Conference *A Europe without the Euro*

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The present state of the Economic and Monetary Union

By Frits Bolkestein

The Monetary Union is the result of a French wish and a German concession. The French wish was to gain power over the D-Mark through the medium of a European Central Bank open to political persuasion. The German wish was to gain a European Political Union, an EPU. In this, Helmut Kohl showed himself to be a romantic. Politicians are inspired by images.

Kohl's image was the death of his elder brother in a *Luftangriff*, a bombardment, shortly before the end of the Second World War. That never again, he must have thought. Better a European Germany than a German Europe. A European Political Union would assure this. He was prepared to offer the D-Mark, the symbol of German economic renaissance, to achieve that end. It was his concession. As Hubert Védrine, assistant to President Mitterrand and later France's Minister of Foreign Affairs, put it: 'With the single currency Kohl made the greatest concession which one could ask from a German Chancellor.' If a referendum had been held on the single currency at that time, it might well have been defeated.

In November 1991 Helmut Kohl said in the German Parliament: '*Die Politische Union ist das unerlässliche Gegenstück der Wirtschafts- und Währungsunion*.' The Political Union is the essential counterpart to the Monetary Union.

So we were warned. The Political Union had to precede the Monetary Union. But it didn't. It was the other way round. The Monetary Union was agreed at Maastricht. We are still waiting for the EPU. Shortly after the Maastricht conference Helmut Kohl wrote that it had not been possible to satisfy all expectations there but that a political dynamic had been created which no Member State would be able to resist. It has not worked out that way. The Monetary Union has not had an integrating but a fissiparous effect, as we can all now see.

In order to gain acceptance for the euro, Germany insisted on the so-called Stability and Growth Pact which some time later was concluded in Dublin and which laid down the five criteria which all Member States would have to meet if they wanted to join the euro. First and foremost among these criteria was the requirement that the annual deficit of any Member State should not exceed 3%. All signatories to the Stability and Growth Pact stated in a *solemn* declaration that they would *strictly* observe the criteria. But that is not what happened. Germany and France were the first to flout the rules in 2003. Now if a Pact which all signatories in a solemn declaration have said they would strictly observe, is broken after a few years, which European declaration or pact would thereafter have any credibility? That, I'm afraid, also goes for the recently in Brussels concluded pact which re-affirms the Stability and Growth Pact while also strengthening the sanctions. We shall see.

Helmut Kohl's European Political Union is another term for a federal union with which the Germans have so much experience because they live in one. But the EU will never become a federation in the same way that Germany, the US, Canada and Brazil are one. Firstly, there is no European people, no European language, no European law nor a European public opinion. So the basic conditions to form a federation are not met. Secondly, important Member States do not want it. First and foremost the UK, where a European Superstate – as a European Federation is called there – is rejected in horror. But also by Poland, where ministers have said they have not had to suffer Soviet domination for forty years in order to be under the tutelage of Brussels. So the Czechs and the Spanish. So now also the Dutch, even though they have gone through a time in which they believed a federal state would protect the smaller against the bigger Member States.

It is of course true that the EU has certain federal characteristics: the European Parliament, the European Commission, the European Court of Justice and the European Council. But that is as far as it goes.

So neither protagonist got what it wanted. France believed that the Maastricht treaty represented a victory over Germany but still did not get a European Central

Bank which would be open to political influence, since for the Germans this would be a deal breaker and the Monetary Union would abort. Germany did not achieve its ambition because there will never be a European Federation.

One never thinks hard enough. European politicians were befuddled by romantic notions of an Ever Closer Union, as the preamble to the Treaty of Rome has it. Romanticism in politics is dangerous. Better be realistic, remembering that 'The best laid plans of mice and men oft gang astray', as the Scottish poet Robert Burns has it.

What should have been considered at the start, but wasn't, was the difference in economic culture between the North of Europe and the Mediterranean area, led by France. Put as succinctly as possible, the North wanted solidity, the Mediterranean solidarity.

Back in the sixties, Johannes Witteveen, then Dutch finance minister and later director of the IMF, said: " Countries that form a currency union hand each other a blank cheque". This was forgotten.

In the French vision the discipline provided by the balance of payments should go. If economic differences between Member States were to appear, the resulting imbalances would have to be jointly financed or – alternatively – adjusted in such a way that the burden of the adjustment would be symmetrically distributed over deficit- and surplus countries. In that way the surplus countries would show solidarity with the deficit ones.

Another equally pernicious difference between the North and the Mediterranean Member States was the disparity in competitiveness. Herman van Rompuy, chairman of the European Council, has famously said that the euro was a sleeping pill: it enabled Mediterranean countries to borrow at artificially low interest rates while neglecting structural improvements to their economics and thus to dream of a *dolce far niente*.

