



UNION UPSTAGED AT TORONTO G20

Over the last two months the Italian newspapers have given broad coverage to European affairs and managed to avoid one of their chronic pitfalls in the process: self-referentiality. From their habit of distorting community business through the lens of national interest, the main Italian papers seem recently to have moved on to greater European awareness. Such renewed attention by the media should not be seen as a sign of political revival by the European Union which has betrayed the expectations of those encouraged by the Lisbon Treaty, and in recent months has put up a disunited, fragile front before the many threats that have come its way.

The economic-financial crisis that began across the Atlantic has landed on European shores and curbed all growth. Great cracks have opened in some of the more vulnerable countries and, with Greece bankrupt and Spain teetering, the Mediterranean shores of the EU look to be the worst hit. But neither is the eastern front all that safe: Hungary hovers on the edge of collapse (1). Though it used to be viewed as the solidest, most advanced achievement of the European project, the Euro has proved unexpectedly vulnerable; this seems less due to economic than political fragility at its root and the absence of economic governance across the area. Meanwhile the international dimension of the EU has distinctly under-performed. The December fiasco at Copenhagen may perhaps be justified by the lack of any proper institutional framework, but in coming into force Lisbon has not brought any amendment. Obama continues to snub the EU and cancel meetings with the Old Continent; Israel non longer considers Brussels a reliable partner in peace negotiations; Russia has revived her contacts with Washington and prefers bilateral contacts, given the patent political flimsiness of the EU; even Turkey, who had knocked long and hard on Europe's door, is clearly bent on carving out an independent role on the Middle Eastern stage (2). The only good news in the last few weeks came when the joint EU, ECB, IMF mission managed to push through a tough bail-out programme approved by the Greek government under the socialist Papandreou (3). Too little, however, to mask the low credibility of the European project which came flagrantly out in the open at the Toronto G20.

A keenly awaited venue for at least two reasons.

The first was technical, related to the G8 gradually losing representativeness: as many an observer remarked, it robbed some of the undisputed protagonists of world politics and trade of any say in the future of the planet (4). Replacing the G8 by a sturdier G20 promised to shake the number one world summit out of its representational decline. Back in 2008 the G20 pointed the way out of the crisis, rebooting the world economic system by fiscal and monetary stimuli. Two years on, the harmony among the G20 leaders of the Earth seems a distant memory. The Toronto summit had little to show for itself, the only plus points being somewhat vague declarations of intent: budgetary adjustments announced forthwith, generic appeals to reboot competition and growth in countries with a surplus; but no commitment on exchange rates and patent inability to usher in any shared reform of the international finance system.

Most of the Italian newspapers explained the semi-fiasco by saying that the priorities of today's main international actors pull in opposite directions, making compromise impossible. The US is striving to ensure growth while Europe, sworn to rigour by the German government, is insisting on fiscal stability (5).

The second starting expectation was of a political order: that Europe might finally play a lead-role at the Toronto summit. That ambition also proved vain. As soon as work commenced, the EU was brushed aside by US activism. For a start, the American government came to the venue with the text of the US financial reform freshly approved by Congress; this sets serious restraints of transparency on bank activities and enables the United States to assume the lead in the long march towards redefining the planet's finance system. Secondly, the go-slow in US growth over the first quarter of 2010 (+2.7% GDP as compared with the 3.2% forecast) reinforced the American view that consolidating growth is more important than the financial rigour advocated by the Euro-zone countries led by Germany (though also supported by colossi like China and Japan who have a sizable surplus in their own trade balances) (6).

Outright stars of the summit, the United States put on a show of dynamism, urging Europe and China to reboot internal demand and eschew protectionism. Although China said she was broadly prepared to play ball with her chief international partner – Obama expressly asked her for greater flexibility in the yuan exchange rate, and China's Yes was qualified by reservations as to when and how such revaluation should take place – Germany was implacable. Fresh

from her trouncing at the NordRhein-Westphalen regionals and convinced that rigour carries the approval of German public opinion, Angela Merkel rejoined unswervingly that austerity was the best recipe today to pave the way to any rebound. The main Italian commentators were outspoken in criticizing the German chancellor, whom they accused of top-of-the-class thoughtlessness: instead of helping her European partners off the hook of budgetary cuts by an expansive fiscal policy stimulating the Euro-zone economy, Merkel has opted for a reduction of the German deficit and simultaneously decided to step up the pace by going all out for productivity and competitiveness via investments her partners cannot possibly afford (7).

