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Saving Europe

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Fortunately, there are few problems that have not been at least partially solved by others some time in the past -- and this is true for the mess in which Europe now finds itself.

In 1786, the United States was in a somewhat similar situation. Near the end of the Revolutionary War, in 1781, the Articles of Confederation were adopted that formed the United States. It quickly became apparent the Articles of Confederation were fatally flawed, in that tensions were rising among the states and the economy had stagnated.

Several Founding Fathers, notably Alexander Hamilton and James Madison, called for a convention to revise the Articles. The convention met in Philadelphia in 1787, where it was decided to replace the Articles with a new Constitution. The Constitution was adopted by the requisite number of states and went into effect in 1789 -- and has served the United States right well ever since.

Europe is now in somewhat similar circumstances. The Europeans have come together but under greatly flawed documents leading to a rise in tensions and economic stagnation in several major countries. The European Commission came up with a document last year it called a "constitution," but which really was nothing but a very long list of bureaucratic rules and wishes.

As demonstrated by the French and Dutch "no" votes, the people are increasingly frustrated living under a bureaucratic (as contrasted with a democratic) state where national sovereignty (and democratic control) continues ebbing.

What should be done? Europe needs for a couple of leaders not directly tainted by the recent "constitutional" fiasco to call for a new convention to write a real constitution, which would protect the democratic and most of the sovereign rights and personal liberties of the European peoples. To succeed, the new constitution would need to allow for social and economic differences among the European states, unlike the just defeated "constitution."

Delegates to the new constitutional convention would be well advised to look at the U.S. Constitution and the Federalist Papers for guidance. Most of the basic arguments about the proper role and structure of governmental units and the protection of individual liberties and national identities and rights can be found in these documents.

The U.S. has evolved into a much more centralized state than our Founding Fathers envisioned, but their original vision is much closer to the type of Federal Republic with sovereign states that Europe needs today. (Some of my European readers may take offense at the idea of an American giving them advice as to how to govern themselves, but I only wish to remind them that this particular American has spent considerable time in almost all the European countries over the last couple of decades, working on public policy issues. And that our American Founding Fathers relied on European thinkers -- going back to the Greeks and Romans and the giants of the Scottish Enlightenment -- for most of their inspiration, so it is only appropriate that we return the favor.)

The European Union is not without its successes. It has created a large and viable free trade area that has benefited almost all its citizens. In addition, the much maligned Monetary Union (the euro zone) could be successful, and should not be abandoned, as some Europeans have recommended, because trying to reverse course now could lead to monetary chaos. The euro has been for the most part a stable currency that has greatly reduced transaction costs between countries that adopted it.

The problem in the euro zone area is that several countries have failed to stick to the fiscal responsibility rules (i.e., Germany, France, Italy, Greece and Portugal) imposed when the euro was established. The EU has no effective enforcement mechanism for those who violate the rules (basically the size of the deficit in relation to gross domestic product) nor does the political will seem to currently exist within the irresponsible countries to correct their ways.

The violations of the rules need not be fatal to the euro provided the present rule is changed so the European Central Bank (ECB) will not be the lender of last resort to these fiscally irresponsible governments.

For instance, in the U.S. individual states are sometimes fiscally irresponsible and yet this has no effect upon the value of the dollar. Spendthrift states eventually find their bond rating falls to such an extent they can no longer borrow money, and hence are forced to cut government programs and spending.

The same will happen with the EU member states, provided again that the ECB will not (and legally cannot) be the lender of last resort to any country that fails to comply with the rules of the EU stability and growth pact.

Writing an appropriate constitution for Europe is a manageable problem, as the U.S. and other countries have shown. (Perhaps, however, they need assistance from an independent outside group.) The real problem is that several major European countries have created tax and regulatory levels that cannot be sustained (this is a statement of mathematical fact, not ideology), along with negative population growth rates.

Only the individual European states, not the EU collective, can solve this problem.

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