

Europe Ended Up Someplace Else

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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.”

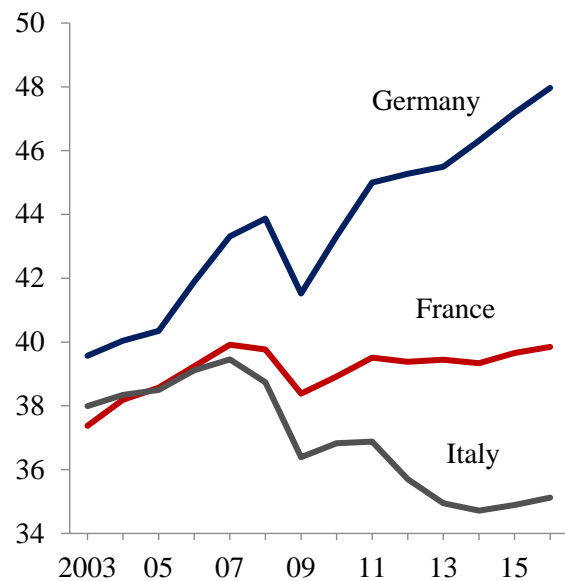
Yogi Berra

This was the tragedy: the euro
inevitably pushed Europe into a
someplace else that was not good.

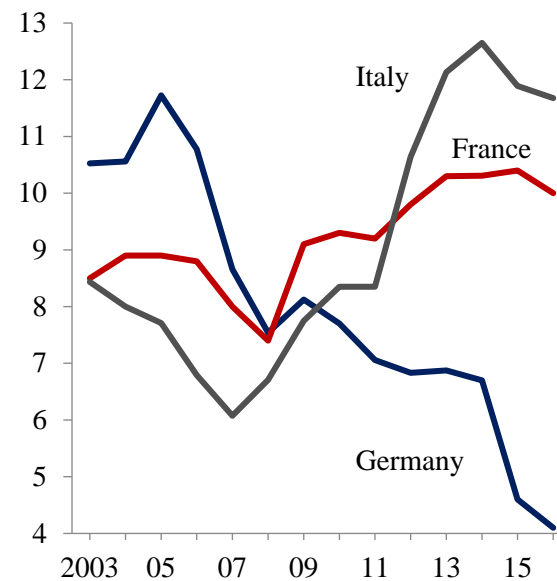
Europe: a divided continent

The great divergence in euro-area incomes and employment.

Per capita incomes
(In thousands of US dollars, corrected
for purchasing power parity)

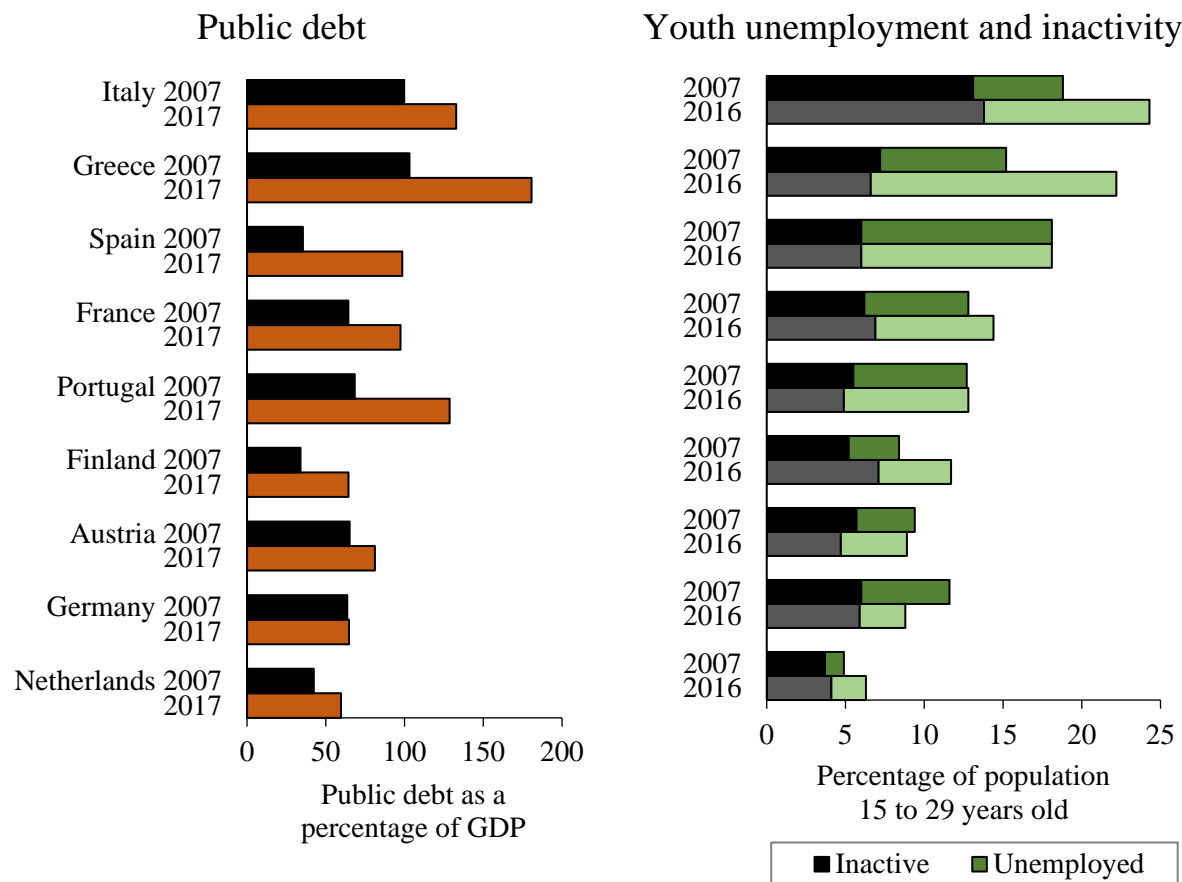


Unemployment rates
(Percent)



Sources: Conference Board, "Total Economy Database (Adjusted Version)," <http://www.conference-board.org/data/economydatabase/>; IMF, World Economic Outlook Database, <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/index.aspx>.

