EDITORIAL OPINION

Views

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FAILURE IN THE GULF

A new report investigating the oil blowout in the Gulf of Mexico is a powerful summons for stronger regulations.

The document released Wednesday by the presidential commission investigating last spring's oil blowout in the Gulf of Mexico is a riveting and chilling indictment of "systemic failures" throughout the oil business and of the federal agencies that allowed themselves to be captured by the people they were supposed to regulate.

The commission will offer specific recommendations for reform in its full report next Tuesday. But the chapter it decided to release early is, by itself, a powerful summons to the Obama administration to press rapidly forward with stronger regulations, and to the industry as a whole to behave far more responsibly than it has.

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How to calm the E.U.'s turmoil

Federalizing fiscal and economic policies is the only way the E.U. can control its fate.

Felipe González

MADRID Three years after the onset of the most serious economic crisis since 1929 — and a year after the signing of the Treaty of Lisbon meant to consolidate Europe — financial turmoil continues apace across the Continent. Neither the European Council, the Commission nor the Central Bank are able to stop it. Individual member countries appear defenseless, like sitting ducks, before speculators who perceive the timid measures taken so far as an invitation to continue mounting their attacks.

In short, the financial crisis of the early 21st century has exposed the crisis of governance at the heart of the European project.

The European Union today is trapped in the contradiction of a monetary union that lacks the capacity to coordinate economic and fiscal policies. Clearly, the continuation of widely divergent policies among different countries within a borderless internal market that shares a single currency is untenable.

Europe thus stands at an historical crossroads. It faces three choices:

• *Continue business as usual.* That means riding out the unending storm day by day, mired in the clashing assertion of short-term national interests that feed off nationalist reactions and nourish Euro-skepticism. We will continue running after speculators, with ever more solemn statements that no country will be abandoned to its fate. Tentative steps will be taken to amend relevant treaties to overcome particular hurdles. Public opinion will turn against structural reforms that are perceived to be "imposed from outside as the price to pay for restoring market confidence."

• *Yield to pressure from those who want a return to a simple free trade area, without a single currency and internal market.* That would mean that each country would again make do with its own currency, employing competitive devaluation to get out of a short-term jam instead of adopting long-term policies that would make that country globally competitive. Just when we most need a United Europe to remain relevant in a global economy, we would be yielding to the demons of history.

• *Move forward decisively on the path toward "federalization" of economic and fiscal policies.* In my view, this is the right course because it is the only way Europe can emerge from the financial crisis that grips it today and become a competitive master of its own fate in the global economy.

The absence of homogenous regulation only hobbles Europe as the Continent faces global challenges in the decades ahead.

Logically, this federalization should be completed with a common foreign and security policy, for which the current treaty provides sufficient authority. Here, too, there is a divergence that impedes a forceful European voice on the global stage. While polls show the European public believes we should speak as a singular entity, ambitious politicians seldom resist fanning the flames of national passions.

The European Council should lead this effort toward federalization and a single global voice, including proposing the requisite changes in the European treaties, even when it may be expected that some countries of the Union may not wish to join this development. Reticence on the part of any state should not deter the will of those who want to follow this path.

Getting out of today's crisis and moving ahead would require implementing the following policies:

• *Homogenizing regulation and control of financial institutions operating in the European Union.* It is ridiculous for member states to maintain different rules in this common and integrated space where financial institutions operate freely. The absence of homogenous regulation will only sow the seeds of the next financial crisis and hobble Europe in the decades ahead as the Continent faces new competitive challenges in the global economy.

The design of this new regulatory framework should be agreed to with the United States as well as proposed at the G-20 summit. Governance of the global financial system should be consistent across all sovereign entities.

• *Sustaining anti-cyclical fiscal policies to ensure recovery.* It is too soon to pull back on policies to stimulate the take-off of the real productive economy, either in Europe or in the United States.

The Obama administration has decided to maintain anti-cyclical policies in the face of its frustratingly slow recovery. Europe must do the same. Although there are countries, such as Greece or Spain, that have exhausted their fiscal leeway, and are hence compelled to make strong adjustments by slashing budgets, others, like Germany, which have not exhausted their means, must actively lead the way.

The European Investment Bank and the European Investment Fund should be engaged in this stimulus effort through development of essential infrastructure, including in energy and new information technologies, that will create jobs and clear bottlenecks, thus increasing Europe's competitiveness.

• *Federalizing economic and fiscal policies.* The various countries should agree to common balance of payments requirements and harmonized minimum taxation. Such a move would make self-evident the need within individual countries to adopt deep structural reforms — for example, more flexibility in rigid labor markets — to help promote competitiveness.

I am convinced that sharing sovereignty through a federal structure is not objectionable to most Europeans. What they find unacceptable is being subject to reforms that appear to question social rights acquired over decades as a short-term response to a financial crisis they did not cause. Europe's citizens want and deserve a long-term solution to their real challenges, not a price dictated by markets that seem to rule over their governments.

Whether the issue is pension and healthcare reform for an aging population, loosening the corporatist rigidity of its industrial relations system, or shifting away from our energy dependence, deep reforms will not be possible unless two conditions are met. First, it must be made clear that the aim is to preserve, not dismantle, Europe's model of social cohesion. Second, the financial system must be governed so that it serves the productive economy and not speculative behavior.

Muddling through the current crisis is sapping Europe's energy, undermining the Continent's post-Cold War confidence and clouding its vision. History is compelling us to move forward boldly. If we don't answer that call, the rapidly changing world is going to pass us by.

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