THE NATIONAL INTEREST

The Continent's Nightmare Continues

Doug Bandow
|
February 22, 2012

Two years ago, the Lisbon Treaty created a stronger, more powerful European Union with a president and foreign minister. The continent seemed to have answered Henry Kissinger's derisive question: What is the phone number for Europe? But it still isn't clear who will answer.

Europe is the world's most important economic aggregation. The Continent hosts several of the world's most venerable democracies. Europe's historical and cultural ties circle the globe.

However, the EU has failed to live up to the lofty ambitions of the Eurocrats, the business, political, bureaucratic and academic elites who dominate continental politics and policy. Europe remains a geographic conglomeration, not a political unit.

While the common economic market is huge, the continent isn't functioning very well as an economic collaboration. Moreover, there is no common foreign policy, let alone a unified military. Most European politicians advocate further political consolidation in Brussels but disagree on the specific form. The European public seems increasingly skeptical of what the European project has become.

Euro on the Brink
The EU's immediate challenge is preserving what unity it has achieved, most notably the euro zone. As Greece inched toward another bailout, violent protests against the unity government's further cutbacks engulfed Athens. Private creditors continue to resist baptizing Greece's de facto default, while official creditors continue to resist accepting any losses. Earlier this week, after withholding approval of aid to Greece while seeking greater budget cutbacks and political assurances by Athens, European Union officials approved a $170 billion second bailout. Nevertheless, European Union negotiators

withheld final approval of aid to Greece while seeking greater budget cutbacks and political assurances by Athens. Many continental analysts and political leaders believe that an official Greek default is inevitable. The only question is whether Athens could then retain the euro; increasingly Greece's neighbors aren't interested in the answer.

Worse, efforts to contain the crisis so far have failed. Moody's recently downgraded Portugal, which may be heading toward a Greek-style crash. The agency reduced ratings for Spain and Italy as well and cut the outlook for France and Great Britain. Refinancing existing debt will be more difficult as global investors back away from European securities, creating "a pretty terrible spiral," observed Peter R. Fisher of asset manager BlackRock. And every new EU bailout further burdens already heavily indebted states.

Help is not likely to come from overseas. The Europeans hoped their bailout fund would attract private investors and foreign nations, including China, but no one wants to toss their good money after Europe's bad investments. The International Monetary Fund (IMF) played a smaller role than expected, and the Europeans will pay much of that bill. No money will come from Washington, at least directly; Republicans already are targeting America's pending contribution to the IMF lest it be used to bail out the improvident Europeans.

The Eurocrats' Nightmare

Some Eurocrats fear the impact on the EU as well. If the euro zone shrinks—or, worse, collapses—expansion of the union and its authority will halt. The idea of a European nation-state will be moribund, if not formally buried.

Tying Germany to its neighbors took on greater urgency after World War II. European cooperation proceeded through the common market, but political unification trailed far behind.

So the Eurocrats launched an indirect approach. The euro zone's architects recognized the challenge of adopting a common monetary policy without a common budget policy, but they assumed economic policy and political institutions would follow. Thus was launched the Euro, adopted by seventeen of the EU's twenty-seven members. Now, explained German Chancellor Angela Merkel, Europe "must overcome the architectural flaws that worked their way into the economic and monetary union during its formation."

The Lisbon Treaty began as a continental constitution which would expand Brussels' authority and reduce national independence. But in 2005, the Dutch and French both voted no. The Eurocrats then relaunched the constitution as a treaty, which allowed parliamentary approval in every member nation other than Ireland, whose constitution required a popular vote. But the Irish voted no, again halting the bandwagon. Under EU pressure, the Irish government held another poll and won the desired result.

European officialdom celebrated the new EU but chose two indistinguishable and undistinguished politicians for the new positions of president and foreign minister. Then, the euro-zone crisis exploded. The common currency yoked together relatively efficient northern European countries with congenitally improvident Mediterranean states. The latter attempted to counteract lost competitiveness with increased borrowing. The bill finally came due.

Greece led the crisis parade, followed by Ireland and Portugal. But true disaster threatened with far-larger Spain and Italy—perhaps too big to fail, probably too big to save. The Eurocratic response was always the same: if new problems threatened, explained European Council president Herman Van Rompuy, “we’ll do more.”

“Doing more” meant borrowing more. The London-based organization Open Europe termed the EU “a de facto debt union.” However, the increased debt was used to turn the EU into a de facto transfer union as well. Daniel Hannan, a British Member of the European Parliament, responded: “It doesn’t strike [EU leaders] as eccentric to address a debt crisis with more debt.”

