Fundamental economic policy reforming: 
core values and stakeholders’ approach in the European sovereign debt crisis

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Abstract

In this paper we will initially shortly focus on the conditions that led to the 2009–10 European sovereign debt crisis. We will notably address its structural and business-cycle roots, and come up with conclusions in the form of recommendations. We also wish to broaden the scope of the debate and carry it on a normative level: we thus address and criticize the institutional, economic, and political macroframe in which the relevant events have taken place.

First, we will use the stakeholders method in order to draw the ‘patient zero’ (the Greek public sector) environment. This will take the form of a map. This ‘institutional cartography’ will help us point out the shortcomings in the relations among Greek stakeholders and with respect to their partners.

Secondly, we will examine what European leaders and institutions have done in order to address the sovereign debt crisis. The European emergency fund must be replaced within an institutional, economic, and political logic, which must be carefully addressed before its pertinence can be evaluated: the financial system, public books, economic governance, partners’ solidarity, economic sustainability, and so on, are the categories that can help us outline the European Union ‘public face’ and mentality just as it is confronting its first potentially existential crisis. We will point out these elements before analyzing them at a normative level.

Thirdly and lastly, we will elaborate on a normative argument to provide some specific economic reform choices. We will set some values with respect to whom the political reforming should have to be made. In this regard, the conclusions and recommendations, reached by studying the stakeholders’ map, have to be at least partly generalizable at the European level. The values we think of are rooted in the Universal Declaration of Human Rights. Their articulation requires that all rights are put on equal footing. In this regard, we will thus list and distinguish between short-term elements that need an immediate answer, and deeper, underlying long-term elements, that, albeit not an urgency, nevertheless must be put at the centre of the debate that accompanies the European Union building.

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Introduction

The European sovereign debt crisis of 2009–10 emerged after the financial crisis of 2007–10. It is characterized mainly by an upward trend in sovereign loans rates of interest for some European Union (EU) state members, and by the political difficulties that ensued by these moves; it also sparked a debate on the state of many EU members’ public finances, on the shortcomings of EU’s budgetary safeguard mechanisms, and on the needed economic governance reforms. It has started as a debt crisis, and has threatened to turn into a solvency crisis. Most notably, Greece, Spain and Portugal have seen the price of borrowing funds take a sharp hike, thus impairing their ability to fund their budgets and raising broader concerns about their long-term solvency and reliability as economic partners both inside the EU and the euro area, and outside them, that is to say on global financial markets.

There has also been some questions raised that touch on member states governance matters: this crisis’ ‘patient zero’ is Greece, and it broke out when the newly-elected left-wing government of Mr. George Papandreou announced in 2009 that the budget deficit level set forth by the preceding government was in fact far higher than originally stated: 12.7 percent instead of 6 percent with respect to GDP. The previous government had resorted to accounting tricks, in order to hide the successive national budget deficits from EU watchdogs. This immediately sent the borrowing rates of interest for Greek sovereign debt rocketing, as well as the spread on Greek bonds CDS. It subsequently sparked a pan-European controversy about what was slowly becoming unavoidable: Greece would have to be bailed-out by its fellow EU member states (the IMF eventually came along). It also led to the downgrading of Greek public debt by rating agencies.

The spotlight on Greek public finances’ state soon turned to other potential sources of unrest for investors: Spain’s budget and macroeconomic indicators looked like a cause for concern, as did Portugal’s and – at least for some time – Ireland’s, Italy’s and some East-European member states. All their national governments had to address these concerns publicly.

**Greece**

Greece had to pledge a drastic austerity programme, including tax hikes, public expenditures and pension cuts, and liberalization of state-run businesses, to obtain the aforementioned bail-out from the EU and IMF. This led to social unrest, street demonstrations, riots, and chaos in some parts of the country; people got killed during riots in Athens.

**Spain**

Although Spain’s public finances do not have the same outline as Greece’s, the country found itself mired in the debate because of its enduring budget deficits and bleak economic prospects following a real-estate prices collapse and rising unemployment figures. What eventually got under scrutiny was in fact Spain banking sector (the cajas), which was found to be in dire need of refinancing in light of rising interbank rates of interest.
Portugal saw its public budget and deficit problem highlighted during the crisis, and had to calm down both its EU partners and the financial markets by showing some commitment to tackling its financial weak spots.

These are three of the most prominent examples of countries drawn into the sovereign debt debate. Each of them has different types of economic problems, and yet, each of them has had to answer to the same type of questions, fundamentally regarding the confidence that markets and EU partners can have in its public word and credit. Further, a few remarks can be made about the general setting in which these events took place: the public debt downgrading came from rating agencies, which have undergone fierce criticism for their role during the 2007–10 financial crisis, regarding the accuracy of their ratings and the ingrained conflicts of interest in their business models. Yet, no one even questioned the downgrading themselves. Most Western countries found themselves in deeper debt after the financial crisis, precisely because the financial sector had to be bailed-out by their public sector. The mere fact that the very financial sector, through rating agencies, now downgrades the financial profiles of these countries, and so makes it difficult for them to raise funding, seems at least disturbing.

