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## Greek Problems Will Drive Integration

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European politicians seem to have learned from their counterparts in the Obama administration. Rahm Emanuel, Barack Obama's tough-minded chief of staff, surveyed the inherited wreckage of the American economy, and told the President, "You never want a serious crisis to go to waste." No one can accuse the EU politicians and their bureaucrats of wasting the serious crisis created for the eurozone by Greek profligacy.



European Pressphoto Agency

International Monetary Fund Managing Director Dominique Strauss-Kahn

Not that they have solved it quite yet. Mere talk of bailouts and International Monetary Fund intervention didn't satisfy the markets, which remained sufficiently wary to levy so hefty a charge on Greeks bearing bonds that the Greek government capitulated, and publicly rattled its begging bowl. It will soon be filled by a euro-zone-IMF consortium.

For the proponents of greater European integration Greece's crisis is their opportunity to push their agenda further than they would have dreamed possible had the Greeks not cooked their books and gone on a borrowing binge to support the lavish life style of the ever-increasing number of government employees.

It was no secret that a common currency and a one-size-fits-all interest rate would sooner or later run into problems in the absence of a unified fiscal policy. Nor did anyone really believe that the 3% limit on the deficit:GDP ratio contained in the Growth and Stability pact was more than a sop to the Germans for surrendering their stable Deutschemark. But so long as the world's economies were booming, this kink in the armor of Europe's integrationists was of little consequence. Germany's export machine kept rolling, Greek consumers kept importing, borrowing at attractive rates to pay for the imports, and all seemed well.

Except that it wasn't. So the not-to-be-wasted crisis is upon the euro zone. At this stage, we can only make educated guesses as to whether the final bailout plan will satisfy markets or even whether the plan will win the necessary votes from the parliaments of countries expected to lend money to Greece at below-market interest rates. But whatever happens the process is built on an important new principle that will define the euro zone: each nation is indeed its brothers' fiscal keeper.

No matter that troubled Ireland, Portugal and Spain are expected to contribute to the bail out, or that Angela Merkel has yet to explain to her disapproving electorate why every German should cough up €100 each to enable Greeks to retire earlier than any German can hope to. A long step has been taken to move the integration project forward.

No taxation without representation is another American notion that will now come into play. European citizens will now be in effect taxed to support the Greek government, which they did not elect and in which they are not represented.

Soon, they may be called upon to give similar support to Spain, or Portugal, or some other southern European country. It should come as no surprise that such taxation will result in demands for

representation in the fiscal affairs of the beneficiary countries. Not demands to determine the details of any country's tax or spending policy—that would be a bridge too far from the nation-state construct. Rather, those who are paying the piper will want to call the tune on the overall budgetary situations of their EU partners.

But—and this is something of a surprise—the European Central Bank is unlikely to become a key player, despite the fact that it has so far been the defender of the value of the euro. ECB President Jean-Claude Trichet lost a battle to keep the IMF out of the rescue operation. Although widely praised for his management of monetary policy during the recent recession, Mr. Trichet found his foray into fiscal policy unacceptable to his euro-zone members.

So where does Europe go from here? That will depend on the outcome of the current battle to determine just who sets the conditions on the support Greece has all-but formally requested. The IMF, which would put up about one-third of the rescue package (€15 billion), feels it should set those conditions; members of the euro zone believe it is their right, with France leading efforts to keep the IMF role to a minimum, not least because its Managing Director, [Dominique Strauss-Kahn](#), is considering challenging Nicolas Sarkozy in France's 2012 presidential election.

My own guess is that the issue will be resolved with one of those messy compromises at which Europe's politicians excel. The IMF will set the conditions, modified sufficiently to meet some of the demands of the member states, so as to avoid an all-out turf battle with those countries.

Olli Rehn, EU commissioner for economic and monetary affairs will begin using his long-dormant monitoring powers, supplementing IMF oversight, and allowing Mr. Sarkozy to claim Europe is following Voltaire's advice and cultivating its own garden. We are about to learn just how much additional sovereignty each euro-zone nation is willing to surrender as Europe takes another step—a giant step—down the road to more complete economic integration.

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