

# The rise of redistributive politics in the EU is setting limits on the completion of Economic and Monetary Union

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*One of the key areas of controversy in responses to the Eurozone crisis has been the notion of transferring financial resources from prosperous economies in the North to struggling economies in the South.*

**Ramūnas Vilpišauskas** argues that this issue has effectively put redistributive politics at the forefront of debates over the Eurozone crisis. One of the consequences of this development is that it has shifted public attitudes away from a 'permissive consensus' around European integration, to one of public discontent at the consequences of redistributive outcomes. Public opinion has effectively become a constraint on deepening the integration process.



The Eurozone crisis has prompted talks about the deficiencies of the Economic and Monetary Union (EMU) institutions which have been left since the adoption of the Maastricht Treaty and later the Stability and Growth Pact. This has been expressed by calls for the completion of the institutional architecture of EMU, and the creation of "a genuine" EMU with the adoption of fiscal or transfer unions: also referred to as "its own fiscal capacity" or "shock absorption function".

It should be noted that the language of many EU leaders and analysts has an implicit reference to the "spill-over" process associated with the theory of neofunctionalism. The talk about the "incomplete", "unfinished" project of EMU implies that the single monetary policy established by the Maastricht Treaty has gradually exposed the need to move ahead with other functionally linked policy areas. Thus, it is not surprising that some scholars have been quick to announce the "vindication of the first grand theory of European integration" and the "revenge of neofunctionalism". It took almost twenty years since the Maastricht Treaty and about a decade since the introduction of the euro, but, according to this view, finally the functional pressures for spill-over seem to be working at full force.

According to this account, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) are just the first steps towards the central pooling of resources that in the future is likely to become a federal transfer mechanism. Paralleled by the adoption of centralised regulation of financial institutions establishing a banking union, and movement towards the harmonisation of corporate tax rules, regularly discussed in such documents as the Pact for Competitiveness and European Commission proposals, this would represent a spill-over process from monetary policy to the fiscal policy of the EMU.

Similarly, EU decision making has also shown some resemblance to the 'incrementalism' that is so prominent in neofunctionalist accounts. There is the gradual 'muddling through' from one 'historic' summit to the next, with gradual reforms of economic governance rules. The pressure of financial markets, decisions taken by the ECB, and proposals provided by the European Commission or prominent analysts could also be mentioned as drivers of deeper integration.

However, member states have been very cautious with regard to any new initiative implying the central pooling of resources. When the EU's response to the crisis is assessed in terms of the actual outcomes, rather than on the basis of recommendations and initiatives publicly suggested by supranational institutions, investors and analysts, the decisions made and being adopted by member states so far seem to focus mostly on strengthening the implementation of already existing norms governing fiscal policy coordination and structural reforms, with some centralisation of financial market supervision. This 'muddling through' the Eurozone crisis can be interpreted as a sequence of strategic decisions, coordinated by Germany and the ECB, aimed at preventing full scale market panic, on the one hand, and keeping the pressure and incentives to undertake structural reforms for the Eurozone countries and bring their finances into order, on the other. The divergence of national preferences has also

manifested itself in the growing differentiation of EU membership, not just between the Eurozone 17 and the rest of the EU, but also within these groupings.

Popular opinion is also becoming more important than it has ever been before in the political debates on European integration. To be sure, the importance of domestic politics for the process of European integration was recognised at least as early as thirty years ago when it was [stressed](#) that “electioneering may play an important part in a member state’s behavior in the EC”. However, the distinct feature of the current situation is the changing nature of public policies in terms of a growing emphasis on redistribution, rather than on centralising regulation, which explains to a large extent the increasing importance of public opinion as a constraining factor for further deepening European integration.

