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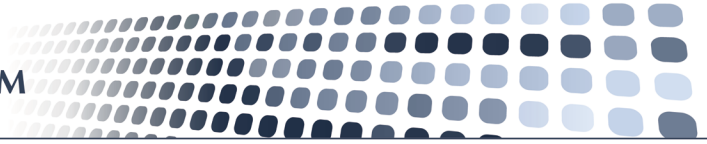
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# Europe needs initiative and leadership to overcome the crisis

by

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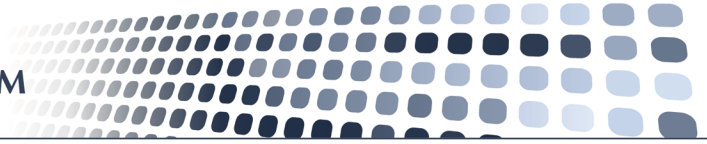


## **Abstract**

This paper applies the interpretative scheme “crisis-initiative-leadership” - developed with reference to the European unification process as a whole – to the current crises to analyse if and how the crises are being exploited by adequate initiative and leadership in the EU.

## **Key-words:**

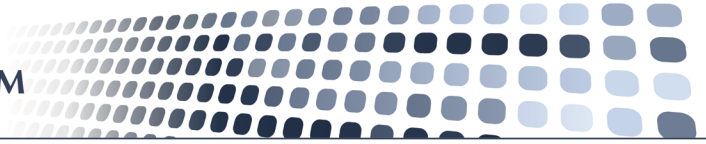
European Union, crisis, initiative, leadership



The economic and financial crisis, and then the Greek sovereign debt crisis, have put under severe strain the very existence of the Euro. The European Union seems unable to respond adequately to these crises. Even when a decision was finally taken on the 9th of May – exactly sixty years after the Schuman Declaration which ignited the unification process - the financial markets, after an initial rebound, have responded negatively. This paper applies an interpretative scheme, developed to analyse actors and timing of the European integration process, to the current crisis, in the attempt to draw some lessons from past experience and some policy recommendation for the current situation.

## 1. Crisis, initiative, leadership

The idea that crises provide occasions for Europe to advance is frequent in the public and political discourse of many actors of the unification process. Monnet and Spinelli's activities and reflections provide ample evidence of this idea (Monnet 1976; Spinelli 1979, 1984, 1987, 1989, 1992a, 1992b). Building on their thought as much as on their experience, Mario Albertini<sup>1</sup> theoretically developed an interpretative scheme of the European integration process based on three elements: crisis, initiative, leadership (see also Castaldi 2005 and 2009). This scheme was an ideal-type, a theoretical abstraction based on historical observation, aimed at identifying the elements whose concomitant presence is necessary to produce a significant advance in the integration process. It was then used to explain why in certain moments such advances had been possible, while at other times setbacks or failures occurred; and to identify the different relevant actors of the process. Experience showed that European supranational institutions, national governments, European and federalist personalities and movements all played an important role at specific moments, and this interpretative scheme helped to conceptualize their interaction, going beyond the traditional formulations of the main theories, such as neo-functionalism and intergovernmentalism, which tend to emphasize one set of actors as the main one.

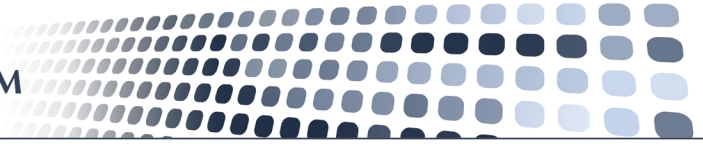


## 1.1 The role of crises

According to the federalist tradition, the basic push of the European unification process was linked to the historical crisis of the nation state - already discussed in the Ventotene Manifesto – namely the impossibility for the European nation-states to ensure their economic development and security by themselves. These latter goals required states characterized by a vast geographic extension, as shown by the success of the U.S. and the USSR, the two super powers that divided the world and Europe into spheres of influence, even determining the domestic regime of the states under their hegemony.

This structural and long term situation was masked by the dominant nationalist ideology, but manifested itself through the existence of supranational problems. Occasionally these problems turned into socially perceived crises on specific issues, which Albertini called “crises of national powers” (on the two concepts of crisis of the nation state and of national powers see Castaldi 2001). A similar view is proposed by realist authors who consider European integration as a mere instrument of national states to solve certain common problems in the economic and political fields that cannot be faced by a single state (see Milward 1984, 1992, and Milward et al. 1994). Federalists consider however the crises of national powers as a symptom and a reflection of the historical crisis of the nation state, and therefore identify in the European federation a structural solution.

As the intergovernmental tradition argues, when dealing with a supranational problem states normally seek the way of mere cooperation. Nevertheless, a socially perceived crisis on a supranational problem may be the necessary precondition for states to decide and carry out a transfer or pooling of sovereignty – provided the European and federalist personalities and organizations had the ability and strength to pursue that proposal (see Albertini 1965 now in 1999a: especially pp. 240-243; and 1966, now in 1999b: especially pp. 65-73). The crisis may involve a nation state or the Community and the European Union as a whole. When the EU plays a decisive role in dealing with certain problems a crisis of the EU itself can trigger a set of opportunities to re-launch the integrative or disintegrative dynamic.



