

## For or Against the Adoption of the European "Fiscal Compact"

by Yves Bertoncini and Francis Wurtz

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The European "fiscal compact" is due to be submitted to the French National Assembly on 2 and 3 October 2012, and the debate is currently crisscrossing and splitting the Left. *Politis* asked Yves Bertoncini and Francis Wurtz to debate the issue, comparing viewpoints.

**Is the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) simply a technical adjustment, or does it mark a turning point in the construction of Europe?**

**[Francis Wurtz]** The collapse of Lehman Brothers four years ago exposed the crisis in the financialised capitalist system before the whole world. We are still living in the wake of that crisis, only people just do not say so any more. They are talking about the debt crisis when in fact the debt itself is basically the result of the financial crisis and of the measures adopted to counter it – measures into which huge sums of money have been poured. It is very important for us to bear that in mind when judging the nature of the measures urged to resolve the public spending issue today.

I do not think that the TSCG is an innovation (others have already been adopted or are in the pipeline, but they have a lesser legal impact) so much as the primary tool in a blueprint for a fully-fledged restoration of the social order existing before the boom of 1945 to 1975; an attempt to use this crisis to call into question the crucial social and democratic conquests achieved in the struggle against the power of capital over several generations. That is the real political blueprint being pursued by the European leaders, and they wish to acquire the means, including the legal and coercive means, to achieve their purpose. Nor is it going to end with this treaty, either.

**[Yves Bertoncini]** From a technical standpoint, what the treaty actually achieves is to raise the level of the notions and elements of oversight in the legal hierarchy. It calls for the famous rule on "structural balance" to be built into national law at the constitutional or equivalent level (in France it would be at the organic level). Thus the idea is to move a little further ahead by showing that the signatory countries are further integrating the need to avoid excess in public accounts and to prevent the public debt from running adrift. This budget discipline has a symbolic value for countries such as Germany, where public opinion was not necessarily prepared to have to subscribe to acts of solidarity with countries such as Greece or Ireland. They are the ones who asked for this safeguard as an offset for their aid.

Then, of course, there are the texts and the way in which they are applied. That is where the debate is going to have to focus. The stability pact has often been seen as a kind of straitjacket here in France. Yet over the past ten years France has not complied with it for more than half the time. That

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<sup>1</sup> « [Débat : Pour ou contre l'adoption du traité européen](#) », *Politis* n° 1219, 20 septembre 2012

shows that the implementation of this pact is in fact relatively flexible. There is a certain amount of debate over the structural deficit, over how to apply it. But the treaty, just like the reform of the pact in 2005, offers its signatories the chance to appeal on the grounds of exceptional circumstances... So this treaty is a technical adjustment, but at the same time it is a symbolic stage in the dialogue that has been ongoing for the past four of five years. It combines European solidarity with European oversight as an offset.

**[Francis Wurtz]** We clearly disagree over the motives driving the people who masterminded the treaty. In an interview in the *Wall Street Journal* back in February, Mario Draghi said: "*The treaty is just for starters.*" And he made a sarcastic quip about the era when some people considered that "*the Europeans could afford to pay the whole world not to work*". He announced that "*those days are over*", and he added: "*the European social model is dead.*" Regarding the aftermath of the treaty, another major player, Mr. Van Rompuy, said: "*The crisis offers us a splendid opportunity to take a leap forward in the sphere of economic integration.*" So here, at least, we have someone who thinks that the crisis is a splendid opportunity! These two statements justify my analysis. It really is an attempt at restoration, a fully-fledged social blueprint.

Bernard Guetta said in his weekly column in the French newspaper *Libération* recently that capital is no longer afraid of communism and so it is trying to return to the situation that existed before that. That is exactly what is happening. The treaty is a key element, which I consider to be a kind of Pandora's Box. Here in France it is due to be ratified in early October, and the next step is already going to be debated in Brussels on 18 October. There is nothing coincidental there. Mrs. Merkel, who wants to push rapidly ahead, wants an agenda to have been thrashed out before the end of the year, so as to complete the lasting austerity picture with a centralisation of the places where the decisions are made and to thus ensure that the strategy is a success. Because if the grass roots are entrusted with it, it will not be. That is why this treaty is so important, even if we must not isolate it from the rest. It is a key tool in a far broader strategy.

**[Yves Bertoncini]** Like you, I too hear what the leaders are saying, though I am not necessarily able to read their minds.

I do not believe that the European social model is dead, nor do I think that it would be a good thing for it to die. The expression "European social model" is a little bizarre. It is absolutely true when you look at the world as a whole, but when you take a closer look at it, you realise that there are several different models. Public spending on welfare in Europe accounts for 12% of GDP in Cyprus, 18% in Luxembourg and Slovenia, and 24% in Finland and France. The TSCG does not touch the overall sums spent or the way in which those sums are allocated. The only thing it is trying to do, like the stability pact before it, is to counter the excessive deficit trend.

