Possible break-up of the Euro area

Sunday 5 April 2009, by KAGARLITSKY Boris (Date first published: 20 March 2009).

Lorenzo Bini Smaghi, a member of the Executive Board of the European Central Bank, said on March 6, 2009, that a default couldn't take place in a euro area country and the assumption that the euro area could break up was "nonsense".

The statement is strange if to take into account that mass media said neither about the euro area break-up nor about the default. Anyway, people came to speak about them only because of Lorenzo Bini Smaghi's words. Mr. Bini Smaghi had already predicted that inflation in the euro area would be halted at the beginning of 2009 and that banks' nationalization would come to nothing. Taking into consideration that his previous predictions did not come true, one can interpret them in a way that's contrary to their intent and regard such predictions (according to Austrian psychiatrist Sigmund Freud) as Bini Smaghi's efforts to protect himself blocking his fear of what is going on.

However let's do this ill-starred bank official justice: he has startled the people pointing to a serious problem they will have to face. The European Union Project which was designed in Maastricht, Nice and Lisbon is collapsing before our very eyes. The EU member states of Eastern Europe are ruined; the economic and social problems of those countries have not been solved but, what is more, they have become much more challenging. The situation in the former Soviet Baltic states is especially hard. As a matter of fact, Latvia is a bankrupt. The default is inevitable in this country, while plummeting of the national currency (even if it has a positive effect in the long term) will at first throw Latvia into a socioeconomic crisis that would be unprecedented for Europe. The chaos, which accompanied the same events in Russia and Argentine several years ago, is sure to take place in Latvia, but, moreover, the Latvian chaos, as is often the case during the general crisis, will create the domino effect. The financial situation in Estonia, Lithuania, Poland and other EU Eastern countries is somewhat better but is far from being good. Latvia's bankruptcy destabilizes these countries' financial markets.

The East European politicians desperately turn to their Western colleagues for financial aid. But the Western states have already spent a lot of money to back those countries without any positive results. Now the West flatly refuses to render financial assistance to those countries. The EU Eastern member states were promised a possible assistance case by case to sweeten the pill. However everybody understands perfectly well that there isn't enough money to support all the countries.

The position of Czech Republic – the only post-Communist country whose situation is rather good – became a "blow on the back" for the governments of Central and Eastern Europe. Prague came out against the Western partners' political claims. Czech President Vaclav Klaus stated he would not sign the Lisbon agreement until it is supported by the Irish, he says that the EU system is equal to the Soviet one (here he is wrong: the Soviet republics were entitled to withdraw from the USSR and to hold a referendum, but those rights of the EU member states will be abolished). At the same time the Czech government has condemned the fact that its eastern neighbors turn to the West for financial aid. Czech Republic will not join the euro area itself and it will not allow its neighbors to do that. The Czech politicians are right: they came to realize that the euro area would not stand the Eastern countries' joining it. The Czech authorities would not like to join the euro area during the economic slump because they will lose control over the financial situation in their own country. If

Czech Republic has better order than, for example, Italy or Greece does, it should not deprive itself of important leverage, especially during the economic recession.

Meanwhile, the Western states understand that the economies of their Eastern partners cannot be saved and the efforts to do that will only make crisis-stricken economy of core Europe bear double load. The only way is to seek to save those who may be saved, or more exactly, themselves. The logical conclusion is that there is a need to jettison ballast and unnecessary passengers from the balloon, in other words, to sacrifice the Eastern partners.

Given the current situation, the economic meltdown in the Eastern countries is only a question of time. As this meltdown will inevitably lead to political convulsions, the crisis of the European Union as a federative organization is unavoidable. In addition, jettisoning the ballast the Western countries will create an unwelcome precedent. If the French are not ready to “perish for Warsaw”, the Finns and the Danes would not like to sacrifice their wellbeing for the sake of the Greeks. The EU inflexible and authoritarian institutions, which have been established over the past years, are unlikely to solve this problem. It is possible that many Western policy-makers came to think whether the Lisbon agreement had been a mistake and whether it would be better if Ireland, the only country still holding referenda, rejected it again.

If Eastern Europe is “jettisoned”, the euro area countries do not face a default, at least, now. As regards the break-up, the EU free-market oriented institutions are an objective obstacle to pursuing the anti-crisis policy that would be successful only when neoliberalism, which caused the crisis, was rejected for good. The EU bodies prevent the national governments from fighting against the crisis, put a spoke in their wheel and block their initiatives, in short, they are the main source of problems for European integration at the new historical stage.

Would it be better if, to unite Europe, this failed project was closed and a new one was launched?

P.S.

* From Eurasian Home, 20 March 2009, www.eurasianhome.org. Circulated by the Transnational Institute.

* Boris Kagarlitsky, a fellow of the Transnational Institute, is a Director of the Institute of Globalization and Social Movements, Moscow. His latest book is Empire of the Periphery: Russia and the World System (2008).