Meiji Institute for Global Affairs

MIGA COLUMN GLOBAL DIAGNOSIS

April 5, 2013

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Short Curriculum Vitae) Naoaki Okabe

Graduated from the School of Political Science and Economics, Waseda University in 1969. Joined the *Nihon Keizai Shimbun* that same year, and after serving in roles such as reporter in the economics section held successive posts as a correspondent in Brussels, head of the New York branch office, executive director of the editorial board, special executive director, and columnist. Has held his current post since 2012. His major works have included *A Leaderless World*, *A Primer to the Japanese Economy*, and *Reciprocity: The Political Dynamics of the Yen and Dollar*.

Will the Euro Crisis Reignite?

Will the euro crisis, which had appeared to have calmed down, in fact reignite? A financial crisis is occurring on the tiny island nation of Cyprus, while Italy, which is the third largest economic power in the euro zone, has seen persistent political instability following its general election. In the midst of all this the euro has been falling relative to the dollar and the yen. One serious problem is the fact that the unemployment rate in the euro zone reached its worst levels in February at 12%. Frameworks continue to be formed in order to head off a euro crisis, such as a European banking union, after the establishment of the European Stability Mechanism (ESM), but offshoots of the crisis are sprouting up here and there. European solidarity is required in order to once again restore the euro.

Repercussions from Berlusconi's Comeback

The euro zone's greatest miscalculation has been the comeback of the right-of-center Berlusconi and the failure of the left-of-center faction that took over from the reform-minded Prime Minister Monti to seize the political initiative.

What plunged the euro into crisis was a wavering in confidence in the national debt of the Italy, which is a major power, which triggered a steep rise in the interest on its national debt.

The Berlusconi administration was forced to step down under intense pressure from within the euro zone coming from countries like France and Germany. The administration led by the economist Mario Monti that appeared as its replacement pursued fiscal reconstruction, regulatory reform, and a growth strategy through which it took a stand to restore Italy. The Monti reforms were regarded as a model for restoring the euro and met with high acceptance internationally as well.

In combination with Mario Draghi, the President of the European Central Bank (ECB) (who originally served as Director General of the Banca d'Italia, Italy's central bank), they were dubbed the "two Super Marios." The restoration of confidence in the euro rested in large measure on this pair of Italians.

It was then that Berlusconi made his comeback. The problem lay in the fact that while Berlusconi had a notorious reputation internationally, his popularity within Italy had not waned.

I caught a glimpse of this popularity on the occasion of the Genoa Summit (summit of major world leaders) that was held in 2001 under Prime Minister Berlusconi. There Berlusconi unexpectedly put in an appearance at the media center, at which reporters from around the world were gathered, in order to sample a meal that had been prepared for the media. He tried the spaghetti, grinned broadly, and gave the thumbs-up sign. Upon witnessing this scene I found him to be a lovable figure as one would expect. We had come to cover the summit of major countries, and saw that no other leader could pull off such a feat. The spaghetti that the Prime Minister sampled was indeed delicious.

Italy remained mired in a situation wherein a new administration could not be formed even after more than a month had passed since the general election. There were fears that if it reached the stage of a recall election the political situation would devolve further into chaos. The interim administration of Prime Minister Monti carried on, but as its political power lacked footing it was unable to make any progress with its reformist track. The question is one of how Italy will respond not only to the peer pressure coming from France, Germany, and the other major powers within the euro zone and President Draghi of the ECB, but also the warnings from the market. The key surely lies in Berlusconi acceding to a grand coalition, after having rejected such a grand coalition with a center-left faction.

The Cyprus Crisis Is No Minor Crisis

The Cyprus crisis is one that we absolutely cannot shrug off as a minor crisis for the euro. Cyprus banks, which held vast quantities of national debt from Greece, which is experiencing an ongoing crisis, have been plunged into a crisis of management. The country, which has failed to set in place any sort of deposit insurance system, reached the stage of being just on the verge of a bank run. In the end, a virtual payoff was enacted whereby large deposits exceeding 100,000 euros were substantially cut to provide the collateral for the European Union (EU)'s support for Cyprus.

Cyprus is a small island national located in the middle of the Mediterranean Sea with a population of 890,000 people. Its nominal gross domestic product (GDP) is approximately one-tenth that of Greece's at 17.9 billion euros, and only accounts for 0.2% of the euro zone. The country had aimed to establish itself financially as a so-called tax haven, and worked to attract foreign companies by lowering its corporate tax rates. It collected deposits from overseas due to its relatively high interest rates.

