

TOWARD A CLOSER UNION? SOME IMPLICATIONS OF THE EU RECOVERY PLAN

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Abstract

The tragic social and economic disruption of the COVID-19 pandemic has forced countries to take what they considered to be the proper steps toward improving their economies. In the case of the EU, its recovery package has sparked debates around impending fiscal federalization and the future of economics, sovereignty and democracy in Europe. This paper looks at discussions surrounding the package's long-term effects especially as regards a fiscal union (and how such a union might affect EU politics and democracy), and, finally, how such a move might translate into seismic cultural turmoil. In addition, the current EU move toward a potential closer union is often contrasted with the formation and functioning of the US, from which lessons might be gleaned and, hopefully, heeded.

Despite the otherwise encouraging prospects touted by politicians and MMT advocates, the long-term effects of inflation in the wake of the relief package could be serious and their prospective emergence should not be ignored. Moreover, if one thinks, as Sowell might say, 'beyond stage one', the effects of fiscal federalization of the EU might well have effects which trickle down to the very foundations of cultural and democratic interactions.

Keywords: Fiscal union, EU, democracy, cultural disruption, US

JEL Classification: F02, F50.

I. Introduction

The COVID-19 pandemic has led to much economic and social disruption around the world. In the wake of the lockdowns and with the advent of vaccine mandates, people who would generally make up important parts of the economy have had to, so to say, abandon their posts. Supply chains are disrupted¹, employment is down (in most cases because of a worker shortage and mass exodus from the workforce²) and the world is struggling to recover from what is being seen as the great pandemic of the last hundred years.

Every country in the world is trying to find the best way to stave off further economic hardships, and the EU, as a united block is also looking at ways to speed up

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¹ COVID-19: Managing supply chain risk and disruption. Deloitte <https://www2.deloitte.com/global/en/pages/risk/cyber-strategic-risk/articles/covid-19-managing-supply-chain-risk-and-disruption.html>

² Michael Wolf, *The global labor shortage- How COVID-19 has changed the labor market*, Deloitte. <https://www2.deloitte.com/x/en/insights/economy/global-labor-shortage.html>

recovery and avoid future problems. Of course, the desire to implement lasting and efficient change does not always equal good results so it is important for countries in general, and the EU as a block especially, to remember that intention and result must be weighed carefully before implementation of any plan can take place.

Currently, in what will be “the largest stimulus package ever financed in Europe”, the EU’s long-term budget, together with NextGenerationEU (NGEU) a temporary mechanism designed to help with recovery³ (sitting at a total of €2.018 trillion⁴ in current prices) is lauded as the perfect solution to a difficult post- pandemic European revival. It is advertised as bringing about “a greener, more digital and more resilient Europe.”⁵ Might that truly be the case, or is the EU embarking on changes that have consequences it has not foreseen, or even worse, has ignored?

II. EU Recovery Plan: Where to?

The EU Recovery plan is included in the EU’s 2021-2027 long term budget and its Next Generation EU recovery instrument. It totals € 2.018 trillion in current prices⁶. The 2021-2027 multiannual framework equals €1.211 trillion, and it will be combined with the €806.9 billion which make up the Next Generation EU recovery instrument’s total value.⁷

The European Commission’s website notes that this is “a truly modernized budget”⁸ and breaks down what the money will be spent on, that is: more than 50% of it is allocated to research and innovation meant to modernize the EU (this will include “fair climate and digital transitions”, as well as “preparedness, recovery and resilience”⁹); 30% of it will be allocated to fighting climate change, protection of biodiversity, and gender related issues; 20% will be going toward digital transformation.¹⁰

The EU budget is to be funded in a few ways: EU own resources based on customs duties, gross national income (GNI) based on direct contributions from member states, contributions based on the value added tax collected by member states (VAT), a new contribution for member states based on their waste of non- recycled plastics, and other sources (such as competition revenue and other fines as well as taxes on EU officials’ salaries).¹¹

The Next Generation EU’s funding will come from borrowing on the capital markets. These amounts, approximately EUR 806.9 billion are to be paid back until 2058. For this repayment the EU will be looking to add new own resources such as: the carbon border adjustment mechanism (a tax on products not made in the EU in order to

³ Recovery Plan for Europe, *European Commission*. https://ec.europa.eu/info/strategy/recovery-plan-europe_en#the-largest-stimulus-package-ever

⁴ *Ibid.*

⁵ *Ibid.*

⁶ All sums are expressed in current prices unless otherwise noted.

