

# Nothing more political than economic policy

As the RECON project is coming to an end, the EU is in the middle of a severe economic crisis and the future of the Euro is uncertain. Socio-economic conditions of political communities are critical both for the national and the European levels, as we have seen unfolding in the past months. Hence understanding the nature of these conditions and what consequences the organisation of public finance has for the prospects for democracy in Europe has been a key research priority for RECON.

RECON has focused on the four economic freedoms and the fiscal and monetary constitutional principles, which underpin the *asymmetric* European monetary union. Various research topics have been analysed, but three policy areas have received special attention: tax policy, macro-economic policy and labour-law standards.

The transformation of national personal taxes as a result of European integration, and in particular economic integration, has been analysed. What are the consequences of this Europeanisation of the socio-economic system? Does the Europeanisation of markets imply the Europeanisation of communities of economic risk?

Fiscal policy is a crucial element of the stabilisation policy in a single currency area. However, in Europe most of the public spending is done by member states. Europe's high unemployment, low growth and increasing social and political tensions undermine the legitimacy of European integration. The implementation of the Cologne Process, outlining a common employment strategy, as well as the Lisbon Strategy – aiming to make Europe more dynamic and competitive – has largely been deemed a failure. By analysing this policy failure, RECON has devised strategies for improving the democratic legitimacy and efficiency of the governance of economic policies.

## WP 7 research coordinator

**Agustín José Menéndez**  
University of León  
[menendez@unileon.es](mailto:menendez@unileon.es)

## WP 7 partners

London School of Economics and Political Science  
Joan Costa-i-Font, Waltraud Schelkle, Christa van Wijnbergen

Sant'Anna School of Advanced Studies, Pisa  
Stefan Collignon

University of Bremen  
Florian Rödl

University of Auckland  
Christine Cheyne, David Mayes, Anna Michalski, Crispin Shore, Mark Thomson

University of León  
Flavia Carbonell, Raul Letelier, Fernando Losada Fraga

## Selected findings

- **Through the European Court of Justice case law, economic freedoms have been assigned primacy over socio-economic rights, reversing the post-war constitutional consensus in Europe**
- **Judge-led transformation of Community law has led to a Europeanisation of socio-economic policies**
- **The EU experiences an uneasy compromise between a formal preservation of national sovereignty in key fiscal policies and a substantive Europeanisation of national socio-economic orders**
- **The asymmetric coupling of a federal and depoliticised *monetary policy* with national *fiscal policies* is unsustainable over time, as the eurozone crisis testifies to**
- **The Europeanisation of economic and monetary policy has proceeded so far that also a Europeanisation of tax policy is necessary to sustain democracy**
- **There is no single European model of welfare regimes, although forces of globalisation and the process of open coordination encourage convergence across member states**



© European Union



**Read more on the findings in the following pages**

More details and publications from the research field 'The Political Economy of the European Union', including all RECON reports and working papers mentioned in the below, are available at: [www.reconproject.eu](http://www.reconproject.eu)

## When the economy becomes political

**The European Monetary Union is asymmetric in the sense that it combines *federal and technocratic* monetary policy with formally *national and political* fiscal and wage policy. This unprecedented coupling has been matched by a series of governance arrangements which were supposed to ensure the coherence of monetary and fiscal policy.**

Current proposals for reforming the European monetary policy are based on a false diagnosis of the problem. One can argue that there is not *one* European crisis, but *five* crises (economic, financial, banking, sovereign-debt and constitutional) which overlap and reinforce each other.

Some factors have received insufficient attention when dealing with the origins of the financial crisis. The growth of fictitious capital was closely related to the long-term economic crisis of Western societies, to the falling rate of profits accelerated by the economics of turbulence unleashed by the fall of the Bretton Woods financial architecture and the reaching of the limits of the post-war model of economic growth. Similarly, the role played by both the economic and the financial crisis on the sovereign-debt crisis is not to be overlooked.



The resilience of the fiscal state of the four European PIGS (Portugal, Italy, Greece and Spain) was severely undermined by their embracement of growth through debt. The attempts to sort out these three crises have tested the constitutional law of both the EU and its member states, and have resulted in serious breaches both to the *rule of law* and to the commitments of the welfare state. As a consequence, the EU has entered a serious crisis. The European response to the crisis reflects the complex character of the European socio-economic structure. Within RECON four developmental paths have been discerned.

