

German Finance Minister Schäuble's Plan for Europe - Do Europeans Approve?

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The reason five months of negotiations between Greece and Europe led to impasse is that Dr Schäuble was determined that they would.

By the time I attended my first Brussels meetings in early February, a powerful majority within the Eurogroup had already formed. Revolving around the earnest figure of Germany's Minister of Finance, its mission was to block *any* deal building on the common ground between our freshly elected government and the rest of the Eurozone.[1]

Thus five months of intense negotiations never had a chance. Condemned to lead to impasse, their purpose was to pave the ground for what Dr Schäuble had decided was 'optimal' well before our government was even elected: That Greece should be eased out of the Eurozone in order to discipline member-states resisting his very specific plan for restructuring the Eurozone. This is no theory of mine. How do I know Grexit is an important part of Dr Schäuble's plan for Europe? Because he told me so!

I am writing this not as a Greek politician critical of the German press' denigration of our sensible proposals, of Berlin's refusal seriously to consider our moderate debt re-profiling plan, of the European Central Bank's highly political decision to asphyxiate our government, of the Eurogroup's decision to give the ECB the green light to shut down our banks. I am writing this as a European observing the unfolding of a *particular* Plan for Europe - Dr Schäuble's Plan. And I am asking a simple question of *Die Zeit's* informed readers:

Is this a Plan that you approve of? Is this Plan good for Europe?

Dr Schäuble's Plan for the Eurozone

The avalanche of toxic bailouts that followed the Eurozone's first financial crisis offers ample proof that the non-credible 'no bailout clause' was a terrible substitute for political union. Wolfgang Schäuble knows this and has made clear his plan to forge a closer union. "Ideally, Europe would be a political union", he wrote in a joint article with Karl Lamers, the CDU's former foreign affairs chief ([Financial Times](#), 1st September 2014).

Dr Schäuble is right to advocate institutional changes that might provide the Eurozone with its missing political mechanisms. Not only because it is impossible otherwise to address the Eurozone's current crisis but also for the purpose of preparing our monetary union for the next crisis. The question is: Is his specific plan a good one? Is it one that Europeans should

want? How do its authors propose that it be implemented?

The Schäuble-Lamers Plan rests on two ideas: “Why not have a European budget commissioner” asked Schäuble and Lamers “with powers to reject national budgets if they do not correspond to the rules we jointly agreed?” “We also favour”, they added “a ‘Eurozone parliament’ comprising the MEPs of Eurozone countries to strengthen the democratic legitimacy of decisions affecting the single currency bloc.”

The first point to raise about the Schäuble-Lamers Plan is that it is at odds with any notion of democratic federalism. A federal democracy, like Germany, the United States or Australia, is founded on the sovereignty of its citizens as reflected in the *positive* power of their representatives to legislate what must be done on the sovereign people’s behalf.

In sharp contrast, the Schäuble-Lamers Plan envisages only negative powers: A Eurozonal budget overlord (possibly a glorified version of the Eurogroup’s President) equipped solely with negative, or veto, powers over national Parliaments. The problem with this is twofold. First, it would not help sufficiently to safeguard the Eurozone’s macro-economy. Secondly, it would violate basic principles of Western liberal democracy.

Consider events both prior to the eruption of the euro crisis, in 2010, and afterwards. Before the crisis, had Dr Schäuble’s fiscal overlord existed, she or he might have been able to veto the Greek government’s profligacy but would be in no position to do anything regarding the tsunami of loans flowing from the private banks of Frankfurt and Paris to the Periphery’s private banks.[2] Those capital outflows underpinned unsustainable debt that, unavoidably, got transferred back onto the public’s shoulders the moment financial markets imploded. Post-crisis, Dr Schäuble’s budget Leviathan would also be powerless, in the face of potential insolvency of several states caused by their bailing out (directly or indirectly) the private banks.

