

The Permissive Consensus Has Broken Down

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.
- “Leavening” or “falling forward” required tangible benefits from single currency:
 - Benefits were needed to create a *political constituency in support of project*;
 - Without public backing, *national leaders would reassert nationalism*.
- **Nicholas Kaldor**, March 1971, predicted: single currency would cause country divergence, and hence **deepen political divisions across member countries**.
- Sovereignty barrier would be reinforced: Early insider warning *sovereignty barrier was strong*: **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 ignored.

Permissive consensus—Monnet method—of *bypasses the citizen*

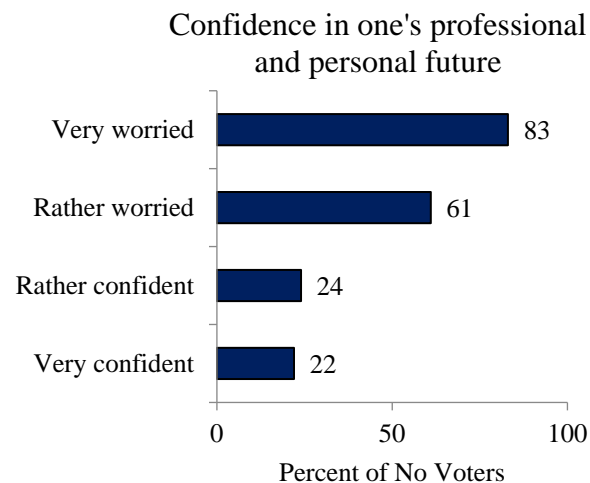
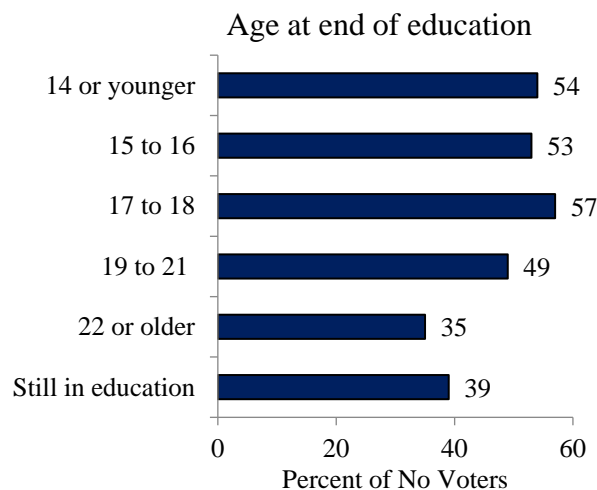
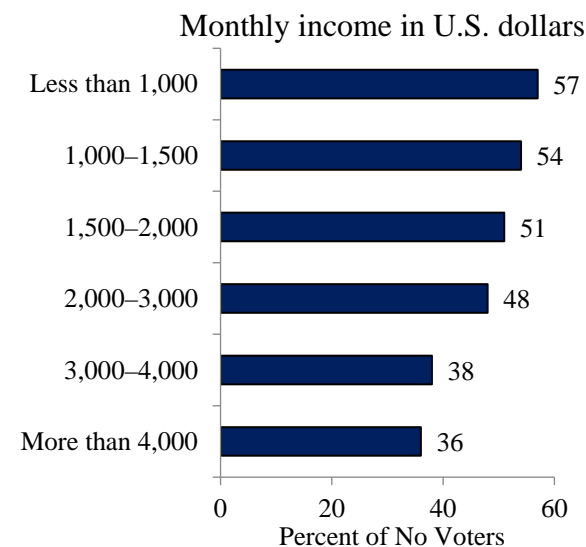
- Permissive consensus defined by Jean Monnet, regarded as the intellectual father of European integration—hence also called “**Monnet method.**”
- Peoples of Europe, Monnet said, had no experience of the complexities of Europe’s policies and institutions.
 - It was right and legitimate for a small group of European leaders to make consequential decisions without consulting European citizens.
- François Mitterrand’s adviser Hubert Védrine was more daring:
 - “Let us not be afraid to say it: . . . all the major decisions to move towards European integration . . . were the pure product of a modern form of *enlightened despotism.*” ☺
- Critics of this “enlightened despotism” approach, Védrine said, were dismissed with the assertion, “Europe is good for you.”
- **Maastricht Treaty: pinnacle of permissive consensus/Monnet method approach.**

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 [Maastricht] 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 Kohl's mantra.

September 1992: Who voted “no” to Maastricht in the French referendum?

