

Europe's recovery plan is not a “*deus ex machina*”

di Mirek Topolane

In ancient times, when the hero of a tragedy found himself in a tight spot, a god – a *deus ex machina* – descended and put matters right. Today, the European Union is in a similar situation – member states are looking for ways to cope with the recession at home while maintaining a coherent policy at EU level and simultaneously influencing global economic affairs. The expectations of half a billion Europeans can be summed up in one question: can there be an EU *ex machina*?

The instrument that member states can use is the €200bn (\$256bn, £178bn) recovery plan, adopted in December. It provides room for manoeuvre, bounded on one side by the agreed means to support the financial sector, industry and employment and on the other side by fiscal discipline and the rules of the internal market. All governments are searching for the most efficient way to help their domestic economies, but do not want to forsake the common policy line and the principles that have become the cornerstone of EU stability and prosperity.

However, the recovery plan is not an intervention of a “higher force”. No political agreement can replace functioning economic and market rules. On the contrary, ignoring them can do more harm than good. Constantly raising state guarantees inevitably leads to one scenario: if banks are to provide a guarantee for large businesses that are, in terms of employment, “too big to fail”, they must be recapitalised by governments. Besides, a country cannot be expected just to look on as its neighbour takes these steps. However, smaller countries will soon get to the limit of an acceptable debt ratio and, unlike large states, will have little chance to obtain more credit – the example of Latvia and Ireland speaks for itself. At the end of a spiral of unequal conditions and protectionism there will be a question mark: who will provide a guarantee for the whole of the EU?

European integrity and solidarity are now undergoing a severe trial. A system of subsidies and illegitimate loans will not bear the much-desired fruit, but rather grapes of wrath: the more money is given away, the greater control will be needed to check how the money was really used and the more cases of errors and misuse will emerge. This will in turn be reflected in the number of repayments and fines that will turn the “kiss of life” into a “kiss of death”, as it cannot be presumed that a bank or a company saved from bankruptcy will not fail the very moment it is asked to repay the sum.

Moreover, the urgency of the situation will inevitably attract ineligible applicants for aid – applicants that have not suffered loss because of the financial crisis but as a result of their own bad managerial decisions. While they will enjoy temporary benefits from the financial transfusion, smaller or foreign competitors that did not receive similar aid may bleed to death. In other words, the internal market, and the trust put in the internal market by both companies and banks, will be harmed for years to come.

Apart from applications with criminal intent, we will discover that many mistakes are due to the complexity of the rules. Therefore, simplifying legislation and curtailing the red tape associated with supervision is the priority of the Czech presidency – far more important for the financial aid system than increasing the funds put into it. The aid must be simple, temporary and as transparent

as possible. The European Commission and the European Council must continuously assess whether the adopted measures are doing more harm than good.

Jean-Claude Trichet, president of the European Central Bank, informed me that none of the economic theories and models can now be used to forecast future development. I strongly believe that instead of helpless wandering and trial and error, discipline and prudence must be maintained: fiscal rules (the growth and stability pact); a free market without barriers; and fair competition without protectionism and random, uncontrolled subsidies. Without true unity, the EU will fail to cope with recession and fail to shape future developments at international level.

Therefore, if we cannot rely on a *deus ex machina*, the member states should, in co-operation with the EU institutions, resort to one thing only: force the banks to get rid of impaired assets that continue to poison the internal market, and instead allow viable companies to invest and get the European economy back on its original track – towards liberalisation and increasing competitiveness – by adopting a responsible lending policy.

The writer is prime minister of the Czech Republic