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"Setting up and governing the euro"[*]

by Pascal Lamy

Pascal Lamy was Jacques Delors' chief of staff when the latter was President of the European Commission from 1985 to 1994, and held the post of European External Trade Commissioner from 1999 to 2004. He has been Director General of the World Trade Organisation (WTO) since 2005, and he is also Honorary President of Notre Europe*.*

To what extent was the institution of the single currency based on pursuing the development of the internal market, and to what extent was it a symbolic and political move?

Obviously both aspects played a role in the institution of the single currency, both the single market and the symbolic aspect, although the symbolic aspect of the European construction has never really been developed. I reached that conclusion after spending fifteen years in Brussels, and my current post in the WTO has only strengthened that view. The discipline we have forgotten to bring in on supranational governance issues is anthropology.

We have never really taken enough of an interest in the differences in people's symbolic interpretation of European integration, apart from saying that the Germans like a solid currency while the French, the Belgians and the Italians do not have much of a reputation for stringency in that area – the kind of talk you are more likely to hear in a pub than in an anthropology seminar.

The integration dynamic has been based primarily on a sequence devised by the founding fathers and subsequently perfected by others. That sequence goes as follows: customs union, single market, economic and monetary union, and finally, political union, with a fairly fuzzy approach regarding the economic aspect of the union. We gave the name "economic and monetary union" to a union that is actually highly monetary and hardly economic at all. You will notice that this sequence bears a strong resemblance to the sequence of German unification, which took place very rapidly and along similar lines in the 19th century.

The European project was built on the notion of "*de facto* solidarity" in accordance with the following reasoning: we set the machinery of economic integration rolling and at the right moment it is going to trigger the necessary degree of political integration – a political integration that revived old dreams tinged with cosmopolitanism, the universal city and everything with which Kantian culture, the Catholic Church and even poets had seasoned their interpretation of the concept of a united European civilisation.

So the founding fathers invented this machine, which Stanley Hoffmann has called a "spillover machine" because each stage is logically supposed to spill over into the next. In opening up trade, the internal market brings increased efficiency, which can then be converted into greater prosperity, which in turn fuels the cause of political integration.

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How has that sequence panned out in reality?

When Jacques Delors proposed setting up a borderless area, which was a new version of the old common market concept only with greater integration, he published the Cecchini Report, entitled "The Costs of Non-Europe", to prove that we were missing out on the benefits of unification.

Monetary union postulates further stages in terms of fiscal, budgetary and economic integration. This sequence has been a matter for ongoing debate from the Werner Report in 1970 to the present day, the most important stages being the establishment of the European Monetary System, then the Single Act in 1985, and lastly the Maastricht Treaty. The Single Act included both the transition to a single internal market, and also institutional reforms with the adoption of a qualified majority vote in the Council. Jacques Delors had also managed to maintain a chapter entitled "The Union's Monetary Capacity". That was the first time that this aspect was built into the European treaties, albeit still only in rhetorical form. Delors would have liked to have gone further at the time but the Germans prevented him from doing so. After that, the Delors Report saw the light of day in 1989, with all that went with it in terms of consultations between the French and the Germans. German Chancellor Helmut Kohl would have been happy to move forward at the time but his central bank showed greater reluctance to do so.

To what extent do the Maastricht Treaty and the stages that followed on from it mirror Jacques Delors' initial blueprint?

At the end of the day, the Maastricht Treaty only endorsed some of the aspects of Delors' blueprint. The Germans wanted to leave the third stage in the Monetary Union sequence open, arguing that the groundwork for serious conduct should be put in place on a gradual basis in order for everyone to share the same monetary bed. The third stage was finally opened up on condition that it was accompanied by a Stability Pact, which Lionel Jospin managed to convert into a Pact for Stability and Growth in 1997. The Maastricht Treaty had set a target date for establishing the third stage with convergence criteria.

