Updating the Maastricht Treaty may be a better option for resolving the eurozone crisis than political union and closer integration.

by Blog Admin

Wide ranging proposals for political union and closer co-operation between EU member states have been put forward as a solution to the eurozone crisis. **Heribert Dieter** *argues that this preoccupation with centralised forms of decision-making on economic issues is misguided and may bring with it several unanticipated problems. A better strategy would be to update the current framework under the Maastricht Treaty, particularly by creating a concrete mechanism through which states can leave the single currency.*

The continuing financial crisis in some member countries of the eurozone has intensified the debate about reforms of monetary union. It is obvious that the original architecture of the Treaty of Maastricht has to be revised. The two alternatives suggested by the proponents of deeper integration – either deeper integration regarding monetary and fiscal policy, or a return to antagonistic, national policies – are far from being inevitable. By contrast, it is possible to make monetary union more crisis-proof while at the same time giving the European nations a high degree of responsibility for their own economic development. The frequently cited assertion that transferring – i.e. centralizing – hitherto national competencies to the European level would make fiscal policy and financial regulation easier to manage, is not convincing. That approach ignores the downside of centralization. Far-reaching centralization may result in new problems and will weaken, not strengthen, the economic dynamism of the EU.

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For 30 months now the eurozone has been agonizing over a financial crisis that has its origins in some of the member countries. But the crisis has lingered on and there has been no return to steady growth. This situation has led to urgent demands for a quick solution to end the crisis by creating new, deeper forms of cooperation in the eurozone. Proponents of this line of thinking argue that cooperation in Europe can only succeed by immediately creating a fiscal or banking union. However, alternatives do exist. An evolution of the Treaty of Maastricht is possible and would better serve the heterogeneity of the EU than a centralization of economic policies, which would inevitably result in a reduction of sovereignty for the European nation-states.

In fact, the creation of new supranational structures will probably not be conducive to solving the fiscal and economic problems of some European economies. In any case, it is unrealistic to expect a higher degree of financial stability through centralization – for instance, European supervision of the financial sector. Economic and financial history demonstrates this very clearly. Supporters of centralized financial supervision have to explain why the United States slipped into the financial crisis of 2008, which was the worst since the 1930s. Established supranational regimes of banking supervision have not prevented serious crises. Even the banking supervision policy packages of Basel I and Basel II have not prevented numerous crises in the last three decades. Supranational rules failed in Mexico in 1994/95, during the Asian crisis in 1997/98, as well as during the US subprime crisis of 2007/08 – to name just a few. Therefore, it is entirely appropriate to be sceptical about supposedly sweeping and promising solutions. Centralized supervision is not immune to making the same mistakes as national authorities.

Cornerstones of Maastricht 2.0

The key question is whether there are any alternatives to deeper integration. It is clear, of course, that there are: Europe can evolve without a great leap forward, which is rejected by a sizable number of citizens in the eurozone, where support for integration varies considerably between countries. One should not forget that the Maastricht Treaty offers several advantages, many of which are worth preserving. The common currency reduces transaction costs within the eurozone, without forcing the participating countries into a centrally planned fiscal policy straightjacket. This approach acknowledges the diversity of European societies much better than a one-size-fits-all concept.

Europe can both strengthen the ownership of economic and fiscal policies by individual societies as well as provide incentives for sustainable economic development. The key factor is the elimination of the contradictions and inconsistencies of the Maastricht Treaty. The three most important points are:

(1) There is a contradiction between the no-bailout clause (Article 125, Treaty on the Functioning of the European Union) and the absence of an exit option. This regulatory gap has been successfully exploited by Greece. To prevent a recurrence, the Treaty of Maastricht should be supplemented by an exclusion clause: Member states that do not fully service their payment obligations have to leave the monetary union within six months after the default.

(2) States should be able to leave the eurozone, if they consider the benefits of membership to be lower than the costs. A monetary union does not have to act as a custodian for societies and impose certain and everlasting monetary and exchange rate policies on them. Because of the current compulsory membership, monetary union also ceases to be attractive both to members and non-members.

(3) Individual countries should be permitted to protect themselves against unwanted capital inflows. The prevailing doctrine – only unrestricted capital flows ensure rising prosperity – has to be called into question after recent experiences. Temporary restrictions on capital inflows may enable individual economies to curb excesses in the markets and to shield an economy from their negative effects. Today, countries are not allowed to limit capital flows within the European Union. Article 63 of the Treaty on the Functioning of the European Union prohibits any restrictions.

Europe 2020 – A centrally planned economy or return to national ownership?

In the financial crisis, Europe has been stumbling toward an economic system that is reminiscent of a planned economy. A weakly legitimized institution – the European Central Bank (ECB) – is being endowed with far-reaching and previously inconceivable powers. In addition, the ECB declares certain market-determined interest rates as too high – a classical case of administrative hubris. The creeping disempowerment of national governments and parliaments by the ECB is alarming from a (German) constitutional perspective, and it should lead to the further strengthening of Euro-critical assessments. The author Hans Magnus Enzensberger has described this process as the disenfranchisement of the European citizen and has consistently warned about this risk. But there are alternatives for European integration. A revised treaty – Maastricht 2.0 – should aim at minimizing the transfers of sovereignty to the supranational level, insist on the compliance of contracts, and strengthen national ownership of economic policies in the member countries of the European Union.

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