

Reforming the euro to win back the people

Federico Steinberg | Senior Analyst at Royal Institute Elcano and Professor at Universidad Autónoma de Madrid

Europe's voters are up in arms. Over the past few months there have been elections in several European countries, from the UK to Poland, with regional and municipal elections in Spain and further back the elections in Greece, which took Syriza to power and opened up a new episode in the Greek crisis that has not yet been closed. All these election results reveal, more or less explicitly, a criticism of the EU and its policies. Although it should be considered that it is domestic issues that are uppermost in the minds of electors, it is evident that **the straitjacket imposed by the EU has much to do with voting for options critical** with the way Europe is functioning. This is abundantly clear in bailed-out countries **like Greece**, which have seen their economic policy come to be dictated by the Troika. But it is also evident in David Cameron's triumph in the UK, since one of his pledges was to renegotiate Britain's relationship with the Union and to put the UK's membership to the test in a referendum in 2016. In the case of Poland, which held presidential elections on Sunday 24 May, the ultraconservative **Andrzej Duda** beat his liberal (and pro-European) rival with a nationalist platform that presented everything European as tainted with ideas uncomfortably close to relativism, internationalist liberalism and cosmopolitan postmodernism, all antithetical to Poland's true identity. Finally, in Spain, **it was the Euro-critical tenets of Podemos that gained a substantial backing**. Nevertheless, its appearance on the scene (along with *Ciudadanos*) is unlikely to radically reconfigure Spain's political system. The two major parties retain more than 50% of the vote, which should account for two-thirds of the seats in Parliament if general elections were to be held now. Nevertheless, it is impossible to deny that the results reflect a significant discontent among a broad section of the population with the way in which the crisis is being dealt with.

The feeling of discontent is also manifest in the results of **the latest Eurobarometers** that show a drop in support for the EU, which, nevertheless, still commands widespread support. Thus, according to the latest data, in the autumn of 2014 39% of Europeans were still positive about the Union, with 22% negative and 37% neutral. Likewise, 56% were optimistic about the EU's future, with 37% pessimist. Lastly, Europeans single out as their main concerns unemployment (45%), the situation of the economy (24%) and immigration (18%) –in the northern creditor countries concern about economic problems and unemployment is markedly lower than among the southern debtors–.

Proposed reforms

In this context, it appears that something is stirring in Brussels. Although any steps to be taken will always be slow and treaty-reform under current political circumstances is unthinkable, there does appear to be **an inkling of a strategy among the main euro countries to start winning back the trust of the European people**. Over the past week several proposals have been made public to improve the governance of the euro zone. They all involve deepening integration by adding fiscal measures and economic coordination mechanisms to slow down the divergence between both north and south as

well as between those who have benefitted or been penalised by the crisis (and globalisation). France and Germany have put on the table a joint proposal to such an effect, Italy has done the same with somewhat more timid options and Spain has gone all the way and proposed something far more radical: **modifying the ECB's mandate so that, in addition to controlling inflation, it explicitly intervenes to prevent macroeconomic imbalances between countries (such as the high level of unemployment in southern Europe)**. Furthermore, the proposal includes measures to increase job mobility throughout Europe and the creation of a common budget for the euro zone, in addition to the establishment of a European debt agency to ultimately issue Eurobonds. Lastly, it calls for the completion of the banking union through a fiscal *backstop*, a common deposit guarantee fund and new instruments to allow the emergence of trans-European banks that can operate throughout the Union, thereby overriding the still-prevailing fragmentation and domestic bias in the financial market.

These proposals aim to get motors running in anticipation of the 'Four Presidents' Report' (of the ECB, the Commission, the Council and the Eurogroup), which will be published over the next few months with an updated route map about how to continue improving the euro's institutional architecture so that it functions better, while we keep our fingers crossed in the hope that there is ultimately no **Grexit**. This should also send a message to non-euro countries like the UK and Poland. The message for them should be something like 'we're carrying on with integration, focusing on the euro. If you're thinking of joining (the message to Poland) hurry up and don't dither over nationalism. If you don't want to be part of this deeper integration (the message for the UK) don't throw a spanner in the works and, particularly, don't imagine the British issue will be the most important thing to be happening in Europe over the next few years'.

Towards political union?

Beyond tactical political manoeuvring or the viability of the proposals themselves, which involve taking further steps towards a United States of Europe and that have come up against strong **German** misgivings as regards monetary matters, what one should ask oneself is whether the people of Europe want to relinquish further sovereignty to the Union. After all, political support for greater integration and solidarity requires a perception of having a certain common identity, something that it is always claimed is non-existent in Europe. At this point, Eurobarometer data come in handy again. Counterintuitively, 62% of the euro zone's citizens consider themselves as much Europeans as nationals of their own countries, while among Europeans from outside the euro zone the figure drops to 53% (with the UK being the least pro-European country, since 58% of its population considers itself solely British). This means that **there is more of a European 'identity' than is commonly thought and that it is stronger in the euro zone countries**, whose citizens, furthermore, support membership of the common currency by percentages of close to 70%. A more daring interpretation of the data suggests that it could even be said that Europeans have understood that in the EU the concept of nation-state has been substituted by that of member-state, since sovereignty is shared and, alongside it, there is an increasing sense of belonging and of sharing a common identity. Whether all this will be enough to move towards a federal Europe it is impossible to say. But what electors do seem to want is a

Europe that is better functioning and they do appear to understand that to achieve that it is necessary to have a more integrated Europe.

Therefore, to win back the people, in addition to proposals such as the energy, capital markets and digital union, which are important technical matters but hardly enthuse anyone, it is necessary to table **ideas to reform the euro** that will increase growth and employment and reduce inequality. That is what the people want if they are to again place their faith in Europe. It remains to be seen if Europe's political leaders and institutions are up to the job.