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A Europe built on solidarity is possible!

Pamphlet for another European Union

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Why this pamphlet?

European Integration is currently undergoing its most difficult phase since the Treaties of Rome entered into force. The European Union (EU) has shown itself incapable of dealing with the structural flaws inherent to the Maastricht Economic and Monetary Union. In the refugee crisis the EU Member States have failed to develop a common policy with a community-wide key for allocating refugees. Trust between individual Member States is eroding. The relationship between the EU and the Member States is strained. In several parts of Europe, re-nationalisation trends have intensified. These re-nationalisation tendencies manifested themselves most fatefully for the EU in the UK, where on 23 June 2016 a majority of citizens voted to leave the EU (the Brexit).

This pamphlet focuses on the current crisis processes in the EU and puts forward practicable solutions for resolving them. Chapter 1 deals first of all with the economic and social crises of the EU and the problematic re-nationalisation trends. The refugee crisis, the break with the “welcome culture” and the concept of “Fortress Europe” are the subjects examined in Chapter 2. The next chapter then investigates the flaws in the design of the Maastricht Treaty and the economic and social impacts of austerity policy in the euro zone (Chapter 3). The central fourth chapter discusses in depth the “Left’s” attempts to break out of the euro system. Here it becomes apparent that the “Eurexit” position is argumentationally weak on many fronts. Were it to be implemented politically, the EU, but also the Exit states, would be plunged into massive socio-economic crises. In light of the negative impacts of leaving the euro, in Chapter 5 this paper makes the case for a radical reform of the EU and the euro system. It shows that with a far-reaching paradigm shift in economic, employment and social policy and by introducing an alternative European system for regulating current account imbalances (clearing union), national debts and the financial markets, the EU can weather its crises and stabilise. Another Europe built on solidarity is possible!

Chapter 1
EU crisis processes and problematic re-nationalisation trends

The European Union is at a crossroads. For many years the European idea was associated with the hope of finally overcoming the national trenches and securing peace in Europe after two World Wars. Cooperation instead of confrontation – for many this was the foundation for prosperity and democracy. Little of this is still recognisable today. It cannot be ignored – European Integration is undergoing a deep, if not existential crisis. “The failure of Europe is a realistic scenario”, as President of the European Parliament Martin Schulz stated (SpiegelOnline, 25 December 2015).

Nationalism has returned to Europe. In many European countries right-wing populist and right-wing extremist parties are gaining ground. The Front National in France, the FPÖ in Austria, Geert Wilders’ Partij voor de Vrijheid, the AfD in Germany all stand for an increasingly strong political current which sees the answer in isolation and nationalistic segregation. They are not just the expression of a crisis of legitimacy and hegemony in the nations in question, but also of ever-vaster sections of the populations turning their backs on the idea of European Integration.

The Brexit may well not be an isolated case, if the Front National in France, the FPÖ in Austria or in Italy the Cinque Stelle movement prevail. In Eastern Europe, the Hungarian Fidesz Party and Orbán government, and the PiS government in Poland mean the existence of an authoritarian nationalism which at the same time wants to profit from a radically neoliberal EU single market. Since the financial crisis in 2008, if not before, the European Union’s promise of prosperity has been obsolete.

In the “crisis countries” in Southern Europe record unemployment of around 25% and youth unemployment in some cases of around 50% prevail. Social benefits have been slashed, collective bargaining and social standards dismantled or whittled away. The economic output of both the euro zone and the EU as a whole is stuck at pre-crisis levels in spite of the German export boom.

The design flaws in the euro as a monetary union without a common economic and fiscal policy led to the current account imbalances between the surplus countries (above all Germany) and the deficit countries growing. This in turn led to the euro crisis emerging out of the international crisis. The misdiagnosis of the euro crisis as a “sovereign debt crisis” in turn prescribes the wrong course of treatment of a rigidly imposed austerity policy.

The troika comprising the European Commission, European Central Bank and the International Monetary Fund and the type of decision-making applied in the euro group are the expression of neoliberal “post democracy” (Colin Crouch) – of an institutional apparatus out of the reach of any democratic oversight, which has the power to usurp democratic decisions by national parliaments or even referenda like in Greece.

The euro has not brought the European states together – it has deepened the trenches between the countries. The Federal Republic of Germany is the main culprit here with its mercantilistic economic policy. The one-sided emphasis on national competitiveness has pushed current account imbalances to extremes. At the same time, the Federal Republic of Germany – as the dominating power in the euro group – imposed the rigid austerity policy on the deficit countries. The neoliberal concept of the “competitive state” has prevented a resolution of the euro crisis based on the principle of solidarity to this very day. The image which dominates public opinion in Germany of the “lazy Greeks” delving into the pockets of the frugal and economically successful Germany set the stage on which the people unsettled by the neoliberal destruction of all safety nets in life could identify with the German “Volk als Nation” (the people as the nation) (Poulantzas) and segregate themselves from others. The ill-fated euro “bail-out policy” thus acted as godfather to the rise of the AfD.

The massive refugee movement in the aftermath of the failed “Arab Spring” dealt another blow in the European Union crisis. Cracks started to appear in the EU Schengen system which guarantees freedom of movement within the European Union and secures the external borders (“Fortress Europe”). Some time ago the Dublin Agreement already set forth that the state in which a refugee first set foot on European Union soil is responsible for registration and conducting the asylum procedure. The refugee movement hits the Southern EU countries particularly hard as a result. Dublin II consolidated and perpetuated the North-South divide in the EU (Kasparek/Tsianos 2012). Sealing off the EU external border to refugees and illegal migration was and is the prerequisite for the freedom of movement inside the EU in the Schengen system. With the increasing number of refugees migrating to Europe across the Mediterranean and then onwards via the Balkan routes or Italy, the EU’s external border had started to crack. The European countries reacted by reintroducing border controls and closing their borders. This policy went hand in hand with an increasingly xenophobic and Islamophobic mood and a strengthening of right-wing populism in Europe. A response to the challenge of the refugee movement based on solidarity – the reception of refugees by all Member States – was thwarted by the bulk of the Member States. In the wake of this the Turkey Agreement meant that securing Europe’s borders was outsourced to the Turkish Syrian border in contravention of all human rights standards. This solved zero problems and only increased the suffering of the refugees further. As long as the root causes of displacement are not eliminated, refugees will seek new ways to reach Europe.

All of this is symptomatic of the crisis in the neoliberal hegemonic project which dominates to date with the deregulation and economisation of all areas of society. The expansion of the single market, the creation of Economic and Monetary Union with its stability criteria and the liberalisation of the labour markets were the key drivers of integration (Wissel 2015). With the euro crisis and the crisis of the Schengen system, this mode of integration has come up against its limits. This leads first to a more radical neoliberalism, which – like in the case of Greece – imposes austerity policy authoritarianly on the citizens and the national government. Second, it gives rise to centrifugal and nationalist tendencies in the EU – the Brexit being the most recent peak in this development.

In the German and European Left, too, following the defeat of Syriza in summer 2015, the discussion has flared up over which strategy should be pursued in light of the crisis of the European Union and the neoliberal trajectory, which continues to dominate.

Those calling for a “Lexit”, the exit of the Left, are increasing. We believe this is a mistake. Leaving the euro or an end to the euro would entail grave economic and social distortions and would lead to new conflicts between the nations all the way to an economic war.

The Left’s answer to the migratory movement cannot be the return to the Nation State and national borders. Yanis Varoufakis quite rightly notes: “Given that the European Union has established free movement, Lexit involves acquiescence to (if not actual support for) to its ending and for the reestablishment of national border controls, complete with barbed wire and armed guards”. (Varoufakis 2016) And he adds: “Similarly, do they truly believe that the Left will win the discursive and policy war against the fossil fuel industry by supporting the re-nationalisation of environmental policy? Under the Lexit banner, in my estimation, the Left is heading for monumental defeats on both fronts.”

Given the internationalisation of capital and the transnationalisation of power relations, a policy which aspires to regain national sovereignty through a Lexit is an illusion. Instead we must start fighting for a different Europe: “Breaking .... [the neoliberal] spell means to re-discover the European space as a space for struggle, for political experimentation and invention … The issue of wage and the issue of income, the definition of rights and dimensions of welfare, the topic of constitutional transformations related to single countries and to the European constituent issue can, today, only be addressed at a European level. Outside of this sphere there is no such a thing as political realism.” (Negri/Mezzadra 2014)

Chapter 2
From the “welcome culture” to “Fortress Europe” or the EU’s failings in the refugee crisis

In 2015 more than one million people fled to Europe across the Mediterranean Sea. Four times as many as twelve months before. Almost half of the migrants came from Syria, another 20% came from Afghanistan.

Out of the 1.3 million asylum applications made in the EU in 2015, most were filed in Germany (476,000), followed by Hungary (177,000), Sweden (162,000), Austria (88,000) and Italy (84,000). In relation to the size of the population, the picture looks a little different. Here Hungary (17.98 per 1,000 inhabitants) and Sweden (16.67) lead, followed by Austria (10.27), whilst Germany (5.87) even comes in behind Finland (5.91) (Eurostat 2016).[1]

Although since the Amsterdam Treaty refugees and asylum applications come under the remit of the European Union and although its more than 500 million inhabitants economically-speaking could easily take in one to two million refugees per year, the EU was incapable of responding to the influx of refugees as a community. On the contrary, whilst many Central and Eastern European countries (Visegrad Group) very quickly spoke out in favour of a policy of keeping migrants out, countries like Germany, Sweden and Austria initially responded with a culture of welcoming refugees. Others like France, UK, Spain and Italy adopted a hesitant position and supported neither a policy of keeping out nor letting in migrants.

These rifts inside the EU and the ensuing unequal division of the burden among its members gave rise to considerable political conflicts from summer 2015 to spring 2016. For a while, they even threatened to bring the whole Schengen system down. When at the turn of the new year in 2015/16 Sweden and Austria also started implementing a policy of limiting the intake of refugees and in Germany there was less support for the view “Wir schaffen das” (we can do it) in the wake of the events in Cologne on New Year’s Eve, little by little, the closed-doors policy gained the upper hand.

In August/September 2015, with her open-doors policy Federal Chancellor Merkel had misread the stance of the majority of the EU Member States. At the same time, she faced ever-greater opposition inside the CDU/ CSU. She subsequently stepped up the negotiations with Turkey over an agreement, which on the issue of refugees turns Europe into a fortress which only very few migrants can “penetrate”. With the agreement concluded in March 2016 with Turkey, she then at breath-taking speed made a radical break with the welcome culture and made a clear switch to a strict policy of closing the door to refugees. In doing so she hoped to overcome the political divisions in the EU through this clean break, to save the Schengen system and to re-cement her position of power in Germany.

[1] The number of refugees is actually even higher, as the authorities could not keep up with all the applications for asylum. In 2015 a total of around 890,000 asylum seekers came to Germany who are now for the vast part in the process of completing the asylum procedure. Some 50,000 have not pursued their applications for asylum further and have probably moved on (press release by the Federal Ministry of the Interior on 30.9.2016).

2.1 The root causes of displacement

The root causes of the growing refugee movements are to be found on the one hand in the changed underlying conditions of global politics and on the other – and related to this – in the growing number of apparently uncontrollable conflict areas, above all in the broader Middle East and Africa.

Since the collapse of bipolarity in the 1990s, which also entailed a simultaneous weakening of the superpowers US and Russia, regional conflicts, wars in the broader Middle East and civil wars in Africa have assumed proportions which are now almost impossible to control. In Africa and the broader Middle East especially, the phenomenon of "failed states" is gaining in significance. These are states like Syria, Iraq, Afghanistan, Lebanon, Libya, Yemen, South Sudan, Somalia, Central African Republic, Democratic Republic of Congo und Sudan (Fund for Peace 2015) inside which the state's monopoly over the use of force has practically collapsed. An immediate consequence of the unbearable conditions for all the people living in these states is flight and displacement. Out of the approximately 22 million refugees the UNHCR – the UN refugee agency – recorded worldwide at the end of 2014 – refugees who have left their country – half were from Africa and the broader Middle East. Including internal refugees, the total figure worldwide was around 60 million in the middle of 2015. The number of refugees has risen dramatically in recent years as a result of the growing number of conflict regions – in 2014 alone there were around 14 million new refugees – four times as many as in 2010 (UNHCR 2015).

In addition to these causes of displacement which have arisen due to the changed global political framework and the sharp rise in "failed states", the economic development divide between rich and poor countries can be seen to a certain extent as a "constant" factor in the migration movement. On the basis of many empirical studies, Robert Barro has developed a formula for the migration potential arising from this wealth divide. According to this formula, a difference in income of 10% leads to a migration movement from the poorer to the richer states of 0.05% to 0.15% of the population of the countries of origin (Barro/Sala-I-Martin 1995).

Finally, in the future an environmental factor will increasingly trigger migration movements. Climate change and the changes this entails as well as both the production conditions in agriculture (soil erosion and drought) and the settlement conditions in the regions threatened by flooding will lead to refugee movements, possible wars and displacements on a considerable scale. These kinds of phenomena can already be observed today, for instance in 2016 in the wake of the drought disasters resulting from the El-Niño phenomenon in southern Africa.

2.2 The escalation of the refugee crisis in 2015/2016 and the EU-Turkey Agreement

As already mentioned at the start of this paper, the sharp rise in the refugee movement to Europe in 2015 triggered political reactions which changed rapidly in terms of their underlying tone and generally led in the space of just nine months to a change in direction from a welcome culture to a hard-line closed-doors policy. This break took place in three stages, which I will now present in more detail in the next section.