The euro was then adopted and its impact has been both very positive and very negative. The positive impact lies in the fact that eliminating currency exchange operations and making both businesses' and people's lives easier, thanks to the fact that they can now compare prices, inevitably boosts competitiveness and efficiency. At the same time, the euro has also fostered a certain shallowness because it has provided a kind of currency insurance policy to countries that probably would not have been able to handle their public finances or their economy the way they have if they had remained in a system of open national trade, and thus subject to external constraints. They probably would not have got into such heavy debt, with the financial systems of each euro member state buying the various countries' sovereign bonds en masse as the debt rose, and it rose at a very beneficial rate because it was denominated in euro. Italy, for instance, had a debt-to-GDP ratio of around 120% and it was servicing its debt at a rate of about 10%. That dropped to 5% the day the euro came into force. Those countries made a huge gain. But what did Italy do with this heaven-sent saving? A lot of it was squandered.

The global financial crisis kicked in at a time when the Union's member states were already heavily indebted, and I belong to the school of thought that argues this indebtment "*acquis*" was a major factor. I know some people say: "Yes, but that is because the euro zone is not an optimal monetary zone and there are not enough transfers and so on". All of that is true, of course, but we managed to live with structural fund transfers until the crisis kicked in. The crisis revealed the fault in the euro zone's construction, which was a result of the difference between what the Delors Report urged and what the member states and their diplomats ultimately chose when putting together the Maastricht Treaty.

Today the European Central Bank is the most federal institution in the entire European system. It is hardly surprising that it proved necessary to build the most federal institution where the system is most heavily integrated. It did not pose a problem because the member states' governments and grassroots opinions had already given up their monetary sovereignty to a broad degree in accepting central bank independence in their own national systems. The real debate was over the coordination of budgetary, fiscal and structural policies: the member states were not prepared to yield the rest of their economic sovereignty.

But there has still been a debate over this federal institution's mandate, is there not?

The debate was closed by those who drafted the Maastricht Treaty and it was endorsed when the treaty was ratified. Monetary policy has been assigned only one task and that is to ensure price stability. As for the "no bail-out" clause prohibiting bail-outs for member states, well, we have all seen what has happened to that since the treaty's approval.

What are the fragile aspects of the European system that the financial crisis has exposed?

This European crisis is an integration crisis. It has brought to light the difference between the *de facto* solidarity that Monetary Union had forged, in particular through the banking and finance system, and the limited nature of the mechanisms for covering risk and for implementing solidarity. In a highly intermediated financial system such as the European system, the economy is to some extent more vulnerable to financial shocks; markets are less exposed to risk, thanks to the accounts receivable securitisation mechanisms, than banks' balance sheets.

In all of these episodes there are constants that hark back to the problem of supranational community construction. The issue is the level of solidarity you adopt and the level of discipline you are prepared to accept as an offset for that level of solidarity. It is a classic problem common to the construction of any human community. National stances on the issue are forged by history and by different systems of representation. It is something that can only be resolved gradually. What is happening today is a remake of the debates that took place when the Stability Pact was set up. What we are building today is a "hard" stability pact where the one that existed before was a "soft" one; and the proof of this is that Jacques Chirac and Gerhard Schröder were not able to go any further at the time without the system breaking down. That tells us a great deal about the degree of Westphalian fragility with which European construction is still imbued. The Germans bear as much of the blame as the French for stifling the Stability Pact, but now they are saying: "We are not starting that again."

In doing that, though, we are only answering part of the problem. The difference between a monetary union and an economic and monetary union is a form of fiscal and budgetary union, with all that that entails in terms of the transfer of sovereignty in the economic sphere. Incidentally, we may ask ourselves whether it makes any sense to talk about a budgetary union when the Community budget stands at 1% of GDP, which is very little, even if the GDP in question is so huge that the resulting sums are substantial too! And then there is also the problem of what one puts into an economic union: competitiveness factors, major infrastructures, social systems, corporate tax, income tax? All of those questions need to be asked again. So in some ways there are unchanging issues which the acrobatics of daily political life sometimes cause us to forget. There is not a lot that is new in the fundamentals of what is happening in the current crisis.

