

## **THE EU: PRESENT AS PRELUDE**

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For someone of my generation, who grew up among World War I veterans and lived through the horrors that beset Europe in the 1930s and 1940s, the very existence of the EU is a most remarkable achievement. No matter what its errors and omissions, none should diminish that signal accomplishment.

But this achievement is in serious trouble. A decade after its enlargement and as elections loom, its promise is tarnished and its realities are painful.

When an outsider looks at the EU, what is seen in various countries is a young generation thwarted and probably permanently blighted, the rise of nationalism, racism and bigotry, impoverished elders, political impotency, falling levels of living, forbidding levels of unemployment, increasing differences in income and wealth and influence among nations and classes, huge internal tensions and revived ancient animosities, and diminished significance in the world. Is it any wonder that internal Euro-skepticism is rampant and neo-fascism rising?

It would be reassuring to think that the recent large-scale economic crisis (whose major contributor was the United States) is the cause and that as its impact diminishes, the EU's problems should wane. But that is not the case. There are significant economic problems internal and external to the EU. There are compounding social and political problems as well.

The creation of the EU and adherence to it by those who joined later required the relinquishment of some sovereignty. That is what made it notable but ultimately too little was ceded, not too much as the Euro-skeptics would argue. Before the creation of the euro, the absence of a common regulatory, fiscal and monetary policy was not a serious problem because customary adjustment processes (dominantly, flows of resources, price level adjustments and exchange rate variations) could offset imbalances among member country economies. In fact, the existence of the EU facilitated those adjustments.

With the creation of the euro, a common monetary policy was instituted but regulatory and fiscal policies remained the province of each member country. In a textbook world of instantaneous adjustment, this would not have been a problem. If divergent fiscal and regulatory policies resulted in the need to equilibrate among countries, in a textbook world that would occur promptly and imbalances would be rectified. But, of course, in actuality that does not happen promptly. Imbalances persist and countries can pursue the divergent regulatory and fiscal policies that create them for quite a time. If the actual level of their fiscal deficits can be hidden or

capital inflows encouraged by various means, that time can be extended. However, ultimately countries whose policies made them non-competitive and unable to meet their obligations required aid if they were to remain in the euro regime. Others, whose situations were less dire but not fully sound, also began the painful process of revamping their regulatory and fiscal paths without seeking aid.

Aid, however, is not a free commodity as those requiring it quickly learned. Though masked in memoranda of agreement, tranches, conditions, oversight, reviews and other seeming technicalities, the national price for aid is relinquishment of sovereignty. What was not given up when the euro was adopted was now extracted and requirements were imposed. Countries receiving aid are not able to enact their preferences legislatively, establish timetables, protect their institutions and (most importantly) their citizenry from the conditions imposed by the aid-granting organizations. The youth lost their future, the aged their pensions and all lost the promise of a satisfactory level of living in a relatively tranquil setting. Whether or not this would actually have been their future, not unexpectedly they looked for someone to blame for this apparent loss.

The motivations of those granting aid became suspect as the price of aid became apparent. Old prejudices and animosities have found new apparent verification among donors and recipients. Personal lives, social institutions, national and international political alignments, all were altered and diminished. And troubling as the present is, there is the overhang that the aid is in the form of loans, not grants.

Troubling too is the internal response even in countries not receiving aid. Even there, the attitudes, emblems and language of Europe's revolting past have re-emerged. Economic pain strengthens and abets those whose motives and beliefs are divisive and the EU economy generally, and its financial aid programs in particular, are providing more than ample nourishment.

What is to be? Having suffered and accepted so much to preserve their membership in the euro zone, it is doubtful that any country receiving aid will soon leave. Having suffered from the doctrine of retrenchment (rather than expansion) as a cure for its troubled economy, it is doubtful that any country can or will execute a 180 degree turn. Yet many EU members are far from thriving. In general, the future for the EU looks grim even if it survives the forces of divisiveness within it. The institution itself is hardly the organization of equals based on mutual respect, capable of shared decision-making that was its promise.

That prospect is worsened by events outside the EU's borders. At the time of its formation, it was a force in a world that did not have strong or potential competitors in Asia, Africa and South America. Not today.

Facing this competition, the EU is not positioning itself well. Rather, extended periods of slow or no growth adversely affect its competitiveness. The likelihood is that the EU has passed the point of its greatest economic prominence.

Internally and externally, the EU faces such challenges to its unity, prosperity and prominence that it is unlikely to be able to fully surmount them.