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Ditch EU Superstate Idea for 'Federation Lite'

By Emma Bonino

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The euro contagion triggered by Greece's sovereign-debt crisis has now infected Italy. Silvio Berlusconi's government, together with a fiscally conscious opposition, managed to secure — in only a few days — parliamentary approval of a package of measures worth more than 50 billion euros, in order to restore market confidence in the soundness of Italy's economic fundamentals.

In the absence of a strong and credible EU-wide commitment to stop the contagion, other euro-zone countries hit by the sovereign-debt crisis have been following a similar script. But the financier George Soros is right: Europe needs a Plan B. The huge crisis now hitting the euro zone and the European Union must not be wasted. It must be used to move Europe farther along the road of integration, lest the union begin to reverse course.

When the euro was created, its architects were well aware that no monetary union in history had succeeded without the backing of a political union. Hopes nonetheless were pinned on the existence of a large, European-wide market and euro-zone member states' commitment to keeping fiscal deficits, public debt and inflation under control. But several euro-zone members did not keep their word, and the crisis engulfing their sovereign debt now endangers the survival of the euro zone as a whole.

As coordination among sovereign states has plainly not worked, only two possibilities are left. One option is that euro-zone members remain sovereign and claim back their monetary powers, which implies not only the death of the euro, but also a threat to the internal market and to the EU's very existence. The other option is to cede more sovereignty to the EU, which implies not only the survival of the euro, but also, and perhaps more importantly, the birth of Europe's political union.

This choice is becoming clear for all to see. Both Jean Claude Trichet, the European Central Bank president, and Jacques Attali, founding president of the European Bank for Reconstruction and Development, have now called openly for the establishment of a European Finance Ministry. The glacially technocratic and apolitical International Monetary Fund, in its latest report on the euro zone, goes as far as mentioning "political union and ex ante fiscal risk sharing" as conditions for any monetary union to work.

But few people have thought through what a politically united Europe might look like. Most, indeed, implicitly assume a massive transfer of almost all functions of government from member states to the federal center, and thus the creation of a "European superstate."

We believe instead that a "Federation Lite," with a budget limited to about 5 percent of Europe's gross domestic product (compared with almost half of GDP in most EU member countries), would enable a realistic political union. These resources, 600 billion to 700 billion euros, would replace and not add to national budgets, since they would accompany the transfer of some governmental functions. In some cases, this would also allow for economies of scale.

Indeed, consider defense. A single standing EU army in lieu of Europe's largely irrelevant and inefficient national armed forces, with a budget of about 1 percent of EU GDP — some 130 billion euros — would instantly become the world's second leading military force, after the United States, in terms of resources and, one would hope, capabilities. Assuming a flat rate of national contributions to the federal budget, Greece, for example, would shed a precious 2 to 3 percentage points from its public deficit.

In addition to defense and security, it would make sense to move other competencies to the federal level. Prime candidates are diplomacy and foreign policy (including development and humanitarian aid), immigration, border control, some infrastructural projects with European-wide network effects, large-scale research and development projects, and regional redistribution.

These functions of government, and a federal budget of this size, would, of course, require the equivalent of a finance minister. It would be well worth it: A critical mass of 600 billion to 700 billion euros would make macroeconomic stabilization and redistribution possible when necessary, without the establishment of ad hoc mechanisms or, worse, the publicity and attention surrounding summit after summit called to decide the next package of aid to financially distressed countries.

The term “transfer union” is now used, especially in Germany, as a pejorative synonym for federation. We agree that moving resources from one place to another cannot be the raison d’etre of a political entity. Only specific governmental functions can. But when some of these functions are assigned to a federal level of government, one has the additional tool of being able to transfer resources to pay for these tasks. When this is necessary, states experiencing a boom should be taxed more than states experiencing a bust.

This redistribution is purely routine in any federation, beginning with the United States, and the public pays little or no attention to it. New York’s government and people do not protest because Mississippi receives far more from the federal budget relative to what it contributes than New Yorkers do.

Despite today’s problems, the euro zone is not only richer but also economically sounder than most other countries and regions. The main threat to the euro is precisely the euro zone’s lack of a modicum of political unity — a Federation Lite that makes solidarity possible, and even automatic, when it is needed.

In this sense, the looming prospect of a full-blown Italian debt crisis could prove beneficial by focusing European minds. The words “e pluribus unum” need not be included on euro notes and coins to recognize that the principle for which they stand — the political unification of Europe, no less than that of the United States — is indispensable to the euro’s survival.

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