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



Source: IMF, World Economic Outlook Database; Eurostat (edat_ifse_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:

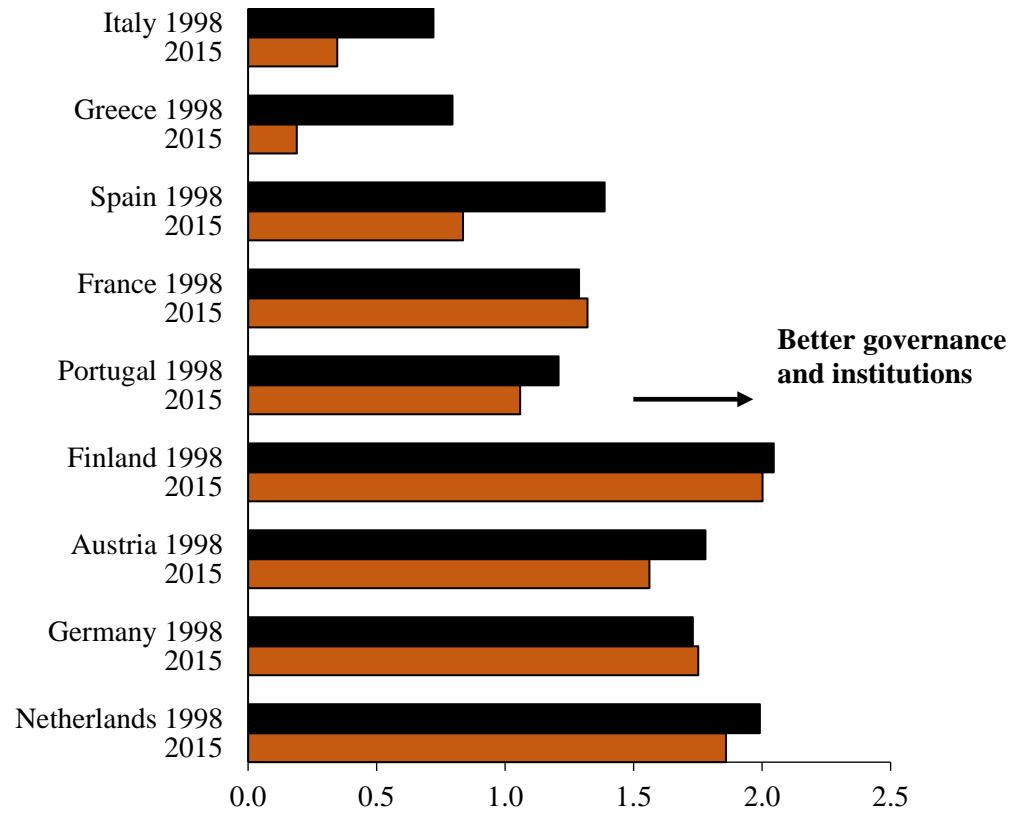
Single monetary policy places greater burden on economically and socially weaker countries, especially—though not only—at moments of crises

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.

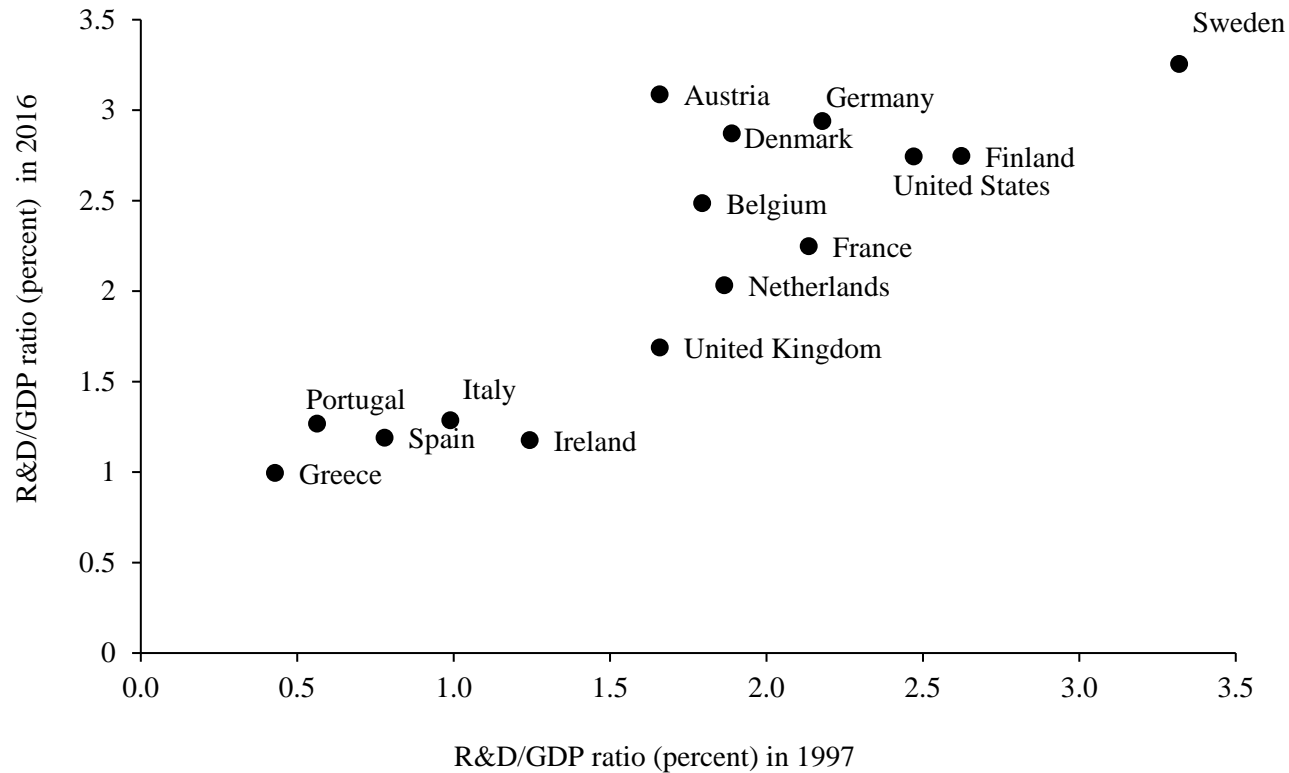
**Divergence was predictable, not an accident: southern euro area suffers from weak governance and institutions, which weaken growth potential:
The euro is cruel on countries with low growth potential**



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.

