

The Eurozone crisis: Challenges and opportunities for the European South

European integration is a project conceived and set up under normal conditions. In fact, the very concept of European integration at all levels reflects a linear comprehension of the evolution of the economy, society and politics in Europe, which is perceived as a continent of perpetual peace. Europe is understood in a Kantian way, knowing that after World War II and after the experience of the Cold War and the fall of the Iron Curtain, in Europe we actually saw the end of history and certainly the end of politics and the end of ideologies that fueled the major conflicts in the 20th century.

European integration is a form of intense political voluntarism. It is based on major policy initiatives, reflected at times in amendments to the founding treaties of the European Union. But this political voluntarism has transnational and intergovernmental features. And it has slowly lost its old leverage and ideological features that had always been emanating through the conflict between three perspectives: a right-wing conservative perception, a progressive social democratic culture and a militant Marxist and communist belief. Common ground to all three of them had always been Europe, its peoples and societies.

In recent decades and certainly from the Treaty of Maastricht onwards, this new form of political voluntarism which is neutral in principle and ideology has underestimated the budgetary and financial risks, as well as the social reactions to them.

So, the Euro Area was created and the euro as a common currency was introduced. Thus, we took an impressive step towards integration, because the currency along with the flag and the armed forces are the key features of sovereignty. But on the other hand, nothing happened with the critical elements of European integration: We did not increase the EU budget, we did not see our ridiculously limited own resources multiplying, we did not install mechanisms for redistributing the surplus and for the real convergence of the national economies within the European Union, even within the Eurozone.

In fact, what we had was a major endorsement of integration in monetary terms, but nothing relevant at an institutional level in order to cover the political and democratic deficit in Europe and nothing to strengthen mechanisms for the real convergence of growth levels, incomes and social protection within the EU by transferring surpluses from country to country.

I would say that something remarkably contradictory happened. The more integrated Eurozone of the 17 states broke up from the EU27 and the gap between Eurozone members and the non-Eurozone EU members grew wider.

Something even more impressive took place. The Eurozone was actually cut off from the EU institutional mechanisms and guarantees, namely from the competences of the European Parliament. In fact, none of the European Parliament's competences has anything to do with the critical decisions made all the time by the Eurogroup, as a body that expresses the political will of the governments that make up the Eurozone.

Actually, from 2008 onwards, when the crisis became evident and the vortex constant, a different institutional framework was gradually formed. That framework had almost nothing in common with the institutional framework as described in the existing treaties, namely in the EU primary law after the Treaty of Lisbon.

That institutional framework was formed rough-and-ready and had intense intergovernmental, but not EU community, characteristics. Therefore it came under the control of the “hard core” of the financially "virtuous" countries, with Germany of course standing out and followed by triple-A countries. And evidently with no trace of institutional equality between member states.

All these beautiful words, the declarations, the legal and institutional rhetoric about European integration have nothing to do with the reality of the Eurozone and the way the Eurogroup works at a ministerial level or the way decisions are taken in the European Council in its Euro Area composition.

This institutional framework is unavoidably fluid, uncertain and by its nature fuels the crisis, because decisions are taken always late, they are not executed, or if they are they are shortly revised or undermined in practice.

The catalytic change that has been made, the change that has changed the landscape of European integration, is essentially **the institutional assimilation of the IMF in the Eurozone**. This started from a willingness to demean the role of the European Commission, which the German government and other governments of dominant member states saw as largely responsible for not being able to anticipate and halt the fiscal crisis and the subsequent financial crisis, until 2009.

Thus the infamous troika (representatives of the European Commission, the European Central Bank and the IMF) was formed and started working on the Greek example. But what did actually happen was that IMF's involvement became a norm and was in fact changing, as collateral, the institutional architecture of the European Union and the role of the Commission. Because the IMF is not controlled by the European Parliament, or by any other EU institution for that matter, and from a clerical and bureaucratic body it becomes an authorized representative of the governments of the lender countries.

So we are not dealing with employees who represent organizations, but with a group of technocrats who act with an intergovernmental political mandate. And this is too important to ignore.

Allow me here to draw a parallel between the presence of NATO in the European continent and the presence of the International Monetary Fund in the European Union and the Eurozone.

Since World War I and the major decisions taken by President Wilson and thereafter, it has become obvious that European security is a Euro-Atlantic problem.

This was confirmed during World War II and the Cold War that followed. This same format is still working under the new conditions today, in a different world map, because even now European military security is essentially a Euro-Atlantic business and this is reflected in the existence and operation of NATO, in which the U.S. plays a predominant role, since it is covering 75% of NATO's budget.

The U.S. is the main shareholder of the International Monetary Fund, covering, together with the EU, 41% of its budget. In fact, the U.S. government -also because of its cohabitation with the IMF in Washington- is shaping the major concepts and strategic principles of the Fund whose presence in Europe means that the European monetary and financial security is handled as a de facto Euro-Atlantic matter.

