The euro is a scapegoat for the blunders of politicians
By Martin Sandbu

States should think more about realising the integration they want, writes Martin Sandbu

With the Brussels rentrée, the eurocrats and their political masters around Europe's national capitals return to the task of charting the political direction the EU should pursue for the next five years.

But Europe is riven, politically, but at root intellectually, between two incompatible views of what to do.

One is the conviction, spawned by the trauma of the sovereign debt crisis, that at least the 18 eurozone members must pursue much deeper integration. This means putting more financial resources and more policy decision-making under centralised control.

The other is the belief, reinforced by the elections last May, that integration has already gone further than the public accepts. The political imperative is to return policy making autonomy to member states.

When economic suffering still debilitates the region from within, and enemies and rivals challenge it from outside, confusion is the last thing Europe needs. Like individuals, polities that fail to resolve their contradictions tend to resort to a mix of dissonance, duplicity or conflict.

With dissonance – just ignoring the contradiction – policy making will jerk from one direction to another, at times towards more Europe, at times away from it. That is the same as having no direction at all.

Duplicity – pursuing "more Europe" while pretending to pursue less – comes easy to leaders who have long sidelined democratic choice in favour of the people’s best interest as they see it, and nourished euroscepticism by disingenuously blaming "Europe" for things squarely within their power to change.

And if each country were to plump for one side or the other of the dilemma, the contradiction will play out as an epic battle between two camps of nation-states.

So far, so dispiriting. But there is a Gordian solution to the knotty problem that Europe has tied itself up in. It is to reassess the claim that monetary union can only work with a fiscal union and political union.

That claim has allowed debtor countries to point the finger at Berlin’s unwillingness to bankroll the euro without limit. Germany, meanwhile, can rightly respond it is the others who refuse to give up national sovereignty in anything like the extent a common resource
pool demands.

The euro, in other words, offers everyone a convenient scapegoat.

But it was not the euro that prevented a swift restructuring of sovereign and bank debts where these were unpayable, or a robust recapitalisation of European banks – with private capital when possible, but through forcible debt-for-equity swaps when necessary.

It was not the euro, either, that made governments in creditor Europe push a policy of austerity for all, instead of stimulating demand in their economies to offset the belt-tightening in debtor Europe.

Nor did the euro force the European Central Bank to run a monetary policy so tight that real money balances and business credit in the eurozone shrank for five years running.

In all cases, unforced policy errors are to blame – thus policy makers, not institutional design. With better policy choices from the start of the crisis, the eurozone would not have lost its way down a road towards a union few seem to want.

The policy errors have been partially righted. Much progress has been made on making it easier to write down the debt of insolvent sovereigns or to place the burden of losses in private banks on to their investors rather than taxpayers. Indeed institutions for debt restructuring (for both sovereigns and banks) are now far more developed than the supposedly necessary fiscal and political union.

What is lagging is the recognition that the former make the latter unnecessary. When debts can be safely written down, the case for cross-border fiscal transfers to redeem them evaporates. Moreover, when losses fall where they belong – on investors who gamble and lose – overindebtedness is less likely to build up again.

Not that deeper integration would not be advantageous. It would allow states to pursue shared interests better than each can on its own. Common bonds (to lower borrowing costs through a deeper market) and joint energy purchases (to gain bargaining power) are cases in point.

But these should pursued not at the point of a gun, but by electorates (not just their leaders) who think they would be good things to do. Different countries will come to that recognition at different times and for different aspects of policy.

Realising that deeper integration is a choice, not a necessity, also suggests how it can appeal more to voters. The way forward is to embrace a Europe of “coalitions of the willing”, groups of countries prepared to pool more resources and sovereignty in specific areas.

The European Commission should put behind it the tradition of the “community method” by which everyone integrates along the same path at the same speed. It should instead see its job as facilitating coalitions of the willing, and ensuring the closer co-operation they develop remains open to late joiners.

Nation-states, too, should focus less on what other members can do for them, and more on seeking partners for the integration they want. The proponents of an energy union should simply start developing one among themselves. Those who call for eurobonds should begin small-scale experiments with whatever willing partners they find. There is no need to wait for Godot in the form of a German underwriter.

The author’s book on the euro is published by Princeton next year.

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