In this regard, what can be said about the nature of the European political debate and system, and what does that tell us about its eventual shortcomings? We will start this analysis by drawing a stakeholders’ map of the crisis ‘patient zero’. This should help us understand more deeply the functional links that are at work ‘inside’ and ‘outside’ of Greece, and how these links can help us understand what happened.

A stakeholders’ map of Greece

A stakeholders’ map is a map that seeks to outline the general state of an agent, be it private, public or civil, in order to list its critical components and links to its environment. It has initially been developed to draw the environments of private firms, in order to spot the risks related to human rights violations in the course of their businesses, and to assess their level of corporate social responsibility (CSR) compliance. Fundamentally, it is a map that shows actors and links, which are assessed under a chosen criterion: human rights violations in the case of private firms. The criterion can be changed for another value, for example political or financial stability. The map has a clear systemic vocation: it should not merely be a stakeholder’s listing.

Our map is different from a private firm stakeholder’s map in that, in the end, some of the actors shown in Figure 1 are in fact Greece. Its public servants, media, economy and citizenry cannot be detached altogether from the Greek nation-state; they are a part of it. On the other hand, financial markets and international actors fall under a different category, and can be treated as distinct entities. We will outline what this category difference entails for our analysis. Lastly, there is not such thing as a ‘public debate’. The term refers here to the ongoing relations between all stakeholders. These relations are characterized by the fact that information is exchanged among them, be it on a voluntary basis or not.
Greek economy

The Greek territory is the ‘patient zero’ sovereignty perimeter: it is where there is better knowledge of how things work, and how things should be reformed at state-level. Thought it has little direct economic relevance at the Euroland level, it has shown that interconnectedness between its public debt and the European financial sector has systemic implications.

The state of the Greek economy has been quite good, following the country’s adhesion to the EU. Its GDP growth has been above EU average since the 1990s, and its main sectors include tourism, shipping, industrial products, food and tobacco processing, textiles, chemicals, metal products, mining and petroleum. However, there is a burden on Greek economic activity in the form of inefficient bureaucracy, tax evasion, and corruption. The country ranks at the 73rd place on the Heritage Index of Economic Freedom, which lists factors like economic, financial, or administrative freedom.

Financial markets

Greece funds a big part of its expenditures through borrowing on financial markets. Besides, it has a history of defaulting. According to Rogoff and Reinhart (2009), Greece has been in default roughly one in two years since it gained independence in the nineteenth century. The country has been able to obtain relatively cheaper interest rates on financial markets by being a Euroland member. The fact that markets did not discriminate more between Euroland members prior to the crisis may indicate that they believed the EU would bail-out any member should it encounter
serious trouble. As long as Greece financial situation did not make waves, apart from EU’s official calls for balanced budgets, this went along quite fine. At the announcement of the higher deficit, rates of interest soared for Greece at last. However, this can be thought of not as a catch-up of reality by financial markets, but as a mean for markets to call EU’s bluff when its head announced that it would not let the unfolding crisis disrupt the euro area (meaning it would bail out whoever would need to be bailed-out). The sudden jump in CDS spreads only forced the EU to follow through on what it had promised.

Rating agencies constitute a special case in this framework. As stated above, their role during the financial crisis has led to fierce criticism regarding their mandates, means, and statutes. Yet, owing to a lack of follow-up on the matter of their reform, they have been able to carry on their business as usual (the US Financial Regulation Act passed in 2010 by the Democrat legislature and administration does indeed address the situation of rating agencies but the relevant legislation will take years to implement). Although rating agencies are tasked with judging market participants’ fitness to borrow, in this case they did not sound any alarm until the announcement was made: it was tantamount to adding fuel to the fire when all the system needed at that time was to calm down a bit and assess the situation. Regardless of the state of Greece’s finances and the fact that it cried for increased scrutiny, rating agencies must serve as early-warning systems, not panic enhancers. In this case, the best one could say in their favour is that they have had a bad timing.

Leading financial actors are also to be scrutinized in this connection. Reports have emerged that Goldman Sachs, an investment bank turned into a commercial bank during the financial crisis, has helped Greek authorities to hide the state of their finances, especially to Greece EU members’ counterparts and EU institutions. There is also a debate on the role played by financial actors as to whether there has been coordinated action to take advantage of the euro slide during the early stages of the crisis’ unfolding.

Public servants

Greece’s public service is heavy and costly. Pensions and wages are high, and retirement age comes earlier in Greece that in other EU countries. It is therefore no wonder that one of the first items that have been put on the reform agenda is a squeeze in state wages, pensions, and various benefits. Public entitlements have grown too large for the state to support them in a sustainable fashion, and the international interest rates tightening seems to spell the end of a relatively easy financing period for Greece.

Another problem comes from Greece’s geopolitical rivalry with Turkey. Among its EU peers, the state’s military budget stands at the first place in terms of GDP percentage. This puts a worrisome and quite absurd burden on public finances, because of a situation that basically involves a EU member’s tacit military confrontation – through an armament race – with a EU’s neighbour.