However, this highlights the institutional and political deficit and the concerns of Europe and of the Eurozone in particular.

So as not to tire you, we now come to the last – I would say the most recent because unfortunately it will not be the last – flare-up of the European fiscal and financial crisis, in the example of Cyprus.

The example of Cyprus allows us in Greece to understand the full importance of the second Greek Support and Adjustment Program that was agreed upon in February 2012 and led to the big loan of EUR240 billion, with a long grace period, a long repayment period and low interest rates. It led to the haircut of the Greek public debt, which has now been reduced by 65% of GDP. This second program, which provides for full recapitalization of the Greek banking system from the loan, that is a fiscal recapitalization of the banking system, is the **last integrated program of the old type** and we are not going to see such a program agreed upon again in Europe.

A program with a provision for deeper recession that opens the way to a longer period of fiscal adjustment and expressly provides for a further reduction of the public debt (beyond the 65 percentage points of GDP), now that Greece is reaching the goal of primary surplus, after years of primary budget deficits.

There is without doubt strong economic nationalism. Europe is living under the pressure of the national political and economic circles and strategic choices, of the state rather than of the government in the political sense of the term. Governments change but state policies remain unchanged.

It is also obvious that there is a lot of nervousness in many big countries, because when you have strong political, economic and social nervousness in France, the second country of the Eurozone, in Italy and in Spain, of course you have a nervous Eurozone.

The main thing is to tell the truth straight out. **There is a fear in Europe of a new stage of the debt crisis**, that this time will hit the hard core of the eurozone, not because of a large public debt as a percentage of GDP, but because of the large absolute figures of the debt in the hard core of the eurozone, and therefore because of the great needs for refinancing from a market that has no domestic European capital available, because the capital has long ago moved elsewhere, even outside the Euro-Atlantic area.

Obviously, therefore, there is an inability to repeat the well-known cycle: a fiscal crisis that turns into a financial crisis and then again turns into fiscal support for the banking systems. And this is happening now, despite the fact that in the preceding months the combination of the actions of the European Central Bank and of the EFSF – now the ESM – is supposed to have ensured unlimited liquidity for the European banking system, absolutely comparable to the concept of unlimited liquidity and easing pursued by the US Federal Reserve Bank, and also unlimited support for the borrowing needs of the member states via support for their bonds in the primary and secondary markets.

The nervousness has in fact spread from Cyprus, through a curious oscillation, to Luxembourg and Austria and in reality has created an issue of financial dubbing within the Eurozone, since the same operating rules are not applied, particularly in relation to banking secrecy.

The new element therefore is that **we are discussing the banking union again using new terms**. But whereas we talk a lot about the single supervisory mechanism, we are talking about a single deposit guarantee mechanism, which was a brilliant, longstanding proposal by Mario Monti. But without a single deposit guarantee mechanism you don't really have a single capital market. Because the inequalities that exist in fact reproduce a great internal injustice in the Eurozone.

Faced with this situation, which I am of necessity describing elliptically, **what can the so-called “European South” actually do?**

First of all, what South? We have to understand that the South in Europe is not now geographical, and never was. We are talking about the convergence countries, about the so-called Objective 1 countries as regards the distribution of the resources of the structural funds of the Union, for decades now. We always talked using economic, development, political criteria. The European South is a political concept.

A common characteristic of the political European South is the uncertainty which is economic as well as political and social. And I must tell you that no one wants to be a member of a «prodigal» group. Everyone wants to differ in a better way, to show that they are successful, the characteristic example being Ireland, which was quick to say “I’m leaving that group of adjustment countries.”

So is there solidarity amongst the countries of the political South of Europe? No. There is common experience, but there is no consciousness of a common fate and there is no engagement. In any case the correlations are extremely negative.

So what South? Maybe by South we mean the ideological South? **European social democracy**, in other words? That is something we too in Greece are striving for as a Socialist Party, as a member of the European Socialist Party and the Group of European Socialists and Democrats in the European Parliament, also in view of the elections for the new European Parliament at the end of May 2014.

There again clear, different understandings will be enunciated among the European political families. The European Popular Party and the European Socialist Party, which will have different candidates for the position of President of the European Commission. But, as I told you earlier, in the European Union the crucial correlations are in the end always transnational rather than ideological/political.

There is de facto a great rolling pan-European coalition: Europe as a whole has always been governed by all the political forces that together take part in the governments. What is more, reflected in the European Parliament is this compensatory neutrality between the two large parties, which also share the presidential term of two and a half years for the one and two and a half years for the other.