The failure to adopt a common European refugee policy (July to September 2015)

In the summer of 2015, the influx of refugees to Europe assumed previously unprecedented proportions. In response to this refugee movement, the Visegrad countries (Poland, Czech Republic, Slovakia and Hungary) already declared in July 2015 that they were not prepared to take in any more migrants. Hungary, which recorded a four-fold increase in the number of refugees compared to 2014, announced its intention to build a border fence to protect the EU's external border (with Serbia). In late August/early September the situation in Hungary came to a head because many refugees refused to register in Hungary. People escaped from the refugee camps and began marching by foot in the direction of Austria and Germany. Federal Chancellor Merkel then declared on 5 September that Germany was prepared to take in the refugees from Hungary. This happened without the people in question being registered or their asylum claim being verified. There are various theories about what motivated the Federal Chancellor to take this humanitarian step, which she is said to have failed to consult many decision-makers on both at European or national level. It is safe to assume that Merkel was confident that her power and influence in Europe were great enough to be able to enforce an appropriate inner-European system for distributing the refugees in tandem with the European Commission.

As the Dublin system was designed to cater for small numbers of refugees and countries like Greece, Hungary and Italy were hopelessly overstretched in attempting to apply Dublin in the face of the growing influx in 2014 and above all in 2015, there had long since been the intention to reform the system. On 9 September the European Commission made the proposal of redistributing 120,000 refugees from Greece, Hungary and Italy within the EU using a quota key based on the population, economic output and unemployment rate. The Visegrad countries had already declared such a quota arrangement illegal and rejected it in the middle of August.

On 22 September the EU ministers of the interior decided for the first time by a qualified majority (against the votes of Hungary, Czech Republic, Slovakia and Romania) to redistribute a total of 120,000 refugees from Greece and Italy within the EU on a voluntary basis as an emergency measure. Two years have been scheduled for the implementation of the measure.

It soon became clear that these redistribution agreements were built on sand and that the lion's share of the EU countries was by no means willing to participate. The fact that by summer 2016 a mere 6,000 people had been redistributed out of the planned quota render the EU's failings on the issue of a common refugee policy patently obvious.

The welcome culture starts to crumble (October to December 2015)

After the EU's failure to agree on a shared quota system, the situation in the three most important countries representing the welcome culture – Sweden, Austria and Germany

– comes to a head in the final quarter of 2015.

In the populations of all three countries, the support for taking in unlimited numbers of refugees diminished drastically and right-wing populist parties gained ground. All three countries started tightening their asylum laws during this phase and intensifying their border controls.

It seems to have become clear to Federal Chancellor Merkel in Autumn 2015 that her concept for resolving the refugee crisis, which comprised three parts – eliminating the root causes of displacement, an EU agreement on an key for distributing refugees, lowering the number of asylum seekers – had largely failed. Combatting the root causes of displacement proved to be a permanent task and the European Commission's quota proposals had failed because of the opposition of the vast majority of the Member States. On top of this, numerous conflicts arose between the EU states, the Schengen system was increasingly curbed and inside the coalition and between the CDU and CSU huge disputes erupted.

The Federal Chancellor is now focussing only on the third part of her concept, a significant reduction in the number of refugees because she hopes this will lead to the aforementioned problems being resolved. To this end she drew on a plan by the Brussels think tank, the "European Stability Initiative" (ESI) from the summer, which sets forth a trade between the EU and Turkey, and began to engage in negotiations with Turkey on this basis. The consultations then ended with an EU-Turkey summit, at which the following agreement was concluded at the end of November 2015:

- Turkey is to fundamentally support the EU in the attempt to largely put an end to the flow of refugees from Syria by guarding its coastal waters more strictly in cooperation with Greece.
- The EU promises to relieve Turkey of an annual quota of refugees to be distributed across the Member States based on a distribution key. An unofficial figure of 400,000 people was cited for the quota. Eight (!) EU countries met on the fringes of the summit which are supposed to be prepared to participate in this redistribution arrangement.
- In return for its willingness to cooperate, Turkey will receive the following from the EU: three billion euros to build additional refugee camps, the lifting of the visa requirement for Turkish citizens for entry to the EU from October 2016 and the resumption of accession negotiations with the EU.

The implementation of this agreement failed at the turn of the New Year 2015/2016 when Italy refused to pay its contribution to the three billion sum and Turkey swiftly demanded another three billion euros.

The expansion of "Fortress Europe" (January to summer 2016)

In early 2016 the position of many Member States towards the refugees hardened increasingly. Austria introduced caps, new fences were built on the Balkan route and the route was finally blocked off. In Germany the calls for a significant reduction in migration became even louder in the wake of the events in Cologne on New Year’s Eve. The upcoming regional parliamentary elections in three federal states and the increasing popularity of the right-wing populist AfD party in the polls led to growing nervousness in the ranks of the CDU/CSU and SPD.

Chancellor Merkel’s refugee policy was in tatters. An overwhelming majority of the EU Member States refused to set European quotas for taking in refugees. Her two most important allies in refugee policy, Austria and Sweden, spoke out in favour of restricting the influx of refugees at the end of 2015/start of 2016, set caps for their countries and started to tighten their border controls again. There were considerable political conflicts between different EU Member States because of the border controls and the Schengen system was increasingly undermined.

In this increasingly desperate situation, building ”Fortress Europe” by means of an agreement with Turkey seemed tantamount to cutting the “Gordian Knot”. If Europe shut its doors to the refugees, the EU countries would no longer have to argue over a way of distributing them. The Schengen system could be put back in force in full. Finally, at home Merkel was hoping to consolidate her power since containing the influx of refugees thanks to the deal with Turkey would appease her critics in the CSU and CDU and reflect what the majority of the German population wanted to see.

On 7/8 March 2016, the EU and Turkey negotiated an agreement that was adopted unanimously at the European Council on 18 March. This agreement consists of the following key elements:

1. Turkey pledges to step up its security measures to lower non-regular migration from Turkey to the EU.
2. Refugees who reach the Greek islands from Turkey after 20 March will be returned to Turkey.
3. For each person from Syria returned from Greece to Turkey this way, another Syrian refugee living in Turkey will be resettled in the EU.
4. In addition to the three billion euros already agreed, the EU will provide Turkey with another three billion euros for settling refugees up until the end of 2018.
5. By the end of June 2016 the aim is for the visa requirement for Turkish citizens wishing to travel to the EU to be lifted.
6. The accession negotiations between the EU and Turkey are to be revived and accelerated.

The EU-Turkey Agreement is criticised and rejected by UNHCR, Amnesty International and the organisation “Doctors without Borders” as a violation of international asylum and refugee rights. The UN High Commissioner for Human Rights considers mass arrests and mass deportations illegal and calls on the EU to rethink the deal.

The fact that Erdoğan’s regime rides roughshod over human rights was well known before the agreement was negotiated. The regime tries to intimidate journalists it does not like by arresting them and taking them to court, for instance. There were legal proceedings underway against 200 Turkish journalists in April 2016. The government turns off

Twitter and other social networks if they publish pieces critical of the government. In Turkey it is common practice to intimidate opposition forces from civil society, the press and politics by exploiting deliberately broad terrorism laws and to sentence them to time in prison.

Even more brutal human rights violations are reported for the Turkish army's fight against the Kurdish minority in Turkey. Here it is not just the PKK that the Turkish army is targeting, the Kurdish civilian population is also the victim of army attacks. Hundreds of civilian casualties are reported. Given the EU's interest in a common refugee policy, the European countries are more or less giving the government a free rein. The government is taking advantage of the situation and is fighting even the moderate parliamentary arm of the Kurds – the HDP – massively infringing their civil rights.

Under such circumstances, categorising Turkey as a safe third country, which refugees who have fled to Greece from Syria, Afghanistan, Iraq and Pakistan can be handed over to, must be seen as a flagrant breach of international asylum and refugee law. It is considered an established fact that Turkey sends back many Syrian, but also the Afghani, Iraqi and Pakistani refugees to their countries of origin without properly examining their asylum claims or refugee status.

In the EU there is scarcely any opposition developing to this illegal practice which contravenes international law. On the contrary – the European Commission and the governments of the Member States praise the deal with Turkey as an effective contribution towards reducing the flow of refugees to Europe. But Turkey has not yet legally implemented the agreement. The Turkish government refuses to amend its terrorism acts, which is the precondition for the provision of visa-free travel. The June deadline planned for the introduction of visa-free travel in the agreement has lapsed. It was initially moved to October and Turkey seems prepared to accept even this deadline not being adhered to. Perhaps it harbours the expectation that after the failed attempted coup on 15/16 July 2016, when sections of the military hoped to oust President Erdoğan, the EU will accept Turkey's terrorism laws as legitimate in the foreseeable future. This cannot be ruled out in spite of the considerable further deterioration of the human rights situation in Turkey since the attempted coup.

One month after the coup, Erdoğan's government arrested some 35,000 people, around a third of whom were later released. According to Turkish Prime Minister Yilderim, in mid August 2016 around 20,000 suspects were still in custody, including judicial, police and army staff. A quarter of the Turkish judiciary and public prosecutors were suspended from service. Some 76,000 public service employees were sacked, including 27,500 employees in the education sector. According to Yilderim the government has closed around 4,200 establishments and seized their assets, including universities, schools, foundations, news agencies, radio and TV stations, newspapers and publishers.

It is plain to see that Erdoğan is exploiting the failed coup to expand his system of dominance across the board and to suppress any form of opposition with all his means. At the same time the war against the Kurds inside the country has been stepped up. The European Commission and the EU Member States may not have explicitly welcomed these developments, but nor have they firmly condemned them either. After Erdoğan complained loudly and on several occasions in August and September about the EU not displaying enough solidarity with the Turkish government in the fight against those behind the coup, a rethinking process began in the EU. The first visits by high-ranking European policymakers to Turkey were organised to thank the Erdoğan government for implementing the refugee agreement and to congratulate the Turkish people on successfully defeating the coup plotters (President of the European Parliament Martin Schulz at the start of September, for instance).

2.3 Military isolation, dependence on dictators, yet more deaths in the Mediterranean Sea

The deal struck between EU and Turkey to seal off Europe already demonstrated its effectiveness in April 2016 in the form of declining refugee figures on the Greek islands. But as the root causes of displacement cannot be deported, the agreement will lead to a change in the refugee routes. There are reports that the refugee routes are moving to North Africa, in particular Libya, where several 100,000 people are waiting for far more dangerous people-smuggling services to Italy.

The EU's response to this is to work intensively on constructing another section of "Fortress Europe". This first of all consists of installing a government in Libya, a country ruled by different warring tribes and militia. It then hopes to be able to conclude a similar agreement to the one with Turkey with this government. The rhetoric is the same, too. Refugees need to be protected from the clutches of the international people-smuggling mafia and European values must be defended. The EU intends to take the following specific measures in Libya (Spiegel online, 18 April 2016):

- Stabilisation and strengthening of the "National Unity Government" under Premier Fayez Sarraj, which is by no means recognised by all parties to the conflict. Italy plans to provide a presidential guard and Germany plans to send armoured vehicles for his personal protection.
- To swiftly train a new Libyan army, the Southern EU states intend to participate in a training mission for members of the Libyan army.
- The EU military mission "Sophia", which Germany is contributing 400 soldiers to, is to conduct its mission to combat people smuggling not just in international waters, but also in the coastal regions of Libya to try and stop smuggler ships from even setting off.
- The EU plans to provide EUR 100 million for aid projects to foster support for the new government amongst the population ("peace dividend").

There is, however, no cause for major optimism regarding the transitional government of Sarraj's chances of success given the political reality in Libya. So far, at any rate, the EU's hopes that the Sarraj government will be accepted by the different factions in the civil war as the legitimate government have not materialised.

In addition to this, the EU is trying to negotiate an agreement to shut off Europe to refugees with the regime of Omar al-Bashir in Sudan. Sudan is an important transit country en route to the Mediterranean for the refugee flows from many African countries. Ironically enough, Omar al-Bashir is wanted by the International Court of Justice in The Hague for genocide and crimes against humanity in the west of Sudan, in Darfur and has issued an international warrant for his arrest. The fact that the EU is negotiating a refugee deal with a dictator who is the cause of many people having to flee in the first place is an act of cynicism that can hardly be topped on the construction site of "Fortress Europe".

How long the EU can keep up this policy remains to be seen. If the impression takes hold that it is not protecting the refugees from the people smugglers with its military and financial measures but instead first and foremost itself against an increasing inflow of asylum seekers and refugees, if Europe's frequently invoked values shatter into pieces at the border fences in Ceuta and Melilla, drown off the coasts of Libya and Egypt, are deported in Greece and shot dead on the Turkish-Syrian border, the feeling that the EU is betraying its own ideals with the fortress it is building around the Mediterranean Sea will be vindicated. What impacts this further dent to the EU's legitimacy will have are almost impossible to predict.

2.4 Creating legal ways into the EU and rewarding willingness to take in refugees

Combatting the complex causes behind the global migration movements is a long-term task – for these include problems as varied as war, the disintegration of states, underdevelopment, religious conflicts, state oppression, environmental destruction and scarcity of resources. In many cases an unjust global economic order is a key driver of misery and the migration this triggers. So combatting the root causes of displacement is not just a monumental task, it also requires a new direction for the EU and its Member States, towards a significantly more internationalist policy, which has to be based on multifaceted approaches.

