On possible scenarios of the evolution of the EU

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Alternatives of Sceptical Optimists“

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Possible scenarios:

1) Breakdown of Euro / EU desintegration

2) Creation of a European State

3) Core Euro Stabilization with core EU institutions

4) Institutional Reinforcement of the EU sufficient to stabilize the Euro, but not reaching the level of a European state

1. Breakdown of Euro / EU desintegration

1) Reverting to national currencies: devaluation competition?

2) Single market breaks apart – protectionism

3) European legal system dissolves, national politics alone determine legislation

4) Poverty and unemployment spread

5) Right wing populism wins hegemony

2. Creation of a European State

1) New constitutional process

2) Full transfer of sovereignty to the United States of Europe

3) Full-fledged politics and government in a European Federation

4) European currency embedded in economic, social and cultural USE policies

5) The USE would confront the USA and China in a bid for world hegemony (historical reminiscences of older European empires would be actualized)

3. Core Euro Stabilization with core EU institutions

1) Definition of a core Euro group, exit of 'weaker countries' out of the Euro – question of a new EMS

2) Two tier structure of EU: strong institutions for the core, weaker regulation for the 'outer zone'

3) Intense struggles on the demarcation of core and 'outer zone'

4) High costs: in terms of loss of export markets for the core countries, in terms of wage level and buying power for the 'outer zone'

5) Diminishing role of the EU on the world markets, diminished role of the Euro, diminished political and cultural weight of the EU

4. Institutional Reinforcement of the EU sufficient to stabilize the Euro, but not reaching the level of a European state

1) Creation of a European Economic Government to complement the Single Currency and the Single Market (not just austerity), not only applying to Eurozone ('model Schengen')

2) Political embedding of the ECB by the EU institutions (Trilogue: making the ECB accountable to Commission, Council and Parliament)

3) Reinforcement of the EU institutions

4) Fighting against harmful tax competition

5) Creation of a European Investment programme for ecological and social conversion and a sustainable development of the 'outer zone'

6) Minimalist regulation of banking and finance

7) International reinforcement of the role of the EU in global politics

5. Alternatives?

1) Democratisation will not be spontaneous: authoritarian options of capital / of intellectuals

2) European democratic mobilization will have to take place at the national level within the member states

3) The left will have to describe attractive European causes for struggles at the national level

4) Poverty reduction, full employment, quality food, improved environmental quality and gender justice, together with relative wage stabilization will have to be addressed by coordinated European struggles and government actions

5) The militarization of the member states (and of the EU) could be reduced

6) Political parties alone will not be able to do so: social movements, NGOs, trade unions will have to take part

Foreword

The global financial crisis erupted in 2008 by the bankrupcy of the Lehman Brothers bank provoked a number of financial, economic, social, political and cultural crises around the globe and seems three years later still deteriorate to unseen impacts. Compared to the 1929 bank crash it is spread more globally, incoporating economies like China's and India's, what was not the case 80 years ago, as these economies were not yet integrated in the global financial markets, and it is characterized until now by the absence of spontanious and wide spread criticism and

popular upheaval.[1] There is significant difference between the absence of mass protest against the actors of the present bank crisis, public debt crisis and the great depression crisis after 1929, which was accompanied with wide mass protests and critisism.

This may depend on the self promotion of the neolibral intellectual currents through power control of dominant public media and main stream science research. It depends also on pretended self evidence of the democracy and the rule of control of powers, combined with the freedom of speech. But democracy today is either assured nor granted for all times.

There are four general forms of promotion of antidemocratic, authoritarian ideas, which function as different currents of popular culture, adapted to the modern social life styles: the intellectual rejection of the democratic folding screen that has to be tear down as a pure fantasy; the power rejection of the democratic pretension as not being founded on money and finance concentration that can avoid or surpress the inherited democratic regulations; the theocratic power concentration, legitimated through the ontological or theological arguments, and relying on the power of the privileged actors of a social control; the presupposed 'atheistic' power concentration, legitimated through the inhereted nationalistic or other group network priviledged actors of social control, striving to a monarhistic principle of the legitimation. All these authoritarian reasoning is interconnected and rejects the public control of the power elites as an illusion.

1 The Occupy Wall Street mouvement is of historical importance, representing a radical critique of the youth and the vanishing midleclass – both the bearers of the prosperity, democracy and of the political, social and cultural alternatives. But until now they were not motivated to the mass protests like those in the times between two world wars or during the European March revolution of 1848.

It is characteristic for the main stream mass media and the academy with what fascination the theses of Slavoj Zizek on communism, violence, the rejection of supposed theories of conspiracy, the idea of the illusion of the free speech and the free will are accepted and mediated on. There is more thirst after the authoritarian and suppressive theses in the main stream media, in the akademy and in the repressive personality than there is rejection of these theses. For this reason democracy, free speech, division of powers and public control of the powers is as vulnerable as it is to be assured.

The crucial question in regard to the here presented scenarios of the disintegration (or further and obviously accelerated integration of the EU in direction to a fiscal union and finally to a federated state) is which factors determine which scenario? First factor is the public debts and budget debts crisis. Behind these debts are two fundamentally different kinds of reasons: 1. decrease of tax incomes of inflicted EU member states due to the privatisation and deregulation processes on global and the EU level; 2. increase of public expenditures due to extention of unemployment and loses after the burst of building investments buble. Another important factor is general disinvestment in the EU and in the US and a financial capital flow in direction of the new rising economies in China, India and South America. The next factor are divergent economic developments within the EU: between the core member states: Germany, Austria, Norway, Switzerland, Danmark, with Germany as first place exporter and southern and eastern European states as peripheral supplier of product parts being unable to export directly on the global

level. This is further connected with increasing differences in productivity, public debts and inflation of the common currency – the Euro. The search after a political solution to these problems and the danger of the desintegration of the Union and the Euro zone became the priority task, with the fiscal union as a far most solution for debt problems. It became evident that a intensified further integration is necessary and possible, which was seen before the global financial crisis outbursted in 2008 almost impossible. But the fiscal union can not be a long term solution if the asymetries between the core member states and the peripheral member states will not be solved on economic level. This means either establishing a federal european state with integrated economic, social and legal system would be put in place, or an unavoidable disintegration of the EU would take place, with reinforcement of nationalistic tensions and local (economic) wars inclusively.

The further integration of the EU is necessary not only to assure prosperity, stability and put it as a global player, but also to prevent the unstability and the continuation of the conditions in Europe until the end of the 2. world war.

Within the EU the specific problems related to the Euro currency are especially tense, but they are just the peak of an iceberg. It becomes evident that proponents of a disintegration of a single currency and of the EU istself do limit the discussion just on some surface economic problems of trade, taxes, inflation, budget balances and do not realize much more far reaching impacts of such a proces on the level of nationalistic and war excesses and necessary coalitions to establish international balaces, that would extend the conflicts across the continent and further.

With disintegration of the EU the US, Russia and China would be put in a rather different global position to secure their interests on the continent and further them, what would provoke a kind of continuation of the cold war with other means and would flame up many past conflicts.

For this reason options of further integration and possible disintegration of the EU are far from being equal or balanced. But keep the EU integrated means also necessary to change the ongoing model of integration to become more balanced, social, cultural and connected with human rights, free speech and the state of law. That would mean that Europe, it it can survive the actual crisis and integrate further efficiently, it will give a push to the global strenthening of democracy, social equality and innovation.

1) Breakdown of Euro / EU desintegration

John H. Cochrane, a professor of finance at the University of Chicago Booth School of Business and an adjunct scholar of the Cato Institute pointed to a range of every day „conventional wisdom, which says that sovereign defaults mean the end of the euro: If Greece defaults it has to leave the single currency; German taxpayers have to bail out southern governments to save the union.“

Professor Cochrane thinks, that „this is nonsense. U.S. states and local governments have defaulted on dollar debts, just as companies default. A currency is simply a unit of value, as meters are units of length. If the Greeks had skimped on the olive oil in a liter bottle, that wouldn’t threaten the metric system.

Bailouts are the real threat to the euro. The European central bank has been buying Greek, Italian, Portuguese and Spanish debt. It has been lending money to banks that, in turn, buy the debt. There is strong pressure for the ECB to buy or guarantee more. When the debt finally defaults, either the rest of Europe will have to raise trillions of euros in fresh taxes to replenish the central bank, or the euro will inflate away.

Leaving the euro would also be a disaster for Greece, Italy and the others. Reverting to national currencies in a debt crisis means expropriating savings, commerce-destroying capital controls, spiraling inflation and growth-killing isolation. And getting out won’t help these countries avoid default, because their debt promises euros, not drachmas or lira.“

Cochrane pointed also to the perils of devaluation:

From the economic point of view defenders of devaluation „think that devaluing would fool workers into a bout of 'competitiveness', as if people wouldn’t realize they were being paid in Monopoly money. If devaluing the currency made countries competitive, Serbia in the past and Zimbabwe nowadays would be the richest countries on Earth. No Chicago voter would want the governor of Illinois to be able to devalue his way out of his state’s budget and economic troubles. Why do economists think Greek politicians are so much wiser?

The latest plan calls for Europe to be tougher in enforcing deficit rules that are similar to the ones that they blithely ignored for 10 years. Sure, a directive from Brussels is really not going to get the Greeks to shape up. ... This plan is mostly a way to let the ECB save face and buy up bad debt with freshly printed euros.

More fiscal union hurts the euro. Think of Poland or Slovakia. Using euros was once a no-brainer: It made sense to use the same currency as all the other small countries around them...

Now, it's not so clear: If using this currency means signing up to bail out Greece and Italy, then maybe adopting the euro isn't such a good idea. A common currency without a fiscal union could have universal appeal. A currency union with a bailout-based fiscal union will remain a small affair.

Europeans leaders think their job is to stop "contagion," to "calm markets." They blame "speculation" for their troubles. They keep looking for the Big Announcement that will soothe markets into rolling over another few hundred billion euros of debt. Alas, the problem is reality, not psychology, and governments are poor psychologists. You just can't fill a trillion-euro hole with psychology.