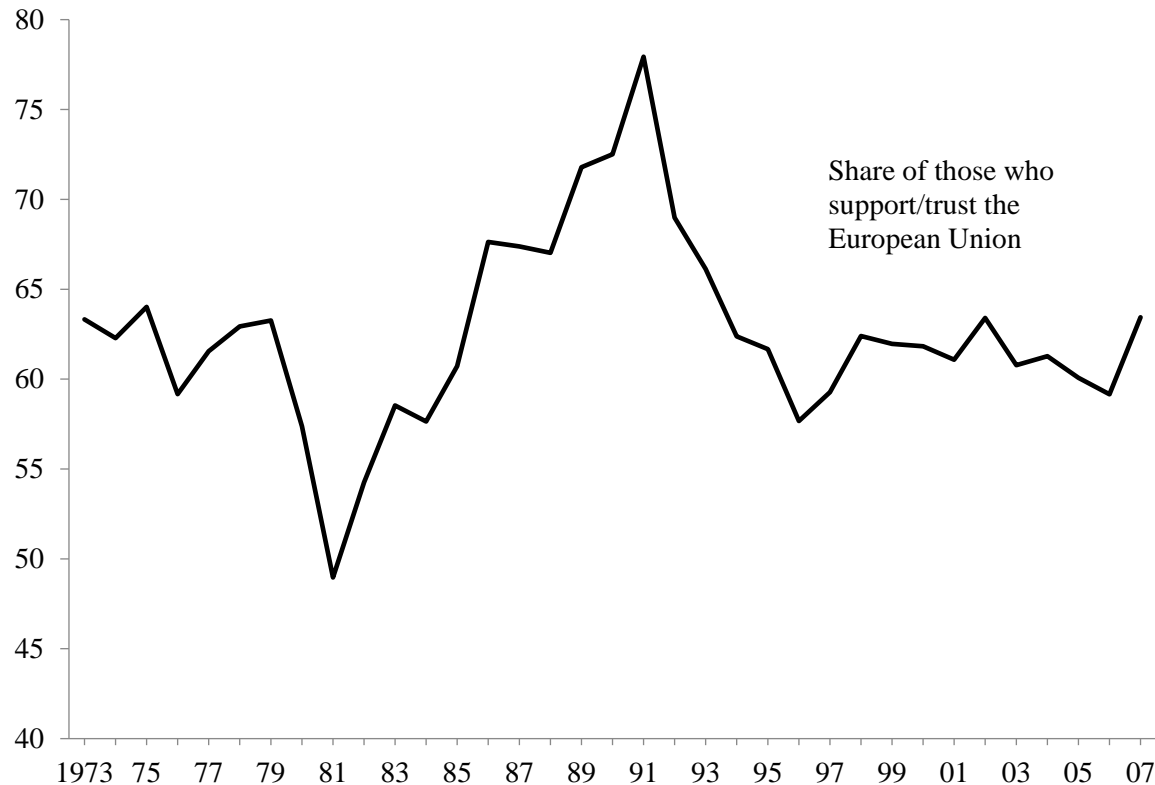


Source: Christian de Boissieu and Jean Pisani-Ferry, 1995, “The Political Economy of French Economic Policy and the Transition to EMU,” CEPII, http://www.cepii.fr/PDF_PUB/wp/1995/wp1995-09.pdf.

The French vote: an early message of fear of globalization

- A *Le Monde* writer observed, “France, which rejected the Maastricht Treaty, is above all the one **suffering because she is the principal victim of unemployment, exclusion, and poverty, she feels abandoned, and she is fearful of the future.**”
- No voters **lived in towns “where the factories had closed their doors leaving behind only wasteland.”** They lived in places such as Calais, Boulogne sur Mer, Pas de Calais, Amiens, Somme, and Saint Quentin, where whole sections of the population lived in poverty and misery.
- **Yes vote prevailed in the large metropolitan areas, in the “chic neighborhoods” of Paris and the residential suburbs of Lyon.** Here lived the educated, professional, and high-income French.
- Prime Minister Pierre Bérégovoy recognized that **“the French most exposed to the harshness of existence” had voted against the Maastricht Treaty.** The vote had revealed, Bérégovoy said, “A rupture between the people and their representatives.”

**French vote was leading edge of broader anxiety about European project:
Support for and trust in the European Union declined sharply after
Maastricht and has never recovered that peak level attained just before.**



Sources: Eurobarometer survey data on support for and trust in the EU, reported twice a year in the second and fourth quarters, <http://zacat.gesis.org/webview/>. Note: The data presented are the averages for the following eleven countries: France, Germany, Italy, Netherlands, Spain, Portugal, Greece, Belgium, United Kingdom, Ireland, and Denmark. From 1973 to 2007, the series for “support for (membership in)” the EU is used.

But European leaders carried on with Monnet method, which was wounded, although not fatally



The second blow:

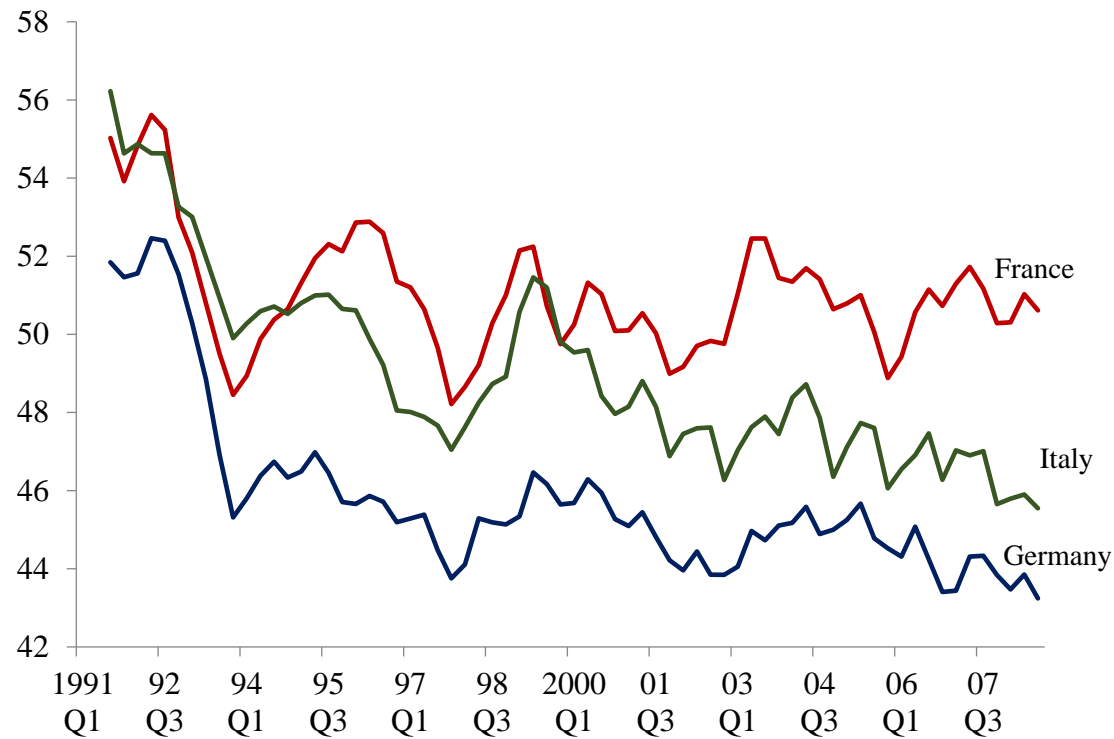
The scars of globalization continued.

The euro was not delivering any benefits.

In the summer of 2005, French and Dutch citizens rejected the Constitutional Treaty, another classic Monnet method initiative.

