The euro crisis

The democratic deficit

No-one wants to take the hit from a Greek write-off

SO THE IMF thinks Greek debt is unsustainable. But it has not offered to take a hit on its own holdings. After all, the IMF is a senior creditor; its reputation depends on getting paid. Yesterday, Mario Draghi, the ECB president, said it was

"uncontroversial that debt relief is necessary"
while simultaneously expressing confidence the ECB will be repaid by Greece. So who should the Greeks default to? The taxpayers of Europe, of course, the very people who were promised that such a thing could not happen. As pointed out in my last post (http://www.economist.com/blogs/buttonwood/2015/07/euro-crisis), this would be an odd interpretation of democracy.

Some of these problems arise from the way that the crisis was dealt with. Central banks acted quickly to try and deal with the liquidity crisis of 2008; the EU set up the EFSF and the ESM as a way of dealing with the fiscal crises of its weaker members; the IMF was brought in as a body with experience of "enforcing" conditional loan programmes. None of these bodies have direct democratic legitimacy; indeed it is their lack of democratic accountability that gives them freedom of action.

Writing in the FT today (http://www.ft.com/cms/s/0/737332b2-2b18-11e5-acfb-cbd2e1c81cca.html?siteedition=uk#axzz3fyqH2Tk6), Glenn Hutchins argued that

“When our economy was most fragile, in the aftermath of the crisis, elected politicians wrangled year after year.

Fortunately, the central bank was independent of politics, which enabled it to act.

This argument is rather worrying for those of us who believe in democracy; in a crisis, it needs to be circumvented. We have double delegation these days, in which our elected representatives delegate decisions to technocrats, who cannot be removed by voters. These technocrats have the freedom to take unpopular decisions.

The Fed’s actions can be justified on the grounds that they did work, although the counterfactual can’t be tested; a second Great Depression has been avoided, unemployment has fallen and the economy is growing at a decent rate. The EU’s actions
haven't worked in the sense that the Greek crisis hasn't been resolved satisfactorily.

The problem with technocrats, especially when it comes to economics, is that there is no "right" answer on which all experts agree. There are also political consequences to technocratic decisions. QE, for example, by boosting asset prices has helped the very wealthiest, who own most of the assets. Bailout programmes are perceived to help banks, a deeply unpopular result, even though the Greek crisis has shown what happens to the economy when the banks are too weak to open.

When the policies are perceived to fail, then the voters naturally blame the elected politicians. But the politicians, while not powerless, have limited freedom of action, thanks to the involvement of the technocrats, as the Greek crisis shows; if they want to cut Greek debt, they must penalise their own taxpayers, and incur even more blame.

The technocratic solution to the euro crisis is the creation of fiscal and political union, in which the wishes of local voters (such as Greeks) will be over-ridden even further and decision-making will be seen as even more remote than now. The near-success of Scottish independence and the enthusiasm for a Catalanian version is a sign that voters are increasingly enthused by the idea of local control. But the solution to so many
problems requires international co-ordination, which in turn is dependent on pooled sovereignty and the kind of last-minute backroom deals that we have seen throughout the Greek crisis. Your blogger may be gloomy by nature but its very hard to see how this circle can be squared.