

ADEMU WORKING PAPER SERIES

The Commission's 2017 Reflection Paper on the Deepening of the Economic and Monetary Union: a few critical observations

Lazar Radic[†]

April 2018

WP 2018/104

www.ademu-project.eu/publications/working-papers

Abstract

In the present paper I critically assess the Preface to the 2017 Reflection Paper on the Deepening of the Economic and Monetary Union and identify two issues with the European Commission's approach and reasoning which I believe reveal a deeper, more disquieting dynamic. First, I claim that the Preface makes an overly optimistic evaluation of the single currency, ignoring or not placing enough emphasis on some of its more problematic aspects. I also show that this attitude generally permeates the rest of the Reflection Paper. I identify three sentences from the Preface which I believe clearly illustrate this point. Second, I criticize the Commission's failure to explicitly recognize the shortcomings of its pro-austerity policies, even after it has become abundantly clear that such policies have proven to be not only inefficient, but also counterproductive in nursing EMU countries back to health after the 2008 Financial Crisis. This is troubling, and a missed opportunity. The Reflection Paper, which forms part of a broader strategy aimed precisely at resolving the issues arising from the 2008 Financial Crisis and avoiding future recurrences, was an ideal opportunity for the Commission to reassess its reliance on austerity policies as a response to financial downturns in the eurozone. To conclude, I speculate as to what the implications of these shortcomings might be for the eurozone and the EU moving forward.

Keywords: Macroeconomics, Crisis, Procyclical, Monetary Policy

JEL codes: E00, E32, E52

[†] European University Institute, email Lazar.Radic@EUI.eu

Acknowledgments

This project is related to the research agenda of the ADEMU project, "A Dynamic Economic and Monetary Union". ADEMU is funded by the European Union's Horizon 2020 Program under grant agreement N° 649396 (ADEMU).

The ADEMU Working Paper Series is being supported by the European Commission Horizon 2020 European Union funding for Research & Innovation, grant agreement No 649396.

This is an Open Access article distributed under the terms of the Creative Commons Attribution License Creative Commons Attribution 4.0 International, which permits unrestricted use, distribution and reproduction in any medium provided that the original work is properly attributed.



On 31 May 2017 the European Commission (“**Commission**” or “**EC**”) published its Reflection Paper on the Deepening of the Economic and Monetary Union¹ (“**Reflection Paper**”). The Reflection paper, which follows up from the Five Presidents’ Report on Completing Europe’s Monetary and Economic Union² (“**Five Presidents’ Report**”³ or “**Report**”), sets out a map for completing the European Monetary Union (“**EMU**”) in three stages by 2025. The Reflection Paper is also part of a broader strategy, laid down in the Rome Declaration of 25 March 2017⁴ (“**Rome Declaration**”) and the White Paper on the Future of Europe of 1 March 2017⁵ (“**White Paper**”), to reinvigorate the European project in the aftermath of the 2008 Financial Crisis⁶ and in the face of mounting social and economic challenges⁷.

The Reflection Paper puts forward proposals in three areas: Financial Union, Economic and Fiscal Union, and Democratic Accountability and Effective Governance. Its goal, as established in the preface, is to strengthen the eurozone and make it more resilient and efficient. This is to be done by deepening the EMU. The Reflection Paper identifies three fronts on which the EMU faces significant challenges today. First, the EMU is still not able to reverse sufficiently the social and economic divergences between and within euro area members that emerged from the crisis. Second, these social and economic divergences threaten to weaken citizen’s support for the euro and erode the vision of a common future. Lastly, the EMU is still not fully shock-proof.

It is beyond the scope of this paper to comment on the specific recommendations of the Commission in the Reflection Paper. The individual proposals are technical, and an appraisal of their merits and/or shortcomings calls for a more comprehensive, far-reaching study. The ambitions of this paper are, on the other hand, more modest. I focus on the Reflection Paper’s preface (“**Preface**”), and identify two problems with the Commission’s approach and reasoning which I believe reveal a deeper, more disquieting dynamic. Since the Preface does not exist in a void, I will reference other parts of the Reflection Paper and documents where necessary, but the starting point and crux of my commentary will remain the Preface.