**By now, it was clearer that the euro did not generate benefits:
Even before the crisis: trade shares with other eurozone countries
were on a declining—certainly not on an increasing—trend**

(Trade share percentages with other eurozone countries, three-quarter moving averages)

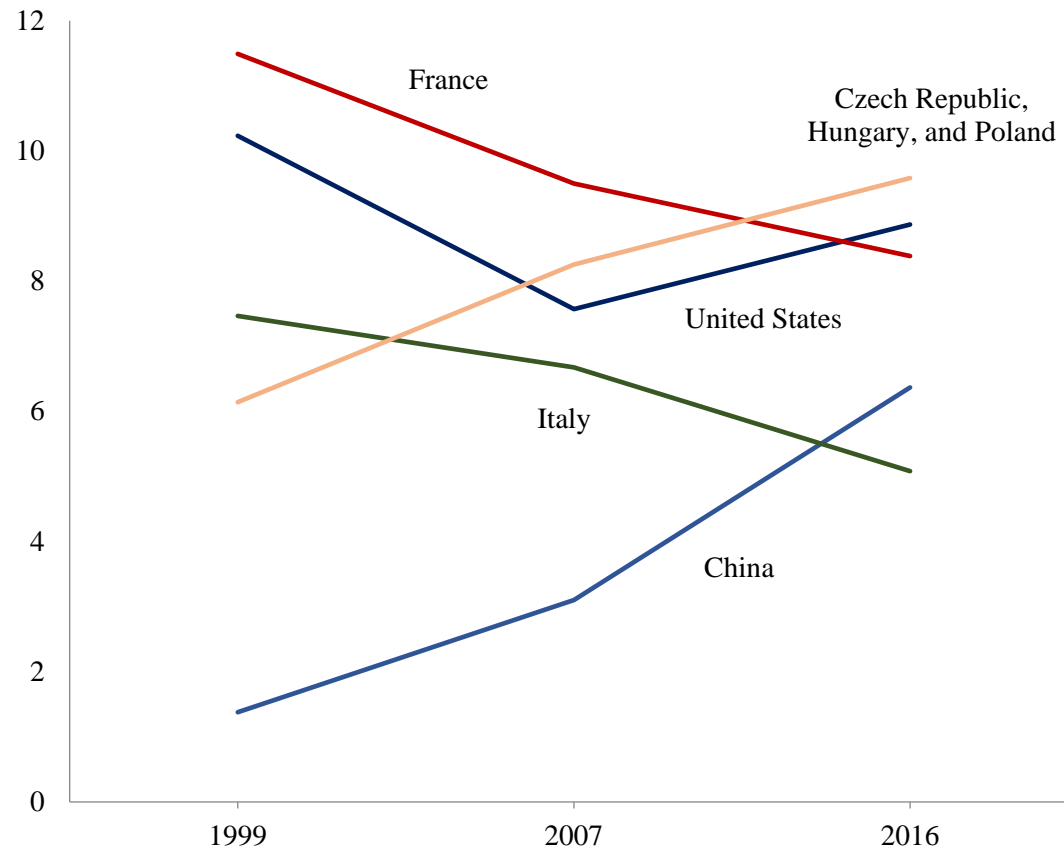


Source: IMF Direction of Trade Statistics.

Again, this became clearer with passage of time:

German exporters shifted 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>.

French citizens sent same message as Maastricht referendum, but louder

- May 29, 2005, French rejected constitution by 55–45 percent margin.
- No voters: **no college degrees; unemployed, or precarious, low-paid jobs.**
- Jean- Marie Colombani, editor of the French daily *Le Monde*, said that France as a nation had **“lost confidence,”** and increasing numbers feared the future.
- Among those younger than twenty-four, **unemployment rate had remained stuck near 20 percent since 1991, acting “as a cancer on France’s social structure.”**
- One-third of the eligible voters **between the ages of eighteen and twenty-four did not vote, and of those who did vote, nearly 59 percent rejected the constitution.**
- Same anger in next-higher age group, twenty-five to thirty- nine.
- **Geographical divide remained in sharp relief:** no vote dominant in Mantes-la-Jolie, “a poverty- stricken small town to the west of Paris.” Courcelles-les-Lens, “a small grimy, weed-choked town” in the north of France, “a hotbed of want and despair”.
- **Dutch message very similar [as far as we know, less well documented].**

No vote: now more articulate rejection of “ultra-liberalism”

- Pursuit of supra-nationalism (downplaying the nation-state)—and, hence, embracing the principles of free movement of goods, services, capital, and labor—created all of the downsides of **“Anglo-Saxon ultra-liberal”** capitalism.
- For European citizens, more **European integration became associated with “hyper- globalization,” with all its ills.**
- And despite Europe’s promise to honor its “social model” and provide greater social protection, its institutions and policies **offered little hope for those who were being left behind by the competitive forces unleashed.**
- Voters in France and the Netherlands **saw their national leaders as captured by European political and economic ideologies, and so they turned to nationalistic forces.**
- Hence *reinforcement of sovereignty barrier.*

Comment: referendums as the people's voice

- The French and the Dutch rejected the Constitutional Treaty because there was no regular “political arena” in which to “mobilize opposition in Europe” and “hold European governance accountable.” [Peter Mair]
- National elections dealt with multiple domestic matters, and European considerations did not get priority.
- The referendums allowed focus on the principles and consequences of Europe.
- You cannot keep building the architecture of Europe without talking to us, the voters said.

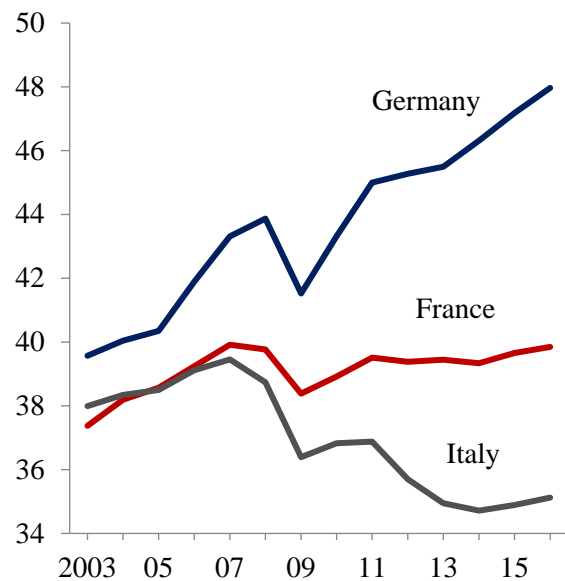
Kaldor's ghost stalks the eurozone

**Economic anxiety amidst national
divergence cause permissive consensus to
break down, 2012-2013:**

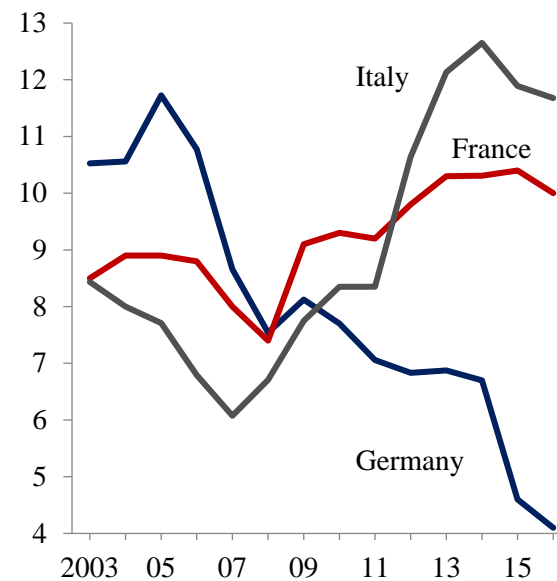
**“Europe” becomes divisive force in national
electoral politics**

The great divergence in euro-area incomes and employment.

