Europe is dead – Long live Europe!

By Maxime Parodi and Xavier Timbeau

The British people's vote for Brexit merely reinforces the political logic that has become an imperative. On the one hand, people want to be consulted, while on the other, Europe is summoned to change. François Hollande believes that, "the vote of the United Kingdom is putting Europe to the test"; Alain Juppé holds that, "we must write a new page, a new chapter, in the history of Europe"; the leaders of France's National Front, but not they alone, are calling for a referendum on France's membership in the EU and in the euro. Throughout Europe, debate along these same lines is underway.

A few days ago, we wrote on the Terranova Foundation site: "The referendum on the UK's membership in the European Union will lead to a shock that is more political than economic. It will be difficult to contain demands for similar consultations. Meeting these demands by 'more Europe' will only heighten the distance between the peoples and European construction. To think that referendums could on the other hand legitimize the status quo would also be a mistake. We propose responding to the democratic need not by a 'all or nothing' approach but by a process of democratic ownership that helps to legitimize European integration and to imagine future possibilities."

This method of democratic ownership of Europe and the euro has to be taught. Referendums "for or against" won't cut it. The federal leap now acts as a foil for probably a large majority of Europeans. But a public domain does nevertheless exist in Europe. Articulating what today are the sites of democracy, the EU Member States, with the need, for some subjects, of a supranational legitimacy is the alternative to the invention of the European citizen. But it is the method that counts. And all the levers of participatory democracy, of broad national and transnational debates, including through citizen juries, must be mobilized to take stock of the current state of Europe and propose reforms that will render it more democratic. **This could lead to concrete advances such as a parliament of the euro zone or an extension of the European Parliament's powers.** It is also the way to reverse the trend towards the breakdown of Europe.

How do French people look at equality of opportunity?

By Michel Forsé (CNRS) and Maxime Parodi

Do the French people believe in equal opportunity? The Dynegal survey asked the question in 2013 to a representative sample of 4,000 individuals, whose responses were very mixed. In a recent article in the *Revue de l'OFCE* (no. 146, 2016 [in French]), we show that it is the middle classes who prove to be a little more convinced than others by the idea that schooling gives everyone a chance and that one's success in life does not depend on social origin. This result is in line with the thesis by Simmel that makes the middle-class the site of social mobility.

The survey also raises questions about the link between the belief in equal opportunity and social expectations in terms of recognition of merit and equality of results. As might be expected, the less one believes in equality of opportunity, the less one defends the recognition of merit, and the greater the demand for equality of results. On the other hand, French people who are perfectly convinced that everyone has the same chance of success defend not only the recognition of merit, but also equality of place. This unexpected result highlights, in fact, a risk inherent in a society that is conceived of as totally meritocratic: the risk of completely discrediting the losers and of not finding them a place in society.

The American dream (finally) proven?

By Maxime Parodi

In a recently published short article, Thomas Hirsch and Mark Rank (2015) give us some astonishing figures about American society – numbers that, taken seriously, would lead to a significantly more nuanced view of income inequality in the United States. Indeed, their study suggests that American society is much more fluid than we think. While Americans undoubtedly live in a very unequal society, most of them would experience wealth at some point in their lifetimes. There is, in reality, a high turnover between rich and poor, which would explain why Americans are not very critical of inequality.

According to this study, during their working lives (age 25 to 60), 69.8% of Americans have enjoyed at least one year of household income sufficient to be included among the richest 20%. And 53.1% of Americans have made it – for at least one year – into the richest 10%. An even more exclusive 11.1% of Americans have spent at least one year in the illustrious club of the wealthiest 1%.

But before accepting these outlandish figures, a more serious look needs to be taken of the study by Hirschl and Rank. It turns out that the numbers do not in fact offer a simple description of American society, but are rather the result of a modelling exercise. Behind these figures lie certain assumptions and methods that have been adopted, and which deserve discussion.

In the latest *Note de l'OFCE (no. 56 of 12 January 2015)*, I show that the assumptions made are unrealistic and that the method used does not support the presence of missing data in the biography of the respondents. All in all, the results are heavily biased in favour of the American dream. It is possible, however, to partially correct this bias, yielding the results in the table below.

