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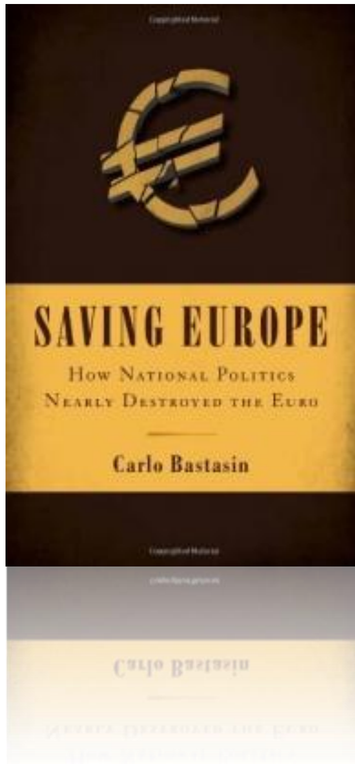
21 Book reviews on global economy and geopolitical readings

ESADEgeo, under the supervision of Professor Javier Solana and Professor Javier Santiso.

Saving Europe: How National Politics Nearly Destroyed the Euro

Bastasin, Carlos. (2012). Brookings Institution Press, Washington D.C.



"The euro crisis is a multifaceted problem of fiscal crisis in Greece; competitiveness deficits in the southern periphery; a banking crisis in Germany, France, Benelux, Ireland, Spain and elsewhere; a flawed inicial design of the institutions presiding over the euro area; and most of all a failure in national politics."

"If there is no political union or some form of fiscal compensation, the structural differences create not only deeper economic imbalances among countries, but also economic policy differences."

"Crisis resolution mechanisms were left incomplete in order to leave it to the markets to impose discipline where political coercion was not possible."

"Germany must acknowledge that it has been the big beneficiary of the euro and that it can keep on being so in the future, but only at the cost of mutualizing the european policies."

"The response to the crisis has to come from a change in national politics, simply because the real causes of the crisis rest there."

Summary

The economic crisis sweeping Europe since 2008 has been exacerbated by the deficient and tardy economic policies adopted by national leaders, especially the leaders of the two nations at the helm of the European ship: France and Germany. During these years of recession, in which we still find ourselves mired, the euro has been pushed to the edge three times. A fall would have meant chaos for the global economy and the end of the most ambitious model of shared sovereignty ever attempted. For the author, the roots of the economic crisis are political, lying in the selfishness with which every member of the European Union has pursued its national policies, from the small nations on the periphery to the governments of the Franco-German axis. The crisis cannot be simplified by pointing to monetary irresponsibility or corruption in a handful of countries – the main cause was a lack of commitment to shared sovereignty and a fiscal union.

Bastasin analyses the numerous eleventh-hour negotiations, summits, and meetings European politicians and European Central Bank (ECB) officials have held, both at official and unofficial levels, during these five years of crisis. The result is a detailed description of a period when the dream of a common European currency nearly ended because of deliberate lack of coordination between the nations responsible for its safekeeping. However, there is some reason to be optimistic about the future. This crisis may still lead to a new Europe based on more unity and more solidarity – where member states, once and for all, choose to work on a common project which is beneficial for all, despite the political risks this project may at times entail.

The Author

Carlo Bastasin is a journalist and economist who was also visiting fellow at the Peterson Institute for International Economics from 2009 to 2012. He is currently a visiting fellow at the Department of International Policy and Global Economy at The Brookings Institution, and political analyst for the Italian daily newspaper *Il Sole-24 Ore.* His research focuses on European policies and the global economy.

