

# Euro Embroilment

## A rehearsal

### 1. May European elections

The European elections of May 2014 gave us three main messages:

- (1) The erosion of the European political establishment in favour of euro-sceptic or clearly anti-European parties. This erosion was felt with particular strength in France and the United Kingdom – where avowed anti-European parties won the election – but was also strongly felt in Spain, Poland and Italy – where anti-European establishment parties made considerable advances. Even in Germany an anti-Euro party got a representation for the first time;
- (2) A reinforcement of reformist-minded European forces within the establishment. This was clearly the case in Italy – the single big European country where the ruling party had a reinforcement of his popular support – but also the case elsewhere, as for instance Portugal and Spain where pro-European parties out of the establishment reinforced their positions;
- (3) The existence of a great variety of small political parties, alliances and projects that captured a considerable amount of support, even when this support was in most cases not able to allow them to capture any seats.

On the whole, Europeans made clear they wanted change although the nature of this change is a matter of discussion.

### 2. June council summit's conclusions

Euro-speak – a complex system of communication where embroilment is meant to allow only initiated people to understand the heart of the message – plays an essential role in keeping the European institutions apart from the European people.

The clearest sign that European leaders are set to continue business as usual flatly ignoring the message of change given by Europeans on the May elections was the degree of embroilment used for drafting conclusions on the Euro reform of the June Summit:

“Given the persistently high debt and unemployment levels and the low nominal GDP growth, as well as the challenges of an ageing society and of supporting job-creation, particularly for the young, fiscal consolidation must continue in a growth-friendly and differentiated manner.”

According to Mediapart<sup>1</sup> this compromise text was found by the Sherpas at three o'clock in the morning and Franco-German pressure forced Matteo Renzi to swallow this in the morning.

---

<sup>1</sup> Ludovic Lamant, “Conseil Européen: Matteo Renzi est allé au clash avec Angela Merkel »in Mediapart 2014.06.28.

This text as translated by an unidentified eurocrat quoted by Mediapart should be read as meaning the refusal of the rift between austerity and growth partisans and the focussing on efforts to the best implementation of existing legal texts. In other words, change nothing and expect things to improve, although you have no logic reason to do so.

Matteo Renzi – who won elections in Italy on a Euro-reform ticket – lost therefore this crucial debate, and the European leaders decided ostensibly to ignore the all too obvious failure of their austerity policy and the demand for change of the European electorate, refused to engage in substantial reform and promised to continue the same path.

### **3. The European elite calls for reform**

Whoever followed European opinion studies – including the official Eurobarometer – could not fail to spot the growing dissatisfaction of European citizens with European political institutions in general and with the economic and monetary policy, the Euro, in particular.

This negative mood is especially acute in Southern countries and less pronounced in Germany but exists all over Europe.

European-minded elite groups organised in occasional gatherings or in established think tanks duly sensed the need to propose reforms.

The Glienicker Gruppe – a gathering of eleven leading German economists – published the manifesto “Towards a Euro Union” the October 17 2013 by Die Zeit. This was answered by the “Manifesto for a euro Political Union” signed by 15 leading French intellectuals and by the call “For a Euro Community” authored by the “Groupe Eiffel Europe” gathering 12 others.<sup>2</sup> This dialogue followed to a large extent the established diplomatic rules.

Several other collective initiatives on the same issue were published, namely “a new pact for Europe” and “The unhappy state of the Union, Europe needs a new grand bargain” – both supported by several think tanks – as well as our own “Euro-reform initiative”.<sup>3</sup> Many books and articles made proposals available to a wide audience with a variable level of precision, innovation and clarity.

An exercise in comparative analysis allowing an understanding of the logic and rational of the different positions on the debate would certainly be helpful, as it would also be helpful to reduce its level of embroilment.

### **4. External accounts as the key issue**

In our reform proposal we saw Euro problems as conceptual and derived from the highly ideological monetarist approach followed by its founders and characterised it in three key issues: (1) the replacement of external accounts by public accounts equilibria as the main criteria for monetary stability; (2) absolute power to the

---

<sup>2</sup> The Glienecker manifesto was published in October 17 2013 by Die Zeit, the second can be found at [http://www.pouruneunionpolitiquedeleuro.eu/en/#.U7GCM\\_mSx8E](http://www.pouruneunionpolitiquedeleuro.eu/en/#.U7GCM_mSx8E) and the third at <http://www.bruegel.org/nc/blog/detail/article/1250-for-a-euro-community/>

<sup>3</sup> The first can be found at <http://www.newpactforeurope.eu/> the second at <http://www.policy-network.net/publications/4602/The-Unhappy-State-of-the-Union> and the third at <http://www.euroreform.org/2014/02/05/euro-reform-2014-a-proposal-on-the-reform-of-the-euro/>

monetary authority and absence of proper regulation of the banking industry and (3) absence of income tax harmonisation.

