

# CER Bulletin

Issue 90 | June/July 2013

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# A Balkan map for the road to Damascus?

by Ian Bond



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It is two years since the EU imposed an arms embargo and other sanctions on Syria “to achieve a change of policy by the Syrian leadership without further delay”. Since then, over 80,000 people have been killed, over a million have sought refuge in neighbouring countries and over four million are internally displaced. And in that time, the EU has issued well over 100 statements and applied 21 further sets of sanctions, without any visible impact. If the highest wisdom of a state is masterly inactivity, this is the opposite: impotent hyperactivity.

Indeed, everyone’s policy towards Syria has failed: the West has not succeeded in replacing the Assad regime with a liberal, secular democracy; Russian and Iranian support has not enabled Assad to reassert control; Saudi Arabia and other Gulf States have not managed to propel the Sunni majority into power at the expense of the Alawite minority. International leaders know that they need to do something different: that is the message of recent American and British attempts to re-launch a peace process in partnership with Russia. But there is not even the outline of an international consensus on what to do.

This crisis is on Europe’s doorstep. The nearest EU member-state, Cyprus, is 100 miles from the Syrian coast. Europe should devise a more effective set of policies and sell them energetically to the key players inside and outside Syria. Clearly, Syria is not Bosnia in 1994. But there are general lessons to draw from the Balkans.

The first is that a framework has to be found for reconciling the interests of the parties’ international patrons. In former Yugoslavia, the establishment of the contact group of major Western powers and Russia was a necessary though not sufficient condition for progress. Despite Moscow’s initial wariness, over time a degree of confidence was established, so that the Russians applied pressure in Belgrade. Together with the changing military situation on the ground, this cleared the way for the Dayton peace process.

In the Syrian context, putting together a small and effective contact group would be challenging: some US officials say that it could be “politically impossible” to involve Iran in peace talks. But excluding Iran a priori would only encourage it to play a spoiling role. A contact group would also offer opportunities: for example, obliging the EU and Turkey to unite around common objectives

and actions, which they have so far failed to do despite their obviously shared interests in the stability of the region.

The second lesson from the Balkans is that all parties have to know that while they cannot win an outright victory, they will not face annihilation. Debate raged within and between Western countries from 1992 onwards over whether to support the forces of the Bosnian government with arms, at a time when they were taking a beating. It was Douglas Hurd, then British Foreign Secretary, who notoriously warned that lifting the arms embargo would only create a “level killing field”.

The Americans nonetheless covertly supplied weapons and training to the Bosniaks and Croats and ultimately lifted the arms embargo unilaterally in November 1994. That on its own did not end the fighting; indeed, it took the Srebrenica massacre in August 1995, and NATO airstrikes, UN artillery bombardments and the defeat of Serb forces in Croatia to bring about a ceasefire and ultimately the Dayton agreement. International military action proved to the Serbs that they could not win, but also showed the Bosniaks that their success depended on international support – which could be withdrawn.

The same arguments are playing out in Syria. German Foreign Minister Guido Westerwelle said after an EU foreign ministers’ meeting in March: “I don’t think the bloodshed in Syria will decrease, should we engage in an arms race.” But the bloodshed is not decreasing anyway. There is a strong case for training and equipping forces loyal to the Syrian National Coalition – which, after all, the EU accepts as “legitimate representatives of the aspirations of the Syrian people” – to shake the confidence of the regime. But there must also be a credible threat from leading NATO and Middle Eastern powers that they will launch military strikes against Assad’s air and ground forces. Given that Russia and China are unlikely to support military action (even tacitly, as in Bosnia and more recently Libya), there would have to be a coalition willing to act without UN Security Council authorisation, for example by seeking UN General Assembly blessing through the “Uniting for Peace” procedure (designed by the US in 1950 to circumvent Soviet vetoes in the Security Council).

The third lesson is that immediate regime change should not be a precondition for starting negotiations – a hard thing for the victims of atrocities to accept. The Dayton process did not unseat Slobodan Milosevic or indict him

for war crimes. Of course, Milosevic did not rule post-war Bosnia, but there are examples – the Government of National Unity in Zimbabwe, for instance – of an opposition movement reluctantly accommodating the brutal leaders of the ancien regime, in the interest of ending violence. The Syrian National Coalition should hear from its foreign supporters that it will not achieve a knock-out military victory and that it should focus on getting what it can at the negotiating table, which may or may not include Assad’s departure. The key objectives should be an end to violence and a political construct guaranteeing the rights of all communities in Syria. Without that, conflict will start again.

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The fourth lesson is that the rest of the world cannot walk away after a political settlement. The Implementation Force (IFOR) in Bosnia had 54,000 troops, including Russians. Together with its successor, SFOR, it played a vital early role in creating confidence and ensuring that the terms of the peace agreements were respected.