Let’s admit it. In any case, European social democracy is in crisis. It has been in crisis ideologically and politically since 1992, that is since the ratification of the Maastricht Treaty, because Maastricht marked the official abandonment of Keynesian policies, since the goal of budgetary and macroeconomic stability was not accompanied by the equally high goal of full employment. And since, as Keynes said, “ideas rule the world,” when ideas and political views are lowered, the reality of the economy changes, because political decisions determine the future of the economy.

Thus something much more is needed for the South and for a Europe that is overcoming the crisis. On the one hand an integrated strategy for managing the crisis is needed, and on the other a new strategy for European integration and the historical future of Europe. But these two strategies are interconnected.

The most important change in the prevailing economic and political views in Europe is precisely the connection of these two strategies: the strategy for managing the crisis and the strategy for European integration. Only through this connection can every individual decision in relation to the present situation and the way of dealing with the crisis be included in a broader perspective and be evaluated in strategic and historical terms.

For example, the question must be posed and answered of how far and for how long the peoples of the member countries of the Eurozone included in adjustment programs can accept the annulment of the institutional equality of the member states and its replacement by the harsh relationship of a lender who dictates terms and a borrower who accepts terms.

The federal prospect of the European Union cannot be identified with a one-sided decrease in the monetary, fiscal and financial sovereignty only of the financially weak or fiscally “prodigal” countries. The show of solidarity on harsh terms ceases, from a certain point onward, to be seen as a friendly move and is interpreted as hostile.

Equally important is to pose the straightforward question of whether European integration can have an economic, social and political prospect without ensuring the European welfare state, despite its fiscal and demographic crisis, which is much older than the international crisis that broke out after 2008.

It is therefore necessary that Europe, on the initiative of the political European South, speak out again politically, comprehensively: on institutional, development, social, fiscal, financial and cultural matters.

The European Union must open the discussion on a revision of the founding treaties. This will set a single, renewed and clear institutional framework, in which all the individual institutional changes can be included, changes mainly of a fiscal and financial nature that were judged to be necessary due to the crisis of the last few years, such as the fiscal pact and the formation of the European Stability Mechanism/ESM.

This development must be accompanied by a pan-European political and social pact on Europe’s model for growth and competitiveness, which, to be sure, must be based on the qualitative and historical characteristics of the European continent and not merely on cutting labor costs or dismantling the guarantees of the European welfare state.

The focal point is for it to be understood that if mechanisms for joint management of the debt do not come into operation nothing definite or sure can be done in order to overcome the Eurozone crisis.

For years now we have been hearing many ideas about Eurobonds, a reduction fund for the debt (either the part that reaches the tolerable limit of 60% of GDP, or the part that exceeds that limit, etc.) But basically all these ideas reproduce the inequalities among the member states as regards the costs of borrowing for the states, which are passed on to the economy of each state, and therefore as regards prospects for growth and convergence.

In reality, when many member states of the Eurozone are shut out of the international markets and are struggling to reduce their fiscal deficits and render their public debt sustainable in conditions of recession and unemployment, it is extremely crucial for there to be lending terms for their enterprises and households that help bring them back to a positive rate of growth. Otherwise even fiscal targets cannot be met. However, interest rates for these countries are always higher than for Germany and the countries of the hard core of the Eurozone. Not only for lending to the state – from which many states have been excluded – but also for lending to enterprises and therefore for possible investments. But also for lending to households, and therefore for the possibility of restarting the real estate market through housing loans.

Therefore the essential question that must be posed is whether there is the political and intergovernmental will to break this “vicious cycle” of internal inequality in the Eurozone, where we have one currency but different terms for lending to member states, enterprises and households.

The goal of the European South must be to break this “vicious cycle” that has now overtaken the banking sectors of the member states, following the experience of Cyprus with the proposals for a new type of recapitalization via a “bail-in” of shareholders, bondholders as well as depositors with deposits exceeding EUR100,000.

The great historical contradiction is that while the financial crisis has raised questions of integration policy, the way the crisis is being managed on the financial and fiscal levels is exacerbating the inequalities among the member states, is widening the gap between “virtuous” and “prodigal” states, is encouraging economic nationalisms and, due to the austerity policies being implemented in many countries, is fuelling Euro-skepticism and obscuring the vision of European integration.

So what we need is a new narrative on European integration that in the end will be a political one. But for it to become political it must start being expressed on the level of public opinion-makers, international economic institutions, influential media and the academic community on both sides of the Atlantic.

Everything that is happening in Europe – even if it is unusual according to American perceptions regarding political and financial institutions – is also particularly crucial for the US, which can be influenced by the developments in the European economy and especially by the prolongation and recycling of the financial and fiscal crisis in the Eurozone.

From this viewpoint, those in the US who are interested may paradoxically find in the European political South many ideas close to their own regarding the relationship between the state and the economy.

The common denominator can be found in the historical realization that a strong economy and a strong currency must be backed by a strong political entity capable of ensuring its unity and stability through institutional mechanisms operating with democratic legitimacy, speed and effectiveness.-