

How to Prevent the Chaos of Disintegration

20. December 2018 by [Ricardo Cabral](#), [Viriato Soromenho-Marques](#)

This is the last post of our blog series about the reform of the eurozone (EZ). Our prior articles shared a mostly critical appraisal of the state-of-affairs and the perspectives for the future of the EZ, the European Union (EU) and the whole European peace and sustainable prosperity project.

Our concerns seem to be confirmed by the current events in Europe. The already complicated political and economic situation in Italy, added by the political instability in Germany with the last throes of Angela Merkel's chancellorship and the rise of an extremist right-wing party, is now aggravated by the violent 'yellow vest' protests in France and the prospect of political instability in this country.

'Qu'ils mangent de la brioche'...

The general malaise and dissatisfaction in various EZ member states are symptoms of a system that is not delivering for most citizens, to the apparent astonishment of European elites that seem surprised that the peoples do not appreciate the qualities of their leadership.

But Europe's leadership is not suicidal. It will learn and change course.

The EZ cannot outlive any serious crisis in France or in Italy.

There are signs, that a [compromise \(and a fudge\)](#) is being negotiated for Italy, as we foresaw in [our last post](#). It is positive that this is happening.

France presents a more complicated case, as it follows Italy's path towards a populist or extreme right government with a few years delay, skipping the *coup d'état* script of the Monti government, engineered by Brussels. Though popularly legitimised through general elections, the Macron government, in hindsight, seems to constitute a subtle parallel to the Monti government, with disastrous results for France's democracy.

It now seems likely that in the near future both France and Italy will be ruled by populist governments that do not support the European integration project, and might actually favour the dismantling of the euro.

The wheels were already set in motion by past decisions by the European authorities, namely the austerity strategy, which led to popular dissatisfaction with the *status quo* and with the mainstream political parties. It is unlikely that these popular views can be reverted in the short term even if quite different economic policies were to be adopted immediately, as now seems to be the case in France.

But maybe, just maybe, it is possible to prevent the chaos of disintegration even in such a scenario.

Dealing with the devil we know...

The reality is that the way the EZ of the present is run is too similar to the (imperial) courts of the not so distant European past. The real power lies in the hands of a few hundred princes and princesses, who pick key EZ decision makers on the basis of their loyalty to them and their attachment to their own visions of Europe.

It is those power brokers that have to be convinced of the need to change course.

While freedom of opinion is respected, an important and positive civilisational conquest, it is politely ignored and efficiently concealed from public view.

Patrick Lang, a retired senior officer of the U.S. Military Intelligence and U.S. Army Special Forces, asking himself [whether the EU is collapsing](#), argues that the problem is that the EU is ruled by ('three handfuls') of Germans, and that in times of difficulties these elites pick sides and decide in favour of what they wrongly consider to be Germany's best interest to the detriment of other countries like Italy, Greece, and even France, we might add.

He is probably not mistaken.

What can be done?

We have to go back to the basics, to the [four freedoms of the EU \(the free movement of goods, services, capital and persons\)](#), and admit that these cannot be the driving forces nor the existential purpose of the EU nor of the EZ projects.

The EU's 'four freedoms' are too small-minded and too materialistic to even adopt the same designation of the original 'four freedoms', laid out in [President Roosevelt's 1941 State of the Union address](#) in what is presently known as the four freedoms speech.

Why do we want to build a future together? Why do we believe it is best to build a future together? For what conceivable reason should the Portuguese youth or that of any other Member State ever be sent to fight, to kill and to die in a war in a remote corner of Europe by detached and distant European leaders?

Is it not the case that in our diversity, we already share so much common history and common values?

Is it not the case that we want to be able to continue to express our opinion ('freedom of speech') and our social or religious preferences without fear of hardship, oppression, torture or death?

Is it not the case that we wish to have what President Roosevelt called [freedom from want](#), in that the existential angst of not being able to provide for ourselves or for our descendants simply disappears?

Is it not the case that we want to live and to prosper in peace and without fear?

Drop the clichés!

We need to reappraise that what we have been brainwashed into believing is an absolute truth. Particularly, the often repeated idea that the EU (and the EZ) is not a transfer union, an idea so pernicious that it is even adopted in [Thomas Piketty et al.](#) recent and important [manifesto](#) to save Europe from itself.