President Nicolas Sarkozy of France said Greece is like Lehman Brothers Holdings Inc. and its collapse would bring down the financial system. Greece isn't Lehman. It doesn't have trillions of dollars of offsetting derivatives contracts. It isn't a broker-dealer, whose failure would freeze all sorts of assets. Its creditors don't have the legal right to seize assets owed to counterparties. Greece is just a plain-vanilla sovereign borrower, like those that have been defaulting since Edward III stiffed the Perruzzi bank in the 1340s.

Sovereign default would damage the financial system, however, for the simple reason that Europe has allowed its banks to load up on debt, kept on the books at face value, and treated as riskless and buffered by no capital.

Indebted governments have been pressuring banks to buy more debt, not less. As banks have been increasing capital, they have loaded up even more on “risk-free” sovereign debt, which they can use as collateral for ECB loans. The big ECB “liquidity operation” that took place .. will give banks hundreds of billions of euros to increase their sovereign bets. Bank depositors and creditors have figured this out, and are running for the exits.

By stuffing the banks with sovereign debt, European politicians and regulators are making the inevitable default much more financially dangerous. So much for the faith that regulation will keep banks safe.

The euro’s fatal flaw then wasn’t to unite areas with differing levels and types of development under one currency. After all“, this is not very unusual, there are many cases in the world, where diffently developed regions „use the same money. Nor was it to deprive governments of the ephemeral pleasures of devaluation. Nor was it to envision a currency union without fiscal union.

Banking misregulation was the euro’s fatal flaw. Sovereign debt, which can always avoid explicit default when countries print money, doesn’t remain risk-free in a currency union. Yet banking regulators and ECB rules continue to pretend otherwise.

So, by artful application of bad ideas, Europe has taken a plain-vanilla sovereign restructuring and turned it into a banking crisis, a currency crisis, a fiscal crisis, and now a political crisis.

When the era of wishful thinking ends, Europe will face a stark choice. It can have a

monetary union without sovereign defaults. That option means fiscal union, accepting real German control of Greek and Italian (and maybe French) budgets. Nobody wants that, with good reason.

Or Europe can have a monetary union without fiscal union. That would work well, but it needs to be based on two central ideas: Sovereigns must be able to default just like companies, and banks, including the central bank, must treat sovereign debt just like company debt.

The final option is a breakup, probably after a crisis and inflation. The euro, like the meter, is a great idea. Throwing it away would be a real and needless tragedy.“[2]

Commissioner Rehn and Guy Verhofstadt warn of EU 'disintegration' [3]

2 http://mobile.bloomberg.com/news/2011-12-22/bad-ideas-worsen-europe-s-debt-meltdown-commentary-by-john-h-cochrane.html

3 http://www.eubusiness.com/news-eu/finance-economy.ds6

Also the highest officials of the EU expressed their concerns about the possible disintegration of the Euro zone and the EU. It became legitimate subject of discussion and an option, that was earlier unimaginable at this high level.

The EU's euro commissioner Olli Rehn said on Wednesday, 30th November 2011, that leaders of the EU must take a leap of faith with meaningful cross-border integration at a summit the following week, or see the bloc break up.

"We have arrived at a point in time where serious choices and commitments have to be made," Rehn told a European Parliament hearing ahead of the December 8-9 summit at which proposals including a rewrite of the European Union treaty will be debated.

"Economic and monetary union will either have to be completed through much deeper integration or we will have to accept a gradual disintegration of over half a century of European integration," Rehn underlined.

Despite a call from within the parliament's executive for a six-month public consultation if it is "kept aside" from negotiations being piloted by German Chancellor Angela Merkel and French President Nicolas Sarkozy, diplomats believe the EU will avoid a risky endeavour.

"If forced to have a referendum in Britain on a full treaty among the 27 states, let's face it, it would be very difficult to win," one diplomat said in explaining how even a eurozone-only treaty change could still pose problems.

As a result, a series of "inter-governmental agreements" among individual eurozone

members of the EU could instead provide a framework for changes.

Sources attribute the recent drift from a previous summit mandate given to EU president Herman Van Rompuy to draw up "limited" treaty change to British Prime Minister David Cameron's November 18 trip to see Merkel in Berlin.

With euroscepticism rising within Cameron's government as well as opposition forces, Merkel was warned that Britain would need to obtain meaty concessions in order to get any new treaty offering substantial power transfer past lawmakers.

Also in the EU parliamentary debate, former Belgian prime minister Guy Verhofstadt accused Merkel and Sarkozy of endangering the EU's survival in order to safeguard narrow national interests.

"Today their differences threaten the EU's very survival," Verhofstadt said of competing philosophies in Berlin and Paris over the way forward on the debt crisis now that financial market contagion has hit France, whose banks have suffered hard.

"Sarkozy refuses to accept fiscal union with its implications of a transfer of sovereignty to a collective and objective judge of sound budgetary policy such as the European Commission or European Court of Justice," Liberal Verhofstadt said in a statement.

"On the other hand, Chancellor Merkel calls one week for closer political union and the next she blocks proposals that go in this direction." He cited a proposal by a German council of economic advisers to do a collective re-mortgaging of eurozone debts above an EU threshold relative to GDP.

Playing a "very dangerous" game of "chicken" with Europe's future, he said both had to "lift their opposition to some of the practical options on the table to stabilise the current market turbulence that risks engulfing us all."

2. Single market breaks apart – protectionism

Europe may or may not escape chaos as the euro crisis unfolds argues Kirsty Hughes[4] and asks herself what sort of European Union will emerge out of the Duck Soup of the crisis, there are no upbeat scenarios. She developes three scenarios of possible development through the actual debt crisis.

„The euro crisis has battered the EU's political dynamics, clout and democratic credentials. The sight of technocrats running the Greek and Italian governments has been criticised as anti-democratic. But Europe's political failings go beyond this.

Neither Angela Merkel nor Nicolas Sarkozy has any positive European vision for the future.

Merkel said several times the crisis demands political integration, but talks only of budgetary discipline and austerity imposed by Brussels' bureaucrats.

A decade ago - in December 2001 - the EU's leaders proclaimed at their Laeken Summit that Europe needed a greater presence in the world, and to be more democratic and effective.

But today's EU has no such vision - nor presence in global affairs. As the Arab Spring

4 http://www.huffingtonpost.co.uk/kirsty-hughes/europe-in-the-soup_b_1109651.html

moves forward in Tunisia, falters in Egypt, or is under murderous attack in Syria, it is not Europe but Turkey and the arab League that try to intervene.

The EU is invisible and lacking any serious common foreign policy. And as global efforts to tackle climate change stumble, the EU's efforts at progressive leadership on climate have faltered too.

On economic policy, Europe's political culture is not producing any serious debate. Where are the leaders or major political parties offering alternative routes to Germany's austerity medicine, such as a huge green 'New Deal' for Europe, or a facing down of markets?

Even 'normal' EU politics, where the 27 EU member states all had a say, has disappeared. Before, larger and smaller member states did deals with much horse-trading and backscratching - not always nice to watch but inclusive.

While the euro crisis twists and turns, it is possible to see three main scenarios for Europe.

Scenario One: Sluggish Europe

The eurozone muddles through the crisis, with most of its 17 members including Italy (probably not Greece) still in the euro. The crisis measures lack democratic legitimacy and the eurozone's internal political dynamics are fairly toxic. This 'two-speed' EU is weak at home and internationally - with a divided inner core, plus an outer core divided in itself and from the inner group.

Germany insists on treaty change, tying euro members into ever greater budgetary

stringency.

After a double-dip recession in 2012, Europe is mired in low growth, with growing divergences in competitiveness between Germany and the rest, and large swathes of the Eurozone suffering high unemployment and crumbling infrastructure.

National and EU politics are increasingly tense. The ten 'euro-outs' are disgruntled and obstructionist given their declining political clout while the euro 17 are riven by political rancour especially at Germany's agenda-setting.

Deeper economic integration of the 17 has little political legitimacy. The 2012 treaty changes are not put to voters, except in Ireland where a 'no' vote in early 2013 stirs debate on Ireland leaving the euro.

There is substantial political stasis in the coming years with little agreement on internal or external policies. There are no high profile strategic EU initiatives whether on climate change, world trade, or the Arab Spring though some low level initiatives filter through.

Even in this more 'optimistic' scenario, there is a rapid acceleration of the EU's loss of geopolitical influence.

Scenario Two: Fractured Europe

The eurozone splits as markets attack sovereign debt across the zone. A 'euro-nord' emerges with only 6 members: Germany, France, Finland, Luxembourg, Austria and the Netherlands. In chaotic scenes, the other 11 euro members go back to national

currencies.

Europe is divided having undermined its own founding vision of peace and prosperity in Europe through integration. With sharp internal political and democratic frictions and divisions, few policies are agreed, and a deeply economically depressed EU has little global presence.

The EU struggles to maintain the single market as the unifying structure of the EU. With 22 currencies, there are big conflicts over exchange rate management.

There is no common foreign policy - member states deal separately with Russia, an agreement in principle to open up EU markets to northern Africa (Tunisia, Egypt, Morocco, Libya) founders on different member states' objections. The Balkans - Serbia, Montenegro, Macedonia and others - decide to suspend their bids to join the EU.

The EU staggers on but it is a moribund organisation.

Scenario Three: Duck Soup

The eurozone breaks up amidst chaotic market and political scenes. The huge political and economic shockwaves scar Europe for decades to come - and impact negatively world-wide.

EU member states turn protectionist, some turn to the far right, politics in many countries is chaotic and unstable. The EU single market fractures and dissolves. After 50 years, the EU falls apart despite some efforts to save it - a British proposal for a simple free trade area finding no takers.

With no EU, there is no European voice in the world. European views on democracy, human rights, geopolitics or economics are multifarious and scorned outside Europe. European countries no longer coordinate at the UN or WTO or at global climate talks. The Asian century has arrived rather earlier than expected and there is one less pole in the multipolar world.“

Kirsty Hughes exposes the global international perspective of the break up of the EU. While the rest of the member states concentrates on the internal problems of the debt and austerity problems of a possible fiscal union, from 'Britain', being in a way in- and outside of the EU, the global problems and prospective of scenarios are much more put forward.