The importance of the social perception of the crisis, or of a single problem and its supranational character, has to be underlined. The American request for German rearmament during the Korean War can be regarded as a minor crisis, because after the fall of the EDC the creation of a German army was carried out without major tensions with France, also thanks to the collocation of both within the Atlantic framework. But the idea of a German army was socially perceived as a serious danger and this allowed statesmen of the day to propose and bring to the verge of ratification the creation of a European army. On the other hand, the crisis of Bretton Woods was very serious, but the project of monetary union failed in the seventies, and it was carried out only after the fall of the Berlin Wall in order to anchor the reunited Germany to Europe, by the Europeanization of its main element and symbol of power, the Deutsche mark.

The concept of crisis has a fundamental theoretical value. The “crisis of national powers” can be called upon to explain the windows of opportunity and therefore the timing of the debates, choices, and the stages of the process of unification. The crisis functions as a catalyst for decisions. It is the nature of the crisis which determines the type of possible decision, and eventually progress.

The crisis related to the American request of German rearmament explains both the time and the military character of the proposal of a new Community - and the fact that a personality like Monnet, often (wrongly) considered a neo-functionalist, proposed the creation of a European army and a transfer of sovereignty on the point of greatest potential national resistance. Confronted with a crisis on the military field he could not respond with an economic solution, as the collapse of Bretton Woods was followed by the project of monetary union, but rather with a revival of the idea of military integration, which again re-emerged during the Convention at the time of the second Iraqi war, bringing about the provisions about structural cooperation on defence in the Constitutional Treaty and then in the Lisbon Treaty.

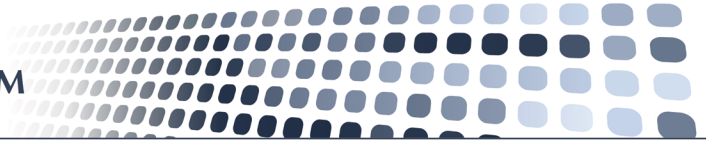
Finally, the notion of crisis can clarify the role of various actors, which can significantly vary during the process. The role of European and federalist figures and organizations depends on their ability, at a given time, to identify the supranational problem on which a socially perceived crisis could break out, and thus to mobilize consensus around proposals aimed at advancing the unification process to solve at least partially these crises. If they manage, these actors have a role and their proposals enter the



public debate. If they don't, they disappear from the political scene. Similarly, in the absence of a crisis their propaganda activities are unlikely to lead to decisions involving a real advancement of the unification process, with regard to the transfer of competences - integration – and to the institution-building and the strengthening of supranational decision-making mechanisms – European construction more broadly.

All this means that no one - including the Federalists, notwithstanding what Milward and Moravcsik argue - believes that nation-states can decide about the transfer of sovereignty for federalist reasons (conceived in an ideological way, ie. for the sake of European unity as an ideal). On the contrary, a favorable ideological vision is only a necessary but not sufficient condition for a national leader to take decisions regarding a transfer of competences or powers when this choice is the best solution to respond to a crisis. An ideological nationalist vision, on the other hand, does not allow taking such a decision, notwithstanding the costs of the missed solution of the crisis. The differences of economic growth, unemployment levels and inflation rate between the European states and the United States after the collapse of the Bretton Woods system show the cost of the failure to reach monetary unification in the seventies, especially when compared to the apparent positive effects on the European economy from the birth of the euro.

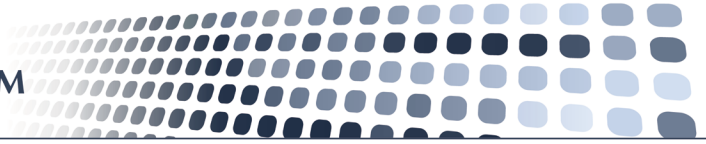
The crises of national powers being socially perceived force governments to take actions and thus act as catalysts for decisions. They determine the window of opportunity for substantial decisions about the unification process with reference to the problems on which the historical crisis of the nation state shows itself at that particular time. The crises are therefore a necessary condition - for reasons explained by intergovernmental analysis about the normal inclination of national governments not to transfer competences and/or powers to Europe - but an insufficient one, to advance the process. The crises - which are not determined by the actors voluntarily, although their social perception is also linked to their behaviour - offer windows of opportunity that require the active intervention of other actors to be exploited. The concepts of initiative and European leadership now deserve consideration.



## 1.2 The role of the initiative

The second element of the conceptual scheme developed by the federalists in order to understand the dynamics of the process is thus that of “initiative.” Facing a crisis it is possible to provide different answers, more or less effective and with a different relationship between costs and benefits for different groups involved. Obviously, not all answers will involve an advance in the European unification process. It is therefore essential to the process that someone takes the initiative to develop and propose solutions to the crisis involving such an advance. Since governments typically seek the way of mere cooperation, this role is more easily embraced by Europeanist and federalist personalities and movements. The role of Monnet, Spinelli, and the organizations that supported them, has often been to identify clearly and precisely the supranational character of the crisis, and then propose solutions that involved a strengthening of the unification process (Albertini 1966 and 1968).

The concept of “initiative” identifies the role of ideas in the process, a role also emphasized in recent years by social constructivism. Monnet’s idea of pooling sovereignty on coal and steel - a specific and limited sector, but essential to international relations, since it was the base of the military heavy industry of the time – was different from simple cooperation and less demanding than a complete political union. This idea determined the start and also some of the ensuing characteristics of the entire unification process. However, every step of the process was conceived and proposed in relation to the crises of the period. For example, when confronted with a military crisis – the Korean war and the following American demand for German rearmament – the previously distant and difficult idea of political unity became feasible. Monnet proposed a European army, and Spinelli pointed out the inconsistency and the danger of any such project, if not supported and directed by a European democratic government. For each step of the process it is possible to identify the personalities and organizations that first devised a proposal and began to gather consensus around it.

