EU ECONOMY


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The Commission set out its vision for deepening the Economic and Monetary Union in December 2017

# A NEW APPROACH TO EU CONVERGENCE

by Heikki Patomäki

**The trend for economic and social convergence between EU countries in the early years of the euro turned out to be short lived. The absence of euro area growth from 2010 to 2017 resulted in greater rather than smaller divergences in economic and social outcomes. The euro crisis followed by Brexit have shattered the EU to the core. Heikki Patomäki sets out a new approach to economic and social convergence in the EU.**

The future of the EU depends to a significant degree on future economic developments. Despite the - tendency driven by Economic and Monetary Union towards low investment and high unemployment and in spite of a new major financial crisis that is expected by 2020 or so, a lot depends on the precise budget positions and timing and nature of the next downturn or crisis. Even a relatively short-lived semi-recovery of the European economy would give time for the EU to evolve in novel directions and semi-recovery is exactly what seems to be happening in Europe in 2017-18.

According to President Juncker, "there is no better time to fix the roof than when the sun is shining". In a series of documents from the 'Five Presidents' Report' to the 'Commission's Reflection Paper on the

*"#EMUreform #DeepeningEMU The need for #EU having a system of tax to develop social schemes."*
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Deepening of the EMU', key EU players have been developing a roadmap to forge ahead with the integration process. They call for a broad consensus, involving a narrative for the past and a vision for a more integrated future. The aim is to create a more convergent and resilient Union.

Despite a few good proposals in the right direction, the current approach is mostly based on "more of the same with some modifications". Thus the current approach not only tends to repeat the mistakes of the past but it also appears contradictory. We know that market discipline did not work in a good way in the aftermath of the global financial crisis of 2008-09. National competitiveness translates into attempts to export problems to other EU countries too. Furthermore, efforts to attract foreign investment may contradict the main aim of the Common Consolidated Corporate Tax Base.

Especially during economic downturns, policies implying internal devaluation, tax and wage competition or making work more precarious tend to undermine the European social model. What is more, it does so asymmetrically across regions, while the EU is suffering from the consequences of uneven growth. One of the mechanisms making the process of uneven growth worse is recognised by the Commission – "the financial conditions of firms very much depend on their geographical location" – but a Financial Union is unlikely to suffice to reverse the situation whereby industrial activities are concentrated in and around Germany.

## A new approach

A new approach is needed. Past mistakes must not be repeated. Self-reinforcing processes can be reversed and contradictions overcome by means of collective actions and by building better common institutions. The required new powers, however, remain politically unrealistic unless the EU is reframed into what it should be: a cosmopolitan social democratic project.

For instance, as long as member states jealously debate the national direct costs and benefits of the EU, the size of the EU budget will remain limited and will lack any macroeconomic or redistributive effect. As long as redistribution is envisaged in inter-nationalist terms as transfers from one member state to another, the surplus countries will continue to blame the deficit countries for moral failures and refuse any fruitful discussion about redistributive mechanisms. And for the same reason they will deny the legitimacy of debt mutualisation and common debt.

## EU needs its own resources

As a cosmopolitan social democratic project, the EU must be considered a community of citizens living in a capitalist market society with historically evolving social structures and consequent cleavages. To shape the relevant processes, the EU needs its own resources not directly dependent on the whims of the member states. Thus the EU must have its own system of taxation in order to develop social schemes, redistributive mechanisms and public investments programmes, including in health and education. Convergence does not emerge from some miracle financial instruments, not even from a proper financial union, but requires real transformative capacity on a collective scale.

*#EMUreform #DeepeningEMU "Convergence requires real transformative capacity on a collective scale"*
***@HeikkiPatomki***

Whether we are talking about financial or macroeconomic stabilisation or reindustrialisation programmes, the EU's capacity to borrow is also necessary for a sustainable Union, as recognised by the Commission on several occasions. The interest rate of common debt should not be at the mercy of "market discipline" but rather should be controlled by the European Central Bank.

We know, of course, that it is very difficult to change the EU. Its institutional arrangements have been "locked in" by neo-constitutional means. To make the Union sustainable, including in view of the next major crisis, a Treaty revision is necessary, but there are many measures that can be taken within the present Treaty. The enhanced cooperation procedure is especially promising. For instance, a coalition of willing member states can start a system of common taxation in the knowledge that the current system of nationally based taxation is unsustainable.

**> AUTHOR**
**Heikki Patomäki** is a professor of world politics at the University of Helsinki and is the author of Disintegrative Tendencies in Global Political Economy: Exits and Conflicts (Routledge, 2018).