Should Greece have been allowed to join the euro zone from day one?

If we had bothered to learn Greek history – I am not talking about Classical history at the time of Pericles but about the Ottoman occupation – we would have understood why there is no land registry in Greece, why paying taxes is seen as yielding to the occupying Ottoman power and so, by analogy, not paying them is an act of national resistance. And I put my own name down on the list of people who know too little about that period!

I still think that Europe is suffering from a massive lack of cultural crossover, of knowledge to format the Europeans' symbolic spaces, their culture, they system, their dreams and their nightmares. People often quote Jean Monnet as saying something he never said – "If I were to do again, I would start with culture" – yet though it may not be true, it is very apposite. Even if he did not say it, there is something very right about it. Of course, we are talking about culture in the sense of civilisation, in other words the knowledge of what a supranational integration movement triggers in people's identity image, in the bridging of a gap, with all the upheaval in accepted mythologies that that entails. The truth of the matter is that Europe does not have a mythology. In fact, the European area is living on a counter-myth. The bulk of identity mythologies in the nation-building process have been built on the memory of wars won, with a number of exceptions where people celebrate a major defeat that set a new process rolling in their collective memory. The trouble with Europe is that it was built on the opposite, neither on a victory nor on a defeat but on peace, which as myths go does not tend to mobilise people much... apart from two or three generations in the 20th century.

The reasons why Greece was allowed into the euro zone are reasons of historical interpretation, in part. The Greeks joined the European Union because people felt that the demise of the colonels' regime should be celebrated, and indeed they felt the same way about Portugal and Spain. Membership of the European Union was a phase in their political modernisation as they emerged from dictatorial regimes. That is a fairly easy rationale to defend, but there is also a modicum of expediency, of accommodation and a certain amount of diplomatic deference.

The reason why no one bothered Greece for years – neither the Council of Ministers, nor the Commission whose job it was – was very much a matter of Westphalian expediency. The member states thought that if they were to take a closer look at Greece, others might one day be tempted to take a closer look at what they were doping in their own house. That is an absolutely classic case of a sovereignist reflex prevailing.

The economy and finance cannot move ahead too fast in relation to something that can only be achieved very slowly, in other words the *affectio societatis* which rests on mindsets fashioned over centuries; German and Italian unity, of course, are far more malleable from that point of view because they are more recent. Until we take that part of European integration into explicit consideration, we are going to be running the risk of a rift and of a return to a proximity culture, which in this case is people's national identity. I encounter this proximity-legitimacy problem at the global level too. And also the drop in the number of people voting in European elections is indicative of this. It shows that they are considered less important than national elections, which enjoy a higher turnout rate. To build the European political space we have taken Montesquieu as our reference, like an institutional cookery book telling us: "take a pinch of executive, a pinch of legislative and a pinch of judiciary", and we have followed the recipe to the letter. Sure enough, we have a quasi-executive, a quasi-senate, a quasi-house of commons and a quasi-high court. But in actual fact, the democratic sauce which is what gives the dish its flavour has failed to catch on. These institutions are not lived in. And the "fun" aspect which is such an inseparable part of the national political show is simply missing. One day I drafted a note for Romano Prodi who was wondering, quite rightly, "why it is so hard to get the European message across". My note concluded that it is not easy to market Frankenstein... Delors put it another way with his famous axiom which says that "people do not fall in love with a single market".

You argue that the European integration process rests on identity-building mechanisms that are extremely slow by their very nature, but does the crisis not call for immediate progress in terms of budgetary integration?