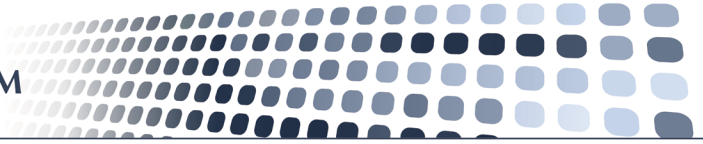


### 1.3. The concept and role of leadership

Ideas and proposals - even if and when they are strong and well grounded - need to be transformed into concrete decisions. This is an issue of power and its exercise. In this context, the concept of European “occasional” leadership has been developed (Albertini 1973 and 1979). Only if a national government or a European institution develops or endorses a proposal from other promoters and inserts it the political agenda, is there any a chance of the proposal’s being adopted. Who does that and builds the necessary intergovernmental agreement for the final decision de facto exercises a leadership position at the European level - even in the case of a national leader or government. But it is an occasional leadership because it is due to the desire to solve the crisis related to the proposal; if it were due to the simple aspiration of unifying Europe, this leadership would show itself in a consistent manner and not just as a response to a crisis.

The idea of the “occasional” nature of such European leadership connects it to specific crises from a theoretical point of view, explaining why it is not possible for any national leader to devote priority to European integration, as personalities such as Monnet and Spinelli - whose role was, however, that of initiative rather than of leadership, did. Intergovernmental literature has often stressed that the national leaders involved in important integrative decisions were moved by the desire to solve problems and thus strengthen the power of the nation state rather than the will to unite Europe. That literature criticises the hagiographic literature concerning the "European Saints", as Milward calls them (1992, especially pp. 318-344; and also Moravcsik 1998). The concept of European “occasional” leadership incorporates the correct aspect of this criticism, while acknowledging the role and the European function played by national statesmen in certain historical phases. Of course, an ideological inclination in favour of European unity is still necessary in order assume such a role, supporting solutions to crises that also advance the European unification process.





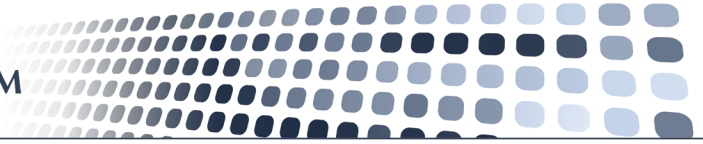
## 1.4 The concomitant presence of crisis, initiative and leadership and their duration

A fourth aspect should be added to this scheme (crisis, initiative and occasional European leadership): the permanence of those conditions for all the duration of the decision-making and ratification of a given proposal.

If the socially perceived crisis is resolved, or the social perception of the problem decreases, or the occasional European leadership is missing, the initiative that linked these two elements will be unlikely to have a positive outcome. For example, the fall of the EDC showed two of these circumstances: when the French National Assembly voted, the Korean war was over and there was hope for better relations with the USSR after Stalin's death (the crisis was solved, and the social perception of the need of a European common defence consequently decreased), and there were throughout the period several changes of governments in France, causing the exclusion of both Pleuven and Schuman – who had provided the initial occasional leadership - from the government.

This fourth aspect is obviously very relevant for the effective results of decision-making, but not for the conceptualization of the conditions that can produce an advance of the unification process. The schema crisis-leadership-initiative substantially aimed at identifying the conditions when states and national governments may accept a transfer of competences and/or powers to Europe - developing the paradox proposed by Spinelli of nation states as both instruments and obstacle of the unification process. Under normal circumstances, the states represent an obstacle because they want to maintain their sovereignty. However, faced with a socially perceived crisis on a supranational problem, it is possible to witness the emergence of an effective European occasional leadership in at least one member state or in the European Union institutions, that can trigger a decision-making process which, though dominated by the states, can lead to an advance in the unification process.

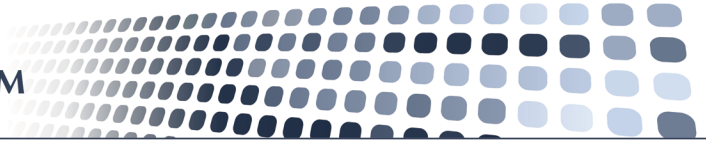
This conceptual schema therefore identifies various functions – that can be performed by different actors in different phases - needed to advance the integration process. This schema brings together the useful insights of a number of theories with regard to the main actors in the process.



The social perception of a crisis on a supranational problem can be promoted by European and federalist figures and movements, by parties, and even governments needing to move the responsibility of the crisis to others - Europe – or by organized social groups particularly affected by the crisis and aware of its supranational character, and the mass media related to all these subjects. This perspective goes beyond the analysis of the influence of specific political or social milieus on governments' policies, proposed for example by Moravcsik. It emphasizes the need to identify - on a case by case basis – the relevant actors, without neglecting the possibility that they be relevant in a single case or on several occasions, but not necessarily at all times or in an uninterrupted manner.