1. The non-standard open market operations of the European Central Bank (ECB) have pushed European integration in a federal direction, through an extension of the powers of a non-representative institution, and with the paradoxical result that the ECB has played the role of the interbank money market.
2. National decisions on the extension of guarantees, acquisition of assets and recapitalisation of banks point to a *renationalisation* of competences (critically corroborated by state aid conditions by the European Commission), which have been clothed in European garments.
3. The constitutional transformation regarding the institutionalisation of a European Monetary Fund and the creeping role of the ECB as an indirect lender of last resort point in a federal direction, but with highly problematic democratic implications.
4. The governance arrangements coupling fiscal and monetary policy, as well as those coupling the various national fiscal policies, are undergoing transformation. This process is underpinned by a contradictory aim of reinforcing the use of both hard law and governance mechanisms, as well as by the contradictory stance of consolidating the European Monetary Fund and increasing the sanctioning of non-compliant member states.

Fiscal policy cannot remain aloof of neither *efficiency* constrains, as this would require not following rules, nor *legitimacy* constrains, as fiscal decisions have fundamental political consequences.

### Read more

*The sinews of European peace*, Raul Letelier/Agustín J. Menéndez (eds), RECON Report 10, 2009

'The European crisis in ten points (and one mystical vision)', Agustín J. Menéndez, *RECON policy paper*, 2011

*Pour la République européenne*, Stefan Collignon (with Christian Paul), Odile Jacob, 2008

## EU responses to the crisis

**Financial integration is much deeper in a single currency area than between economies of different currencies. The risk of contagion in a financial run is, as seen lately, also much higher.**

The European Financial Stability Facility is a temporary *ad hoc* measure, providing financial assistance to eurozone states in economic difficulty. However, the monetary union will require a more permanent mechanism for ensuring that markets price the solvency risk of public debt and not liquidity defaults. An answer to these problems could be the provision of large-scale liquidity, rather than excessive budget consolidation. It is doubtful that the segregated national bond markets in Europe can provide the solution.

### Read more

'Fiscal policy rules and the sustainability of public debt in Europe', Stefan Collignon, *RECON Online Working Paper 2010/28*

## Integration by law

**Tax powers are often said to be the last refuge of national sovereignty, but this slogan does not withstand empirical testing.**

The creation of a single market has unleashed forces that dramatically reduce the discretion of national legislatures to decide on tax systems. The question is not *whether* to Europeanise taxes, but *how*: by judicial fiat or by political decision? The European Court of Justice (ECJ) has moved from total self-restraint on tax matters to a persistent review of the European constitutionality of national personal tax norms. It has systematically empowered transnational private actors, who are no longer fully subject to national tax systems. This has led to the erosion of national tax autonomy, and a convergence of tax systems towards the bottom. Even a potential renationalisation of tax powers presupposes a European framework through which political institutions could reclaim powers from private actors.

### Read more

'The unencumbered European taxpayer', Agustín J. Menéndez, in *The sinews of European peace*, RECON Report 10, 2009

## Free movement of workers

**ECJ rulings seriously affect the borders of welfare communities as well as the degree of solidarity expected by their members.**

This Europeanisation of economic risk communi-

ties is mirrored in a limited and imperfect Europeanisation of political communities, legislative competences and institutional set-up. As a consequence, the welfare communities are Europeanised by stealth. In the process, welfare systems have come to be assessed by reference to constitutional standards (the four economic freedoms), which have an internal logical structure very different from that of national welfare policies.

### Read more

'Free movement of persons', Flavia Carbonell, in *The sinews of European peace*, RECON Report 10, 2009

'European citizenship after Martínez Sala and Baumbast', Agustín J. Menéndez, in *The past and future of EU law*, Maduro/Azoulai (eds), Hart, 2010

## The costs of children

**Childcare in Europe remains largely carried out by mothers, despite recent efforts to share childcare more fairly within the family and with other actors.**

Some European countries have long invested heavily in public childcare services as a way to mitigate the gendered risks associated with long periods out of work. Others are newer on the scene and attempt to offer a wider set of care choices by subsidising a range of home-based, family-oriented or market-provided childcare options. Not all care choices are of equal importance in terms of reducing gender inequalities.

### Read more

*The costs of children*, David Mayes/Mark Thomson (eds), Edward Elgar, 2012

## Choice in health care

**RECON has studied ongoing reforms of European welfare states that aim at increasing 'choice' for patients, clients and beneficiaries.**

Cost-containment is a key consideration behind this development, but findings suggest that 'choice' is being promoted also for other reasons. 'Choice policies' tend to give rise to questions of labour market policy issues, both in terms of pressure on relatives to act as carers rather than taking part in the formal labour market, and in responding to the increasing demand for formal care in a home setting.

### Read more

'Provider "choice" and "competition" in European health systems', Joan Costa-i-Font/Valentina Zigante, *RECON Online Working Paper*, 2011