3. European legal system dissolves, national politics alone determine legislation

Survival crisis?

The entire European Project may be at risk of disintegration, with strategic and economic consequences that are very difficult to predict.

In a speech on November 16th, 2010, the EU President Herman Van Rompuy (poet, and writer of Japanese and Latin verse) warned that if Europe’s leaders mishandle the current crisis and allow the eurozone to break up, they will destroy the European Union itself.

"We’re in a survival crisis. We all have to work together in order to survive with the euro zone, because if we don’t survive with the euro zone we will not survive with the European Union," he said.

He is admitting that the gamble of launching a premature and dysfunctional currency without a central treasury, or debt union, or economic government, to back it up – and before the economies, legal systems, wage bargaining practices, productivity growth, and interest rate sensitivity, of North and South Europe had come anywhere near sustainable convergence – may now backfire horribly.

Through the debt and financial crisis of the EU it became well known that Jacques Delors and fellow fathers of EMU were told by Commission economists in the early 1990s that this invention could probably not work as constructed, and would lead to a traumatic crisis. They shrugged off the warnings.

They were told too that currency unions do not eliminate risk: they merely switch it from currency risk to default risk. For that reason it was all the more important to have a workable mechanism for sovereign defaults and bondholder haircuts in place from the beginning, with clear rules to establish the proper pricing of that risk.

Delors told colleagues that any crisis would be a "beneficial crisis", allowing the EU to break down resistance to fiscal federalism, and to accumulate fresh power. The purpose of EMU was political, not economic, so the objections of economists could happily be disregarded. Once the currency was in existence, EU states would have give up national sovereignty to make it work over time. It would lead ineluctably to the Monnet dream of a fully-fledged EU state. Bring the crisis on.

Behind this anticipation was the assumption that any crisis could be contained at a tolerable cost once the imbalances of EMU’s one-size-fits-none monetary system had already reached catastrophic levels, and once the credit bubbles of Club Med and

Ireland had collapsed. It assumed too that Germany, The Netherlands, and Finland would ultimately – under much protest – agree to foot the bill for a 'Transferunion'.

Far from binding Europe together as Delors expected, the monetary union is leading to acrimony and mutual recriminations. There was the first eruption earlier in 2010 when Greece's deputy premier accused the Germans of stealing Greek gold from the vaults of the central bank and killing 300,000 people during the Nazi occupation.

Greece is now under an EU protectorate, or the "Memorandum" as they call it. This has prompted pin-prick terrorist attacks against anybody associated with EU rule. Ireland and Portugal are further behind on this road to serfdom, but they are already facing policy dictates from Brussels, but will soon be under formal protectorates as well in any case. Spain has more or less been forced to cut public wages by 5pc to comply with EU demands made in May. All are having to knuckle down to Europe's agenda of austerity, without the offsetting relief of devaluation and looser monetary policy.

As this continues into next year, with unemployment stuck at depression levels or even creeping higher, it starts to matter who has political "ownership" over these policies. Is there full democratic consent, or is this suffering being imposed by foreign over-lords with an ideological aim? It does not take much imagination to see what this is going to do to concord in Europe.“[5]

Ambrose Evans-Pritchard is a voice of a critic from the perspective of a former empire, having it difficult to fit into the stired member states of the EU, expressing

5 http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100008667/the-horrible-truth-starts-to-dawn-on-europes-leaders/

his clear positioning against the integration of the EU. But at the same time another dimension of the eventual disintegration of the EU becomes evident through his reasoning: if the EU can not face the risks and the challenges of the debt crisis, it will not onld disintegrate, but it will become a target of centripetal forces from both inside and outside of the EU. Britain's participation in the discussions is symptomatic: one wants to be at the same time inside and outside of the union, provoking the split up as well expecting possible privileges if the union can stand the challenge. And ignoring at the same time the deeper reasons and factors that caused and accelerated the crisis: the global privatisation and deregulation process and multiple outputs it had.

4. Poverty and unemployment spread

Both in the times of the EU debt and financial crisis as well as through a disintegration of the EU economic insecurity, mass unemployment, declining wages, poverty, social marginalization, crime, fear and social decomposition are defining features of many of the EU member states, mostly those of the South and the East peripheral societies. With growth concentrated largely on speculative financial activities and the suppression of wages, wealth is so unequally distributed in many advanced capitalist societies that the social and historical boundaries between rich and poor nations have completely broken down. Wealth and poverty coexist in close proximity in many cities in advanced societies just as they do in the less developed

world, establishes Chronis Polychroniou.[6]

„With the belief that markets on their own terms are the best means for the maximization of growth and development and that societal interests are best served when individuals act more like consumers than citizens, neoliberal dogma may be the most dangerous ideology of our times. Essentially, neoliberalism represents a counterrevolution to the postwar regime in the area of economic and social rights and connects to the interests of the rich, corporations and the needs of the dominant form of capital in contemporary capitalism, that of finance.

Under neoliberalism, politics has surrendered power to the wealthy elite and to the financial markets and institutions. The state, through complex forms of intervention and mediation in the public arena, has sought to balance out the sources of large-scale friction between competing social forces. In an effort to assure the stable reproduction of capitalist economic and social relations, it has been converted into an instrument for carrying out the policies of the global neoliberal project without concern for the cost on human lives.

Neoliberalism has allowed the liberalization of labor rules, privatization of state assets, budget cuts in social programs, public education and public health. It as protected sharp tax cuts for the rich, real estate, banks and financial transactions. It has worked to strengthen the penal state. It has supported the penalization of poverty and criminalization of many social movements resisting the collapse of the public sphere.

6 http://archive.truthout.org/europe-iron-grip-neoliberal-fiscal-discipline-and-anti-labor-measures60177

Europe is the latest victim of global neoliberal economic policies. The global financial crisis that reached its peak in September-October 2008 has become a global employment crisis. This crisis is quickly engulfing Europe threatening to dismantle the last vestiges of the social market economy and complete the destruction of fundamental social rights of workers.

Since the Maastricht Treaty where Europe fully expressed its intention to embrace and reinforce the global neoliberal project, the erosion of social welfare guarantees has proceeded with only popular resistance standing in the way of the complete dismantling of social democracy. Now, as the global crisis has spread to Europe, bringing to the forefront the flaws of the euro being the single currency throughout the EU, fiscal problems and sovereign debt have emerged as pressing issues. Fiscal discipline and severe austerity measures are being implemented in order to tame the global financial markets and provide stability to the European banking system.

Greece is now under the command of the EU and the IMF because of the unmanageable size of its debt and has thereby become subjected to draconian austerity measures. Portugal, Spain, Italy, France, and England have joined Europe's austerity club with deep budget cuts. Latvia and Romania are also under EU/IMF supervision and their economies have been subjected to shock-therapy treatments for the bailout loans they received.

The wave of fiscal austerity that has spread across Europe can be seen as a reflection of the worries of European governments over market reactions following the Greek debt crisis and is fundamentally a manifestation of Europe's strict adherence to the

neoliberal dogma and EU leadership's unwillingness or inability to provide an alternative policy framework to financialization in the context of the global neoliberal economy.

In Greece, Portugal, and Spain, "social democratic" governments are discarding even the pretext of being agents of progressive reform (even though they came to power on precisely such a political platform). These governments are imposing unprecedented cuts and austerity measures significantly reducing the standard of living for working people through the roll back of long established social programs, social entitlements and social rights. Programmatically there is no longer anything that sets apart southern European "social democratic parties" from (neo)conservative or neoliberal parties.

Greece is by far the most striking example of how politically opportunistic social democratic parties have become in the age of global neoliberalism. In its 2009 electoral campaign, Greece's socialist party, PASOK, led by George Papandreou, offered the model of "participatory democracy" as the foundation of a new politics. It rejected the claims of the centre-right political party, New Democracy (which was in power since 2004), that huge deficits and a lack of state funds made any talk about massive public spending and investment highly irresponsible, and promised a break with rightist policies.

Yet, the first action Papandreou took as new Prime Minister was to prepare the ground for turning Greece over to the IMF. Next he set in place the most austere measures ever undertaken by any European government, let alone a "socialist"

government with pay cuts, sharp increases in added value taxes, pension reductions, slashes in social programs, increases in the legal maximum number of people companies could lay off each month, extreme pension reforms, privatization of state assets and tax breaks for the rich and the banks.

Papandreou's solutions to the sovereign debt crisis of Greece illuminates a symbiotic relationship between the neoliberal project and EU interests. Further, in Machiavellian fashion, his government opted to introduce austerity measures in a gradual fashion in an effort to avoid an explosion of popular frustration and anger. Both at the grass root level and on the parliamentary floor, opposition to Papandreou's austerity measures has been strong and is growing. Ironically, the only support to the austerity measures (implemented by the "socialist" government) has come from LAOS, a reactionary, notoriously racist, and profoundly xenophobic party.

The laboring population and pensioners have taken their grievances to the streets on a regular basis and the country has been rocked with a series of 24-hour national strikes. At this point trade unions and political parties and organizations on the Left are preparing supporters for a long battle.

Greece, for all practical purposes, is bankrupt. The EU/IMF three-year, 110 billion euro rescue package was approved after Greece had entered the no-confidence zone in the bond markets. The majority of economists believe that Greece is bankrupt and the international markets appear even more inclined to agree. Further, most economists are convinced that the harsh austerity measures being implemented by the PASOK government won't make the huge sovereign debt problem the country is

saddled with (standing at a whopping 130% of GDP) more manageable, although they disagree on alternative ways out of the crisis.

Neoliberal economists claim that current austerity measures are not enough. They call for deeper cuts in public services, in wages and in social security entitlements. They urge the adoption of measures to further increase labor flexibility, insist on wholesale privatization of state assets, and hint at the need for hard-line stands against strikes and demonstrations. Still, they admit that even with these a measures, Greece's debt crisis will be worse two years from now and that debt restructuring may become inevitable.

