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Fears in E.U. spur calls for systemic overhaul

BERLIN

As serial crises unfold, Barroso voices goal of more intense integration

BY NICHOLAS KULISH AND DAVID JOLLY

As the economic and financial troubles in Spain continue to deepen, so too does the sense that Europe's crisis goes far beyond an isolated situation in Greece and could require a more comprehensive and systemic solution.

José Manuel Barroso, the president of the European Commission, called Tuesday for a concrete plan to increase European integration as a means to reassure investors, who have sent the euro sliding toward its lowest levels in two years. It is not just financial markets that need soothing, however, if the economy in the euro zone is going to get back on track.

Even as the breadth of the problems in the Spanish banking sector began to come into focus, the country's consumers pulled back sharply on spending last month. Retail sales fell in April by a record 9.8 percent from a year earlier, the 22nd consecutive monthly decline, the government statistics institute said in Madrid. In a separate report, the Bank of Spain forecast that the economy would continue contracting throughout the first half of 2012, after shrinking 0.3 percent in the first three months of the year.

Spain, with the highest jobless rate in Europe, is struggling to fix its financial sector, which was battered by the collapse of a real estate bubble. The country has again become the subject of concern after Bankia, a real estate lender that the government is nationalizing, said Friday that it needed a total bailout of €23.5 billion, or $29.3 billion.

"They're waiting for some sort of miracle to solve the problem, and in the meantime muddling through. That's not a strategy," said Klaus Adam, a professor of economics at the University of Mannheim. The unwillingness to recognize systemic problems in the euro zone's weaker economies is "matched, in the economies in relatively good standing, by the failure to recognize the necessity to make transfers in some form."

Calls for some sort of jointly issued debt, known as euro bonds, have grown ever louder since the election this month of François Hollande as president of France. Mr. Hollande shifted the debate over how to respond to the crisis from an emphasis on cutting deficits — which is supported by Chancellor Angela Merkel of Germany but increasingly rejected by voters — to one on promoting growth.

In calling for a firm strategy to strengthen European integration, Mr. Barroso, the president of the European Commission, said it was "very important, even if you believe that it doesn't come immediately, to define the trend, the objective."

"It is also very important in terms of confidence for the investment in the Euro area now," Mr. Barroso said in Brussels. "We will support an ambitious and structural approach which should include a roadmap and a timetable for a full economic and monetary union in the euro area."

Fabian Zuleeg, chief economist at the European Policy Center in Brussels, said, "These are all permutations of the same crisis and that is why we need to think of this as a whole." Mr. Zuleeg added, "In some ways we are stumbling from crisis to crisis, having to deal with each issue as it happens but stopping us from getting ahead or finding the long term solutions which we really need."

Even the German public, which has been resistant to euro bonds, would be more welcoming toward the idea in the context of a larger plan, rather than as a hasty fix for short-term financial instability.

"Germans are generally still instinctive Europeans," Mr. Zuleeg said. "They want to have a roadmap which clearly shows if we move forward toward integration, countries will put public-finance constraints on themselves and there will be more coordination."

Part of the problem is the German public's perceptions of Greece. That view is stoked by the German media's constant hammering away at the themes of Greek tax evasion, Greeks' sense of entitlement, and other failings.

Greece has been the focus of the crisis since 2009, when the government in Athens disclosed that its finances were in even worse shape than previously thought.

But attention has shifted from the Balkan Peninsula to the Iberian Peninsula, where Spanish officials insist that they can handle the fallout from the housing bubble. The Spanish economy is shrinking as the central government and the regional authorities cut spending to meet budget targets. Making matters worse, the housing sector continues to decline and sales of goods and services to other European countries, which

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