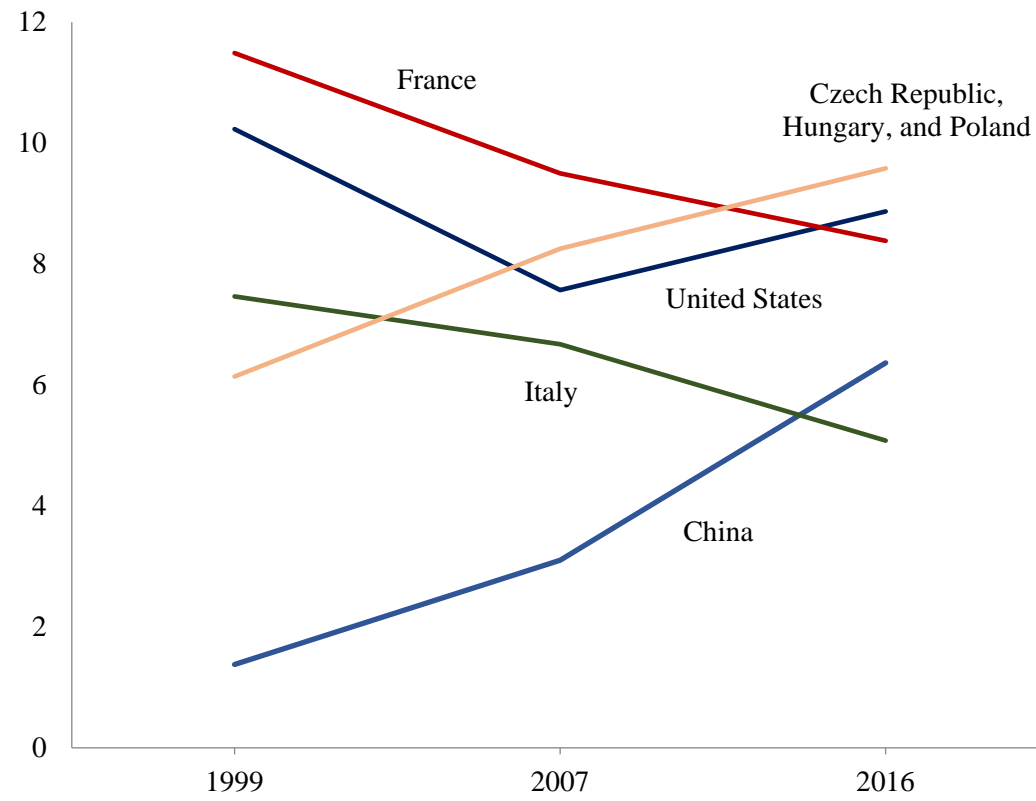
Poorer long-term growth prospects a trap: persistently low R&D rates in the euro-area periphery, hence persistently low growth potential.

(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)

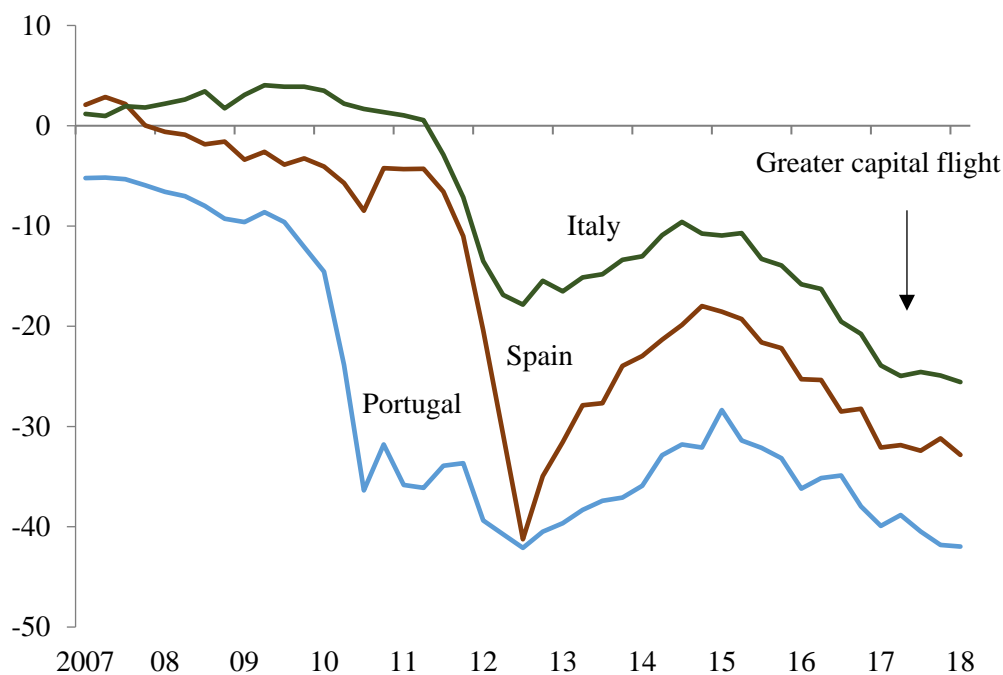


Source: IMF Data, <http://data.imf.org/regular.aspx?key=61013712>.

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.

