The Illusion *of* European Political Union

By Otmar Issing

French President Macron's slogan, "a sovereign France in a sovereign Europe," is absurd.

The process of European integration after World War II started out as a political project. Franco-German reconciliation was an essential foundation and also played a central role later on. Attempts at political union proved premature and, like the idea of a European Defence Community, came to nothing. With the founding of the European Economic Community in 1958, Europe embarked on the path of economic integration, restricted at first to the western part of the continent. This culminated in the Single Market for twenty-seven countries. The introduction of the euro as the common currency of initially eleven member states of the European Union, as well as bringing the Common Market to completion, gave rise to the European Central Bank, an institution that can generally be understood as a state-building element. No further steps towards a political union have been taken in the ensuing years.

With the initiatives of French President Emmanuel Macron and the change of government in Germany, the idea of a fiscal union has gained momentum. The coalition agreement of Germany's new government asserts: "A European Union that is more democratically sound, more capable of action, and more strategically sovereign will provide the basis for our peace, prosperity, and freedom." And a few lines later: the Conference on the Future of Europe "should result in a constitutional convention and lead to further development into a European federal state."

In a federal state—a political union—the member states irrevocably transfer their fiscal sovereignty to the higher European level. The constituent element is a European government, elected democratically, which notably makes decisions on matters of taxation and central public expenditure. This government is answerable to a European Parliament, composed and elected according to democratic

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rules. Some leading German politicians see their position as aligned with the French president. Shortly after taking office, Macron gave a grand, if not visionary, speech on the future of Europe at the Sorbonne. In his election campaign for the new presidency, Macron wants to place Europe back in the spotlight under the slogan: "A sovereign France in a sovereign Europe."

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So are both parts of the much-vaunted Franco-German tandem pursuing the same goal? It is hard to imagine a greater misunderstanding. For all the esteem in which Franco-German friendship is held, at no time in post-war history was France prepared to even consider giving up its sovereignty. Chancellor Helmut Kohl, on the other hand, was adamant in the Maastricht negotiations on Europe's future monetary and economic union that parallel preparations should be made for a political union. It was France's resistance in particular that nipped in the bud any further discussion of the idea. Nothing has fundamentally changed in the French position to date—and with his emphasis on a sovereign France, Macron could not express this any more clearly. No French president will dare to even philosophize about giving up sovereignty.

The significance of this observation for European politics cannot be overestimated. The notion on the German side that political union is the future of the European Union to strive for, the "*finalité*" of the European unification process, must simply be labeled an illusion for the foreseeable future. The fundamental divergence between the French and German positions is enough to warrant this verdict, not to mention the fact that a successful procedure for the necessary amendment of the European treaties to realize political union is simply unimaginable at the present time.

It inevitably follows that all proposals and measures for reform, completion of the European Union, or monetary union that refer to the ultimate goal of "political union" and can only be justified on these grounds are devoid of a political, legal, and democratic basis. They therefore lead the European Union down a path that is destined to fail.

There may be good arguments for the stance that an economic and monetary union cannot exist in the long term without a fiscal union. However, the proposals that stem from this position are only vague about new European bodies to which fiscal sovereignty should be transferred. For example, the position of European finance minister should be created, or a European fiscal authority. But where would their democratic legitimacy lie if no political union were established?

Such proposals detract from the problem that a monetary union not embedded in a political union requires common rules for national fiscal policy. The Stability and Growth Pact was intended to fulfil this purpose, as was the exclusion of liability among member states for each other's debts ("no bailout" clause).

The Commission has failed in its role as guardian of the Treaties. In fact, it is worse than that. What should be made of the fact that former Commission President Jean-Claude Juncker, when asked why France's violations of the rules are tolerated, succinctly states: Because it is France. This official *carte blanche* for misconduct on the part of the second-largest member state also signals unequal

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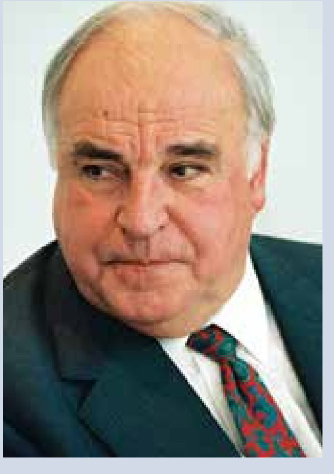

Former German Chancellor
Helmut Kohl

French Failure

It can hardly be maintained that the French model is worthy of imitation on account of its successes. France's large and growing public debt and high youth unemployment cast enough doubt on this claim. A European industrial policy secured by protectionism and subsidies does not hold out the promise of a model for long-term success.

