The Euro was locked into its current crisis twenty years ago by the Maastricht negotiators, who ceded authority to the financial markets

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The roots of current controversy around the current Euro crisis can be traced to the 1992 Maastricht negotiations that led to the common currency's creation. **Kevin Featherstone** *argues that the rejection of neo-Keynesian ideas was fundamental then, and finds echoes today in policy attitudes that make a return to growth even more unlikely.*

'The past is another country', said the English novelist L. P. Hartley. Twenty years ago last month, the people who signed the Maastricht Treaty could not have envisaged the kind of crisis that the Euro is going through today. Finance and the financial markets certainly held sway in 1992, but instruments like credit default swaps were unknown, and the triarchy of US credit rating agencies had barely got a foothold in Europe then. Nor could the policy-makers have foreseen the collapse of Lehman Brothers in September 2008 that unleashed a banking crisis not seen in generations, changing access to credit and heightening sensitivities to debt sustainability.

So the rules set for the Euro in the Maastricht Treaty two decades ago are not the cause of the current crisis. Yet they have certainly deepened it by ruling out conventional solutions, and they have imposed a financial orthodoxy that many now see as self-defeating.

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The Maastricht negotiators were certainly aware of the challenge of creating the modern world's first single currency held across sovereign nations. Crucially, the aspirant members of the new currency bloc displayed much diversity in their levels of economic development and performance, and they would have very different vulnerabilities to changes of economic fortune. Yet, while the negotiators talked of the risk of such 'asymmetric shocks', they accepted a model that would deny them not only the means but also the responsibility for dealing with them at the European level. They elaborated a set of nominal convergence tests, believing that real approximation of the national economies was not necessary and could be left as a long-term dream. Equally important, they ignored the disparity between their own political systems in handling the necessary reforms and adjustments to keep the Euro-zone on the same path. Grossly inefficient government administrations in some countries were ignored, and all were assumed to be on a par in obeying the strictures of the Euro.

Why was such diversity of condition ignored? There are two answers, one narrow and the other broader. First, it was by no means clear that all member states would be able to meet the convergence criteria and enter the Euro. The entry criteria were set in a reasonably inclusive fashion, however, and weaker fiscal states like Italy and Belgium produced surprising turnarounds. In any event, both France and Germany found it in their self-interest to fudge the criteria. Thus, when Greece's entry came to be decided – later, after the rest – fudge was the name of the game. This was despite a last-minute German concern to insist that Greece be required to introduce serious pension reform before it be allowed to enter, to alleviate its fiscal strain. In the event German representatives backed down on the issue, which was to prove a costly mistake.

The broader foundation for neglecting the implications of diversity at Maastricht also had to do with the 1992 orthodoxy to reject 'old-style' Keynesianism. A failed attempt at EMU (European Monetary Union) in the 1970s had envisaged a European Union budget of up to 7 per cent of GDP and hence a major 'centre of economic decision-making'. But the Werner Report of 1970 was out of 'synch' with the then current thinking. So the pillar of 'economic governance' advocated at that time by Pierre Beregovoy, the then French Finance Minister, and Commission President Jacques Delors was over-ruled. There would be no European transfers of resources or bailouts to rescue states in distress: no 'automatic stabilisers' as found in federal states like the USA. So then and later at Maastrich the German 'ordo-liberal' philosophy was adopted instead, which asserted that a stability culture could only be built bottom-up from within member states. States must create the best environment for free market competition, with measures based on market principles of 'sound money, sound finances'. Such credibility was the prime responsibility of national governments to maintain.

Hence the logic denied a European-level responsibility. This stance chimed with the rather derisory opinion held of the European Commision by most national finance ministries in 1992. Brussels was to be kept at arm's length from economic policy decisions. And, if a constraint on national policies were needed, this would be provided by the disciplinary effects of the new capital mobility evident across the financial markets. The Maastricht negotiators were not the first or only ones to cede authority to 'finance': the de-regulated financial services sector and the new European single market were changing Europe as they negotiated. But, the effect of their consensus was to leave errant states to be hung-out to dry.

When the financial crisis hit Europe in 2009, these provisions proved not enough. Current discussions of the ECB printing money or of the creation of Euro-bonds to share the debt burden, have been pre-emptively blocked-out. But, the ability to monitor – let alone manage – the crisis has also been undermined. The ordo-liberalism that asserted national governments were responsible for their fiscal positions also emasculated the monitoring that was possible from European institutions: it led directly to the dodgy data that Greece reported in October 2009. The Euro-zone has had to stumble towards the creation of a large emergency fund to help states in difficulty. Institutionally, Maastricht did not address the leadership issue: and the crisis has been exacerbated by division and uncertainty.

Today, Chancellor Merkel remains in the Maastricht groove: the new reforms mainly stress punishments for Eurozone states guilty of bad behaviour. With the absence of 'economic governance' also comes the continued rejection of neo-Keynesian options for returning to economic growth. Austerity is the language of penalties for not abiding by ordo-liberal precepts of good-housekeeping. History comes back to haunt us.

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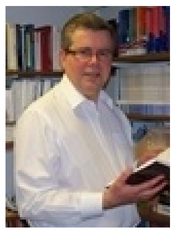

Professor Kevin Featherstone is the Eleftherios Venizelos Professor of Contemporary Greek Studies and Director of the Hellenic Observatory in the European Institute. His research has focused on the politics of the European Union and the politics of contemporary Greece; his work has been framed in the perspectives of comparative politics, public policy, political economy and processes of 'Europeanization'. His most recent books are (co-authored with D. Papadimitriou, A. Mamarelis and G. Niarchos) *The Last Ottomans: The Muslim Minority of Greece*

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