American dynamism and German protagonism apart, the impression is that the EU can hardly grumble. Its performance at Toronto showed up the 27 as unable to work out a common crisis exit strategy and resorting to a babble of incoherence. Britain's fledgling premier David Cameron, on his international debut, tuned in to Merkel's wavelength by opting to set straight the mayhem in public accounts brought about by the last few years. For their part, the Spanish presidency of the EU sounded far less confident about the austerity strategy, while Sarkozy's France urged Europe to set the lead in taxing financial transactions, seen by Sarkozy as a brave new source of revenue to right the balance.

It will be uphill work to regain lost confidence if we set about showing speculators how solid our Euro zone is by such a concerto of divergent national options (8).

One special concern is the state of relations between France and Germany. That the entente is in a crisis is plain from the emphasis with which the French head of State harps on the need for "economic governance" in the Euro zone, a course the German chancellor has always opposed (9). The Italian press has waxed eloquent over one last potential duelling ground between Paris and Berlin: the succession to Jean-Claude Trichet, whose term at the head of the ECB runs out at the end of October 2011. An allegedly well-informed indiscretion via the German economic daily *Handelsblatt* has it that Sarkozy plans to support the candidacy of Mario Draghi, governor of Bankitalia and principal challenger to the hot favourite Axel Weber (who has had to swallow the rejection of Paul Krugman, going to show the risk appointing a 'hawk' like Weber would entail for the European economy) in exchange for Italy supporting his own collaborator and

economic advisor, Xavier Muscat, on the board of the European Central Bank (10). French support for the Draghi candidature is appreciated by Italy but is one more glaring instance of how Europe lacks cohesion and dynamic goodwill. We stand paralyzed between the irreconcilable options of austerity and growth.

The inconsistency displayed by the EU these last few weeks is all the more alarming in that it belies the expectations of many: viz. that the new set-up cutting in with the Lisbon Treaty would endow community institutions with new dynamism and leadership. To date the much-sought upturn just hasn't happened; if anything, problems of coordination have grown worse among the various EU institutional levels. The role of the rotating presidency now looks highly ambiguous. In the semester that has just ended Spanish premier Zapatero tried to profit by the transaction phase to carve out a lead-role for himself on the European stage, but his bid has hardly been crowned with success. Spain's own economic plight, hard on the heels of the Greek collapse, utterly undermined the Zapatero government's credibility and room for European manoeuvre. The uncomfortable baton of the presidency now passes to another country dogged by domestic troubles: Belgium. On the eve of the handover between Madrid and Brussels, outgoing prime minister Yves Leterme announced that his country would be keeping a "modest" profile in the next six months, geared to upholding the leadership of the new tandem that Lisbon has enshrined. Belgium has in fact promised to leave free rein to the stable President of the European Council and the High Representative for Foreign Affairs. The agenda may be a full one – from reforming the bank and finance system, to creating a European diplomatic service, and bolstering the economic governance of Europe – but one wonders whether delegating these tasks to two shadowy figures like former Belgian premier Herman Van Rompuy and Britain's Catherine Ashton is a far-sighted move or whether it will deepen the lethargy into which the European project has sunk (11).

(1) A. Tarquini, *Budapest si prepara ai sacrifici*, La Repubblica, 06-06-2010.

(2) A. Bonanni, *Piccole patrie d'Europa*, La Repubblica, 14-06-2010.

(3) A. Tarquini, *Bce e Fmi promuovono le riforme greche*, La Repubblica, 18-06-2010.

(4) R. Prodi, *Se ognuno dei cuochi bada alla sua pentola*, Il Messaggero, 27-06-2010.

- (5) C. Bastasin, *Al G-20 Angela fa muro e Pechino fa la volpe*, Il Sole 24 ore, 29-06-2010.
- (6) A. Cerretelli, *Europa spiazzata dagli Usa*, Il Sole 24 Ore, 26-06-2010; M. Zatterin, *Debito, i paletti dell'Europa*, La Stampa, 30-06-2010.
- (7) L. Zingales, *Berlino prima della classe e nessuno può copiare*, Il Sole 24 Ore, 10-06-2010; F. Rampini, *La falsa vittoria di Angela Merkel*, La Repubblica, 28-06-2010.
- (8) A. Cerretelli, *I leader cercano il concerto su scelte ancora nazionali*, Il Sole 24 Ore, 29-06-2010.
- (9) E. Brivio, *Germania testuggine solitaria del rigore*, Il Sole 24 Ore, 25-06-2010.
- (10) M. De Feo, *Bce, Sarkozy tratta per il dopo Trichet*, Il Corriere della Sera, 24-06-2010.
- (11) G. Amato, *Cara Europa, svegliati dal letargo*, Il Sole 24 Ore, 27-06-2010.