The role of farmer organizations in the birth and in the initial development of the CAP, including the institutional strengthening related to it, cannot for instance be ignored, although they did not play a significant role in any other case. The role of European and federalist personalities and movements with regard to the ECSC, the ECD attempt, Euratom, the direct election of the European Parliament, the creation of the European Council, or the creation of monetary union was certainly relevant (See Burgess, 1986; Burgess, 1989; Burgess, 1995; Burgess, 2000; Caraffini, 2008; Graglia, 2008; Landuyt, Preda (eds), 2000; Levi, Pistone (eds.) 1973; Lodge, 1984; Majocchi, 1996; Monnet, 2007; Paolini, 1988; Paolini, 1989; Paolini, 1994; Paolini, 1996; Pasquinucci, 2000; Pinder, 1991; Pinder, 1993; Pinder, 1996; Pinder, 1997; Pinder, 1998; Pistone (ed), 1975; Pistone, 1982; Pistone, 1992; Pistone 1996; S. Pistone, 1999; S. Pistone and Malandrino (eds.), 1999; Preda, 1990 and 1994), although in other phases or over other issues they failed to play a decisive role.

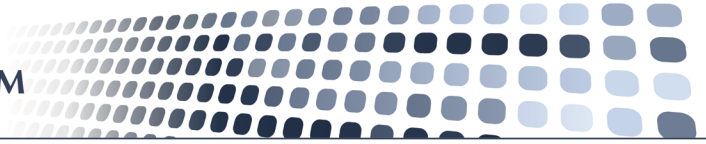
The federalist tradition believes that new integrative proposals are hardly likely to come from the national politicians busy with the struggle for national power - which they will be reluctant to give up once they get it. Therefore, the specific task of the European and federalist personalities and movements is that of “initiative” (Albertini 1961, 1969, 1980): the development of a proposal to solve the crisis through an advance of the unification process. This is reasonable to be expected from them, because it is their political priority and they are autonomous in relation to national power (Albertini 1955). This autonomy permits a dialogue with all political forces, being aware that decisions concerning European integration must be potentially bipartisan, since they involve the national governments of several countries and of different political families.



The European and federalist organization thus constitute the political class of European unification, trying to recruit and mobilize organisable pro-European personnel – politicians in favour of integration, even if they do not conceive it as their priority, and people who have abandoned national political life because of the crisis of the nation state but which have not yet realized the federalist alternative – and the pro-European sentiment diffused in the population at large (Albertini 1955, 1965 and 1966).

Obviously, federalist authors have always stressed the role of the European and federalist personalities and organizations. However, this emphasis is not necessary for a theoretical scheme aiming at conceptualizing the conditions of possibility for advancing the process. To this aim it is sufficient to identify an initiative, an idea pursued by a person or a group that can be accepted in the public debate, can be endorsed by a European occasional leadership, and then possibly adopted. For example, the neo-functional tradition has emphasized the role of the Commission as a guide for the integrative process in different periods, especially under the leadership of Monnet, Hallstein and Delors. It should be noted however that these figures are often considered as federalist personalities as well (see Monnet, 2007; Roussel, 1996 ; Bossuat, 1999 ; Duchêne, 1994; Fontaine, 1988 ; Fransen, 2001; Hallstein, 1972; Loth et al., 1998; Malandrino, 2005; Delors, 2009; Milési, 1985; Grant, 1994; Ross, 1995; Drake, 2000). The European Parliament, after its direct election, was the main actor of several initiatives, starting from the Treaty of European Union, whose idea came from a federalist leader like Spinelli (See Albertini, 1985; Albertini, 1986, Burgess, 1989; Burgess, 2000; Dastoli, Pierucci, 1984; Lodge, 1984).

As for "occasional" European leadership, it requires a certain power, and can therefore be exercised only by a national government, guided perhaps by a prime minister or foreign minister,(or less probably by a national parliament), the Commission, or the directly elected European Parliament. Precisely for this reason some historians and theorists have emphasized the role of national political leaders or of the leaders of the European institutions. Just as federalist scholars stress the role of federalist personalities and organization, intergovernmental theories, focusing on the intergovernmental negotiations that lead to a decision, naturally emphasize the role of governments in this phase and eventually come to recognize the existence of a European "occasional" leadership. However this is just the final stage and condition for the advance of the



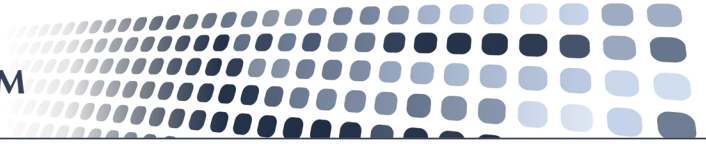
integrative process. Such approaches are ill-suited to account for other fundamental issues, such as the timing of integration.

Moravcsik for instance argues on the one hand that the convening of an Intergovernmental Conference (IGC) by majority voting at the European Council in Milan in 1984 was unprecedented and that for few days it was not clear whether the Great Britain would have join the IGC. However he does not wonder why such an extraordinary event took place, and simply explains the subsequent result of that IGC by a normative convergence of the main governments on the neo-liberal agenda proposed by Mrs. Thatcher and the U.S. President Reagan, in the form of the Single Market project (Moravcsik 1991 and 1998). But this analysis is not sufficient to explain the the rupture of the Luxembourg compromise with a majority vote on the convening of a IGC. Intergovernmental theories, and especially the sophisticated liberal intergovernmentalism developed by Moravcsik, are very useful and effective to explain the negotiations that lead to a decision in which the national governments are the decisive actors. However this is just the last step in a much longer decision-making process involving many different actors at various times and stages of the unification process, which cannot easily be explained from a purely intergovernmental perspective.

