

Thought Piece

A More Honest Debate on Integration
Eleonora Poli – Summer 2017



Editors Chiara Rosselli, Lena Exner, Caspar Kolster | GMF

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The thought bite below is informed by the parliamentary conversations enabled by the Mercator European Dialogue. The thoughts expressed in the piece represent the views of the author alone.

INTRODUCTION

Since the financial and economic crises of 2008, attempting to ensure the functioning of the Economic and Monetary Union (EMU), has had the side-effect of eliciting an unprecedented level of economic integration among Eurozone member countries. The Banking Union, among many others, is an extraordinary example of this deepening process. Following a global trend, in 2016 the European GDP grew, proving the resiliency of the eurozone despite the crisis. The Commission Reflection Paper on the Deepening of the Economic and Monetary Union states the central role of the eurozone in the future of the European Union, especially after Brexit. To date, it represents 85 percent of the total EU GDP.¹

Yet, five years of slow growth after the crisis have exacerbated well-established differences among eurozone member states, spreading both the ideas that some countries are growing at the expense of others, or that poor economic performance is only a matter of pre-crisis imbalances, bad management, and inefficient national policies. Rising economic disparities among eurozone member countries have drawn off the possibility of a general European economic convergence, originally considered necessary for a stable eurozone. At the same time, fears of another recession in some eurozone countries, which could have repercussions for the rest of the EU, have been catalyzing discourses on the need for more or less economic integration within eurozone governance.

To shed some light on the future of eurozone governance, the Mercator European Dialogue's fourth biannual conference engaged members of national parliaments from across the EU in a conversation on such divisive issues. The conference allowed MPs to share their national perspectives to facilitate a process of mutual understanding by providing insights on how the debate is playing out in different member states and revealing divergent interpretations.

Eleonora Poli, PhD is a researcher at the Istituto Affari Internazionali (IAI), where she is working on research projects dealing with the EU economic policies, the political and institutional implications of the eurozone crisis and the European role in regional conflicts resolution.



THE BATTLE OF VALUES

To a number of MPs, the dilemma between more or less integration within the eurozone is illusory. Since eurozone national economies are already interconnected, it is clear to them that economic convergence should be beneficial for all. Yet, when it comes to reforming economic governance, a battle of values between austerity policies' supporters and detractors seems to take place and actions required to deepen the EMU are stalled as Eurozone politicians struggle to find a compromise.

INTEGRATION TO OVERCOME DOUBLE STANDARDS

To date, the incomplete nature of EMU makes eurozone economic governance highly subjectable to a re-escalation of the economic crisis and an easy target for future financial shocks. Yet, more integration should not come with more austerity policies in the view of one participating Spanish MP who suggested that while it was necessary to address certain irregularities in the southern member states' economies, extreme austerity policies had not proven helpful.

Instead, the MP suggested to develop mechanisms of risk-sharing in order to minimize uncertainty. The MP further pointed out that the impression persisted that double standards were applied when scrutinizing the practices of banks from Germany and the south. The completion of the Banking Union through the implementation of a European deposit insurance scheme could overcome such issues, as it would reduce national vulnerability of banks and ensure that confidence in a bank would not depend on its geographical location.

¹ https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en

From the perspective of Southern European MPs, the creation of European fiscal capacity within the EU budget is fundamental to absorb asymmetric shocks, finance direct investments to boost real economic growth, and promote welfare schemes against social exclusion². More economic integration and convergence would also put an end to the blame game against northern European countries, which are often accused of not reinvesting their economic surplus or implementing expansionary fiscal policies. In Germany, state budget and current account surpluses are high, which, according to an Italian MP, provokes a heavy debate of EU law violation.