The structure of the paper is as follows. In the first section, I claim that the Preface makes an overly optimistic evaluation of the single currency, ignoring or not placing enough emphasis on some of its more problematic aspects. I also show that this attitude generally permeates the rest of the Reflection Paper. I identify three sentences from the Preface which I believe clearly illustrate this point. In the second section, I criticize the Commission’s failure to explicitly recognize the shortcomings of its pro-austerity policies, even after it has become abundantly clear that such policies have proven to be not only inefficient, but also counterproductive in nursing EMU countries back to health after the 2008 Financial Crisis. This is troubling, and a missed opportunity. The Reflection Paper, which forms part of a broader strategy aimed precisely at resolving the issues arising from the 2008 Financial Crisis and avoiding future recurrences⁸, constituted an ideal opportunity for the Commission to reassess its reliance on austerity policies as a response to financial downturns in the eurozone. The last section

¹ Reflection Paper on the Deepening of the Economic and Monetary Union, COM (2017) 291 of 31 May 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf

² Five Presidents’ Report: Completing Europe’s Economic and Monetary Union, of 22 June 2015. Available at:

https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

³ The five presidents which the Report refers to are the presidents of the European Council, European Commission, the European Central Bank, the Eurogroup (which brings together the finance ministers of Eurozone countries), and the European Parliament.

⁴ Declaration of the Leaders of 27 Member States and of the European Council, the European Parliament and the European Commission, of 25 March 2017. Available at: <http://www.consilium.europa.eu/en/press/press-releases/2017/03/25/rome-declaration/>

⁵ White Paper on the Future of Europe, COM (2017)2025 of 1 March 2017. Available at: https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf

⁶ For a quick overview of the 2008 Financial Crisis, see: <https://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article>.

⁷ As stated in the Rome Declaration (emphasis mine): “The European Union is facing *unprecedented challenges*, both global and domestic: *regional conflicts, terrorism, growing migratory pressures, protectionism and social and economic inequalities*. Together, we are determined to address the challenges of a rapidly changing world and to offer to our citizens both security and new opportunities.”

⁸ See pg. 3 of the Reflection Paper.

concludes, and speculates as to what the implications of the shortcomings previously identified in the Reflection Paper might be for the eurozone and the EU moving forward.

An overly optimistic assessment of the euro which ignores or understates fundamental issues facing the single currency

Reading the Preface, one gets the impression that there is a dissonance between the Commission's assessment of the euro and the objective indicators related to the performance of the single currency, as well as a general failure to acknowledge the full extent of the severe criticisms levied against the euro. I believe this is well encapsulated in the following three paragraphs of the Preface.

“The single currency is one of Europe’s most significant and tangible achievements. It has helped our economies to integrate and has brought Europeans closer together. But it has always been much more than a monetary project. It was conceived as a promise of prosperity — and that is how it must remain, also for those that will become members of the euro area in the future (...)

The painful legacy of [the 2008 financial crisis] has left Europeans wanting more of what the single currency offers: more stability, more protection, and more opportunities (...)

[Our EMU] is not yet able to reverse sufficiently the social and economic divergences between and within the euro area members that emerged from the crisis”.

According to the Preface, then, the euro has (i) fostered prosperity, stability, protection, and opportunities in the eurozone since its inception, and brought Europeans closer together as a result, (ii) and is widely supported by the citizens of the EU. Furthermore, (iii) the Reflection paper does not see a particularly strong relation between the euro and the social and economic divergences between and within the eurozone (it rather seems from the Commission's words that these divergences have arisen from the Financial Crisis, but are not in themselves related to the euro).

The Commission's highly favourable assessment of the euro does not however seem to be warranted in light of the facts. There is now a wealth of evidence suggesting that the performance of the euro has been dismal before – and especially during, the crisis. According to Marelli and Signorelli, the performance of the single currency has been unsatisfactory⁹. A simple comparison between the economic performance of the eurozone and the US, or even EU countries outside the eurozone supports this finding¹⁰.

