Linea Sur, Quito:
A Lesson for free on a failing Project: The European Monetary Union
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July 2015, Ginostra di Lipari (IT)

It started as a banking crisis in 2007, took speed as a national debt crisis, continued as an economic crisis, and actually performs as a deep political crisis, where both winners and losers try to stake their claims to the Euro-Zone. How could the ambitious project of the European Monetary Union go so wrong?

Begin with the Beguine: during the roaring days that followed the fall of the Berlin Wall in 1990, some European leaders thought this could be the right moment to introduce a new essential step of functional integration.[1] They came up with the project of a political, economic and monetary European Union, which had been discussed for some time. No sooner said than done, the project came into realisation with the Maastricht Treaty in 1992.

While the political and economic aspects of the new European Union (EU) remained more or less vague headlines, the project of a European Monetary Union (EMU) was pretty detailed, and new common European competences in a very sensible field of state-sovereignty were created: This included a common European currency and a common financial market, to be created in three steps. The European Central Bank (ECB), in cooperation with its Council of Presidents of the national central banks would be responsible for price-stability and the avoidance of inflation/deflation. No other competences where foreseen for ECB and no common political authority should control and guide monetary policy. All the other fields connected with monetary policy as there are fiscal policies remained in the competence of the Member States.

To participate in the EMU Member States should fulfil convergence criteria. The most important of those criteria are: limits on inflation (2.7% of GNP), a deficit ratio of up to 3 %, and a national debt ratio of not more than 60% of GNP. All Member States were asked to deliver convergence plans in which they declared how they would reach the criteria until the definitive phase of realisation in 1998. In its convergence report of 1998, the European Monetary Institute (EMI) analysed the situation of every Member

[1] This method was used after the Second World War, when the initial euphoric ideas for a politically united Europe were buried in the re-composition of powers in the Cold War: Using this method the European integration led to the elimination of customs duties, a fully integrated common market and common policies in specific fields such as agriculture.

State. Out of 13 potential participants[2] only France, Luxemburg and Finland fulfilled all essential criteria. The EMI drew the following conclusion: "Within the context of a single monetary policy, the adjustments seen over the recent past need to be carried substantively further. Indeed, decisive and sustained corrective policies of a structural nature are warranted in most countries. These requirements for lasting policy adjustment result from the combined burden arising from (i) high and persistent unemployment, which according to the analysis conducted by the EMI and other international organisations is largely of a structural nature; (ii) demographic trends, which are expected to place a heavy burden on future public expenditure; and (iii) the high level of public debt, which will weigh on current budgets of many Member States until debt levels are reduced."[3]

Leaving aside these warnings 11 Member States started with the implementation of the last definitive step, while in 2002, when citizens finally had the new money physically in their pockets, the 12th State, Greece, joined the EMU.[4]

Meanwhile, the European Central Bank (ECB) was created, and the European banking sector warmly welcomed the de-regulation of financial policies, which gave them the opportunity to fully participate in "market-driven" international financial speculation.

All seemed to be fine. The common currency was stable with low interest rates, and the participating states immediately forgot to continue to fulfil the common convergence criteria. In fact, quite the opposite was the case: new government bonds were handed out and new possibilities to have state budgets credit-financed were used. However, they forgot to invest in sustainable economic development and nobody forced Brussels to implement a common economic policy. They disregarded (and never took into consideration) the very simple basic condition for a common monetary policy: to work on the development of an economically balanced space. Just to give an impression of the existing imbalances: in 2011, the difference of average per-capita income between the richest and the poorest country of the Euro-Zone reached from 78.130 US $ in Luxemburg to 12.350 US-$ in Latvia.[5]

It was a dance on the volcano. And when the volcano suddenly awoke in

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[2] The United Kingdom and Denmark had already opted out from the Monetary Union in the Maastricht Treaty.

[3] European Monetary Institute, Convergence Report, Frankfurt/Main, 1998, p. 4.

[4] In 2015 19 of 28 EU-Member States take part in the EMU.

[5] Source: Fischer-Weltalmanach 2013.

2007/2008, shaking the ground from the US to Iceland, the UK and the Euro-Zone, the party was over. The banks, having invested in highly speculative financial activities, crashed. And there was no sight of a rescue-plan anywhere. It came even worse: a storm of international financial speculation overwhelmed on the Euro and it's most vulnerable Member - States, which had serious difficulties to get any more "fresh" money from the markets for their state- budgets.

The Euro-Zone Member States knew no other cure than trying to stabilise their banks, each at a national level with new money. About 5.1 trillion Euros were poured into the sector. In addition, poisoned papers worth more than one trillion Euros were put in the so-called "bad banks". But doing so, the crisis simply changed its face and became a national debt crisis, and the banks, despite all efforts, didn't give any more credits to the businesses. So the third stage of the crisis set in, which was the economic crisis, shattering not only the southern part of the EU but France too.

