

Can Europe Get Its Act Together?

Former Spanish Prime Minister José María Aznar on what Europeans need to do

As the euro crisis deepens, national economies are on the verge of collapse and the European Union faces the possibility of a split.

Can Europe come back from the brink? And what lessons does that struggle hold for the U.S.?

The Wall Street Journal's Gerard Baker spoke with former Spanish Prime Minister José María Aznar about the problems and the prospects. Here are edited excerpts of their conversation.

The Road Ahead

MR. BAKER: In Washington, much of the discussion is about the fiscal cliff. In Europe, you've already gone over the fiscal cliff. You were prime minister of Spain for eight years before this crisis broke. How serious are Europeans, and what needs to be done to come out of this tailspin?

MR. AZNAR: The history of the euro during the first decade was a combination of flexibility on one hand and discipline on the other hand. If you combine both, the results are good. If you forget that discipline, you have a problem. You have a very serious cliff.

MR. BAKER: Let's look at what's happening in Spain right now. You've got a situation in the past couple of months where there seems to have been some stabilization in the bond market since Mario Draghi [president of the European Central Bank] made his commitment that the ECB will buy up the bonds of Spain and Italy and other countries if there is a bailout.

The markets have assumed this is going to happen. And yet, we're still waiting for Mariano Rajoy, your successor as prime minister, to ask for this bailout. He seems to be re-



JOSÉ MARÍA AZNAR advocates a free-trade area between Europe and the U.S.

luctant to do so. When is he going to bite the bullet so that we can actually start to do things that the markets seem to think are necessary to get Europe on a more stable path?

MR. AZNAR: With bailout or without bailout, Spain needs more reforms. But at this moment I don't consider the bailout suitable for the country. The price that you pay in political terms and economic terms to accept the bailout will be more than the necessities of the country.

Second, the bailout depends not only on the will of the Spanish government, but on the approval of the rest of the governments—in particular, Germany.

I am convinced that Germany will reject any bailout. Before the German elections, nothing happens in Europe.

MR. BAKER: The German elections aren't for another year. That's a long time. The markets are clearly expecting something before then.

MR. AZNAR: But this is reality. This is one of the reasons we must do a lot of reforms, to regain more credibility. Ten years ago, Spain was a triple-A country, and today it is a triple-B country. These are two different countries.

A Structural Problem

MR. BAKER: If the Germans are not going to back a bailout, doesn't this point to a fundamental weakness in the structure of the euro? You have fundamentally different economies and fundamentally different political systems, and you don't have the political legitimacy.

People in Spain don't accept the

idea that Germans can tell them how many hours they should work each week, or when they can retire. And Germans don't accept that the Spanish should be able to do what they want to do and expect the Germans, in the end, to bail them out.

MR. AZNAR: The original success for Europe was to make it possible for different countries with different histories to coexist and share objectives. If you create the euro, if the euro is an advantage for European countries, you must finish this operation.

MR. BAKER: But you've created a situation now where Germany will be peaceably controlling Europe.

MR. AZNAR: It depends if you can exert influence along the European institutions or if you decide to im-

pose decisions. The problem in Europe today is that there aren't balances. The U.K., for example, is out of the decisions in Europe.

It's extremely important that the U.S. look to Europe. Our feeling in Europe is that this administration is looking only to the Pacific, to Asia. This is a mistake. For instance, we have the opportunity to create in the next months a very important free-trade area between Europe and the U.S. That would send a message of stability to the rest of the world.

The Future of Europe

MR. BAKER: Does Europe have a future? For a thousand years, Europe was the center of civilization. But great civilizations fade away. There's a view in the U.S., perhaps unfairly, that Europe doesn't have dynamism, that it has demographic problems, productivity problems, fiscal problems.

If you look at the next 50 years, is Europe going to be able to come back and be a significant economic region?

MR. AZNAR: We are still the most important economic area in the world in terms of market. We are the third-largest population in the world after China and India. We have lots of rich countries. It's fantastic living in Europe.

The question is, do we have the will to defend our system of values? Look at the map of the world. Western values continue to be wonderful values in the world. And we're going to defend this.

It is not true that the future is only in the Pacific. If you look at four pillars—Europe, North America, South America and a part of Africa—you can create an Atlantic base. Not against anything, but in favor of the most stability in the world.

Ralph Abiswang for The Wall Street Journal