Yes, that is one of the answers. But some people are going to argue, on the contrary, that the crisis shows us that we have gone too far, that we are simply not ready yet, and that when all is said and done, there are undeniable operational benefits to be found in the every-man-for-himself system, in the sense that there is no contagion, you do not catch anything nasty from your neighbour… I do not subscribe to that school of thought, but I must recognise that it is not totally groundless either. I do not subscribe to it because if we were to allow the euro zone to explode, the most likely outcome would be a rewind situation, with the internal market and the customs union collapsing as well. I shall not bother to dwell on the well-known schizophrenia of those European leaders who have been telling us for decades that "when things are going well, it is thanks to me; when they are going badly, it is Brussels' fault", and who then tell their people, when they sign the treaties: "Long live Europe, vote in favour of it!" It is a kind of intermittent identity, which is an oxymoron... or a neurosis!

So how do we resolve the problem in the short or medium term?

I think that we really need to take the measure of the level of integration we have already achieved, to clearly define the level of integration we are aiming for, and not to make any mistakes about the stages we need to travel on route to our final goal. You cannot do that sort of thing in an emergency situation. National politics has a fortnightly or monthly rhythm because you need to give people the feeling that you can resolve their problems at once. The time-frame for supranational integration is a different matter altogether.

Personally, I am convinced that there is no other way out than the broader Communitarisation of a number of economic functions. Perhaps not social functions yet, although that is still a fuzzy area. When we speak of "social Europe", we are mixing working conditions on the factory floor, pension systems, minimum wages and health insurance in a single cauldron. I am not a federalist by philosophical choice. The first thing I take from federalism is the principle of subsidiarity, which in my view is its true foundation stone. If you accept that principle, then you need to afford priority to proximity at the same time as you agree to delegate such areas of authority as need to be delegated. And you also need to prove capable of measuring their viscosity to accelerate people's awareness of them, their knowledge of them and thus their amenability to take them on board. Jacques Delors had this idea of putting together a Franco-German history textbook back in 1985, but I only received the first edition of this interesting book a few years ago. It took 20 years to implement the project! It had to involve the Länder on the German side, because they are responsible for education in Germany, and the academic inspectorates that are responsible for education in France. That difference in the subsidiarity of education alone made the whole process far more cumbersome!

I can see very well from my vantage point in Geneva that there is more than one model of civilisation. There is not any single one that is better than the others, they are just different and they have to co-exist side by side, but getting them to co-exist requires, in European civilisation's case, that their existence be first preserved. There are some simple variables at play: basically the importance of individual freedoms, of the community, of the markets and of the state, of trading and of the inevitable factor that is taxation. The Europeans account for over half of all expenditure on social security in the world, while they represent only 10% of the population. That is the European system's distinguishing feature. I believe in this social market economy system, which has drawn the attention of others on the planet besides the Europeans. The Latin Americans are closer to it than they are to the US system, despite the United States being closer to them in geographic terms. The Africans are still looking, and the Indians are also starting to weigh up their options. Nor are the Chinese going to be long in joining them, even though their Confucianist roots are a very different matter. In today's world, which is globalising at the pace dictated by technological revolutions, we need to have sufficient influence at least to allow us to safeguard our system, not to impose it on others – that era is long past – but simply to ensure that it continues to exist as one of the possible options. It is a matter of freedom. To make that happen, we need to be able to communicate, to persuade, to explain to audiences whose perception of what a desirable future for Europe may be is closely linked to their own historical memory. A common narrative for the future is not an easy thing to achieve when you are lacking the awareness of a common history for the past.

One gets the impression that grassroots opinion is not necessarily pushing in that direction, as shown by the return of protectionist stances among the political classes…

Yes, but that is specifically a French thing. There are two countries that carry weight in this world and that tend to wander a little in that direction, the French and the Americans. It is more of a problem with the United States because France's trade policy has long been integrated in a common European policy.