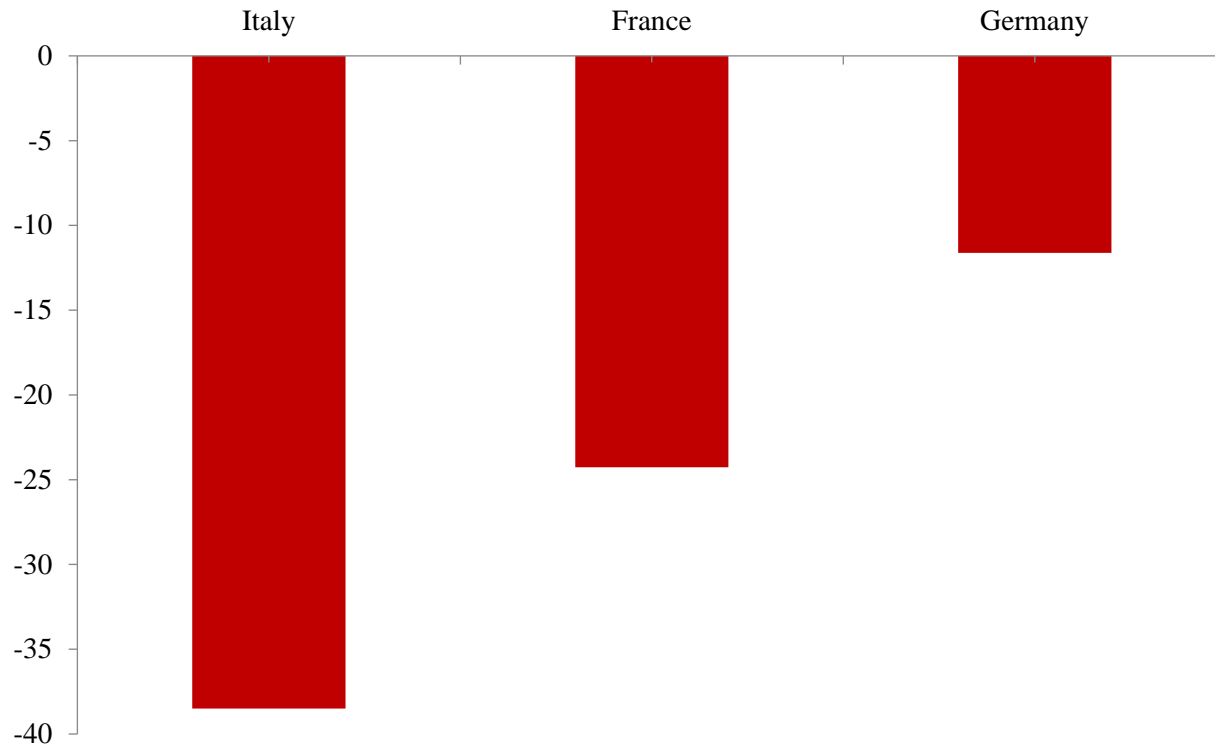
Kaldor's ghost stalks the eurozone

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)



Source: Standard Eurobarometer survey, available at <http://zacat.gesis.org>.

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.

Ipsa facto, she became a politically polarizing figure, dividing Europe.

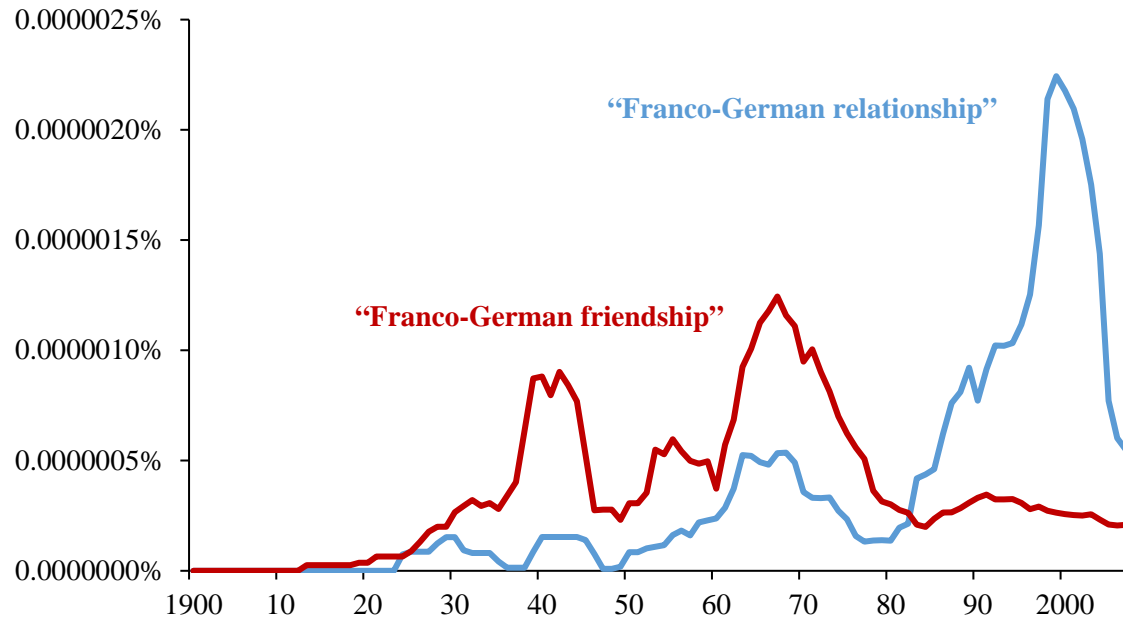
- In Italy, the February 2013 election was dominated by Italy's approach to Europe: the anti-euro Five Star Movement gained 25 percent of the vote. Silvio Berlusconi, whose party also performed well, asked at his rallies, "*Do you want a government that that is subject to the diktats of Europe?*" Pro-European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

