Three fallacies of the European economic crisis

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In RECON Newsletter 2/2008, I claimed that European governments were taking rather lightly the consequences of absorbing the 'bad debts' of the private sector. 'Contingent' liabilities could trigger a problem of long-term debt sustainability, or so I claimed. By now, this seems a rather obvious point. Europe went through its own 'Lehman' moment in the first week of May. The gathering financial storm over Greek debt created a serious risk of a financial meltdown that was widely believed could end up unraveling European monetary integration.

There are three important flaws in the public debate that long-term research on the political economy of the EU renders rather evident.

First, media and a good deal of scholars have constructed the crisis along national lines. Would Greece, or the famous PIGS (Portugal, Ireland, Greece and Spain) collapse? Was Germany doing enough? Indeed, even the personal construction has been very much mediated by national clichés. Merkel as the self-righteous German, Zapatero as the profligate Spanish. Whatever the substantive merits of these claims, national images hide the actual economic interests at stake. Whether or not the Karamanlis' government in Greece cooked the Exchequer books more than what was the case in other member states (a question which seems to me can only be answered in the affirmative), it is interesting to notice that the mounting public debt was not the result of profligate 'looney' left public expenditure, but of a total collapse in tax revenues. This pattern is also characteristic of the Spanish, Portuguese and Irish cases. The more or less accentuated breeds of casino capitalism cultivated in the 2000s have left the tax state in ruins. Not social democracy, but unbridled capitalism itself is to blame. And twice for that matter, because the rescue is not so much of the Greek, Portuguese or Spanish state as of the European financial sectors. Who gets what and when? After 9 May the rescued were the creditors to Greek, Spanish and Portuguese banks, who in quantitative terms were foremostly German, French and Dutch investors.

Second, the policy proposals to put an end to the crisis have been assessed once and again in a short-term perspective. This is rather silly in itself, but has the even more obnoxious effect of hiding the long-term roots of present problems. I am sure that there are speculators in this world, and that I would not be happy to meet a bunch of them in a dark one-side alley on Wall Street. But blaming the speculators is a foolish escapade

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from the structural problems of the imperfect Monetary Union agreed in Maastricht and confirmed in Amsterdam. As Stefan Collignon argues in this Newsletter[1], what we should learn from this crisis is that the 'governance' approach to Monetary Integration simply does not work. It was dubious from its inception, and now it has proven colossally inefficient.

Third, outcomes of the crisis tend to be classified in two categories: those weakening integration and those strengthening it. Doom doctors predict the end of the European Union (including the prescient regulatory agencies that gave triple A plus to tranches of subprime investing vehicles) while the eternal optimist Habermas sees elements of a reinforced European project even in the rescue package. This obscures the more complex and explicitly political nature of the choices ahead. We should overcome the infantile malaise of associating any measure that transfers further powers to the Union as strengthening integration. Schauble's sponsored transformation of the Euro into a revamped gold standard, with constitutional bans on public deficits all across the Euro area will indeed move the Union into a federal direction. But certainly into one where finance would have been rescued at the price of a brutal unraveling of the *Sozialer Rechtsstaat*. The apparent triumph of this approach would mark the end of the European political project. We need concepts to make these distinctions clear. This is why I have proposed in WP 7 a clear-cut distinction of variants of the RECON models. We should clearly distinguish a 'liberist' federal Europe, where legitimacy is tied to the realisation of economic freedoms as fundamental rights, and a 'social-democratic' federal Europe, for which genuine federal taxing and expenditure powers, not debt ceilings, are a priority.

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[1] See Stefan Collignon 'After Greece, the European republic', RECON Newsletter 2/2010, also available at http://www.reconproject.eu/main.php/RECONcommentary_Collignon_Jun2010.pdf?fileitem=21528587.