Public institutions

Various reports note the problematic state of many Greek institutions. The fiscal administration in Greece is unable to fight what is considered to be widespread tax evasion. Fiscal data would
help us understand which percentage of national income is really subtracted. In comparing these
data with figures about which percentage of the population owns which percentage of national
wealth, one could draw preliminary conclusions about the state of national solidarity in the face
of a societal event such as an all-round austerity programme.

At the same time, two powerful families rule the political game in Greece: the Papandreou family
and the Karamanlis family. Both have been accused of corruption.

But the deeper point regarding Greece is that its social contract looks like this: public sector jobs
for social peace.

Public debate

Immediately after releasing the news that the national budget deficit was in fact higher than
previously thought, a large debate shook Greek and European media. While some commentators
have remained composed, focusing on the economic problem at hand and their implications, most
popular media have resorted to mud-slinging. The tone has been acrimonious, mostly between
German and Greek media, the first posing as the offended Euroland member who would have to
contribute the most to any bail-out plan to come, and scolding what was perceived as Greek
budgetary deception, the second responding to the first by making ill-advised allusions to
Germany’s past history. Political leaders have also played a part in this heated debate: Chancellor
Merkel’s perceived attempt to delay the problem until after a difficult German electoral term is
credited for having instead contributed to aggravate an issue that should have been addressed
immediately.

The public debate also reflects the fact that the world is increasingly becoming a smaller place:
events reverberate faster and wider. This can be seen in that once it was made public that Greek
deficits were higher than forecast, the topic almost immediately climbed on top of both political
and mediatic agendas: EU and member states’ officials have engaged in a war of words with the
market in which replies came in the form of CDS spreads escalation. While it can be argued that
such reactivity is a good thing if the problem it signals is followed by due attention and solution,
it is hardly the case here. 24-hours news cycles are the new normal, and the fact that public
debate seems ‘addicted’ to it has evacuated any notion that the problems highlighted have a
substance that needs actual resolution. In fact, it looks like problems more and more simply fill
the cycle’s slots imparted by media outlets. The cycle is the substance, and the issues sustain it,
whereas the absolute opposite should prevail.

International actors

The IMF quickly made itself available to help devising any rescue plan along with EU leaders.
The European Central Bank (ECB) has been the main interlocutor to the Greeks during the crisis.

The E(M)U

Euroland has monetary sovereignty and a strong economic relevance. It is already considered the
upper-level of competence (or else there would not have been talks of a bail-out in the first place)
and has a de facto responsibility for member states’ stability. That said, it is suspected of having
less political influence than should be required: EU financial safeguards and warnings have been ignored by Greek authorities in the run-up to the crisis.

Although the EU cannot be viewed as an ‘international actor’ in the IMF sense, we can consider it under its own category. Ferguson (2010) shows that a major cause of disruption for large socio-political entities through the course of human history has simply been fiscal matters. Great powers have broken down because of unbearable fiscal burdens, currency devaluation and loss of trust in the state’s ability to sustain itself and society. As the EU is expanding in what looks like economically uncharted waters (it is the world largest economy, but is constituted of various sovereign members, organized along democratic rules), and trying to organize itself in some form of supranational sovereignty, it must follow strict rules to avoid potential systemic chaos. One of these rules should be of not letting too many crucial parts grow unchecked. But the Greek crisis is exactly that: the extent of the problem has not been properly assessed and dealt with, until it was too late to assess and deal with it calmly and in an orderly way.

Citizenry

It is most difficult to assess the role of Greek citizens in this frame, although the riots that took place following the announcement of the austerity plan, and the strikes that have occurred since then, can indicate a degree of desolidarization on the part of most citizens from problems that are perceived as foreign-imported, politically-induced or, at least, problems on which ordinary citizens have no traction. That said, it can be argued, on the contrary, that the scope of tax evasion among Greek citizens is a sign that their country’s political and economic problems are theirs after all, even if both issues are not formally related. The fundamental issue here seems to be one of political disenfranchisement or at least disillusionment on the part of the Greek people with its political elite. Having to pay for the austerity programme has looked plain unjust to most people.

As noted earlier, we would need data that could help us assess the state of national solidarity in financial matters. But based on the outlook of Greece’s fiscal and transparency practices, one could think that there is not much room for solidarity in belt-tightening among Greeks.

Assessing the map

There are several ways in which we can assess the links between the elements of the map: what are the statutes of these links? Do they represent relationships of equality, or, on the contrary, of subordination? Are they subject to the strict rule of law and to legislative power, do they represent some form of informal social organisation, or are they run by market mechanisms? Can we find a criterion that ultimately calibrates the assessment we will make of these relationships and components?

Broadly speaking, the criteria could be stability and sustainability. If we wish to recommend a direction in which to pursue political reforms, we must first recognize that debt and solvency crises like the sovereign debt crisis threaten the very future of the EU building, by undermining confidence and trust among its members. We should thus set to find a way to evaluate the risks to the sustainability of the EU building that currently are in play. The most obvious problem, the financial one, is operational: heavily indebted countries that rely on foreign funding to finance
their budgets run the risk of seeing their lending conditions tightened, just like individual agents. This is one thing that we have seen at play here. But beyond this lies an issue of cooperation, solidarity, and public perception of wealth transfers among euro-area member countries. It seems that solidarity cannot indefinitely be a one-way road. On the other hand, it has also been argued that German economic policies are at the root of the trade imbalance within Euroland: relatively lower wages kept it this way for years, and sacrifices consented by the German workforce, have made it an export champion (intra- and extra-EU) but were deemed unacceptable in other euro-area countries. Hence Germany should have been politically prepared to accept, sooner or later, a bail-out to fellow EU members that could not or would not compete with it, because it could not just walk away from the consequences its domestic economic policies would have no doubt had for its EU fellow member countries.