## 2. The European response to the recent crises

The analytical scheme developed so far suggests that a socially perceived crisis is a necessary if insufficient condition to produce a new stage of the process. Crises open up a window of opportunity for political entrepreneurs to propose a new initiative aimed at solving the crisis. And this initiative will have a chance to be adopted if a European occasional leadership – provided by a national government or a European institution – supports it and put it into the official political agenda. It is time to test this theoretical scheme on the current situation facing the EU.

Since the beginning of the financial and economic crisis in 2008, the European Union has been in a permanent condition of crisis and uncertainty. Officially the whole world is facing the crisis, but in many emerging countries this has meant only slower growth, rather than a significant recession. The crisis hit Europe particularly hard for



several reasons, but there is not enough social perception of the main reason: Europeans live with a single market, a single currency, but with 27 separate national economic, fiscal, industrial policies. This is a perfect recipe for European economic decline to continue.

## 2.1. The European response to the economic and financial crisis

The collapse of Lehman Brothers opened up a deep financial crisis which impacted dramatically on the world economy, making growth and employment plummet. The world resisted the protectionist temptation, contrary to the 1929 crisis, and there was some measure of coordination in identifying the general direction in which answers should be sought. The results were rescue plans for the financial sector and stimulus packages for the economy.

Even if the private and public savings in the US are lower than in Europe, the US were able to launch a plan worth about 5,6% of their GDP. China could do even more (7% of GDP), as a result of its high savings. Europe's plans amount only to 1,5% of GDP. This is partly due to the fact that Europe has more robust automatic stabilisers, inherent in its more generous social security provisions compared to other areas of the world. However, the difference between Europe and the other main economic areas, exemplified by the overall small amount of extra resources Europe devoted to the crisis response, remains staggering.

Fundamentally, Europe lacks a European government to develop, launch and run a significant plan. No European institution is yet endowed with the relevant fiscal powers and the corresponding democratic legitimacy. At the same time national governments are constrained by the Stability and Growth Pact and cannot act either. Nor is the national level the appropriate one, considering the interdependence of the European economy, entrenched in the Single Market and the Single Currency. The Pact is necessary to avoid "beggar your neighbour" policies, but it is clearly insufficient. It is only a limited surrogate to a proper European economic and fiscal policy. The contradiction of a European currency without a European government has started to emerge in all its dramatic significance.

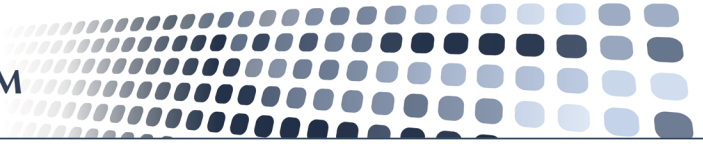


Faced with this crisis the European institutions retreated, leaving the floor to the national governments, which took the issue in their hands with a special meeting where they managed to agree only to inform each other about the measures each will take: hardly a significant form of coordination. The domino effect provoked by one country providing a full guarantee on bank deposits while the others initially did not, showed the ineffectiveness of this method. The Europeans should have learned that mere cooperation or coordination does not work, because the complete failure of the Lisbon Agenda – which was supposed to make the EU the most dynamic, innovative and competitive economy of the world by 2010 – can be attributed precisely to the open method of coordination on which it was based, which refused to endow the European supranational institutions (Parliament, Commission and Court) with adequate powers and to introduce Qualified Majority Voting into the Council on those issues.

All this resulted in a dramatic failure to launch a European rescue plan aimed at a robust recovery of the European economy. National governments increased their deficits, putting aside the Stability and Growth Pact, essentially to finance temporary social measures, such as longer unemployment subsidies and similar instruments. A vast investment plan, as proposed by the Delors Plan as long ago as 1985, failed to materialise.

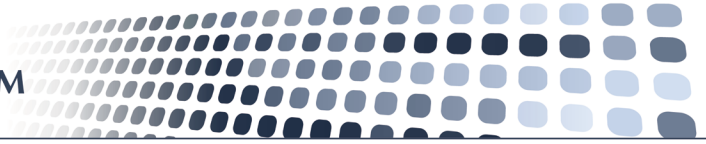
This crisis was socially perceived, but its European rather than national dimension was not. Unfortunately, no successful answer is possible at the national level and this provokes a substantial lack of responsibility and action. Significantly, at the first G20 attended by Obama, the Italian Prime Minister told the new American President that the crisis came from the US and that it was upon the US to bring the world out of it. This was a blunt expression of the general feeling of the European citizens: put the blame and the responsibility for finding a solution on someone else rather than identify and develop the instrument and policies that Europe itself could adopt to lead the world out of the crisis. This attitude is well exemplified by the European demand to reform the rules of the main international organizations and the regulation of the financial market, without a parallel willingness to merge European quotas in the International Monetary Fund and the World Bank, a change which would make the EU, rather than the US, the main share holder and agenda-setter in these bodies.

Similarly, Europeans failed to respond to the proposal from the Governor of the Bank of China for a structural reform of the international monetary system, towards a



multipolar and multilateral structure, based on the use of the Special Drawing Rights of the IMF for international trade and transactions. (See a series of speeches and short papers delivered by Zhou Xiaochuan, available at <http://www.pbc.gov.cn/english/>, especially <http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178> where he refers explicitly to Keynes and Triffin studies; see also Mosconi, 2009; and even before the crisis Iozzo, and Mosconi, 2006). The proposal can be viewed, cynically, as a way to socialise globally the American debt to China, but such an interpretation would only grasp a part of the picture. Obviously, China is today the main American creditor, as Japan and Europe have been at times in the past. Therefore China has the problem of finding a way to constraint the US to adopt sound policy and to avoid devaluing the dollar, which Americans like to consider “our currency and your problem”. But this Chinese aspiration is in fact in the interest of the whole world too.