What is Van Rompuy saying? He is saying that the crisis offers us a chance to take a leap forward with economic integration. And he is right! Four presidents – Van Rompuy, Barroso, Juncker and Draghi – are studying the issue right now in response to a request from the European Council. They will be filing an interim report in mid-October (18 and 19), while the final report is due to be submitted at the end of the year. What is the issue involved here? Budget union, with bailout, solidarity and oversight mechanisms; the TSCG is part of this. Even though it is a treaty on stability, coordination and governance in the Economic and Monetary Union, people call it a "fiscal compact" because the part on budget stability is its only solid aspect. Unfortunately, the coordination part is still only wishful thinking. If progress is made towards a banking union, so much the better, and if progress is also made with political union, then that too will be very useful. Right now this multifaceted integration is making progress... what President François Hollande calls "solidarity-based integration".

**[Francis Wurtz]** You claim that the treaty does not address either the level of public and social spending or the way it is allocated... But all of the very vibrant "recommendations" that the European authorities issue hint at later retirement, at labour market reform and at reforms designed to make the countries "*credible in the markets' eyes*". Therein lies the poison! Christian Noyer, the governor of the Banque de France, thus a man who is part and parcel of the European central banks system, has called on the French Government "*to implement structural reforms, labour market reform allowing greater flexibility so as to revive and improve our economic competitiveness; we have to cause our social model to evolve because it is no longer suited to global competition*". He could hardly have been more explicit. "*The euro-zone countries' aspiration to autonomy must be wiped out*", he says in another interview. The less a member of the leadership class is subject to election by universal suffrage, the more open and unambiguous he or she is regarding the basic aim, which is to dismantle what are – rightly or wrongly – called the elements of our social model because those elements, so they argue, are no longer compatible with global competition. That is a terrifying social blueprint and the public at large can only perceive its frightening results in the countries benefiting from "aid" plans such as Spain. But what they fail to understand as yet is that it concerns all of the member states, thus ours as well. And that is where the treaty marks a very important institutional step. If that step is taken, the lid will come off this Pandora's Box.

### **Is the adoption of this treaty going to mean additional austerity?**

**[Yves Bertoncini]** I thoroughly agree that the balance between austerity and growth in the countries under aid plans is probably not right. In Greece, too much has been done too fast. On the other hand, I am happy to see that Portugal has been set deadlines for it to return to the path heading towards a 3% public deficit. It has adopted measures and implemented reforms, and thus the troika (the European Commission, the European Central Bank and the International Monetary Fund) has submitted a report highlighting the fact that "*we are not going to strangle the Portuguese people; we need to allow them a bit of air*".

Does the treaty constitutionalise austerity? We really need to look closely at the text. Where taking on board the overall economic situation, the circumstances, the reforms already under way and the deadlines granted is concerned, there are certain elements of flexibility in the treaty and they will need to be brought into play when it is implemented. And there is going to be a major debate among economists – in fact, there already is – on this notion of "structural deficit" and its real importance, which is subjective. The very fact that such a debate exists shows that we are not in the realm of the intangible. The truth of the matter is that the only countries which are going to be at all impacted by the treaty – and in fact they are the ones that are already being impacted by the stability pact – are those that slide off the tracks on a continuous basis.

**[Francis Wurtz]** Quite. The troika – that most diabolical of inventions – has just suggested relaxing the timetable for Portugal to get out of debt, because it was originally due to hit the 3% figure in 2013. The troika is now allowing it a chance to remain at 4.5%, yet only as long as it brings that down to 2.5% the following year. But Portugal is a country on its knees, so its prime minister tells us, and he is the troika's star pupil par excellence. The result of these famous rescue measures, which were supposed to make it possible to lay the groundwork for growth and to bring the deficit down, is the exact opposite of what they were supposed to produce. Where the notion of structural deficit is concerned, as Martine Aubry's grandmother used to say, "*quand c'est flou, y a un loup*" ["*when something is fuzzy, there is a hidden agenda in there somewhere*"]. What is France's structural deficit? According to the IMF it stood at 3.4% of GDP at the end of 2011, while the French Ministry for the Economy and Finance set it at 3.7%, the Court of Accounts at 3.9% and the European Commission 4.1%. Now there is punctilious accuracy for you! Try building a budget on the basis of figures like that!

You say that France has not applied the stability pact for over half the time... But it is precisely that flexibility which the treaty aims to make impossible with its automatic sanctions and mechanisms. And even in the event of exceptional circumstances, it is going to be on a case-by-case basis. The treaty states that if the events are unusual and beyond the control of the party concerned, temporary measures may be granted but only on condition that that party's temporary divergence from the straight and narrow does not jeopardize its budgetary sustainability in the medium term. And it hardly needs to be said that the country involved is not going to be the one making the decision in that regard.

**[Yves Bertoncini]** As I said, the balance between austerity and growth is far from perfect in Europe today, to put it mildly. We must not forget that growth breeds growth at the national level, but also at the European level. Europe must not just be a straitjacket, it must have a positive added value. The famous 120 billion euro package formulated at the European Council meeting in June – in particular, because François Hollande took a firm stance on the issue – is a step in the right direction. The European Union can play a favourable role by unfreezing structural funds, by allowing the European Investment Bank to lend more to the economies and by launching "project bonds". Debates are also taking place over the Community budget in November; we must move towards a stronger Community budget, not towards cuts in that budget. The ECB has also played its part because interest rates are currently at an all-time low.