While this should be explored deeper and wider, we can keep it at it, and add it as evidence that there is a conflict of interest inside of the very structure of the EU: it sets the rules and frames for economic developments for willing members, but is not yet a sufficiently homogeneous political entity, let alone a nation, that can automatically justify wealth transfers when these transfers become politically fraught. Hence the heated debate, and sour mood among EU citizens.

Greece’s public finances are the result of public mismanagement, but the root of the problem lies within Greek society’s political culture: it is estimated that 30 billion US dollars of revenues are lost within the public sector, on a total expenditure budget of approximately 160 billion US dollars.¹ A fiscal administration that misses 20 per cent of its revenues needs an overhaul.

Greece (and the EU) finds therefore itself in a political tight spot: it cannot deflect responsibility for the state of its public books, and yet it is undoubtedly in some way a victim of larger trends, on which it has little or no influence. In order for the world to have export champions, there must logically be import champions to match. The same goes for the EU, which is a mainly inward-oriented trading bloc. As long as Germany is EU’s export champion, gaining advantage of an integrated EU common market to sell its goods and services, it must therefore take responsibility – or at least retain political awareness – for the fact that some EU members will have to have trade deficits and therefore need capital at some point. This responsibility comes in the form of a duty to ensure that intra-EU economic stability is not endangered by trade imbalances.

Formal links

The Greek state has some room to manoeuvre over public service-related matters. Indeed, it has announced freezes in wages and pensions. It has traction over the economy as well, but in a lesser way: the scope of the Greek grey economy makes it difficult to attain short-term results in terms of fiscal revenues and budget balancing. Fiscal reform and operational adjustments must first be passed, not least regarding allegations of corruption in the fiscal administration.

The relations between Greece’s political class and the electorate are set to be sour for some time now. However, the fact that the country basically woke up one day to the announcement that the deficits are higher than stated, and that, as a consequence, financing the budget on international

markets will prove harder, should be seized by the political class as an opportunity to start a nation-wide societal debate about fiscal and economic responsibility. There was a problem in the way the country has been run. Such a debate should embrace all medias.

These levels put the Greek state and its internal stakeholders on equal footing. Since it could not be the case that some EU member states uses force against their citizens to pass whatever economic reform they need to pass, there must be a kick-start of democratic, candid, and transparent debate. The inability for the state to borrow abroad directly translates into troubles for the Greek population. Hence, Greeks must reckon the situation as it is, and collectively commit to balancing the state of their public finances, should this take place in the form of straight budgetary adjustments, tighter monitoring of the political class by the electorate, a shift in the way the public perceives taxation, or all three.

Less formal links

What to do with markets? What role did they play in Greece’s woes? It is clear that there can be no direct comparison here. Greece is a localised country, within the defined EU political frame, whereas the financial market, for a start, is not a financial market. It is disintegrated and areolarly localized on the planet. It has no head that could even sit down and negotiate with either Greek authorities or their EU counterparts. It is multiple, variously regulated, and even not recognized in some standardized way by all jurisdictions on the planet. It has not a unity of purpose, nor has it a clear agenda.

On the other hand, the financial market is an environment more than an institution. It is a place where actors meet to conduct transactions. A different set of skills is therefore required to deal with it: the market is not swayed by the same means used during political bargaining, for example. A promise by the Greek government to block any EU-wide financial regulation tightening would change nothing to the fact that Greece’s borrowing profile makes it eligible for higher interest rates. In this way, gesticulation and threatening (as has been done by Greek political leaders, but also by German, French, and Spanish ones) is of little effect on markets. To ward off markets (that is, other actors), credibility is needed, backed by publicly verifiable facts. One can see how this credibility was dented after the announcement that deficits had been hidden from public scrutiny for decades. Restoring it requires more than promising to go after ‘speculators’ (although the problem of speculation exists and must be addressed properly).

This touches in fact a large part of the fundamental issues underlying the financial reform debate: how can one hope to achieve the understanding needed to set clear relations between two elements that are not of the same nature? This is the debate on sovereignty and globalization, albeit on a smaller scale. Nations define themselves more and more in direct contrast to markets, thus making these markets actors-like in the same way one thinks about individual agents, which they are not. At the same time, nations can be thought of as ‘collective individuals’, because they exercise sovereignty. Nations are individuals engaged in constitutionally formalized cooperation (which sets clear and consistent goals – namely, the public interest enforcement); markets are individuals engaged in contractually formalized cooperation (which does not set clear goals in the same sense as a constitution does). The latter allows more space to massive disruptions, but the two are essentially systemic constructions that are ultimately grounded on individuals taking action through them. In this way, the debate should shift from what should be the frame of the so-
called nation-versus-market confrontation, to what could be the frame of harmonious individual cooperation across these two societal realms. So, although nations must play the role of proxies for individuals when setting rules for market functioning, this proxy role playing must ultimately be conducted in the best interest of individuals.