Irrespective of this, in the short and medium term one has to expect the numbers of refugees to remain consistently high. The pressure on the EU's external borders around the Mediterranean will therefore remain. An inhumane policy aiming to secure these borders with the help of agreements with states that violate international law designed to seal off Europe to refugees will ultimately fail. The policy of "Fortress Europe" with its attempt to "solve" the refugee crisis externally must be stopped and replaced by a humane concept that respects international asylum and refugee rights. In any case, first of all a significant increase in the UNHCR support programmes is necessary to improve the situation of refugees worldwide. This not only includes decent housing and ensuring basic needs are met, it also means creating prospects for the future, for instance through education and training programmes. For this to happen the EU countries will have to raise their financial contributions to the UNHCR.

As the UNHCR is calling for, the EU should also enable legal entry routes to Europe across the Mediterranean. The more than 500 million inhabitants the EU boasts could easily take in between one and two million refugees each year. In the neighbouring countries, the EU should set up reception and waiting facilities for refugees, which would verify the asylum and refugee claims of the migrants locally.[2] From there, quotas of recognised refugees to be settled on through a political process could be distributed across the EU states. It was precisely on one of the few legal and safe ways to enter the EU that the Federal Republic of Germany recently placed major restrictions – notably family reunion. As an immediate measure, family reunion – which considerably improves the chances of refugees integrating – must be made possible again.

An important obstacle to the reception and integration of refugees or migrants is the distributional conflicts they entail and the financial shortages which exist. Even in Germany, federal states (*Länder*) and municipalities are unable in many ways to handle the investments that are actually needed for accommodation, to ensure basic needs are met and for integration themselves – the refugees come up against an administration that has been emaciated over a period of many years and infrastructure that has been cost-cut into the ground. Whilst here, however, unplanned surpluses from the Federal Budget can still be reallocated, most countries in Europe have little or no scope for extra spending. Add to this the fact that the additional requisite funds have to be mobilised quickly given the urgent need for action. As there are no surpluses of the required scale available and tax revenues will at best be available in the medium term, it is not possible to get political backing for spending elsewhere anywhere in Europe, the funds for this spending will have to be covered for the most part by more borrowing. This is appropriate anyway as the required spending is largely for the type of investments which are typically and generationally equitably pre-financed by loans. In the medium term the distributional conflicts to be expected would have to be prevented by a fiscal policy which reflects the interests of the lower strata of society. The growth impetus unleashed as a result and self-financing effects would in the long run, however, allow a considerable portion of the spending (or in the best case scenario the entire programme) to be counter-financed without raising taxes.

For the financing, a distinction should be drawn on the one hand between the spending incurred in the troublespots outside the EU (Turkey, Jordan, Lebanon, North Africa …) and those that concern the EU as a whole, which should be covered through the EU budget with an accordingly increased amount of available funding, and on the other hand the spending required in the individual EU Member States for taking in and integrating refugees, which should not be funded solely from the EU budget, as first of all this has to be balanced under the statutes in force (i.e. there is currently no possibility to secure substantial funding) and moreover the states in question would also benefit from the improved infrastructure, skilled workers and tax revenues as a result of the investments made on many fronts. This means that the task of the community is first and foremost to enable long-term and cost-effective financing, which does not rule out grants and co-financing from the EU budget scaled according to economic power though.

[2] These institutions would have to cooperate with the national authorities and courts of the Member States to examine any cases of conflict and objections jointly. In each case, the guarantee of legal recourse will have to be preserved for the refugees in the reception and waiting centres, i.e. if need be judicial institutions of the EU or the EU member countries will have to be set up in the reception and waiting centres which permit usual legal recourse.

To finance the spending by the EU Member States – especially those weakened by the crisis – a new fund solution would be possible whereby a coalition of Member States – ideally including those with access to the capital market at particularly good interest rates -– joins forces and issues joint bonds with long maturities. Alternatively, it would also be possible for institutions like the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) or the largely unknown refugee bank of the Council of Europe (EBC) to issue bonds, whose expertise could also contribute to the success of the projects being funded.

This fund could then be used to award project-related loans and grants for infrastructure and integration measures to Member States or sub-sovereign levels, such as the municipalities. In addition to the reception of refugees in the strict sense of the term, the funds should also be able to be used to improve the infrastructure (school, administration, promoting businesses...) of municipalities willing to take in refugees. For municipalities short of funds such a proposal would be very attractive. The appeal of this type of fund solution would also be “that it is more difficult for the national countries to reject refugees if communities register to host them in their own interests. This changes the legitimation situation” (Schwan 2016). This fund solution would therefore be suited to building a bridge between the interests of the citizens in the European municipalities and the interests of those seeking refuge, thus taking the wind out of the sails of right-wing populist arguments.

Chapter 3
The design flaws in economic and monetary union and the euro zone austerity policy

This chapter first of all analyses the shortcomings of the Maastricht Treaty, which are the starting point of many reform endeavours, and then presents the negative economic and social repercussions of the policy of austerity in the euro zone, which have significantly increased the EU's legitimacy problems.

3.1 The shortcomings of economic and monetary union and the failure of reform efforts

The European financial crisis which broke out in 2008 and still persists to this day put the spotlight on the huge shortcomings in the functioning of Economic and Monetary Union (EMU). Introducing a single currency without simultaneously completing the Political and Social Union and without establishing a European Economic Government parallel to this made the Maastricht Treaty a flawed construction loaded with problems from the outset. In the course of the euro crisis, these shortcomings in the Maastricht EMU came increasingly under the scrutiny of policymakers and society. This led in 2011/12 to the President of the European Commission, Manuel Barroso, and also the President of the European Council, Herman Van Rompuy, presenting proposals under the heading "Blueprint for a deep and genuine EMU" designed to rectify the Maastricht flaws (European Commission 2012; Rompuy et al 2012).

These plans basically entailed significantly enlarging the EU budget, installing European Fiscal Governance, introducing eurobonds to manage debt jointly and significantly bolstering the role of the European Parliament as co-legislator (see box on page 32ff.).

Box – The European Commission's proposal for deepening EMU of November 2011 ("Blueprint")

On 30 November 2012 the European Commission presented a document entitled "A blueprint for a deep and genuine economic and monetary union. Launching a European debate" (European Commission 2012).

This blueprint for further developing economic and monetary union (EMU) first of all exposes the weaknesses of the Maastricht Treaty more brutally than any other European Commission document has before. The European Commission's paper sees the flaws in the Maastricht Treaty as largely responsible for the euro crisis – notably the absence of an instrument to redress macro-economic imbalances between the states, the decentralised structure of fiscal policy atypical for a monetary union and the lack of significant centralised fiscal capacity.

"EMU is unique among modern monetary unions in that it combines a centralised monetary policy with decentralised responsibility for most economic policies, albeit subject to restraints as regards national budgetary policies. Unlike other monetary unions, there is no centralised fiscal policy function and no centralised fiscal capacity (federal budget)." (European Commission 2012, p. 2)

The paper then goes on to analyse the euro crisis and the measures to solve the crisis to date. It is argued that the steps taken in the past have not done away with the flaws of EMU, and that instead integration needs to be deepened to give EMU and the EU lasting stability. It is proposed that this consolidation or deepening take place in three stages: a short-term (6-18 months), a medium-term (18 months to five years) and a long-term stage (beyond 5 years). It is not just economic measures that are outlined, steps to deepen the Political Union are also discussed to create the requisite governance for a genuine EMU and to give the deepened Union democratic legitimacy.

In the short term, in the view of the European Commission what is needed is above all the implementation of the resolutions on the “European Semester”, the “six-pack” and “two-pack” as well as the establishment of a banking union. In the medium term, the European Commission believes the following deepening steps should be tackled:

1. Greater budgetary and economic policy integration with the requisite amendments to the Treaties.

2. Creating of a fiscal capacity of its own for the euro zone.

3. Setting up a debt repayment fund.

4. Issuing eurobonds with a maturity of up to two years. In the section about its long-term vision of EMU, in addition to calling for the creation of full banking union the European Commission looks at the issue of creating a central fiscal capacity that could assume stabilising functions in the event of asymmetric shocks.

“Arriving at a full fiscal and economic union would be the final stage in EMU. As a final destination, it would involve a political union with adequate pooling of sovereignty with a central budget as its own fiscal capacity and a means of imposing budgetary and economic decisions on its members, under specific and well-defined circumstances. How large this central budget would be will depend on the depth of integration desired and on the willingness to enact accompanying political changes...

The absence of a central budget with a stabilisation function has long been identified as a potential weakness of the euro area in comparison with other successful monetary unions.” (Ibid., p. 37)

The text leaves the question of whether the fiscal capacity should above all counter asymmetric shocks or assume a general stabilisation function open. If it were to concentrate on asymmetric shocks, this mechanism could also be put in place in the form of European unemployment insurance. If it were a matter of transferring general macro-economic stabilisation tasks to the European level, the central budget would have to be equipped with greater funds and also be able to borrow and issue bonds.

When developing and deepening EMU it would have to be ensured that the degree of democratic legitimacy was commensurate with the amount of sovereignty transferred by the Member States to the EU. “This holds true for new powers on budgetary surveillance and economic policy as much as for new EU rules on solidarity between Member States. Briefly put: Further financial mutualisation requires commensurate political integration.” (ibid., p. 41) A stronger role for the EU institutions therefore presupposes, the paper continues, that the European Parliament be more heavily involved in the EU procedures.

For the amendments required in the medium and long term to the EU Treaties, this means – so the document – that the role of the European Parliament would have to be expanded. In the event of the European Commission being accorded greater rights to intervene in national budgets, as proposed for the medium-term stage, a legal act of co-decision would be necessary, so the full involvement of the European Parliament. This, the paper states, is the only way to ensure the democratic legitimacy of European intervention in national budgetary policy.

If, in the longer-term vision, EMU were to be expanded into a fully integrated fiscal and economic union, with autonomous power of taxation and the right to issue bonds, the powers of the European Parliament would also have to be boosted. For decision-making processes in the scope of autonomous taxation powers, the European Parliament’s role as equal co-legislator would have to be established. Furthermore, the European Parliament would have to exercise the necessary oversight over the economic policy decisions of the EU executive.

Following the election of François Hollande as President of France, the plans were expanded to include proposals to “strengthen the social dimension of EMU”. Social Affairs Commissioner László Andor presented the most viable concept for realising the social dimension of the EU that has ever been formulated in European Commission circles (Non-Paper 2013).

The attempt to deepen economic and monetary union through reforms and in turn to do away with the design flaws of the Maastricht EMU have failed on all fronts to date – the political, economic and social.[3] There are two reasons for this – first the resurgence in neoliberalism, second the increase in right-wing populism and re-nationalisation trends in Europe.

3.2 Austerity policy and its economic and social impacts

Even in the eighth year following the start of the financial crisis, the euro zone still has serious economic problems to contend with. In spite of the European Central Bank's zero-interest policy, a low oil price and a heavily depreciated euro, the economy in the euro area is still failing to get off the ground. After the two years of recession in 2012 and 2013, the euro zone is now in a phase of meagre macroeconomic growth rates. In contrast to this, the US was able to recover quickly after the international financial crisis triggered there and since 2010 has been experiencing a clear recovery in production and employment. Whilst the unemployment rate in the euro zone was 10% in 2011 and in 2015 even above 11%, in the US it dropped from 8.9 to 5.4% in the same period. Germany is an exception to the rule in the euro zone.

The US cleaned up the financial sector far more radically than the EU through the destruction of capital (bankruptcies) and the introduction of fresh capital. Whilst the US very swiftly introduced a policy of economic stimulus during the crisis to lower unemployment and to boost production and income, the European Central Bank only very hesitantly started with a policy of monetary relaxation whilst the fiscal policy under the regime of the Stability Pact and Fiscal Compact (debt limit) further curbed macroeconomic demand. The consolidation policy intonated under Germany's leadership in combination with the absence of adequate restructuring in the banking sector produced a politically induced austerity recession in the euro zone in 2012 and 2013.

The comparison between the euro zone and the US is also interesting because it highlights the success of two opposing strategies to overcome a financial crisis. It also shows that it is possible to choose different paths in macroeconomic policy even if the orientation towards the neoliberal economic and social model is basically the same. The euro zone opted for the path of cutbacks – austerity – because it interprets sovereign debt as the main culprit in the crisis. Austerity curbs demand, raises unemployment, weakens the trade unions and makes wage costs go down. It takes a long time for there to be a new recovery on this path.

The US strategy on the other hand combats the crisis through the cooperation between

[3] How low the ambitions at EU level now are in terms of deepening EMU is highlighted by the Five President's Report published in summer 2015 under the leadership of European Commission President Juncker entitled: "Completing Europe's Economic and Monetary Union" (Juncker et al 2015). This paper is not even a shadow of the aforementioned proposals in late 2011. Four years down the line there are hardly any traces left of the calls for a European fiscal capacity in the Five President's Report, and there is no specific proposal for deepening the social dimension.

expansive monetary and expansive fiscal policy. Thanks to financial policy propping up demand, the crisis could be quickly overcome. With this type of policy national debt may increase but could be gradually lowered during the phase of good growth rates.

Although across the Atlantic a different policy was pursued, the German Federal Government in particular repeatedly presented the European economic policy as the only possible option. In the euro zone the crisis-stricken countries were repeatedly told that without a hard-line policy of public budget cutbacks and without "structural reforms" in the social security systems and the collective bargaining systems, i.e. without cutbacks in social spending and wages, the crisis could not be beaten.