Key Ideas and Opinion

Carlo Bastasin has written **a unique work of great use** for anyone interested in understanding the European economic crisis and how it jeopardised monetary union and the model of sovereignty that the continent had fought so hard to achieve. *Saving Europe* is **an exhaustive and thorough examination** of the national, European and international events that provoked, at various moments between 2008 and 2012, extreme tension between Europe's economic officials. The author examines the key meetings between national leaders, especially the numerous bilateral meetings between French president Nicolas Sarkozy and German chancellor Angela Merkel, revealing how the frictions between the political objectives of both nations and their differences with the ECB were dangerous and recurring factors that hindered the search for a common strategy.

Bastasin's journalistic background adds a more personal portrait of the leaders to this chronicle of the euro in crisis, helping the reader understand the origins of some of the decisions and responses. His use of media sources and witness accounts of key meetings shows the reader **what happened behind the headlines and official press releases.** His approach also shows **to what extent political decisions exacerbated an economic crisis that could have been stopped much earlier** and certainly before reaching the extremes we are suffering today.

According to Bastasin, and the conversations recounted in the book, it was a **lack of commitment to the European project and shared sovereignty** that was the main cause of the near collapse and disappearance of the euro. The defence of national policies, pride, and a fear of the political cost of a common fiscal policy meant that urgent decisions were taken too late. The crisis cannot be attributed solely to the irresponsibility of a few countries, or to the advantage that some nations took of the single currency in the early years. The real cause was a lack of commitment to the European model, and unilateral national decisions that did not seem threatening at the time, but nevertheless dealt a serious blow to Europe's economic future. Perhaps now that the real danger has been understood, the **euro can finally be seen as a shared responsibility and the eurozone as a new political dimension**.

First symptoms

Saving Europe starts **in September 2008**, when the global crisis peaked with the collapse of Lehman Brothers and Europe found itself on the edge of disaster. The **European banking crisis was underestimated from the beginning**, to terrible consequences. The author explains what lay behind the decision of Merkel and other partners to tackle the banking crises separately, rather than in unison. He recalls the last-minute rescue of the German Hypo Real Estate banking group as an example of **a cover-up,** supported by governments that manipulated the European banks from behind the scenes. **The early years of the crisis were dominated by mistrust and the idea that everyone should look after their own skeleton-filled wardrobes**. Those early decisions led to the October 2008 crisis that ended in the first sovereign debt crisis, a year before the true gravity of the crisis came to light. From the beginning, the **ECB** saw that it could not maintain its traditional arm's length approach to political decisions in the eurozone, and began intervening directly **by providing liquidity to domestic banks without first being given sufficient information about the state of their books**.

The veil of banking secrecy helped spread the virus. Structural differences between member nations led to a personal rivalry among European leaders – and this meant that a historic opportunity to show the value of the common European system was squandered. **Leaders who were eager to use the situation for their own electoral benefit were blinded by arrogance, vanity, and power.** Meanwhile**,** European institutions revealed their inability to lead the way – giving free rein to national preferences. **The eternal struggle between Germany and France reappeared** and each wanted to play the role of ship's captain – while ignoring the fact that the ship was already holed and sinking. **The main block on any action came from Germany,** who refused to provide the spark for an economic stimulus because of its wariness of the economic rheumatism suffered by other national economies.

Sovereign debt crisis

By early 2009, it seemed clear that the financial crisis was unfolding into a sovereign debt crisis. For the first time, the future of the euro was in doubt. Counter-measures such as Eurobonds or fiscal union had already been put on the table, but once again the national interests that lurked behind the banks halted any action precisely when it was most needed. **The only decision agreed was that the ECB would fund the banks. This represented the first violation of the prohibition on European financial institutions assisting European governments.** This change in the ECB's role was accompanied by agreements between governments and their banks to redirect funds arriving from the ECB into national sovereign bonds. The deal seemed to be the perfect, albeit temporary, solution – and yet it soon paved the way for an even more destructive stage of the crisis.

Bastasin emphasises the **role that the German constitutional court played in limiting Merkel's actions** at this particular point in time. The court effectively tied the chancellor's hands to ensure that Germany was protected from any risks that could arise if German funds were used to save Europe.

