A European federal economic government is needed to run the fiscal union in the interests of states and taxpayers.

by Blog Admin

The UK coalition government's recent policy towards Europe has had the effect of driving the country away from the EU – and potentially out of it altogether, writes **Andrew Duff MEP**. *He argues that while the UK is pushing itself away, the EU is now preaching, if not practicing, enhanced cooperation. But this is no longer enough to tackle the crisis; a federal economic government for the EU, with greater powers for the European Central Bank and the creation of the post of EU Treasury Secretary is now needed.*

The Prime Minister can be expected to make some grisly anti-European noises next week when he addresses the Conservative party conference in Birmingham. The likelihood is that his overtures to his ultra-nationalists will be rejected: these guys are insatiable. The truth is, however, that Mr Cameron rather deserves the praise of the eurosceptics. The net effect of the European policy of the coalition government is to drive the UK away from, and quite possibly out of, the European Union.

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First, in 2010, Nick Clegg bought the pretence that 'Europe' would not play a big role in the agenda of the coalition government, and that nothing much was going to happen anyway to disturb the EU's status quo after the entry into force of the Lisbon Treaty. Second, there was the EU Act of 2011 which has entrenched in the creaky British constitution the holding of a referendum whenever a major EU treaty revision takes place. This is widely and correctly seen as having imposed a virtual UK veto against the constitutional evolution of the EU. Third, on 9 December last year, there was Mr Cameron's humiliating attempt to block the fiscal compact treaty which provoked the rest of the EU to go ahead without him: apparently Britain's 'red lines' will no longer be allowed to terrorise its partners. Fourth, in July 2012, there was William Hague's EU 'competence review' which is designed to prepare the Conservative Party's shopping list for repatriation to be tabled at the next EU Convention amending the treaties. And fifth, there is shortly to be a general UK opt-out from the 130 or so EU laws passed before Lisbon in the area of justice and home affairs - another unilateral act of irredeemable folly.

While the UK goes one way, the rest of the EU goes another.Europe's on-going financial crisis exposes systemic weakness in the way the political economy is run. Executive authority is dispersed among different and fairly obscure institutions, and democratic accountability is thin. Since the crisis broke in 2008, the Union has strengthened the regulatory framework for the financial sector and introduced supervisory authorities. A raft of EU secondary legislation and a new intergovernmental treaty have introduced more surveillance, automaticity and even coercive preventive and corrective action.

The effect of all this innovation, however, is rather to accentuate the bossy technocratic character of the Union. And while all this is being done, the crisis gets worse, the cohesion of the eurozone continues to unravel, and big decisions still lie ahead over the mutualisation of sovereign debt through the issuance of eurobonds, the introduction of common fiscal policy and the reform of the EU's finances. Moreover, despite the flurry of 'non-standard measures' undertaken by the European Central Bank, doubts remain about the capacity of the EU's crisis management, including the European Stability Mechanism, to save Spain and Italy should they prove unable to convince the markets of their own creditworthiness.

The European Commission and European Council have come belatedly to address the political dimension of economic governance. Tentative plans are launched for a banking union, fiscal union and political union - the latter nervously picked up by a group of eleven foreign ministers. But the negotiations on how the European Central Bank should be given supervisory powers over Europe's banking sector, while protecting its independence over monetary policy, are difficult. Equally sensitive is the triangular relationship within the banking union between the eurozone, those states which are intended to join the euro and the one country to opt out of the single currency (which also happens to enjoy the largest share of Europe's financial markets). As always, it is easier to preach about the virtues of enhanced cooperation between a core group of EU states than to put it into practice. Yet British influence on this debate is marginal: it is not understood how the UK can keep its financial sector inside the single market if it evades EU regulation. Nor is it clear how the UK could recover economically if the eurozone were to collapse or the single market were to fail to become more integrated. European Commission President Barroso is reported to have said that the Chinese have been more helpful in this crisis than the British.

The crisis is shaping the design of the new polity. A federal economic government is needed to run the fiscal union in the interests of its states and taxpayers. Both the ECB and the Commission need fresh powers, and the Eurogroup (of eurozone finance ministers) should become a formal arm of the EU legislature for taxation policy. But the key reform, urgently needed, is to create the post of EU treasury secretary, empowered to lead the development of a common financial and economic policy and to be answerable politically to the European Parliament.

The European Council this December should commit to the calling of the constitutional Convention in the spring of 2015, involving national governments and parliamentarians as well as the Commission and European parliamentarians, with the primary task of forging a genuine economic and monetary union. The Convention agenda will include the incorporation of the fiscal compact treaty and bail-out mechanism into the EU framework. Its mandate, which should be broad, might be well prepared in advance by a small reflection group.

The United Kingdom has decided it will not be part of the federal union. So a new form of associate membership of the EU will have to be devised to suit the British, but also to prevent a British veto of the constitutional evolution needed and desired by its partners. Associate membership may also cater for the needs of other countries.

This article is a shorter version of Andrew Duff MEP's new pamphlet from Policy Network, On Governing Europe.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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