The third point has been dealt with in a deeper and clearer way by Thomas Piketty in his famous book and in the manifesto he co-authors<sup>4</sup>; the second point has been addressed by many authors<sup>5</sup>, although not in the same way we do, but the first point has been either absent or tackled in a very partial way and I believe it needs to be stressed here.

Most of the debate has centred on the need of a political union to couple the economic and monetary union, which was the way things were thought to develop in the first place.

If Europe was a perfect political union, to debate the existence of the Euro would be similar to debating the existence of the dollar, a meaningless exercise.

Furthermore, both European enthusiasts and Europhobes make the same argument, the first to explain why the political union is a necessity, the second to explain why we must not allow the Euro to continue.

This line of reasoning does not seem to understand that the whole issue is to discuss how a complete monetary union can be compatible with a partial and biased economic union and a much looser political union. It is of little avail to state the obvious: a full political union coupled with a fully-fledged monetary union would automatically mean that the problem would have never existed in the first place.

Put in other terms, as long as the EU does not achieve a degree of integration that allows it to be comparable with a nation – say the United States – the criteria used to assess the stability of the monetary union will have to rely on the criteria used to assess the stability of other monetary unions with less than a political union, and this means the overall sustainability of the external accounts of its member states.<sup>6</sup>

The point is so self-evident that we find it puzzling how this central issue in the debate is broadly ignored.<sup>7</sup> In fact, it can be better understood if we keep in mind that a key point in the monetarist ideology is the belief that public sector debt is negative, whereas private imbalances are to be sorted out by the “invisible hand”. Therefore, keeping in mind that the external accounts equal the sum of the private and the public, it means monetarism only considers the public side of the external accounts.

As our report observes, the crucial role of external accounts and not the role of the private accounts is clear from economic history, from economic theory and from the recent events in the Euro.

## **5. A rehearsal of the Euro debate based on external accounts sustainability**

As soon as we accept placing external accounts at the heart of the problem it becomes easy to understand why the present policy of austerity to all at the same

---

4 “Le capital au XXI<sup>e</sup> siècle” 2013, Seuil, Paris and the above quoted “Manifesto for a Political Union”. Our view of the tax issue is conceptually different from the one of Piketty however.

5 Philippe Legrain, European Spring, USA, 2014 is a case in point.

6 See “From the Athenian Tetradrachm to the Euro” edited by Cottrell et al, 2007, Ashgate, London.

7 In mercantilist logic, an external surplus means power of a state on those who incur the corresponding deficits.

time re-affirmed at the last summit has given such bad results and why we should expect it to continue to give the very same results in the future.

We can start with one of the key statements of the Glienicker Gruppe:

“The Maastricht Treaty assumed that common debt rules [the authors mean, public debt] would solve the problem of the irresponsible building up of debt. Greece showed this to be a delusion. Therefore, it was right to toughen debt rules with the fiscal pact.”

As we stressed in our report, Greece was far from being the only country fiddling the rules of Maastricht. Germany hid public deficit during the nineties.

Furthermore, there is an obvious flaw in the logic of the sentence: if it is easy to fiddle existing rules, the prescription should not be to strengthen the rules but to strengthen the control of the rules, which is quite a different matter.

The main logic fault of the sentence, however, is not to understand that if the Euro trade partners of Greece toughen their public debt rules – therefore pressing upwards their external accounts results – they are by this fact pressing down Greek public in particular and external accounts in general.

Contrarily to what seems to be the perception of this neo-mercantilist approach to international trade, at a global level the external trade is by definition balanced. To push the external trade balances of some member in the direction of a surplus – by demanding lower public deficits, which is the most obvious way to do it in a fixed currency system – is equal to pushing the remainder in the direction of deficit.

To understand this, one only needs to get rid of ideological mind-sets and revert to basic logic.

The prescription approved by the European institutions lauded here by these German economists is not a solution to the crisis: it is the reason why the crisis begun.

Brussels, 2014-07-01

(Paulo Casaca)