

## After Greece, the European republic

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June 2010

**Europe's governments have done it: the euro area is in shambles. Not because the euro was a bad idea, but because partial interests by member state governments prevent the design and implementation of good policies. Nation states damage the collective interests of European citizens. The present system of intergovernmental governance without a European government is unsustainable. Only a full political union based on democratic principles can ensure that the interest of all Europeans can be served.**



*The European Central Bank's headquarters in Frankfurt am Main © ECB*

The euro was the necessary complement to the single market, and both have been good for European citizens. More jobs have been created in the last decades than ever before in Europe's history. The euro has protected the European economy against the worst fallout of financial speculation. However, governments' behavior in the Greek crisis has destabilised the euro and shattered trust in the currency.

Conservatives have built monetary union on the 'principle of national responsibility for the euro area'. Only monetary policy was delegated to the European level. National governments claim to be sovereign and conduct policies as they wish, although they should obey certain rules. However, this way of governing the euro does not work. The principle of national responsibility is inconsistent with an integrated market economy, where all regions are strongly interconnected. Especially in monetary union, autonomous actions by one government have consequences for the whole euro area. These external effects require a government that is responsible – and responsive – for all European citizens.

The Greek crisis supplies us three perfect examples. First, driven by electoral concerns, the Karamanlis government had pursued irresponsible policies, hiding its rising debt deliberately. The European Commission and Eurostat were denied the power to audit Greek statistics, because governments (not only in Greece) claimed to be sovereign. Instead of insisting on the application of fiscal policy rules, national

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\* This commentary was published in RECON Newsletter 2/2010, available at: <http://reconproject.eu/projectweb/portalproject/Newsletters.html>.

governments were accomplices to the crime. They did not want to be constrained by others in their own conduct of policies. Thus, partial interests have prevailed over the common good.

Second, the fiscal problems were aggravated by the deteriorating competitiveness of Greece and other southern economies. This deterioration was the mirror image of Germany's efforts to improve its own competitive advantage. As GDP shrank and government revenue fell, the Greek deficit more than tripled to over €30 bn. Returning to rapid economic growth necessitates fundamental reforms of the Greek state, economy and society, but the results will not appear over night and are not independent from what other Euro members do.

Austerity by the Greek government is self-defeating unless demand from European neighbours sustains economic activity. If all member states followed the German example and simultaneously cut their public deficits and wages to improve competitiveness, the whole euro area would dive into depression. Thus, sustaining economic stability in the euro area is no longer the responsibility for national governments doing their homework alone. Without exchange rates, restoring economic balances has become a collective responsibility for everyone.

Third, while chauvinism is on the rise in most member states, it has now taken over Germany, which has become the big spoiler in the euro area. Driven by die-hard nationalists in her own coalition, Chancellor Merkel claims that 'German taxpayers come first'. While she has affirmed her verbal commitment to the stability of the euro, her hesitant support of Greece has undermined the trust in Europe's capacity to solve the crisis and has effectively destabilised the euro. By playing hardball, the German government has given all European citizens a bloody nose, including, of course, Europeans with a German passport. The crisis of the euro is not the fault of banks, hedge funds and speculators. It is the inevitable consequence of incompetent policy makers and dysfunctional systems of governance.

Political economists have been aware of these problems for a long time. They call them 'collective action problems' or a 'fallacy of composition', which arises when one infers that something is true of the whole from the fact that it is true of some part of the whole. This causes collective action problems, because what may be good for some member states is not necessarily good for the Union as a whole. And as all European citizens are affected by the actions of some member states, their collective interests and welfare will suffer.

The proper way to overcome such collective action problems is to set up a European government, which is responsible for policies that affect all European citizens. It can then design and implement coherent policies in the interest of all. However, this solution encounters two problems: nationalist chauvinists claim that 'belonging' to a country, that feeling of one's national identity, is more important than defending common interests shared by all Europeans. For socialists, such arguments are contrary to their history, which has always been one of internationalism. Instead, they emphasise the democratic deficit of Europe's institutions. They are right. For 200 years, they have struggled to make states democratic in order to implement policies of fairness and greater equality. They have been highly successful in setting up the European social model of the national welfare state. Yet, these are the triumphs of yesterday. Today we need new solutions.

In the modern globalised economy, the large European market is the foundation of material wealth and prosperity. It can no longer be ruled by national governments. Hence, the social democratic answer to Europe's collective action problems must be

the enlargement of the democratic republic to the European level: a government that is elected and accountable to all European citizens who have common interests. A government with clearly designed and limited competences that emerges from democratic elections, where competing parties submit their alternative programs and candidates to the approval of citizens. With such a government, it would be possible to keep the harmful effects of partial national interests at bay. Europe would be a better place. It is our responsibility to make it happen.