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Recovering from the Crisis:

INSIDE OR OUTSIDE THE EMU?

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1. The Neo-Liberal Experiment.

- Before comparing notes on wether our countries have turned out better off in coping with the crisis, - **outside or inside the EMU**
- Before doing that, let us try to gain some **overview** by asking ourselves some basic questions on the nature of the current financial crisis and how it is affecting us.
- Why is it that major financial crisis are getting more and more **frequent**?
- Is it a coincidence that this is the era **of neo-liberal policies** being prevalent around the globe?
- Does it have something to do with the fundamental tenet of **neo-liberal economics**, i.e. that state intervention is always bad, that markets can be trusted to be self-correctring, justifying that laws, regulation and supervision of financial markets have been systematically abolished or relaxed?
- Does it have something to do with the fact that the financial sector (banking – but primarily shadow-banking) has vastly outgrown the real-economy, so that fickle and footloose capital is roaming the globe in search of short term profit (rather than longterm investment) - thus causing **booms and busts**.
- Can it be that financial markets have simply run amock – out of all control – beyond the power of individual states or multinational institutions to control?
- The third richest individual on earth, Warren Buffett, certainly thinks so, since he has designated the sofisticated, high-tech financial products – that turned out to be intrinsically fraudulent – as „**financial weapons of mass destruction**“.
- Is it possible that the scale of **inequality** – the concentration of wealth and income in the hands of a tiny international elite – the so called 1% - has reached such levels, that the democratic state has become impotent to deal with it? - Or that the representatives of the people - the guardians of the public interest – have become captive to the owners of capital?

2. **Crisis of Democracy**

Is this why people have lost **trust** in the democratic process and their democratic institutions? According to the polls in the worst afflicted countries, **trust in politicians**, political parties, and parliaments have plummeted as never before.

- Does this explain the pervasive feeling of **powerlessness,** political paralysis, anger and frustration being so prevalent all around us?

- Is this why the middle class – traditionally the enlightened pillar of democracy – is feeling so squeezed? Is this why wages have remained stagnant and purchasing-power of wage earners is declining? Why investment in the real economy is declining and is this again why **unemployment** specially among the young – has already reached alarming levels in many countries?

- Questions like these should really be at the back of our minds, when we are contemplating the **causes and consequences** of the current crisis. If the answers to most of those questions are in the affirmative, then there is little hope, that individual countries can find lasting solutions on their own; little hope that we can fix such gigantic problems by tinkering with the system here and there. We should be looking for more radical solutions**, structural refoms – even systemic change.**

- One example: It is estimated that the financial elite – the 1% - have amassed accumulated wealth to the tune of the combined GDP of the United States and Japan – tens of trillions of dollars – and hid it, away from the short arm of the law in so-called **tax paradises** around the globe. This is done for the purpose of tax-evasion and money laundering. It is incompatible with the rule of law. Why is nothing being done about it? Why should tax-payers accept being enforced by their political leaders to pick up the bill for bankrupt banks, while the super-rich play it safe, beyond the reach of the law?

3. **The Main Thing: Domestic Economic Management.**

If we look across Europe, trying to take stock on how individual countries have weathered the storm of the crisis – inside or outside the EMU – the **conclusions** are far from straight forward. A few examples:

- **Finland** is in and has been doing quite well – bu**t Sweden** is out, and doing no worse – even a little better.
- **Luxemburg** has been in from the start and is still flourishing as a tax-haven at the heart of Europe. But **Cyprus (and Greece**) were also in, but have been going through hell nonetheless.
- **Iceland** was out on its own and was the first to go down; The entire financial system collapsing along with its currency. By hindsight we now know, that the „best thing" that happened to Iceland was, that it had no means **to bail out** the banks – they simply went **bankrupt**. That has since been called: T**he Icelandic Way.** But Ireland was in and faired hardly better. The Irish government senselessly guaranteed the debt of the banks, so for years to come Irish tax-payers will be paying the bills for the banksters who ruined the country. And by the way: Who are the creditors, who made the wrong decisions to finance the Irish real-estate boom? And why should they be saved?
- Who is the worse off: The dispossessed young Icelandic family, the unemployed Irish emigrant or the young Spaniard „without a job, without a home, without hope"? These are not merely academic questions. They are urgent questions to which millions of families across Europe are desperately seeking answers – but receiving few.
- What´s the **conclusion:** Some countries are doing well inside the EU – others are not. Some countries did very badly outside – but others are doing even worse inside. The Scandinavians have been doing pretty well – outside. In short. *EMU-membership is not a patent solution for all our troubles. The countries that have been doing well are those that have managed their economy well – inside or outside.* The most vulnerable ones are those who suffered from incompetent and undisciplined economic management to begin with. That was certainly the case in my country, in Greece, in Ireland, in Spain, in Portugal, in Italy and a few more.