Interestingly, even in the US the elite has shown a renewed consciousness of the fact that the USA’s role of issuer of the main reserve asset and the pivotal role of the dollar in the international system, was one of the structural factors which made the crisis possible (Dunaway 2009, Council of Foreign Relations Special Report n. 45). This situation provides the US with the possibility to issue liquidity on the basis of the world economy demand, rather than on the US economy’s capacity, and to finance accordingly structural imbalances in the American public budget and in the current account. However, the Report considers such a feature of the system impossible to reform, and therefore only recommends each country to redress those imbalances because it is good for the world. This well-constructed economic argument falls unfortunately against the diktat of political argument: why should an American president decrease the chances of winning the next election – his own re-election or that of the Congress – by raising taxes or cutting expenditure to finance his preferred programs, if he can simply have the rest of the world paying via cheap credit, coupled with the possibility to devalue the dollar at a latter stage to avoid paying it back to a certain extent? This explains very well the policy of butter and cannons, tax cuts and vast increases of military expenditure, which followed 9/11. American and Chinese both recognise the structural conditions making possible global imbalances and the credit bubble, but their policy recommendations are as divergent as their interests.



The problem with Europe is that it has proved quite unable to agree upon an interpretation of the crisis and of its interests, and thus lay the groundwork for a truly European strategy to deal with the crisis. Some European think tanks have joined this global debate – for example the Triffin Foundation and the Compagnia di San Paolo held a conference in Italy last May to launch the “‘TRIFFIN 21’ An Initiative revisiting the arguments for a global monetary anchor” – but at the official and political level Europe was substantially absent, thus de facto supporting the current system.

In other words, the first wave of the economic and financial crisis produced rather limited answers in Europe. European and federalist personalities and organizations called for some form of European economic government. They produced some documents and action, just as different European think tanks made proposals with the same aim. The ECB asked for more power to supervise the banking system, and also demanded to complement monetary union with a fiscal one, proposing the “equivalent of what we would have if we were in a fiscal federation ... A federal solution would require a huge leap forward at the institutional level. It seems to me that a fully fledged political federation is not, at present, wanted by the countries themselves, speaking as a citizen, it is a matter of regret to me that the chance to take further steps was not seized in the 1990s” (interview by Governor Trichet, available at <http://www.ecb.int/press/key/date/2010/html/sp100713.en.html>). The asymmetry, or contradiction, of a monetary union without an economic and fiscal one, had obviously started to make itself felt. . The Commission, almost turned into a secretariat of the Council under Barroso’s presidency, was essentially unable to bring forward significant proposals. Also the European Parliament, busy with the 2009 election, was unable to take significant action. No European occasional leadership emerged to face the crisis

## 2.2. The European response to the sovereign debt crisis

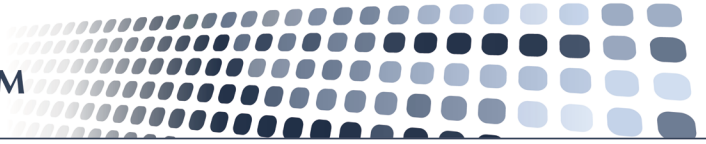
On the top of the economic and financial crisis, the European sovereign debt crisis came this year to threaten the achievements of the European construction. The very existence of the Euro seems in peril. Competent commentators and scholars debate the issue. Still the broad public debate treats the problem as if it was only the issue of one or





more countries having taken an irresponsible fiscal policy, as if at stake was Greece alone rather than the survival of the Euro and the European Monetary Union. From such a distorted perspective German public opinion's hostility to any rescue plan can be easily understood. German Chancellor Merkel even allowed the crisis to get worse, to avoid providing any help before the election in North Rhine-Westfalia, from which her majority in the second chamber depended. The spread between German and Greek bonds was thus allowed to increase further, making the need for a European rescue of Greece all the more necessary and expensive. Eventually, three days before the regional elections, the EU was forced to take action and on May 9 decided to set up a 750 million € fund. The European markets rebounded, only to start a new decline the day after, having seen that Europe had found some money, but had no real new proposal in terms of policies and institutions to deal with this kind of problems now and in the future.

The way this crisis was handled suggests a deep misunderstanding of the whole project of monetary union and of European unification, and a complete lack of European leadership. It is worth recalling the debate which accompanied the establishment of the EMU and the creation of the Euro from the Maastricht Treaty onwards. It was clear that the EMU was a crucial step towards political Union. Eventually this could bring different people to be in favour or against the EMU, precisely because of their attitude towards political union. But this link was recognized by both nationalists (For example see Cash, 1991, especially chapter 3) and federalists (For a theoretical account of this link from a federalist perspective see among others Albertini 1973, 1976, 1979, 1990, now all in Albertini 1999a), and by politicians (For example see Portillo, 1998, 9 and his quotation of the German Chancellor Kohl and President of the Bundesbank Tietmayer at p. 17), academics (for example see Buchanan, 1990. Neo-functionalism developed the concept of spill-over to explain the automatic and smooth passage from economic to political integration), and economists<sup>iii</sup> alike, with the exception of some British pro-Europeans who downplay the significance of this link in the attempt to persuade the Eurosceptic British public to join EMU (see Duff (ed.), 1998). This link is based on the consideration of the strict relationship between monetary and economic and fiscal policies, and to some extent to foreign policy as well, because the EMU creates the possibility of a unitary representation of the Euro in the International Monetary Fund (IMF) and the World Bank,



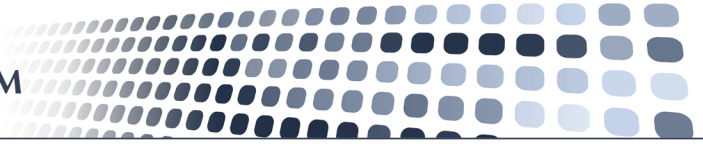
thus requiring a much stronger co-ordination of national foreign policies and possibly a real single European foreign policy.