Table. Cumulative percentage by age and averages, after correction for bias, of belonging at least once in one's life to the richest 20%, 10%, 5% or 1% of households

In %

H* age	Q20		Q10		Q5		Q1	
	Graduate	Non-Graduate	Graduate	Non-Graduate	Graduate	Non-Graduate	Graduate	Non-Graduate
25	7,6	3,4	4,1	1,4	2,4	0,7	0,4	0,1
30	19,1	8,6	10,8	3,8	6,1	1,8	1,0	0,2
35	27,6	12,7	17,2	6,1	10,2	3,0	2,4	0,6
40	33,1	15,5	22,6	8,2	14,5	4,3	4,0	0,9
45	37,2	17,6	26,9	9,9	18,4	5,6	5,4	1,3
50	39,6	18,9	30,8	11,5	21,7	6,6	6,6	1,6
55	41,0	19,7	33,2	12,5	24,3	7,5	7,9	1,9
60	41,3	19,8	34,4	13,0	25,6	7,9	8,7	2,1
Average	31		24		17		5	

Source : Author's calculations.

Basically, the Hirschl & Rank figures are cut in half! Thus, 31% of Americans will have a sufficient household income for at least one year (between age 25 and 60) to be among the richest 20%. And 5% of Americans will have a sufficient household income for one year to be in the richest 1%.

Given the magnitude of this correction, it is clear that the study by Hirschl and Rank distorts reality by suggesting that social destinies in the United States are very chaotic – as if the entire society were at the roulette table. Other articles by Hirschl and Rank further fill out the picture. It is not in fact the first time that these authors have come up with such figures using this method. In 2001, they examined the other end of the income distribution, evaluating the percentage of Americans who have experienced an episode of poverty during their lifetime (Hirschl and Rank, 2001). They again came up with striking figures. For example, 54% of Americans experienced an episode of poverty [1] before age 40. In 2005, they again applied this method to recipients of food stamps (food vouchers), and estimated that 50% of Americans will have made use of food stamps at least once in their lives (before age 65). This order of magnitude is, yet again, barely credible. A less costly and more direct method would certainly be revealing: it would suffice to ask Americans whether they have ever received food stamps. While some Americans may prefer to hide such an event, this bias of omission will never be as large as that of the preceding survival analyses. Let's be clear: their method is a machine for producing the outlandish.

[1] The poverty threshold adopted here is 1.5 times the value of the basket of goods needed to meet basic needs.

Save Greece by Democracy!

By Maxime Parodi @MaximeParodi, Thomas Piketty (Director of research at the EHESS and professor at Paris School of Economics), and Xavier Timbeau @XTimbeau

The newspapers have been full of the Greek drama since Syriza's election to power on 25 January 2015. Caught in the noose of its loans, Greece's government is defending its position by threatening to leave the euro zone. The situation today is at an impasse, and the country's economy is collapsing. As bank deposits flee and uncertainty mounts about the times ahead and the measures to come, no-one is really able to think about the future.

Europeans, for their part, are wondering what has led to this state of affairs. There has been a diagnosis of Institutional incompleteness, with proposals to reinforce the construction of the euro zone. But what is emerging is not up to the challenges facing Europe.

So let's take the problem by the other end of the stick and give European democracy a chance to evolve. Let's entrust the resolution of the Greek debt crisis to a body of representatives of the euro zone's national parliaments, that is to say, an embryo of a true parliamentary assembly for the euro zone.

Such an Assembly would arbitrate the conflict between the creditors and the Greek government, shifting the debate and decision-making to the big questions: what responsibility should the younger generation bear for the debt of their elders? What about the creditors' rights? How have other large public debts been resolved historically, and what lessons can we draw for the future?

As any agreement reached would be legitimated by a formal assembly that would also act as its guardian, it would no longer be in danger of being denounced – once again – on the morrow. Since what's at stake is to resolve a debt and to not reach an agreement through force, the first step would be to suspend Greece's debt for the time needed. This step is a matter of common sense and the ordinary practice during the resolution of private debt in nearly all the world's countries.

A lasting agreement

This would require leaving the IMF out of the discussion by letting Greece reimburse this institution. It would be necessary at the same time to eliminate the possibility of Athens leaving the euro zone. By accepting the principle of negotiations, Greece and the other European countries would take this option off the agenda and pledge to accept the agreement reached. This embryonic Assembly would periodically review the situation and monitor the contingencies of the Greek economy. This is in effect what is already being done today, but now this would be explained and legitimated.

