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The European Union: A Failed Experiment

by Bill Lee

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How long can this go on? According to a recent article in the *Wall Street Journal*, the 17-nation euro zone remains the "weakest link" in our global economy after years of economic stagnation, mired in high unemployment, plagued with stalled or contracting economies, and paralyzed by political dysfunction. Similarly, *The Economist* also lambasts eerily complacent EU leaders for "sleepwalking through an economic wasteland."

The resulting human suffering is sobering – tens of millions of Europeans who want work can't find it, and many of them are facing truly desperate situations. Here are just a few observations, which I address not to EU officials – whose performance, to my mind, justifies their removal (see below) – but rather, as a friend speaking to ordinary Europeans who are suffering under their policies and who, unfortunately, have not been accorded the power to do anything about it.

In a phrase, it's time to throw out the EU project itself. The whole thing, root and branch. Here are just a few reasons why.

The EU has failed the most important test.

For more than three years now, EU officials have addressed the economic downturn with remarkable single-mindedness. They've imposed severe austerity (reducing government debts through drastic cuts in spending along with tax increases) – particularly in those countries with the largest debts, the so-called "periphery." How well is it working? Let's use Ronald Reagan's test for Jimmy Carter: are people better off now than they were four years ago?

The region has just completed its six straight quarter of recession. Overall unemployment has risen steadily for two years, now topping 12 percent. In several countries, unemployment rates are at Great Depression levels – 17 percent in Portugal, 27 percent in Spain – and youth unemployment is typically around twice that of the country averages. It's clear that people in Spain, Ireland, Italy, Portugal, Greece and millions of unemployed elsewhere in the region are worse off today than they were four years ago.

A growing number of officials around the world are getting this. In his recent *New York Review of Books* article, Nobel prize winning economist Paul Krugman points to an October report from the International Monetary Fund (IMF) that basically apologizes for its austerity recommendations in the last few years – backed up with evidence. The report shows that those countries forced into austerity measures by the EU experienced steep downturns in their economies, contrary to predictions. Further, the more drastic the austerity (measured by calculating spending cuts and tax increases as a percentage of GDP), the greater the economic downturn.

Yet EU officials – apparently convinced of the infallibility of their theory on how economies work – seem unmoved by such evidence and the human suffering that goes along with it. As Mr. Krugman put it, in the EU "the beatings will continue until morale improves." Which brings me to the next point.

The EU system is undemocratic.

Consider Portugal. With unemployment rates at dangerous levels, and its economy predicted to contract by 2.3% this year – its third straight year of contraction under austerity policies – the nation's Constitutional Court struck down several austerity measures enacted by the government in compliance with European Commission requirements. That prompted Commission officials to pressure the country's government to simply ignore the ruling, under threat of losing badly needed funding – prompting a constitutional crisis.

In such ways, EU officials are inserting themselves into the governance of member nations. Yet the ordinary people whose lives are seriously affected by such measures have no recourse – they can't vote to "throw the bums out" as we might say here in the States. This lack of democratic accountability poses a serious problem for member states and the system as whole.

It's time to revisit the EU's founding purposes.

The lofty purposes the EU originally set for itself included: to give Europeans the convenience of one currency, to enhance mutual prosperity, and to reduce political tensions after centuries of animosity and war.

We've seen how mutual prosperity is coming along. As for political tensions, a system whose officials are responsible for the region's faltering economies but who are not accountable to the tens of millions of unemployed people in them, is obviously exacerbating those tensions rather than alleviating them.

Moreover, by giving up their national currencies, member countries who experience wage inflation can no longer temporarily deflate their currencies to make their exports more attractive. Those that fall into an economic slowdown or recession can't "print money" to finance their safety nets for people who are unemployed or who face extreme poverty. Having your own currency may not be such a bad idea after all. Fears that the use of such tools will lead to runaway inflation and interest rates have proven completely unfounded. In the US, despite the relatively sizable stimulus enacted by the Obama Administration, interest rates here remain near all-time lows, and our deficit is now half what it was at the depth of the recession in 2009..

Meanwhile the costs and risks of the EU system are enormous. To take just one example, fiscal debt or banking problems in tiny countries like Greece and Cyprus have touched off major crises for the EU. A comparable situation in the US — where a state such as Rhode Island or Louisiana, or even huge California, were to go bankrupt — would amount to nothing more than a blip on the radar here.

However, the US system requires a substantial transfer of power to the center. This brings me to my final point.

The prospects for effective EU integration are slim to none.

For the EU project to work, it would require, at a minimum, substantial political power at the center to tax, control fiscal policy, and create a region-wide safety net capable of protecting people in a downturn. Furthermore, that centralized power would need to be accountable — voted in, not appointed.

Few Europeans seem to believe such integration is actually possible — many recoil at any suggestion of a "United States of Europe." Given the widespread ambivalence and lack of clarity on how a reformed EU would look, the prospects for a successful integration look bleak. That's because even under the best of circumstances, achieving it would be an extremely difficult and long haul.

It took the US the better part of 80 years — and a horrific Civil War — to complete our own integration, transitioning from a loose confederation of colonies, and then states, into a true union. Why should Europeans expect to have an easier time of it, particularly in view of their deep cultural differences and centuries-long history of wars and acrimony?

My guess is that Europe will muddle on trying to "reform" the EU system around the margins. European economists and officials will likely remain steadfast in their belief that their policies have been right all along, that all they need is yet more time, and that the real fault lies with the moral defects of those living in the periphery nations – who must be compelled to do what's good for them and for the EU as a whole.

This sounds too much like old Europe to me (and not in a good way). It would be better to start now directing our efforts and energy to winding down the whole EU project as quickly as possible; and in parallel to ramp up efforts and policies to help European economies to prosper as separate nations, learning how best to work together.

A more recent WSJ article contained the news that a new book by a Portuguese economist shot instantly to the top of the best seller list in that country – even beating out *Fifty Shades of Grey*. It's called, "Why We Should Leave the Euro."

Perhaps it's the start of a trend.

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