The lack of comprehension of something which was clear when monetary union was established – but for which there was not sufficient political will, otherwise the economic and political unions would have been established together with the monetary one – is putting the Euro at risk. Seen from the outside the European behaviour is really incomprehensible. California is almost bankrupt, like Greece. And if it was an independent state it would be the sixth largest world economy, much larger than Greece. But nobody believes that the existence of the Dollar is at risk, as there is an American federal government. The lack of a federal government in Europe allows a small economy such as Greece to endanger the whole monetary union.

This issue is not limited to the economy. If one looks at Greece's budget, the amount of military expenditure is astonishing. Given the tension with neighbouring Turkey over Cyprus, Greece is the EU country with the highest GDP% on military expenditure, above 4%. Overall, while the EU has no military expenditures, its 27 member states together make up for almost 50% of US military expenditure, with an actual capability which is much less than proportional, but with more theoretically active personnel, (this is revealing of about the amount of budget devoted to wages and the amount devoted to equipment and research as compared to the US). Security is just another public good which could best be provided at European rather than national level. Given the current level of expenditure and capacity, a European single defence could even allow for both a decrease of expenditure and an increase of capabilities! And it would also contribute significantly to the structural reduction of the Greek deficit, as the contribution of Greece to the European defence would presumably be proportional to its population and economic performance.

The sovereign debt crisis has put at risk the Euro and many other countries in financial difficulties. Europeans have had to take action, starting a new debate which recognised the need for a European economic government or at least a European economic governance.. What form these new structures should take is, however, far from clear.

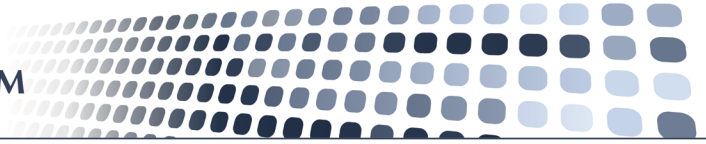
The French request for a European economic government received the German answer: “yes, it's us”, i.e. the national governments within the European Council. Not



anything new, as this institution still decides very often by unanimity, and therefore often does not decide at all. Confronted with the first crisis it managed only to agree that each state should inform the others of its action: not a very promising record to deserve a candidacy as the new European economic government. Furthermore, the European Council's deliberations still take place to a large extent behind closed doors, and therefore with little transparency and democratic participation. A Task force chaired by the European Council President, Van Rompuy, is supposed to present more detailed proposals next autumn.

The European institutions have intervened with various degrees of innovative capacity, political courage, and guiding philosophy. The European Commission presented in May its proposal for "Reinforcing economic policy coordination" (Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the Economic and Social Committee, and the Committee of the Regions of 12/5/2010). But coordination was the maximum objective the Commission put forward, far short of the idea of a European economic government, which was already at the centre of the public debate. The main proposal of the Commission was the creation of a European semester to synchronise the preparation and scrutiny by the Commission and all national governments of the budget proposals of each member state. Other proposals were to ensure more strict adherence to the Stability and Growth Pact, with special relevance to the debt criterion and by limiting the access to the EU budget for non-complying member states, and the creation of new rules about when and how to provide financial help in terms of loans to a member state in financial difficulties, a step which essentially codified the decision taken at the 9<sup>th</sup> of May European Council.

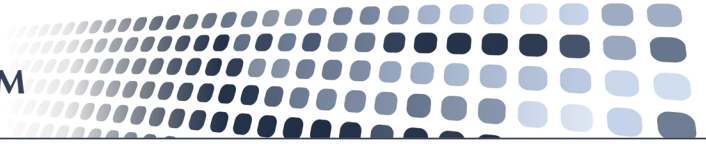
Faced with such a weak proposal, the European Central Bank, which bears alone the burden of steering the Euro, put forward its proposals for "Reinforcing Economic Governance in the Euro Area". Many of the proposals were actually quite similar and convergent with the Commission proposals, but often more detailed and nuanced, for example regarding the enlargement of the range of sanctions that can be used within the Excessive Deficit Procedure. New proposals were the strengthening the Eurogroup role in financial surveillance of member states, the creation of an independent EU fiscal agency and the possibility for the Commission to present proposals about sanctions that can be modified only by unanimity within the Council and approved by qualified majority – a



power that the Commission did not dare ask for itself. Overall, the ECB proposals go further than the Commission in empowering Europe to deal with the crisis. The overall philosophy however, is absolutely technocratic. The Parliament is never mentioned, and there is no reference to the principle “no taxation without representation”. The idea of an independent fiscal agency and of stricter European control over national budgets without any involvement of the European and/or national Parliament looks democratically inconsistent, and thus hardly practicable.

