



Incremental Progress in Europe, but Is That Enough?

Nicolas Véron says that it is unclear if the markets will be patient enough for the reforms discussed in Europe to be implemented in the months ahead.

Transcript of interview recorded December 9, 2011. © Peterson Institute for International Economics.

Steve Weisman: European leaders have held their summit, and the markets are holding their breath. Nicolas Véron, visiting fellow at the Peterson Institute for International Economics, what is your assessment of the outcome in whether it can stabilize the sovereign debt and banking crises in Europe?

Nicolas Véron: Clearly we're seeing two things. First, we're entering a discussion on treaty changes and basically constitutional changes in the framework of a few institutions. And this is just one step. I think we'll continue having this conversation for some time because the issues that are raised here are very profound issues about the powers of nation states in the Union, and it will take time to build a consensus. There will be a number of national debates that will interfere with whatever the leaders have decided today.

The second thing is that the UK is a big piece of the European equation, and we see it come back into the conversation in a way, in this summit, not in an altogether positive mood. But it was in a way an illusion that the euro zone's issues could be dealt with fundamentally with the UK standing aside and nothing else changing in the framework of the institutions. Now we see that there is increasingly a tension between the UK not wanting to have anything to do with the euro zone and the fact that the euro zone development is also central for the EU as a whole.

Steve Weisman: But progress was made toward consolidating the gains of getting some kind of pact that would entail fiscal consolidation and resources to provide to banks and governments, although maybe not as much progress as some hoped.

Nicolas Véron: Yes. Progress has been made, but it remains tentative, and there are many loopholes in the framework. It's especially true obviously of the banking system, for which we have new results of stress tests from the European Banking Authority, but still absolutely no clarity on how the system can be strengthened in the continued state of uncertainty on the sovereign debt situation and lots of uncertainties about the implementation of the decisions that were made in late October in terms of bank recapitalization. More generally, as for resources, I think there are lots of question marks in the short term as to what the ECB [European Central Bank] can do, and in the longer term as to what sort of fiscal union, or fiscal stability union -- as the most recent language has it -- will be put in place. It is clear that it has to include some stronger rules and enforcement mechanisms for these rules than the Stability and Growth Pact of the Maastricht Treaty. But are rules enough? How can then enforcement be made credible, not only from a legal perspective, but also from a political perspective? I think here again, it's not the end of the discussion. It's actually just the start of a discussion that will probably be continued over the next few weeks.

Steve Weisman: There were high expectations, and you're suggesting they were not met?

Nicolas Véron: No, I don't think so. I personally don't see that negatively. Of course, there will be volatility in the marketplace, and this is going to continue. It would be naive at this point, given the depth of this crisis in Europe, to believe it can be resolved in just one summit or that we can be done with it for Christmas and then go for holiday. I mean, this is a very, very multi-dimensional crisis [that] goes very deep into the political fabric of the EU [European Union]. There's no way it can be resolved quickly. So I for one am not disappointed by the result of the summit, but I think we're in for a much longer discussion. This will not create the volatility, because the volatility has been with us for a long time. But it means that the volatility in the marketplace will continue to be with us probably for quite some time. I think it's much better to have a path towards what could be possibly be a solution of the crisis, which in my view has to include some pretty profound institutional change, including as regards to treaties of the EU.

So we're now in the discussion, and I think Germany especially has made a lot of progress in its own internal domestic consensus in terms of moving toward this recognition that institutions are a big part of the problem. They have to be a big part of the solution. I'm not sure there has been as much progress in other countries. I think France and the Netherlands come to mind. I don't know whether it's a coincidence that these are the two countries that rejected the Constitutional Treaty in 2005, but I think the concept of a fiscal union, as it has been very broadly outlined by Mrs. Merkel [German Chancellor Angela Merkel] a week ago, should be relatively uncontroversial in Italy and Spain, but more controversial in France and the Netherlands, which tend to have a more ambiguous attitude to sharing of sovereignty. So we'll see a lot of different controversies in the next few weeks, and I don't expect all of them to be smooth. I think actually we'll see a lot of defensiveness and a lot of bitterness probably in some of the exchanges.

So again, I see this summit as just one step on this path towards possibly a crisis resolution that would involve institutional change that enables this vision of a fiscal union outlined by Mrs. Merkel in front of the Bundestag last Friday to be fulfilled. There is no way this discussion can be smooth and nice and consensual, because what it is about is just too important.

Steve Weisman: You and others at the Institute have been talking about treaty changes to establish a fiscal union as taking years. Now everybody's talking about it well, taking months. That itself is astonishing.

Nicolas Véron: Clearly there's a race against time, because the longer it takes, the more there is a risk of markets losing their patience and accidents happening, and Germany also doesn't want the ECB to be in a position to do some form of bridge funding. I think it cannot happen without a minimum of democratic deliberation in each of the countries concerned. So I am a bit concerned personally at the notion that everything should be completely sealed and wrapped in the spring of 2012, because that indeed seems to be a pretty short time table.

Steve Weisman: That's very unrealistic in your view?

Nicolas Véron: Well, you know, we're in a crisis. It's a very serious crisis, very dramatic. So timetables need to be accelerated for that reason. I want to be sure that we don't introduce changes

that create the risk of being rejected down the line because their introduction has been rushed. So I think there will be a very fine line to treat—and the issues are not the same in other countries because there are different constitutional transitions, different roles for parliament, and all that. So I'm not saying they were too quick. I'm just saying we have to be very careful that the political acceptability of what's being discussed is ensured, at least to a degree that would minimize a risk of a backlash.

Steve Weisman: Nicolas, thank you.

Nicolas Véron: Thanks to you, Steve.

