The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Save Euro and Democracy

By Andrei Borodin

September 28, 2011

The issue that has loomed large over the past months has been the extent to which the European Union's institutions are willing and allowed to intervene to support individual countries and their banks.

Although Britain is outside the euro zone, an interim report from the country's Independent Commission on Banking described the problem of bank guarantees well. "Large banking systems can threaten the perceived creditworthiness of governments, through the presence of an implicit guarantee. The social costs of sovereign default, or even the risk of it, are very large indeed," according to the report. "So bank guarantees, by placing the creditworthiness of the government in question, can risk costs for society that would dwarf the direct cost or value of the subsidy to the banks."

The main problem facing the euro zone is that there are a variety of governments pursuing their own policies, but there is only one monetary authority and guarantor of the whole banking system that is trying to act in the best interests of the single currency area as a whole.

This puts European politicians in the difficult position of being forced to support actions that their voters have never mandated. More accurately, it is putting the paymaster politicians of France and Germany in this difficult position. Meanwhile, some of the most beleaguered countries seem to be behaving just as they have in the past with no regard for the rules of the euro regime.

At the August Paris summit, the leaders of France and Germany announced that in the future there would be a euro-zone government with an elected president.

According to French President Nicolas Sarkozy, this new government "will be made up of heads of state and government that will meet twice a year and more often if necessary. It will elect a stable president for two and a half years."

German Chancellor Angela Merkel and Sarkozy added that they want all euro-zone nations to enact constitutional amendments requiring balanced budgets by the summer of 2012.

Haven't we heard this before? This was supposed to be a feature of the original euro-zone agreement, but it has been flouted dramatically and repeatedly without sanction.

The Paris summit was intended to send a signal that these two leaders recognize that if the single currency is to work it will require closer economic integration, which in turn will involve countries surrendering sovereignty.

But other lawmakers across the EU have already expressed resistance to signing off on the budget deficit-balancing rule. Finland's finance minister questioned whether the rule would work at all and said she was "not too excited" about making changes to her country's constitution. Austria said it was not prepared to completely relinquish its power to set policy, while French Socialists are threatening to turn it into a campaign issue.

The real issue, however, is the Germans. As Wall Street Journal columnist Howard Gold recently wrote, "Germans have balked at always having to bail out the weaker countries. They claim, not unreasonably, that they tightened their belts when they needed to and worked hard to compete with China and other emerging markets. So why should they pay for countries that didn't?'"

Wolfgang Bosbach, chairman of the interior affairs committee of Germany's Christian Democratic Union, said: "This is a fundamental question for our children and grandchildren, whom we're already saddling with mountains of debt — and then we're adding huge risks on top of that. ... I'm not against helping Greece, I just doubt that ever-higher debts can actually help."

If enough conservatives rebel and Merkel is forced to rely on opposition parties to pass the legislation, she could face pressure to dissolve parliament and call early elections.

A poll conducted by Allensbach Institute in Germany showed that an increasing number of Germans have a negative attitude toward the euro with 76 percent saying they had little or no faith in the currency, up from 71 percent in a poll two months ago.

Saving the euro at the expense of Germans, who do not want to bail out the rest of the euro zone, or Greeks and Italians, who do not want to reform their systems, will be extremely difficult to accomplish.

Andrei Borodin, founder of Bank of Moscow, served as its CEO from 1995 to 2011.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.