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SHOULD EUROPE CHANGE? NO | SHOULD EUROPE BE CHANGED? YES

The recurrent calls for "Europe to change", whatever their origin, are as many empty purely wishful thinking statements that haven't the slightest chance of being implemented for the simple reason that such an "Europe" does not exist. One expects that it will reform itself despite lacking any powers either to do so or to conduct independent policies (except in the few specific areas specifically mentioned in the Treaty). The fundamental problem is therefore to "change Europe" so that it may indeed conduct effectively "policies" that meet its citizen's expectations. Two options are possible.

Ever more voices are demanding a reorientation of European "economic policies" towards less austerity. These sirens maintain a climate of confusion by insisting that Europe is carrying out a "policy" while, in reality, it is confined to verifying compliance by Member States of commitments to which they have freely subscribed. It is therefore incumbent on the latter to agree on possible changes rather than on the Commission to impose them, even if should and/or must make proposals that are in the common interest.

It is certainly not the outcome of recent elections in the United Kingdom, Poland, Finland or Spain which is susceptible to strengthen European cohesion. Quite to the contrary, everything points to the incompatibility of the "democratically expressed demands" of electors. Success of the "left" in Spain which comforts Greece's insistence on a change in budgetary policies supposedly imposed by "Brussels"! Success of the "right" in the UK, Finland and Poland, strengthening the Eurosceptic camp which aims at repatriating the few elements of shared sovereignty.

| The ambiguity of posturing

The ambiguity of this posturing is cleverly manipulated according to two distinctive categorisations that partially recover each other: on the one hand the split between Euro sceptics and Europhiles, and, on the other, between those who advocate "another Europe" and those who favour the continuation of the process of political, economic and social integration. One should be aware of the similarity in views between Euro sceptics and those who support a "reformed" Europe, a concept that is defined in the light of purely national interests and lacking totally of consensus. Their demands revolve largely around the question of "sovereignty" which are, more often than not, incompatible with carrying out the very "European" policies they wish to change.

Such a situation leads inescapably to blocking any much needed decisive institutional or political progress as the Union faces fundamental choices over which compromise looks highly unlikely. The undisputable progress made in the aftermath of the crisis (Budgetary Treaty, Banking Union, etc.) has also shown the limits of the "Community method", creating difficulties in the implementation of new initiatives such as the Juncker Plan, the Capital Market's Union or Immigration policies.

The polemic over "Grexit" constitutes a perfect example of confusion that is being carefully manipulated. On the one hand you find those that believe that Grexit has become manageable and on the other those who fear contagion leading in due course to the implosion of the single currency, a situation which has led to the game of "liar's poker" between Greece and the Eurogroupe occupying centre stage. The real problem lies elsewhere: without further integration of the Economic and Monetary Union (EMU), the euro is unsustainable with or without Grexit! It is correct that leaving EMU, Greece could be the trigger of a process of implosion of the euro in the same way as the bankruptcy of Lehman Brothers was the spark that ignited the financial crisis, which was in any event inevitable because of the excessive indebtedness induced by the overwhelming share that financial markets/products had taken in the world economy.

| The *status quo* is not an option

Let us take a closer look at various facets surrounding the problems encountered by the single currency: its creation – that one can regret or not – is an inescapable reality. Two options exist: a more or less orderly or chaotic dismemberment or its completion as foreseen by the Treaty. The status quo is not an option because it would perpetuate the incoherence between a shared monetary policy and fragmented economic policies. If the situation has survived so far, it is only because Members States accepted – in principle – to comply with the strict discipline imposed by the Stability Pact, the Six and Two Pack, the Budgetary Treaty, etc., which prevents taking into account developments – actively engineered or passively endured – which EMU should address through a mechanism of solidarity (a transfer Union firmly rejected by its Members).

That is why it is possible to postulate that Europe does not "conduct" a policy but rather "applies" rules which leave a limited margin of manoeuvre to the agents charged with their implementation (Commission – ECB). The latter should be highly commended for the skills they deployed which, with the exception of the Greek case, have avoided so far direct confrontations between Member States. Let us examine these two options.

| Option 1: dismembering the Economic and Monetary Union

The aim of dismembering EMU is to restore full monetary sovereignty to each of its Members, allowing them to manage independently a satisfactory equilibrium between their budgetary policies, their exchange rate, le level of their indebtedness etc. If such an objective seems appealing, in particular in the face of the harm wrought by the crisis and the natural tendency to "try something else", recovered control over these elements remains nevertheless very relative. Indeed, returning to monetary independence brings with it renewed vulnerability to speculative attacks by financial markets. National authorities would then be confronted either with further "devaluations" or with implementing unpopular austerity measures and/or exchange controls to defend the chosen parity.

