Control over state properties by countries that provide financial aid would incentivize southern European economies to repay their loans.

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The Eurozone’s northern leaders face a dilemma – imposing further austerity on the stricken southern economies, such as Spain, Greece and Italy may have severe consequences for the richer north, but every concession made erodes their credibility. Jasper Doomen argues for an alternative: Countries that provide financial aid to the stricken southern European economies should be given control over state properties if the borrowers do not repay their loans. This would reverse the current power relationship and encourage the countries of the south to work on improving their economies.

The latest short-time solution to mitigate the economic problems the European countries face consists in directly aiding banks that are in trouble. Is the proposed bank recapitalization a first step towards actually resolving the crisis, or is a more solid alternative necessary?

Until now, financial support has been provided at the national level, which has hardly been a successful approach, as one can now (with the benefit of hindsight) ascertain. The decision reached at the EU summit earlier this month to bypass national governments and make payments directly to the banks is certainly a different but not necessarily a superior approach. Of course, banks will be supervised. Yet considering what is at stake, this outcome is downright disappointing (though not for everyone: Spain’s Prime Mariano Minister Rajoy could barely hide his contentment). No structural solutions have been presented, or even a view towards accomplishing them.

More important, however, is the fact that the pressure on the countries to implement reforms in order to combat the budget deficits has been reduced. That this was the outcome of the negotiations is not surprising. Discussing a solution with Spain and Italy resembles negotiating with someone who threatens to jump off a cliff whilst chained to the other negotiators. His suicide or damage will have serious consequences for everyone else as well. These countries don’t want to go ‘bankrupt’ but they know their downfall will gravely affect the relatively strong countries, and they seem to have become experts in exploiting their stranglehold over them. This negotiation pattern is similar (if not virtually identical) to Greece’s strategy, and in the bleakest scenario, a country such as France will resort to it as well, especially with the current president in place.

The dilemma is clear: the southern European countries have to economize while a large part of the population already faces grave financial problems. An additional problem for (northern) politicians is their credibility, which erodes with each concession they make. Chancellor Merkel has stood her ground as a veritable contemporary Iron Lady, but this position will be difficult to maintain if enough countries are able to profit from Europe’s weaknesses (which are, ironically, the outcome of a desire to make Europe as a whole a strong organization; it seems, pace Lincoln, that a house divided against itself can stand, albeit unsteadily – incidentally, the comparison of north against south comes to mind).

How can this impasse be resolved? Are there only two positions (either a United States of Europe or the road towards more sovereignty than is now the case, i.e., a return to the European Economic Community), or is a third option available? It has been proposed to grant countries loans only if they are able to provide some security, which has been ridiculed by some. It is unclear, however, why this could not be a workable procedure. The basic idea is that the countries that provide financial aid should receive control over state properties to the amount they have lent if the borrowers do not pay the money back.

This control means that the lenders may use the profits that come from these properties (which may range from museum fees to gas revenues). Such profits are (fully or partly) paid to the borrowers if they sin no more and do what is demanded of them. In time, when their affairs are in order, they will be able to buy back the
control of these properties. This means, effectively, a state of wardship. If this sounds harsh, consider that the alternative is that such states can continue imposing their will on the others until they will all share the same fate, waiting for China to take over the entire continent and sell it for scraps.

In any event, the new situation means that the power relationship is reversed, thus nullifying the ‘suicide’ threat. To use another simile: it is as if all countries share a boat together that continues to show new leaks which the southern countries are unwilling to mend, knowing that the northern countries have far more to gain from it than they do. This means, in the long run, that the boat (the European monetary union) may continue to exist but in a seriously weakened condition, which may still be considered preferable to the southern countries (in the short term, in any event) to carrying out the demands made by the northern countries, for the simple reason that all countries are in it together, so to speak.

The solution amounts to dividing the boat in two (without resorting to dividing the Euro itself into two (or even more than two) currencies, which may be an – albeit costly – option in the worst scenario), so that it is in the benefit of the southern countries themselves to start working on making the necessary repairs, lest they wind up with nothing more than driftwood. The solution is, by the way, not without benefits for the countries in trouble themselves. Future loans can be granted relatively easily (because the lenders will have more security than is now the case), which means that the borrowers face fewer negative economic effects and can more easily ‘sell’ the new policy to their own populations.

The greatest problem remains that of enforceability. A ‘moral’ appeal on the borrowers to show solidarity with the lenders is equally nonsensical as one made to lenders to provide means in the first place, since this solidarity is as artificial as it gets (and thus meaningless). The alternative is to convince the politicians of the borrowers that a solid policy for the long-term is the only viable approach. In a democracy, with new elections constantly looming, such an appeal may fall on deaf ears, but the prospects of the erection of a statue in compensation for their great deeds may sufficiently appeal to their vanity. In general, one must ask oneself whether a monetary union that wants to take itself seriously can afford to fail to propose clear and enforceable measures such as those suggested above.

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