In our map, Greece has relations to some of its internal stakeholders that are strained by defiance and institutional dysfunctions, while it is engaged in an international structure that is wrongly polarized between nations and markets.

What should be the map-calibrating criterion?

We have pointed out that human rights are the criterion at the heart of the original stakeholders’ map. This criterion can be changed: the map is a tool that enables us to spot the weaknesses in a system when considered in some specific perspective. What does miss? What does work? Let us begin by examining what the EU has specifically done in order to address the crisis, and see how it fits in a larger argument about how things could get more efficiently done when one talks about financially rescuing one EU member state while still in the middle of the EU building process.

The European rescue plan

The Maastricht Treaty explicitly prohibits EU inter-member financial bail-outs. The intention behind the no bail-out clause is one of forcing all member states to enforce fiscal and budgetary discipline at home.

This has clearly failed, as the EU agreed in 2010 to create a European Financial Stability Facility (EFSF), that is, a legal instrument designed to ensure financial stability within the EU and to provide liquidity to Euroland members in difficulty. It will work as a Special-Purpose Vehicle (SPV), backed by collateral provided by the European Commission, members states and the IMF, and use the funds thereby raised to make loans to Euroland members who ask for it, up to € 440 billion. The EFSF will be coupled with a European Financial Stabilization Mechanism (EFSM), which is a € 60 billion loans, backed by the European Commission through the EU budget. Last but not least, the IMF will chip in an additional € 250 billion loan. The total amounts to a € 750 billion financial safety net.

Greece is the first euro-area member to have been granted help under this package. But the way this package has been agreed on is in itself problematic and telling. The EU looks like it has been dragged kicking and screaming into admitting that one of its members had been misperforming for years and now needs urgent help. Instead of directly assessing the damage, a lot of fuss has been made over the ‘morality’ of the situation: one could almost think that Greeks had criminally deceived their EU counterparts. The public opinions have been treated like time-bombs about to explode any time now: everything needed to be made in order to prevent feared strong electoral reactions. It is linked to current political culture in Western economies.

This is also linked to the current EU leadership structure, which is confusing and reveals a deeper conflict: members states want to engage in political cooperation over the building of the EU, yet they do not want to give away any real power. The EU has one president, one executive commission, one head of diplomacy, all coexisting with similar profiles inside its member states.
The famous words of Henry Kissinger, about the fact that, should he have had to call directly EU’s head in a case of emergency, he would not have known where to call, still resonate. To have a unity of purpose, there need to be a unity of institution.

**The bail-out**

The EU bail-out raises concerns in that it does address values that are quite disputable. These values define what mission the EU institutions give themselves when they address economic and political crises: from the outlook, it seems that markets had always to be ‘calmed’. On the contrary, people were left outside the debate over the bail-out. The very values that EU leaders vowed to defend did not quite resonate with the electorate. In this way, we need to deeply analyze the way in which macroeconomic targets such as price stability, employment, and economic growth are linked to human well-being, which they are supposed to help protect and develop.

So the first question one could ask is whether the economic form the bail-out of Greece has taken is protecting core human values or not. The bail-out has many components: direct loans to countries, buying of government debt by the ECB, repurchasing European banks’ bad assets (Greek bonds). What is the effect of this policy on the value of the euro? Quantitative easing on this scale has the effect of money debasement, but its seems that the euro is still over-valued (according to The Economist Big Mac Index). But here the value of the euro can be taken as a proxy for economic freedom: when the currency loses value, individuals’ purchasing power decreases. In fact, the bail-out is aimed at protecting the financial system and the ability of member states to continue borrowing at lower costs (aligned on Germany’s conditions).

The threat of moral hazard is overwhelming in both cases. Bailing out financial institutions that have amassed Greek bonds is not going to make them lend again to an indebted country, just like bailing out Greece without forcing it to adapt its budgetary practices is useless. At the same time, if Germany is to remain EU exports’ champion, it should either accept being as well a net capital exporter (so as to set straight the payment balance inside the euro area), or it should accept a euro devaluation that would set its own trade balance straight, as economic theory suggests.

However, we would then have a conflict of interest, between firms and financial sector interests, on one hand, and individuals interests on the other hand. It should be made clear – and this reaches another deeper layer of the debate – that economic tools and theories are to be developed while keeping the individuals’ interest at heart; not firms and certainly not financial institutions. Firms produce the wealth that sustains individuals’ liberties, and financial institutions help firms in this prospect. In return, individuals, who operate firms and financial institutions, are to behave in such a way that firms and financial institutions can serve this goal. Firms operate in an environment – a competitive market – that forces them to go for profits and increasing returns on capital to survive. But that is not the end of it. Wealth and profits must sustain individuals’ liberties; otherwise they would be socially useless.