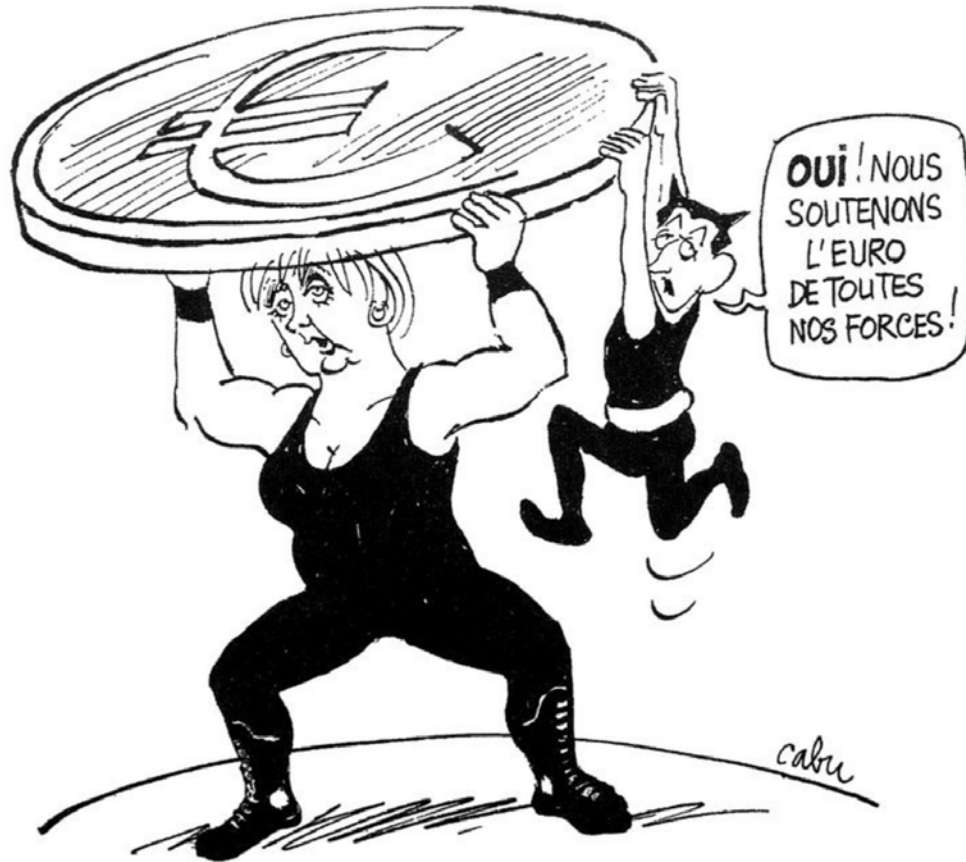
The myth of Franco-German friendship.

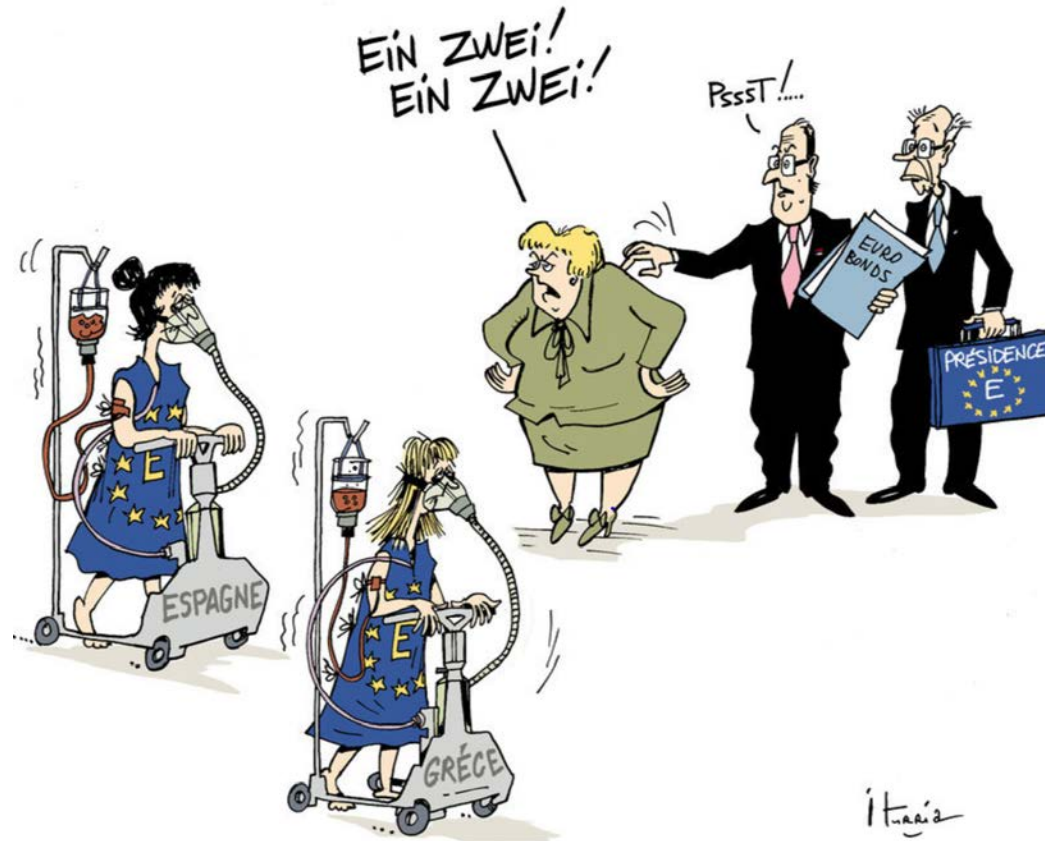
(Frequency of reference to “Franco-German relationship” and “Franco-German friendship” in books digitized by Google)