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

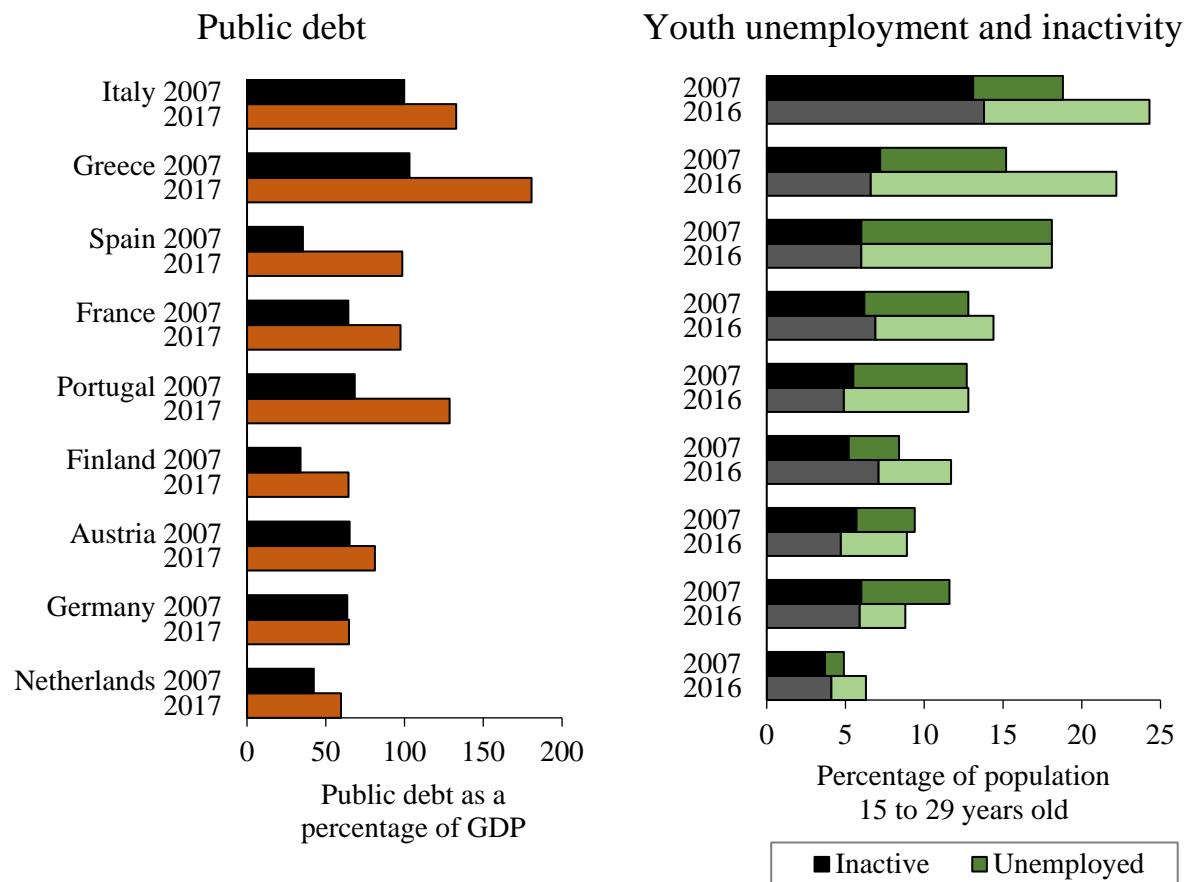


Unemployment rates
(Percent)



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:

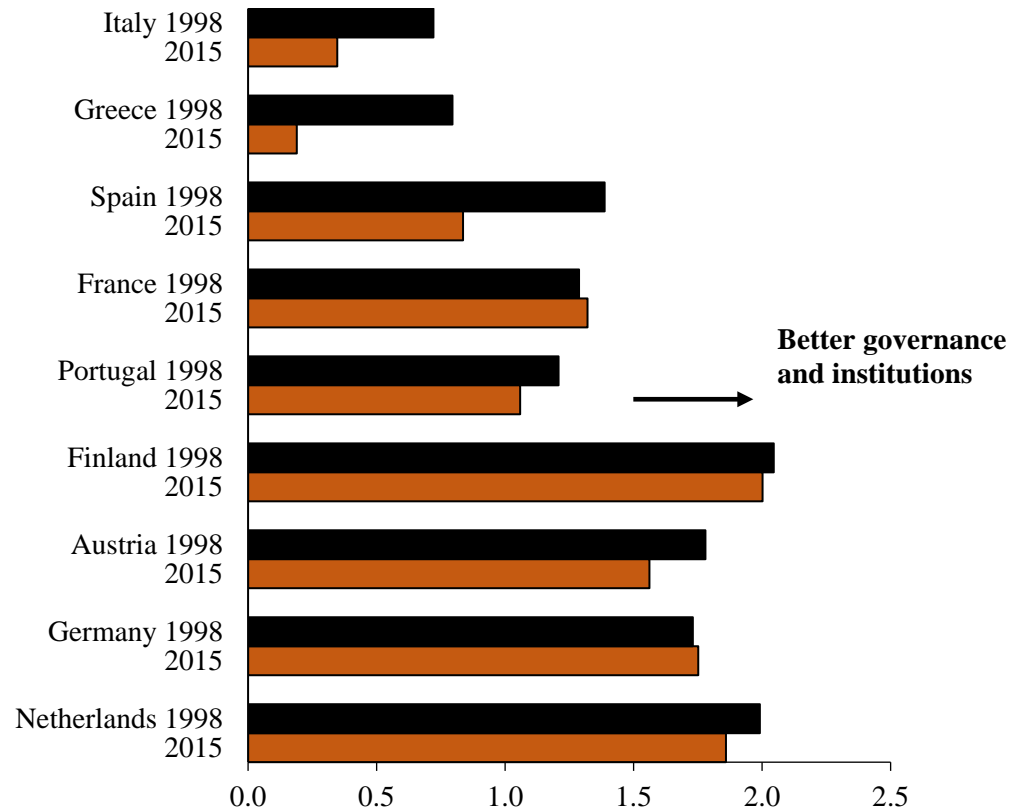
Single monetary policy places greater burden on economically and socially weaker countries, especially—though not only—at moments of crises

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.