Such were the effects of 'one size fits all'. I know of not a single American who has believed in the durability of the euro and these are the reasons.

At the time of the debate about who should be let into the Monetary Union and who should not, I was leader of my party. I was opposed to the membership of Italy because it was obvious that it did not satisfy the criteria. Our finance minister Gerrit Zalm agreed with me. Consequently he was called *il duro* or *il perfido* when in Rome he insisted on observance of the criteria. For my part I went to Frankfurt to meet Mr. Tietmeyer who then was President of the Bundesbank, to get him to oppose Italian entry into the euro zone. To no avail. '*Lieber Herr Bolkestein', he said, 'Sie sind Politiker, ich bin nur Beamte*.' In other words: would I do the dirty work? Of course, he could do little else as his boss, *Bundeskanzler Helmut Kohl*, had already decided that Italy could join.

Italian membership of the euro zone had one disastrous consequence. Greece was also accepted as a member: not in spite of having lied about its statistics – which it had – but because the European Council felt that it could not withhold from Greece what it had granted Italy. The Germans call this *die Fluch der bösen Tat*: you do something wrong and it keeps pursuing you.

And so we are now faced with the credit crisis. According to some, the crisis has been caused by bankers. This is not so. I do not deny that some – perhaps many – bankers misbehaved but the origin lies in the US and the cause was wrong government policy. Three factors deserve to be mentioned.

Firstly the government's deficit which was to a large extent financed by the Chinese. This meant that some of the poorest people on earth paid to keep some the wealthiest consumers in clover. Secondly, the policy of the FED which kept the interest rate artificially low at 1% where it should have been around 4%. These two factors caused an excess of liquidity. Thirdly, the legislation which asked bankers to extend loans to people to purchase houses even though they were not creditworthy. It is true that some bankers took advantage of gullible customers but it was the government that had tied them to the bacon.

We Europeans are indeed in a pretty pickle. The order of the day is that governments should reduce expenditure and save money, in order to meet the 3%-criteria. But one of the lessons of the thirties is that reducing expenditure in a time of crisis prolongs it. Of course the present situation is not like the thirties. For one thing, we now have systems of social security which cushion the effects of unemployment. But these automatic stabilizers also mean increased government expenditure which thus partly offsets the attempt to save.

The Spanish government has begged to be excused for not applying the 3% rule. France is worse. And the Greek government may make promises but cannot keep them because of its weakness. When I was a member of the European Commission (before November 2004) we granted Greece € 150 million to set up a land registry. That still does not exist. Its economy is shot thru with corporatist arrangements.

It is difficult to see how Greece can remain a member of the Monetary Union. I think the best thing for Greece would be to leave it, perhaps to return later once it has cleaned up its act. No doubt this would be a very messy affair. But what is the point of sending Troika-missions to Athens every so often, only to find that once again the Greek government has not done what it has promised ?

One thing we certainly should not do, is to set up so-called euro bonds. These would mean that all Member States would pool their debts, which would then be financed by these bonds. This is a disastrous plan. For one thing it would make The Netherlands pay a much higher rate of interest than is now the case. My last calculation showed the burden of interest to go up by € 7 billion each year. Secondly, and worse, the euro bonds would stand as a veil between the deficit countries and the market, just as the euro did. But these deficit countries should respond more to the market, not less. Belgium's former Prime Minister Guy Verhoffstadt is an adept of this plan but that, I suspect, is because he wants to abolish the nation-state, which is absurd. In more general terms, all mutualisation dilutes responsibility, which is the opposite of what should happen.

Will the euro-area break up? Rather, what sort of euro will it in future be? Will it show solidity, as Germany and my country want? Or will it mean solidarity, which means other people's money? The Germans do not want euro bonds. Nor do they want a transfer union, which would mean a permanent flow of money from North to South, in the way of the soli-subventions which went from West to East Germany. They resist a fiscal union, which would force us to imitate France's high tax-and-spend economy. Thanks to the Constitutional Court at Karlsruhe which has made further transfers of sovereignty to Brussels subject to parliamentary approval.

Let me remind you of the history of this country. Italy was constituted in 1870. The lira became its national currency. It was designed for the North and thus too strong for the South. The North has compensated for this through the *Cassa per il Mezzogiorno*. This transfer union continues till today but has done little to improve the economic situation of the South.

The monetary union has failed. It stops devaluations which the deficit countries need. Instead of being a zone of monetary stability, it is a source of unrest. As long as the North and the South are bound together, we shall never get out of the hole that we've dug for ourselves.

Frits Bolkestein, April 2014