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

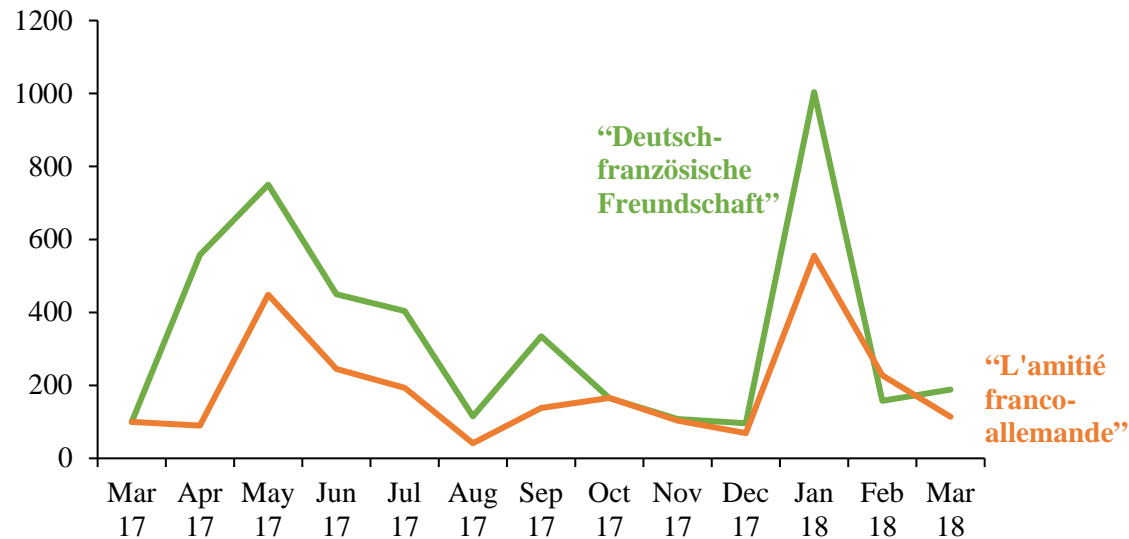




At the December 2012 European Council, Herman Von Rompuy proposed a eurozone budget. Merkel asked, “Where will the money come from?” French president François Hollande helpfully suggested to Merkel that she think of it as a “solidarity fund.” Again, Merkel coldly asked, “And where will the money come 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.

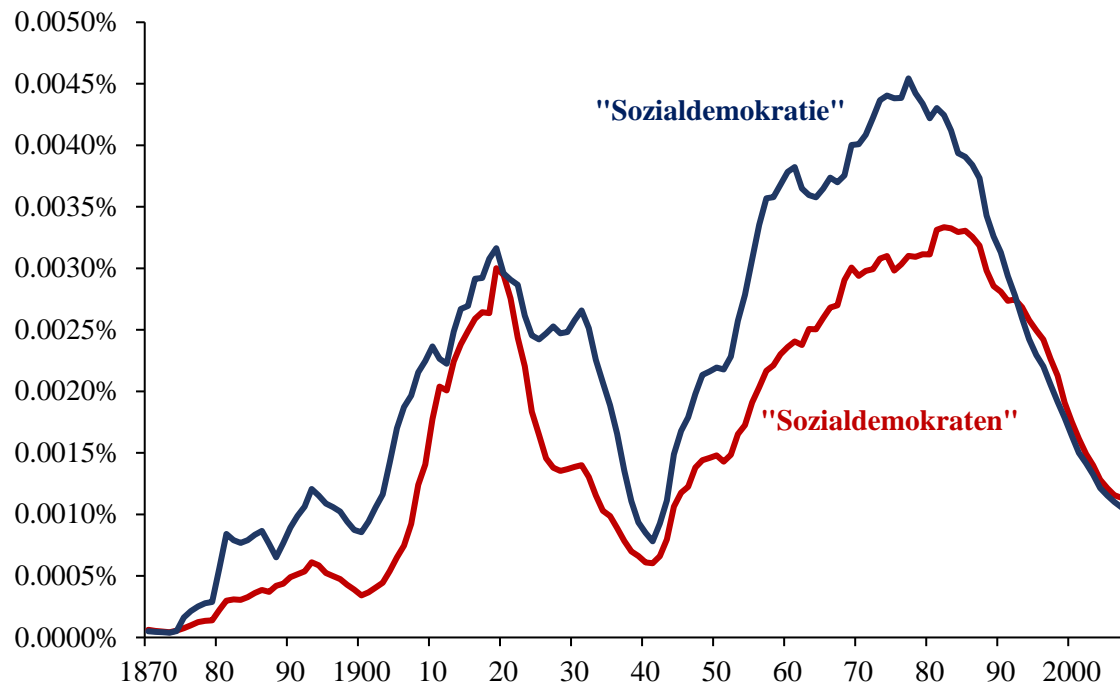
But national interests remain supreme: the last time the French successfully led a European unity initiative was in May 1950



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 
@MartinSchulz

Following

I want a new constitutional treaty to establish the United States of Europe. A Europe that is no threat to its member states, but a beneficial addition.

1:33 PM - 7 Dec 2017



Martin Schulz 
@MartinSchulz

Following

A convention shall draft this treaty in close cooperation with the civil society and the people. Its results will then be submitted to all member states. Any state that won't ratify this treaty will automatically leave the EU.