To the middle of the spectrum Keynesian economists wholeheartedly oppose current austerity measures arguing that such actions will make the economy sink deeper into a recession as overall consumption declines, businesses fold and unemployment skyrockets. With declining state revenues, the debt crisis will get worse eliminating any prospect of a recovery. Instead they call for massive public spending through a combination of borrowing and higher taxes on the rich and the banks. Even with these measures they think that cuts in the debt will be necessary.

The antilabor austerity measures being enfored by the "socialist" government in Greece will not provide a way out of the crisis and will subject the Greek economy to a prolonged recession. Even with the human and social cost of the austerity spending cuts, and the adoption of harsher measures as proposed by the neoliberals, the debt will rise from the current 130 percent of the GDP to approximately 150 percent of the GDP in 2011.

Greece's sovereign debt has already increased by an additional 20 billion euro from the end of 2009 to March 2010. Austerity spending cuts and anti-labor measures in the midst of a severe economic crisis will serve to hasten the nation's impending economic catastrophe. With the austerity measures, the GDP will contract by six percent in 2010 and by an additional three percent in 2011 in anticipation that the budget deficit will be dropped from 13.6% in 2009 to 7.6% in 2011. In the meantime, unemployment is expected to rise to as high as 20%, according to some forecasts.

The massive public spending scheme that Keynesian economists propose is simply not an option for any Greek government because EU rules enforce greater fiscal discipline among eurozone member states. For such a Keynesian scheme to work, the EU would need to abandon its current neoliberal orientation and convert to pro-growth and full employment strategies. That is not likely to happen.

Then there is the radical political economy solution that calls for an immediate halt to The EuroMemoGroup defined the reasons for the deepening of the dept crisis and austerity mesures as uneffective as the „the European Union is set to register a second consecutive year of modest economic growth in 2011, but output for the EU as a whole will remain below its pre- crisis level and countries continue to diverge strongly, as shown in table 1. In Germany, and most other core euro area countries, output is expected to rise slightly above pre- crisis levels in 2011. In the peripheral euro area countries, by contrast, output is still below pre- crisis levels and, most disturbingly, recessions have actually deepened in Greece and Portugal. In Eastern Europe, although countries are set to grow in 2011, with especially strong growth in

Poland, output in most other countries is still well below pre- crisis levels, most notably in Rumania and the Baltic region, which remains the worst hit area in the whole EU.

The divergent patterns of growth have been reflected in the 2011 figures for unemployment and income. Unemployment remains high throughout the EU, and although rates fell slightly during the year in around half the member states, they increased in the other half, with the largest increases in Spain, Greece and Cyrus. Real wages fell slightly in many countries in 2011 and were more than 10% below pre- crisis levels in Greece, Hungary, Romania, Lithuania and Latvia.

In the second half of 2011 the economic recovery began to slow, and this looks set to con- tinue into 2012.[7] In Europe, demand is being depressed by the widespread adoption of aus- terity programmes. These are most marked in Ireland, Portugal and, above all, Greece, which have been forced to slash government spending and wages as a condition of financial sup- port. But wages and spending have also been cut in Spain, and governments throughout the euro area have been adopting programmes designed to meet EU targets for government deficits below 3% of GDP by 2013. The international outlook has also deteriorated. Growth in the United States weakened markedly in 2011 as the impact of expansionary fiscal and expansive monetary policies waned, and the political impasse between Democrats and Re- publicans in Congress made further expansionary measures – such as the jobs plan an- nounced

1 7 In October 2011, the OECD cut its forecast for eurozone growth in 2012 from 2% to only 0.3%.

by President Obama in September – most unlikely.[8] Furthermore, the rapid growth in larger developing countries that has benefited exports, above all from Germany, looks set to slowdown, with increasing concern in both China and Brazil at rising inflation, and the International Monetary Fund (IMF) warning of the possibility of a rapid reversal of capital flows to Asia and Latin America.[9]

The most serious challenge, however, concerns the debt crisis in the euro area which had been temporarily stabilised in 2010 but which re- emerged in spring 2011 and which entered what the IMF described as 'a new and dangerous phase' in the course of the summer. At the European Council meeting in March 2011, EU heads of government agreed on the so- called Euro- Plus Pact, a series of highly undemocratic measures designed to give the European Commission greater control over member states' economic policies, including new rules to enforce stricter fiscal discipline. They also agreed that the €440 billion European Financial Stability Facility (EFSF), which was created in May 2010 but is due to expire in 2013, should be replaced in 2013 by a permanent €700 billion European Stability Mechanism. The new fund will make loans against strict conditions and, despite some initial opposition, will be allowed 'exceptionally' to purchase government bonds. However, at the insistence of a group of countries led by Germany, private investors will be

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[8] 8 In the face of slowing growth, the Federal Reserve is reputedly considering a third round of pumping money into the economy through large- scale bond purchases (so- called 'quantitative easing').

2 9 IMF, Global Financial Stability Report, September 2011, pp. 36- 37.

required to bear part of the cost in the event that over- indebted countries are unable to meet debt payments.4 This measure, which the European Central Bank (ECB) opposed, was one of the factors that contributed to reigniting the euro area crisis. As soon as it became clear that private investors would have to bear part of the cost of future losses, the interest rate for euro area peripheral bonds be- gan to rise significantly. For countries that were considered to be at risk, raising new finance from private investors became prohibitively expensive, and in May Portugal was obliged to turn to the EFSF for €78 billion.

The deepening of the crisis was also due to a dawning recognition by private investors that the austerity policies imposed on Greece and other countries were leading to deepening recessions which made it even more difficult for countries to meet their debt payments. The Greek government had introduced major spending cuts which significantly reduced its deficit but, as output and employment fell, this led not only to widespread social hardship but also to a fall in tax revenues, making it impossible to meet agreed targets.“ The same mechanism is a consequence of the limitation of the public spending across others peripheral south and eastern EU member states, with the important difference, that in the mediteranian southern member states there is a privatisation of public infrastructure and public goods first foreseen, in the former east european member states a radical privatisation and deregulation mesures were put in place with no efficient results. The difference between the two groups of member states is that there is almost no protests against

austerity mesures in eastern european member states, as there was no tradition of freedom of speech there, but it was more common in the southern peripheral member states. The majority of aestern european member states has lower averige net income as it is the case of the south mediteranian member states. This could in long term prove another difficulty in solving the debt crisis, together with the notorious problems of differences in the access to the international markets, level of productivity, inflation, political culture, level of trade union organisation and capability to rise BDP and decrease the asymetries in the relation between the core members of the EU and the peripheral member states. Poverty and unemployment high levels remain a characteristic feature of the peripheral EU member states.

5. Right wing populism wins hegemony

As Europe grows together, expanding its visa-free zone toward Iceland and the Ukrainian border, many citizens are beginning to see themselves firstly as Europeans rather than as citizens of their individual countries.

But even in the spring 2010 xenophobic and right-wing parties have made spectacular political gains across Europe.For them, times of crisis are a boon. And this increase of the xenophobic political movements and parties is just a foretaste of possible gains of the xeniphobic movements after a dissolution of the EU.

In Hungary in april 2010, the far-right Jobbik party won well over 16 percent of votes in parliamentary elections. With the country hard-hit by recession, Jobbik capitalized on rising nationalism and a resurgence of anti-Semitism and anti-Gypsy sentiment to win votes.

Jobbik's rise echoes that of France's right-wing Front National party, Italy's xenophobic Northern League and the Netherland's conservative Party for Freedom, which all saw dramatic gains in recent elections.

Although right-wing ideology takes different forms across Europe, it shares a common strategy: exploiting the fears of voters in times of crisis. Right-wing populists focus on their followers' discontent, says Wolfgang Kapust of German public broadcaster WDR.

"They offer easy answers to complicated problems: the economic situation, unemployment or social insecurity," said Kapust. "Above all, they want to get rid of, deport or 'send home' foreigners and 'the others.' "

But because right-wing movements define themselves through separation from that which is "alien," it is difficult for them to pool forces beyond their nation states. That's reflected in the European Union.

"Right-wing extremists and populists are opposed to a supra-national political institution like the European Union," says Kapust. "They want a Europe made of nativist countries. They want to maintain the identity of their own countries."

Le Pen has been in France's parliament since 2004

In the European Parliament, right-wing attempts to merge into one group have been unsuccessful.

"The differences are too large between the national movements," says Kapust. Right-wing parties remain protest parties, incapable of joining coalitions.

However, exclusion from coalitions does not mean that far-right parties are without influence. Often, nationalist parties succeed in exerting pressure on the conservative parties of the center, which fear they could lose potential voters to the far right.

This was seen in regional elections in France in February. The right-wing Front National, whose 81-year-old leader, Jean-Marie le Pen, has advocated sending African immigrants back to the continent, registered strong gains at the expense of French President Nicholas Sarkozy's conservative UMP.

The regional elections offered conservative voters a chance to show Sarkozy that they didn't approve of his policies since taking office, says Elisabeth Cadot, French expert at Deutsche Welle.

"Many who were disappointed by Sarkozy's national politics voted Front National again," said Cadot.

While non-established and extremist smaller protest parties often disappear quickly from view, the more moderate right-wing populist parties tend to survive. Many observers were surprised when the results of Italian regional elections in March showed that Prime Minister Silvio Berlusconi had survived his numerous public scandals, including a corruption trial.

Berlusconi managed to stay in power due mainly to his skilful coalition building with other right-wing populists, said Stefan Koeppl, an expert on Italy at the Academy for Political Education in Tutzing. He pointed out that Berlusconi's own party came in rather weak.

"The winners are not his political opponents, but his allies, such as the far-right Northern League," said Koeppl.

Moreover, added Koeppl, Berlusconi's brushes with the law were nothing new - he has been known for his affairs, scandals and slip-ups since he came to power.

"Anyone who has forgiven him for the past 15 years is not likely to be put off by recent allegations," said Koeppl.

