the MFF. We have to approve measures that allow for the generation of growth and the creation of employment. Confidence of the markets depends on the capacity to take political decisions. Sustainable growth on sound fiscal rules, these are fundamental parameters – they must be translated into very clear political priorities in hand with a strengthening of the European solidarity. Europe is the continent of liberty. Let us not forget, with Thucydides, that "liberty is courage". And what Schuman – coming back to music – wrote, "Ein Requiem komponiert man für sich selbst" ('A Requiem is something that one composes for oneself'), is a strong statement that could act as a reminder of the need to avoid confirming some worrisome prophecies.

\* Paper delivered at the Swedish Ambassadors' Meeting, Stockholm, November 12, 2012. The views expressed in this article do not necessarily reflect the position of the government of Portugal.

EDITOR | Paulo Gorjão

ASSISTANT EDITORS | Kai Thaler

DESIGN | Atelier Teresa Cardoso Bastos

Portuguese Institute of International Relations and Security (IPRIS)

Rua Vitorino Nemésio, 5 - 1750-306 Lisboa

PORTUGAL

<http://www.ipris.org>

email: [ipris@ipris.org](mailto:ipris@ipris.org)

IPRIS Viewpoints is a publication of IPRIS.

The opinions expressed are solely those of the authors and do not necessarily reflect the views of IPRIS.

Gold Sponsor

Silver Sponsor

Partner