Inevitably, any suggestion of ‘boots on the ground’ in Syria will raise the spectres of Afghanistan and Iraq. But Bosnia was different: there was a prior political settlement from which all the parties had gained something; and the involvement of Russian forces gave the Serb side some sense that IFOR was not a hostile army of occupation. Whether the Russians would join such an effort in Syria is a moot point; Putin’s world-view is very different from Yeltsin’s. But a purely Western force would have much less chance of being seen as a disinterested guarantor of peace.

Even if these lessons are applicable to Syria, none will be easy to implement. They involve uncomfortable compromises, risky political choices and negotiating with partners who should be in prison. Plenty of experienced diplomats who know the region well think that nothing can be done to halt the catastrophe. We cannot make Syria an earthly paradise. But we have to try in every possible way to stop it becoming still more of a hell on earth, lest Europe be singed by the flames.

Ian Bond  
Director of foreign policy, CER



# Why has the eurozone's recovery been weaker than the US's?

by Philip Whyte

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The eurozone and the US were never going to enjoy strong, 'V-shaped' recoveries after 2009. The reason lies in the nature and scale of the shock that they suffered. History suggests that recessions caused by financial crises are unusually severe, and that recoveries from them are more sluggish than those which follow more run-of-the-mill downturns. Its transatlantic scale, moreover, made the shock exceptionally large. It is no surprise, then, that the US and the eurozone have experienced weaker recoveries than normal since 2009. What is surprising, and does need explaining, is why, five years after being hit by a largely common shock, the eurozone's recovery has been so much weaker than the US's.

Consider the contrasting positions in which the US and the eurozone now find themselves. At the end of March 2013, GDP was 3.2 per cent above pre-crisis levels in the US, but 3.2 per cent below them in the eurozone. (Relative to pre-crisis levels, US output was also higher than in Germany, the eurozone's best performer since 2009.) In the US, the unemployment rate has dipped below 8 per cent, whereas in the eurozone it has edged up above 12 per cent (and higher in Southern Europe). These divergent positions are mirrored in the fiscal and trade accounts. The eurozone's structural budget deficit is small compared with the US's; and in contrast to the US, the eurozone now runs surpluses on its trade and current accounts.

What explains these very different outcomes? The obvious answer is that policy diverged. But why

did it do so? It is tempting to look at the respective points of arrival and conclude that these just reflected different preferences on the two sides of the Atlantic. The US chose to support growth and employment, while the eurozone opted to focus on adjustment (by consolidating public finances and promoting external 'competitiveness'). The trouble with this story is two-fold. First, it is far from clear that Americans have a stronger attachment to John Maynard Keynes than do Europeans. Second, economic policy on the two sides of the Atlantic was relatively well aligned in 2009 and only started to diverge in 2010.

In late 2008, the policy consensus in the G20 was to avoid repeating the mistakes of the 1930s. This meant throwing both Keynes and Milton Friedman at the crisis in hand (a policy mix briefly supported by Germany and the

Bush administration). Central banks were to slash official interest rates and provide liquidity support to the banking system. Governments, meanwhile, were to make sure that credit institutions were recapitalised (with taxpayer funds if necessary) and provide a fiscal stimulus to support demand. Broadly speaking, this is what actually happened. The main difference between the US and the eurozone in 2009 is that Europeans showed less urgency than the Americans in repairing their banks.

The event that broke the 2008 policy consensus was the Greek sovereign debt crisis in late 2009. Greece did two things: it weakened nerves and confused thinking. Governments with high ratios of public debt to GDP suddenly feared that they would suffer crippling increases in borrowing costs if they did not immediately turn to fiscal austerity. And Europeans persuaded themselves that tightening fiscal policy would boost confidence and private-sector spending, even in countries where businesses and households were highly indebted and busy deleveraging. During 2010, then, budget deficits came to be seen by many as the cause, rather than the consequence, of financial crises and weak economic growth.

This was the point at which macroeconomic policy on the two sides of the Atlantic started to diverge. In truth, both sides turned less Keynesian during 2010. The eurozone, however, did so with greater gusto. Across Europe, government spending was cut and taxes were raised. By 2012, the eurozone was running a structural budget deficit of just 1.6 per cent of GDP, its smallest since 2000 and down from 5.1 per cent in 2009. (By contrast, the US was still running a structural deficit of 7 per cent of GDP, compared with 10.2 per cent in 2009). The downside to synchronised fiscal tightening across Europe was its impact on output: economies contracted broadly in proportion to the amount of austerity adopted.

The reason fiscal tightening had such a detrimental impact on output is that it was not offset by conventional monetary easing. The point is not just that the European Central Bank (ECB) was more inflation-obsessed than the US Federal Reserve – although it was (the ECB even raised its key refinancing rate in July 2011). It is that even if the ECB had been less conservative, interest rates were already low and had little scope to fall much further. To make matters worse, weaknesses in the banking system and flaws in the eurozone's design impaired the ECB's monetary policy transmission mechanism: bank lending rates remain much higher in countries like Spain, where activity is particularly weak, than in Germany.