In short, the new high office envisioned by the Schäuble-Lamers Plan would have been impotent to prevent the causes of the crisis and to deal with its repercussions. Moreover, every time it did act, by vetoing a national budget, the new high office would be annulling the sovereignty of a European people without having replaced it by a higher-order sovereignty at a federal or supra-national level.

Dr Schäuble has been impressively consistent in his espousal of a political union that runs contrary to the basic principles of a democratic federation. In an article in *Die Welt* published on 15th June 1995, he dismissed the “academic debate” over whether Europe should be “...a federation or an alliance of states”. Was he right that there is no difference between a federation and an ‘alliance of states’? I submit that a failure to distinguish between the two constitutes a major threat to European democracy.

Forgotten prerequisites for a liberal democratic, multinational political union

One often forgotten fact about liberal democracies is that the legitimacy of its laws and constitution is determined not by its legal content but by politics. To claim, as Dr Schäuble did in 1995, and implied again in 2014, that it makes no difference whether the Eurozone is an alliance of sovereign states or a federal state is purposely to ignore that the latter can *create* political authority whereas the former cannot.

An ‘alliance of states’ can, of course, come to mutually beneficial arrangements against a

common aggressor (e.g. in the context of a defensive military alliance), or in agreeing to common industry standards, or even effect a free trade zone. But, such an alliance of sovereign states can never legitimately create an overlord with the right to strike down a states' sovereignty, since there is no collective, alliance-wide sovereignty from which to draw the necessary political authority to do so.

This is why the difference between a federation and an 'alliance of states' matters hugely. For while a federation replaces the sovereignty forfeited at the national or state level with a new-fangled sovereignty at the unitary, federal level, centralising power within an 'alliance of states' is, by definition, illegitimate, and lacks any sovereign body politic that can anoint it. Nor can any Euro Chamber of the European Parliament, itself lacking the power to legislate at will, legitimise the Budget Commissioner's veto power over national Parliaments.

To put it slightly differently, small sovereign nations, e.g. Iceland, have choices to make within the broader constraints created for them by nature and by the rest of humanity. However limited these choices, Iceland's body politic retains *absolute* authority to hold their elected officials accountable for the decisions they have reached within the nation's exogenous constraints and to strike down every piece of legislation that it has decided upon in the past. In juxtaposition, the Eurozone's finance ministers often return from Eurogroup meetings decrying the decisions that they have just signed up to, using the standard excuse that "it was the best we could negotiate within the Eurogroup".

The euro crisis has expanded this lacuna at the centre of Europe hideously. An informal body, the Eurogroup, that keeps no minutes, abides by no written rules, and is answerable to precisely no one, is running the world's largest macro-economy, with a Central Bank struggling to stay within vague rules that it creates as it goes along, and no body politic to provide the necessary bedrock of political legitimacy on which fiscal and monetary decisions may rest.

Will Dr Schäuble's Plan remedy this indefensible system of governance? If anything, it would dress up the Eurogroup's present ineffective macro-governance and political authoritarianism in a cloak of pseudo-legitimacy. The malignancies of the present 'Alliance of States' would be cast in stone and the dream of a democratic European federation would be pushed further into an uncertain future.

Dr Schäuble's perilous strategy for implementing the Schäuble-Lamers Plan

Back in May, in the sidelines of yet another Eurogroup meeting, I had had the privilege of a fascinating conversation with Dr Schäuble. We talked extensively both about Greece and regarding the future of the Eurozone. Later on that day, the Eurogroup meeting's agenda included an item on future institutional changes to bolster the Eurozone. In that conversation, it was abundantly clear that Dr Schäuble's Plan was the axis around which the majority of finance ministers were revolving.

