Europe Ended Up Someplace Else

Ashoka Mody

Based on *EuroTragedy: A Drama in Nine Acts*, New York: Oxford University Press, June 2018
Thesis: Monetary union would lead to Europe to political union. Did it?

- Thesis stated in Werner Committee Report, October 1970: A single European currency would act as “a leaven [yeast] for the development of political union.”
  (Pierre Werner, Prime Minister of Luxembourg).
  Another metaphor: “falling forward” from crises to greater unity.

- Outsider’s warning: Nicholas Kaldor, March 1971, on Werner Report:
  - Single currency would amplify economic divergence, and
  - A house “divided against itself cannot stand.”
  (Kaldor, University of Cambridge, one of the greatest economists of the 20th century. Could be ignored because he was Anglo-Saxon, although of Hungarian origin).

- Steps to counteract economic divergence would be impeded by the sovereignty barrier: Robert Marjolin, crucial catalyst of the Treaty of Rome, first vice president of the European Commission, repeatedly said European leaders were “obviously not ready” to give up their core sovereign functions; the change required was “too profound,” he said. Marjolin was also ignored.
A flawed euro, which the French desperately wanted, on German terms

• Despite serious initial misgivings, Chancellor Helmut Kohl pushed the euro, overriding deep public opposition to giving up the deutsche mark.

• In seeking the Bundestag’s authorization on April 24, 1998, he twice said:

  “According to the treaty rules, the community shall not be liable for the commitments of the member states and there are no additional financial transfers.” Translation: Germany will not pay the bills of other member countries.

• The euro would ensure Europe’s peace became his mantra.
But there was no conception of what the end goal was …and, hence, no idea of how Europe would get there

“If you don’t know where you are going,

You'll end up someplace else.”

_Yogi Berra_

This was the tragedy: the euro inevitably pushed Europe into a someplace else that was not good.
Europe: a divided continent
The great divergence in euro-area incomes and employment.

The great euro-area north-south divergence: Public debt and youth distress.

Source: IMF, World Economic Outlook Database; Eurostat (edat_lfse_20). Note: Countries on the left side correspond to the countries on the right side. The “unemployed” are those who are looking for a job but are unable to find one; the “inactive” are not looking for a job and neither are they in an educational or training program. The sum of the unemployed and inactive is known as “neither in employment, education or training” (NEET).
Divergence was predictable, not an accident:

Single monetary policy places greater burden on economically and socially weaker countries, especially—though not only—at moments of crises. They have limited governance and growth buffers.

The global financial and eurozone crises proved to be a historic economic critical juncture.

- At that juncture, north and south eurozone countries, using the same currency, set off on different economic trajectories.

- While the weaker southern members suffered wounds and carry long-lasting scars, the stronger northern eurozone members seem to have emerged with minor injuries.

- The divergence between the hobbled south and largely healed north will, I expect, persist—and it will further test the functioning and integrity of the eurozone.
Divergence was predictable, not an accident: southern euro area suffers from weak governance and institutions, which weaken growth potential:
The euro is cruel on countries with low growth potential

Source: World Bank, Worldwide Governance Indicator. Note: The overall index presented is an average of measures of government effectiveness, regulatory quality, rule of law, and control of corruption. Each individual measure is normally distributed, with a mean of zero, a standard deviation of 1, and an approximate range of –2.5 to 2.5. Larger values indicate better governance.
Poorer long-term growth prospects a trap: persistently low R&D rates in the euro-area periphery, hence persistently low growth potential.

(R&D as a percentage of GDP, 2016 versus 1997)

Source: OECD Statistical Database.
Predictably, German exporters shift their sights away from the euro area. (Percent of total German exports to the various countries)


German exporters will continue to shift away from the euro area.
Despite economic recovery, foreign investors continue to flee from Italy, Spain, and Portugal.

