

# One Nation (under Germany)

Historian Niall Ferguson tells Ben Lurance the single currency will survive and the crisis will leave Berlin heading a federal Europe

Ben Lurance

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Where does it all end? What will be the outcome of the financial storm battering Europe and its single currency? Can the euro be saved? And if so, what will be the longterm consequences?

The financial historian Niall Ferguson, visiting London from his selfimposed exile in America to promote the paperback version of his most recent book, is typically confident that he has the answers to these difficult questions — and they are not what you might expect from this tireless proponent of free markets.

As he begins his energetic deconstruction of the euro's prospects, he wants to remind us that he was deeply and publicly sceptical of its creation in the first place. "I was a staunch opponent of the single currency in the Nineties," he insists. "I wrote a piece predicting that in 10 years the single currency would suffer a crisis a bit like this because of the lack of fiscal integration."

Such prescience is now a bit of a problem for the Scot, who holds posts at Harvard, Stanford and Oxford universities and is never self effacing at the best of times. "My impulse is to gloat," he admits. "My impulse is to dance with the glee at having been right."

However, he is not dancing, because he predicts only one way out of the present crisis — for the euro countries to go the full federalist hog and adopt a single fiscal system. This is not the outcome he would have chosen.

"I am not a federalist," he says. "But the costs of the single currency disintegrating are really so high and would impact so many people, that the only responsible thing for me to do is to argue urgently for the next step to a federal Europe. I see no alternative at the moment that isn't a great deal worse."

He has no truck with the increasing number of people, both commentators and politicians, who entertain the possibility of an orderly exit from the euro for Greece. "It's too late to unravel the single currency," he says. "People talk about that as if that option existed, and it simply doesn't. It's an illusion to think you can just kick Greece out without unleashing a real nightmare of contagion through the banking systems of the peripheral countries."

When you remember that the "peripheral" countries being discussed include Spain and Italy, the 12th and eighth biggest economies in the world, the true size of the problem becomes apparent.

Ferguson's broad view, then, is clear: disintegration is what should be feared and what should be avoided. But look where we stand at the moment. On the one side is a seemingly immovable Germany sticking resolutely to the austerity script. Those countries who borrowed and spent with cheerful southern European abandon when the times were good must now pay the price, Berlin says.

On the other is a Greek population that is feeling unloved, underemployed, resentful and increasingly inclined to spit out the austerity medicine. It sounds like an impasse. It sounds like a disaster waiting to happen — and happen very soon.

"It is still possible that the game of chicken between Athens and Berlin ends with the two cars colliding," Ferguson says. "But my sense is that both will swerve at the last minute — the Greeks because they see the costs of exit would be catastrophic for them, and the Germans because — if they don't realise it already, they pretty soon will — the banking crisis that this would unleash as deposits fled the periphery would be highly destabilising for the whole eurozone, Germany included.

"The Greeks say, 'We're not going to comply with our commitments'. The Germans say, 'Then you're out'. They're both bluffing." And so, he argues, Germany — through gritted teeth — will have to concede that Europe as a whole must stand behind the debts of individual nations. Welcome to the era of the eurobond.

But surely this is just the sort of notion to which Germany has hitherto shown such resistance? "The Germans have the biggest interest in preserving the euro," Ferguson says. "It has been highly advantageous to German business not to have a superstrong Deutschmark, and I think that's one of the reasons Germans will swerve in this game of chicken, because anything that threatens monetary union is pretty threatening to German business . . . Germans are going to have to make some kind of concession to the periphery. It's not enough just to say 'austerity, austerity'."

There is, of course, the small matter of having to sell this to the German people. After all, it is likely that there would have to be a referendum to allow the country to commit its considerable economic muscle to a rescue of the European financial project — in other words, to pick up the bill. And would Germans really be prepared to swallow the idea that the strong countries at the European core would be giving regular dollops of funds to the periphery rather than ad hoc bailouts?

"That's the hard bit," Ferguson admits. "But here's the choice, Mein Herr. You accept the logic of the Mitterrand/Kohl era, which always was 'we're having monetary union in order to get to a federal Europe' . . . The logic of the 1990s was that 'monetary union will force us to ever closer fiscal union, which is hard to sell politically, but we'll make it happen — we'll back into it through a monetary union'.