There is however, another issue conspicuously absent from all the proposals mentioned: the European budget. This ridiculously small instrument (1% of the EU GDP), which has decreased over time while each new Treaty has enlarged the EU competences, which has almost lost all its “own resources” in the wake of the world-wide liberalization process, is only a sum of national contributions that each country want as small as possible. The fact that no significant European government, but probably not even governance, can be achieved without a reform of the budget, seems not to figure in the current debate. Nevertheless, several prominent economists and think tanks have presented proposals to fill this gap, for example Notre Europe launched a debate on this issue starting with a paper by Alfonso Iozzo, Stefano Micossi and Maria Teresa Salvemini (2008).

In a fascinating article Steingart suggests that “Birthdays are fun; a birth itself is not. There’s a lot of screaming and groaning, and even in the easiest deliveries, there’s always the fear that something will go wrong. The birth of a state is no less difficult. Indeed, what pessimists — including many here in Germany — see as an existential crisis for the continent is really just the latest stage in the birth pangs of a new country. While we should of course worry about Greek debt, we should also have hope that we are witnessing the end of the euro zone as an abstraction and the birth of the United States of Europe”. This suggests what Europe needs, more than what we are witnessing, unfortunately. Looking at the proposals on the table there is ground for concern about the chances of this delivery finally taking place. The European unification process has been in some ways the mother waiting to deliver since the 9<sup>th</sup> of May 1950 when the Schuman Declaration paved the way to the first European Coal and Steel Community, considering that start as “the first concrete foundation of a European federation” (available at [http://europa.eu/abc/symbols/9-may/decl\\_en.htm](http://europa.eu/abc/symbols/9-may/decl_en.htm)). Indeed by putting at risk the Euro this crisis is more existential than others previously. The contradiction between the single



market, the single currency and a number of different economic and fiscal policies is structural and now publicly exposed. Significantly, one of the main Italian newspapers *Il Corriere della Sera*, recently had an opinion poll on its web-site asking readers to express their opinion on the creation of a European federal government to avoid other crises like the Greek one, and got an 85% positive answer. To create a European economic government implies a revision of the budget, the attribution of fiscal powers to the EU – which the first ECSC had, together with the possibility of making debts – and a democratic system to decide on these crucial issues. Probably, such a decision would involve also a further transfer of competences to the EU in areas such as defense for which the national level is clearly sub-optimal.

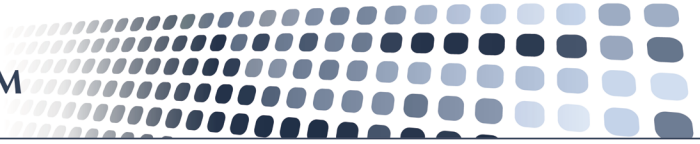
### 3. Conclusions

The crises are there. Some initiatives are on the table. The official ones are largely insufficient in terms of effectiveness and democratic legitimacy. The public debate in the papers and in the think tanks has however highlighted some of the key issues, from the reform of the budget to the need of a democratic system of government. So far it is difficult to identify any candidate to take the role of European occasional leadership. The conditions for an advance in the unification process highlighted in the theoretical interpretative scheme developed in the first part of this paper do not seem to be present.

But the Euro is still in trouble, the crisis is still far from being solved, and this may eventually push the European political leadership to finally find the courage to do what it takes: to renounce to the last simulacrum of a substantially empty national sovereignty to create a federal government, i.e. a democratic multilevel system of government. There can be glory waiting around the corner for some of the European political leaders, if they will finally decide to help the delivery of this long-awaited baby.

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<sup>1</sup> Mario Albertini (1919-1997) was professor of Political Philosophy at the University of Pavia and one of the main leaders of the European federalist organizations. He wrote many articles about European integration, mainly in Italian. Thus he is little-known in the English language based international academic debate. Still he was a main figure in the Italian debate and after his death two selections of his most important articles were published in 1999, and this year the last volume of all his works was published by *Il Mulino*, edited by Nicoletta Mosconi†. He never wrote a systematic book about European integration. His theory must be reconstructed from a number of articles published since the late 1950s. I am currently working on an

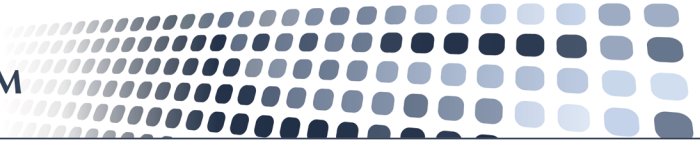


anthology in English of some of his most interesting papers

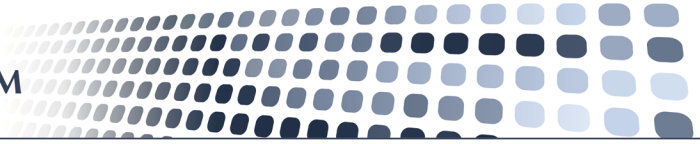
<sup>III</sup> See for example, Issing, 1996; and Padoa Schioppa, who played a significant role in the establishment of the EMU and stressed several times that the ECB risked to be isolated rather than independent, proposing a strengthening of the other European supranational institutions (see for example one of his lectures of 1999 available on the internet at <http://eurplace.org/diba/cultura/fagg/padoas.html> or the article Questo mondo a due velocità, in *Il Corriere della Sera* 31/12/1999; and more recently his 2006 Altiero Spinelli Lecture at the Centre for Studies on Federalism, available at [http://www.csfederalismo.it/attachments/023\\_Lecture%20Padoa-Schioppa%20eng.pdf](http://www.csfederalismo.it/attachments/023_Lecture%20Padoa-Schioppa%20eng.pdf)).

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