This island nation has also come to be regarded as important in a geopolitical sense as well, as it is situated to the south of Turkey. Recently its tendency towards depending on deposits from Russia has been growing stronger. The reason that President Putin of Russia strongly opposed invoking the virtual payoff was because he was guarding against the deposits of Russia's wealthy being cut. There were fears that the financial crisis in this tiny island nation would develop into friction between the EU and Russia. But in the end a compromise was seen to have come into effect between the EU and

Russia in the sense that checkable deposits were not subject to the cuts.

The option of Cyprus withdrawing from the euro would be inconceivable, but considering how deep-seated the structure of the crisis is with Italy, Spain, and Portugal there are concerns of a chain-reaction crisis.

Fluctuat nec Mergitur

One of the lessons from the Cyprus crisis was that it would be necessary to achieve a banking union that aims to centralize banking oversight in conjunction with the standardization of a deposit insurance system. Can the crisis be leveraged to lead to a strengthening of institutions? In this too is the underlying strength of the euro being tested.

The single European currency of the euro that was established in 1999 could be described as a currency born of international politics. It achieved the expansion and deepening of EU based upon the strong political will in Europe to never again relive the devastation of the two world wars. The euro, in which sovereignty for the currency is shared, is the physical manifestation of this.

The euro was established against the backdrop of the close of the Cold War that came about from the fall of the Berlin Wall. Chancellor Kohl of Germany dispensed with the mark, which was the strongest currency, and complied with the establishment of the euro in return for the unification of East and West Germany. It incorporated the forceful assertions of President Mitterrand of France, who feared the reappearance of a powerful Germany.

This was a path that chose “Europe’s Germany” over “Germany’s Europe.” Chancellor Kohl once said of the currency, “The euro is a question of war and peace.”

Nevertheless, the euro—the currency born of international politics—had structural problems as a currency when viewed in terms of its economic aspects. The problem is that even though there is only a single currency and monetary policy, there are separate fiscal policies and financial administrations. The enormous economic disparities between the developed countries in the north such as Germany and the southern countries within the euro zone also presented a problem. The financial criteria of maintaining long-term government debt at less than 60% of GDP and budget deficits to within 3% of GDP, which were important conditions for joining the euro, were not upheld.

The global economic crisis caused by the collapse of Lehman Brothers triggered the bursting of the “euro-phoria” (sense of euphoria created by the euro) from its initial founding. In a single stroke this exposed the structure contradictions inherent in the euro.

Yet as to whether the euro will collapse because of this, surely this will not come to pass. Theories about the collapse of the euro are rarely if ever heard on the European continent, rather they are exclusively aired by the British media. The views of the British media, with its powerful ability to get its message across, have influence the world over (such as in the United States and Japan) and have an enormous impact on markets.

The United Kingdom, which has not joined the euro, has a large faction of people who have been skeptical of the euro since the beginning. In the height of the euro crisis Prime Minister Cameron even let slip that, “It was a good thing that Britain didn’t join the euro,” which was enough to incur the displeasure of the euro zone countries. Furthermore, since the country is going so far as to hold a national referendum on whether or not to remain within the EU, the Prime Minister is going a bit overboard with his dislike of the EU. He is perhaps even surpassing that of Prime Minister Thatcher, who was famous for her dislike of the EU bureaucrats in Brussels. However, the business community in the United Kingdom has started to worry that if their country puts its weight behind moves to distance itself from the EU it would deal a blow to the British economy itself.

One thing we must be careful of is to not conflate the views of the United Kingdom towards the EU and the euro with the thinking of Europe as a whole.

The euro is faced with numerous challenges that must be reformed. However, the fact that the course of fiscal integration and unification of financial administration has been clearly revealed through the euro crisis is one that cannot be overlooked. Strengthening fiscal regulations has the potential to lead to the issuance of joint euro bonds. Moreover, a path for political integration has also opened up. This does not signify the end of sovereign nations, but rather signifies the end of the “era of shared sovereignty.”

The coat of arms on the Parisian city hall bears the inscription “*Fluctuat nec mergitur*” (it is tossed by the waves but does not sink), which is truly applicable to the euro of today. For the time being trying times will persist for the euro, but there will be much to be learned from Europe’s wisdom, political will, and ability to take action, all of which will give it the opportunity to reunify from this crisis.