As a result of this economic philosophy, above all those in employment and those reliant on transfer incomes in the Southern European countries of the eurozone were plunged into a massive social crisis, which continues to be felt to this day. In Greece (27.3%), in Spain (26.1%), in Portugal (16.4%) and in Italy (12.2%) unemployment reached record highs in 2013.[4] The social system was subject to drastic cutbacks in many countries. For many people, the European financial crisis became a personal crisis in which they struggled to make ends meet and to survive. These social impacts of austerity policy are an important factor in explaining the major crisis in legitimacy the European Union and the euro zone currently find themselves in. Against this backdrop in many countries nationalism was able to gain ground and the right-wing populist criticism of the EU gain in harshness.

Box – Gender equity and crisis

Women and men are affected differently by the policies of the European Union. This becomes particularly clear in times of crisis. The aim of equal pay – the same pay for men and women – was already enshrined in the Treaty of Rome all the way back in 1957. Gender Mainstreaming was given a special status as a result of the Treaty of Amsterdam in 1998. The aim is gender equity. In spite of all the declarations of intent, there are still considerable differences of opportunity between the sexes. To this day, on average women in the EU earn 16.3% less than men. In Germany, this gender pay gap is even 21.6% (European Commission 2016). The pressure coming from the EU is urgently needed. The alleged "market results" on the "labour market" which often are the result of national traditions must be rectified. It is also a known fact that the labour participation of women is lower than that of men. Women often work part-time. The gender pay gap, the lower labour participation of women, part-time work, atypical employment situations and unpaid work in the family in turn lead to a "pension gap". The EU sees women being appointed to leadership roles in business and industry as an important key, but also indicator for the equality of opportunity between the sexes (European Commission 2011). It is well known that Germany still has a lot of catching up to do here (Holst 2016).

Given the differing underlying conditions for men and women, the EU-wide economic policies,

[4] In addition to this, as a result of massive state interference, the power of trade unions, in particular in the countries of Southern Europe, was seriously weakened (cf Bsirske/Busch/Höbel/Knerler/Scholz 2016). In Portugal, Spain, Italy and Greece collective bargaining systems were severely whittled away (erosion of the nationwide collective agreement structures as a result of the precedence accorded to decentral wage agreements and the weakening of universally binding rules). In the wake of this interference, in Portugal, Spain and Greece, the number of sectoral collective agreements dropped sharply between 2008 and 2013. One can safely speak of a de-collectivisation of industrial relations here.

In Europe, a general roll back in the degree of coverage by collective agreements is to be observed. It is not surprising that in the wake of this weakening of trade union bargaining power in the period from 2008 to 2014, collective–bargaining successes did not materialise in many countries. In 13 of the 28 EU countries real wages dropped during this crisis period (European Commission 2015, table 31). Furthermore, 18 of the 28 states failed to exhaust their distributionally neutral scope for action, as real wages did not increase to the same degree as productivity (ibid., table 34).

for instance those aiming to promote employment, also impact the two sexes differently. Macroeconomic support programmes in direct response to the international financial crisis focus above all on the manufacturing industry. It is first and foremost men who are employed in this sector. During the current budgetary consolidations on the other hand many countries are currently implementing budget cuts precisely in the areas is which mainly women are employed. The education and health sectors are just two examples. In addition to this is the fact that over the course of the international and European financial crisis gender mainstreaming has often receded into the background – it was not seen as a category that could contribute to managing the crisis. The way the European financial crisis was dealt with thus has far-reaching medium and long-term ramifications for gender equity (cf on this for instance United Nations n.y.). In the acute crisis, the gender differences in relation to employment, unemployment and poverty were reduced in the short-term in many countries in the EU. Not because women won, but because men lost disproportionately.

A just Europe built on solidarity absolutely must place gender equity at the heart of its efforts. In the current crisis women cannot afford to serve as a labour market buffer. The “adult worker” model, which is based on the gainful employment of all adults, has long since become the model to aspire to in many countries. Gender equity can even be a vehicle to do away with numerous structural problems in this more just Europe built on solidarity – especially on the labour market.

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Chapter 4
Time to leave the euro? A critique of the Left's exit proposals

In parts of the European Left, too, the euro crisis and the economic and social impacts of austerity policy have meant that the fundamental criticism of the Maastricht EMU has gained momentum. Whilst a majority movement is advocating radical reforms to the structure of EMU, as already called for in some cases when it was first introduced, the minority position goes so far as to call for the euro system to be dismantled and for a new European Monetary System ("EMS II") to be put in place. The next section presents the central arguments of these Eurexit and Lexit proponents (Eurexit 2016; Lexit 2016) and examines them critically. It becomes apparent that the economic arguments of this faction fail to convince.

The call to dismantle the current euro system is based on three reasons essentially:

- In a common monetary system without sufficient worker mobility and without a financial clearing mechanism, states which have lost competitiveness and have major current account deficits are dependent on the instrument of "internal devaluation" in order to improve their competitive position again. So they have to implement real wage cuts to be able to restore competitiveness through prices. This is socially unjust and weakens the trade unions in the countries affected. If they were to return to the national currency or to a system of adjustable exchange rates (EMS II) these states could, on the other hand, devalue their currencies and in turn improve their current account position. They could therefore – in the view of this position – avoid the socially unjust effects of an "internal devaluation" in the euro group (Lexit 2016).
- As an alternative to the economic and monetary union of Maastricht origin the proponents of "Eurexit" and "Lexit" believe that a monetary system like the one implemented in the scope of the EU between 1978 and 1993 (EMS II) would make sense. This type of system of fixed but adjustable exchange rates would be preferable to a system of flexible exchange rates, they argue, as this could lead to "erratic" exchange rate developments and as such to heavy overvaluation and undervaluation of the exchange rates.
- By leaving the euro, the states could also regain autonomy in their economic and financial policy. The humiliating interference they had to endure in the euro system through the Stability Pact or by borrowing in the scope of the European Stability Mechanism would cease to exist. Both the Stability Pact and the ESM force the states with high budgetary deficits and/or unviable debt rates to adopt exaggerated austerity policies in their view, which curb growth and employment and entail negative social impacts on wages and social security systems. A return to a national economic and financial policy, they claim, is a better solution in light of this (Eurexit 2016).

The next section demonstrates that these three arguments ultimately are not tenable:

4.1 Devaluations and real wages

Even in a system of adjustable exchange rates, devaluation will only make a country more competitive if it leads to a reduction in real wages. If, however, after a nominal devaluation a chain of imported inflation and compensatory wage increases is triggered, domestic prices will quickly be pushed upwards, the devaluation-induced improvement in price competitiveness will be gradually offset and as such will quickly lead to a similar real exchange rate to that of before the devaluation. The long-term improvement in price competitiveness aspired to by the nominal devaluation then fails to be achieved. In other words – only if the nominal devaluation is accompanied by a commensurate reduction in real wages can it lead to a real devaluation, so to an improvement in competitiveness. This only works, though, if for instance after a 10% devaluation, domestic prices including wages do not also increase by this same 10% (cf. Dornbusch/Fisher/Startz 2003, 595ff.). As such, in terms of the social consequences, the difference between the monetary systems of the euro and the EMS melt away to practically zero.[5]

4.2 Over and undervaluations in the European Monetary System from 1978 to 1992

The argument that a system of fixed but adjustable exchange rates, like the EMS from 1978 to 1992, is superior to the euro system because it stopped the competitive positions of the countries being distorted also fails to stand up to closer inspection.

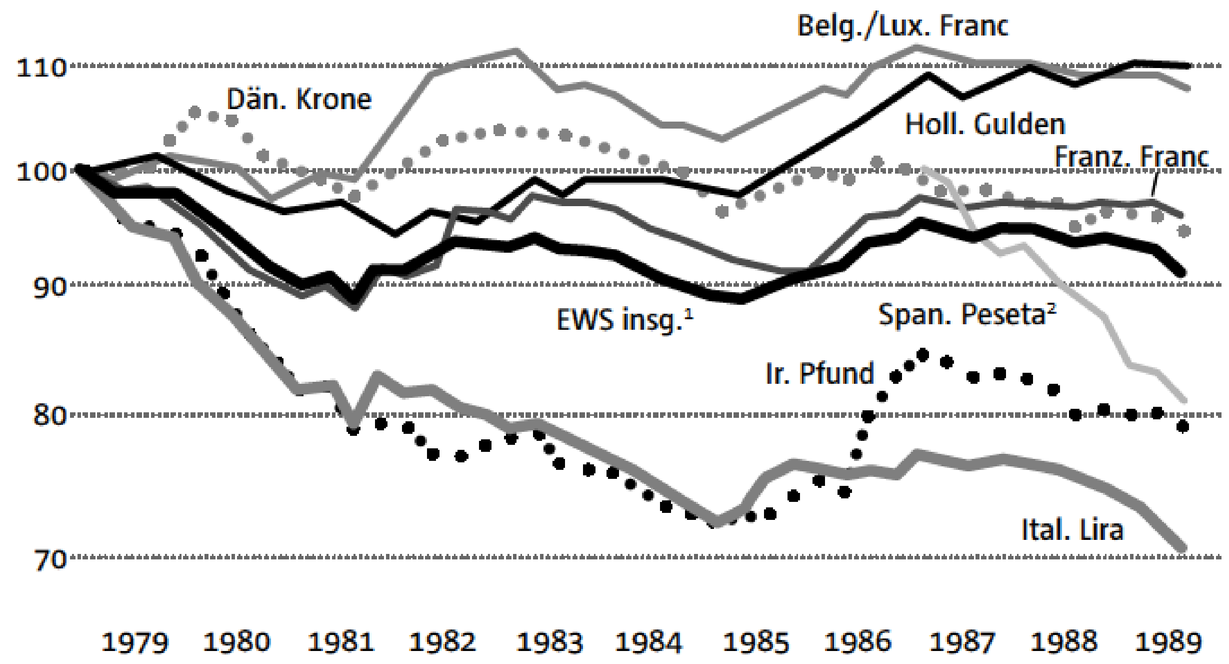
Figure 1 shows the real exchange rate of the D-Mark compared to the EMS currencies from 1979 to 1989. Since the late 1970s, the DM, as the graph clearly illustrates, was often undervalued in real terms compared to important partner countries due to delayed or insufficient adjustments of the exchange rates to the changed competitive position of the countries inside the EMS group. This was especially the case in 1980/81, 1984/85 and from 1987 to 1992 (cf. Busch 1994, 37ff.).

The real devaluation of the DM at the start, middle and end of the 1980s compared to the first quarter of 1979 was 10% in each case compared to the EMS currencies. As the DM was also ahead stability-wise from 1987 to 1992, its real undervaluation grew in this period. The Italian Lira was the currency most overvalued compared to the DM. In 1989 the real overvaluation margin of the Lira compared to the DM was around 30% compared to 1979, by 1992 this figure rose to approximately 35%. If the inflation gap inside

[5] The argument that in addition to the chance of higher exports, a nominal devaluation harbours the opportunity above all to produce for the domestic home market successfully again is also only tenable to a limited extent, it is contingent on important preconditions and varies a great deal in its accuracy from country to country. Generally speaking, only the production that still actually exists can become more price-competitive through a nominal devaluation. So if as a result of the design flaws in the euro, the Southern crisis-stricken countries have been well and truly de-industrialised, then now in the crisis there are scarcely any industrial capacities left which could be quickly resuscitated. As a result, after devaluation a country will continue to be largely dependent on importing the same products from abroad as before leaving the euro. If it leaves the euro, Greece will not be able to revert back in the short term to domestically produced cars. In the case of Italy and Spain on the other hand, it would potentially be possible to substitute foreign car imports to a certain extent, but here, too, it has to be borne in mind that there are virtually no countries in which cars are still produced from start to finish, and that instead the parts are just transported from a range of different countries to the final assembly plants.

the EMS was not fully offset by the exchange rate fluctuations, in the FRG price-based competitive advantages arose in intra-community trade, which translated into current account surpluses. This was the case time and again in the period from 1979 to 1992 (Jaekel 1985; Busch 1994).

Figure 1: Real exchange rate of the D-Mark* compared to the EMS currencies



* Weighted nominal exchange rate, adjusted for the respective different macroeconomic price development (as measured by prices of total sales); 1 From July 189 incl. Spanish Peseta; 2 Participating in the exchange rate mechanism of the EMS since 19.6.1989. Source: Deutsche Bundesbank: Wechselkursentwicklung im EWS – Erfahrungen nach 10 Jahren, in: Monatsberichte der Deutschen Bundesbank, Nov. 1989, S. 35

In 1993, the EMS collapsed above all as a result of exchange rate distortions and the current account imbalances associated with this. As since 1987 no realignment of the currency exchange rates had taken place, it was easy for the international capital speculators (Soros!) to attack the weak currencies. The proverbial red carpet had been rolled out for them.[6] Even major interest rate lifts were no longer able to save the weak currencies. After this practical collapse, a fluctuation spread of plus/minus 15% was introduced in the EMS. A spread of 30% can hardly still be dubbed a fixed exchange rate system, however.

Although the current account imbalances were usually reduced for a short period as a result of the exchange rate adjustments, the large inflation rate differences very quickly

[6] Höpner/Scharpf/Streeck on the other hand claim that the EMS protected the participating countries from speculation (sic!) (Höpner/Scharpf/Streeck 2016). It is true, however, that the EMS virtually invited speculative attacks on the distorted exchange rates not only because of delayed adjustments to the exchange rates in the 1992/1993 crisis, but rather due to its structure. This pressure from speculation increased enormously in the course of the 1980s as a result of the continued liberalisation of the financial market and this was evidently not foreseen when the EMS was designed in the late 1970s.

reproduced the game of over and undervaluation and once again imbalances in the current account. The system's cardinal sin was that its exchange rate adjustments were too late or too little.