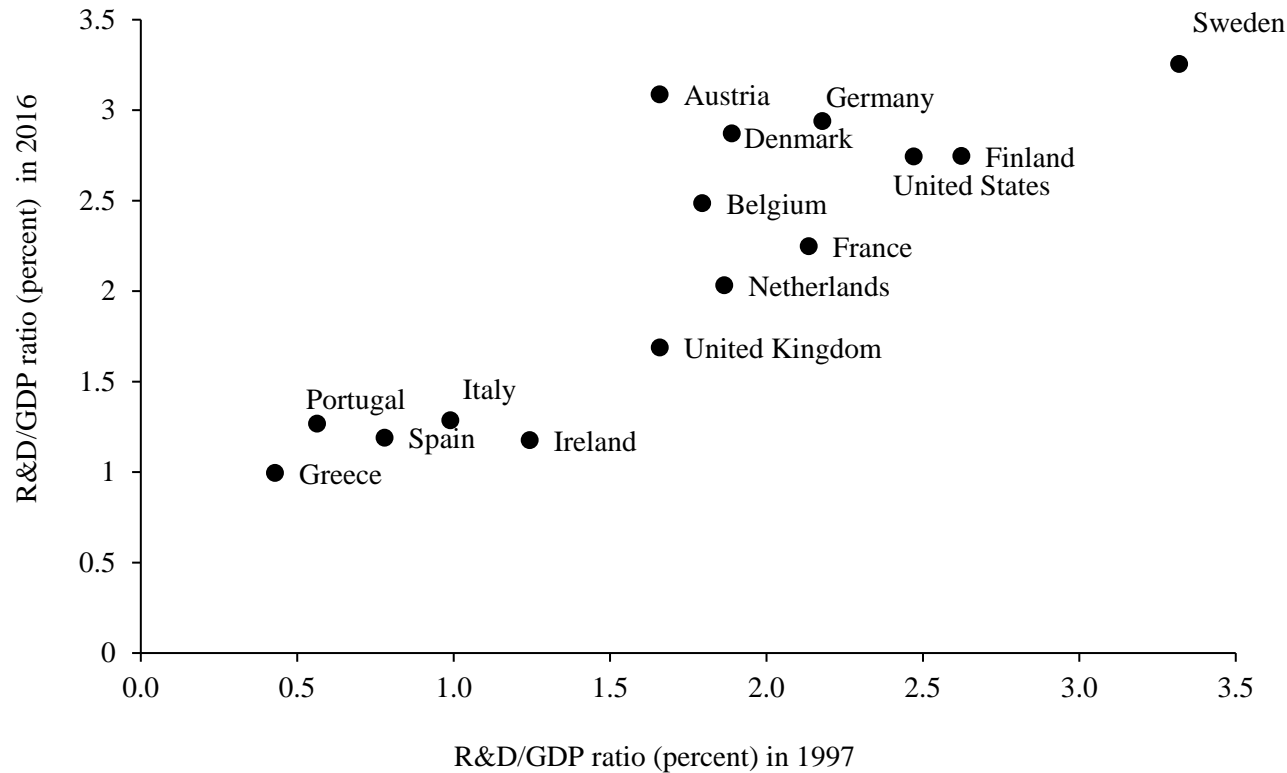
**Divergence was predictable, not an accident: southern euro area suffers from weak governance and institutions, which weaken growth potential:
The euro is cruel on countries with low growth potential**



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.

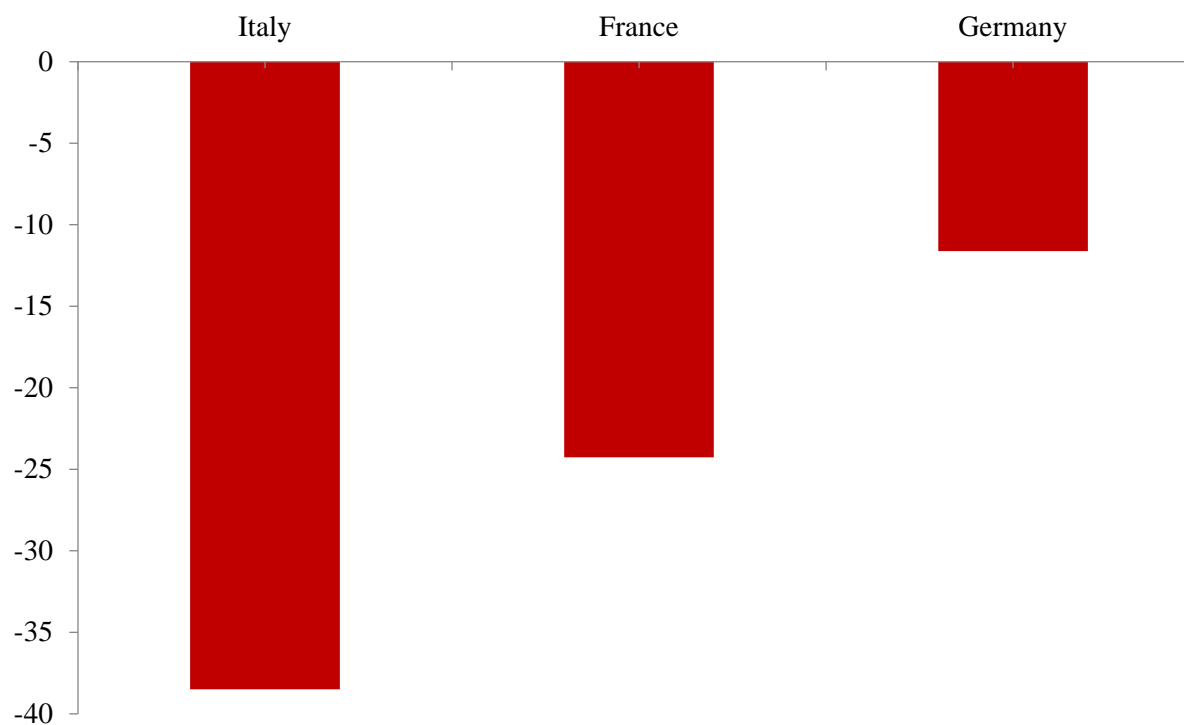
(R&D as a percentage of GDP, 2016 versus 1997)



Source: OECD Statistical Database.