(Capital flight financed by ECB funds, percent of GDP)

Sources: Target2: ECB Statistical Data Warehouse (compiled by Euro Crisis Monitor, Institute of Empirical Economic Research, Osnabrück University); GDP figures from Eurostat. Note: The figure shows each country’s Target2 balance with the ECB. A negative Target2 balance implies that the national central bank had to borrow from the ECB to buy its government’s bonds from investors. The investors who sold the bonds did not reinvest the funds in the country.
Kaldor’s ghost stalks the eurozone

*The political critical juncture:*

Politics tried to override economics, economics now had its revenge
Italians lost trust in Europe: economic wounds left political scars

(Decrease in percentage of respondents who trust the European Union, 2016 relative to 2001)

Note: Respondents answered the following question: “I would like to ask you a question about how much trust you have in certain institutions. For each of the following institutions, please tell me if you (Tend to trust it; tend not to trust it): The European Union.” The chart presents the change in share of people who said they trusted the EU. For each year, 2001 and 2016, responses for the two available quarters are averaged.
The dialectic: Merkel as European chancellor held eurozone together, but became polarizing force

Between 2010 and 2016, Merkel was de facto European chancellor, a goal that Kohl had dreamt of. *Ipso facto*, she became a politically polarizing figure, dividing Europe.

- In Italy, the February 2013 election was dominated by Italy’s approach to Europe: the anti-euro Five Star Movement gained 25 percent of the vote. Silvio Berlusconi, whose party also performed well, asked at his rallies, “*Do you want a government that that is subject to the diktats of Europe?*” Pro-European Mario Monti was electorally humiliated.

- In Germany, a small group from Merkel’s Christian Democratic Party (CDU) felt Merkel was doing too much for Europe. They spun off a new party, Alternative für Deutschland, initially as an anti-euro party and then as an anti-immigrant party.
If the economics of the euro divides, can the force of history or shared values bring Europe together?

Marjolin’s ghost stalks: The sovereignty barrier is stronger than ever before
The myth of Franco-German friendship.
(Frequency of reference to “Franco-German relationship” and “Franco-German friendship” in books digitized by Google)

Note: The graph was created using the Google Books Ngram Viewer, https://books.google.com/ngrams/info. It reports the frequency with which the phrases “Franco-German relationship” and “Franco-German friendship” are mentioned in English-language books scanned by Google.
SARKOZY SOUTIENT ANGELA

OUI ! NOUS SOUTENONS L'EURO DE TOUTES NOS FORCES !
At the December 2012 European Council, Herman Von Rompuy proposed a eurozone budget. Merkel asked, “Where will the money come from?” French president François Hollande helpfully suggested to Merkel that she think of it as a “solidarity fund.” Again, Merkel coldly asked, “And where will the money come from?”
Macron’s election revived the Franco-German friendship narrative as a force to renew faith in Europe.

(Monthly, March 2017=100)

Source: Factiva. This graph reports the frequency with which the phrases “Deutsch-französische Freundschaft” and “L’amitié franco-allemande” are mentioned in Factiva’s global news database.
But national interests remain supreme: the last time the French successfully led a European unity initiative was in May 1950.
If not economics and history, can social democrats unify Europe around values of social justice and open society?

German Social Democracy’s Decline.
(Frequency of reference to “Sozialdemokratie” and “Socialdemokraten” in German-language books digitized by Google)

Note: The graph was created using the Google Books Ngram Viewer, https://books.google.com/ngrams/info. It reports the frequency with which the phrases “Sozialdemokratie” and “Socialdemokraten” are mentioned in German language books scanned by Google.
German social democrats are intellectually exhausted—and committed to national interests

- Martin Schulz’s eccentric proposal was detached from historical reality.
- He arrogantly assumed that he can force member states to “automatically leave the EU.”
- Then, the new German finance minister Olaf Scholz says in the Bundestag that, irrespective of party, a German finance minister must give overriding preference to German interests.
Europe: A declining continent
Compromise to achieve political unity is also harder because Europe is a declining continent

(Country’s share of world GDP, percent)

The crisis sets the euro area back, both compared with the United States and relative to its own pace after the Great Depression.

The future does not look any better:

Asia surges ahead of Europe in the technology race.

(US patents granted annually to companies in different countries, numbers in thousands)

That someplace else has not been good

The warnings were sounded. It need not have been. It almost was not. The rest followed. It could get worse, a lot worse.

- The euro has hobbled many of its member countries.
- It has created bitter political division among Europeans.
- This is the tragedy. Aristotle may have said: “eminently good and just” men and women enacted the EuroTragedy, “not by vice or depravity,” but by “error or frailty.”