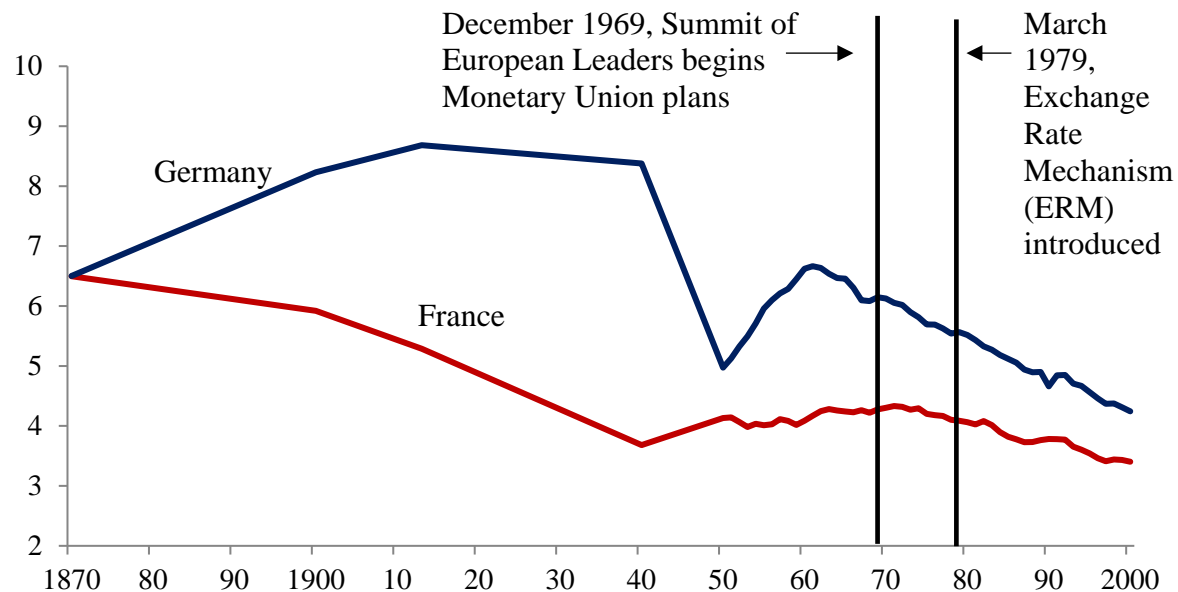
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- Martin Schulz's eccentric proposal was detached from historical reality.
- He arrogantly assumed that he can force member states to “automatically leave the EU.”
- Then, the new German finance minister Olaf Scholz says in the Bundestag that, irrespective of party, a German finance minister must give overriding preference to German interests.

Europe: A declining continent

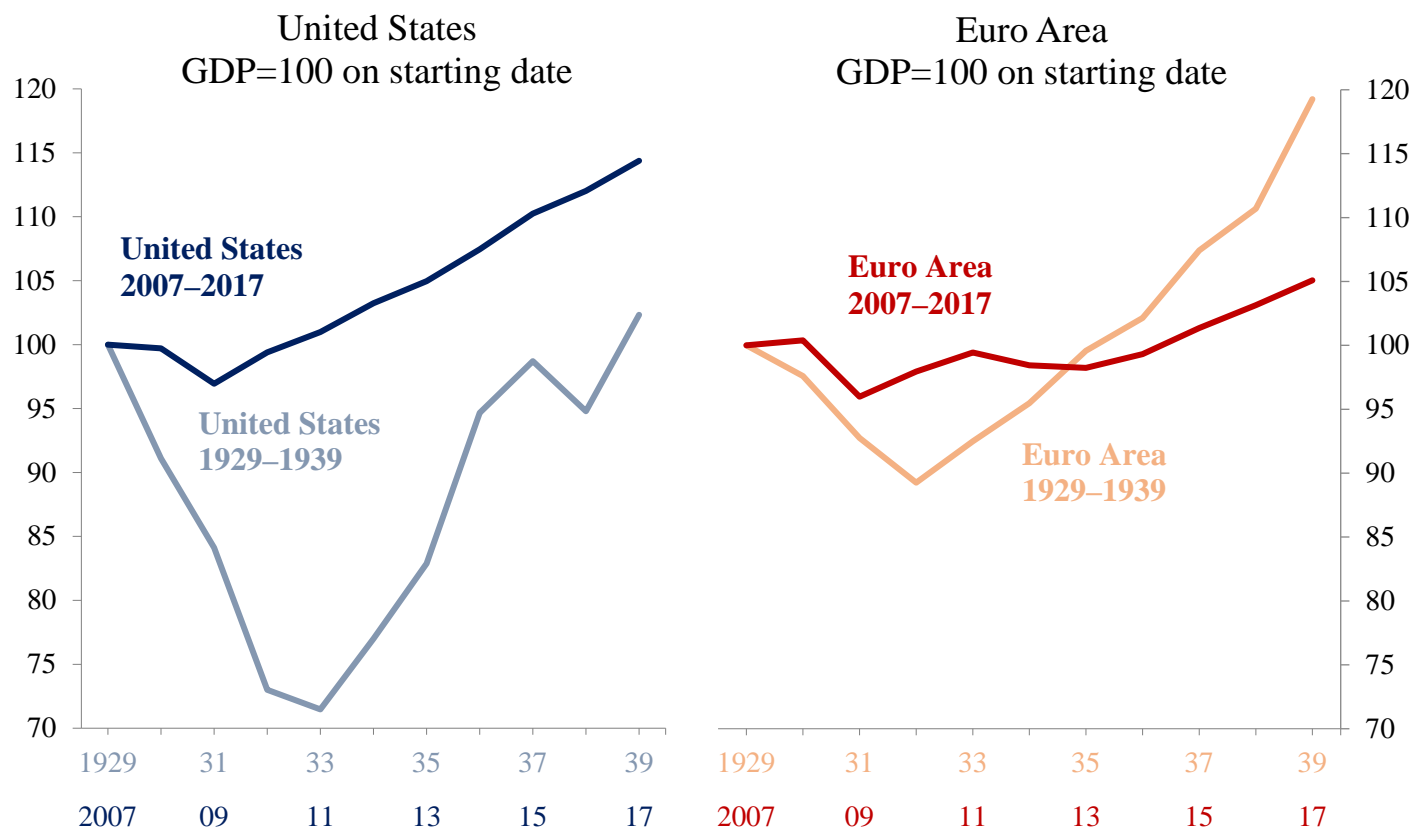
Compromise to achieve political unity is also harder because Europe is a declining continent

(Country's share of world GDP, percent)



Sources: Angus Maddison, "Historical Statistics of the World Economy: 1–2008 AD," University of Groningen, <http://www.ggdcd.net/maddison/oriindex.htm>, series "GDP." The values for 2009 and 2010 are from the Conference Board (GDP adjusted for purchasing power parity, series "GK GDP"), <https://www.conference-board.org/data/economydatabase/index.cfm?id=27762>.