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application of the law between large and small member states, which is unacceptable in the Community.

By now, there is consensus that the Pact must be reformed. This is not the place to analyze the multitude of proposals. They all point in the direction of relaxing the rules. One popular approach is turning to the concept of sustainable public finances. If the current extremely low interest rates are taken as a basis, high debt levels suddenly do not seem so frightening. But it would be irresponsible to base a permanent set of rules on the continuation of this unprecedented period of low interest rates. Another strongly favored proposal is to exempt investments in climate protection, for example, which are so urgently needed, from the deficit rule. Germany's experience with this so-called golden rule has been very negative. Imaginations ran free when it came to declaring all kinds of government expenditure as "investment." Virtually all proposals to reform the Pact also involve strengthening the role of the Commission and increasing its scope to act at its own discretion. Past experience suggests that there is every reason not to grant additional power to an institution that has increasingly refused to act as a guardian of rules. The suspicion, indeed the fear, is that not a shred of willingness exists at the political level to even discuss this fundamental problem, let alone tackle it.

The prospects of even arresting the continued rise in the debt levels of individual member states are bleak. The European Central Bank also plays a role in this state of affairs. Due to the conduct of the Commission and the European Council, political control of fiscal policy is largely absent. Then-ECB President Mario Draghi's announcement of "whatever it takes" in 2012 abruptly caused the spreads between the bonds of individual member states, which had previously grown considerably, to disappear. Since then, this promise by the ECB, which has never been questioned, has been commonly understood as a guarantee that the central bank would, in an emergency, prevent any member country of the monetary union from running into very severe difficulties due to a sharp rise in the interest rates of its bonds. This protects bondholders from losses and undermines the (financial) market's mechanism of sanctioning unsound fiscal policy. The following event attests to the European Central Bank's self-imposed obligation. When, shortly after taking office, President Christine Lagarde declared, true to the mandate, that it was not the European Central Bank's task to control the spreads between member states' bonds, this remark was promptly "reined in" by a contrary statement and a major expansion of bond purchases.

The continuation of massive bond purchases, in spite of an economic recovery that has made considerable strides, only serves to reinforce this impression. At least in *de facto* terms, the ban on monetary state financing, a crucial element of the ECB's statute, is thus called into question. This overdue exit from crisis mode alone—not to mention the heightened risk of inflation—presents the ECB with the challenge of pursuing a monetary policy that is consistent with its mandate of prioritizing price stability, even if this would entail an increase in spreads for government bonds of highly indebted member states. It is true: the failure of member states to ensure the soundness of their debt has helped to thrust the ECB into this role. But this does not change the fact that the central bank has effectively assumed a responsibility that belongs exclusively in the hands of governments answerable to their electorates.

The Commission has failed in its role as guardian of the Treaties.

With its financially unlimited potential and its self-appointed political role, the ECB becomes the "savior of last resort," the guarantor of the monetary union's existence in its current composition. This puts the whole institutional edifice of the monetary union out of kilter. The independence of the central bank and a clear mandate—priority for price stability—along with the ban on monetary state financing were supposed to establish the euro as "non-political money," to remove the threat that political interests pose to monetary stability. This principle is not compatible with such a political role of the ECB.

