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Europe Is at a Watershed

by

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Abstract

It is not easy to see and to foresee how the European Union is moving forward. There are good and bad perspectives, both stemming from the global crisis, both with an unpredictable outcome. The goal to be achieved is the creation of a supranational government within the Eurozone.

Key-words:

Crisis in the Eurozone, supranationality, European government



It is not easy to see and to foresee how the European Union is moving forward. There are good and bad perspectives, both stemming from the global crisis, both with an unpredictable outcome.

A major element of instability lies in the fact that the strategies implemented to overcome the financial and economic crisis have so far proved quite ineffective. Each new output of the crisis (and also the latest in Cyprus) puts the future of the euro in jeopardy, and hence the European Union itself. The attempts to achieve fiscal consolidation in countries with large deficits and high national debt has resulted in the imposition of strict regulations on the Member States concerned. They have given up their sovereignty over national budgets, to an extent unheard of even in the existing federal States. And yet, the result has been largely missing: recovery has been difficult, if not impossible, due to the drop in GDP that these harsh austerity measures have caused. Growth is still modest or absent everywhere, even in the strongest countries, including Germany. In Italy, the backward leap in domestic product and the lowering of well-being is alarming and unprecedented since the end of World War II.

Two factors can account for these failures, both all the more deceiving as the country that gave rise to the crisis is now recovering under Obama's leadership. First, focusing on austerity as the only lever for recovery has proved misleading, as the International Monetary Fund has now recognised. Second, the decision-making process of the Union, which in the past four years has been based exclusively on countless intergovernmental summits, has shown all its limits. The intergovernmental method strives to coordinate national budgetary policies. However, coordinating does not mean governing. And what the EU truly needs, in particular the Eurozone, is a real economic government, to be put in force beside the existing monetary government. The crisis will not be overcome just by monetary means. Effective decisions cannot be taken through the coordination method. This has been clear since the very beginning of the euro and has now become incontrovertible.

As to the positive side of the story, in the last three years the crisis has forced governments to adopt a number of innovative measures, which never would have been introduced in normal times. For the first time, the British veto has been openly opposed and overcome: the Six-pack and Two-pack regulations and the two Treaties on the Fiscal



Compact and the European Stability Mechanism (ESM) were signed outside the EU framework. The banking union – a fundamental element to counter default risks – is progressing, albeit with difficulty: the risk of systemic crisis is now leading towards the implementation of supranational supervision, which is essential for banks operating in several national markets. The resistance of the national supervisory authorities will probably be overcome: here again, it is now clear that coordination is not enough, what is needed is a supranational power. However, as regards the other two pillars of the banking union, hurdles (the bank failure resolution procedure and a deposit guarantee) have not yet been overcome.

The road to supranationality, the only one that can ensure the future of the Union and the Eurozone, faces major resistance exerted by national governments. The German Chancellor has built her power on a policy that reflects the very strong popular aversion to any policy which is (or even seems to be) tolerant of the most indebted countries, and more generally of the Union as a whole. This will probably allow her to remain in office even after next September's elections. German public opinion stubbornly refuses to accept shared responsibility in overcoming the crisis, recovery and sustainable growth within the Eurozone. This is where Merkel's refusal of Eurobonds comes from. Any argument proving (and proof is flawless at a rational level) that to get out of the crisis and debt spiral what is required is to adopt a different budgetary policy at the European level, simply falls on deaf ears. As Tommaso Padoa-Schioppa stated years ago: "recovery should be up to the states, growth should be promoted at the European level". This approach is still largely unexplored.

Nor has the argument, based on the distortion of the single market caused by the different interest rates on government bonds, found a solution so far. Two equally healthy firms asking for a bank credit in Italy or Germany respectively, face unequal credit conditions, as the interest rates are very different. We are in fact entering a trend towards the re-nationalisation of economic policy: indeed a trend that is dangerous not only for the economy of each Member State but for the very future of the Union.

The French government has not overcome its resistance, which has been going on for more than 60 years now, to the federal completion of the Union. And Italy, which under Mario Monti's premiership had briefly regained its lost credibility, is yet again in the grip of



uncertainty and cannot at present play a major role in building the European Union, as it did on several occasions in the past.

Today the European Parliament (EP) looks to be the only European institution capable of effectively soliciting the necessary steps for federal integration of the Union. Within it, forces are gearing up for a project for institutional reforms as happened in 1984, when a Treaty project was approved by the EP; it was set aside because of the governments' inertia, but was decisive for the launch of the single market. Now Andrew Duff and other leading figures in the Spinelli Group (Cohn Bendit, Sylvie Goulard, Verhofstadt, Gualtieri and other MEPs) are moving again toward a constitutional reform of the Union. Let's hope with success.

The goal to be achieved is the creation of a supranational government within the Eurozone. What is required is the launch of a European Fiscal capacity and of a European Treasury. The financial transaction tax (FTT), now decided, can be the first step, as long as the resources it generates are used for common purposes and are, ultimately, voted on and controlled by the European Parliament ("no taxation without representation"). The bulk of the future Treaties reform can be summarised in three points: the full abolition of the veto power in the two Councils, the general legislative co-decision power of the EP, and the reform of Art. 48 UE.

How will these goals be achieved if the British government opposes them? There are two possible paths: either to adopt the opting out procedure that was accepted for the Euro, or to create a new Treaty for the Eurozone and for the Member States who are ready to accept the federal option, compatible with the single market and the *acquis communautaire*.

A major development plan for sustainable growth should be promoted by using public resources at the European level (in addition to the FTT, project bonds and an increase in the EU's own resources should be established), which are able to generate public and private investments even 20 times higher. This can already take place, pending the reform of the Treaties, by making use of the Enhanced Cooperation rules established in Lisbon. In this direction a citizens' initiative proposal (ECI), promoted by the Italian federalists and based on Art. 11 TEU, is about to be launched through the collection of the required signatures.



It should not be forgotten that an unresolved crisis makes the threat of a collapse of the euro ever-present. This is an outcome that powerful forces are ready to encourage through financial market mechanisms: a return to variable exchange rates within the Eurozone is too tempting a prospect in the world of international financial speculation. The tools to counter the crisis are all clear, but to be put into force they require the political will to implement them in two ways: through the allocation of sufficient resources at the European level and through the necessary institutional reforms.

Only the creation of a European government within the Eurozone, legitimised by the European Parliament, will be able to lead, after years of partial and ineffective attempts, to the turning point that European citizens have so far been waiting for in vain.