In trying to restore the *status quo ante*, the EU and the ECB (and its member states, of which none among the indebted countries nor among the export-oriented economies has pledged any form of policy self-examination so far) will simply extend structural problems that are ingrained in free-
markets narrow liberalism theory,\(^2\) many of which are now shown to be inappropriate within the context of the building of a political and economical social superentity such as the EU. The *statu quo*, in this case, means not addressing the questions about sovereignty sharing and power delegating that logically accompany the emergence of any supra-national level. And this *statu quo* can be seen as a root to the crisis: all participate in the common EU market, but no one can encroach national perimeters when it comes to mutual check, whereas it is precisely in a case like the run-up to the Greek crisis that mutual discipline should have been enforced. On the other hand, if there is to be competition among member countries – and there should be –, there is going to be losers. And if there is going to be losers, there must be some kind of compensation mechanism where beneficiaries of the economic *statu quo* chip in for their less competent counterparts, just because the price of letting countries go bankrupt would have spill-over effects that not even the least concerned of their neighbours could avoid.

**A normative argument**

Let us now address the normative side of our argument, that is, in light of the criterion we have chosen, let us outline what *should* be done, in terms of economic reform.

*Human value and economic normativity*

The value at the heart of economic reform must be human value. Putting human value at the top of economic reform, and thus societal concerns, means that, ultimately, it is through indexes such as the Human Development Index (HDI) that economic performances are to be assessed, not GDP growth, budget deficits, or trade balances. These are merely operational levers that help policy makers achieve the goal of HDI improvement, not targets that must be reached for on their own.

Human value and freedom must be at the core of society’s goal; otherwise, there is no point in society. At an economic level, both the financial and the real production sectors of the economy must match. The financial–real sector match, along with a well-priced currency,\(^3\) is thought to be something good, in that it characterizes a system that is best fit for human development. Lastly, macroeconomic indicators are here to help policy makers take the pulse of what is functioning and what is not. It is important to stress the direction of causality here: macroindicators are a way policy makers can fulfill what is missing in society’s benefits towards individuals. Macroindicators are not a goal in themselves. They are always underpinned by the fact that they must indicate that core human value is protected (or not). Otherwise, once again, there is no point in setting them in the first place.

\(^2\) What we here call ‘free-markets *narrow* liberalism’ is to be opposed to ‘integral liberalism’. Integral liberalism encompasses and sets to further all human liberties, which are then balanced against one another in a global liberty system. Economic liberties are not anymore given priority over others: they are pondered. This is linked to the debate of wealth redistribution. In a way, integral liberalism is more than merely an economic doctrine, but it can be stated in economic terms.

\(^3\) A ‘well-priced currency’ is a currency whose value is backed by a proportioned production of goods and services, and a currency that does not run the risk of being devalued in the wake of urgency measures taken by monetary authorities, or indeed, being hit by hyperinflation owing to a loss of public faith.
There should also be a choice with regard to what one wants to achieve. What were the perceived needs behind recent financial developments? Were they pertinent, legitimate, useful? A second house? Real-estate flipping? If there is going to be a re-examination of free-markets narrow liberalism, then it is perfectly fine to reassess what can be expected to be a basket of goods and services that sustains in a ongoing way individual liberties. This means that not everything is fit to be produced, just because there is a demand for it. The notion of demand has to be infused with some proportion of normativity, which in turn asks another question: if there must be at least some hierarchy among societal objectives, must markets always prevail? Technically, this could translate into the fencing-off of parts of the economy from what amounts to disruptive competition, volatility, or illegitime speculation. Some core economy takes care of what is at the very least needed to nurture, shelter, and educate the world population, in a prudently ‘hedged’ fashion, while the periphery revolving around it serves it (but cannot take a critical stake into it), specializes in more-developed comfort and consumer goods, and is theoretically organized around greater risk and profit. After all, despite what economic theory tells us, individual needs are not substitutable: the need for vaccines should be satisfied before the need for iPods.

**Figure 2: A normative hierarchy**

So economic reform, if it is to be legitime, must be organized around this maxim: every structure put in place must always have at least a direct link to the core value and must respect systemic balances. Figure 2 illustrates notably that all macroindicators must at least be based on human value: before economic concerns come fundamental concerns. The latter pave the way for further economic indicator’s pertinence. If we think strictly in economic terms, we run the risk of losing sight of individuals’ interests: in the case of monetary unions such as the euro area, absent the mechanism of exchange rates to adjust for international trade shifts and shocks, there remains the tool of domestic fiscal and wage discipline. However, this is a case where individuals are the ‘operational’ variable: they are disadvantaged, their wages stagnate and their interests are overlooked. In order to get macroeconomic indicators under control, individuals would have to
suffer. While this could make sense in strictly economic terms, it makes no sense when overall social well-being is considered.

*Systemic value*

Another type of value that we wish to set forth is systemic value: individual liberties must be organized so that systems are balanced. Without stable systems, there can be no protection for individual liberties. These systems are economic, social, ecological, and so on.