This shows that the European Monetary System in the 1980s was by no means a stable, balanced monetary area. Many currencies were over or undervalued for longer periods, because the participating countries blocked the requisite exchange rate adjustments or tried to delay them for as long as necessary. The consequence was major imbalances in the current accounts of the participating states. Overall, the exchange rate distortions led to a misallocation of resources and in turn to economic and political tensions between the EMS countries.

There is no cause to retroactively glorify this period of monetary integration despite the major shortcomings of the Maastricht EMU.

4.3 Leaving the euro: A high price for not much autonomy and the risk of an interest and debt trap

The idea that by dismantling the euro zone the national countries could gain greater autonomy in designing their economic and financial policy and as such progressive governments could implement an expansive monetary and fiscal policy, for instance, ignores the fact that the European countries are firmly entrenched in the international financial markets and the ensuing restrictions this places on their economic-policy scope for action (cf on this Busch 2016, 82ff.).

The dissolution of the euro zone and the return to national currencies would entail major adjustment problems for a longer transitional period both in the countries which currently have current account surpluses and below-average national debt ratios (henceforth creditor states) and in the countries which currently have current account deficits and above-average national debt ratios (henceforth debtor states).

In the creditor countries this would lead to their national currencies increasing in value and as such to temporary growth and employment downsides. For the largest surplus country in the euro zone, Germany, which at the same time has a high export ratio, this would entail major prosperity losses.

Far more dramatic, however, would be the repercussions for the debtor countries. Their currencies would be heavily devalued, which is viewed by the proponents of leaving the euro as the decisive advantage of this step. But once national currency structures were restored, it would immediately become apparent that the countries of the former euro zone have very different budgetary deficits and levels of national debt. The countries with high budgetary deficits and high debt ratios would have to then immediately accept a significant increase in the interest rates on the international capital markets for their government bonds compared to the creditor states. These spreads in the interest structure are very minimal at present due to the intervention of the ECB ("whatever it takes"), but would re-emerge immediately if the euro were abolished because the ECB would either no longer exist or it would no longer be responsible for the country in question after it had left the euro. The example of Portugal allows us to study right now how the financial markets are penalising a progressive government in spite of the continued intervention by the ECB. The interest rate for government bonds has risen to 3% and would reach double-digits if Portugal were to leave the euro group.

At the same time, the national debts of the devaluation countries – calculated in national currency – would increase considerably.[7] This would mean that the devaluation countries would find themselves in an interest and debt trap. They could neither finance their budgetary deficits sufficiently by selling government bonds to foreign capital providers because their interest burden would increase dramatically, nor in turn could they finance their current account deficits because this would require larger imports of capital through the sale of national securities to foreigners. The governments of the debtor countries would be – this is the consequence of this macroeconomic development and regardless of whether the governments are left or right-leaning – forced to adopt a drastic austerity policy in their public budgets. Only then might the double deficits in the national budget and current account possibly still be able to be financed. Growth slumps, a major increase in unemployment, drops in wages and cutbacks in the social security systems would be the upshot of this development. It is highly likely that these countries would then once again need the public loans of international institutions such as the IMF. They would make the loans conditional on the aforementioned austerity policy being implemented. If, furthermore, one considers the above argumentation regarding the connection between devaluation and the development of real wages, this would doubly force the debtor countries leaving the euro into deflation. On the one hand because of the attempt to improve competitiveness through devaluation, which, however, can only be successful with a commensurate reduction in real wages and on the other hand because of the increase in the interest-rate level and the funding shortages in public budgets. It thus proves to be a highly naive idea that by dismantling Economic and Monetary Union, the former euro states could secure greater scope of action for a progressive growth, employment, social and wage policy. The devaluation policy would trigger pressure on real wages and the interest effects resulting from the return to national currencies would force austerity policy to be implemented in public budgets.

Yet more dramatic, but not unrealistic is Stephan Schulmeister's description of the ramifications of winding up the euro (Schulmeister 2013). He sees the danger of an economic war as a result of creditor and debtor states not being able to agree on which national currency national debt has to be transformed into. This would then lead to either state bankruptcies and in their wake to a general financial meltdown or to massive devaluations in the debtor countries, which would not improve the situation of the real economy in the "Southern states", however, because the devaluation race would lead to trade as a whole contracting. The "Southern states" already tried out currency devaluations between 1973 and 1999 unsuccessfully. The economic, social and political impacts of dis-

[7] By way of illustration: a country has 10 euros debt and leaves the euro. The switch to the new national currency the taler takes place 1:1, so wages, salaries, national revenues etc., stay at the same figure in talers as they previously were in euros. Immediately after the switch over, the exchange rate of the taler on the forex market plummets and for one euro you have to cough up 2 talers. The 10 euros of national debt calculated in talers thus turn into 20 whilst the national budget has practically remained the same. Relatively speaking, the state – compared to its national revenues – now has double the national debt compared to before the exit from the euro.

banding the monetary union would therefore be so huge that they would suddenly intensify the nationalistic hostilities in Europe and lead to an economic war.

The main weakness in the Eurexit position lies in the flawed analysis of a transitional process from the euro to a system of adjustable exchange rates (EMS II), which – as has just been shown – would lead to a major crisis for all those involved, to the greatest degree for the debtor countries. Whilst Höpner/ Spielau are still undecided about calling for a transition to an EMS because the costs of the transition are difficult to analyse in their view (Höpner/Spielau 2015, 29f.), Höpner/Scharpf/ Streeck (2016, 15) propose a gradual move towards an EMS II. Here, the ECB is supposed to prevent the weak currencies from hitting rock bottom. But why would the ECB intervene and include weak currencies on its balance sheet whose exchange rates ultimately cannot be defended against speculation and as such leave the ECB with balance-sheet losses on its hands? Joseph Stiglitz (see the box on p. 50f.) also merely glosses over an analysis of the transition crisis. His hope that Germany and some hard-currency countries will leave the euro and not the weak-currency countries is wishful thinking. Why should Germany take the costs of transforming the debts resulting from an appreciation of its currency compared to the other euro countries upon itself? The interest and debts to be paid in euros by the debtor countries would plummet in value after the appreciation of the DM for Germany. Furthermore, generally it is not in Germany's interest whatsoever to renounce the euro system!

Box – Joseph Stiglitz: Reform or divorce the euro?

Superficially, the new book by Joseph Stiglitz "The Euro and its threat to the future of Europe" seems to support the Eurexit position (Stiglitz 2016). This impression is deceptive, however, because Stiglitz too believes the best solution to be radical reform of the euro system (Chapter 9). He is, however, extremely sceptical as to whether this reform programme can be implemented on a sufficient scale and sufficiently swiftly (ibid., 270f.). For this reason, he argues, Europe must urgently consider two other alternatives – an amicable divorce or a flexible euro.

In the divorce scenario, Greece or several debtor countries leave the euro zone, or indeed Germany with several Northern countries. In the concept for the flexible euro there is a return to national currencies, which either alone or in groups are linked to each other with fixed but adjustable currencies. It would be best, in his view, if Germany and a few Northern countries were to leave the zone alone and the rest of the states were to jointly keep the euro. Stiglitz concedes that both models could only be implemented politically with the consent of Germany.

The author becomes entangled in contradictions with this argumentation however. Why should Germany, which would face economic disadvantages in both scenarios as the country whose currency would appreciate, and which furthermore according to Stiglitz should also agree as a creditor to a haircut, give its political consent to such a solution? He provides no answer to this. What is more, Stiglitz does not spend a single word on addressing the problems entailed by a devaluation strategy we have discussed above. At the latest in Chapter 11 (Towards a flexible Euro) he should have addressed the aforementioned imbalances in EMS, but he does not waste a single word on the EU's experiences with EMS in the entire book spanning some 450 pages.

The interest and debt problems of the devaluation countries are not an issue for Stiglitz either. The battles between creditor and debtor states that Schulmeister puts at the centre of his attention over the question of which currency debts should be denominated in is described by Stiglitz in a footnote as a difficult legal problem that can be resolved (sic!). Equally interesting is the fact that the states leaving the euro are supposed to simply have their national central banks finance their budgetary deficits. Stiglitz apparently hopes to "solve" the bothersome problem of dependence on international capital markets this way.

Stiglitz finally glosses over the question of devaluations, competitiveness and real wages with his idea of the parallel introduction of “trade chits”. Here, the exporters of a country are supposed to receive “trade chits” that they can sell to importers on a market. These can only import goods to the volume of the “trade chits” so that the balance of trade is always maintained. So if a country loses competitiveness and as such export revenues, the imports are automatically cut because of the limited “trade chits”. Trade remains balanced.
The fact that this system equates to a policy of deflation because the import cap would exacerbate the country’s crisis even further is not addressed in the book.

Chapter 5
The six pillars of a radical reform of the euro: more Europe, but different

Given the negative impacts of leaving the euro it makes more sense to fight for a radical reform of the euro system. This means a far-reaching paradigm shift – doing away with the flawed institutional design of the Maastricht EMU has to be combined with a transition towards an alternative economic policy and a European transfer, social and financial market policy based on solidarity. In this alternative programme, the following elements are essential:

1. a new European economic policy
2. a clearing union to avoid external trade imbalances between the Member States,
3. a joint debt policy,
4. European regulation of social policies to do away with the system of competing states,
5. greater regulation of the financial markets and
6. a democratically legitimised and overseen European Economic Government.

The next section describes the basic features of such an alternative programme.

5.1 An end to austerity: expansive fiscal policy and European investment programmes

The expansive monetary and fiscal policy adopted by the US following the crisis in 2008/2009 led to a rapid recovery in production, employment and income. In the EU/euro zone by contrast the crisis still persists. The economy is weak, unemployment high, the periphery impoverished and there is little prospect of improvement.

Given this poor economic situation, the European Central Bank drastically cut the lead interest rates and set up bond purchase programmes running into the trillions. The cheap money is supposed to stimulate investments in the real economy, but is not being sufficiently availed of because of the lack of prospects in the real economy. The first decisive step therefore needs to be replacing austerity policy with an expansive growth and employment policy.

The EU's new economic policy would have to consist of two elements: first an expansive European fiscal policy, second a European investment programme, which also serves to resolve industrial and regional structural problems. Both fiscal policy and the investment programme would have to be implemented by a new democratically elected European Economic Government (EEG) (see 5.6).

The EEG would have to have a significantly larger EU budget for European fiscal policy on the one hand and on the other the competence to steer the cornerstones of national budgetary policy in tandem with the European Parliament. Amendments would have to be made to the Treaties to shed the fetters of the past of the debt rules of the Maastricht

Treaty, the Growth and Stability Pact including its reforms and the debt limit in the European Fiscal Compact to enable an expansive macroeconomic policy.

In their place, as new target indicators for a changed European economic, financial and monetary policy, a new level of employment with good jobs, appropriate sustainable economic growth, a moderate target inflation rate (currently 2%), an external trade balance between countries, measures for social-environmental restructuring and a high degree of distributional justice should be included in the Treaties.

Unlike real federal countries, the EU does not have a central federal budget on the basis of which a European fiscal policy could be implemented. For this reason – as already set forth in the 1970 Werner Plan to introduce a single currency, influenced by Keynes, a democratically elected and overseen economic-policy decision-making body has to be created at EU level which defines the cornerstones of national budgets. This is the only way to design an effective European fiscal policy. This goal cannot be achieved by merely coordinating the national budgetary policies. Having the EEG define the cornerstones of the budgets would leave the national countries sufficient scope to decide how to structure public spending in line with their specific national priorities.[8] To strengthen the EU budget, the EU's own funds should be significantly increased. This could be done largely by redeploying national tax revenues to the EU level (for instance by additional shares of Value Added Tax) and accompanied by targeted tax increases for companies, high incomes and wealth at national level.

The EEG would have to enforce an expansive fiscal policy following the policy change in Germany's macro-policy, which is now recording both budgetary surpluses and a large current account surplus. Instead of transferring part of its savings abroad in the form of capital exports to co-finance the current account deficits of its European partners, these funds should be invested in Germany in the school and university system, in research and development, in the health sector and the infrastructure, which is in bad need of repair in many cases (roads, waterways, bridges, public buildings...). This would allow the domestic economy in Germany to be stimulated, the demand for goods and services from the partner countries to be increased and the surpluses in the current account to be reduced.

In France, Spain Portugal, Italy and Greece, the new EEG would have to ensure that scope be created for a new growth policy by ending austerity policies. If the real growth rates in GDP are higher than the real interest rates and this difference is not eaten up by the excessive deficits in the primary public budgets, the debt ratios of these countries will fall. A brief look at the macroeconomic data of these countries shows that this is by

[8] In the left-wing political context one often hears the argument that an EEG would lead to a radicalisation of the current European austerity policy and should therefore be rejected. This is a shortsighted view of things. A democratically elected and overseen EEG would – like in all federal countries – define the basic features of economic policy based on the political majorities, so conservative-liberal or social democratic/socialist or red-red-green. This is a natural democratic practice that would then also have to apply at EU level.
The argument that not even in Germany can the Federal Government define the key features of the budgets of the German federal states does not hold water either. In Germany the Federal Government can conduct fiscal policy using the strong federal budget, the EU does not have this option and therefore has to be able to be involved in designing the national budgets when designing European fiscal policy.

no means utopian. The real interest rates of these countries could be lowered by the introduction of eurobonds see 5.3). It also has to be borne in mind that with larger GDP growth rates potential deficits in the primary budgets could be lowered by higher tax revenues.