⁷ The 2021-2027 EU budget – What’s new?, *European Commission*. https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027/whats-new_en

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ The EU’s 2021-2027 long-term Budget and NextGenerationEU, FACTS AND FIGURES. *European Commission*.

ensure they face the same CO2 emission costs as products made in the EU), a digital levy (a tax which includes that digital businesses also pay their “fair share”), and, own resource based on the EU emissions trading system (ETS), that is, “an equal price on CO2 emissions everywhere in the EU”.¹² There will also be consideration given to new taxes, such as a new corporate tax base and a financial transaction tax.¹³

As Leino-Sandberg and Vihriälä observe, through the NGEU recovery package a “fiscal union emerges [...] in two senses: through joint borrowing, which impacts on the aggregate fiscal stance; and through the transfers to member states. The EU is effectively getting a fiscal capacity that many have considered an essential but so far lacking element of a functioning monetary union”¹⁴. In what will be “the largest stimulus package ever financed in Europe”¹⁵, the EU’s long-term budget, along with NextGenerationEU¹⁶ is lauded as the perfect solution to a difficult post- pandemic European recovery.

As Leino-Sandberg and Vihriälä observe, through the NGEU recovery package we can see the emergence of a fiscal union, both through joint borrowing and through the subsequent transfers to member states¹⁷. Even though borrowing money on behalf of all member states is not something the EU was set up to be able to do by its founding treaties, the accelerated crisis response due to the COVID-19 pandemic is now affording it the type of capacity which many have already argued should have come with its monetary one.¹⁸ This future fiscal union would be incomplete, though. In order for the EU to finance its budget, through the Own Resources Decision (ORD), it needs to be approved by all member states through their national parliaments. This process is of course going to cause disagreements as is generally the case with the need for unanimous decisions.

Some of the most obvious pro and against arguments in the case of a European fiscal union are easily imagined, as one article on the EU website Debating Europe also underlines.¹⁹

Firstly, it is difficult, some argue impossible, to sustain a monetary union without a fiscal one. The argument goes that central EU monetary policies combined with national fiscal policies are unsustainable and that an EU Finance Ministry accompanied by good democratic oversight will make the Union strong and more stable “mutualizing credit risk while imposing tough fiscal discipline.”²⁰

Secondly, many see that in the current international scene, it will be difficult to keep the EU nations from decline without more fiscal unity: “Unless a strong fiscal element is adopted, predatory markets will be able to pick off the weakest members of

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ Päivi Leino-Sandberg, „The Emerging Fiscal Union needs a solid foundation” Vesa Vihriälä 31 May 2021, *VoxEU*, <https://voxeu.org/article/emerging-fiscal-union-needs-solid-foundation>.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ Sandberg and Vihriälä, “The Emerging fiscal union...”

¹⁸ *Ibid.*

¹⁹ Debating Europe, “Arguments for and against a fiscal union”. <https://www.debatingeurope.eu/focus/infobox-arguments-for-and-against-fiscal-union/#.YUX5d9NudUI>

²⁰ *Ibid.*

the euro herd. Fiscal union would raise Europe's market credibility and eurobonds would rival US treasuries.”²¹

Thirdly, the desire for a united Europe is strong in many circles: “Central tax resources and mutualized debt would become powerful symbols of a united Europe. The need for strong democratic oversight will spur the creation of a revitalized European Parliament and directly elected Commission.”²² Such a construction, a United States of Europe, could arguably compete better on the international level and have a stronger presence in global debates and actions.²³

The Union's finances might arguably be better organized and, the article goes, and keep in fiscal check “wayward Irish, Spaniards or Greeks.”²⁴ And, of course, stronger and more relevant EU institutions would help create a clearer separation of Union and national fiscal competences.²⁵ But there are also problems with such a union, as the above-mentioned article also notes.