The Greek scandal

When the Greek financial bomb exploded in late 2009, the secret long whispered among European leaders and financial institutions became public knowledge. Greece had been falsifying data on its debt for years, and the European institutions had not reacted quickly enough to prevent a breakdown in confidence in the single currency. Everybody had turned a blind eye, believing that Greece was too small and remote to be a problem for the Eurozone. **This total violation of the principle of European solidarity and honesty on the part of the Greek government also revealed the inability of Europe to exert financial discipline**.

From the middle of the book, Bastasin offers a detailed chronology of the tensest moments in the euro crisis as an **erroneous strategy is adopted and Greece is bailed out for the first time in May 2010**. The fear of contagion and lack of financial support for Greece by the EU prompted the **ECB to implement economic restructuring through fiscal austerity, a measure which subsequently failed because a false analogy had been made with the Eastern European economies** (for which this approach had worked). Greece, it turned out, had a much more closed economy than Eastern European nations: 85% of profits were generated internally. A **new debate opened on whether the IMF should enter into the European crisis**, with Germany defending its entry while Sarkozy and the ECB were reluctant to let Washington have a say in European affairs. However, the Americans did finally get their say.

Germany, meanwhile, eyed with suspicion the relationship between the ECB and Greece (now demonized by German public opinion) and opposed a bailout. Merkel blocked early action plans, questioning the need for stronger guarantees. However, as noted by the author, **Merkel's position** was conditioned by the danger posed to her electoral support, as well as the legal restrictions imposed by the constitutional court. **To justify German intervention in Greek finances, Merkel needed the crisis to extend across the entire Eurozone. Paradoxically, this approach increased her power.**

Deauville agreement

Attempts to create a new regimen for the Eurozone generated continuous conflicts between national governments and the ECB. **In 2010, Merkel and Sarkozy signed the Deauville agreement, stating that the private sector must assume part of the costs of future bailouts**. This meant that the private sector would suffer losses if another country received EU help in restructuring its debts. This move further deepened the crisis by undermining investor confidence. The markets grew increasingly wary, and domestic banks broke a secret pact with their governments not to sell Greek, Irish or Portuguese public debt. The collapse accelerated.

Spain and Italy in crisis

Confrontations between governments and the ECB grew more intense during 2011. **In March, the central banks secretly voted to stop buying state bonds.** The crisis deepened further in the summer as governments tried to buy time. By July 2011, **Spain and Italy were pushed to the edge and politicians became seen as the core of the problem.** Italy was deemed too big to fail, which made a solution ever more critical but ever more difficult to attain.

The inadequate response at national levels resulted in public outrage with national governments and persistent distrust of the philosophy of punishment championed by Germany. None of the anti-crisis tools were seen as fully credible or even fully feasible – this perception, according to the author, was not the result of short-sightedness or arrogance, but a well thought out strategy. **The mechanisms for solving the crisis were incomplete, in order to force the markets to impose discipline where political coercion was impossible.** An additional effect was that any majority vote in Brussels would always lead to the prevalence of rigid policies. The other pillar of this strategy was a renewed political commitment to the euro and Europe – this too went unfulfilled.

Fears returned in late 2011 that the crisis could yet bring the euro, the ECB, and European institutions crashing down. As a result, the ECB and national governments were forced to work together, leading to an agreement on a partial solution: a **massive**

injection of ECB liquidity to finance state debt. But despite this measure, the markets continued increasing the pressure on the weakest nations.

The aim was to convert the eurozone into a sterilised fiscal zone by 2013, meaning that the fiscal problems of one country could not spread to another. Once the threat of debt is neutralised, it should be possible to achieve a new economic solidarity and a common economic government. In time, this crisis may be reinterpreted as an **opportunity for the Eurozone nations to rethink shared sovereignty, recover consensus, and rebuild a union of economic and fiscal policies that solidly support Europe and the euro.**