

The European *Experiment*

*The interplay between economic
success and cultural diversity.*

BY OTMAR ISSING

The decision to award the Nobel Peace Prize to the European Union is recognition of the longest period of peace in Europe. The first half of the last century was marked by the atrocities of two wars. In the second half, European integration has culminated in the peaceful cooperation of what is now twenty-seven countries with 500 million people. This makes European Union the most successful integration project in the history of mankind. (The *pax romana* was imposed by force on other countries.) This assessment is not impaired by the fact that the establishment of democracy in most countries and NATO has also played a role.

The idea of introducing a single currency has a long history. In the first concrete approach, back in 1969 at the Hague summit, government leaders commissioned a plan for the creation of an economic and monetary union in several stages. Under the “Werner Plan” as it was known, this project was to be completed within ten years. Any such visions were very quickly ended by exchange rate turbulence and currency crises in several member states. Some twenty years later, however, there seemed to be a need to complement the single internal market in the monetary sphere, following the motto “a single market—a single currency.”

CAN MONETARY UNION WORK WITHOUT POLITICAL UNION?

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220 I Street, N.E., Suite 200
Washington, D.C. 20002

Phone: 202-861-0791 • Fax: 202-861-0790

www.international-economy.com
editor@international-economy.com

Otmar Issing is President of the Center for Financial Studies at Frankfurt University, a founding Member of the Executive Board of the European Central Bank, and author of The Birth of the Euro (Cambridge University Press, 2008).



Helmut Kohl

The Common Currency and the Driving Force of Politics

It was not economics but politics that was the main driving force behind the creation of a common currency. For then-Chancellor Helmut Kohl, giving up the deutschmark was the political signal for Germany's final, irreversible anchoring in Europe. In his statement to the Bundestag, Germany's lower house of parliament, on November 6, 1991, Kohl emphasized: "It cannot be repeated often enough. Political union is the indispensable counterpart to economic and monetary union. Recent history, and not just that of Germany, teaches us that the idea of sustaining an economic and monetary union over time without political union is a fallacy."

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obvious, therefore, than to remedy this shortcoming now and stride determinedly towards full political integration?

AN ARDUOUS PATH

Admittedly, the process of European integration since World War II has repeatedly drawn new strength in times of crisis. Every crisis presents an opportunity to reflect on what went wrong, in order to do things better in future. But are the problems really the fault of "not enough Europe"? Far and wide, the rallying call is that the crisis shows we need "more Europe." This can, however, be regarded as a rather naïve, superficial motto. For one thing, more of something intrinsically good is not necessarily better. But more importantly, what does this "more" mean? Essentially, it

means the progressive transfer of national sovereignty to the European level, in particular of competences in the area of public finance, and thus nothing less than a fundamental right of national parliaments.

Where, however, is the European institution in which this right could be exercised with full democratic legitimacy? Whatever one may think of the various proposals, the path to political union is an arduous one, and the outcome of the complex process of constitutional changes and referendums it would require is anything but certain.

DELUding THE PUBLIC

It follows that the political union project is not suited as an instrument for resolving the crisis. Those who use the mere intention of following this path as a means to usher in an irreversible transfer of financial resources are following the principle of "money today for the vision of political union tomorrow." But such a course poses grave danger to the public's assent to, and identification with, the European project. After all the experience with crisis management to date, does anybody still believe in declarations of intent? Is it not the insistence on commitments and treaties entered into that has engendered a veritable hatred of Germany as the principal guarantor, and has triggered—or brought back to the surface—resentments that seemed to have been buried for good? Anyone not completely out of touch with the public must be

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At the start of monetary union on December 1, 1999, of course, political union was no nearer to being established, nor was there even any discernible intention of doing so. This raised the question: Could monetary union work—could it survive—without political union? Doesn't the current crisis seem to prove right all those who see this as the very heart of all problems, regarding the start of monetary union without the foundation of political union as the "original sin"? What could be more

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extremely worried by the growing popular discontent with Germany's increasing financial obligations. What will be the fallout if the economy weakens, unemployment rises again, and at the same time the bill for saving the euro area is presented in the form of tax hikes (or benefit cuts)?

Many politicians, European bureaucrats, and academics call for the mutualization of euro area sovereign debt,

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coupled with strict EU controls over national budgets. Putting such controls in place with democratic legitimacy and on a credible treaty basis would be a difficult, long-drawn-out process. As a result, either those proposals are without foundation, or simply hold out the prospect of control in the future in return for debt mutualization today—an open invitation to postpone the honoring of this promise *ad infinitum*.

The debate about eurobonds is the clearest possible illustration of how new ways are constantly being found to delude the public. The wide variety of structures in itself adds to the confusion. Fundamentally, the introduction of eurobonds would mean all euro area members assuming joint liability for the debt of individual states. This would lead to falling interest rates in countries that to date have followed more or less unsound policies, and rising rates in countries such as Germany, the main one to be affected by such a debt mutualization. Let us not deceive ourselves: any measures put in place to ensure EU-level control over the issuance of such eurobonds would prove ineffective, as the beneficiaries would be in the majority. A clearer breach of the fundamental democratic principle of “No taxation without representation” cannot be imagined. It is grotesque that pressure in this direction should also be coming from the United States, a country that has had its own very particular experience of the violation of this principle.

