

SAVING THE EURO REQUIRES A GREAT LEAP FORWARD IN POLITICAL INTEGRATION

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Ever since the Greek crisis broke out, Germany has been mulling over a plan for the Euro Zone. It saw the chance to build the strong and federal Europe it had always yearned for by making use of its economic power and influence over the ECB to ensure that aid for hard-pressed countries would only be made available in exchange for greater transfers of sovereignty. That is why it made it clear from the start that there was a road map to make the Euro viable but that the process had to be gradual and that disbursements would only be made after (or at the most in exchange for) the peripheral countries (including France) subordinated their economic policies and structural reforms to a ‘Germanised’ Brussels. For that reason, at the beginning of the crisis it refused to allow bank bail-outs to be carried out from the European institutions, ensured that the ECB would not consistently be the lender of last resort and, finally, over the past two years only afforded the minimum solidarity at each point to ensure that Euro Zone did not collapse. God forbid that one of the happy-go-lucky southern European countries should start believing that outside aid was a free lunch.

The German plan might have made sense on paper. Perhaps if austerity, cutbacks and reforms had improved expectations and led to growth, the Euro Zone would have had time to reach the goal set by the Berlin-Frankfurt axis, culminating in a ‘Germanised’ Europe: austere, export-oriented, united, happy and protected by Eurobonds. But two unforeseen obstacles got in the way: the stubborn laws of economics and the fact that European nations are democracies. On the economic side, the obsession with austerity has ultimately been counterproductive because in the short term the debt/GDP ratio does not stabilise when the denominator is reduced by the cutbacks but, to the contrary, continues to grow. Furthermore, the ECB’s passivity has made the monetary union a currency board, vulnerable to attacks by investors gambling –as occurred with the European Monetary System crisis in 1992– that the public outcry against the cutbacks will force governments to knuckle under and devalue. On the political side there has already been a public response, both at the ballot box and in the streets: since the Euro Zone countries are democracies, their citizens can show their rejection (regardless of whether they are right or wrong) if they feel that instead of making sacrifices for a common goal with a symmetrical loss of sovereignty they are handing over everything in exchange for nothing to a Brussels that is merely a puppet controlled by a Berlin whose values they do not share.

In any case, what has started to become evident over the past few days is that the theoretical future Germany had in mind is not matching reality. The rejection of austerity by a large part of the Greek electorate and the surprise over Spain's Bankia have sped up events and forced Germany to take a great stride forward on integration if it wants to save the Euro. Given the possibility of a run on the banks in Greece spilling over into other countries and sparking off an outbreak that even the almighty ECB cannot contain, it is necessary to take steps to dampen expectations and prevent self-fulfilling prophecies to come about. The first step is a banking union and the creation of a European Deposit Insurance Fund (to which should swiftly be added a single financial supervisory authority in the Euro Zone). Such a union would allow the banks to cease being national and become European, meaning that future bail-outs would be funded by the Euro Zone as a whole (since it has sufficient resources) instead of having to be managed by individual countries that cannot confront them because their risk premiums are sky-high. And some sort of Eurobonds will be needed to finance the banking union, thus opening the door political union. For countries like Spain, that are both used to and willing to cede sovereignty to Brussels, this would not be a problem, but for others, from France to Finland, that are less happy to do so, the issue is not that clear. In any case, what we are talking about is of Germany crossing a red line that it had imposed on itself long before the countries of Southern Europe will have carried out all the expected reforms. Would it be willing to do so? Europe's future depends on it.

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