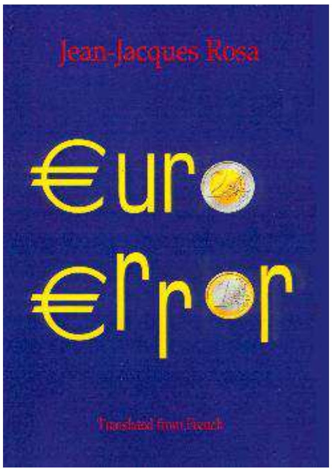
Euro Error

Algora Publishing, 1999



INTRODUCTION : The Dilemma: Prosperity or the Single State

Who among Europeans could be anti-Europe? In the entire world, it is the Old continent where the standard of living is the highest, where the culture is the oldest and, at the same time, the richest in diversity, where the way of life is most pleasant, and where democracy is the most widespread.

But if Europeans are so happy with their continent, what kind of Europe do they want for the future? Starting with the formation of the common market at the end of the Fifties, intended to restore the free exchange of goods, services, men and capital after the wave of protectionism and isolationism of the depression years and the war, the European leadership have gone on to erecting a plan for a monetary and thus a political Europe, that of a very great and a single State. Without that, they would have it, we would be relegated to decline and impotence and finally to obliteration. Not to want Europe unified, statist and monetarist, would be not to want Europe at all, as if the latter could admit only that one definition, only that one design; a typical example of politically correct thinking.

Actually, the European plan and consequently the future of the continent are marked by a deep ambiguity. The concept is economic and liberal when it comes to reintroducing free trade on a continent that had been given over to state intervention and protectionism for half a century: a single market and competition, in contrast to national statist intervention. Initially intended to support the United States against the Soviet threat, the European enterprise has retained a statist and military purpose, which tends to be defined as an end in itself.

It is this statist aspect that today comes into question precisely at the moment when the Soviet threat is disappearing, whereas the aspect of the market and competitive free trade has pretty much been carried out or is about to be completed. This is the moment that the European political leadership chooses to prod us down the path toward a single currency that leads logically and necessarily to the construction of a single federative or confederative State.

As long as Europe wants to preserve a political role in the world, that would appear to be a natural ambition. Of course, it does not please the Americans, who are afraid of competition in managing the planet's affairs. But that is all the more reason to do it! And it would be so much simpler for companies and travelers to use only one currency for the whole continent.

Unfortunately, this apparent simplicity is misleading. As scientists know, complex problems always have a solution that is clear, common sense, simple. ..and false! Upon superficial examination, the diversity that generates competition, the complexity of States and currencies as well as that of companies, always seems wasteful. To manufacture one product for every consumer, be it the black Ford Model T of the beginning of the century or the unisex uniform imposed on the Chinese by Mao, has a fatal allure for the social engineer slumbering inside each one of us.

In the same way, a single State seems as though it would be more efficient, more "rational" than several, to the Platonic and Cartesian minds that populate the hierarchical and administrative organizations. That was the "solution" of Soviet planning invented by lenin: to manage the country as one immense enterprise. We know how that turned out. The source of the error, as Hayek explained, is that central planning atrophies production and the diffusion of information that, by contrast, competition encourages. The single hierarchy dramatically reduces society's level of information and diminishes the quality of products as well as that of policies.

But what can we say, then, about the example of the United States? Do they not collectively prove the greater effectiveness of a great continental State able to create and multiply wealth at a rate never before achieved? Why not imitate them once again by creating the United States of Europe?

This parallel is tempting but false. Conditions at the end of the 2Oth century differ radically from those of the end of the 18th. When the American Federation was constituted, its population was homogeneous and very small. Creating the United States, in 1776, was rather like creating a country the size of Switzerland today. At the beginning of the 19th century, the Union hardly counted more than eight million inhabitants and it reached thirty million only on the eve of the War of Secession.

Thereafter, a small federal State was crowned with exceptional success; it became large because it was effective, it was not a State that was more effective because it was large from the outset. At the time, no one had in mind the creation of a giant by merging highly diverse nation-states. The United States represents the example of the small firm that succeeds, and thus grows, not that of the "national champion" imagined by civil servants who pride themselves in playing one of those construction games: "industrial mosaic." So the American adventure was and will remain the exception.

Another fundamental difference should give the eurocrats pause. For a long time the Americans did not need a single currency. And they transitioned from central bank to the federal level over more than a century, from 1790 until the creation of the Federal Reserve System in 1913.

The idea of a single currency and Very Great State belong in the domain of administrative Utopia. First, because it proposes to create ex n;h;lo a common currency for several States, which has never succeeded in the past. Then, because it supposes the construction of a single State, the continental Super-State, by merging great States of very different nature, and with heterogeneous populations, which has never been seen either .

The effort appears all the more absurd since the single currency will serve practically no useful purpose. On the contrary, it will necessarily harm the national economies. What is more, the Single State would be a fundamental aberration in the general development of private and public organizations. It will be expensive, useless, and will make still more difficult the essential reform of hypertrophied national States.

