



**An answer to George Soros' Plan B to the Eurocrisis (Financial Times -
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What's in a Plan?

By Philippe De Schoutheete – 15 Sept. 11

The European Union faces important problems in various fields but it seems clear that the really vital issue is the euro. Failing to define and implement a collective foreign policy would negate forty years of efforts in that direction, impairing the capacity to defend Europe's interests in a globalised world, but it would not tear the Union apart. Reinstating border controls on the free circulation of persons, in violation of the Schengen agreements, would be an obvious absurdity, but the sort of absurdity which can easily be redressed at a later stage. A disorderly break-up of the eurozone, however, would lead to panicky protectionist measures and competitive devaluations, leading in turn to the dismantling of the single market, possibly even the customs union, in an atmosphere of mutual recrimination. That situation could not easily be redressed, and the very existence of the Union would be compromised.

That perspective explains why influential voices, beginning with that of George Soros in the *Financial Times*, are calling for Europeans to move on to a Plan B. I certainly support the need for urgent and coherent action on a broad front, but have some difficulty with the formulation. Talking about a Plan B seems to imply that there was a Plan A. I do not believe that this was the case.

This is not to belittle what has been done in Europe in the three years since the failure of Lehman Brothers. It is too easy to talk about politicians simply kicking the can down the road. In fact, if you combine activist leadership by the French presidency in 2008, successive Greek bailouts accepted by the German Chancellor, unprecedented intervention by the European Central Bank, cooperation with the IMF, the Financial Stability Facility and the future Stability Mechanism, the “*European semester*” and the “*golden rule*”, the confirmation of the European Council as the major locus of initiative and decision-making, on economic and monetary matters and also for the eurozone, much has been done and much has changed. But the fact is that this was not conceived as a plan, that it was not perceived as a plan, and that, had it been presented as a plan three years ago, it would most certainly have been rejected by a variety of actors for a variety of reasons. This should be kept in mind.

Yet the fact remains that if we want the sovereign debt crisis in the eurozone to be settled by governments and not simply by markets – a legitimate ambition that we should all share – a piecemeal approach will not be sufficient. We have to show that there is a pilot on board and we therefore need something conceived, and perceived, as a plan. Constituent elements of such a plan are already appearing in the European debate:

1. The aim is to establish a collective rule-making and decision-taking mechanism for macroeconomic policy and financial regulation in the eurozone. Whether it is called a treasury, a minister of finance or “*gouvernance économique*” is less relevant.
2. Because the mechanism would apply only to the eurozone, it should be negotiated in substance by member states that are part of that zone, which, given the pressure to which they are submitted, may well make conclusion and ratification easier.
3. However, as Wolfgang Schäuble and Angela Merkel have recently indicated, it implies a modification of treaty texts, a distasteful but inevitable prospect.
4. The present treaty gives an example of the sort of institutional mechanism needed: permanent structured cooperation (Art. 42 § 6 TEU, art 46 TEU, Protocol n° 10). Participation is conditional; it implies commitments, decisions are taken by participants only, most decisions can be taken by qualified majority, if commitments are not respected voting rights are suspended, states may decide to leave the cooperation. This system, devised for defence, has not been implemented because there is no appetite for defence cooperation at this moment, but it gives a sound legal basis for decisions by a limited group of member states, a basis which Eurogroup ministers (or Prime Ministers) do not have. It would also put an end to an anomaly: at present, member states may ask to leave the Union (art. 50 TEU), but they may not ask to leave the euro!
5. As we all know treaty modification is a lengthy process. Credibility should be enhanced by measures with an immediate impact. One such, abundantly debated, could be Eurobonds. Another would be to establish a single representation and a single quota for Eurozone countries in the IMF. Both these measures, as most others that can be imagined, have clear disadvantages. They also have many clear advantages, and the stuff of politics is to strike such balances.
6. A plan of this sort cannot be limited to technical institutional matters, because it requires strong support in public opinion. A first step to that effect would be to disseminate a better understanding of the unprecedented level of interdependence between European economies. Most voters accepted in 2008 that national governments had to save national banks, probably because they understood that their bank accounts were threatened. They should now be able understand that disorderly sovereign debt default in one part of Europe would make banks go broke in another, which could also threaten their bank accounts.
7. Most importantly, the deal must have a social dimension: a serious joint commitment to policies reducing the level of social inequality, which has increased recently to a point resented by a large segment of the population. And it should also have an ethical dimension, including a sincere collective effort to reduce tax evasion, and a joint decision to tax punitively unjustifiable levels of remuneration at the top echelon of major corporations, which is another source of resentment. Any European bargain must also be a social bargain.

There is no natural appetite, either in governments or in public opinion, for new sovereignty bargains or social compacts. In the normal course of events, such decisions are only taken when the alternative is an imminent crisis of disastrous proportions. We may be nearing such a moment, and it is therefore wise and useful to elaborate on solutions.

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