In 2010 international speculation concentrated on a possible state bankruptcy of Greece and the country had to declare serious financial difficulties. The EU immediately reacted with a bail-out programme, but failed to take common responsibility for steering it. Instead they asked the International Monetary Fund (IMF) to participate and to establish austerity rules for the country. In Spain and Portugal initially the problem wasn't one of national debt, but of bubbles of private debt. The national banks had handed out huge amounts of private credits, so that these two countries also got into financial difficulties. In Ireland instead it was a mixture of national and private debt that forced the country to ask for help.

With the first bail-out programme for Greece three years after the beginning of the crisis the European Financial Stability Facility (EFSM) was introduced to help countries in financial difficulties. This agreement was limited until 2013. It was followed by two essential agreements:

1) The European Stability Mechanism (ESM), which was put into practice from 2013, with an overall amount of 750 billion Euros, giving guarantees and credits to countries in financial difficulties. Here again the IMF was asked to participate with money and austerity rules. The ESM was set up as a treaty of international law and an independent organisation was formed, controlled by the governments and facilitated by a minor change in the Lisbon Treaty, to allow the Member States to set up such a cooperation.

2) The European Fiscal Compact (EFC) meanwhile signed by 25 of the 28 Member States. With this treaty the Member States agreed that those countries going beyond the famous convergence criteria in terms of

national debts and/or annual deficit ratios formally agreed that their provisional annual state budgets be examined by the European Commission and the EFC. Further, the EFC can issue changes or even punishments if budgets do not show efforts to go into balance or even surplus under the EFC's rules – in short: efforts in austerity. The Fiscal Compact too is a treaty of international law between the Member States, not part of the Lisbon Treaty and so no part of community law. Again, countries are giving away another bit of their sovereignty over fiscal policy.

To follow these rules most of the EU countries executed cuts in their social, health and education systems, reduced workers' rights, or even made direct cuts in salaries. This is the bitter reality in all of Europe today – not only in those countries depending on "help". But let's follow the course of events.

In 2012 – the sixth year of the crisis – some regulations of the banking sector concerning proper capital contributions were implemented, as well as restrictions on trade with derivatives and criminal financial instruments. The ECB took control of 6000 European banks. In 2012, too, the ECB became the lender of last resort, and in summer 2012 the President of ECB, Mario Draghi stopped the attacks of international financial speculation on the Euro with his historic phrase "Within our mandate, the ECB is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough."[6] The ECB started to try stabilising countries in difficulties by buying government bonds on the market. In February ECB announced to enlarge this programme and to buy government bonds for more than one Trillion Euros, until 2016.

The crisis didn't fade away though. The majority of countries – especially France and Italy, central players in the Union – could get out of recession only in 2015, and even the best-scoring countries showed very little growth. Eurostat figures show an overall GNP growth of minus 0.4 % for the Euro-Zone in 2013, and of plus 0.8 % in 2014.[7] While the Euro-Zone states jealously kept each other under surveillance for following the austerity rules (which have not led to economic recovery) growth in non-Euro-Zone countries of the EU developed quite robustly. In the UK, for example, growth has increased from 1.7 % in 2013 to 3.0 % in 2014.

This comes as no surprise: Euro-Zone is staring at debt and deficit and no more able to create common positive action. And the single state tries to pull through by using even the smallest competitive advantage against its

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[6] Source: ecb.europa.eu - „Verbatim of the remarks made by Mario Draghi, Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London, 26 July 2012

[7] Source: Eurostat, Real Growth rate, Code: tec00115

Euro-Zone companions. The most famous examples are low-tax opportunities the Netherlands and Luxembourg are offering to big European companies, or flat-tax strategies run by Estonia, Slovakia, Cyprus and Ireland.

No wonder then that during the European crisis, the last bit of common European spirit got lost. For years the European public has been attending the spectacle of re-nationalisation of European politics. Heads of governments express more and more shamelessly their nationalist interests, each claiming the best piece of the European cake at the same time. It seems they all are brave scholars of Margret Thatcher who was calling on Brussels in 1984: "I want my money back!"

Let's draw a short conclusion at this stage: The Monetary Union shows three essential mistakes in its construction:

i) Refusing to create a common policy and to transfer power over economic, fiscal and monetary policies to an institution responsible for common policies is an existential threat. The European Commission, custodian of the treaty and promoter of general European interests would have been the right place. And it could have guaranteed the participation of the only democratic institution in decision-making: the European Parliament. With ESM and EFP Euro-Zone governments created institutions they govern at the same time, completely separate from the community-institutions. And as they didn't trust in their own capacity to take common decisions they asked the IMF to play the bad guy and to implement its austerity rules. What a declaration of political bankruptcy! During the time of Euro crisis, the Presidents of the European Parliament and the European Commission became more and more the doormen at the entrance to the government's fortress. But today it is no longer deniable: an assembly of governments of single states is not able to develop a common idea of policy or to govern Europe.

ii) To form a Monetary Union without taking efforts to improve the balance of economic performances in the common space is a risky adventure. In the case of the EMU this has produced a battlefield of state-competitors fighting for the best piece of the cake, one against the other. The only strategy Euro-Zone states were able to agree on was austerity policy. This is their big issue and Credo. With this they strangle the weaker countries and split up in losers and winners.

iii) Beyond doubt the de-regulation of the banking sector was a fatal error – and the re-regulation measures are still very weak.