Several consequences will result from this situation. In the immediate aftermath the probability of economic chaos resulting from the difficulties of executing contracts – all denominated in euro – which will impact all economic actors: indeed the principal of "continuity of contracts" which presided over the smooth transition of contracts denominated in the "tributary" currencies into euro denominated contracts, is also applicable in case of an exit from the euro. This means that the amounts remain in euro (or their equivalent in the new currencies). Debtors whose currency has "devalued" relative to the euro (which is one of the main ways of restoring competitivity) will see the value of their debts soar and creditors will have to face defaults impairing their own solvency. Even if governments impose through legislation the compulsory conversion of contracts into their national currencies, such measures are not applicable to cross border transactions and in particular to public debts held by foreign investors which must be repaid in euro or its equivalent. For instance, a devaluation of 20% of a "New French Franc" relative to the euro would translate into the increase of the national debt (over 50% of which is in foreign hands) from euro 2000 billion to NFF 2400 billion.

The possibility of such an outcome would, of course, induce operators to take precautionary measures early on: one should anticipate capital flight towards more stable countries – the USA, Canada, Germany – though dismantling EMU would also make the New DM vulnerable. This phenomenon has already taken place in Greece and has so far remained under control only because of the relative small size of the economy and massive transfers of private debt to the public sector as well as continuous liquidity injections provided by the ECB to the domestic banks to compensate for the withdrawal of deposits. Depositors are quite naturally seeking the protection of "bank notes" which can be used anywhere within the Eurozone to guard against withdrawal restrictions or the implementation of exchange controls.

Such a situation must mechanically lead to the paralysis of the European economy which, through the creation of the single market and the single currency, has become far more integrated, complicating dramatically the establishment of new stable parities between EMU former Members as well as with the rest of the world. Probable consequences are soaring unemployment as well as budgetary deficits, competitive devaluations leading to galloping inflation and a severe loss of purchasing power by households. Thus, it entails – at least in the short run – restoring entirely "managed" and "regulated" markets as existed after WWII but which have been largely forgotten.

Of course, it would be possible in the aftermath to reconstruct on more solid ground the architecture of international and intra-European economic relations but this would necessitate a considerable amount of time. It behoves those who advocate this solution to explain the sacrifices resulting from exiting the single currency. Greeks seem to have well understood this dilemma with polls showing majority support for remaining inside EMU.

Therein lies the Achilles tendon of those who advocate either the complete dismembering of EMU or the unilateral withdrawal from the euro. It is particularly true for the national Front in France which finds itself in a difficult position when it makes withdrawal from EMU one of its major platforms; confronted with the resistance of the Greek population, it is hard for the Front to change direction without losing credibility. One can expect that it will progressively shift towards an intermediary position recommending to remain within the Eurozone on the condition of reforming EMU along lines that will – undoubtedly – be inacceptable to its members. Such a hypocritical stance will be reminiscent of the changes David Cameron is seeking from his EU partners. On this specific but crucial matter, Marine Le Pen will, however, only be adopting positions that are largely shared by significant elements of both the French Socialist and new "Republican" parties giving her much needed cover.

| Option 2: completing the Economic and Monetary Union

If dismemberment leads – at least temporarily – to significant hardship for the most vulnerable members of society, completing EMU as initially foreseen by the Treaty will not happen without some sacrifices by the better off. It entails providing the Eurozone with a budget, sufficient "own" resources, a borrowing capacity as well as a supranational governance applicable to the membership as a whole. This means a further considerable transfer of sovereignty by Members but before rejecting such a move out of hand, one should realise that shared sovereignty within the EU (as within the ECB) has the great merit of being "effective" while within a globalised world , "national sovereignty" remains often a nominal if not virtual concept. The proof lies in the fact that when the euro was created participating countries (except Germany) recovered a measure of sovereignty in conducting monetary policy instead of being subject to the exclusive dictates of the German Central Bank.

If rationally the option of reinforcing EMU seems the better choice, recent internal as well as international political developments expose the weakness of Europe and could very well lead to the option of dismemberment by default. The possibility of a chaotic implosion of the EU followed by the perpetuation of a structurally weak Europe on the international stage is far from negligible, resulting largely from accrediting the idea that Europe is responsible for the crisis, a totally irresponsible position endorsed by many of those who pretend to be its loyal supporters.

| Conclusion

Time has come to take a stand and be counted. Does the European construction, that was eagerly endorsed in the aftermath of two world wars and a severe worldwide economic depression and which brought 70 years of peace (and prosperity) to its members, remain the right answer in a globalized multipolar world? To believe that in such a context, European countries will be able to hold their own individually, relying on their accumulated wealth, is sheer utopia! A collective approach is the sphere of defense, foreign policy, management of the environment, the fight against terrorism, etc., is indispensable if one wished to preserve the social conquests and in particular the freedoms of which the continent is quite rightly so jealous.

Only an integrated European Union can bring a credible solution to this challenge. It implies shared sovereignty on matters that transcend the capacities of national governments but equally a strict observance of the principals of subsidiarity where it is more efficient so that decisions are taken as close as possible to the citizen. This allows to take into account the different cultures that together have created Europe's heritage, the diversity of which should be preserved at all costs. Functioning models exist as in the United States or other countries of "continental" dimensions. It is up to us Europeans to design the modalities of an institutional structure that is appropriate for our needs and dreams.

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