We can illustrate the systemic requirement by the following thought. There should be some more intertemporal relaying between trade competitors. Whenever a country records a trade surplus, its currency exchange rate should rise, thus slowly absorbing the surplus, and get the country back to some trade equilibrium, allowing its competitors to take (temporary) advantage, until the same mechanism applies to them as well. No one should be in a state of perpetual, or even prolonged, advantage, because this translates as prolonged tension in systemic terms. As this adjustment mechanism cannot operate within Euroland, since exchange rate fluctuations have been abolished by the changeover to the single currency, a subsidiary mechanism should be found to facilitate wealth transfers: if Germany wishes to maintain a statute of export champion, it must be prepared to compensate for it within the system that is the euro area. In that sense, national sovereignty must be balanced against systemic resilience. On the assumption that Germany indeed participates in the building of the EU (the supra-system) as a willing member, it should at least heed the need of its own behaviour not disrupting the system’s stability. Otherwise, it would contradict its UE-membership commitment.

*Diversity versus volumes*

In an economic environment as diverse as is the EU, economic policies and operational goals must be diverse too. Standardization and common policies must be finely distinguished: attaining the same goal through economic policy throughout the EU, namely, protection and enforcement of individual liberties, does not necessarily translate into indifferently applying the same set of policies everywhere. What the example of the Washington Consensus has taught us is that one-size-fits-all economic policy recommendations have disruptive effects when applied in social and economic contexts: it is just not the way the real world works. We can use it as a non-substantive analogy in order to show that, first of all, local economies need to be grown and strengthened before being exposed to international competition.

In the same way, the diversity encountered in both natural and social worlds must be reflected in the economic approach to policy. Ecological systems do not include high levels of specialization, nor do they naturally tend to a reduction of species. This speaks against the exaggerated recourse to international diversification, labour division, economies of scale, for example, and against the theoretical goal of business theory that indefinite growth is required as a *sine qua non* condition for development. Further, this speaks also as a warning against aiming at mere volumes when one plans economic development. Quite to the contrary, a net of interconnected but not fully-integrated small systems could seem more in order. So to speak, a United-States-of-Europe model could look interesting, when one considers the sovereignty-sharing question (sovereignty being defined as an *ability* representing here the internal stability and resilience of the small
system). Partial independence from one another guarantees that disruptions in one small system do not directly, and necessarily, spread to its neighbours.

Finally, it would be useless to think of an economic system where every competitor has the same profile, and thus is able to regularly outperform the others, establishing a tournus in competitive pre-eminence. There are long-standing economic divergences within the EU, and some countries are destined to serve as economic engines more than others, because of long-standing embedded advantages. While this should not be held as a historical constant, it can help us devise a more flexible policy, where EU members are considered core countries for some short-to-medium term, while others fall under the category ‘periphery’. The core subsidizes the periphery. While the periphery is deemed as such under an economic point of view, it can still be successful in human rights-related areas. As long as a minimal core protection is guaranteed for individuals, the international community can grow diversely and from different models.

**Ethics and transparency**

With respect to EU building, there is a rationale for integration, both for prosperity and security reasons, which requires governance and a level of shared control. This is why adequate transparency among the members is crucial. As EU member states are basically carrying out an experiment in nation-building never before matched in history, they cannot properly cooperate if fundamental information, such as fiscal deficit levels, is kept hidden by individual members, let alone if these members resort to financial deception toward their partners. This undermines trust among them.

Therefore, one notch above mere systemic thinking, we have to take into account the fact that EU building is conducted by fellow human individuals, in an intersubjective and cognitive way. This drives out most mechanistic models of development on the ground that treachery, for example, or information-hiding, manipulation, or the ever-present desire to control one’s environment, are computationally intractable, but still elements of the political cognitive map. Nonetheless the desire to unify the European continent into a political entity that guarantees peace and prosperity to individuals is real as well. The balancing between this fact and the constraints of human psychology can be made through the implementation of an ethical code, itself based on the corpus of human rights and enforced through a strong judicial system. As human rights are, precisely, human rights, they represent a ‘painting’ of what an individual needs in order to develop herself in the best possible way, while simultaneously leaving outside ethnic, geographic, sociological, or historical traits that can be used against her or others. It links what is common to all members of the human specie, and as such acts as a guarantee against manipulation.

The EU is becoming an organic entity. Whether it is the economic or the political component that has precedence is of little interest. This increased systemicity of the EU forces its members to act in a way that reflects the fact that their core interests are linked to each other. The very idea of building the EU bears the implication that such a level of solidarity has to be attained at some

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4 We do not forget that bigger (geographically speaking) empires have indeed been built in the past. But they were all based on monarchic or autocratic power. The EU is getting built following democratic rules of cooperation, making it a far more complex project and likely a first-time attempt in history.
point. In this regard, the corpus of human rights is the best positioned to provide calibrating values for economic policies, because it is precisely based on recognizing a common feature among humans, which translates into solidarity under a political point of view.

**EU macroeconomic governance**

There is a lot of debate on macroeconomic governance (economic governance at the EU level). The normativity issue, however, is systematically ignored. Governance means taking decisions, which are usually, at least temporarily, in favour of some parties and against others. This back and forth effect is unavoidable when systemic organisation is concerned, and yet, every EU summit gives the impression that agreements are hatched in such a way as to minimize the vexation of member states of being told that their policy practices are deemed unacceptable and harmful to the Union. That is certainly one point worth discussing: how should formal political relations among EU member states be handled? After all, one could argue that these relations are not quite the same as, for example, when the United States talks to Russia, where the risk of diplomatic incident is higher.