Firstly, a central governmental power is not expected to be able to deal with all the local problems arising in the EU nations, especially since Europe is so much more diverse in its traditions and culture, than the example most often cited as a union success, the US. “Fiscal union would entail a ballooning of the EU budget – provoking endless bickering among the 27 (or more) member states on how to share it out, not to mention the expanded scope for graft and bureaucratic inefficiency. It's a recipe for gridlock.”²⁶

Secondly, there is the issue of democratic deficit. Taking the power of setting budgets and mandating taxes away from national governments can prove politically and economically unsound, not to mention, it takes even more away from the sovereignty element of member states.

Yet, when a fiscal union emerges, significant steps towards federalization might likely have to be taken in order to keep some semblance of democratic oversight on strong central EU institutions. Taxation with representation is also an important factor which will have to lead to a stronger political union. In the end, there cannot be a central European institution taxing its members' citizens in the same manner unless there is democratic oversight of and implication in its activities. EU federalism is not something that could be made a reality immediately, though, as Leino-Sandberg and Vihriälä also note. Of course, the best time for most decisive steps towards societal restructuring will always be during some sort of national, or even better, international crisis. The COVID-19 pandemic offers the possibility for rulers everywhere to envision a future more catered to their needs, as events of government encroachment on individual rights around the world have shown.

Modern monetary theory (MMT), which puts forth that there is no need for governments of monetarily sovereign countries (powerful states such as the US, China, Canada) to borrow money or tax citizens for their spending, when they can

²¹ *Ibid.*

²² *Ibid.*

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ *Ibid.*

actually just print as much as they want with no tragic consequences²⁷ might sound like a good idea to many leaders, but great care must be taken, as the risks of hyperinflation are not to be taken lightly. The EU's intention of creating an indebted fiscal union which might only find stability in the future by increasing the need for a stronger political union might not bode well for either its economic well-being (despite what MMT advocates might espouse) or its citizens' freedoms. And, what starts off like a Union control of states' finances would soon lead to other types of central control. After all, as Hayek put it, "money is one of the greatest instruments of freedom ever invented by man."²⁸ In the end, neither inflation caused by central planning nor democratic deficits are consequences EU citizens can afford to ignore.

As for the concept of a federalized Europe, it is a long debated and problematic one in itself. And, after Brexit, the not- so elegant adieu bid to the EU by the UK, a member with a solid tradition of democracy as well as sobering link to its monarchical and imperial past, what might a more united EU really look like anyway?

III. Problems of EU federalism

The European Union and the European People

In the event of an ever- closer fiscal and ultimately political union, many problems will arise which will shake the cultural foundations of several European states.

Around the continent of Europe, although there have been so many shared cultural experiences, one can witness a difference in how each country has built its foundations and how its national character, issues and debates are continuously evolving. Some countries have a greater number of religious people, some have a greater number of non- religiously affiliated people. Some countries welcome most new ideas as a sign of progress, some are pickier and more analytical about what progress means, and so on.

In a Europe ruled by central powers, the most powerful nations would no doubt be leading in dialogue and ideology. What is acceptable and seen as normal in one culture will have to be seen the same way in all cultures.

In Europe, there are different histories and cultural foundations, a different understanding of the world, different national religions, languages, national characters and identities and a different story of formation and purpose of every single country. This leads to different realities, economies, expectations of normalcy, and different political pursuits. Such dissimilarities became obvious during the EU's debt crisis, but they continue to be even more so brought to light by different issues.

There are those nations in the EU which do not yet accept a demand from the central EU powers to create laws accommodating certain issues long decided upon in parts of Western Europe such as LGBTQ+ unions, gender identity, sexual education for young children, euthanasia and so on. Some matters are forced on countries before their society has had the time to develop the cultural dialogue to deal with this on a

²⁷ Modern Monetary Theory, *Investopedia*. <https://www.investopedia.com/modern-monetary-theory-mmt-4588060>

²⁸ F.A. Hayek, *"The Road to Serfdom: Text and Documents--The Definitive Edition (The Collected Works of F. A. Hayek, Volume 2)"*. University of Chicago Press. Kindle Edition, p. 125.