The technical institutions (the Commission, the European Central Bank) would continue to assess and support the reforms envisaged. They would inform the Assembly and answer to it. The Assembly would be a body set up to arbitrate, whenever necessary, any conflicts. Nor would there be any reason not to involve the European Council and the European Parliament. But clarifying the issue of legitimacy would open the door to a solution that was both more constructive for Greece and the other heavily indebted countries and fairer to the taxpayers of the euro zone.

We would be experimenting with a scheme for the resolution of sovereign defaults within the euro zone by building a political union – while remembering one thing: that Europe was reconstructed starting back in the 1950s by investing in the future and forgetting the debts of the past, in particular Germany’s.

Finally, this Assembly would be competent to establish a common fund for euro zone debt, to undertake its global restructuring and to establish democratic rules governing the choice of a common level of public deficits and investments – which would help to overcome today’s Do-It-Yourself approach to our euro zone.

On cosmopolitan currency

By Maxime Parodi, sociologist at the OFCE

A cosmopolitan currency is a currency common to many nations and explicitly based on a form of co-sovereignty (for a more in-depth analysis, see OFCE working paper 2013-09, June 2013). A currency like this is possible only by accepting a monetary policy and fiscal and taxation policies that are based on shared motivations, where each is responsible for the monetary commitments it makes and co-responsible for the ability of all to pursue a suitable economic policy. To be lasting, this currency requires sustained attention to macroeconomic divergences between the partners and the difficulties that each is encountering; it requires open dialogue about the reasons for these divergences and difficulties; it requires a determination to propose possible remedies over the short, medium and long term; and finally, it requires everyone to cooperate voluntarily, so long that is as they have the ability to do so.

Of all the classical sociologists, Simmel alone could have envisaged such a currency. Indeed, he was the only one to study socialization itself, to seek to understand society in the making, whereas Durkheim always started from an already established society, from an individual who was always already socialized, and Weber started from people always already constituted, "completed", without at the same time considering them as subjects likely to influence each other and make society deliberately. Yet a cosmopolitan union is precisely a union that is always trying to make itself; it is never definitively established. This type of union is weak by nature, but at the same time it only ever appears in contexts where it is objectively necessary for its citizens. Such a union is constantly renewed, constantly re-worked, because there is an objective terrain of neighbouring or overlapping interests, and everyone therefore considers it desirable to come to the best resolution of the neighbourhood's problems. Thus, in the name of the union, it becomes possible to resolve certain conflicts fairly and to develop tighter bonds.

From this perspective, the act of adopting a common currency is not a trivial matter in a cosmopolitan union. All of a sudden, everyone is committed to respecting their monetary promises to their neighbours. This is obviously a major change, which has immediate and foreseeable consequences: the transaction costs between partners disappear, and in particular there is no longer any risk associated with holding a foreign currency, as the currency is now common and politically guaranteed. But there are also less immediate, more hidden consequences. For instance, this common commitment often calls into question the economic culture of the nations concerned, by obliging them to explain some of the ways they operate: governments in the habit of solving their problems by inflation or a currency devaluation must now tell their citizens that it is necessary to raise taxes or spend less; banks that are "too big to fail" must now draw up wills instead of relying on the implicit guarantees of the citizens, and so forth. Finally, the cosmopolitan currency creates a new relationship between the partners, which in principle leads them to be concerned about their neighbours. In fact, the partners have made a commitment not only to keep their promises to everyone else, but also that each is able to uphold its own commitments (since trust is not divisible).

The cosmopolitan currency also introduces a kind of solidarity within the union. One must now be concerned about whether one’s neighbour has the ability to meet its monetary commitments. This implies guaranteeing the latter a capacity for debt and / or a flow of investment into its territory. But unlike solidarity within a nation, this guarantee is more moral than legal: it is not entirely engraved in stone in the union, but must be discussed case by case. The risk of moral hazard is thus avoided.

The euro seems to be the paradigmatic case of a cosmopolitan currency. It is even the only case in history where cosmopolitanism actually laid the basis for a currency. This unprecedented feature also poses difficulties by upsetting national economic cultures. Since the beginning of the monetary crisis in 2008, everyone is discovering how Europe’s vertical institutions (European Commission, European Central Bank) address problems and respond to them. A culture of the euro, even a jurisprudence, is thereby forged. This is, incidentally, why the European Council should consider the impact of its decisions on this emerging culture: is the euro zone in the process of adopting a custom of “immediate returns”? Is this a doctrine born of distrust? If a cosmopolitan currency is possible, it is nevertheless necessary to accept both sides – the co-responsibility no less than the responsibility.