Well, if it is not a transfer union, it cannot possibly function. Better a transfer union than a bullet transfer like the one that made Europe collapse between 1914 and 1945...

The cliché about the EU not being a transfer union is nothing but a flawed political goal defended by politicians from wealthier EZ member states. It is not a sustainable principle. All modern economies require significant fiscal transfers to function.

Key decision makers of the European Commission, in an [unintelligible euro-speak](#), have sought to demonstrate to non-convinced Germans and northern Europeans that fiscal transfers (what they designate, common fiscal capacity) are necessary. But the scheme the European Commission proposes – a [European Investment Stabilisation Function](#) – compromises on so much that it is ineffective and pointless.

It aims to ensure that the EZ does not become a fiscal transfer union and to prevent moral hazard. Thus, the stated objectives of the proposal, already defeat its purpose. Does the European Commission really not understand what is the vital challenge the EZ is faced with?

The near bipolar character of the current EZ architecture

The aim of EZ authorities is to have growing economic integration between member states, namely through growing private-sector economies of scale achieved through the EU's 'four freedoms'. So, European authorities tell private sector agents and families to think and to act on a European-wide dimension.

However, government functions, namely government services and government redistributive fiscal transfers, are structured along national lines. Taxes and social security contributions are foremost collected at national level. These government revenues are foremost spent or transferred also at a national level.

The public taxation, public spending and public transfers should be interpreted as financial commands by the Member State governments. National authorities are in effect ordering economic agents to organise and act along national lines.

The stated aims of the EU/EZ projects are thus fundamentally incompatible with the means and actions involved. As pointed out above, this is a disturbance of an ideological nature, with negative impact on economic activity and which results in growing economic inequality and increasing social unrest between and within Member States.

With such a foolish macroeconomic policy it is surprising the EZ economy manages to grow at all!

A 'modest proposal' to move forward

The outline of our proposal is as follows. A federal budget is required which allows the possibility for new federal debt capacity. The federal budget revenues could be initially based on alternative minimum corporate and personal income tax revenues, as well as a new contribution to be made by Member States, which should be calculated on the basis of each Member State's current account surplus, meaning that only Member States' governments with current account surpluses would directly contribute to the federal budget.

Spending should target redistributive functions as well as public investment functions and aim to establish macroeconomic stabilisers to contribute to the economic sustainability of the EZ (and/or the EU).

Regarding the government redistributive function, the federal budget spending should aim for increased social services transfers, for example unemployment, pension and minimum income subsidies. These transfers could be accomplished through lump sum transfers from the federal budget to the Member State government budgets.

Regarding public investment, a federal budget should aim to develop projects that the EZ (and/or the EU) as a whole can achieve, but that would be out of reach for every Member State. The best example for this kind of federal investment is the 'energy transition', a huge task unable to be timely and efficiently fulfilled by individual Member States, and a key condition for taking the ontological challenge of climate change seriously, beyond the usual lip-service rhetoric.

The new federal government should run a small budget deficit which would be financed through the issuance of new federal debt. This federal debt should not be mutualised. Thus, neither Germany nor the Netherlands nor Italy would be liable for the federal debt, should the EZ dissolve. The federal government should also not be directly liable for Member States' sovereign debt.

This is but a small step forward. Further policy measures would be required, namely regarding the large legacy debt inherited from the euro's first nearly two decades of existence. And the current fiscal rules ('Fiscal Compact', 'Two-Pack', 'Six-Pack') should be abandoned, as these rules did not survive the test of time, as proved by the cases of Italy and now France.

Conclusion

Those who believe that the EZ is worth saving should seek more than just new reforms; they need to question and change long established dogmas, to reappraise our common goals and to redefine them.

There are various options. We can share a common destiny as Europeans, but only voluntarily and only if it results in a better, peaceful, prosperous and harmonious future for (nearly) all of us.

The alternative is the death sentence for the EU as a whole. The outcome of which would not be a naïve peaceful return to a full-fledged European international system, but Europe's fall into the vortex of political, economic and societal collapse.