In the early days of the European Economic Community, there were intense struggles between French ideas of planification and the competition-based model of the social market economy. Despite considerable resistance within the Commission, but also with the notable support of case law from the European Court of Justice at the time, the competition-based approach prevailed. The great economic achievements of the European Union, whose appeal was also evident in the numerous applications for membership, are rooted in this fundamental decision. As France's influence has grown, a clear shift in economic policy orientation has been apparent for a number of years. In his speech at the Sorbonne in 2017 on the future of Europe, President Macron put forward the traditional notion of a state-dominated and controlled economy in all its breadth. He made absolutely clear that an agricultural policy based on supply autonomy and a state-led industrial policy are crucial elements of a "sovereign" Europe. During the French EU presidency, Macron will do his utmost to anchor these positions in concrete measures. The French president can count on the unconditional support of a number of member states in this regard. Arguably, none of these states has distinguished itself to date with a particularly successful economic model.

The danger of a fragmented and divided Europe looms.

The responsible French commissioner has just presented an industrial policy program involving the deployment of massive subsidies. He clearly has the president of the Commission on his side. The previous German minister of economics has made no secret of his affinity for an industrial policy *à la française.* German economic policy is steadily becoming less appropriate as a model of success for Europe.

There is no reason to object to a reorientation of the European economic order; it would even be welcome if it came with the prospect of greater welfare, more growth and employment, better climate protection, and social security. However, robust arguments for this are lacking. It can hardly be maintained that the French model is worthy of imitation on account of its successes. France's large and growing public debt and high youth unemployment cast enough doubt on this claim. A European industrial policy secured by protectionism and subsidies does not hold out the promise of a model for long-term success.

Looking at the current political landscape, the gap between aspiration and reality could hardly be wider. With the launch of his presidential campaign in France, Macron has not only abandoned important reforms in areas such as the pension system, he has also announced a transfer-oriented spending program that starkly contradicts the need to consolidate the budget—something not even the government denies.

Developments in Italy are another crucial factor for the future of the European Union and the monetary union. Despite the impressive achievements of Mario Draghi's government, the fragility of the whole edifice is already becoming apparent. The danger that future governments may ignore commitments made today should not be underestimated.

With the program of the reconstruction fund adopted in 2021, member states with high national debt in particular will receive substantial financial resources, as gifts to some extent, aimed at orienting their economies towards more growth, employment, and environmental sustainability. At the same time, the member states have taken on considerable risks. It fits into the image of a Commission that hardly imposes any limits on debt-making that the liabilities incurred in this context by the member states do not show up in any statistics. Incidentally, voices have long been raised, including that of the previous German finance minister and now Chancellor Scholz, that the transgressing of the fundamental ban on borrowing at the European level enshrined in the Treaty should not be seen as a one-off act, but as an entry into fiscal union. In climate protection, a prime candidate for the next borrowing program is already waiting in the wings. It is notable that the democratically essential condition of political union is never mentioned in this context.

As a sword of Damocles hanging over the monetary union, the high and growing debt of individual member states threatens its success and stability. (It is not possible to predict whether and how a necessary debt cut would be implemented in the event of an emergency.) Increasing transfers—not between rich and poor member states, but between those with solid public finances and those with high debts—along with undemocratic, non-transparent procedures undermine the consent of citizens to participate in the European Union and put wind in the sails of extreme parties.

This article is confined to a discussion of economic aspects. Yet the conception of a political union should center on issues of foreign policy and security policy. It is both essentially misguided and a telling sign if political union is sought primarily through the complex and highly contentious domain of public finances. The development outlined here will not lead to a democratically legitimized federal state. On the contrary: as it runs its course, the danger of a fragmented and divided Europe looms. The demand for "more Europe" as a continuation of the previous misguided development is therefore a thrust in the wrong direction. There is no getting around it: as sovereign states, the European Union

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countries have primary responsibility for their own economic and financial policies. Rules and measures at the European level should support national reform efforts, but under no circumstances should they fuel national aberrations. Despite all the difficulties, one should not forget: the European Union is a community that lives in peace and freedom, with a huge internal market—achievements that should not be jeopardized by misleading ambitions. Especially given the pivotal importance of Franco-German friendship against the backdrop of two world wars, both for the relationship between the two countries and for the process of European integration, only an open dialogue informed by experience can lead to a new understanding of the European project. Anyone who cares about the future of Europe, and certainly anyone who wants to uphold the vision of a European federal state, can only issue a strong warning against setting a misguided course. ◆

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