The second component of the new economic policy would be a comprehensive European investment programme. In the wake of the crisis the investments in some countries have downright collapsed – in Greece they plummeted 70%, in Italy, Spain and Portugal 30% (Deutsche Bundesbank 2016). This dramatic slump on the one hand reflects the unsustainable boom prior to the crisis but also the economic decline since then. On average, the investments in the euro zone are around 15% below pre-crisis levels. Even in Germany, where the pre-crisis level has since been marginally exceeded, the investment rate is still far below what it was 20 years ago. The poor state of the public infrastructure is now even seen abroad as a particularly German problem. In the face of this situation the EU Commission has announced a new investment offensive since European Commission President Juncker took office. The “Juncker Plan” however founders at the fact that the EU was unable to mobilise any fresh money for this. The EUR 16 billion provided from the EU budget came from redeployments, *inter alia* from research funding, and are now supposed to be leveraged multiple times over with the help of the European Investment Bank (EIB) and private investors to a total of EUR 315 billion. The programme only lasts three years and when fully implemented covers a grand total of just 0.5 % of EU-GDP.

And yet there have long since been varied proposals for investment programmes on the table. Both the Deutsche Gewerkschaftsbund (German Trade Union Confederation) “Marshall Plan for Europe” and the European Trade Union Confederation (“A New Path for Europe”) want to trigger an annual investment of 2% of EU-GDP over a period of ten years (EUR 260 billion per year). Triple-digit billion investments are also set forth by programmes in this vein by the European parliamentary groups of the Social Democrats (S&D), the Greens (The Greens/ EFA) and the Left (GUE/NGL) (the programmes are listed in Pianta 2016, 51f.).

An investment programme of this size would go far beyond an economic stimulus programme. With the right thrust, it would also be a driving force for the long-overdue socio-ecological transformation and at the same time would make the economy viable for the future (structural policy). Areas of investment would be energy efficiency and renewable energies, industrial modernisation, the expansion and preservation of basic public services and transport infrastructure, quick Internet connections, education and research, social housing construction and other public and social services. By targeted funding of projects in the peripheral Southern states and in the Central and Eastern European states, the investment programme could also serve to bridge the developmental divide in the EU. The underlying investments would first of all have to be pre-financed through public debt. In the long-term they can be counter-financed in part or in full by increased tax revenues (an optimum investment programme as we know reduces debt in the long term instead of raising it and as such would also manage without tax increases).

5.2 A European Clearing Union: rebalancing current accounts

In conditions of competition, a single currency and monetary policy for a group of countries with extremely varied economic structures, labour markets and corporate landscapes inevitably lead to the differences between these countries being more likely to increase than decrease. In the current crisis, the EU and the euro zone is reaping what its guiding principle of competition between states sowed – there are only winners if elsewhere there are losers. In economic theory the losers are ousted by the winners. This is not possible with states because a state cannot just disappear from the market like a company can.

Just how much the euro zone has grown apart through this competition is demonstrated by the dramatic imbalances in current accounts. Germany and the Netherlands in particular have built up huge surpluses in their trade with other countries, the vast majority in their trade with EU partners. Since 2002, so the introduction of the euro as cash, the German current account surpluses amount to USD 2.6 trillion, those of the Netherlands to USD 0.8 trillion. The balances have increased continuously during this period and in 2015 had reached the exorbitant figure of 8.5% of German GDP and 11% of Dutch GDP.

It was not down to chance that up until 2009 Germany was also the country with the lowest increase in real wages, the lowest unit labour cost development and the fastest growing low-wage sector in the euro zone. Prior to the euro, the ensuing competitive advantages could have theoretically been offset through the exchange rate. In the euro zone this was no longer possible.

The other countries had to accept deficits mirroring the surpluses generated by these countries. The euro zone crisis is first and foremost a foreign debt crisis of entire national economies – so the foreign debts of private households, banks and companies and the public sector. It is not just a sovereign debt crisis. It was not until the bailout packages for the banks in Ireland, Spain, Portugal, Greece and Cyprus that these (foreign) debts in the private sector turned into sovereign debts. The shortcomings in the individual crisis countries (for instance, the deficient tax administration in Greece, the corporate tax dumping in Ireland, Cyprus' overinflated banking sector, the real-estate bubble in Spain etc.) are of course also to blame.

So if the European financial crisis is above all a foreign debt crisis then attempting to resolve the crisis without counteracting the current account imbalances is doomed to failure. This is an economic truism – it is not for nought that in Germany the 1967 "Act to promote economic stability and growth", which is still in force today, sets forth a balanced current account as one of four economic policy goals.

An important lesson from the current crisis must therefore be a reformed EMU philosophy in which balanced external trade between EMU members is enshrined as a goal and the necessary adjustment pressure is applied to the deficit and surplus countries to achieve that balance.

It is true that in the context of the "Macroeconomic Imbalance Procedure", the EU has been monitoring the risks of imbalanced economic developments since 2011, but in this context current account imbalances are only taken into account as one of ten criteria and only the deficit countries can be threatened with sanctions. Other macroeconomic imbalances are also only dealt with from the point of view of current account deficits (for instance loss of export market shares, increase in unit labour costs). This one-sided focus is due to the power relations during the negotiations to save the euro and is not based on any rigorous analysis.

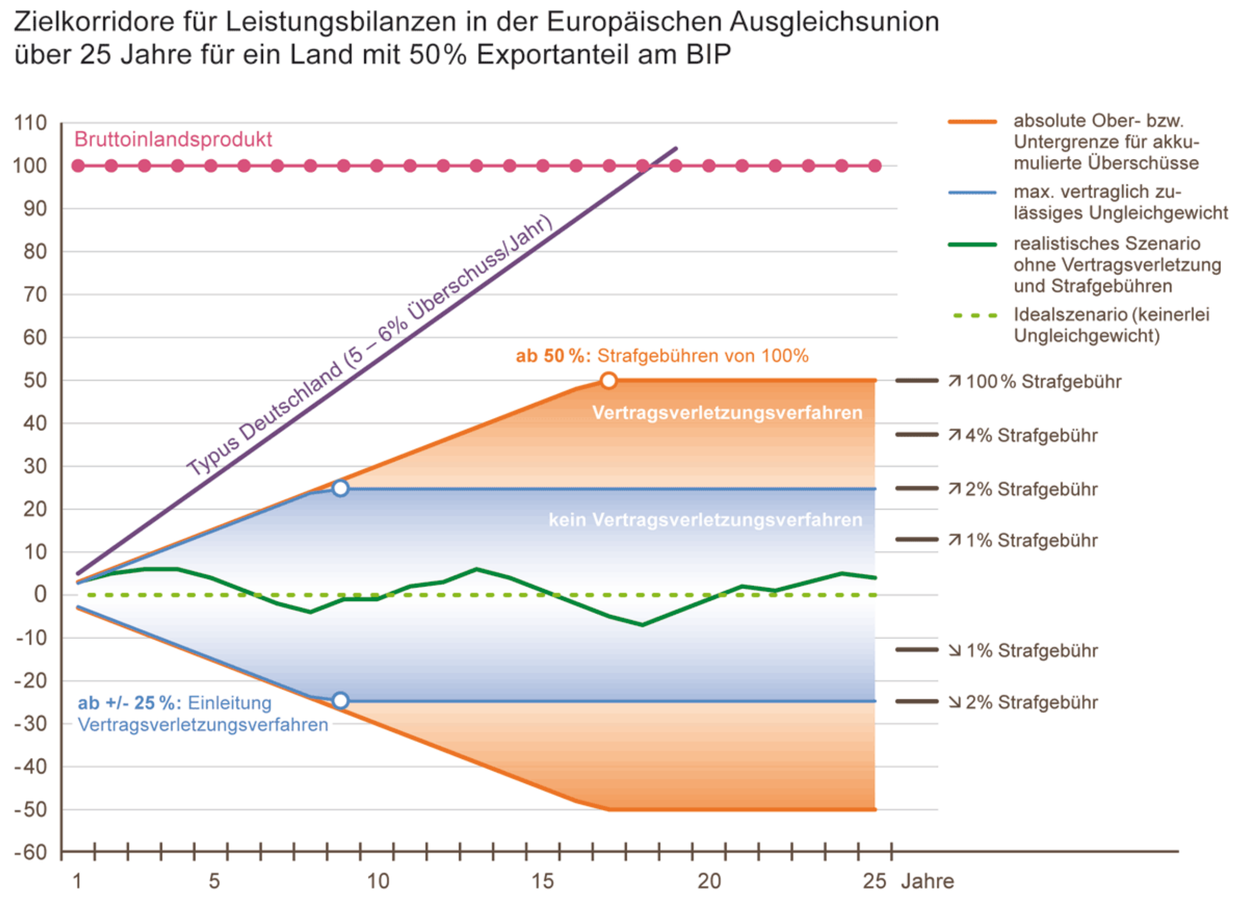
This is why a “European Clearing Union” is suggested here, which should be understood as the antithesis to the model prevailing today of an “Austerity Union” that has been imposed through the stricter European Stability Pact, the European Fiscal Compact and the specific pre-conditions attached to the “bailout packages” above all on the crisis-stricken euro countries (Troost/Paus 2011). Clearing, by contrast, means working together to achieve a balance on both sides, i.e. of countries with current account surpluses and those with deficits. The idea of a Clearing Union is inspired by John Maynard Keynes, who in the 1940s acting on behalf of the British government introduced a similar proposal in the form the International Clearing Union into the negotiations on the post-war global economic system (Keynes 1941). Keynes already criticised the fact back then that the responsibility for current account imbalances and their rectification had only been imposed on the debtors.

The starting point for the European Clearing Union is the EU-wide introduction of binding upper limit for current account imbalances. Per year cyclical current account imbalances should not be allowed to exceed 3% of GDP. This limitation is not sufficient in itself, however, because a country which permanently accumulates 3% imbalances will sooner or later inevitably find themselves in a debt trap (in the case of permanent import surpluses) or will build up receivables owed to it by its trade partners (in the case of permanent export surpluses), which at some point will no longer be recoverable because of the over-indebtedness of these trade partners.

The larger the export sector of a country in relation to its GDP, the higher the ability in general to pay off foreign debt through export surpluses. A long-term cap on the current account deficits, i.e. a maximum limit for foreign debts should therefore be limited to the size of annual export revenues. For a country like Germany, in which almost half of GDP is generated in the export sector, this would constitute limiting the accumulated imbalances to 50% of GDP. Wherever such an upper limit was drawn, the existence of such a cap means that for all countries after a time-limited period of continued surpluses or deficits they have to return to a balanced or to the opposite type of current account. The size of the cap therefore ultimately determines the maximum period in which a country has to return its external economy to the path of equilibrium (see figure 2).[9]

[9] In the development and economic policy discourse, often the strategy is defended that countries should catch up on industrialisation by importing adapted technology and capital goods, to then finally be able to develop into a rich, productive economic area along the value chain. Such a strategy requires a surplus in the import of capital goods for a limited time. This strategy is fundamentally compatible with the accumulation of import surpluses over a limited period of time in the Clearing Union, but the room for manoeuvre for this is limited. To expand this, in the Clearing Union the weaker countries when it comes to industry and exports should generally be given the possibility of planning temporary current account deficits which exceed the model parameters in the scope of a development strategy to be presented to the EU.

Figure 2: Target corridors for current accounts in the European Clearing Union over 25 years for a country where exports account for 50% of GDP



Source: own chart

Bruttoinlandsprodukt	Gross Domestic Product
Typus Deutschland (5-6% Überschuss/Jahr)	country like Germany (5-6% surplus/year)
ab 50%: Strafgebühren von 100%	starting at 50%: penalties of 100%
Vetragsverletzungsverfahren	infringement proceedings
Kein Vertragsverletzungsverfahren	no infringement proceedings
Ab +/- 25%: Einleitung Vertragsverletzungsverfah-ren	starting at +/- 25%: Initiation of infringement pro-ceedings
absolute Ober- bzw. Untergrenze für akkumulierte Überschüsse	absolute upper or lower limit for accumulated sur-pluses
Max. vertraglich zulässiges Ungleichgewicht	maximum imbalance permitted under the Treaties
Realistisches Szenario ohne Vertragsverletzung und Strafgebühren	realistic scenario without infringement and penal-ties
Idealszenario (keinerlei Ungleichgewicht)	ideal scenario (no imbalance whatsoever)

To comply with the short-term fluctuation range and the long-term cap, the European Clearing Union will be equipped with a binding procedure of phased incentives and sanctions similar to the existing Stability and Growth Pact for the public budgets. These sanctions will entail on the one hand fines and on the other political restrictions. The sanctions should be made stricter for countries with surpluses than those with deficits as surplus countries are in a stronger position and can therefore make adjustments far more easily than deficit countries. Of course a country can only indirectly steer its current account balance. The appeal of the procedure, though, is precisely that it gives the states a lot of latitude in how they want to achieve the goal of a balanced current account – which is a major advantage given the varying economic cultures within Europe.