Dutch politician Geert Wilders, whose Party for Freedom made major gains during municipal elections in March, has sought to distance himself from traditional far-right platforms such as anti-Semitism.

Instead, Wilders has taken pains to present himself as a defender of democracy, while sharply criticizing the growth of Islam in Europe. Wilders has called the Koran a "fascist book" and argued that "there is no such thing as a 'moderate Islam.' "

Still, Kapust sees parallels between Wilders' party and other movements that show less fear of contact with the far right end of the political spectrum: "The development in the Netherlands is clearly connected to the minaret ban in Switzerland and the 'pro' movements in Germany," he said.

Swiss voters decided in November 2009 to amend the country's constitution to ban the construction of minarets. That step was lauded by pro-Koeln and pro-NRW movements in Germany's most populous state, North Rhine-Westphalia. The linked groups, which hold seats on local councils, campaign on an anti-Muslim platform,

decrying what they describe as the "Islamicization" of society.[10]

An eventual break up of the Euro zone and of the EU, combined with adebt and financial crisis and higher inflation would create a situation in Europe that would remind a lot on a social and political instability in Europe before the second world war. Only the xenophobic movement and parties in this case woulnd't be left outside the governmental majorities of several countries. That would either provoke several armed conflicts in Europe or make a powerful interventions from outside or inside Europe necessary.

2. Creation of a European State

1) New constitutional process

The financial and the public debt crisis of the Euro zone and of the EU, at the moment dividing the member states in two groups: on one side the United kingdom, rejecting any further transer of autorities from Britain to the EU, on the other side all other member states, willing to overcome the actual problems regarding the debts crisis of several heaviliy indebted member states, Ireland, Portugal, Spain, Greece, Italy, Hungary, Latvia etc., with introduction of further integrations steps, now with the implementation of a fiscal union, as it became obvious that there should be more strikt regulations to run public budgets, but also inflation, taxes, public expenditures, and finally social and medical care systems, education and infrastructure construction and maintenance. In several of these domains the EU came forward with a lot of measures, in some there are none.

10 http://www.dw-world.de/dw/article/0,,5455829,00.html

The crisis, as already underlined, shortened the available reaction time to prevent a break up of the Euro zone and of the EU. It should go in the direction of the reestablishment of the sovereign national states, connected in a loose and ineffective United nations, or of the creation of a european federal state. For this step a new constitutional process would be necessary, along with the right to referendum and the secession. The reservation of the actual political class in Europe toward the referendum as political right and democratic instrument is well known and can be explained through its wide alienation. Switzerland practises the referendum since hundred years and did not collapsed. The referendum is not admissible in regard to human rights, freedom of speech and rights of minorities, and state of law or budget issues.

Creation of a European State is not going to start with a the future implementation of the mesures of the EU to react on the debts and Euro crisis from now on. No, the history of the union can and has to be underwstood as a long way of steps in direction of an European state.

The Maastricht Treaty served two purposes. It amended the provisions of the Treaty of Rome while significantly advancing the agenda set out under the Single European Act (SEA) in 1986, for deepening European Political Union (EPU). It created a new model for the Community based around three 'pillars' which, broadly speaking, covered economic relations, foreign affairs and home affairs. It also officially created the European Union (EU), which became the title to cover all the functions of the much-expanded European governmental structure. In addition, it began the process of

Economic and Monetary Union (EMU), which would lead to the creation of the Euro. Coming at a time of political upheaval in Britain and across Europe, the Treaty was hugely controversial and has come to be seen as a central moment in the movement towards deeper European integration.

Negotiations for the new treaty began through two separate Inter-governmental Conferences (IGCs) - one dealing with Monetary Union, the other with Political Union. In April 1991, a draft set of treaties was presented at the Luxembourg European Council, after which extensive negotiations were took place between national governments, leading to the signing of the Treaty in the Dutch town of Maastricht on 7 February 1992. However, this was far from the end of the story. In June 1992, the Danish people rejected the treaty in a referendum. Subsequently, the British Government narrowly won a vote on the treaty in the House of Commons, which forced Prime Minister John Major to postpone final ratification of the Treaty until after a second Danish referendum in 1993. Although the British Government then ratified the treaty, the controversy that surrounded it provided a huge boost to those sceptical about the European project.

What did the Maastricht Treaty do?

The Treaty pushed forward two broad processes - the widening of EU responsibilities and the deepening of integration. This meant using ***supranational*** structures in some areas while using ***intergovernmental*** ones in others. In order to make EMU possible it amended the original Treaty of Rome, reinforcing the economic responsibilities of

the European Community in line with the goals of the SEA. At the same time, however, it set up a whole new range of intergovernmental responsibilities outside the remit of the Treaty of Rome in the areas of a common foreign policy and home affairs. Institutionally, it transformed the way in which the organisation was structured. While the Commission retained responsibility for the economic 'pillar' of EU activity, the new 'pillars' were to be controlled not by the Commission but by the European Council. However, the three separate pillars would all be linked under the overarching structure of the European Union.

The Treaty also attempted to strengthen the EU Parliament's power, by introducing the ***co-decision*** procedure. Lastly, a Social Chapter covering employment and social issues was not included in the Treaty itself, but was annexed to the treaty as a ***protocol***, although the UK decided to opt-out of its provisions.

- The Maastricht Treaty created a structure capable of coping with closer integration and Monetary Union while giving national governments more say through an expanded European Council.
- The process of closer integration through Monetary Union made it vital to have closer political co-operation.
- The British Government succeeded in including the principle of subsidiarity in the Treaty, which helped counter-balance the federalist tendencies of other parts of the document. This has since gained great importance.
- The deepening measures of the Treaty pushed forward a federalist model of European integration that set the Community in the direction of a United

Europe.

- The focus on big issues like EMU distracted people from the expansion of EU control over other areas such as environment, security and foreign affairs.

The following quotes prove that creation of a European State was envisaged from the earlier times on:

'We're not just here to make a single market, but a political union.' - Jacques Delors, EU Commission President, 1993

'Those in favour of the creation of a European state want to see all European co-operation channelled through the institutions established by the Treaty of Rome. We do not accept that model.' - Douglas Hurd, British Foreign Secretary, 1989-1995

'The European Union Treaty... within a few years will lead to the creation of what the founding fathers of modern Europe dreamed of after the war, the United States of Europe.' - Helmut Kohl, German Chancellor, 1992.[11]

Are you ready for "The United States Of Europe"? The integration of Europe is about to go to another level. As the European debt crisis deepens, there are cries all over the EU for full economic integration in Europe. On Wednesday, French President Nicolas Sarkozy and German Chancellor Angela Merkel sent a letter to European Council President Herman Van Rompuy which stated that they want a new "economic government" for Europe to be formed. According to the letter, Sarkozy and Merkel want the leaders of the eurozone countries to "elect" a president for the new

11 http://www.civitas.org.uk/eufacts/FSTREAT/TR3.htm

"economic government". The idea would be that the president would hold twice-yearly summits to address the debt problems that Europe is facing right now. But many pro-EU critics are already howling that Sarkozy and Merkel have not gone nearly far enough. A whole lot of "experts" in Europe are proclaiming that without full economic integration and the creation of "eurobonds", Europe is doomed. Jennifer McKeown, an economist for Capital Economics put it when asked what would happen if eurobonds are not created fairly soon: "The likely outcome is the eurozone ceases to exist".

This is often how huge changes occur in our world today. First a huge problem is created, then there is a negative reaction and then a solution is presented.

> *What fiscal union means: one economic policy, one taxation system, one social security system, one debt, one economy, one finance minister.*

Sarkozy and Merkel have announced plans to have a common corporate tax rate by 2013 and to coordinate work on their national budgets.

EU Commission President Jose Manuel Barroso is already calling the proposals put forth by Sarkozy and Merkel "an important political contribution by the leaders of the two largest euro economies to this debate and the on-going work.“

Countries such as Greece, Portugal, Italy and Spain are already deeply financially dependent on Germany. Either they will have to leave the eurozone (which would be a financial disaster for them) or they will have to go along.

But economic integration in Europe certainly will not be easy. There is still a lot of

resistance in the EU to the idea of a "United States of Europe". Many in the northern countries are very opposed to further economic integration.

But the leaders of the EU are going to do what they can to keep it together. They believe that a fully united Europe under the banner of the EU is what is best for the continent.

2. Full transfer of sovereignty to the United States of Europe

Some economists and former national leaders now argue that resolving the eurozone debt crisis will eventually demand a transfer of sovereignty to create a fully-fledged United States of Europe. However, as they press for the political integration they say is needed to prevent the currency union collapsing on an Achilles heel of Greek debt, even advocates in unguarded moments admit resistance to the surrender of national sovereignty is rising.

Either Europe moves forward to “political union,” celebrity economist Nouriel Roubini said in Brussels on Monday, September 7th 2011, or the result will be “eventual disintegration, break-up.”

Roubini was speaking at the launch of a manifesto by the self-appointed “Council for the Future of Europe,” a think tank set up by Nicolas Berggruen.

Famed for having accurately predicted the four-year-old financial crisis, Roubini was flanked by former German chancellor Gerhard Schroeder, ex-Spanish prime minister Felipe Gonzalez and others.

Offering their prescription for resolving what promises to be one of the toughest and

riskiest seasons in European politics since integration began amid the rubble of World War II, the group also includes ex-British premier Tony Blair and Nobel laureate Joseph Stiglitz.

Collectively, they said today's masters of Europe need to swallow national pride and accept new, mutualised "eurobond" government borrowings, sovereign debt write-downs and a federal future.

A deal last month between German Chancellor Angela Merkel and French President Nicolas Sarkozy to beef-up cross-border eurozone governance has already "overcome a taboo," insisted Schroeder.

Even outgoing European Central Bank chief Jean-Claude Trichet separately imagined on Monday the eurozone acquiring a "confederal government with a confederal finance minister," one who could "impose decisions."

Trying to avoid a repeat of the Greek problems — debts there now measure more than a year-and-a-half of the value of the country's economic output — is the biggest game in town here, but the obstacles remain huge.

