A fifteen-year political union with a 2029 expiry date could prevent the collapse of the Euro and offer a ‘New Deal’ for Europe

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The Eurozone financial crisis has shaken the EU to its core and threatens to destroy the great achievements of European integration of past decades. Yet, European leaders are stuck; they are unable to proceed with further political or economic integration without risking the wrath of their country’s voters. Hugo Brady proposes a temporary political union for the Eurozone, beginning in 2014, to expire after 15 years. Such a ‘New Deal’ for the Euro would buy the amount of time European governments require to implement sorely needed reforms.

The EU has four freedoms – for the movement of goods, services, capital and people. Today, it needs a fifth: the freedom from fear. The euro has become a political doomsday machine, a time-bomb that threatens to destroy the great achievements of European integration: peace, political stability and the creation of the world’s largest single market. The global economy is also a hostage to the uncertain fate of the single currency. So too is Europe’s credibility as a responsible power.

The euro is a Frankenstein which could destroy its creator, the EU. The currency’s dissolution would reap economic chaos, political division and social schism throughout Europe. Eurozone countries share a monetary union but not a treasury, lender of last resort or federal institutions to raise tax and transfer receipts between members. Critics say this unnatural arrangement cannot go on unless euro countries establish an economic – and therefore, political – union that incorporates some or all of these missing elements. But they have yet to explain to Germany’s chancellor, Angela Merkel, or other leaders how to sell this to their electorates. They know full well that voters will find the idea unacceptable and dangerous.

The markets will therefore continue to attack the euro – with occasional respite – until either a politically viable solution is found or the single currency collapses under the weight of its own contradictions. How to break this cycle without giving in to the tyranny of extremes? Eurozone leaders should create a fifteen-year political union, set to expire in 2029. This would incorporate current ideas to stabilise the single currency, such as a banking union, but also include the creation of some common Eurozone debt. Concurrently, the European Commission would gain powers to push through ‘Merkel I’ reforms, otherwise known as the EU’s 2020 agenda, to boost long-term economic growth and employment, especially across the south of the Eurozone. Painful adjustments would be cushioned by long-term ‘war’ loans from more prosperous euro countries and funds from the EU’s budget.

At present, Eurozone voters neither want a collapse of the euro (which would be a calamity) nor a federal super-state. But they might be persuaded of the merits of a third option – a temporary loss of economic sovereignty for three electoral cycles, which could secure their living standards for a generation. This would
buy the kind of time from the markets that governments really need to fix Europe’s broken banking system, re-design the common currency and realise the slow-burning benefits of wide-ranging economic reform. It would boost the confidence of businesses, banks and consumers in Europe that are currently too scared to invest, lend and spend as normal. And it would help free the global economy from introspection, in turn creating new export demand to brighten Europe’s growth outlook and make its debt burden more manageable.

A New Deal for the euro would need to be a new beginning for the EU and a ‘European street’ that has grown increasingly disenchanted with the Union. Voters are unsentimental about the conviction of their parents’ generation that integration, however imperfect, is the only alternative to conflict in Europe. Any grand bargain must therefore be accompanied by true reform of the EU’s institutions. Governments have justified the transfer of ever more sovereignty to Brussels with parallel increases in the powers of the directly-elected European Parliament. However, the body cannot propose or repeal legislation and turnout has fallen at every European poll over the past 30 years.

If the average turnout in the parliament’s 2014 election falls below 40 per cent, the parliament should be wound down and replaced by a People’s Congress of Europe. This would primarily be made up of national politicians specially mandated to ensure the legitimacy of the political union during its lifetime.

Europe’s temporary political union would need other elements, too. There would need to be enforceable rules to ensure basic standards of national administration and to protect the rule of law in member countries. The single market would have to be re-launched so that it becomes a working reality, especially in terms of trade in services. European Commissioners would need to shrink in number but grow in terms of political pedigree to help bolster their authority. And the EU would need to show itself capable of abolishing unproductive quangos like its Economic and Social Committee and Committee of the Regions.

The key to this process would be political consent at the outset and its freedom to fail in the end. A sunset clause would ensure that any national sovereignty lost under the deal would automatically revert back to euro countries in 2029. If, after a decade of operation, the Congress of Europe decided that the dissolution of the common currency was the wisest option, pre-arranged plans for a gradual, managed break-up would ensue.

Voters would have to ratify the temporary political union (or not) in general elections; some leaders would have to seek a fresh mandate for the move by going to the country; and some countries would have to change their constitutions, including, perhaps, Germany. Governments should begin engaging public opinion with a collective admission that their efforts to save the euro will not work without a mandate for radical action from their electorates.

The creation of the euro looks to have been a profound error. But its collapse would have devastating consequences for Europe’s societies and the global economy. An audacious mistake can only be rectified by greater audacity. The US survived the Great Depression of the1930s because Franklin D Roosevelt and his government were willing to experiment – politically, legally, and socially – in hitherto unimagined ways. Europeans do not need nor want the shotgun marriage of a permanent, federal union. However, they must move in together for a while to get through a particularly sticky passage in their history. If not, they may have much more to fear than fear itself.

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Hugo Brady is a senior research fellow at the Centre for European Reform. Hugo writes and commentates on the future of the EU's Schengen area of passport-free travel and on common approaches to both migration and security policy. He has published reports on counter-terrorism strategy, the development of EU migration policy and collective European efforts to tackle international organised crime, including through better co-operation between prosecutors and police. Hugo also thinks about the overall future of the EU and follows closely the implementation of the Lisbon treaty which was intended to reform its main institutions: the Commission, European Parliament and Court of Justice. His other research interests include Britain’s European debate, the connections between EU foreign policy and the justice and home affairs field, and European co-operation in civil (i.e. non-criminal) justice matters. In 2010 and 2011, Hugo was consulted by both the European Commission and UK House of Lords on the development of an EU strategy for internal security.

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