HAVEN'T WE HAD EUROBONDS ALREADY?

The public is constantly left in the dark about the consequences of such an approach. Wherever one looks, one sees a smokescreen. It is argued, for example, that with its long-established funds, such as the structural fund, the European Union is in any case a transfer union by design. These funds, however, are subject to parliamentary deliberation and approval, are limited in amount, and are earmarked for specific purposes. Eurobonds, by contrast, follow quite different criteria, as do the other forms of financial assistance that are part of the current crisis management. The demand for financial assistance has been virtually unlimited, it was created—to put it bluntly—by bad policy, and it obliges even much poorer countries such as Slovakia to support countries with significantly higher standards of living.

Another increasingly popular argument goes like this: We've long had *de facto* eurobonds, so what's all the fuss about? This is true only insofar as sizeable guarantees have already been assumed by the European Financial Stability Facility bail-out fund, and will be assumed in the future by the European Stability Mechanism, with more to come. To that should be added the significant risks arising from the bond purchases by the European Central Bank and from the huge payment system (TARGET II) balances, the vast majority of which Germany would have to shoulder if it came to the crunch. But such instruments are far from being eurobonds. And finally, the commitments already taken on are no reason to promise further support on an unlimited scale and subject to no review. That is precisely the way to go if one wants to alienate the public from the idea of political integration.

ON THE CULTURAL LEGACY TRAIL

But—some may now object—doesn't this line of reasoning mean forcing the great European vision into an economic straitjacket? Isn't Europe much more than trade and finance, euros and cents? The eminent German author Martin Walser painted a picture of the “real” Europe as built on the foundations of the great documents of

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European literature, from Homer to Shakespeare to Goethe, to name only the most famous poets.

One could stroll further along the trail of Europe's cultural legacy and include music, architecture, and painting. In his autobiography "The World of Yesterday: Memories of a European," Stefan Zweig described the free life and freedom to travel in Europe before World War I. What was then the privilege of the elite few can now be enjoyed by millions. And even mass tourists cannot fail to be moved by the variety and beauty of the architecture, be it classical or more recent, from the Acropolis and the Colosseum to the great cathedrals.

GREAT ART WAS CREATED IN A POLITICAL PATCHWORK

But what does this mean for the debate about European integration, political as well as economic? Are Homer and Sophocles a reason for Greece to remain in the euro area? Or is Shakespeare a reason for Great Britain to join the euro? Even at the time, analogies such as the one drawn in 1995 by Portuguese Prime Minister António Guterres, who said that we should build Europe upon the euro just like Christ built his church upon the rock of St. Peter, sounded unintentionally comic.

Whichever way you look at it, one cannot trace a line from culture to European statehood, still less to the euro. If anything, Europe's cultural legacy leads to opposite conclusions. The great works in literature, philosophy, architecture, and music speak volumes: they date from the time when Europe was a political patchwork of small states. Didn't Goethe turn a provincial backwater into a center of European culture? Or what about Kant in small, remote Königsberg, or Haydn at the Esterhazy court? One could go on and on. It was precisely competition, which intellectuals are fond of disparaging, that nurtured the creation of masterworks.

UNITY IN DIVERSITY

So it is hardly surprising that the same should also be true of Europe's economic development. Researchers have long since identified competition as the underlying reason why, during the Renaissance and Enlightenment, Europe left the rest of the world behind and became the cradle of progress in science, industry, and technology. Competition to improve the system of government and the social order was also a driving force. Just think how much, for example, Prussia owed to its welcoming of the Huguenots who were fleeing persecution in France.

The cultural identity of Europe is one of unity in diversity, openness, and *laissez-faire*. Jean Monnet, one of the fathers of post-World War II European integration, said at the end of his career that if he had to do it over again, he

would start with culture. He probably would not have gotten very far. And the last thing Europe needs is a cultural bureaucracy, such as an EU ministry of culture.

A DEPENDABLE EUROPE

One should not underplay the importance of the economic aspect. While over six decades of peace in Europe—a few terrible episodes notwithstanding—are certainly the greatest achievement that needs to be preserved, without economic success the process of European integration would have stalled back in the 1950s. It is chiefly—if not entirely—due to this success that the European Union

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owes its attractiveness. A single market of twenty-seven countries with over 500 million people provides the framework for peace and progress on all fronts. History should teach us that this potential can only be realized if bureaucracy and centralization do not get in the way. In reality, the oft-cited conflict between, say, economy and culture doesn't exist. The political significance of Europe in the world also depends crucially on its economic success. Those who wish for a strong Europe cannot advocate more bureaucracy and centralization. That is not the way to achieve the "real" Europe.

Both the European Union and monetary union are founded on treaties and agreements. Let me cite just two examples. The violation of the ban on assuming liability for other countries' debts (the no-bailout clause) meant breaching a fundamental principle of a monetary union of sovereign states. And the instances of non-compliance with the Stability and Growth Pact, not least by Germany and France, are meanwhile legion.

What if we were to drop the call for "more Europe," at least for the time being, in favor of the principle of *pacta sunt servanda*, or agreements must be kept? Shouldn't we rather concentrate on achieving a better Europe, a dependable Europe in which treaty obligations are respected? ♦