Berlin vs. Paris

Most important, “doing more” meant Germany “doing more.” With the continent’s largest and most productive economy, Berlin had the most to give. And it was expected to do so.

Chancellor Merkel supported every new cash infusion. But she continued to resist proposals to issue Eurobonds, which would turn Germany’s financial rating over to its least responsible neighbors. She also rejected proposals to transform the European Central Bank into a government lender of last resort, violating its legal charter to purchase whatever bonds Berlin’s neighbors chose to issue.

For this, Berlin was assailed for myopic penury. Critics assailed Germany’s “new selfishness” and “loss of solidarity.” Germany was “losing sight of the European common good,” exhibiting a “narrow and self-defeating definition of national interests” and “impeding all avenues for a solution.” All because Berlin refused to turn control of its finances over to Brussels.

Germany remains willing to pay to save the euro zone, but it wants control over any national budgets it underwrites. The Lisbon Treaty expanded continental authority at the price of national sovereignty, allowing Brussels to claim greater authority over members' financial decisions. But Lisbon provided no controls over members' budget decisions.

Chancellor Merkel and French president Nicolas Sarkozy are pushing for more fundamental change. "We have a common currency," said Merkel, "but no common political and economic union. And this is exactly what we must change. To achieve this—therein lies the opportunity of the crisis." But Merkel and Sarkozy disagreed on the exact institutional remedy. She favored an EU-wide treaty; he preferred to center enforcement within the euro zone.

Angela Merkel appears to have won the debate, though the exact terms are still being debated. But Great Britain and other countries may not join. And whatever is cooked up in Brussels may be too late to save Greece. Default is a reality, whether officially recognized or tactfully disguised. Athens has yet to implement past promises; the new government to be elected by an angry electorate in April will face pressure to renegotiate. European leaders are demanding assurances which they cannot enforce.

When the Music Stops

Some Eurocrats are willing to risk the euro zone. Former Dutch EU Commissioner Frits Bolkestein argued that separation is "unavoidable" since "we constructed something that does not work in the long term." Departure from the euro would allow the Greeks to become competitive through devaluation—painful, to be sure, but not obviously worse than years of austerity and stagnation to pay off even a reduced debt.

Greece could be joined by other struggling states in leaving. Or Germany, France and other more prosperous states might give their weaker counterparts a shove. A euro-zone breakup of any sort would be chaotic and painful. But what the Eurocrats fear most is a collapse of the EU. The European project always has moved upward and outward. It has never retreated. Contended Chancellor Merkel: "If the Euro fails it's not just the currency that fails, but Europe and the idea of European unification."

However, the latter dream—some might say fantasy—has died. The premature entry of Bulgaria and Romania and prospective membership of Turkey diminished enthusiasm for an ever-expanding EU. Polls indicated that majorities in half of the EU members would have rejected the Lisbon Treaty if allowed a vote.

Now, bailouts of the spendthrift by the thrifty have inflamed euroskepticism. Charles Kupchan of the Council on Foreign Relations argued: "Instead of delivering affluence, the EU now delivers austerity and pain."

The Eurocrats have built a continental government, not a continental nation state. Europe has a capital, a president and a flag, but it has no citizens. No European feels allegiance to Brussels, Herman Van Rompuy or the EU symbol. No European would die for the EU, even if there were an EU military. Czech president Vaclav Klaus, among others, has spoken of the EU's "democratic deficit." Implementation of the Lisbon Treaty required preventing most Europeans from voting on the measure. Even the nominally elected branch, the European parliament, is chosen largely in reaction to domestic politics, not continental issues.

But a united Europe is becoming less likely. The Eurocrats are attempting to take advantage of the euro crisis to create new European institutions, but as Mark Leonard of the European Council on Foreign Relations argued, "economically, culturally and politically, it is driving Europe apart." European peoples do not share the desire of European leaders for European solidarity.

Americans should remember their debt burden before feeling schadenfreude over Europe's plight. And the United States has its Greece and Portugal: Illinois and California. America's advantage is that it is a real nation-state which won't fracture over finances. The EU remains a fragile nation-state wannabe.

Europe will survive, whatever the fate of the euro zone. But the objective of Europe acting alongside the the United States and China to dominate the globe is dead. Europe will remain a collection of normal countries, despite the pretensions of the Continent's Eurocratic elite.

Doug Bandow is a senior fellow at the Cato Institute. A former special assistant to President Ronald Reagan, he is the author of several books, including Foreign Follies: America's New Global Empire *(Xulon).*