Italians were losing trust in Europe: economic wounds were leaving 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

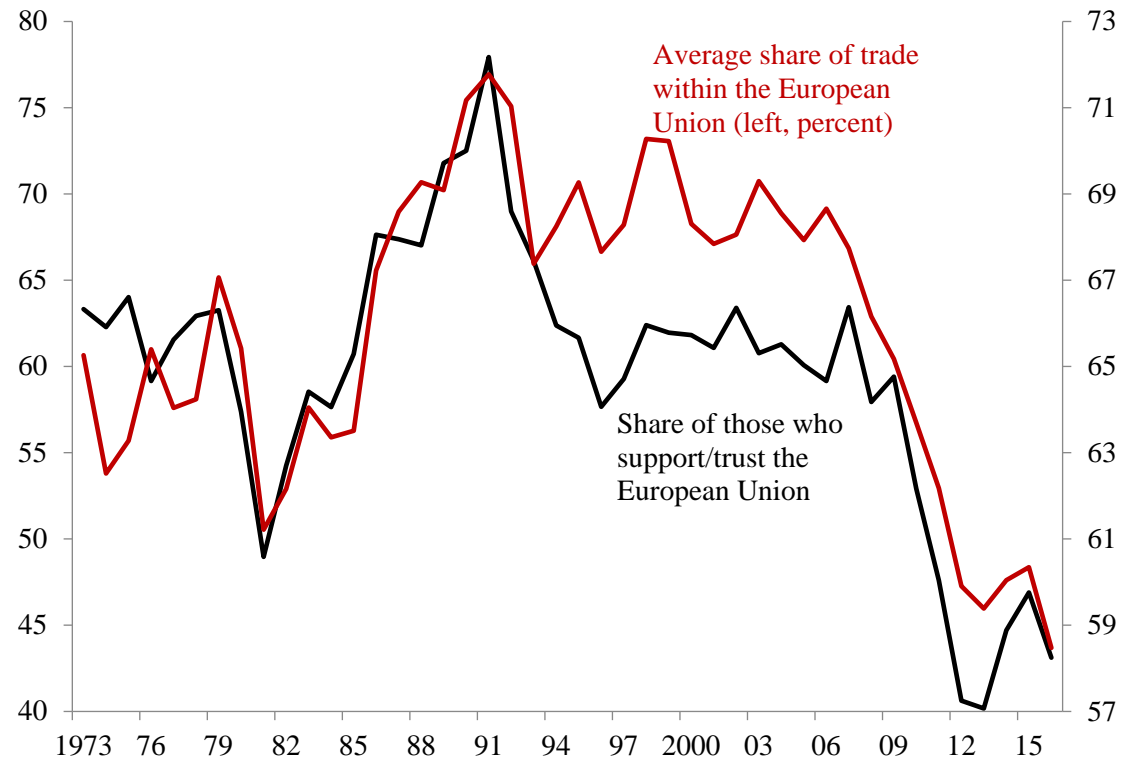


Between 2010 and 2016, Merkel was *de facto* European chancellor, a goal that Kohl had dreamt of.

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.

Support for and trust in the European Union has declined along with the reduced share of trade with EU partners.



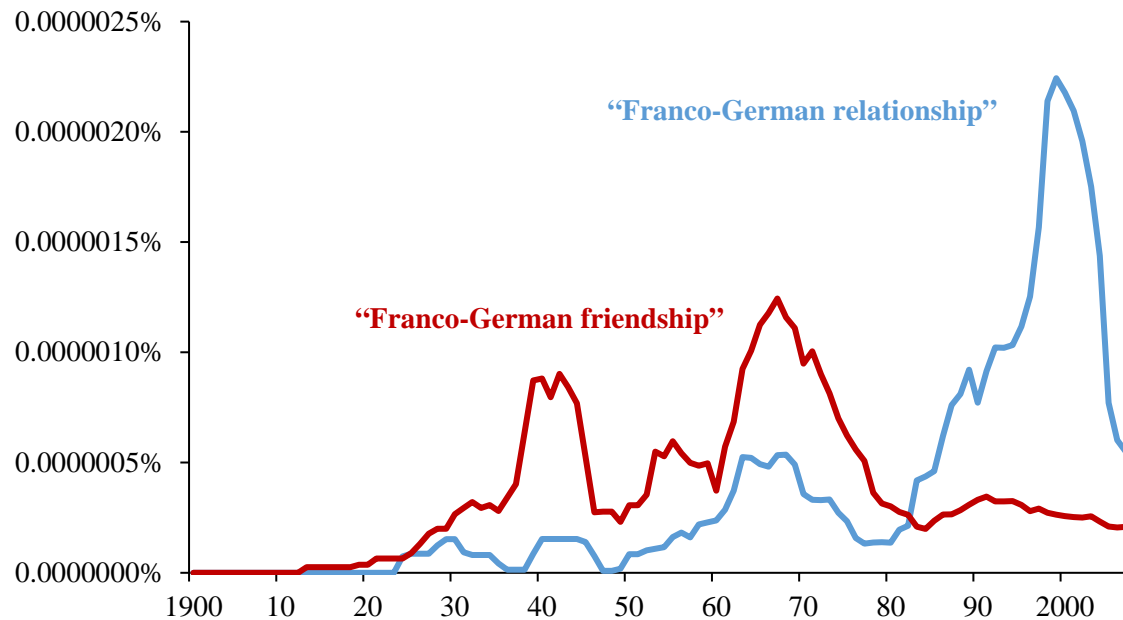
Sources: Eurobarometer survey data on support for and trust in the EU, reported twice a year in the second and fourth quarters, <http://zacat.gesis.org/webview/>; International Monetary Fund, Direction of Trade Statistics. Note: The data presented are the averages for the following eleven countries: France, Germany, Italy, Netherlands, Spain, Portugal, Greece, Belgium, United Kingdom, Ireland, and Denmark. From 1973 to 2009, the series for “support for (membership in)” the EU is used. Since the support series was discontinued in 2011, the series for “trust” in the EU is used from 2009 onward. During the three years of overlap, 2009–2011, the support and trust series are very close to each other.