Though Grexit was not referred to directly in that Eurogroup meeting of nineteen ministers, plus the institutions' leaders, veiled references were most certainly made to it. I heard a colleague say that member-states that cannot meet their commitments should not count on the Eurozone's indivisibility, since reinforced discipline was of the essence. Some mentioned the importance of bestowing upon a permanent Eurogroup President the power to veto national budgets. Others discussed the need to convene a Euro Chamber of Parliamentarians to legitimise her or his authority. Echoes of Dr Schäuble's Plan

reverberated throughout the room.

Judging from that Eurogroup conversation, and from my discussions with Germany's Finance Minister, Grexit features in Dr Schäuble's Plan as a crucial move that would kickstart the process of its implementation. A controlled escalation of the long suffering Greeks' pains, intensified by shut banks while ameliorated by some humanitarian aid, was foreshadowed as the harbinger of the New Eurozone. On the one hand, the fate of the prodigal Greeks would act as a morality tale for governments toying with the idea of challenging the existing 'rules' (e.g. Italy), or of resisting the transfer of national sovereignty over budgets to the Eurogroup (e.g. France). On the other hand, the prospect of (limited) fiscal transfers (e.g. a closer banking union and a common unemployment benefit pool) would offer the requisite carrot (that smaller nations craved).

Setting aside any moral or philosophical objections to the idea of forging a better union through controlled boosts in the suffering of a constituent member-state, several broader questions pose themselves urgently:

- Are the means fit for the ends?
- Is the abrogation of the Eurozone's constitutional indivisibility a safe means of securing its future as a realm of shared prosperity?
- Will the ritual sacrifice of a member-state help bring Europeans closer together?
- Does the argument that elections cannot change anything in indebted member-states inspire trust in Europe's institutions?
- Or might it have the precise opposite effect, as fear and loathing become established parts of Europe's intercourse?

Conclusion: Europe at a crossroads

The Eurozone's faulty foundations revealed themselves first in Greece, before the crisis spread elsewhere. Five years later, Greece is again in the limelight as Germany's sole surviving statesman from the era that forged the euro, Dr Wolfgang Schäuble, has a plan to refurbish Europe's monetary union that involves jettisoning Greece on the excuse that the Greek government has no 'credible' reforms on offer.

The reality is that a Eurogroup sold to Dr Schäuble's Plan, and strategy, never had any serious intention to strike a New Deal with Greece reflecting the common interests of creditors and of a nation whose income had been crushed, and whose society was fragmented, as a result of a terribly designed 'Program'. Official Europe's insistence that this failed 'Program' be adopted by our new government 'or else' was nothing but the trigger for the implementation of Dr Schäuble's Plan.

It is quite telling that, the moment negotiations collapsed, our government's argument that Greece's debt had to be restructured as part of *any* viable agreement was, belatedly, acknowledged. The International Monetary Fund was the first institution to do so. Remarkably Dr Schäuble himself also acknowledged that debt relief was needed but hastened to add that it was politically "impossible". What I am sure he really meant was that it was *undesirable*, to him, because his aim is to justify a Grexit that triggers the implementation of his Plan for Europe.

Perhaps it is true that, as a Greek and a protagonist in the past five months of negotiations, my assessment of the Schäuble-Lamers Plan, and of their chosen means, is too biased to

matter in Germany.

Germany has been a loyal European 'citizen' and the German people, to their credit, have always yearned to embed their nation-state, to lose themselves in an important sense, within a united Europe. So, setting aside my views on the matter, the question is this:

What do you, dear reader, think of it? Is Dr Schäuble's Plan consistent with your dream of a democratic Europe? Or will its implementation, beginning with the treatment of Greece as something between a pariah state and a sacrificial lamb, spark off a never-ending feedback between economic instability and the authoritarianism that feeds off it?

[1] "Elections can change nothing" and "It is the MoU or nothing", were typical of the utterances that he greeted my first intervention at the Eurogroup with.

[2] Moreover, if the Greek state had been barred from borrowing by Dr Schäuble's budget commissioner, Greek debt would still have piled up via the private banks - as it did in Ireland and Spain.

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