Did Europeans have any alternative but to turn to austerity in 2010? The evidence suggests that they did. Japan, which has the world's highest ratio of public debt to GDP, has long had its lowest borrowing costs. The reason Spain faced higher borrowing costs than Britain in 2010-11 was not its fiscal position (which was slightly better), but the nature of the central bank that stood behind it. Once the ECB overcame its public reluctance to act as lender of last resort to governments in August 2012, yields in Spain fell (even as the ratio of public debt to GDP rose further). The decline in yields since mid-2012 is not explained by austerity: if it were, President Hollande would be more of a fiscal hawk than Sarkozy.

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*The reason the eurozone has experienced a weaker recovery is that it has made more glaring mistakes.*”

The reason the eurozone has experienced a weaker recovery than the US is that it has made more glaring mistakes. Many eurozone countries were slower than the US to repair their banks (perhaps because they gambled that recovery was imminent and that banks would soon be restored to profitability). Sickly banks have weighed heavily on the eurozone, where firms are more reliant on bank funding than in the US. Fiscal policy was less expansionary in the eurozone than in the US in 2009, and was tightened more sharply thereafter. And for a variety of reasons – political, institutional and other – the ECB has turned out to be a more cautious central bank than the US Federal Reserve, with sometimes unfortunate consequences.

Europeans might object that they are further down the path of 'adjustment'. Unlike spendthrift Americans, they are running smaller budget deficits and have restored their 'external competitiveness'. But this argument is hard to sustain. The truth is that the eurozone has paid a high price in terms of output and employment, and that some of this pain was probably unnecessary. Despite two years of fiscal austerity, the eurozone's ratio of public debt to GDP has still risen sharply (because GDP, the denominator, has contracted). And while the eurozone is now running a current-account surplus and the US a deficit, this has much to do with the fact that demand has been growing in the US but falling in the eurozone.

Philip Whyte  
Senior research fellow, CER



# Could Britain's coalition collapse over EU police co-operation?

by Hugo Brady

On May 12<sup>th</sup>, two European stories dominated the BBC news in Britain. The first concerned a series of statements from Conservative cabinet ministers and grandees that Britain should leave the EU unless it negotiated new terms of membership. The second reported that Spanish police had captured Andrew Moran – a notorious, machete-wielding UK convict – and would return him from his Benidorm hideout to face justice at home.

How are the two stories linked? Moran is the 50<sup>th</sup> high-profile British criminal that Spain has surrendered since 2007 under the European arrest warrant (EAW). The EAW is the cornerstone of a package of 130-odd European laws that has revolutionised police and security co-operation between EU countries over the last decade. Hitherto, Britain's most wanted criminals lounged in sunny Southern Spain, secure in the knowledge that judicial red-tape or political points-scoring over Gibraltar would keep them from the reach of the UK authorities.

Despite these successes, the EAW and accompanying agreements on the sharing of criminal intelligence are now caught up in Britain's noxious European debate. Prime Minister David Cameron is under intense pressure from over 100 Conservative backbenchers to "get a better deal on Europe", especially after the UK Independence Party (UKIP) won 23 per cent of the votes in local council elections in May. But Cameron's chances of securing radical changes to the terms of British membership are slim, given that most other EU member-states have

no intention of allowing Britain to opt out of significant policy areas.

However, the Union's rules on policing and justice, including the all-important EAW, appear to offer Cameron some relief. Uniquely, Britain has the right to 'repatriate' such powers before the end of 2014, thanks to a clause that the previous Labour government inserted into the EU's Lisbon treaty. This gave Britain the right to opt out of all such co-operation agreed before December 2009, and then negotiate with the European Commission, and other EU governments, on opting back into the bits it finds most useful. Cameron could claim a rare political success in the EU by exercising the opt-out and thus help shore up his leadership before the 2015 general election.

Britain's parliament will vote on the justice opt-out before May 2014. But the deputy prime minister, Nick Clegg – who leads the Conservatives' coalition partner, the Liberal Democrats – says that his party will not support a deal that means leaving the EAW. Reluctantly, the Conservative leadership has agreed to this

condition so long as other EU countries agree to alter the warrant so that it can be used only for the most serious crimes.

But this fragile agreement on Europe between the coalition partners seems doomed. First, hard-line eurosceptics are particularly hostile to the arrest warrant because it allows the EU a major role in criminal justice. Hence Cameron's own MPs may well reject whatever agreement is painstakingly reached by UK negotiators in Brussels. Second, other EU governments are anyway extremely unlikely to renegotiate the EAW. They resent UK attempts to cherry-pick police co-operation – especially a surprised and aggrieved Madrid – and fear re-opening the acrimoniously negotiated arrest warrant.