**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**

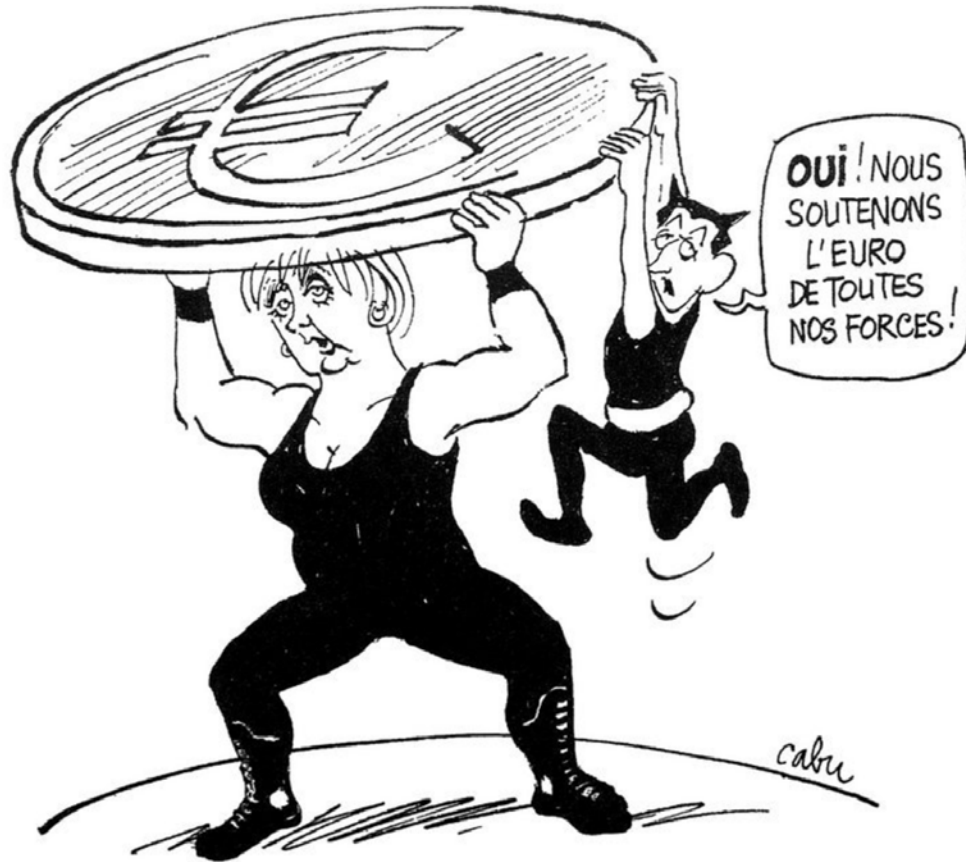
The myth of Franco-German friendship.

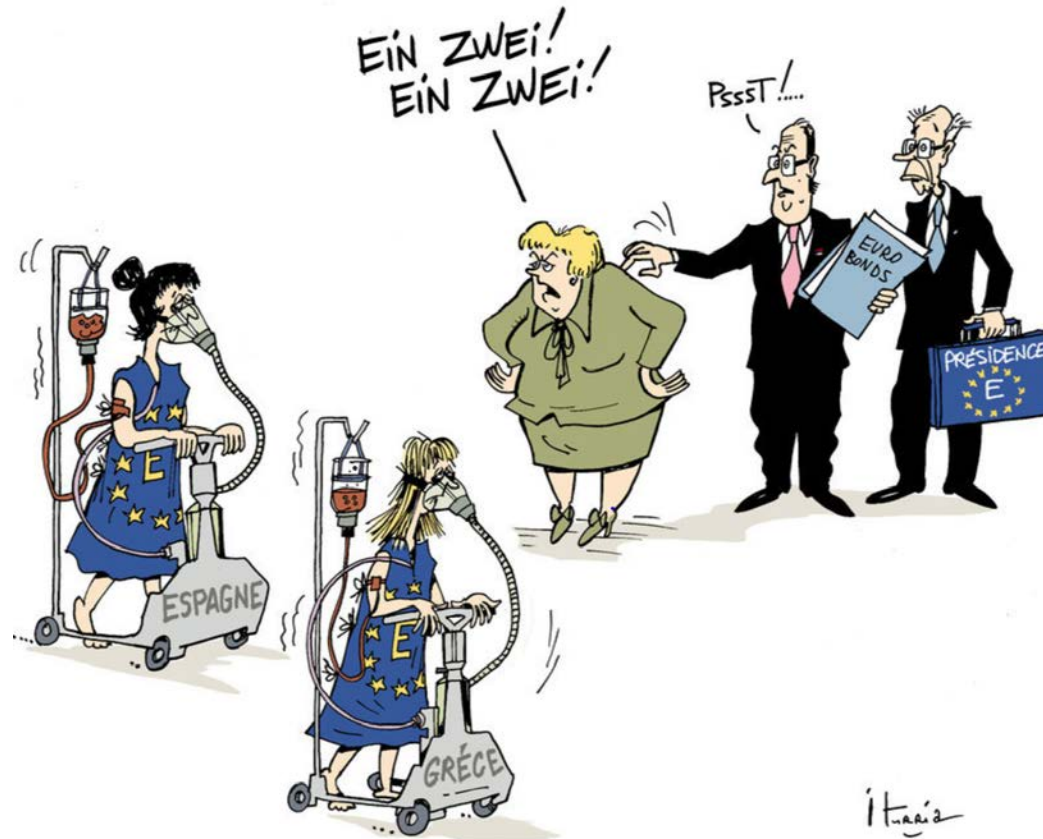
(Frequency of reference to “Franco-German relationship” and “Franco-German friendship” in books digitized by Google)