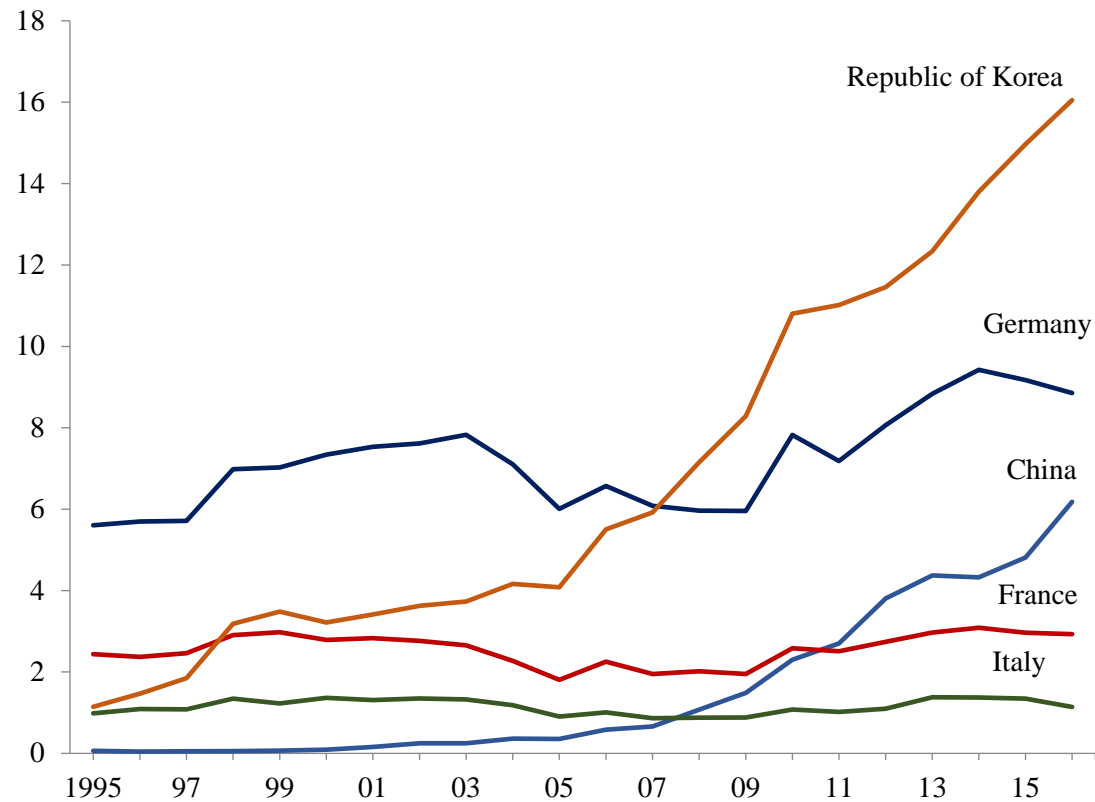
The crisis sets the euro area back, both compared with the United States and relative to its own pace after the Great Depression.



Sources: Angus Maddison, “Historical Statistics of the World Economy: 1–2008 AD,” <http://www.ggd.net/maddison/oriindex.htm>; International Monetary Fund, World Economic Outlook Database, October, “Gross Domestic Product, constant prices.”

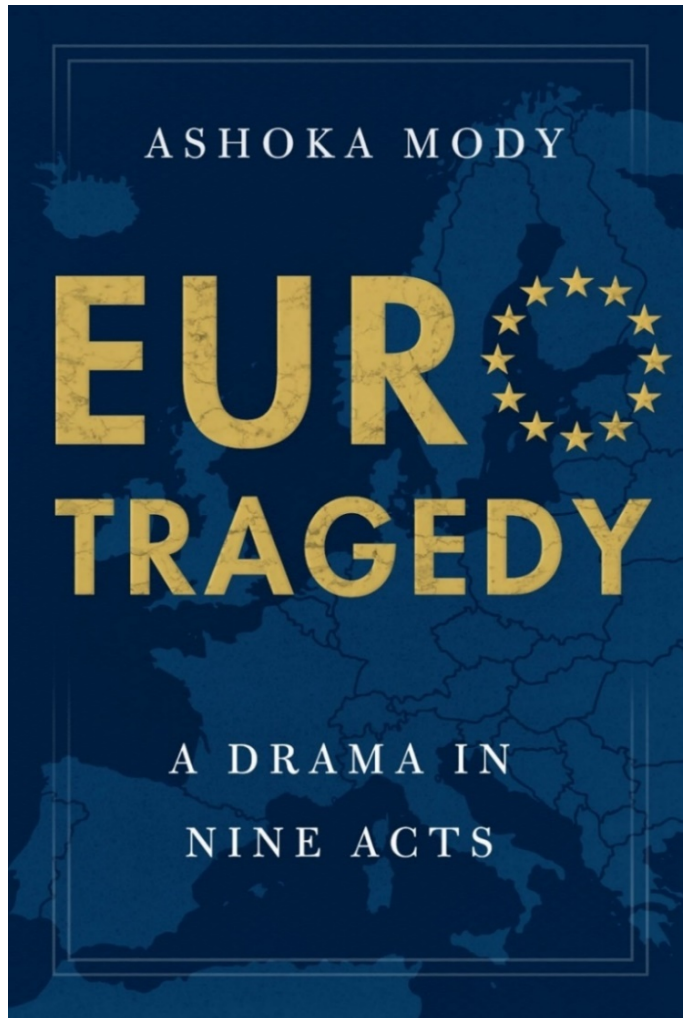
The future does not look any better: Asia surges ahead of Europe in the technology race.

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



Source: World Intellectual Property Statistics Database, <https://www3.wipo.int/ipstats/index.htm>.

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.”