Cameron's hand is further weakened because nobody in Britain, apart from eurosceptic politicians, seems to want to exercise the opt-out. In April, a report from the House of Lords concluded that "the government has not made a convincing case for exercising the opt-out ...opting out would have significant adverse consequences for the internal security of the UK". The administrations of Scotland and Northern Ireland are equally unenthusiastic. According to Kenny MacAskill, Scotland's justice secretary: "The Scottish government does not support the UK government's preferred position to opt out of these measures or how this decision has been progressed to date."

Cameron and some of his cabinet colleagues view exercising the 2014 opt-out as an opportunity to calm their restive party, and they fear the

political consequences of failing to use it. But this political tactic may not impress many voters, who – according to opinion polls – list crime as one of their top concerns. The Spanish extraditions have been greatly aided by Crimestoppers, a successful campaign founded by Tory party donor Lord Ashcroft, which relies on tips from holiday-goers to identify UK criminals abroad. Even the ebullient Boris Johnson, London's eurosceptic mayor, would struggle to defend the abrogation of the EAW. The Metropolitan Police say a majority of homicides in his city – excluding those connected to domestic abuse – have some form of international connection.

“*The EAW and accompanying agreements on the sharing of criminal intelligence are now caught up in Britain's noxious European debate.*”

Surprisingly, British pollsters have not yet asked voters whether the government should claw back co-operation with the EU on crime and security. Nor has any political correspondent conducted a straw poll of MPs to see if they would really vote for a move that is opposed by most senior police officers as well as MI5, Britain's internal intelligence agency. Evidence of widespread, if quiet, support for European police co-operation might yet prevent Cameron from embarking on a course that – at a stroke – could spur Scottish nationalism, split the coalition, and open rifts within the Conservative Party.

Hugo Brady  
 Senior research fellow, CER

## CER in the press

### Le Monde

21<sup>st</sup> May 2013

"It is every bit as odd for the IMF to bail out individual eurozone countries as it would be for the IMF to bail out California," says Simon Tilford of the CER.

### Financial Times

20<sup>th</sup> May 2013

"Police on both sides of the Irish Sea – as well as either side of the border – fear a return to the days when Ireland's supreme court would refuse extradition of terrorist suspects," says Hugo Brady of the CER.

### El Pais

18<sup>th</sup> May 2013

Philip Whyte of the CER, disputes the economic claims

of eurosceptics. In a recent study, he argues that most of Britain's economic problems are home-grown, and that few have anything to do with the regulatory burdens of EU legislation.

### Financial Times

8<sup>th</sup> May 2013

"The EU has a lot of instruments – the EEAS, trade policy, the aid budget, the civilian crisis management side – but it has not worked out how to get them playing in a harmonious way," says Ian Bond of the CER.

### International Herald Tribune

3<sup>rd</sup> May 2013

"Relying less on exports, and more on domestic demand,

would also be good for Germany as it's starting to feel recessionary effects from the south," said John Springford of the CER.

### The New York Times

12<sup>th</sup> April 2013

"Germany really wants to keep the British in the EU, but not to the point of allowing the British to opt out of more areas of policy or to repatriate more powers," said Charles Grant of the CER.

### France 24

8<sup>th</sup> April 2013

"Europe is also keen to develop longer-range drones designed for air-to-air combat, which could ultimately replace

fighter jets," said Clara Marina O'Donnell of the CER.

### EurActiv

2<sup>nd</sup> April 2013

"What you are seeing is the EEAS playing a greater role in the ENP. This is bringing foreign policy priorities to the foreground," said Rem Korteweg of the CER.

### European Voice

21<sup>st</sup> March 2013

Katinka Barysch of the CER, points out that these [Ukraine and Turkey] are already important states in the transit of gas to the EU and are destined to become more important as new reserves in central Asia are developed.

## Recent events



Ed Davey

### 21 May

Dinner on 'Climate and growth: Is there a conflict?', London

With the Rt Hon Edward Davey MP, Secretary of State for Energy and Climate Change

### 24 April

Dinner on 'The role of the ECB in the euro crisis', London

With Jörg Asmussen, member of the executive board, ECB



Jörg Asmussen



Vince Cable

### 10 April

Dinner on 'Britain and the single market', London

With The Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills

### 7 March

Charles Grant was appointed a Companion of the Order of St Michael and St George (CMG) for services to European and wider international policy-making



Charles Grant

## Future publications

Priorities for EU development aid

*Stephen Tindale*

The trials and tribulations of European defence collaboration

*Clara Marina O'Donnell*

Steps towards EU reform  
*CER*

Must Europe ditch the euro to save the EU?

*Simon Tilford*

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