THE EU AT A CROSSROADS

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There is no doubt that the EU is facing the greatest challenge in its history. The Eurozone Crisis is creating tensions both in the member states themselves and within the EU. Moreover, recent reports indicating that more than 133 million Europeans are now below the poverty line and that about 33 million are unemployed, explain to a great extent the discontent and growing Eurosceptism that was revealed by the recent elections for the European Parliament. For this reason, it is important to acknowledge and understand the structural problems and find ways to address them effectively.

Besides the fundamental concept of European integration, the idea of participation in the Eurozone is that member states will eventually be better-off. And in case of a crisis, participation in the Eurozone would help the particular member state address problems in a much more decisive and effective way. Yet the record indicates quite the opposite. Eurozone member states did not receive the expected support. Instead they were granted draconian austerity measures and fiscal packages which have deepened the crisis.

It has thus become all the more necessary to acknowledge the structural problems embedded in the Eurozone architecture. Eurozone countries facing a crisis are deprived of fundamental economic policy tools to effectively address their problems. The member states of the Eurozone do not have the option of discretionary monetary policy. And what is even worse, more often than not, the fiscal policy tool at their disposal is also to a great extent externally determined.

Many leading economists have repeatedly put forward the view that the science of economics has the tools, the capacity and the knowledge to prevent depressions. Yet the policies pursued by the EU and the Troika have led to the deepening of the crisis in the Eurozone and especially in the several countries that have requested help.

Politicians, technocrats and analysts in the EU and beyond have begun to realize that it is essential to think outside the box in order to overcome the crisis and indeed to reenergize the European project. This may entail an expansionary monetary policy on the part of the European Central Bank – including the partial monetization of debt – as well as fiscal transfers.

Given the fact that the Eurozone member states have different economic structures, it is necessary to reassess the policies revolving around the common currency. Currently, it seems that member states are forced to pursue the fiscal and monetary policy determined by Germany. However, this is both unrealistic and erroneous; it is associated inevitably with the existing socioeconomic crisis.

Yet, for this to take place it is essential to have a fundamental policy shift. It is also important to seriously consider the concept of solidarity and understand its implications. The way Cyprus was treated in March 2013 exemplifies the opposite of solidarity. Indeed the decisions of the Eurogroup were punitive and vindictive for this island-state. They were also myopic on the part of the EU as they reduced the potential for Cyprus to act constructively in a very troubled region.

Nonetheless, it is also essential to revisit the practices of the Troika – philosophically and procedurally. Does the EU require the support of the IMF to address its own general problems, as well as the specific problems of its member states? Moreover, it should also be noted that the Troika lacks legitimacy.

At this juncture there are different perspectives for the future of the EU. The United Kingdom would like to see less power ceded to Brussels and other Union institutions and more responsibilities returning to the nation states. The underlying assumption is that EU policies and practices tend to create more problems than they are able to solve. The British perspective is that it is important for countries to have their own currency and pursue their own fiscal and monetary policies accordingly. It is also mainly for this reason that the United Kingdom is so adamantly opposed to the EPP candidate Jean-Claude Juncker for the post of European Commission President. According to the British view, Juncker is too much of a federalist and would result in more responsibilities being drawn into Brussels and the EU institutions, rather than back to the nation states.

The federalist perspective, which underlines the need for further integration, may be more complicated in practice. For example, one of the necessary steps that should be taken for the success of the Eurozone is a Fiscal Union. Such a Fiscal Union may have different implications and lead to different expectations. For instance, some of the major players may underline the importance of fiscal transfers. On the other hand, other players may insist on harmonization of tax rates.

Be that as it may, given the different economic structures of the member states of the EU and especially of the Eurozone, it is only natural that different requirements would exist. For all the countries to be able to participate effectively it is essential to advance and implement the concept of fiscal transfers. Such a course requires strong political will, as well as the approval of voters in the rich countries who in large part will have to pay for those fiscal transfers.

It is also worth noting that the budget of the EU as an entity is around 1% of the total budget of the member states. Conversely, the budget in most states of the Union is above 40% of their respective GDP. Indeed, despite the existence of rules and regulations at EU level, the bulk of economic activity at the public level is driven at the nation-state level. Conversely in the case of the US, the motor of economic activity at the public level is the federal central government. Evidently however, the EU cannot become the US. But if the Union is to take the federalist idea seriously, it has to reconsider and indeed revisit the size of its budget at the central level, the concept of fiscal transfers, and equally importantly its commitment to solidarity among its member states.