[New York Times](http://www.nytimes.com/)

**[http://graphics8.nytimes.com/images/opinion/article/opinion-logo-small.png](http://www.nytimes.com/pages/opinion/index.html)**

**Op-Ed Contributor**

**Europe After the Crisis**

**By ANDREW MORAVCSIK**

**Published: April 22, 2012**

From the start, the euro has rested on a gamble.

When European leaders opted for monetary union in 1992, they wagered that European economies would converge toward one another: The deficit-prone countries of southern Europe would adopt German economic standards — lower price inflation and wage growth, more saving and less spending — and Germany would become a little more like them, by accepting more government and private spending, as well as higher wage and price inflation. This did not occur.

Now, with the euro in crisis, the true implications of this gamble are becoming clear.

Over the past two years, the eurozone members have done a remarkable job managing the short-term symptoms of the crisis, although the costs have been great. Yet the long-term challenge remains: making European economies converge — that is, assuring that their domestic macro-economic behaviors are sufficiently similar to one another to permit a single monetary policy at a reasonable cost. For this to happen, both creditor countries, such as Germany, and the deficit countries in southern Europe must align their trends in public spending, competitiveness, inflation and other areas.

Aligning the Continent’s economies will first require Europe to reject the common misdiagnoses of today’s crisis. The problem is not primarily one of profligate public sectors or broken private sectors in southern European debtor countries. Greece is exceptional. Most euro-zone crisis countries had relatively prudent fiscal policies; most ran up smaller deficits than Japan, Britain and the United States. And severe housing and banking crises are hardly specific to southern Europe; they have recently occurred across the Western world.

Although big deficits and broken private sectors may have been part of the problem, the deeper cause of today’s crisis lies in contradictions within the euro system itself. Ten years after adopting a common currency, Europe is still not an optimal currency area.

Instead, the single currency exaggerates existing differences between countries. And its adoption eliminated the policy instruments economically weaker countries had used to overcome them, including currency devaluation and unilateral control over interest rates.

Meanwhile, Germany underprices its exports and racks up the world’s largest trade surplus. In this regard, Germany is acting as the China of Europe — but euro membership permits it to pursue mercantilist policies while escaping the blame. Bankruptcy in southern Europe and prosperity in Germany are in fact two sides of the same coin.

Policy proposals for budgetary austerity, the micromanagement of national budgets, fiscal federalism, bailouts, or large funds to stave off speculators are insufficient to solve this problem. As long as the eurozone countries continue to take such radically different trajectories regarding labor costs, government spending, private-sector behavior and competitiveness, Europe will face a long-term economic catastrophe that could drain its wealth and power for the rest of this decade and beyond.

How should European economies be made to converge? The German view — that the future of the euro rests on southern European countries making tough reforms and cutting public spending — is partially correct. It would be foolhardy for Germany to assume liabilities for deficit countries without such reforms. That is why Berlin has insisted that the recently negotiated E.U. fiscal compact require governments to incorporate balanced-budget provisions into their national constitutions.

Yet imposing the primary cost of recovery on deficit countries in the form of austerity is likely to fail both pragmatically and politically. Economies without growth cannot support or sustain debt reduction or structural reform. This is why even Mario Monti, the technocratic Italian prime minister, recently made clear that the deficit countries could embrace austerity and reform only if Germany changed its policies to accept a greater adjustment burden in the form of domestic spending and inflation, as well as appropriate E.U. policies.

How Europe’s leaders respond to these challenges will shape not just the fate of the single currency but also the future of the whole Continent. The alignment of European domestic policies in order to achieve mutually beneficial cooperation is an exception. Where basic national interests and regulatory styles converge, as in the area of trade, governments have developed strong common policies that have remained stable through the crisis. In areas where countries have not brought their policies in line, regulation remains voluntary and largely national.

The difficulties in getting European countries to adopt similar monetary policies suggest that the E.U.’s leaders may have pushed integration as far as it will go. In this regard, the euro crisis is only the latest development in a two-decade-long trend toward a leveling off of European integration. At the time the Maastricht Treaty was ratified, many observers expected the E.U. to start regulating more and more policies, including those on social welfare, health care, criminal justice, education and, above all, taxation and fiscal priorities. Little of this has occurred, and Europe now puts forward few policies that open up new areas to centralized regulation.

Yet none of this vindicates the Euro-pessimists. No country has issued a serious challenge to any of the Union’s core activities. Not a single prominent European politician advocated withdrawal from the European Union, as that would amount to economic suicide. Brussels continues to manage about 10 percent of national policies, from business regulation to European migration, under a unified legal system. The Union has recently expanded, from 12 members at the time of the Maastricht Treaty to 27 today, leaving lasting movement toward open markets, democracy and the rule of law in its wake.

Even the monetary crisis itself has generated unprecedented new steps toward financial regulation. Whatever the outcome of the crisis, the European Union will remain without rival the most ambitious and successful example of voluntary international cooperation in world history.

Still, the crisis does signal that the process of European integration is reaching a natural plateau, at least for the foreseeable future, based on a pragmatic division between national policy and supranational cooperation.

The movement toward the “ever-closer union” of which the E.U.’s founding fathers dreamed when they signed the Treaty of Rome in 1957 will have to stop at some point; there will never be an all-encompassing European federal state. But within the increasingly clear mandate of a stable constitutional settlement, Europe will continue to respond boldly to the challenges of an increasingly interdependent world.

***Andrew Moravcsik*** *is professor of politics and international affairs and director of the European Union program at Princeton University’s Woodrow Wilson School of Public and International Affairs. This is a condensed version of an article that will appear in the May-June issue of Foreign Affairs.*

<http://www.nytimes.com/2012/04/23/opinion/europe-after-the-crisis.html?pagewanted=2&_r=1&ref=global>