The debate about EU or EMU wide solutions to the Eurozone crisis revolved, from the start, around the centralised pooling of financial resources to help countries in trouble and to create an insurance mechanism for dealing with asymmetric shocks in the future. This implies significant redistribution of budgetary resources from the member states to the EU (EMU), or between the member states, as it is more often perceived by the public. The EFSF and ESM, with a capital of 700 billion euros, [involve](#) contributions from Eurozone members and commitments to provide funding if needed, although these contributions are collected as shares and publicly presented by participating national authorities as investments rather than outright transfers between countries. Not to mention the operations of the ECB by, for example, providing long-term refinancing operation (LTRO) loans which, as noted by [some analysts](#), meant taking deposits from Northern countries’ banks (Germany, Netherlands) and providing loans to banks in Southern Europe (mainly Italy and Spain). The actions taken by the ECB and also the plans for further pooling of resources, for example, by creating a banking union have also attracted criticism from [some economists](#) who argued that such decisions might cost European taxpayers “hundreds of billions of euros”.

Redistribution of budgetary resources or “who gets what when and how” is considered to be the essence of politics and therefore the debates about the centralisation of redistributive policies have been causing growing public interest in the Eurozone crisis and exposing territorial cleavages between the North and the South. The permissive consensus has been gradually replaced by public discontent fuelled by the economic crisis and growing uncertainty about the sustainability of the postwar welfare system. The rise of [Eurosceptic parties](#) such as the True Finns or the anti-euro party Alternative for Germany, changes in the ruling coalitions which took place in more than ten EU countries during recent years, and growing popular protests in some countries provide indications of the changing political dynamics in Europe. They also highlight new constraints on EU reform and deeper integration as a solution to the crisis.

The “rift between north and south” which is not “merely a matter of scathing articles in German or Greek newspapers” has been recognised by such figures of European politics as [Jacques Delors](#). It is not only during the ratification of EU Treaty changes in national referendums when policy makers have to take popular opinion seriously. The growing public interest in the Eurozone crisis and the effects of potential solutions on the rest of



European Central Bank, Frankfurt (Credit: jurip, CC BY 2.0)

Europe is becoming an important constraint on the day to day politics of the EU. Popular debates in countries like Germany, Netherlands, Finland, Estonia and Slovakia make the issue of transfers to Southern Europe problematic, particularly when austerity continues to be enforced in Northern European countries.

On the other hand, a significant share of the population in countries like Greece resists structural reforms and austerity measures, which are seen as imposed by the EU and IMF with the Northern countries and their banks behind them. As noted by [some analysts](#), “the broader message from the Greek and French elections is that the attempt to impose a benevolent dictatorship of the creditors is now being met by a revolt of debtors”. Public debates and demonstrations in Cyprus, which took place in Spring 2013 after the start of the banking crisis, also show the degree of discontent targeted towards creditor countries like Germany, which became a symbol of external power enforcing unpopular reform measures, and in this respect replacing the IMF as the object of criticism.

These popular debates expose the absence of solidarity among EU member states which in turn shows the absence of an EU wide polity comparable to the polities of its member states. While this observation is by no means new, the debate about the completion of the “incomplete” EMU adds an additional element to it. It explains the incrementalism of the EU’s response to the crisis and shows the limits of the possible centralisation of powers and transfer of resources. Although these limits could become especially constraining if new amendments to the Treaty are required, they are also important in the current gradual movement of the EU towards strengthening the enforcement of earlier agreed norms, implementing structural reforms, harmonising some policies at the EU level without Treaty changes, and growing differentiation. The need to monitor popular opinion at home, financial markets on the European and global scale, as well as incentives for reforms and conditionality in the recipient countries, makes the process of reacting to the crisis slow and uncertain. The rise of public discontent in the face of possible increases in centralised redistribution in the EU means that further deepening of integration is by no means a predefined solution to Europe’s problems.

*For a longer discussion of the topic covered in this article see: [Vilpišauskas, Ramūnas \(2013\) ‘Eurozone crisis and European integration: functional spillover, political spillback?’](#) which has been written as part of the EUSA political economy section project on European economic governance and published in the *Journal of European Integration*, vol. 35, no. 3, April 2013, p. 361-373.*

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*Note: This article gives the views of the author, and not the position of EUOPP – European Politics and Policy, nor of the London School of Economics.*

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