For a country like Germany, balancing its current account is a huge, long-term task and requires both measures to increase imports as well as lowering dependency on exports. The most sensible solution without a doubt would be to expand domestic purchasing power through public investments and a higher wage level. Public investments are due anyway given the investment backlog now spanning several years, the many unsatisfied needs and the extremely low interest rates. There is a need to invest in particular in projects for infrastructure, education, energy efficiency, nursing and health care, childcare and not least in expanding the service and municipal sector. This would have to be founded on the concept of a social and environmental transformation to produce new, environmentally compatible lifestyles and a new type of prosperity.

The political sphere can also contribute a lot when it comes to lifting the level of pay, for instance by increasing the statutory minimum wage, higher pay in the public sector or by raising government transfer payments for jobseekers and pensioners. Indirectly, policymakers can also considerably influence wage development in the private sector. To complement this, income tax should also be reformed to relieve citizens who spend a high proportion of their income (so the lower-income sections) and tax those with a high savings rate more heavily (i.e. top earners).

In exchange, in countries with high current account deficits of course measures would have to be taken to lower imports or step up exports. In the euro zone in recent years there was in fact a considerable reduction in current account deficits, but these were largely forced by austerity measures (reduction in domestic demand as a result of cuts in spending, wage cuts, etc.). Currently none of the euro states have a current account deficit that should be considered worrying (unlike the record surpluses in Germany and the Netherlands). As such, the need for action here is far less or amounts to rebuilding the economy that has been cost-cut into the ground and to the long-term repayment of the foreign debt accumulated to date. It must be noted, however, that in the long term reversing current account deficits can be achieved by other means than cutbacks, for instance by promoting businesses capable of exporting, substituting energy imports with renewable energies or restrictions on the import of luxury goods (e.g. luxury tax on the registration of expensive cars in Denmark).

If all the states in the euro zone were forced to balance their current accounts, this would also force the mathematical balance of the current accounts in the euro zone in the direction of equilibrium. Currently the euro zone has a high trade surplus vis-à-vis the rest of the world. This is problematic in the sense that the deficits that mirror this surplus elsewhere in the world can push states into a foreign debt trap.

Ideally, the Clearing Union's sanction mechanism would work as a background deterrent to encourage all the countries of the EU or monetary union to participate in improved and deepened macroeconomic coordination. Only if the Member States coordinate their economic, labour market, social, taxation and structural policy sensibly and with a view to the future, can the caps set by the Clearing Union be adhered to.

5.3 A community-wide debt policy

In the course of the euro crisis, at the end of 2010 it was proposed, especially by Jean-Claude Juncker (then Prime Minister of Luxembourg) and Giulio Tremonti (then Italian Minister of Finance) that eurobonds be introduced as part of the reform of the euro zone and that a European Debt Agency be founded for this purpose.

Eurobonds are government bonds issued jointly by EU states or the euro states. These bonds are used to finance budget deficits and debt restructuring of existing legacy debts in all Member States. Whilst the community is jointly liable for repaying the loan amount and paying the interest, settling the debt fundamentally remains up to the Member States. The aim of the proposal is to lower the interest rates of the highly indebted countries and their vulnerability to being “blackmailed” by the financial markets. By jointly issuing eurobonds, the more heavily indebted countries improve the creditworthiness of their government bonds and as such secure a significant reduction in interest. Conversely, the states with better creditworthiness have to accept a slight increase in the financing costs for their debts as a result of the joint interest rate. This would do away with the no bailout clause of the EU Treaty and constitute an important step towards community-wide solidarity and Political Union. This would be a milestone in rectifying the flaws in the Maastricht Treaty.[10]

The German Council of Economic Experts also made the proposal in addition to this that the sovereign debts of the Member States exceeding 60% of their GDP be transferred to a joint debt repayment fund. This fund would issue joint bonds, which would again provide the advantage for the highly indebted countries of lowering their interest burdens. In exchange, these countries should be obligated to repay their debts to the fund within the space of 25 years by means of accordingly higher repayment rates, so that each EU state would then comply with the total debt ratio set forth in the EU Treaty of 60%.

The merits of this debt repayment fund should be assessed separately to those of the eurobonds idea. Eurobonds could be an important step towards a European community built on solidarity, especially were it combined with a concept for a European Economic Government (see 5.6). This combination is fundamental because the introduction of eurobonds must indeed go hand in hand with the ability to shape national fiscal policies through a European Economic Government. A supranationalisation of debt policy and a supranationalisation of fiscal policy are absolutely necessary correlates on the road towards eliminating the weaknesses of the Maastricht Treaty.

The bonds from the debt repayment fund proposed by the German Council of Economic Experts are practically a form of eurobonds limited to the duration of the debt repayment period. This time limitation would respond to the concerns voiced by the Federal Constitutional Court. The fund, however, has the disadvantage that the highly indebted EU

[10] There are different concepts for the implementation of eurobonds. Very widespread is the proposal of only introducing eurobonds up to the level of the Maastricht debt target rate of 60% for each Member State, but beyond this to leave it up to the states to issue national bonds, so as of this limit to continue to issue national bonds with the national liability this entails. Jacques Delpla and Jakob von Weizsäcker developed a concept for this division into two categories, calling the joint bonds blue bonds and the national bonds red bonds (Delpla/Weizsäcker 2011).

states (for instance Greece, Italy and Belgium) would have to accept very high repayment rates, which might heavily impinge on their economic policy latitude and as such their economic development. If this problem could be diffused by introducing differentiated repayment periods, the instrument of the debt repayment fund could well be a useful one.

The joint borrowing of funds is a forward-looking solidarity policy. Looking back, though, it can still be said that the exodus of investors from the bonds of the crisis states at the same time triggered a rush on the bonds of the economically strong states (exodus to the “safe harbours”). The already low interest rates resulting from the ECB’s low lead interest rates were pushed down even further as a result of this rush. The Institut für Weltwirtschaft (Institute for the World Economy) estimates the cumulated positive effect from interest rates for the Federal Government for the securities issued between 2009 to 2012 at EUR 68 billion,[11] around EUR 12 billion of which are attributable to the “safe harbour effect” (Boysen-Hogrefe 2012). These interest rate advantages are of course contrary to the idea of solidarity – after all Germany should not be earning money on the back of the crisis in the peripheral states. So it would be appropriate if Germany and the other top creditors in the euro zone were to return the cumulated interest advantages from the safe harbour effect to the community, for instance as a contribution to a fund to finance the European investment programme cited in Section 5.1.

5.4 Towards a European Social Union

The European Commission is currently making a renewed attempt to bolster the social dimension of integration in the scope of implementing the aforementioned Five Presidents’ Report (Juncker et al 2015). This ultimately only equates to reviving the social dialogue which has repeatedly fizzled out in its various different versions. The European Trade Union Confederation (ETUC) has taken this new attempt as an opportunity to make its own proposal on deepening the social dimension. The thrust of this ETUC initiative, “Working for a Better Deal for All Workers”, with its criticism of austerity policy and its calls for an expansive economic policy and a deepening of the social dimension is urgently needed and belongs straight on the EU’s political agenda (ETUC 2016). Important demands are made in all priority areas: “a pay rise”, “improved workers’ rights”, “fair mobility”, “secure labour market transitions” and “social protection and public services”. These, however, are worded in such a general way that many political currents could agree with them and scarcely any instruments are named for implementing them.

Taking into account the deliberations of Social Affairs Commissioner Andor (Non-Paper 2013) it is therefore a matter of presenting as comprehensive a concept as possible to further develop the social dimension of the European Union, as in the current debate this seems to be the key thing lacking.

Here, social policy does not just mean the policies relating the social security systems (pensions, health, families, unemployment) (social policy in the strict sense of the term).

[11] More recent estimates even assume more than EUR 100 billion in savings from the lower interest rates for the Federal Government for the period 2010 to 2015 alone (Gary 2015). This calculation includes effects from the – by German standards – excessively lax monetary policy.

It should be understood as a holistic term which encompasses all the policy fields relating to the social situation of the people in the EU. This depends essentially on three areas:

- the situation on the labour market,
- the development of wages and income and
- the safety net provided by the welfare systems (pensions, health, etc.).

Social policy in the broader sense therefore encompasses labour market and employment policy, wage and income policy and welfare policy.

The proposal supported here to deepen the social dimension of the European Union contains all three of the cited policy areas. In all three fields it encompasses two elements:

- First of all a set of indicators which provides information on the imbalances and disparities on the labour market, in the development of wages and income and in the social security systems and
- second, a set of instruments suited to eliminating the respective imbalances and disparities. The indicators and the instruments should distinguish between key parameters and supplementary parameters, in order to determine the level of urgency for political action and also the levels of urgency for deepening European social policy. As space is limited, the next section only presents the main indicators and main instruments (for more in-depth information see Bsirske/Busch 2013).

For all indicators, annual statistical data and analyses should be presented which investigate for each Member State the development of the indicators, current deviations from the historical trend in the respective country and the deviations from the mean of the EU states or the euro zone states over a longer period of time. There should be thresholds established for the variations, which trigger corrective measures backed up by sanctions. The European Commission would have to present an annual report “On the development of the social situation in the EU” based on these analyses. The Member States would each have to develop a national action plan outlining the planned preventive and corrective measures, and discussing the successes and failures in implementing the agreed European instruments.

A European labour and employment policy

Since the start of the international financial crisis in 2008, there have been increasing unemployment levels, extremely high youth unemployment rates and a sharp rise in precarious employment in the EU. From a historical perspective, the undesirable developments and problems on the labour market are heading for all time highs.

In this policy area, there should be three main indicators – the unemployment rate, the NEET rate for young people (Not in Employment, Education or Training) and the percentage of people in precarious unemployment. These indicators provide information about skewed developments on the labour market, the share of young people not in employment, education or training and the degree of employment in the form of part-time work, fixed-term work, temporary work, special order contracts, marginal employment in the form of “mini and midi jobs” (disparities on the labour market). The national and European reports would have to analyse the causes of these development and anomalies – economic trend, the impacts of austerity policy, possible shifts in the competitiveness of the country, exogenous influences of the global market etc.

Setting a cap for the unemployment rate alone would bolster European social policy. It would gain in significance considerably and it would become clear that a European social policy of this kind would have far-reaching consequences for economic policy. The EU would be forced to end its blind, neoliberal austerity policy and set its sights on a new economic policy paradigm.

The main instruments to combat the undesirable developments and disparities are the national and European macro economic policies to eliminate unemployment, a job guarantee for young people coordinated at European level and a series of European labour market regulations to counter precarious employment situations, for instance, the same pay for the core workforce and temps, strict limitation of special order contracts and rigorous checks of employees seconded in the EU adhering to the principle of “same pay for the same work at the same place” (place of production principle).

A European wage and income policy

The wage and income development in the EU has been characterised by major imbalances and developments in the wrong direction for more than a decade now – in the vast majority of countries there has been a redistribution of wealth to the benefit of capital income, up until 2011 to the largest degree in Germany. At the same time in many countries the low-wage sector and poverty rates have grown substantially.

The main indicators in this policy area are: the real unit labour costs, the size of the low-wage sector in proportion to the labour market as a whole and the poverty rates. These indicators show how the shares of paid work and capital as a percentage of total income have changed (income distribution), how much the low-wage sector has expanded and how many people only earn an income of up to 60% of the median equivalised income. These indicators should also be studied over a period of 15 years and the causes of possible imbalances in the distribution of income be analysed. Equally, varying developments in the different EU Member States should be recorded and explained. For the share accounted for by the low-wage sector and the poverty rates, national and European thresholds could be set. For income distribution, variation margins could be agreed on which show as of when redistributions at the expense of income from employment make corrective measures necessary.

The main instruments to avoid undesirable trends and to combat disparities in this area are: the European coordination of national collective bargaining policies in line with the rule “Inflation rate plus productivity growth”, European rules for national minimum wages (these should be 60% of national average pay) and European rules for national minimum incomes (social assistance standards). Whilst coordinating collective bargaining would be the task of the parties to the collective agreements, the rules for minimum wages and minimum income would have to be governed by laws.

European coordination of the social security systems

Up until the pre-crisis year of 2007, there was a close statistical correlation between the social spending of the Member States and their level of economic development. The higher the per-capita income, the higher the per-capital spending on social security (according to Eurostat this includes spending on old-age benefits, unemployment, family and children, surviving dependents, disability/frailty, illness/health care, social exclusion and housing, with over 80% of the funds in the EU-15 being incurred in the areas of old-age pensions and health care). The variation in social spending could be “explained” in 90% of cases by the variation in the per-capita income of the countries. However, even in the years before the crisis there were countries deviating downwards from this trend, so which spent less on social insurance than would have been commensurate with their level of development. This was above all Ireland, but also Estonia, Latvia, Lithuania, Great Britain and Spain. In the pre-crisis era, it could also be observed that the EU Member States set very different priorities in distributing social protection spending across the different areas (retirement pensions, health, families, unemployment support). The Southern countries give preference to the retirement pension systems and spend less relatively on families and the unemployed than is the case in the countries of Central and Northern European, where relatively more money goes into the areas of family and unemployment.

Two conclusions can be drawn from these observations:

- To preserve the close connection between social spending and the level of development of a country, to stop individual countries from spending less than they should and in turn to avoid social dumping it makes sense to agree on coordination rules at European level and to set guideline figures for social spending.
- This regulatory approach should not relate to the individual areas of social protection, however, but rather to the total spending on social security (neither absolute nor relative minimum standard rules make sense given the varying national priorities). Here the concept selected should be the corridor model, designed to maintain the connection between the level of economic and welfare development through quantitative rules at European level (cf. Busch 2011).