national level. This can be seen in the mandates the EU desires to place in the same sex marriage conversation.²⁹ This is not to say that certain cultures will forever decide that legal benefits and rights of same sex partners should not be recognized but rather that the conversation needs to take a careful consideration of freedoms such as religion, thought, expression and belief. Many issues can sometimes ³⁰ clash with religious freedom, as they have in the US at times. Yet this freedom's importance (as others') cannot be overstated. As Eliade, the historian of religions observes, the concept of the sacred is something that is an intrinsic element of the human conscience rather than a prescientific stage of human evolution.³¹ Thus, religion, as Eliade sees it "presupposes and affirms the transcending of the profane, offering man the possibility of perceiving the sacred."³² As a fundamental reality of human existence, religion and the freedom to practice it have been essential for both man and society's wellbeing and a forcing of ideology on those of certain religions is not a matter conducive to freedom or cooperation.

When issues are artificially introduced in a society, when dialogue is not permitted but a resolution to an issue that was perhaps barely known in that society only years ago is forced upon a nation, it can break the natural course of cultural absorption and the trajectory of that particular nation to the point that it can spark unreconcilable breaks in the fabric of national unity. And this applies also to economic and political decisions which speak to a nation's character and its ultimate national direction. Overriding cultural values and imposing universal decisions on countries not yet ready to take on certain issues will be a blight on the EU if it does in fact reach a high level of political union.

Culture is not important only as regards a state's inclination towards or away from union or a centralized power. This fundamental building block of society has a certain developmental and chronological rhythm which, if broken, might take a long time to recover, if it ever does. What this means is that the peaceful flow of societal relations and interactions is disturbed. This can lead to delays or stifling of national identity and growth. Such a tragic process can be witnessed in post- communist countries, where the reality of breaking this delicate rhythm is evident in the struggles of these nations to not only embrace modernity but also to find their identity, balance, and peace.

Now, another significant issue for a potential USE is that of language. And this, in particular, presents a very unique problem to the idea of political union in Europe. It might not seem like that important of a subject, but the very idea of a nation's language, from the way it was formed, to the number of people who speak it, to its complexity, the effort it takes to learn and the effects it has on the speaker's mind and

²⁹ Craig Turp-Balazs, European Parliament calls for action against Romania over failure to grant free movement rights to LGBT+ couples, Emerging Europe, <https://emerging-europe.com/news/european-parliament-calls-for-action-against-romania-over-failure-to-grant-free-movement-rights-to-lgbt-couples/>

³⁰ The Associated Press, "A Colorado baker is fined for refusing to make a cake for a transgender woman". NPR. <https://www.npr.org/2021/06/17/1007594289/baker-fined-for-refusing-to-make-cake-for-transgender-woman>

³¹ Eliade's ideas on religion in Schifirnet "Religie și Tradiție", Revista Română de Sociologie", serie nouă, anul X, nr. 1–2, p. 53–72, București, 1999, p. 54.

³² Constantin Schifirnet, *op.cit.*, p. 54.

reality, language is the social glue which forms a people's most core identity. And language is intrinsically tied to national identity. As von Mises also noted:

"We speak of the German language and everything else that bears the label 'German' gets it from the German language: when we speak of German writing, of German literature, of German men and women, the relation to the language is obvious. Moreover, it does not matter whether the designation of the language is older than that of the people or is derived from the latter; once it became the designation of the language it is what became decisive for the further development of the use of this expression. And if we finally speak of German rivers and of German cities, of German history and German war we have no trouble understanding that in the last analysis this expression also traces back to the naming of the language as German. The concept of the nation is, as already said, a political concept. If we want to know its content we must fix our eyes on the politics in which it plays a role. Now we see that all national struggles are language struggles, that they are waged about language. What is specifically 'national' lies in language."³³

Language shapes reality and truth, it shapes philosophies and beliefs, it defines nations and individuals. What might be the interaction of languages in a potential USE? Will it be different than what it is today? How might that affect the union? In the end, is there a European people to speak of, a European identity? Or is it a Europe of many peoples and identities, ones which might never be able to reconcile themselves with a few central ruling EU institutions led by Europe's great powers. Some might even see the attempt at federalization under the strong influence of the EU's most powerful nations as a remnant of imperialism rather than an effort for cooperation and equal representation.