Germany's constitutional court is to rule on the constitutional legality of the first Greek bailout in May 2010: at best for Merkel, it is expected to order much greater national parliamentary scrutiny of future fiscal transfers.

Finland managed to unpick the recommendations by Berggruen's panel when former prime minister Matti Vanhanen broke from the group's agreed statement and admitted: "I'm not so fond of federalism as such."

The panel had said EU states “will need to share [transfer] certain dimensions of sovereignty to a central European entity that would have the capacity to source revenue at the federal level.”

Ultimately, they added, “it will be necessary to further lay out a vision of a federation that goes beyond a fiscal and economic mandate to include a common security, energy, climate, immigration and foreign policy.”

In other words, a United States of Europe — instead of what Gonzalez said was EU leaders “acting as firemen — not acting to prevent those fires” when the bloc was “facing global change, with no way back.”

The top demand among most observers, after August pressure on markets saw stocks hammered and Italian, Spanish and French government borrowing costs shoot up, is for the creation of shared eurobonds.

But that idea has already been ruled out for the foreseeable future by Merkel and Sarkozy.

Just as worryingly for Berggruen was a column published in the Financial Times, in which Germany’s finance minister Wolfgang Schaeuble laid bare “my unease when some politicians and economists call on the eurozone to take a sudden leap into fiscal union and joint liability.”

He said eurobonds would remove pressure on governments to undertake needed reforms, and that the answer to the crisis, despite it being politically painful, is for

states to live within their means.[12]

3. Full-fledged politics and government in a European Federation

A concept of a free and united Europe, governed according to the principles of democracy and the rule of law, striving to ensure peace and prosperity, security and justice in Europe and in the world, has been the objective of European Federalists ever since and is well elaborated and widely promoted.

The European Union achieved to ensure freedom, peace, security and prosperity for its citizens. It has achieved much, but its performance still falls far short of what its citizens are entitled to expect. Neither the European states alone, nor the European Union as it is today, can meet the challenges that confront them any longer: the management of the European economy, mass unemployment, the challenges of globalisation and of ever increasing world disorder. Both nationalism and intergovernmentalism are not able to catch up with the elements needed in a globalised world. It is necessary to transform the European Union into a real European federation in order to face the challenges of the 21st century. Without stronger integration, the achievements of the last 60 years will vanish, the Union will break apart and its member states will not be safeguarded anymore by the unity and solidarity that the European Union provides.

Through this Political Platform, JEF formulates its key convictions and messages that provide inspiration to move away from the current political constellation in Europe and progress towards a true Federation.

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12 http://www.dawn.com/2011/09/07/battle-under-way-for-soul-of-united-states-of-europe.html

European Federalism was born out of the necessity to halt the scourge of war that has plagued the European continent over many centuries. Both World Wars plunged Europe into an unprecedented spiral of horror and extremism that has caused an intolerable human tragedy for our societies. European integration was the only possible panacea to guarantee an everlasting peace among its long-term rivals who have not descended into armed conflict ever since. Firmly integrated into an economic community in which disputes are solved solely by the rule of law, European countries have learnt to cooperate through common institutions and embarked on an adventure that has no equivalent in the history of humankind. In the course of a few decades, stability, prosperity and democracy have spread progressively over the continent, rendering the dream of a united and peaceful Europe possible. Yet, the process of integration is far from being achieved…

What started as an economic project to develop a single market ensuring the freedom of movement of people, goods, services and capital, has, on the one hand, still not been extended to the entire continent and, on the other, still not been followed by sufficient political and social integration. This inconsistency leads to several discrepancies in policies and gaps in institutional decision-making that can only be closed by the construction of a full-fledged democratic European federation, which is the logical final stage of the process of building an ‘ever closer Union’. Globalisation continues to erode national sovereignty and because states realize they are losing their grip on the many complex problems arising in their societies, they have started to pool some of their powers together. However, the transfer of certain competences

has not been accompanied by a parallel transfer of democratic legitimacy to the European level. For this reason, Europe is still perceived to be too far away from the Citizens, who do not really know which decisions are taken at the European level because they neither feel democratically involved in the decision-making procedures nor do they realize how Europe influences their daily lives and could further improve their standard of living.

The performance of the current European Union thus falls short of what all Europeans are entitled to expect and many institutional and policy-making reforms still have to be implemented for Europe to become a beacon of international democracy for the world and achieve the Kantian idea of Universal Peace at global level. Hence, the rationale for European Federalists to advance their cause!

Three decades after the Federalists finally succeeded in getting the representatives of the people of Europe directly elected to the European Parliament (EP), this institution suffers from a low degree of popular support with a very low and decreasing turn-out for its elections. Moreover, it should always be remembered that the decade-long struggle for a new Treaty revealed a disturbing degree of disinformation among the Citizens who do not feel appropriately engaged at the European level. Add to this that the enlarged Councils of 27 member states has lately been marked by an increase of nationalist reflexes and intergovernmental bargaining thus deflating the EU's transparency and further undermining the power of the European Parliament and Commission. At a time when the financial crisis is ravaging our societies and tearing apart the bonds in the Euro zone, leaving countries open for speculation attacks, a

stronger integration towards a monetary union is in sight but needs to be accompanied by a political union and a stronger democratic legitimization.

In the face of this triple challenge – of euro-scepticism, nationalism and global crises – it is now, more than ever, up to the European Federalists to reach out to the Citizens, governments, political parties and civil society and re-affirm their belief in a democratic supranational model, pooling national sovereignty in some defined areas and empowering supranational institutions to develop joint solutions to shared problems.

The goal of European Federalists is the creation of a democratic European Federation. European Federalism implies the negation of all manifestations of nationalism and the avoidance of intergovernmentalism, yet, this by no means corresponds with an orthodox ideology that focuses solely on the creation of some kind of federal super-state.

European Federalism can be generally described as a new approach to governance that tries to guarantee the highest standards of democracy and transparency and takes effective decisions at the appropriate level in line with the principle of subsidiarity. The created unity does not seek to replace distinct identities but cultivate a vivid exchange of diverse mindsets and cultures.

Being always independent from any political colour or party ideology but supporting the progression of the federalist idea within the maximum of political parties, European Federalists do have in common their desire for a ‘stronger Europe’ as opposed to a ‘weaker Europe’, carried out by European political parties. They see

Federalism as a strategy towards increasing political integration in various sectors of society, as a common tool for effective and democratic decision-making, as ever more transnational solidarity, coordination and harmonization and as the incremental shifting of competences towards a supranational level whenever necessary, while respecting the principle of subsidiarity wherever possible. They are convinced that cooperation at a higher level is in the enlightened self-interest of any federated unit because it avoids duplication of resources.

The federal process should be inclusive, transparent and accountable to citizens.

European Federalism can be communicated as a message of European brotherhood that rests on the following five pillars:

1. Democracy and participation

Every law should result from the will of the people, expressed either through elected representatives or directly. Only a legitimate and representative Federal parliament can pass democratic laws that will benefit the highest number of people. All citizens and member states must have the right to participate in the decision-making process at the federal level. Laws must enjoy the support of a double majority of representatives: of Citizens and member states.

2. Subsidiarity

The Federal level must have the authority to carry out satisfactorily the functions it has been assigned to. However, power should never be exercised at a level higher than necessary. According to the principle of subsidiarity, decisions always have to be taken as close as possible to the Citizen while allowing for community any action

when an objective cannot be satisfactorily achieved by a lower level acting independently and can only be effectively tackled at the supranational level in order to deliver optimally for the citizen.

3. Autonomy and Division of competences

Federal laws have primacy and are directly applicable. While all federated entities have the autonomous right to organise themselves within their competences in the most efficient way, they must not jeopardize the general interest and cohesion of the federation as a whole. The spheres of action of local, regional, national or European bodies should be clearly outlined. A clear division of competences between the different levels of decision-making can avoid the concentration of too much power at one level or with one body. The distribution of powers over different decision-making levels and accountability towards all the member states guarantees peace within the federation and this in turn leads to peaceful behaviour towards each other.

4. Peace, the Rule of Law and Human Rights

The aim of federalism is to ensure peace. Peace is not just the absence of war; it is the situation in which war is completely impossible as a mean to solve any conflict. The recognition and protection of Human Rights, including those of minorities, are not only vital in guaranteeing democracy, peace and justice, but also the process to ensure a unity of people as well as their diversity. The Rule of Law is contrary to the rule of the strongest and ensures fundamental rights of the citizens. The relations among member states of a federation must thus be firmly based on these three principles and fixated in a Federal Constitution. The principle of the separation of powers, both

horizontally (between the legislative, executive and judicial branches) and vertically (between the federated and federal levels), should strictly apply to guarantee a checks and balances system.

5. United in Diversity

This motto conveys the idea that Europeans are united in working together for peace and prosperity, and that the many different cultures, traditions and languages in Europe are a positive asset for the continent and important for its dynamism. Europe in the world needs to be a role model for inter-cultural and inter-religious dialogue and mutual respect for each other. After centuries of war, a deep understanding of each other needs to be part of the foundation to ensure lasting peace within a federation of equal.

Federalism refers to the idea of multi-layered identity reflecting the complexity of human life by taking into account multiple identifications of citizens, who may feel belonging to a local community, a region, a country without any incompatibility with the identification with and support of supranational and international entities. Each of these identifications supplements and mutually influences each other.

3. Towards a European Federation

The creation of the European federation is the best guarantee to preserve democracy and peace in Europe and facing the challenges that national states and the EU in its current form are no longer able to manage. The European federation needs to be accountable in front of the citizens and will assure a new social-economic and political development for the continent, establishing equal social standards and social

welfare on even level, overcoming the disparities between northern and southern Europe and closing the gap between eastern and western Europe. Only in this way, Europe will be a player on eye level with other global powers in the world institutions.