In summary: The concept consisting of the three aforementioned areas to deepen the social policy of the European Union is a break with the prevailing neoliberal EU policy. To put an end to the labour market crisis it requires a policy of sustainable growth and European rules to do away with precarious jobs. In the area of wage and income policy this is above all a matter of measures which ensure that the ruinous competition over pay and wage dumping in Europe is ended. In the area of social security, the development of the welfare state should be linked to the economic capability of the countries, so that social dumping is avoided.

By taking into account the three policy areas of labour and employment policy, wage and income policy and social security policy this is already a very comprehensive approach. The concept could be rounded off by possibly introducing a European unemployment insurance (see box), developing the instruments of European economic democracy (works councils, co-determination, dialogue between the different sides of industry) and the European dimension of public interest services (provision of essential public services).

Box – A European unemployment insurance

In recent years, the possibility of introducing a European unemployment insurance in the EU has increasingly become the subject of discussion (European Commission 2012; Dullien/Fichtner 2012; Kullas/Sohn 2015). There are three different types of insurance to distinguish between here:

"Basic insurance is a European core insurance scheme which unconditionally replaces a part of national unemployment insurance and – if so desired by the Member States – is supplemented by national unemployment insurance. A true basic insurance scheme would mean the unemployed could claim benefits themselves directly from the European insurance scheme. With a non-genuine basic insurance, this would reimburse the national unemployment insurance schemes for the benefits provided up until a certain EU-wide uniform limit. Disaster insurance is a European unemployment insurance scheme which is only activated if a country is hit by an economic shock which has "disastrous" consequences for the country." (Kullas/Sohn 2015, 2)
The European unemployment insurance could be a stabilisation mechanism which helps to cushion asymmetric developments in the economic cycle. Countries experiencing a boom would have to pay higher contributions, and countries in an economically weak period would receive higher payments. This would mitigate the cyclical economic differences between these countries. In simulated calculations, DIW (German Economic Institute) calculated for Spain, for instance, that the crisis slump experienced in 2009, which actually amounted to 3.8% of GDP would have been lowered to 3.1% with a European unemployment insurance (Fichtner/Haan 2014; 849).

Furthermore, a European unemployment insurance could also send out a political signal. Given the increasing criticism levelled at the EU and the growing re-nationalisation trends, insurance of this kind would support positive identification with Europe and create a direct socio-economic relationship between the workers of the Member States.

However, when designing the European unemployment insurance the institutional variations on the labour markets in the Member States, which can contribute to structural differences in the level of unemployment, would have to be factored in. By limiting the time that benefits were paid from the European insurance system and through the rule that payments into and received from this had to be balanced over the economic cycle of a member state the effects of the heterogeneous labour markets could be compensated.

These differences could, however, also be an incentive to harmonise the institutional frameworks in the European Union Member States once the insurance was introduced.

5.5 Stricter financial market regulations and a more effective fiscal policy

The international financial crisis discredited the idea of free financial markets once and for all. After years of de-regulation, stricter regulation is on everyone's lips again. In the EU, regulation of the financial markets is an aspect of the single market and as such heavily subject to European legal acts. The high density of regulations at EU level means that independent national regulation is now only possible to a very limited degree. This means that re-regulation also has to take place first and foremost at European level. The national governments do however exercise decisive influence over this through the European Council. It would be wrong, therefore, to deny their role and to claim that the EU financial market laws were nothing but a product of EU red tape and lobbycracy.

A host of regulatory measures have already followed in the wake of the financial crisis. Some of these have indeed pushed back certain financial transactions that played a major role in the crisis (if they had not already self-destructed). Essentially, however, regulation has been geared towards stabilising the existing system. It has to be noted that this regulation is essentially based on the resolutions of the G20 and global bodies such as the Financial Stability Board (FSB) or the Basel Committee on Banking Supervision, which were then transposed to the European level. Above and beyond the G20 agenda, first of all the banking union can be cited as a major European regulation project, which comprises euro zone-wide communitisation of banking supervision, resolution and deposit insurance. The Europeanisation behind this is to be welcomed on the one hand, but the mechanisms have various weaknesses such as the non-inclusion of the British financial markets, the selection of the ECB as watchdog and the continued excessively complex nature of the banks under supervision.

Initiated but not yet implemented is also the common introduction of a financial transactions tax by ten European countries in the scope of the enhanced cooperation procedure. Although a European Commission proposal for this has been on the table for years now, the negotiations are very sluggish. Ultimately the tax is likely to fall short of its potential, the possibility of the negotiations failing altogether cannot be ruled out either. And yet the financial transaction tax is a very effective way to contain speculation and furthermore to mobilise income for urgent societal tasks – such as the fight against global poverty or protecting the environment and the climate.

Both the means and the end in renewing the financial sector is to break the power held today by key players such as major banks, credit rating agencies and major insurance companies – for instance by certain business areas completely ceasing to exist in the future (like banks' proprietary trading). This means a massive contraction of the financial sector down to an infrastructure and service function. This entails banks being required by law to confine themselves to their core functions of payment transactions, savings, and loan financing. Instead of tailoring the regulation to the major listed banks as is generally the case, regulation should be conceived the other way round – notably by thinking about how the Europe-wide foundation of alternative banks based on the template of building societies, cooperatives and public development banks, which do not exist in many European countries, can be encouraged. At the same time measures have to be taken to stop shadow banks being used to circumvent regulation.

For insurance companies, a significant shift (back) of private health and old-age insurance to statutory and solidarity-based social insurance is on the agenda, as is limiting their short-term and speculative investment possibilities.

To put an end to the uncontrolled proliferation of financial products it would make sense to introduce a European approvals procedure in the form of a "financial technical inspection authority". In the future every financial instrument would have to undergo an approval procedure, which would check it for its macroeconomic added value and its ability to be controlled – this would put an end to destabilising speculation with exotic financial products.

Another important arena is fiscal policy. This comes under the competence of the national governments. Competition over taxes has, however, led to independent taxation policy only being possible to a limited extent now because capital is very mobile and with the help of compliant governments escapes taxation. In recent years, the contribution from profit and capital income to the tax revenues of the EU has declined significantly as a result. Experience shows that tax dumping can only be solved with a skilful mix of international cooperation and confrontation. Concerted measures against tax evasion and avoidance would pave the way for the long overdue redistribution of wealth from the top to the bottom, which would then have to be decided on in the form of higher taxes on profits, high incomes and wealth levels at national level.

This taxation policy cannot come from the EU alone given the many tax havens in the EU Member States. From time to time (see for instance the tax arrears of EUR 13 billion Apple has to pay to Ireland as decided by the European Commission on the basis of the state aid regulations, which paradoxically enough Ireland's Minister of Finance is resisting because of revenues of EUR 13 billion) and when it comes to legal implementation, the EU can and must assume a by all means useful role. Without unanimity, the EU could, for instance, adopt certain reporting obligations – for instance a public register of company owners or the "country-by-country reporting" of corporate profits and taxation. Stopping companies transferring profits to tax havens also entails an international harmonisation of corporate tax with a broad calculation basis and a sufficiently high minimum tax rate.

Furthermore, a coordinated European approach would enable targeted, effective measures against tax havens. This includes a Black List of tax havens in order to impose sanctions, a penalty source tax on payments and capital transfers to tax havens and the termination of double taxation agreements with tax havens. The loopholes in the automatic exchange of information about capital income must be eliminated and also *inter alia* be brought to bear in relations with the US by harnessing the EU's clout.

5.6 A democratically legitimised European Economic Government

The first section of this paper already described how the US dealt with the economic crisis of 2008/2009 far better and quicker than the euro zone (cf. Chapter 3). This has to do first with the different economic philosophy, which enabled an expansive economic policy in the US, second, however, with the more propitious institutional conditions the US has for implementing fiscal policy. Whilst in the US an expansive fiscal policy could be tackled on the basis of a large federal budget, in the EU, each Member State acted alone to combat the crisis. The European Commission may have tried to coordinate these policies but failed more than it succeeded.

To be able to enforce a consistent economic policy, a single currency area requires both monetary policy and fiscal policy. As a federation, the US has been institutionally highly superior to the group of states that the EU constitutes to date. Furthermore, at the time the Maastricht Treaty was adopted the philosophy dominated in European macroeconomic theory that national economies could be better steered through monetary policy than fiscal policy.

The view was that the state was not good at dealing with taxes anyway, so a low tax rate and a policy of debt caps was the best regulatory policy. For this reason the Maastricht EMU construction set great store by the debt criteria but more or less totally neglected the need for an expansive fiscal policy at European level. The crisis in the real economy in the aftermath of the major financial crisis in 2008/2009 has shown how wrong this neoliberal view of macroeconomic policy was.

Anyone aiming to repair the flaws of the Maastricht Treaty must therefore attach great importance to the Europeanisation of fiscal policy when revising the treaties. The best way to do so is to establish a European Economic Government.

A new European economic policy (5.1), the management of the European Clearing Union (5.2), the implementation of a joint debt management system (5.3), the enforcement of a comprehensive European social policy (5.4) and the surveillance and monitoring of stricter rules for the financial markets (5.5) – all these would be the tasks of a democratically elected supranational economic government in the euro zone.

Unlike the concept of a European Economic Government in the European Council, which is based on intergovernmental cooperation between the Member States, the implementation of our alternative programme is under the responsibility of a democratically elected supranational government. This presupposes further democratisation of the European Union or the euro zone. As the European Union will not for have a democratically elected government in the near future, a transition solution would have to be found first of all.

In the scope of the given institutional structures, the following provisional structuring of the EEG makes sense – the European Commission develops the main features of economic policy, which also includes defining the cornerstones of the central public budgets of the Member States. These main features would then have to be accepted by the Council of the European Union in the form of Ecofin by a double majority and approved by the European Parliament by an absolute majority (ordinary legislative procedure).

It would be imperative for this economic government to have the competence to define the cornerstones of the Member States' budgetary policy, as this is the only way to enforce a consistent European fiscal policy which would ensure the macroeconomic stabilisation of the European Union/the euro zone in cooperation with the ECB (cf on this also the arguments in Chapter 5.1.). The 2012 blueprint by the Barroso Commission for a deepened economic and monetary union yet to be implemented (cf box on page 32ff.) also sets forth this type of decision-making procedure for European economic policy. Transferring the competence for defining the cornerstones of national budgets to the European level – so goes the argument – makes the expansion of the competencies of the European Parliament in the form of the co-decision procedure (ordinary legislative procedure) indispensible, i.e. the Council of the European Union and the European Parliament would be have equal standing as legislators. Europeanisation of the budgetary competence would require oversight by the democratically elected European Parliament. It would be indispensible for the Parliament and the Council to be in charge of the oversight of the EEG given the great significance of the national budgets in implementing a European fiscal policy as well as for democratic reasons.[12]

[12] If the European Union had already had a European Economic Government before the major crisis in 2008/2009, this would have had the following advantages: In Ireland and Spain, which recorded high GDP growth rates which were not sustainable due to the real estate hype, the EEG could have implemented a restrictive fiscal policy which would have put the breaks on the overheating economy. In Greece it could have rejected the high deficits in the public budgets which already left Greece with a debt ratio of almost 100% in 2010. As Greece had excessively high GDP growth rates, it would have been time for this country to have been forced to finance its budget more through tax revenues – revenues which Greece forfeited only as a result of tax corruption and a deliberately incompetent tax administration. This potential measure by an EEG would not have prevented the 2008/2009 crisis but would have made it much easier to deal with the crisis as compared to the status quo in all three countries the debt ratio would have been considerably lower.

For a European Union built on solidarity

Given the fundamental crisis the EU finds itself in, this polemic paper emphatically calls for a “Plan A”, which stabilises the euro and the EU through radical reform. The starting points are a common social and economic policy for the Member States and decisive democratisation of the EU. By contrast it firmly rejects the “Plan B” concept – leaving the euro – as the euro zone and the EU would be plunged into an even graver economic crisis were they to return to national currencies – most severely incidentally in the less developed Member States. An economic crisis of this kind would also destroy the single market and be so severe that it would leave the European Union with scarcely any chance of political survival.

The argument of the supporters of “Plan B”, that “Plan A” cannot be enforced politically can be turned on itself without further ado. For “Plan B”, too, there is only support in the EU today on the political periphery. “Plan B” will not secure a majority; all the important Member States are quite rightly blocking this concept.

The political mainstream may have political majorities, but it has no solutions at hand to put an end to the EU crisis. The small pragmatic steps decided on by the heads of state and government in September 2016 in Bratislava to further develop the EU are neither suited to ending the refugee crisis nor will they lead to the resolving the economic and social crisis. The far-reaching flaws in the Maastricht Economic and Monetary Union and the economic and social blows dealt above all to Southern Europe by European austerity policy mean that critics on the right and left edge of the political spectrum in many cases see the only solution in returning to the nation state or dismantling or rolling back the euro. In doing so they are first ignoring the cited major political and economic risks inherent to this path. Second they are ignoring the powerlessness of the nation states in managing and controlling the global ecological and economic problems of the world, including the international financial markets’ susceptibility to crises and the ever-growing migration and refugee movements. The central message of this polemic paper lies in the thesis that the EU and the euro can be reformed. By introducing the reforms outlined, such as the alternative economic policy, the clearing union, the common debt policy, the steps towards a European Social Union and a democratically elected and overseen European Economic Government, the EU and the euro can effectively be transformed towards a Europe built on solidarity.

The European Union will only survive if it launches the debate over the best vision for its future and if the progressive forces in the political sphere can assert the model of a Europe built on solidarity.

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