The elites in power in Europe actually propose to reproduce on this continent the model of ancient China, against the very spirit of the "European miracle" which led the nation-States of this small extension of Asia to dominate the world. How indeed did Europe come so far? Through competition and rivalry among the States, a process well described by British historian E.L. Jones1. It is the competition between rival nations that explains the unusual quality of the public services which the European populations enjoy and which in turn determine the exceptional progress of the economy and the techniques characteristic of our continent. This is the reverse of China, which very early on established a gigantic empire holding a hierarchical monopoly on poor services, which paralyzed innovation and destroyed the entrepreneurial spirit for several centuries. Tomorrow China will explode like the USSR and Yugoslavia. Europeans should pray they may avoid such a fate. Hayek described the route toward servitude along which the victorious democracies were unwittingly advancing at the end of the Second World War. Today, we must avoid the dangerous slope ofa decline that would affect Europe alone. The danger is no longer that of external totalitarianism, it is our own capacity for error and the soft totalitarianism of our elites.

Thus continental Europe is taking a wrong turn. The last decade of the 20th century will go down in history-for this club of old countries that count among the richest in the world-as a period ofmoral discouragement and economic decline.

Paradoxically, this period should have been marked by optimism and dynamism. The European nations succeeded in making a flawless economic run and achieved remarkable growth since the disaster of the Great Depression and the Second World War. In thirty years, between 1945 and 1975, they caught up with the standard of living and the technology of this century's world leader, the United States. With the disappearance of the communist threat on its eastern doorstep, and the opening on a world in full process of globalizing its markets, Europe should enjoy a time of full optimism and daring changes. The reduction of the defense effort, the normalization of the price of energy, and the triumph of the democratic market system should have disbursed an abundance of peace dividends.

But quite to the contrary, we see moroseness and stagnation, an incapacity for reform, and aging of the structures that dominate since the collapse of the Soviet Union. Continental growth is stunted since the disinflation of the Eighties and the German reunification which was supposed, according to official speeches of the time, to bring an extraordinary dynamism to the economy beyond the Rhine as well as, by contagion, to those of all the other European partners. Instead, unemployment is now reaching levels close to those of the Thirties. The prospect of an indefinite continuation of austere financial policies that choke expansion discourages those more enterprising who now choose other economic spaces.

Against this backdrop of deceleration and economic and social difficulties, the governments lack the courage to tackle fundamental reform of the welfare state-as redistributor of incomes-inordinately swollen since the last war by the easy tax receipts that readily flow during exceptional growth. Taxes and costs are reaching the limits of what the assets can support, inflating the underground economy and contracting the job market. Investors are turning away from a continent where the cost of labor has become prohibitive compared to its productivity. The productive basis of our societies is eroding, while the diminished growth hinders the modernization of businesses. The result is that the majority of the economies in continental Europe are dragging themselves too slowly and painfully to the place where North America, Latin America-having digested its debt crisis, Asia (the dragons, but also continental China, in spite of inevitable mishaps along the way), and Great Britain-having been reformed in-depth, all already feel the effects of a new world dynamism.

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However, this continental stagnation is not fatal. The European economies have immense wealth. Their population still enjoys the best education in the world. The social infrastructure is abundant and well maintained. The political systems have long offered the advantages of advanced democracies.

And the reasons for this growth are no mystery .Countries that adopt good macroeconomic policies, neither too lax nor too restrictive, and especially those that can modulate them in a pragmatic way according to the circumstances, those also that had the courage to launch basic reforms of their systems of redistribution, of their taxation and operations which affect the real remuneration of labor, show each day their performance. But they are almost all located outside of Europe. The initiative is elsewhere now, in labor-dominated New Zealand, in the dictatorial Chile, and then during its transition to democracy, in the Eastern European countries who are living a revolution, in the literal sense, without precedent; in Great Britain and in the United States which showed the way to these structural reforms. But it is missing on our lagging continent, always one idea and one reform behind. Growth, in a flourishing international environment, is a question initially of macroeconomic policy, i.e. of the State's financial policy. Indeed, macroeconomic policy is management of the currency (which is an instrument of national debt) and of the budget. Currency, omnipresent in the contemporary economy, is managed by governments and central banks; and through interest rates and the rate of exchange it affects every decision made by producers and consumers. The budget determines the national expenditure and therefore must provide for the means of its financing, i.e. tax receipts and reliance on the national debt.

In certain economies, the weight of the public sector in the broad sense, including the redistributive apparatus of the welfare state, borders on half of the national income and takes in comparable amounts through taxation. Here, it is clear that the financial decisions of this dominating actor will affect the revenues and the financial decisions of all the other decision-makers, whether companies or households.

In France, the years 1986-1988 and 1994-1995 show that an expansive macroeconomic policy allowed the economy to show some life and to regain some of its dynamism, even if constraints were maintained on the labor market. In the first period, only devaluation and the budget deficit made it possible to start up some activity again. In the second, deficit spending was the only source of a little growth, too modest because of the imposed continuation ofa restrictive monetary policy. In both cases, structural reforms and improved flexibility were prevented, for lack of the strong expansion that could only have come with a much more realistic monetary policy.