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

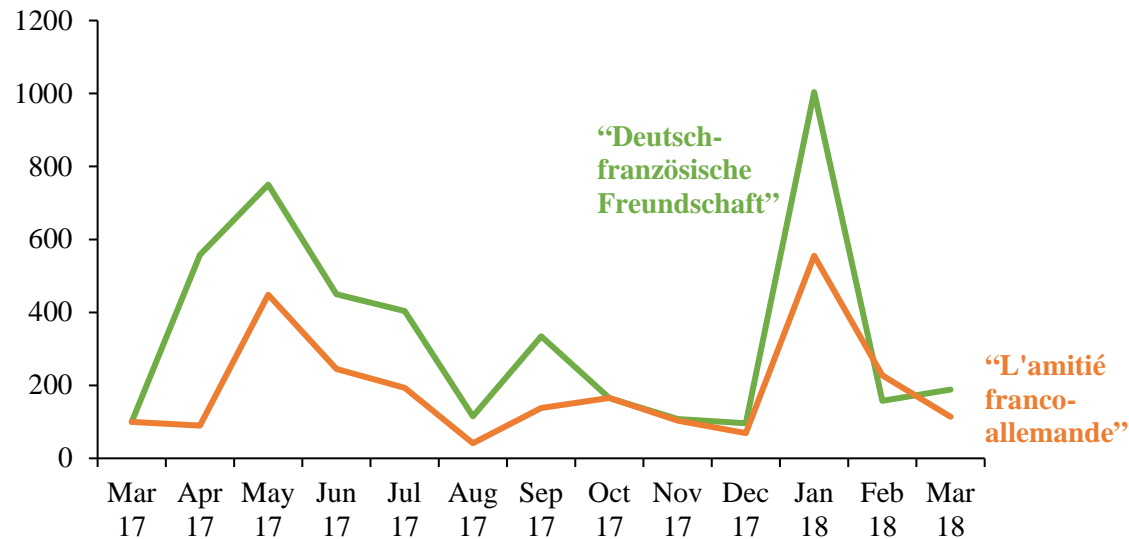




At the December 2012 European Council, Herman Von Rompuy proposed a eurozone budget. Merkel asked, “Where will the money come from?” French president François Hollande helpfully suggested to Merkel that she think of it as a “solidarity fund.” Again, Merkel coldly asked, “And where will the money come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

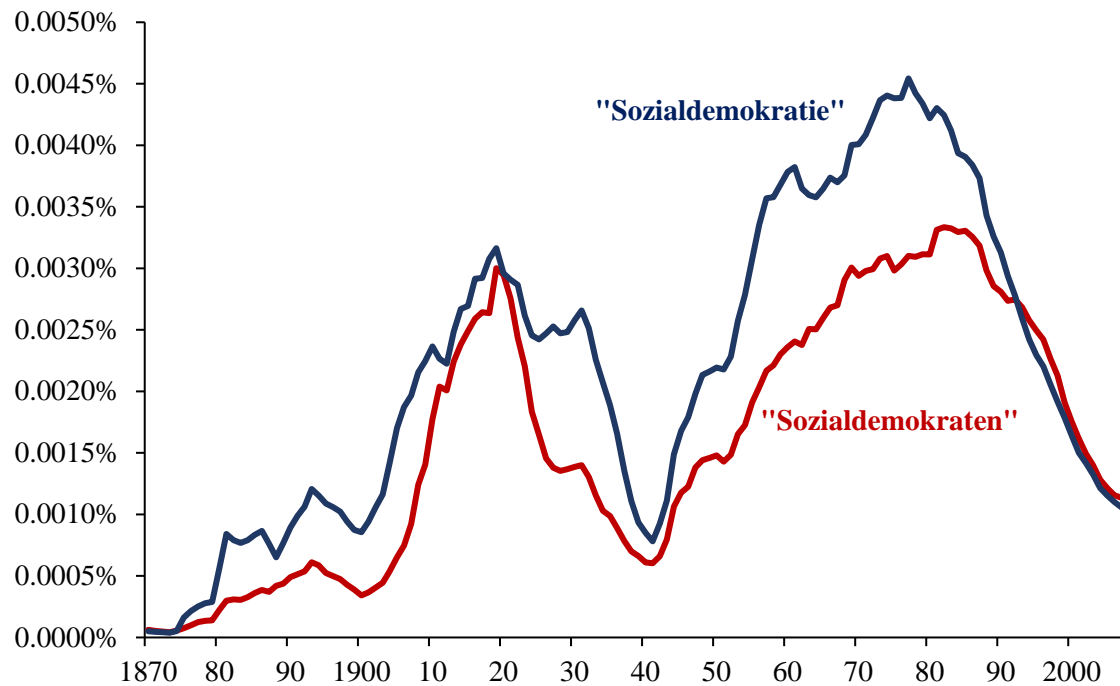
But national interests remain supreme: the last time the French successfully led a European unity initiative was in May 1950



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

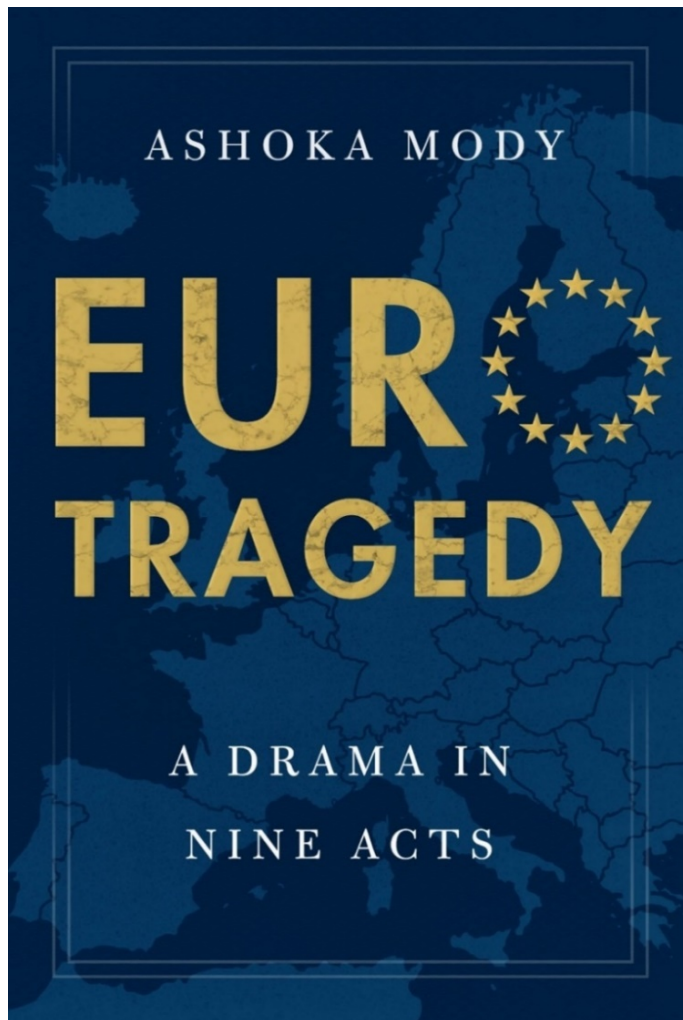
Following

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.

1:35 PM - 7 Dec 2017

- 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.

Politics tried to override economics, economics had its revenge



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.”

