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Less is more: the key lesson of the Euro-crisis

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Europe is desperately trying to postpone the day of reckoning on the sovereign debt crisis that is rocking the weak Southern rim of the Eurozone. Commentators and analysts have rightly condemned European leaders for haphazard crisis management that has so far only treated immediate liquidity symptoms while making the underlying solvency problems worse.

The Euro-crisis is institutional at heart. The "European Economic and Monetary Union" has a monetary expression in the Euro and the European Central Bank. But it lacks an effective economic arm to ensure sufficient cohesion among its constituent states. This fundamental design flaw was widely noticed by skeptical economists at the time of the Euro's fanfare introduction. European politicians, however, thought their currency dream could make do with the soft version of policy coordination. The now infamous "Maastricht criteria" were supposed to guarantee fiscal stability before entering the Eurozone. The fabled "Lisbon strategy" was designed to turn all European economies into paragons of competitiveness and innovation. Insufficient political will, collective denial, blatant violations, and even orchestrated data fraud in the case of Greece, turned both Maastricht and Lisbon into optical illusions. Maastricht's budgetary targets were violated across the board. Lisbon's bold reform plans were nowhere seriously contemplated but in Germany. All it took was a serious crisis to expose the Euro-construction for what it really was: a monetary bubble that has spawned a credit and real estate bubble in much of Southern Europe.

In response, European leaders are now following the high-risk strategy of trying to mend the Euro's institutional shortcomings through a bigger dose of policy coordination, while desperately seek-

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ing to solve an immediate debt problem with more debt over a longer term. If they succeed, they will have turned the Euro-crisis into an opportunity to pressure Eurozone members into a level of integration they would otherwise have refused, albeit at the tremendous cost of a generation of debt slavery for Euro-weaklings. If they fail, they will have pushed their weakest club member to the point of bankruptcy, destabilized the Eurozone and its banking system for years, compromised the authority of the ECB, alienated national public opinion, and undermined the political will for more European integration for the foreseeable future.

Whatever the outcome of this enormous gamble, the key lesson to be learned is that the European Union has torpedoed itself by adopting a common currency while member countries remained unwilling to relinquish the necessary policy sovereignty to make it work. The raw nerve of the euro-crisis is not the flawed institutional construction of the Eurozone, nor its consequence of national politics trumping European policy. Rather, it is the disconnection between the European ideal and the national unwillingness to pay its sacrifice of lost national sovereignty. This disconnection goes to the very heart of the process of European integration. The European Union is always a work in progress. Its development is piecemeal, gradual and organic: adding layer upon layer with every passing treaty and generation of politicians. The alternative of a clear-cut decision between a federal EU and a confederacy of states is simply incompatible with the diverging political opinions among the Member States. A step-by-step approach bridges the gap between the federalists who believe further progress will be inevitable and the confederalists who believe they will be able to block it.

As a result, the European Union is increasingly characterized by policies the completion of which lies beyond the current political or economic realities of the Member States, but which are nonetheless initiated as a first step in an open-ended process. Call it European hubris in the face of national reality. The assumption is that time will eventually somehow bridge the gap between the two, as the march of European integration continues inexorably. The Euro-crisis illustrates that this calculus can go wrong well before the final destination is reached. When hubris is then confronted with reality, the result is a debilitating blow that may jeopardize the entire construct before it matures.

This is precisely the scenario of the dismal Euro debacle, but it is not confined to it by any means. Take enlargement. The European Union has gotten out on a limb to take countries into its orbit irrespective of their questionable credentials. Here too, European hubris assumes that new members will inevitably fall into the fold upon becoming member, helped by targeted economic aid along the way. It is a calculus that has gone wrong with Bulgaria and Romania, both of which remain corruption-ridden and dysfunctional. Indeed, it is the very root of the Euro-crisis itself, which must be traced back to the irresponsible accession of a clearly unfit Greece back in 1981. It is the same logic that has kept Turkey's membership aspirations alive for almost fifty years, despite the crushing weight of history against it. Turkey will be destined for a European future, the logic goes, if only it gets on board of the European Union in the first place.

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The flagship internal market is another example. Initiated back in 1992, it is supposed to open and integrate European economies ever further. But its integration has never gone deep enough, while economic divergences have remained and even expanded under enlargement. As a result, genuine market liberalization in services under the so-called 2004 draft "Bolkestein directive" proved unacceptable to many national interest groups and was successfully defeated. Political interests have since focused on watering down its drive and tweaking the existing model of selective market integration. The European Union's common foreign and security policy suffers from the same disease. Adopted well before a meaningful consensus on its implications could emerge, it is now the plaything of bureaucratic competition within the European Union, has been ridiculed by the Arab Spring and it is thus en route to undermining the very ideal for which it was established.

In each case, a truly integrated European design is politically unfeasible and a half-baked compromise becomes a catalyst for problems. European energies are then directed towards keeping the compromise alive and operational. Instead of structural progress towards transparent and effective European integration, you get even more layers of compromise, stifling the European Union in Byzantine complexities. What was adopted as a first step becomes a stumbling block, instead of a stepping stone, for further European integration.

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The key lesson of the Euro-crisis is therefore that less can indeed be more. The members of the European Union have made a habit out of committing the European Union to run while they are only willing to walk themselves. This makes you stumble and fall. If the European Union does not alter its ways, it will condemn itself to internal conflicts while becoming increasingly irrelevant internationally, but for a source of instability and weakness.

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