4. **What is Wrong with the Euro-zone (EMU)?**

- *Why is it* that membership of the EMU has not turned out to be a decisive advantage for many menber countries in coping with the crisis? Is it simply the bitter truth that the EMU is not an optimal currency area? That it is suffering from **a fatal flaw** in design, that has to be corrected, if it is to survive?
- Let us take an example: The state of **California** is fiscally bankrupt and has been so for years (just like Greece). Constitutionally California has renounced her sovereign power of raising taxes, allthough state expenditures are proliferating. The result is a fiscal black hole amidst political gridlock. Questions: Why haven´t the „markets" besieged California? Why haven´t they exploded Californias borrowing costs and sunk the state into unsustainable debt? Has anyone in Washington D.C. or Chicago or Seattle proposed to throw California out of the Union? No. Why not? Because the US federal government and the federal reserve *stand by California and support it to the hilt.*
- Noone is complaining that they won´t pay the debt of proliferate Californians basking in the sun. The mutualization of debt is as *sine qua non* of a successfull monetary union. Either we are in it *one for all and all for one,* or we should never have started this union in the first place.
- If some US-member state is in trouble, it is not in danger of being ambushed by financial predators, because then they have to face the overwhelming power of the federal government and the federal reserve, who have enough resources to stop any ambush in its track. That is what a federal government and a central bank are for. Of course they can legitimately set conditions for support, e.g. that certain **structural reforms** should be implemented. This shows that we can learn a lot from the Americans – on how not to do things but also on how to do things successfully.
- The California example shows that the European Monetary Union (EMU) had from the beginning *fatal flaws* in design. For a monetary union to succeed, it has, at the minimum, to fullfill **three basic conditions**. The central bank must have full powers to act as a lender of last resort to *member states.* It must have full powers to control the money supply, including issuing and buying bonds from member states. And a central authority must have the power to enforce at least a minimum of fiscal co-ordination to supplement and support monetary policy in maintaining the stability of the economic system.
- This is necessary for several reasons. On occasion the central bank must have the power to shield weaker member states from the volatility of the market. It must be able to prevent borrowing costs of those states from getting out of control. It must be able to stop market ambushes in their tracks.
- We all know the **European Central Bank** has none of those powers. Why not? Didn´t **Delors** and his people know at the time, that those could become fatal flaws in the future? Yes, they did. But Germany simply would not budge from her historical inflationary hang-over. It was a classical case of the *irresistable force* (of European integration) meeting the *immovable object* (the ghosts of Europe´s past). Apart from this, the pioneers of the EMU-project simply hoped for the best; namely that with time the strong and the weak would converge so that those in-built discrepancies would gradually disappear.

- This was a mistake for which we are paying dearly. The EMU is therefore like a *halfway-house*, incomplete and on shaky foundations. It is highly vulnerable, when the disruptive powers of the elements are blowing at full force. For years now, we have had before our eyes the sorry sight of European leaders reacting to events with half-measures and short-term fixes – *too little and too late* rather than following a plan with well designed long-term solutions. If they go on like this they are doomed to fail. That is the **key-lesson** to be drawn from our experience of coping with thiws crisis – in order to be better prepared for the future. In this way economic integration will contribute to the gradual „convergence“ of our economic and social models.