Growth also depends on reform of the State, and more particularly of the welfare state, redistributor of incomes and producer of all types of support, using money taken from the taxpayers. It has been the growth of the welfare state, for a half-century, that essentially explained the weight of the tax burden. This heavy apparatus, which initially played only an auxiliary role, has become enormous without reconsidering its objectives or its methods. It is characterized today by profound conservatism, with outdated and inefficiently centralized structures. Everywhere but on our continent, the State turns over to the competitive economic circuit as much as possible of its production and protection activities, choosing to have others do, or to let them do, rather than doing things itself less effectively than competitive producers.

The State's expenditure is to some extent the national economy's overhead expense. We are reaching the point where these overheads prove to be excessive and drag down businesses' potential to create wealth.

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Which is to say, in the final analysis, that the responsibility for Europe's uneasiness falls on the policy that was chosen and the people who were responsible for implementing it. Contrary to the litany of governments that hide from any criticism behind the "tyranny of the financial markets" and the "constraints of globalization," supposed to deprive them of any room for maneuver, it should be clearly recognized that the financial policy of the State, the "macroeconomic" policy, is not dictated by the international environment. It results, in fact, from a choice that is basically political and not economic: that of the construction of a European State, intended to superimpose itself on the national states.

Instead of making it a priority to reform themselves, to restructure themselves by refocusing on their principal business as companies do, and seeking greater efficiency and therefore lower costs (that is, reducing taxes), the European States have committed to a plan for external growth through political merger on a pan-European level. This region did not begin as an area of free trade and cooperation among sovereign states. On the contrary, it has become, under the reign of the Socialists, a place for creating a super-State by merging the independent state entities that history had created, an undertaking that starts with the creation of a common currency. And this ambitious merger of the bodies politic is launched at the very moment when every country, allover the world, is tending rather to split and to divide in order to satisfy better their citizens' expectations, while saving on the overhead costs of managing the larger entity .

Admittedly, firms can seek to conserve resources through merging, by distributing fixed costs over a greater sales base. But nothing of the sort is envisioned in connection with creating a European super-State that will necessarily arise from the establishment of a single currency. On the contrary, everything points to the likelihood of superimposing an additional layer of political administration on top of those layers that are already in place in the national systems.

This venture, running counter to the realities of the end of the lOth century, constrains national governments, which are beginning to adopt an ultra-conservative financial policy that slows growth and induces an inexorable rise in the demand for public expenditure. Thus it proves self-destructive and compromises the very possibility of structural reform.

It is the same political view that diverts European governments from reforming the overgrown structures of the welfare state. This last, which constitutes a major department of the State enterprise, remains imperurbably immovable and refuses to adapt. It stays on, no matter what the cost-and it costs more and more in terms of lost employment and growth, ever higher expenses, avoiding lay-offs and competitive restructuring whereas, in a basically similar institutional environment, the private companies and their employees adapt and bear all the cost of the necessary changes.

Justified until recent times by the exigencies of the Cold War, the attempt to build a European super-State via the creation of a single currency is no longer part of that. The world markets are mostly open, the Communist threat has disappeared and the Cold War with it. It continues today only because it corresponds to the narrow interests and bolsters the ambitions of the French leading class, whose first priority is to look after the electoral clientele of the public office and its centralizing culture. The programmatic construction of a new bureaucratic pyramid on the continental scale opens to our civil servant politicians opportunities for career advancement and for power that are appealing in way that is different from those of a national State that is subjected to competition and must reduce its influence on the economy and its operating expenses.

It corresponds to the German leaders' desire for power (more even than to that of the German voters, who are themselves not very eager to give up the deutsche mark), and to their concern for regaining an international political role, which presumes that France would go along. But the process remains quite as centralizing and statist as on this side of the Rhine: it strengthens the hand of the Reich. This expansionist policy was successful in the absorption of Lander of the East which, certainly, were naturally part of modern Germany as it was constituted just over one century ago. But it continues today with the single currency, repeating in a striking way the step that inaugurated the formation of the Empire in the] 9th century, by integrating the southern States close to Prussia, and primarily by merging their currency with that of the North. This conjunction of two statist traditions, the French and the German, misapprehending the current requirements and economic conditions, determines policies that are against the grain and whose fulcrum is the single currency. It is this political choice exponent of planned economy, contrary to the economic needs, which explains euro-anxiety and the euro-stagnation.

The European impasse ultimately rests on several errors of judgment, incamated in a series of prevarications which it is only too urgent to refute:

No, the single currency is not a decisive advantage for the continent. It is a bomb.

No, the money squeeze and budgetary deflation are not imposed on us in any event by the tyranny of the markets. And they do not prime the economy for hea]thier growth: on the contrary, they prevent it from finding its dynamic equilibrium and results in the political choice of the single currency as the instrument of the political merger.

No, finally, Europe does not need a super-State. It compromises our odds and drags down our economies by going against the data of the wor]d economic and politica] environment. Everywhere, the time has come for reducing and diminishing the internal and external dimension of the States.

Choosing the single currency and the Very Great State is tantamount to giving up prosperity .