



The Eurozone in need of a Political Union

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In their Lisbon declaration of 2000, European leaders, with great ceremony, set out their aim of becoming the most competitive knowledge-based economy in the world by 2010. Ten years later we have to conclude that the strategy has failed. Targets have not been met and during the ten years in which the European Union was supposed to become the economic leader of the world, the European Union has in fact fallen further behind the United States. Notwithstanding the obvious weaknesses of the strategy, it must be recognised that Member States never demonstrated the political will to step up their efforts to make a success of the common strategy.

Today the European Union is facing the biggest financial crisis of its existence. Newspapers such as Bild Zeitung in Germany and The Telegraph in the United Kingdom play a significant role in encouraging negative public sentiments regarding the question of whether or not their governments should help out their fellow Europeans in Greece. A majority of the public is against this aid, and such negative sentiments seem to have paralysed European policymakers.

Instead of showing leadership by acting swiftly and coherently, European leaders have been quarrelling about who is to blame for the current crisis. In the first instance, European leaders prevented the Greek government from requesting financial help from the IMF, since it was preferred that a European solution be provided. However, on foot of domestic protests European leaders became hesitant to transfer European money to Greece. The incoherence of European actions gave to the rest of the world the impression of a lack of solidarity and made it even more difficult for Greece to borrow money on the capital markets.

Fortunately, Ms. Merkel eventually understood that by not providing Greece with financial aid, Greece would ultimately have no other choice than to leave the eurozone. Nevertheless, it is sad to see that the upcoming

regional elections in Germany have cost Greece a substantial amount of money and have recklessly delayed the decision-making process.

The events of the last couple of months have damaged Europe's image on the international scene and have weakened the Euro. More seriously still, these events have sent a signal to speculators that the European Union is wary of helping out fellow countries that find themselves in financial difficulties. This will create a domino-effect, which will make it more difficult for countries such as Portugal, Spain, Italy and Ireland to lend money on the international capital market.

In the long run some of these countries will have difficulties in remaining members of the eurozone and any speculative attack on a bigger country such as Spain would endanger the functioning of the eurozone. To avoid future crises, Member States must transfer part of their economic sovereignty to the European level. However, in order to gain public support, European policymakers must show leadership and should explain to their compatriots that the eurozone must be further integrated.

In this article I will not focus on the current problems in Greece, since these are only the first signs of the problems that the European Union will face in the near future. Optimists believe that this crisis could result in a better understanding of the necessity of further integration, but the current squabbling of our political leaders does not convince me that this will be the case.

The European Union in need of a bolder Europe 2020 strategy

To prevent future crises in the European Union, the Commission has come forward with a package of measures to succeed the Lisbon Strategy. Unfortunately this new strategy, called "Europe 2020", is based on the

same principles as its predecessor and does not attest to a necessary sense of urgency nor to the political will required to guarantee economic growth and the creation of jobs.

The main reason why the Lisbon Strategy failed was the lack of political will on the part of the Member States in implementing the action plans that were agreed at European level. The reason for this failure is easy to understand. The open method of coordination does not allow for pressure to be exerted on Member States. It reduces the role of the Union from that of an economic locomotive to a quasi think-tank that compares one Member State economy with another and on the basis of these results formulates non-binding recommendations, a task already carried out by the OECD.

More importantly, however, national economic strategies were to draw heavily on the Lisbon Strategy during its implementation. Member States, rather than European institutions, were in the driving seat. In other words, the European economy was not seen as a unit faced with overcoming serious obstacles in comparison to China, the United States, and India but rather as a collection of distinct national administrations, each charged with putting its own house in order and with deciding how best to act on an national basis.

Despite the obvious weaknesses of the previous Lisbon strategy, both Council and Commission have opted to follow the same path as that of the previous ten years. The principle of the open method of coordination remains the basis of decision making. Furthermore, Council and Commission have defined five 'headline targets' to be adapted at national level:

- Raising the employment rate of the population aged 20-64 from the current 69% to 75%.
- Raising the investment in R&D to 3% of the EU's GDP.
- Meeting the EU's 2020 objectives of cutting greenhouse gas

emissions by 20% and of sourcing 20% of its energy needs from renewable sources.

- Reducing the share of early school leavers from the current 15% to under 10% and making sure that at least 40% of young people have a degree or diploma.
- Reducing the number of Europeans living below the poverty line by 25%, lifting 20 million out of poverty from the current 80 million.

These headline targets are in themselves fine, but one should be skeptical of the prospect of these targets being met. Since government leaders are not willing to strengthen the governance structure of the strategy, the whole strategy is based purely on the political will of the Member States to make the strategy a success. Past experience shows that such soft power will not work.

Survival of Eurozone depends on the creation of an economic and political union

The EU 2020 strategy does not provide a solution to the deeper challenges of the eurozone. Three crucial changes are necessary to give this strategy a chance to succeed. Firstly, the eurozone lacks a real economic-political pillar to act as a body that determines economic policy and to make sure that member states adhere to such policy. Therefore, the new «Europe 2020» agenda should have abandoned the open method of coordination in which an exchange of best practices and peer pressure is supposed to encourage member states to adapt and adjust their economic and social policies.

What is needed is a «carrot-and-stick» strategy that will lead to true «economic governance» by putting the European Commission in charge. The EU's executive arm would have the power to allocate additional structural funds to countries that deliver credible action plans and results, for

example in terms of labour market reforms or spending on research and development. At the same time, the Commission could impose financial penalties on Member States that do not comply with the strategy. No treaty change would be necessary for the Commission to thus devise and supervise economic policy. The new Lisbon Treaty clearly gives the Commission the possibility of doing this.

The economic-political pillar would be an important first step, but would not be enough to ensure the survival of the eurozone. The Greek crisis has demonstrated that a monetary union without an economic and political union is not sustainable. This is why we need two further key reforms in place for the next possible economic or monetary thunderstorm.

European Monetary Fund

The first and most imperative task is the creation of a “European Monetary Fund,” to which eurozone countries would contribute according to the size of their gross domestic product. Any Member State could call on EMF funds up to the amount it has deposited in the past (including interest). Should a country, however, need additional resources or guarantees it would have to accept a tailor-made reform program, which the European Commission would supervise. Just like the IMF, the EMF could refinance itself through its borrowing business.

Common euro-bond market

Secondly, we need a common euro-bond market (EBM) within the eurozone. This is perhaps the only way of reducing the yield spreads between German benchmark bonds and those of Greece, Portugal or Spain to pre-crisis levels, and to simplify the way in which Member States access funds. It must be ensured, however, that the EBM does not remove the incentives for many countries to put their fiscal houses in order.

In conclusion, if the European Union really wants to get to grips with the reasons for the European Union’s failures it must come to a single logical conclusion: Europe needs more unity and more integration; otherwise the Union will cease to play its role on the global chess board. It will not be enough to simply refer to the Lisbon Treaty in the hope that the tide will turn. The last months and weeks have been proof to the contrary. It is time to be courageous and to draw the correct conclusions from the financial, economic and Greek crises. If we do not act now we will end up playing in second division.

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