That always was the model — which was one reason for being against it as a British Eurosceptic. Now we're at the moment of truth when you can no longer maintain the fiction that a monetary union can exist independently of a fiscal union."

And the other option? "On the other hand — and this is the message to Angela Merkel — to use George Bush's phrase: this sucker's going down. We've reached that point."

Of course, Frau Merkel, as she discovered in last weekend's regional elections, isn't Frau Popular at the moment. But, insists Ferguson, that scarcely matters: her main political rivals, the Social Democrats, are more federalist than Merkel's CDU.

"The CDU, the Social Democrats, the Greens — they're all essentially proEuropean. When the question is put — 'Europa, ja oder nein?' — they won't vote against Europe. Europe has been their alibi, their way to redemption since the war.

"Also, corporate Germany is rich and powerful and benefits massively from Europe. There isn't a major corporation from Deutsche Bank to Siemens that will do anything but support the ja campaign."

Elsewhere, other countries will fall into line, he insists: "Now you have [President François] Hollande in France and the likelihood of the SPD [Social Democrats] in government in Germany next year, which makes it more likely that we will end up with tax harmonisation and eurobonds, which bails everyone out."

Tax harmonisation? Surely, that won't be appealing to Ireland, which has pursued a policy of rockbottom rates of corporate tax to attract companies. Ferguson is dismissive: "The Irish will squeak, but they have no leverage."

There is a further, more general point, and here he uses his historian's wider view. Ferguson maintains that across large parts of Europe, support for federalism is being bolstered by disillusionment with domestic politics.

"The complete descent into disrepute of national political elites helps make the case for federalism. The Italians despise their politicians; they have had to bring in [Mario] Monti as a nonpolitician [prime minister]. The Greeks basically voted against the established parties. All over Europe, national politics has been discredited. Look at the Netherlands, at Belgium.



Niall Ferguson thinks Britain could leave the EU (Julian Andrews)

"The national politics of continental Europe is collapsing and that's paving the way towards a federal solution in ways that aren't fully understood in Britain."

There is a further layer to this story. "Time and again, you see politicians fail at the national level like Jacques Delors, Roy Jenkins and Peter Mandelson and then they are reincarnated at the

European level. Once you are a European commissioner, you are reincarnated as a Eurocrat and, curiously, your credibility is increased. In due course, these Eurocrats win because the business of governing a European national state — usually with PR — is absolutely hopeless.

"It is such a thankless task. You have to forge a coalition that ultimately is going to disappoint the majority of the electorate. That's why power is shifting inexorably to Brussels. I think it would be odd if that trend, which has been going on since the Treaty of Rome, were to be broken.

"There has got to be a possibility that this will all go horribly wrong with a Greek exit, but it has got to be in the 10% to 20% range [of probability] because this would be so costly to everybody. It would be a massive act of selfimmolation and I don't think they're that crazy."

Established national political elites may indeed be out of favour, but does that not, then, open the way for extremist firebrands to take the lead? Just look at the gains made by Marine Le Pen's National Front in France and Golden Dawn in Greece.

Ferguson is unconcerned. "This is the dilemma. Europe is essentially an antipopulist, if not anti-democratic phenomenon. European integration has always been a project of the elite that has been foisted on national electorates. There is a latent populism in almost every European country that flares up periodically, as it did, for example, in Austria under Jörg Haider, but at each stage in the process the populists lose. They're never in power for very long because they can't deliver what they say they're going to do and the European centre gains step by step in its power.

"Fascism is discredited in Europe. When people play the fascist card, they come to grief. No one should worry too much about these goons in Greece. They don't account for that big a percentage of the electorate and so they're never going to be part of the government."

And, Ferguson maintains, the ageing of Europe's population helps: "Remember, by 2050 a third of Italians will be 65 or over. The elderly don't make good stormtroopers. They want to retire early and be bone idle at the state's expense."

So, according to his thesis, a breakup of the eurozone is possible but unlikely. And we shouldn't fret too much about the threat of right wing xenophobes coming into power across the Channel or around the Mediterranean.