SOLIDARITY COMES WITH FISCAL RESPONSIBILITY

Dutch and German MPs connect a better functioning EMU to the need for more fiscal responsibility by southern European countries. In other words, fiscal and economic integration among countries with different performance levels would put unfair burdens on the taxpayers of countries that have diligently enforced necessary economic and fiscal reforms to finance the wellbeing of less competitive economies. According to a Dutch MP, economic problems of southern European member countries are neither a responsibility of the EU nor of Germany. He suggested that the contrary perception in both regions is at least in part due to a persisting post-World War II guilt dynamic which he recommended be overcome. Detractors of more economic integration maintain that to surmount the economic downturn and reshape their economies, some eurozone countries need to implement strict austerity policies before asking for more solidarity. Since the creation of the eurozone, some member countries have started to perceive the EU as more than a project of market integration and security cooperation. For this reason, the EU has been criticized for its inability to foster economic growth, boost employment and financial stability. Yet, poor economic results of some eurozone countries depend mainly on pre-crisis conditions of ineffective national institutions and uncompetitive economic performances.

YOUR WELFARE IS MY WELFARE

On the other hand, reforming current economic governance is in everyone's interest as the economic growth of one eurozone member country is strictly linked to the economic performances

of another and its capacity to absorb domestic products of the Single Market. As an Italian MP pointed out, Germany has a certain responsibility for other member states, as its export successes are dependent on other countries' capacity to import. More economic integration might break the negative economic spiral in which the EU risks to remain trapped.

“As long as the perception that German economic success is only based on its superior products remains unchanged, it will still be considered a valid policy option to impose austerity policies everywhere . ”

– an Italian MP

Yet, when it comes to countries registering poor economic performances and a history of weak economic governance, more integration becomes difficult to justify to national electorate of Northern European governments. The message needs to change. One German participant stressed the need to relax tensions and to reframe the debate, specifically for voters in Germany. Social perception plays an important role on governments' detraction to foster more economic integration. Citizens need to be informed about the current state of play and potential risks of a less integrated EMU. Many Germans might be unaware of how interlinked Germany's economy is with that of the eurozone.

SOCIAL PILLAR AS THE ONLY OPTION?

The debate of more or less economic integration is often limited by the need to justify decisions to a national electorate, and thus by emotional and psychological limits. Policymakers should focus less on psychological, and moral terms and instead clarify the economic terms. The battle of values on austerity policies might result in member countries losing the momentum for reforming the EMU.

The only option at hand is to build a process of mutual understanding and trust not only among eurozone member states but also within the EU. Until 2008, being a member of the EU was considered a win-win situation for all countries. However, the economic crisis of the last years and consequent austerity policies have turned the EU into a zero-sum game for many.

² See also: http://www.iai.it/sites/default/files/eu60_8.pdf

It is therefore fundamental for the EU and member countries to take into more consideration European citizens' needs. As a German MP proposed, they could focus more on what they can agree on. For instance, Germans might be open to some form of minimum wage policy.

The possibility to agree on any basic convergence of social policy seems more realistic, as it would provide citizens of the eurozone with wide protection against social risks and ensure a decent standard of living. These mechanisms will inexorably entail social and economic convergence among member countries. However, by producing positive effects, they would move the eurozone governance beyond citizens' doubts and puzzlements on the need for more or less integration.

OVERCOMING THE STALL THROUGH POLITICAL ENGAGEMENT

If economic integration is the problem, well-diffused economic growth is the solution. Since a European economic union exists and countries' economic performances already depend on one another, further integration is the only option at hand. This is the path the EU and some of the eurozone governments are willing to take. Already, in May 2017, the newly elected French President Emmanuel Macron outlined the need for creating a Eurozone Ministry of Finance, an idea that was endorsed by Germany and provided with support by the Commission. Although its functions are still not clear, a Eurozone Ministry of Finance should be able to manage a treasury with a macroeconomic stabilization function, to mitigate economic shocks by supporting investments and growth. Moreover, along the line of investments, a European Social Pillar is a must for an effective economic convergence. The development of European unemployment and pension schemes, reciprocally financed by all eurozone member countries, could create welfare and restore a sense of trust in the EU, while also overcoming northern European countries fear of direct transfers into southern European pockets.

