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Delors had the answer to the Greek question



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The 1989 blueprint for the euro emphasised responsibility and solidarity would sit side by side



There is a well-worn aphorism heard among British politicians that says the way to keep a secret is to announce it in the House of Commons. Something similar is true of Europe. This week's deal to keep Greece in the euro leaves two questions: will it work; and what can be done to strengthen Europe's monetary union. Sad to say, the answer to the first is "probably not"; as for the secret formula that would secure the future of the euro, it was published 25-odd years ago.

The obvious observation on the latest bailout plan is that its harsh terms were at once inevitable and potentially counter-productive. There can be no argument that Greece requires radical reform. This has nothing to do with whether it stays in the single currency or returns to the drachma. Dismantling clientelism and collecting taxes are prerequisites for Greece to become a

modern, functioning democracy. The big danger of so-called Grexit is that the impetus for change would evaporate. Greece's future would be as Europe's Venezuela — only without the oil.

What is also true is that the creditors — and above all Germany — have allowed their explicable anger and frustration with the antics of Alexis Tsipras's Syriza government to cloud their judgment about the shape of a new agreement. The International Monetary Fund's latest evaluation of Greece's dire economic predicament told us what we knew: whichever way you cut it, Athens needs a sizeable debt writedown.

The word in Berlin is that this is a problem for the long term. The immediate debt-servicing burden is relatively light. This is to ignore political psychology. The Greek people need incentives to embrace change — light at the end of the tunnel, as the cliché has it. The chances of Athens sticking rigorously to a new programme were always going to be fairly slight. Without the promise of debt relief they vanish.

As negotiations get under way in the coming weeks, creditors should also be flexible about short-term fiscal targets. You do not have to be a paid-up Keynesian to believe austerity can be counter-productive. There should be a trade-off with structural reforms. The more Athens does to clean up governance and allow markets to work, the less fixated creditors should be on the precise size of its primary surplus.

Ah, I hear politicians in Berlin say, but what about Chancellor Angela Merkel's problems with the Bundestag? Her party will not accept any concessions. The answer is straightforward. If Ms Merkel wants to keep the euro afloat then Germany too has to own up to reality. Leaders sometimes have to spend accumulated political capital. Or does Ms Merkel want to be remembered as the author of the fracture of Europe?

Whatever the outcome of the negotiations — and I admit it is hard to be optimistic — deeper doubts about the future of the euro remain. Sure, Anglo-Saxon economists have been predicting its imminent demise for the past five years and have been wrong on every occasion — mostly because they have not paid attention to politics. But to rescue the single currency is one thing; to underwrite its long-term future another.

For now, the euro is stranded in no-man's-land. Perhaps that is why smart officials in Berlin have been rereading the report produced in April 1989 by a committee of central bankers and eminent experts. Chaired by Jacques Delors, then president of the European Commission, the committee was charged with producing the blueprint for a single currency. Its Report on Economic and Monetary Union in the European Community did just that.

Among the authors of the Delors report there were doubts much would come of it. As an economics writer for the Financial Times, I was counselled by senior figures in Frankfurt not to pay much attention to the plan, even though Karl Otto Pöhl, then president of the Bundesbank,

was a prominent signatory. Germans, I heard, would never consent to give up the Deutschmark.

The authors, though, could not have predicted that six months later the Berlin Wall would come down, transforming the political dynamics of European integration. Germany's Helmut Kohl got German reunification and François Mitterrand, the French president, secured economic and monetary union.

Except that this last sentence is not quite right. What was agreed at Maastricht two years later was monetary union. The "economic" bit was dropped, because France, among others, was jealous of its national sovereignty.

By opting for a strictly monetary union, EU leaders sidestepped the core tension that still torments the euro. Where does the balance lie between solidarity — a eurozone budget and transfers from rich to poorer nations — and the collective responsibility of mutually binding economic and fiscal rules?

The committee foresaw that the eurozone could never be modelled on the US. European nations would never pool sufficient sovereignty. But the report emphasised that economic union demanded serious constraints on national decision-making and, at times of stress, official resource transfers: responsibility and solidarity, in other words, would sit side by side.

Critically, the committee concluded: "Economic and monetary union form two integral parts of a single whole and would therefore have to be implemented in parallel." They never were, and that was the big mistake. The euro will be safe only when it is rectified.

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