

Member state default can be avoided

27 May 2011 | [Integration and enlargement](#) | [United Kingdom](#)

Introducing an effective regulatory and support system to ensure that member states suffering from sovereign debt problems do not default is an "intellectual challenge" to rival the creation of the structures that have secured peace in Europe over the last 60 years, former Irish Taoiseach John Bruton has claimed – writes *Dean Carroll*.

Speaking at the annual Economic Ideas Forum, in London yesterday, the former European Ambassador to the US told delegates that "interdependence guarantees" were now needed in relation to fiscal responsibility in the same way as treaties and agreements had produced a landscape of peace and stability since the Second World War. "We are facing another great challenge now, to construct mechanisms to ensure that Europe does not experience defaults. It is as big as the challenge for peace we faced in the 1950s."

Also urging member states to promote the interests of the European Union to their own citizens in order to provide public support for greater financial integration, Bruton added: "We have to make sure that people feel that the EU belongs to them, to create an emotional affinity as well as a business case. The EU is the only voluntary pooling of sovereignty we have ever seen, where it has happened elsewhere – it has been coercive. But political leaders are failing to communicate the message to citizens; we have to engineer a communal feeling in Europe."

At the same event, hosted by think-tanks the Centre for European Studies and the Stockholm Network, the President of the European People's Party Wilfried Martens also reiterated his desire for supranational economic governance. "The European semester, bank stress tests and better financial regulation can give us the eurozone we need to pull out of the crisis – but these institutional solutions will come to nothing, if the EU as a whole does not return to sustainable growth," he said.

Martens warned policy-makers to focus on completion of the single market – especially, in the digital industry - to boost trade in Europe and counter the emergence of populism, which had resulted in the political right winning many elections by capitalising on public discontent over austerity measures and the economic crisis. "Wealth has to be earned before it can be distributed, a simple lesson that our socialist competitors have never understood," he added.

"The stronger member states have to help those who are weaker at the moment and the weaker must do all they can to get back to dynamic growth; that is solidarity. We can then master the crisis and make Europe a better place."

But chairman of Goldman Sachs International Peter Sutherland insisted that the debt crisis in Europe was "enormously dangerous" due to the fragmented response from EU institutions. "The European Central Bank and the European Council are on different pages when it comes to Greece and contagion effects that may follow," he said. "We need coordination and convergence."

Meanwhile, Adam Smith Institute director Tom Clougherty blamed the economic crisis in Europe on member state debt explosions, structural economic imbalances and bubbles in

the areas of property and financial services. "We have witnessed the failure of the business model adopted - we had too much government, which was bureaucratic and costly," said Clougherty. "We have to radically reform the welfare state, which is a real drain on the productive side of the economy as well as promoting tax reforms and job growth."

In contrast, Work Foundation executive vice-chairman Will Hutton argued for more government fiscal stimulus packages - as opposed to less state intervention - and long-term reward incentives in business not based on quarterly profits. Drawing lessons from technological advances over the last 250 years in Europe, Hutton said: "The debate is between good and bad capitalism. We have to face the truth that the private sector is getting less and less effective at job creation following recessions. This could be because our capitalism does not embrace the new as quickly as we need it to in terms of things like science and technology.

"Capitalism has always been about a complex interdependence between the public and private realms. It produced the alchemy of the industrial revolution and we have to reproduce that in the 21st century. We have to figure out, in Brussels, how we do good capitalism. If we just manage public and private debt downwards, we could have a long period of stagflation and all the civil unrest that follows it."