But isn't this all a bit optimistic? On paper, Greece is just weeks away from the point where it simply doesn't have money to pay the wages of state employees. And corralling eurozone member states together to agree a full fiscal union would take an age.

"As a Scotsman, I'm not a congenitally optimistic person," Ferguson says. "I'm just telling you from a historian's vantage point which seems the more likely of two difficult scenarios.

"Even if just one country leaves the eurozone, that creates a massive contagion effect, and no one knows where the ripples would stop — it could even be a tsunami that hits New York.

"Also, although the German political elite appears slowmoving and plodding, it wasn't slow-moving and plodding in 1989/90 when the opportunity presented itself to reunite Germany:

monetary union with East Germany was the product of political thinking, not economic logic. But the point is, I think you might be surprised by how quickly they move when the chips are down.

"Are the Greeks going to choose to selfdestruct?" (At this point Ferguson rather unkindly reflects on Greece's need to maintain imports. "Greece is just ruins and beaches; that's their business model. It's like East Germany used to be, except with retsina and dolmades instead of beer and wurst.") "And are the Germans going to let Greece selfdestruct? Then there would be an unstoppable effect as deposits exit Portugal, exit Spain, exit Italy.

"It is easier by miles for the Germans to say, 'Okay, austerity wasn't quite enough; we're also going to have structural funds deployed to Greece; we are also going to have recapitalisation of the Spanish banks.' And the money is there . . .

"They should have done this two years ago, but they thought they could kick the can down the road. What they didn't realise was that each time they did that, the can got more explosive. I'm not an optimist about Europe. That's why I live in America. So don't call me an optimist."

And what of those who dreamt up the single currency wheeze in the first place? Shouldn't they now be feeling at the very least a trifle sheepish? Not at all, Ferguson reckons. If things play out the way he predicts, they will have achieved their ambition — albeit by somewhat devious means.

"I think it's worth considering that the architects of the monetary union knew all along that it would lead to a crisis and the crisis would lead to a federal solution. I'm not quite sure how far that was articulated, but I think it was implicit. In fact, you could say it was actually designed to create a crisis," he says.

In the late 1990s, an internal paper circulated in the Bank of England about a hypothetical break-up of the single currency. It floated the idea that "country I" — and the supposed identity of country I could be speculated upon but was never made explicit — would run an unsustainable deficit. Because there was no legal exit from the single currency, the costs of any exit would be sky high. "And," Ferguson says, "it was designedly so. That point has held good.

"They [the euro enthusiasts] have achieved what they wanted in that the level of financial integration has gone so far, it's almost impossible to undo. And it was always meant to be undoable, which is why there never was an exit clause. You were never going to get federalism by any other means."

If the current crisis does indeed see the creation of a federal state of Europe, where does that leave Britain? Would it want to be part of that new superstate? "The answer is clearly no," Ferguson says. And if— a big if — there were a referendum, Britain might vote to leave the EU altogether.

"If you're not in this new federal union, you have zero say, zero influence over the decision-making process. If you're not in the currency, you're not in the room at all.

"The twospeed model works if it's confederal at the core. But if you create a federal republic of Europe it's impossible to be in the British position of being semidetached. And I can't imagine that many of the other current members of the EU will want to join us in a powerless periphery."

Further than that, he is wary of making any specific predictions, though his analysis invites many, notably about the longterm future of the European Union, an institution with such a clear democratic deficit.

"Figuring out what's going to happen in the eurozone over a 12week time horizon let alone 12 months is difficult enough," he says. "When I'm asked to write about the world in 10 or 20 years, I'm already in the realm of fiction."

"Look where we were in the late Eighties, when the Berlin Wall was about to crumble. We thought the western model of liberal democracy had triumphed. The future we imagined at that point was one where western institutions were the global standard. Now, 23 years later, China is on the brink of overtaking the US in terms of economic output — and China is run by the Communist party. It's hard to predict the future."

Yet here are the historian's headlines: the euro will survive; the European Union will become a federal state; and Britain could end up outside it.

A reminder: without a new dollop of cash, Greece runs out of money in six weeks' time.