

European Project's Contradictory Nature Ensures Its Failure

By ALBERTO MINGARDI Posted 05/07/2012

Is the European Union going to last? With Françoise Hollande as the new French president, and the Greeks massively voting for extreme parties — real communists and Nazis — the entire European project is called into question. The fruits of the European crisis are acrid indeed.

The more the time passes, the more it is clear that the dream of unifying Europe was based upon an ambiguity: Was Europe to be an economically integrated area, or a bigger version of a nation-state?

In other words, was the European Union to be modeled on Switzerland — a confederation in which cantons have a high degree of autonomy — or on France, the quintessential centralized state?

The economic integration of Europe after the Second World War was considered a means to avoid new conflicts between European states. Europe had been economically integrated before. Between 1814 and 1914, the continent enjoyed free trade and prosperity. The crescendo of nationalism in the first half of the 20th century wiped away that golden age.

In 1958, German economist Wilhelm Roepke, a great believer in free trade and in some way an inspirer of the economic reforms that paved the way for the German postwar economic miracle, was skeptical from the beginning that the attempt to reintegrate Europe economically could succeed.

Became Schizophrenic

For one thing, Roepke remarked in 1958 that economic integration in the 19th century was not purely "regional." It was "inseparably bound with worldwide economic integration." Free trade wasn't considered good exclusively within the European shores.

But after WWII, the European Economic Community was created as a customs union, with internal free trade but tariffs on imports from other states. Such a customs "bloc"

allowed for free trade internally, but only up to a point. The service markets aren't fully integrated, and neither are labor markets.

Even today, services account for 70% of the European GDP but only for 20% of trade in the internal market. Attempts to liberalize the movement of service were basically stopped by trade unions, as was the case in 2005.

When Europe was truly economically integrated in the 19th century, public spending was limited and the free movement of workers was facilitated by the virtual absence of an entitlement system. Economic integration in the 19th century was the byproduct of limited government, whereas the European Union was built in the very years that saw the dominance of bigger government.

This is the contradiction the European project was built on: allegiance to free trade with policies that increased the size of government and reduced the scope for free trade. The European elites wanted both a common trade zone and a common currency, to decrease the likelihood of trade wars, rightly understood as inevitably preceding real wars.

But while national states pledged to renounce protectionist measures against each other, national and European regulation flourished. In effect, Europe developed in a sort of schizophrenia: Nation states pledged to free trade between them but did not want to renounce their interventionist policies within their respective borders and protectionist policies abroad.

Italian Model

The electoral victory of Hollande in France will force other European leaders to stop dissembling. The new French president does not like austerity in public finance. Nor does he recognize the value of sound money and anti-inflationary policies. He will force Europeans to choose: Do they want to integrate economically or do they want to integrate politically?

The first option should be based on sound money, free trade and free movement of people. The second option can easily be based on highly inflationary policies, high regulation and fragmented labor markets with some minimal top-down standards being imposed.

If we look back to the history of Europe, the euro and the common market seemed to imply Europe was going in the direction of the Swiss model: economic integration, pluralism in government. That was what Europe essentially was, before the Great War.

Other features of the European projects (agriculture subsidies, over-regulation in the service market, over-regulation of some tiny details of economic life like the size of artichokes) were anticipating the building of a greater France, under the European flag.

Perhaps pantographed nationalism on a European scale may be exactly what European rulers dream of. But is it economically sustainable?

Voters have a sense that the European dream may become a nightmare. Unified Europe may end up being neither like Switzerland nor France, but like Italy, a highly centralized state with extreme economic contrasts between North and South, and a transfer system that unsuccessfully tries to equalize the two.

For a ruling class that believes that the European political unification is per se a goal, this might be a bearable price to pay. But will European voters agree?

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