Portugal's eurozone reform proposals can renew social democracy

Can Europe make it?

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Adding a surgically applied layer of European Keynesianism to the euro's ordoliberal rules at once offers a solution to Eurozone troubles and throws a lifeline to European social democracy.

António Costa welcomes Chancellor Angela Merkel to Lisbon, Portugal, on May 31, 2018. Zhang Liyun/Press Association. All rights reserved.

In the last two years or so the Portuguese prime minister and socialist leader António Costa has become one of the darlings of the European left. Since 2016, social-democratic party leaders from all corners of Europe have flocked to Lisbon to understand how Costa's minority government (which relies on the key support of the radical left parties Left Bloc and the Communist Party-Greens) was able to reverse the European Union's (EU) imposed austerity policies whilst meeting Eurozone deficit targets.

But perhaps more important than learning lessons on how to (modestly) reverse austerity, European centre-left leaders should listen to the Portuguese Prime Minister's proposals for Eurozone reform. They have the merit of offering some much needed succour to struggling social democratic parties.

Since he took office in November of 2015, Costa has used all available opportunities in the formal and informal group meetings of the EU to make the case for substantial but pragmatic reforms to the Euro area. Whilst acknowledging that the performance of the Eurozone economies has improved in recent years, he likes to remind his European partners that the 'original weaknesses of the European Monetary Union (EMU) remain largely unresolved'.

By this he means that the lack of economic and social convergence between Eurozone countries is the strongest threat to the euro. Costa then took his diagnosis to its logical conclusion and argued that the reform of the Eurozone area should focus on the goal of achieving convergence.

Costa's presentation of his proposals as 'pragmatic' is no mere rhetorical device to lure Germany and other reform resistant member-states. His proposals are genuinely pragmatic. Indeed, they show that the Portuguese Prime Minister understood (and seems to accept) that any reform to the Euro will not result in changes to the Maastricht convergence criteria, to the Stability and Growth Pact or the Fiscal Compact. Germany will never allow it, at least not in the current political cycle. Costa's proposals assume that these ordoliberal rules will continue to impose budgetary discipline on member states. Costa's proposals assume that these ordoliberal rules will continue to impose budgetary discipline to member states.

For that reason, Costa's pragmatic reform ideas are incremental in scope and, more importantly, go with the grain of European integration: they just add another layer to the existing ordoliberal inspired governance rules of the euro. They also build on proposals recently made by the president of the European Commission Jean-Claude Juncker, by the French President Emmanuel Macron and by the 2017 Monti Report. However they are more political in terms of aims, more specific in terms of policy instruments and can be summarized in the formula 'ordoliberalism at home; Keynesianism on the European scale'.

Costa's proposals are also pragmatic from an electoral point of view as they reflect the acknowledgment that the monetary union is the greatest obstacle to social democratic politics in the EU. Under the current rules, public investment in infra-structure, research and development which in turn can lead to sustainable economic growth, well-paid jobs and robust welfare states, is simply not possible. Indeed, as Léonie de Jonge argued here in openDemocracy, it is not accidental that European social-democrats have been in retreat for more than a decade. More importantly, they will continue to suffer electoral defeats until reforms to the Eurozone enable them to offer social-democratic policies to their voters. Social democrats will continue to suffer electoral defeats until reforms to the Eurozone enable them to offer social-democratic policies to their voters.

Ordoliberalism at home/ Keynesianism in Europe

The distinctiveness of Costa's proposals is his focus on the goal of achieving real social and economic convergence in the Eurozone area. To that end he defends the use of the European Semester as an instrument to promote growth and convergence and not only as tool to enforce budgetary discipline. Like Macron and Juncker, the Portuguese Prime Minister has defended the transformation of the European Stability Mechanism into a

European Monetary Fund (EMF). But his proposals go further.

Instead of using the EMF as just a mechanism to oversee national budgets and to address problems created by financial and/or banking crisis, Costa would like to use it as a Euro area budget which in turn would operate as a tool to achieve economic convergence. Tellingly, Costa defined this new funding capacity as a 'convergence mechanism'.

Acutely aware that no German government will ever sign blank cheques to less competitive European economies, Costa's proposals avoid the language of transfers and instead emphasize the rights and obligations that bind the signatories of a contract. Under this scheme, the EU and each member state would agree a contractual National Programme of Reform whereby Eurozone funds would help a member state to meet its Country Specific Recommendations. These would consist of a list of concrete targets accompanied by a specific calendar in which to meet them.

Above all, those tailor-made programmes would address what the Portuguese Prime Minister called the 'specific structural obstacles' to economic growth and convergence of each member state and preferably would focus on 'European-wide big investments to achieve the energy transition, the circular economy and the digital society'.

Costa's insistence on the tailor-made aspect is interesting because it reflects his reservations – doubtless informed by the experience of witnessing the heavy-handed implementation of troika one-size-fits-all structural adjustment programmes in Portugal and in Greece – about uniform Euro governance rules.

These reservations explain Costa's lukewarm reaction to the Commission's proposal to create a Minister of Finance for the Eurozone. His reaction to the proposal suggests he will not support institutional changes which will result in the strengthening of Eurozone institutions to the detriment of national governments.

The possible reform of the Eurozone?

For many on the left these proposals will not go far enough. After all, under these plans, the Euro governance rules, which essentially impose a small-state ideology on all Eurozone countries, will remain intact. By contrast, a genuine social democratic Eurozone would operate under different rules and with different goals.

The problem is that at the moment most governments of the Eurozone are led by centre-right parties that worship at the altar of the small-state and free-market ideology. More importantly, Germany will never permit a revision of these rules. As Ashoka Mody reminded us recently, not even Germany's Social Democratic Party would support reforms to the Eurozone governance rules.

Thus, instead of proposing an ideal solution that will never see the light of day because no European government will support them, Costa's proposals are more likely to be taken seriously because they add another – albeit a not very elegant or coherent – layer to the Eurozone governance architecture. In reality, these proposals follow the well-known

Byzantine style of European policy-making, which is still the most effective method of achieving change in the EU. They also offer a much needed lifeline to European social democracy.

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