In order for the EU to not become a super state representing the interests of its most powerful nations rather than all of its members, the democratic oversight would have to be great indeed.

It might be worth for the EU to look at some of the safeguards of the union it most collaborates and often compares itself with, the USA. A strong Constitution with great protections for its citizens' freedoms, an electoral college for the equal representation of its people no matter the size of the state's population, and other such provisions would be modeled off the US. Other uniquely European provisions would have to be made also though, such as efforts to keep the cultures and languages of each of its member states alive and to cultivate respect among its nations by making all cultures and national treasures (literature, science, music etc.) well known and promoted across the Union. Also, a great way to enhance freedom in the Union would be through a strong free market to support healthy competition through fewer and lower (not more and higher) taxes for businesses no matter the size as well as low barriers to entry in the market by limiting bureaucracy and cost for small companies that wish to compete. Moreover, special training for its Eastern bloc countries would be a useful tool which could strive to fend off corruption and excessive bureaucracy as well as educate on the tradition and implementation of democratic liberties.

³³ Ludwig von Mises, *Nation, State, and Economy- Contributions to the Politics and History of our Time*, Liberty Fund, Indianapolis, 2006, pp. 9-10.

IV. Further safeguards, and examples from the US

One of the best safeguards for freedom in the US lies within its Constitution. As well, the intent of the country's carefully tailored creation is obvious in its Declaration of Independence, which notes: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."³⁴ The right of an individual to pursue happiness, whatever that may mean to them, is a unique and important addition. But the following is no less important: "to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, --That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it"³⁵. Keeping the government from having too much power, which could, in the course of time, lead to tyrannical impulses, is a crucial part of the intentions of both the Declaration of Independence and the US Constitution. Hence, the Bill of Rights, that is, the first ten amendments to the US Constitution, see to it that vital freedoms among which are that of expression, religion, self -defense (from even the government itself), fair trial, and a solid role for individual states, are guaranteed.

If a Constitution for the EU were to come to pass, as unlikely as that might be at least in the short term, it would have to promise such freedoms and be just as difficult to amend and change as the US one, so that it is protected from regular redefinition and abuse.

And, while one can look at the federalist and anti -federalist papers to see what a potential USE might learn from the USA, it is probably more effective to look at how the reality of the US has turned out. It is still one of the richest countries in the world, but it has changed much especially in terms of its economic freedoms. And, as this continues to be influenced by socialist, interventionist policies, the danger is that its wealth will also diminish. A more politically united EU would have to take note of the USA example, in terms of its founders' intentions, the way laws were implemented and the effects they had on the states and their people, as well as the way those freedoms remained, expanded or disappeared after 245 years of existence.

There is much to be said on this subject and unfortunately not enough room to explore it in such a short analysis, but suffice it to say, any move toward a closer unity in the EU needs to be very delicately handled. Some might even question if it can be handled at all.

V. Conclusion

As COVID-19 passes and allows the world to open up once more, there are many issues to which we need to devote our attention. The recovery package set forth by the EU will have economic consequences including but not limited to inflation and a great number of years which citizens will spend paying it back, as well as creating undue burdens on businesses in the future if they are to be subject to new taxes. Investment in renewable resources, while a great idea, might also lead to energy

³⁴ United States Declaration of Independence, <https://www.archives.gov/founding-docs/declaration-transcript>

³⁵ *Ibid.*

production and price problems, especially if higher taxes for traditional energy resources are present.³⁶

Creating a closer union both economically, through the recovery plan and politically in the wake of it will have a special set of issues and will have to be handled with great care.

Whether these plans will be successful or not, it is important that vigilance is kept so that no matter how Europe moves forward, its citizens will have the best chance at keeping their freedoms intact now and in the immediate as well as distant future. It is up to each citizen to keep a watchful eye on their liberties, lest they find themselves in increasingly authoritarian environments.

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³⁶ Frédéric Simon, *EU energy tax plan seeks to end 'hidden advantage' for fossil fuels*, Euractiv, <https://www.euractiv.com/section/biofuels/news/eu-energy-tax-plan-seeks-to-end-hidden-advantage-for-fossil-fuels/>

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