The notion of a structural deficit is fuzzy, but the treaties are often fuzzy. It is what is known as constructive ambiguity. It makes it possible to forge a consensus, and then it is marketed in one country one way and in another country another way. What fuzzy means, in my view, is that there is room for manoeuvre and for discretion.

The countries in which the troika has been able to act, and indeed has had to act, were on their knees well before it intervened. Rather, I can subscribe to your contention that the pill is too bitter. But we are talking about the special situation of countries benefiting from an aid plan.

### **Is a mechanism involving automatic sanctions not counter to democracy?**

**[Yves Bertoncini]** The semi-automatic – not automatic – sanctions will be adopted by the Council of Ministers of the Union, a forum which represents the member states and on which our ministers or heads of state and government leaders all sit, on a proposal from the Commission. Nothing has changed in that connection. What has changed are the voting rules. The Commission used to propose sanctions to the Council and the Council had to adopt them. Now, all it takes for a proposed sanction to be adopted is for the Council not to be in a position to oppose it. It is what is known as a reverse qualified majority. The countries will no longer be playing an executioner's role, they will be in a position to help the guilty party. But to oppose the sanction, you would have to get about twenty countries together. So the likely prospect is that it is going to be far easier for the Commission to push a sanction through. But the Council will still have a chance to oppose it. Then again, this is something that has been in force since the "six pack" reform adopted by the Council of Ministers and by the European Parliament.

**[Francis Wurtz]** I challenge you to find me more than 2% of European citizens who have ever heard of the "six pack". European democracy should be asking itself some questions. The treaty is not as soft as you make it out to be where economic issues are concerned. Article 5 establishes a very specific link between the budgetary aspect and the social and economic aspect: "*A Contracting Party that is subject to an excessive deficit procedure under the Treaties on which the European Union is founded shall put in place a budgetary and economic partnership programme including a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of its excessive deficit.*" Now, the reforms judged capable of guaranteeing the effective and lasting correction of an excessive deficit are: cutting labour costs,

being less lax where the retirement age is concerned, making it easier to lay people off, and so on. We should not be begging for greater flexibility here, we need to change the whole direction of the thing.

There is a huge gap and a very serious crisis of confidence today between the citizens of Europe and the European institutions, and now it is even calling into question the very idea of Europe, which is a development I deplore. This gap is an existential threat to the European project because no one can possibly think of uniting twenty-seven countries to the accompaniment of their citizens' indifference or outright hostility. With the process currently under way, not only is the policy being pursued further widening the gap between the citizens and peoples of Europe and the European project, it is also massively furthering the process of centralising the decision-making centres. It is designed to ensure that a policy which everyone knows is extremely unpopular becomes permanent so as to make it unassailable either by the citizens or by the national parliaments; or even by all but the most powerful national governments. Here, too, it is not just a matter of slightly revising the excessive thrust towards centralisation; it is a matter of changing direction altogether.

**[Yves Bertoncini]** What you say about the budgetary aspect is right. The fact that sanctions are going to be easier to adopt boosts the Commission's clout, when it can say "*this is what needs to be done*". But in that connection the countries are only bound to achieve a result, they are not bound to adopt specific means to achieve that result. They can act exactly as they please. Take François Hollande, for instance, who has announced that he is going to restore the balance of public finance by 2017. In his case, it is not even 3%, it is 0%.

**[Francis Wurtz]** Which is, in fact, what the treaty demands...

**[Yves Bertoncini]** He said it quite clearly from the very start of his campaign, and still the French people elected him. His decisions are designed to achieve that end. That is democracy. I should think that about 2% of the French people are familiar with François Hollande's sixty pledges, but one of the many things they heard was this pledge to achieve zero deficit. The Commission can say what it likes, but France does what it likes.

**[Francis Wurtz]** Without wishing to absolve the French Government of its responsibilities, especially of the decisions that it makes because it agrees to submit to Europe's guidelines, France does not do what it likes. It has to meet a 3% public deficit next year, and according to the Court of Accounts, 3% is 33 billion euro with a 1% growth rate, 38 billion with a 0.5% growth rate, and 40 billion with a 0.3% growth rate, a forecast to which all economists subscribe. And 40 billion is going to be almost untenable. Not only does the EU enforce crushing constraints, it also abdicates its role by failing to endow itself (the ECB) with the means to smash the omnipotence of the money markets over its member states. That is what has prompted Pierre Moscovici to say that if we move away from the 3% mark, basically by resorting to the fuzzy definition of structural deficit, "*the markets would punish us*".

It is not because votes in the Council are supposed to be public, or that debates in Parliament are obviously public, that democracy is safe. Everything possible is being done, not through negligence but as part of a strategic design, to avoid feeding understandable information to the man in the street and to avoid a debate on public ideas, in other words genuine grass-roots democracy. You just have to look around you! Speaking on TF1 on 9 September, François Hollande discussed the crisis and the budget, but he did not say a word about the treaty.

*Interview conducted by Olivier Doubre and Michel Soudais (with Florent Lacaille-Albiges).*