Nevertheless they thought they could manage the situation. But then, in

February 2015 something unexpected happened: the national elections in Greece brought the new-left Syriza group to government. And one could see as through a magnifying glass all the unsolved problems of the Euro-Zone. There was nothing left to hide behind.

The new government immediately announced new strategies for Greece's economic recovery, not willing to be sacrificed on the altar of EU/IMF-rules anymore. Well-knowing that Greece was caught in a trap from which, and with the cure of austerity, it could never escape. The Greek Minister of Finances arrived in Brussels and shocked the technocrats and the European public with "undiplomatic" statements, not showing the "right" behaviour of a "petitioner" in front of those elites. That was too much! The Dutch insisted on their view of public finances as the European "penningmeester". The Fins backed by the Baltic States and others didn't want to give any more credit to those "ignorant, arrogant gamblers", who are not prepared to suffer more than they did. And the Germans?, Oh dear! Those masters of correctness and selfishness combined all those arguments and added that the Greeks should adopt the German model of competitiveness to succeed.

The negotiations went one step forward and two steps back, and in the end the technocrats presented their final proposal, which they called generous. At this stage the Greek government decided to ask the opinion of the Greek citizens on whether they should accept this proposal in a referendum. The Brussels technocrats were furious with the Greek. What an impudence to ask the Greek citizens in a referendum! Immediately the institutions pulled back their proposal declaring there was nothing any more to decide on. ECB didn't raise their Emergency Liquidity Assistance – ELA-credits – to the Greek Banking system, Banks remained closed and capital transactions controls were introduced. Nevertheless the Greek government didn't stop the referendum and Greek citizens had the nerve to vote against the proposal of the institutions with a remarkable OXI-vote of 61%!

After the Referendum the Greek Government changed strategy and came up with an application asking ESM for a 3rd Bail-out-programme proposing to accept most of the difficult points made by the Institutions in their former proposal. The still furious Technocrats saw their opportunity to fight back. Germany's Finance Minister, backed by his already well-known followers, circulated a Non-paper in which Greece should be forced to leave the Euro-Zone. But this time Euro-Zone didn't follow. The different factions fell apart. They split up in three different factions: those gradually understanding austerity-policy not to be the appropriate way to recover their economies – France and Italy in the first line (Core-members of the Euro-Zone), those having executed austerity-programmes on their own and full of hate against the Greek, and those - let's call them winners of the crisis with Germany in the first row - wanting to get rid of Greece. Dramatic overnight-sessions ended with an agreement for negotiations on a 3rd bail-out-programme overstepping all red lines of destructive policies cynically named reconstruction-plan for Greece: the demand of Greece for cuts in the already accumulated debts completely refused, state-assets transferred into a Fund trying to privatise them and full control over all "reform"-steps by the Brussels institutions and IMF. The fortress resisted against all demands and Greece is still a subtenant in the fortress. So what?

It was a fight like David versus Goliath. Greece – brave little David – couldn't win. It is obvious: Greece will not be able to recover under this regime, which denies even the smallest space for the Greek people to get out of the trap on their own. But it goes much deeper: The Brussels agreement is violating the basic democratic values and rules of the Greek people.

No European could ever imagine that European institutions would ignore or violate democracy in any one of the European countries! Facing this new reality, many Europeans feel miserable. But action already emerged: people all over the world immediately expressed their opposition to the European institutions in the Internet under the hashtag "ThisisACoup". Networks and already existing initiatives campaigning against specific projects of the European institutions started to discuss further common actions. Solidarity groups cooperate with Greek initiatives to resist being strangled and to realise alternative paths of development. And last not least: Greek people have a very long experience of resistance against fascism and dictatorship - there is a lesson to learn here for all of us.

The great loser of the battle so far is Europe. The governments of Euro-Zone strangled the idea of a democratic common Europe. All hope for this kind of European integration has been eaten up. The project of a politically united Europe was a brilliant idea. Under the threat of the Cold War it was no more to realise and what came into practice was the European Economic Community, with the promise to European citizens to live in peace and to foster wealth for all. The ambitious politicians of those times hoped that by bringing together the most powerful common interests – with the method of functional integration – they could give birth to a political Union. They hoped the puzzle would be completed piece by piece and a wonderful picture would appear: the United States of Europe. But nothing beautiful appeared. It's an ugly picture of a fortress of stubbornness and bluntness that we see today. After the banking crisis, the national debt crisis and the economic crisis we have now entered a new phase of crisis: the political crisis of the European Union.

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