If we take this notion back to our matter, we could suggest that the euro area should get organized in order to absorb the German trade surplus, and that Germany has to be able to hear this without retracting to nationalistic mode; and if one really wishes to analyze it under a more radical angle, one could point that not taking these trade surpluses and their overall effects into account would eventually force the United States to retaliate: because they are financially flexible, they will first absorb the surplus; but when the US Congress notices that the deficit only soars further, it could very well adopt protectionist measures. The logical outcome of the intra-EU trade imbalances is trade war.

German constituencies must thus accept that trade surpluses originated in their country lead to deficits abroad – mostly within the EU, but with worldwide consequences – and so accept some kind of compensating mechanism. To date, however, nobody ever dares to state such things at EU summits: if the EU is to be a real family, and not merely a politically-correct partnership, it must grow some political culture that allows for shout matches. The general impression is that there currently is no supranational feeling of any sort at EU level that could help generate such a heated, but transparent debate – at least not in official EU displays. It lacks, but is not impossible to foresee: existing intra-EU economic ties denote some form of social cooperation. It is a fertile ground that only needs to mature and grow.

Lastly, it looks like the EU has lost some of its appeal to its citizens, which can be seen in the fact that statesmen and stateswomen of a truly pan-European stature are now harder to come by than has been the case in the past. If the EU is to succeed, it must raise a new generation of political leaders who are ready to forgo some of their home-countries sovereignty (and bet much of their own political credit) to transfer it at the supranational level. This being a mutually-reinforcing process, opening up and reorienting EU economic policy a bit more towards individuals rather than markets or businesses could go a long way in breeding a generation of European citizens who put their European identity at the same level as their home countries’.
Global geopolitical level

As markets have grown into global entities, countries have not. There is a discrepancy between what individual countries that fund their national budget through debt on globalized markets want (they want access to a broader pool of financing, and thus cheaper interest rates), and what these same countries should do to avoid entering highly inequitable relationships (they should grow the political muscles, or at least the institutional ones, to match their growing economic and financial commitments).

The EU is in the midst of a double challenge: building itself on a democratic basis, and getting set up to compete with other global actors. It needs therefore to define itself as a legitimate political entity and as a system able to compete worldwide. It should represent a sustainable economic model, based on fundamental traits of what constitutes a pertinent guarantee of future stability and productivity: educated and willing individuals, aware of each others’ common interest.

To sum up, the long-run advantage for any systems that favour human value is the value added to human capital development. In a globalized world where natural resources are unevenly distributed, this is the absolute first area where countries need to reinforce their fundamentals, and it falls straight in the middle of the Lisbon Agenda, for example. Making the EU the world’s most competitive area goes through empowering its individual members everywhere. Their needs are universal: shelter, food, cure, family, education, to state a few. All are clearly defined and thoroughly researched in the human rights corpus, and all fit squarely to the EU’s democratic supranational building ‘metavocation’.

Conclusion

This paper calls for a renewal of the EU building commitment by its members on a bottom-up basis. This may include a pause in EU enlargement and monitoring programmes to scan the state and mood of EU citizens and public opinion. A renewed commitment should also include stronger EU watchdogs and the reckoning of their importance to EU development. There needs to be a choice made over which value should underpin the EU political functioning: if this value is solidarity among member states, then the rescue plan for Greece should have been agreed upon much earlier and quicker that it has been the case. The problem of soft budgetary constraints should also be addressed properly.

The EU leadership has been exposed as non-existent: no one has taken a stand, except the ECB. There is a strong need for a more honest debate about sovereignty within the EU. There needs to be more clarity about what individual EU members can and cannot do as economic agents inside the euro area. There must be at least some hierarchy among societal objectives: for instance, must markets always prevail? Are public finances and commitments too large for the real economy?

These issues are too important to be addressed by (commonly trained) economists only.

Generally speaking, even political superpowers are unable, or unwilling, to quell serious systemic disruptions (deadly riots, financial meltdowns, social disintegration, runaway budget deficits, and so on) when they do not face imminent critical threats. A better way to reinforce the EU along its
member sates would then be to ensure systemic resilience and robustness, through a pertinent understanding of the type of relations that the EU-building calls for: self-evident commitment to individuals’ interests at citizen level, responsibility at member states level, transparent and shared purpose and control at EU level. States should focus on a core of fundamental rights/liberties to be preserved anytime the rest of the non-fundamental economy sinks. Overall regulation of this core is to be calibrated through the corpus of human rights, which currently includes a vast array of knowledge, expertise, arguments, and instruments aimed at guaranteeing actual implementation. Among these rights stands the right to information, which could contribute to an improved public debate within the EU.

Even if one insists in staying sceptical or prudent about the EU, one must admit that it constitutes a vital historical experiment in nation- and democratic rules-building and implementing. So if it is to be at the very least an experiment, there must be some sort of trying of new frameworks over older ones, and stepping over previously-uncrossed fences.

References