Upcoming reforms of the European Union must lead towards a truly European federation which shall entail the following features:

The federal constitution

The European Union will be provided with a written federal constitution. A constituent assembly or convention will be convened to write the federal constitution. This constituent assembly or convention will be composed by representatives elected by the citizens both at national and at European level, as well as representatives of the governments, national parliaments and the European Commission. The resulting federal constitution will be ratified subsequently through a pan-European referendum. Such a procedure will insure that the Europeans' political unity is founded on the will of the people.

The Constitution will recognize rights and duties for the European citizens and establish the foreseen federal institutions and regulate the division of power between the different levels of government. In order to guarantee the division of powers between European and national level, this must not only be sanctioned by the constitution, but also protected by an autonomous power that is able to annul any legislative and administrative provisions which do not conform to the constitution, and that gives judgements in the final instance when conflicts over the division of

powers arise. This power is the judiciary, which bases its own independence on the co-existence of the various levels of government and which can therefore guarantee the primacy of the constitution by imposing respect for it to all bodies of the Federation.

Different level of sovereignty

In addition to the functional division between legislative, executive and judicial powers, the European federation will be provided with a territorial division of powers between the several levels of government which will be simultaneously independent and coordinated. The distribution of the competences between all levels of sovereignty will follow the principle of subsidiarity.

Thanks to a political framework that will assure both unity of the political community and the independence of its parts, the European federation will be able to bring together the advantages of small size, which enables individuals and organisations to participate directly in the process of forming political decisions, with the advantages of large size, which is needed for security and economic development. Especially the small units are important in order to include and not alienate the citizens and guarantee a open democratic process. The European federation will possess only the minimum number of competencies and powers necessary to guarantee the political and economic unity of the federation, while the other levels will possess full capacity for self-government in all other fields. In its own sphere no government level must be subordinate to the level above.

Federal institutions

The constitutional balance of the federation will be reflected in the composition of legislative power that will be exercised by two chambers, one representing the people of the federation proportionally to the number of voters in a trans-national or trans-regional election procedure, the other representing the member states. In order to be passed, laws will need the support of the majority of both the representatives of the people of the federation and the representative of the member states.

Considering the present structure of the European Union, the current decision-making framework should be abandoned to become a true federal bicameral system:

The Council will need to be relieved of the concentration of legislative and executive powers that it currently holds and the body transformed into a purely legislative Second Chamber of the Union.

The European Parliament is to represent the citizens of the federation. European parties will present their candidates and their political program to the electorate before the elections for the European Parliament. Members of the Parliament will be elected on Europe-wide lists. Full legislative powers will need to be transferred to the European Parliament, to be exercised on an equal footing with the second chamber of the Union.

The Commission will become the government of the Federation, accountable to the European Parliament, and attributed with full executive powers. The parliament will be entrusted with the power to express confidence in the executive and to withdraw it. The European commission will report to each parliamentary plenary session. The composition of the Commission will be determined through political competition

according to the results of the EP elections.

The President of the European executive will be elected by the people, either indirectly, on the occasion of the European Parliament election, with the European political parties making very clear during the campaign who will be their candidate for the Presidency or directly elected through a direct presidential elections. The President of the executive will chair the meetings of the heads of states or governments of the member states.

Decisions of both chambers will be taken by simple majority in all matters except those on constitutional reforms, the relation between the federation and the other level of sovereignty and the direct intervention of the electorate through recourse to referendum and citizens' initiative.

The Citizens, the Parliament, the Council and the Government should have the right to initiate legislation.

Democratic participation and transparency can be ensured only by cross dialogue and cooperation between the bodies of the Federation.

European resources

In order to guarantee that no governing level is subordinate to the others in the sphere of its own competences, it is necessary that each level of the European federation has sufficient resources available to carry out the functions assigned to it by the constitution. All government levels must therefore have the power to levy taxes individually in order to finance their own services and policies.

The constitution will define the ways and means by which fiscal activity among the

various levels of the federation will be coordinated. The federal level should be financed from own resources in order to avoid the member states interest to maximise the net return on their own contribution. That's why the EU budget should be restructured in a federal sense by establishing new EU-own financial resources and according to the following principles:

− **Subsidiarity:** the federation should only finance or tax what it can finance or tax more effectively than other levels of government.

− **Democracy:** The Parliament as the representation of the citizens should have a responsibility for managing taxpayers' money.

− **Solidarity:** citizens should contribute according to their capability, and subsidies should be spent in a way that ensures that all citizens get equal opportunities and access in Europe, investing in a stronger harmonization within the union, instead of subsidies being linked to taxation pay in.

− **Sustainability;** maintaining a balanced budget should be a pillar of the fiscal union in order to avoid creating burdensome debt for future generations. Therefore, the constitution shall contain a debt brake mechanism for federal spending.

− **Accountability**; the Parliament, accountable to the electorate, should be the primary responsible for budgetary decision-making. Debates between EU-level political parties and the civil society on the level of taxes and their use will make MEPs more recognizable political actors.

− **Transparency;** The budget should have a transparent structure and the public should have the right to know who received how much funding. All revenues and

expenditures should be included in the EU budget, including the European Development Fund and specific projects.

- **Equality:** Every person should be treated equally in front of the law. Legal duties and rights should be the same for all the European citizens and their states, without exceptions that are not justified by the general interest of the European Federation.[13]

The federalist mouvement in the EU is well organised and as such a voice for further integration, promotion and public discussion on the issue of the aim and meaning of a federal european state.

4. European currency embedded in economic, social and cultural USE policies

The measures adopted in response to the economic crisis – both those related to fiscal policy and those in support of the banking sector – were expensive. This is also true for the euro area, but – more generally - for all advanced economies. Together with the impact on government budgets of the massive economic contraction recorded during the crisis, they led to a significant deterioration in the public finances of a number of economies in the euro area.

13 http://jef.communicate-europe.co.uk/about-jef/political-platform/

José Manuel González-Páramo, member of the Executive Board of the ECB, exposed at RBC Capital Markets' Central Bank Conference "Impacts and Implications of Integrated Global Markets", that „the deterioration was particularly significant in countries in which: (1) pre-crisis growth had been of an unsustainable and unbalanced nature – typically as a result of an over-reliance on the expansion of private credit and the contributions of housing-related sectors (notably construction and housing finance) – and (2) in which governments had failed to take advantage of favourable developments in the years of booming growth in order to consolidate their public finances.

Over time, concerns about the size of government deficits and soaring debt-to-GDP ratios – combined with uncertainty about the ability of governments to design and implement consolidation plans in the context of reduced potential growth and massive implicit liabilities towards the financial sector – developed into uncertainty about the sustainability of government debt. Although the initial problems primarily concerned the Greek government debt market, contagion and spillover effects meant that the crisis quickly spread to the sovereign debt of other so-called "peripheral" countries and other market segments. In particular, financial markets turned their attention to the solvency of some "peripheral" economies that were perceived to have been hit particularly hard by the crisis because of long-standing structural and institutional weaknesses.

The deterioration of public finances in some euro area member States has impacted negatively on investors' confidence in government bonds issued by these countries,

and thus led to further turbulences in the financial markets. This is also reflected in the sharp increase in the yields on the government bonds issued by those countries. This additional distortion has given rise to further instability in the financial system, both directly and through its interplay with the weaknesses of the public sector.

Given the central role played by sovereign debt in financial markets, its dysfunctional behaviour threatened both financial stability and the transmission of monetary policy. In this context, the Eurosystem launched its Securities Markets Programme (SMP), which entails the outright purchase of debt instruments to address the malfunctioning of securities markets and to ensure the proper transmission of monetary policy impulses to the wider economy and, ultimately, the general price level.

In addition, in order to mitigate the impact of the sovereign debt crisis on the banking sector's ability to refinance its activities, the ECB temporarily reversed the phasing-out of its non-standard measures. It also took collateral-related measures to support access to central bank liquidity by banks located in the countries that were committed to implementing economic and financial adjustment programmes negotiated with the European Commission, in liaison with the ECB, and the IMF.

There is no denying that the financial crisis has put the euro and the economy of the euro area to the test. However, the crisis has clearly shown the need to undertake a number of reforms in order to address some institutional and structural weaknesses in our economies. This is essential in order to map out the way forward for the European Monetary Union.

The way forward for the euro area and the EU requires a number of initiatives in key

areas in order to guarantee the public authorities' ability to continue delivering macroeconomic and financial stability. In my view, the building blocks of any comprehensive plan of reform for Europe are the following:

- implementing fiscal consolidation and securing the sustainability of public finances;
- promoting sustainable growth and job creation;
- enhancing the crisis management framework;
- improving economic governance;
- introducing a tax on financial operations.

Implementing fiscal consolidation and securing the sustainability of public finances

The financial and economic crisis has led to a very considerable deterioration in the fiscal positions of euro area countries, in terms of both large budget deficits and rising government debt. However, the economic recession amplified imbalances in fiscal policies that had built up gradually long before the crisis, reflecting the failure by many countries to implement sound fiscal policies during past periods of strong economic growth. On the institutional side, the EU's fiscal framework, which is embedded in the Stability and Growth Pact (and that had been watered down in 2005), proved to be too weak to enforce fiscal discipline and was not implemented with sufficient rigour.

As mentioned earlier, reflecting large fiscal imbalances and a loss of confidence on the part of investors, government bond spreads increased dramatically for some euro

area countries and became very volatile in 2010. The willingness of investors to support governments' financing needs declined, with the result that the governments of three euro area countries have since then required financial support by means of joint EU/IMF programmes. These programmes are subject to strict conditions on fiscal adjustment in order to restore public finances to health.

However, the need to pursue more ambitious consolidation targets is more general. It is striking to see that there are currently only two euro area countries that are not subject to an excessive deficit procedure. Fiscal consolidation is essential to ensuring an environment conducive to output growth and price stability.

Looking ahead, implementing fiscal consolidation and securing the sustainability of public finances are among the major challenges faced by policy-makers. The consolidation of public finances requires a comprehensive policy comprising: (i) the timely correction of excessive deficits; (ii) the reduction of government debt to more sustainable levels; and (iii) the reorganisation of banks in order to limit strong links between the balance sheets of governments and financial sectors, which typically result in the socialisation of banks' liabilities in times of crisis. These measures need to be complemented by pension and healthcare reforms to alleviate the fiscal burden arising from population ageing.