What is true, and in fact it was perfectly predictable, is that the crisis and the economic and social suffering that it has brought with it has spawned identity reflexes based on protectionism and on proximity. When you sense danger, you seek refuge with the person who can offer you the best protection, and your neighbour offers you better protection than a foreigner. One may regret that fact, but it is a constant throughout history. It is the nation-state that has fashioned today's mindsets.

Possibly in the longer term, what regulatory mechanisms should be put in place at the European level to prevent any more financial crises?

It seems clear to me that a European financial stability authority is required. This crisis has shown that the risks inherent in the system were underestimated. Experience has shown us that, to ensure the credibility of an economic and monetary union, you need a stable, recognised central authority endowed with all the necessary powers.

Apart from that, we also need to put a stop to this kind of institutional Lépine competition that took hold after the Maastricht Treaty under the influence of the British and French diplomatic services, which have two of the most heavily sovereignist DNAs in the system. We must stop unravelling the "Community method" to the advantage of methods merely cobbled together for the occasion and which simply do not work. Nor is a return to the Community method a matter of institutional philosophy. It is simply that we have to be sufficiently pragmatic to look at what has and has not worked in the past.

Is such a method really suitable for a time of crisis management?

Of course it is suitable! Because the Community method, which rests on a triangle comprising the Commission, Parliament and the Council, works properly as long as we do not see the Council as an executive, which the British and the French have gone out of their way to do, particularly in creating the three pillars in Maastricht, and which the Germans have been increasingly accommodating in allowing them to do, lately under the effect of the euro crisis and of the panic that took hold of their economic circles at one point. I am not in favour of this executive diarchy between the Commission and the Council. I am not opposed to a stable presidency of the Council, no more than I am against a stable presidency of the Senate. But I refuse to countenance this French and British idea that the Commission is merely the secretariat of an executive Council! The Council should be the member states' senate. It is a Westphalian institution in which the states' interests are represented.

The Council is the venue for compromise among the member states, but none of those member states speaks for Europe's broader interests. The president of the European Council is the president of the European senate and he should act in that capacity, representing the chamber of the regions. The executive is the Commission. At a time of crisis it is the appropriate commissioner who should manage that crisis, not the cabinet ministers, who are going to start issuing statements left, right and centre, frightening the markets and the analysts, who understand nothing of the labyrinth spawned by the Lisbon Treaty.

We need to insist on this as much as possible, although it is not easy now that the Lisbon Treaty is there. It is inappropriate to have the Commission Vice-President chair the General Affairs Council. Can you see the French foreign minister chairing the Foreign Affairs Committee in the Senate?

Yet the fact that I am critical of the Maastricht pillars does not stop me from being in favour of a common European foreign and security policy, but we need to realise that it is not going to happen soon; we are not going to get there simply by setting up a common external action service. The function does not create the institutions in this sphere.

How should we manage the differences in competitiveness among the euro zone's economies, which adopt the same interest rate even though it may not be appropriate for all of them? Can we really see all of the member states becoming export powerhouses along German lines?

Contrary to a widely-held view, any country can export more, but on one condition, namely that it imports more. The proof that each country can export more if each country imports more is that the content in imports of exported products has rocketed up from about 20% on average in global terms only 20 years ago to today's figure of 40% thanks to the fragmentation of manufacturing chains and to what are now permanent relocations.

There are differences in competitiveness which can basically be explained by different resources, in a world where the general principle whereby a country specialises in trade on the basis of its natural resources is becoming increasingly irrelevant. The resources that count today are qualified labour, research, innovation, clusters and so forth. These differences depend largely on national public policies. A great deal still remains to be done at the European level to achieve economies of scale, including in the common infrastructures which have yet to be built, or in the services market. The European Commission is the heir to the River Commissions which used to manage a crucial European service and transport infrastructure back in the 19th century!

Differences in competitiveness are due in part to national policies (in France's case, for instance) or to European policies (via the structural funds in the case of less developed countries). Only more proactive public policies for competitiveness at the national or European level will succeed in forging the convergence you mention.