Moreover, fiscal governance in the euro area needs to be reinforced by means of the strengthening of the Stability and Growth Pact. This means establishing stricter and more binding rules for fiscal policy, backed up by stronger sanctions or mechanisms to ensure compliance with the rules. At the same time, the effectiveness of budgetary

institutions needs to be improved at the national level. In this context, effective rules on expenditure should be regarded as a means of promoting fiscal discipline and limiting fiscal vulnerabilities in the event of adverse economic shocks occurring in the future.

Promoting sustainable growth and job creation

Euro area countries also need to increase their efforts to strengthen their growth potential and their ability to create jobs in a sustainable manner. European countries have made reasonable progress over the past ten years in the area of employment. Indeed, over 14 million jobs were created in the euro zone since the introduction of the euro, far more than in the previous ten years (around 8 million). The employment increase in the euro area since 1999 was even significantly larger than in the United States (7.6 million).

This is an important achievement, but it remains insufficient, especially against the background of the massive employment destruction observed in some euro area countries during the crisis. Unemployment rates have reached unacceptably high double-digit rates in some countries and segments of the population (i.e. the young workers), that, as a result, carry extremely large economic and social costs. This is socially unfair and economically inefficient.

European countries must made more efforts to resolutely pursue – and with far greater urgency than in the past – the necessary structural reforms in product markets, labour markets, pension systems and so on. In this respect, a key contribution to the

strengthening of the euro area's long-term economic prospects will come from the thorough implementation of the Europe 2020 strategy, with its focus on key areas such as: (i) education, research and innovation; (ii) resource efficiency; and (iii) high levels of employment and social cohesion.

Enhancing the crisis management framework

In response to the sovereign debt crisis, the euro area has recently armed itself with an important tool to safeguard area-wide financial stability. At the European Council meeting of 24 and 25 March 2011 the Heads of State or Government of the EU agreed to establish a permanent European Stability Mechanism (ESM) based on the existing temporary European Financial Stability Facility (which will remain in place until June 2013).

The ESM will grant financial assistance to countries in distress in the form of credit, with the assistance provided under strict conditionality and on the basis of a strict analysis – conducted by the European Commission and the IMF, in liaison with the ECB – of the sustainability of the relevant country's debts. The establishment of the ESM represents an important addition to the institutional fabric of EMU.

However, the existence of a mechanism to provide financial assistance to countries facing temporary distress should not be seen as a source of moral hazard. Such risks are prevented both by the strict conditions under which any assistance would be provided and by the fact that the mechanism will be activated only if deemed indispensable in order to counter threats to the financial stability of the euro area as a whole. In addition, the establishment of this permanent stabilisation mechanism will

be accompanied by the strengthening of the framework for economic governance in the euro area, particularly as regards the framework for the multilateral vigilance of national policies in the areas of public finances and competitiveness.

Improving economic governance

It is fair to say that the experience of the Economic and Monetary Union (EMU) over its first twelve years has been a historic success. At the same time, it is also fair to say that the credit should go, to a very large extent, to the achievements of the monetary pillar of Monetary Union (the “M” in EMU) rather than of its economic pillar (EMU’s “E”). Yet, monetary policy alone cannot deliver all the benefits of EMU. The economic pillar must also play its part. Unfortunately, this has not always been the case so far. Indeed, national governments have not been sufficiently committed to fulfilling their obligation to guarantee macroeconomic stability and fiscal sustainability in the long term.

Therefore, a key lesson learnt from the crisis is that in order to fully reap the benefits of EMU, it is essential to strengthen the rules that govern macroeconomic policies in the euro area so as to ensure their alignment with (1) sound economic principles (such as fiscal discipline and a commitment to a market-based economic system) that foster macroeconomic and financial stability, and (2) with the needs of the single currency.

Some concrete legal initiatives in these areas have been proposed by the European Commission, on the basis of the final report of the task force chaired by the President

of the EU Council Herman Van Rompuy. In a nutshell, the European Commission recommends strengthening the Stability and Growth Pact, which represents the framework of rules and procedures preventing countries from accumulating excessive public debts and deficits. In addition, the European Commission proposes the establishment of a broader macroeconomic framework for the monitoring of economic policies, which - if not sufficiently sound - can give rise to imbalances such as a loss of competitiveness, current account imbalances and excessive private indebtedness.

In addition to these EU-wide proposals at the legislative level, a separate pact (the "Euro Plus Pact") has been drawn up by the euro area countries and several other EU Member States in order to further strengthen the economic foundations of EMU.

The ECB is of the opinion that, in both areas, the current reform efforts are not sufficiently extensive. While the proposals tabled by the European Commission go some way towards improving macroeconomic and fiscal surveillance in the euro area, they fall short of the quantum leap forward that is needed in order to guarantee the smooth functioning of EMU.

The legislative acts implementing the reform of economic governance are now being discussed in the context of the "trialogue" discussions taking place between the European Parliament, the European Commission and the Hungarian Presidency of the EU Council. The purpose of these discussions is to produce a common set of proposals that accommodates the amendments requested by the various authorities involved in the legislative process. The ECB has called on these authorities to

produce a strong and clear set of rules, including automaticity in the triggering of procedures and sanctions, in line with the ten key elements for the reform of economic governance published on its website.[14]

Introducing a tax on financial operations.

The financial crisis has also revealed a number of deficiencies and vulnerabilities in the regulatory and supervisory frameworks in our economies. The massive economic and financial impact of the crisis has clearly indicated that addressing such deficiencies through far-reaching reforms is essential in order to prevent similar crises in the future. An introduction of a tax on financial operations would equalize different sectors of economy, further it would equalize the taxation system, make possible better financial control of capital flows and would equalize taxation of profits in different domains. It is significant that oposition to the proposal came from the city of London and the british government, priviledged through the massive financial operation with the seat in the city. But there is no consensus on this issue, as the british government opposes the plan, obviously to keep the priviledged financial market place.

There is a relatively broad consensus as regards the nature of the rest of reforms required. Indeed, following the deterioration of the crisis in the wake of the collapse of Lehman Brothers, the G20 rapidly identified some of the key areas for reforms and

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14 See Key Elements of the ECB Opinion on Economic Governance Reform (http://www.ecb.int/ecb/legal/pdf/key_elements_opinion_con_2011_13.pdf).

entrusted the task of drawing up concrete proposals to the Basel Committee on Banking Supervision and the Financial Stability Board.

Some progress has already been made in the area of financial market regulation, most notably as regards the “Basel III” capital accord. This calls for strong increases in the capital requirements of financial institutions and also introduces leverage requirements, as well as leverage ratios.

In Europe, important steps have been taken with a view to addressing the long-standing friction between, on the one hand, the international dimension of the operations of commercial banks and financial institutions, and, on the other hand, the national boundaries that constrain regulatory and supervisory measures. The Heads of State or Government of the EU have agreed on a new structure for financial supervision in the European Union – the European System of Financial Supervision – with a view to improving coordination and cooperation.

- As regards micro-prudential supervision, three newly established European Supervisory Authorities for banks, insurance companies and financial markets became operational at the beginning of 2011. These are designed to enhance coordination between micro prudential supervisors and to ensure the application of EU wide standards in the area of technical supervision.
- In addition, a new authority – the European Systemic Risk Board (ESRB) – has been established with a mandate to conduct macro prudential supervision within the EU.

Much has been achieved in the reform of financial market regulation and supervision since the onset of the financial crisis. But there are still many areas that require the attention of policy-makers – such as stricter regulation of all systemically relevant financial institutions, greater transparency as regards the "shadow" banking sector, better regulation of investment funds and credit rating agencies, and improvements to corporate governance models in the banking sector. These are just some of the key areas in which greater efforts are needed in order to strengthen the foundations of our economies.

It is often argued that Greece would be better off rescheduling or renegotiating some of its sovereign debt, rather than continuing to implement the adjustment programme negotiated with the international authorities as part of the financial assistance provided by the European Commission and the IMF.

The argument is typically presented as follows: "Greece's key problem is not a temporary lack of access to liquidity, but rather a solvency crisis. The country is too weak to bear the economic and social costs of implementing the institutional and economic reforms foreseen by the adjustment package. The country may, therefore, be better off announcing some form of renegotiation or restructuring of its debts with private creditors. Of course, such a step should not be taken lightly, since it may be tantamount to a sovereign default, and the economic literature suggests that the costs of defaults can be both multiple (reputational loss, exclusion from financial markets, trade sanctions, and so on) and substantial. However, some empirical studies focusing on emerging economies have fortunately found that the impact that an inevitable –

rather than a strategic – default has on the defaulting country's economy is typically smaller and less persistent than is commonly believed.[15]"

Far from being a convenient means of minimising economic losses and dissipating uncertainty, a default would have extreme adverse consequences, many of an irreversible nature, for the Greek economy – particularly for its banking sector and for the welfare of its citizens. Those basing their arguments on past experiences in emerging economies fail to take into consideration the many differences in the case at hand: Greece is an advanced economy sharing a single currency with 16 other democracies which has signed up to a common set of rules, institutions and overriding objectives, notably macroeconomic and financial stability, together with the other countries of the European Union. Greece's euro membership rules out debt-devaluation spirals and ensures price stability in the medium term. Its economy is highly integrated – via a number of channels, such as trade and financial flows – with other advanced economies both in Europe and around the world that can potentially act as contagion mechanisms. Greater economic integration has been accompanied by an increasing degree of institutional cooperation. At the same time, the country's economy is affected by a number of structural weaknesses and rigidities that have resulted in the persistent accumulation of public and private sector imbalances.

15 A recent study covering more than 200 cases of debt restructuring since 1970 finds that the impact of defaults on the ability of defaulting countries to access credit subsequently is larger and more protracted that previously believed. See Cruces, J. and Trebesch, C., "Sovereign defaults: The