Further, Marelli and Signorelli point out that the euro is at least in part responsible for the wide differences that have appeared within the Eurozone¹¹. According to the authors, it is surprising in this sense that the Reflection Paper fails to discuss the different current account positions (excessive deficits in some countries; excessive surpluses in some others) within the euro area and their implications¹².

Stiglitz¹³ is even more uncompromising¹⁴. In his 2016 book, “The Euro: How a common currency threatens the future of Europe”, Stiglitz's central contention is that the underlying mistake that is contributing to Europe's travails is the creation of a single currency without the creation of an

⁹ <http://blogs.lse.ac.uk/euoppblog/2017/06/20/deepening-the-economic-and-monetary-union-what-the-commission-missed/>

¹⁰ De Grauwe, Paul “Making the Eurozone sustainable”, available at http://www.kvab.be/sites/default/rest/blobs/1104/PaulDeGrauwe_Lentecyclus2017.pdf

¹¹ See fn. 9.

¹² Ibid.

¹³ Joseph E. Stiglitz is an economist and professor and Columbia University. He has been awarded the Nobel Memorial Prize in economic sciences in 2001. He is a former senior vice president and chief economist of the World Bank and is a former member and chairman of the US Council of economic advisers. I have included a short biography of the author to illustrate that his opinion on the economic performance of the euro is an authoritative one. Other experienced commentators have expressed serious doubt as to the performance and viability of the euro in its current set-up. This makes the Commission's triumphalism over the euro all the more baffling.

¹⁴ See, in general, Stiglitz, Joseph. 2016. The Euro: And Its Threat to the Future of Europe. Penguin UK.

accompanying set of institutions that would enable the diverse regions of the EU to function effectively with such a single currency¹⁵. Paradoxically, rather than fostering convergence the euro has, according to Stiglitz, lead to *divergence*, with the rich getting richer and the poor poorer¹⁶.

In Stiglitz's opinion, the net balance of the euro is thus negative:

*"The cost-benefit ratio as the euro has been managed for the crisis countries is clear: slight benefits during the short span of time between the establishment of the euro and the 2008 crisis as they benefited from the flood of money coming in, creating the imbalances from which they would subsequently suffer so much, but far outweighed by the costs in the years after the crisis."*¹⁷

According to the author, these shortcomings have contributed to sowing disillusionment in the EU among its citizens¹⁸. Other commentators also agree that the failure of the EMU has been abject, and that the ramifications for the European project have been deleterious¹⁹.

The Reflection Paper does admittedly touch upon some of the shortcomings of the euro, though perfunctorily. For instance, the Reflection Paper does admit that the 2008 Financial Crisis revealed some of the weakness of the EMU²⁰. The Commission nevertheless ultimately gives an overwhelmingly positive assessment of the single currency, as evidenced by the Preface and section two of the Reflection Paper²¹.

Further, the fact that the Commission discusses potentially far-reaching measures which could be implemented to strengthen the EMU indicates in and of itself that it is aware of the shortcomings of the current EMU set-up²². This is however besides the point. My criticism here is not that the Commission is not aware of the shortcomings of the single currency. Rather, my point is that the Commission does not seem willing (or able) to carry out a rational, impartial assessment of the euro's performance since its inception in the Reflection paper, and prefers to rely on slogans ("the euro has resulted in more stability, more protection, and more opportunities", etc.). We thus cannot be certain whether the Commission is genuinely only partially aware of the problems afflicting the euro, or whether it is fully aware of such problems, but chooses to ignore or downplay them. While the latter would suggest dishonesty and cynicism towards EU citizens and stakeholders, the former would indicate myopia and incompetence. Neither are acceptable.

In sum, the Reflection Paper ignores or downplays the abundance of indicators pointing to the largely negative economic performance of the euro. The strong claims made in the three paragraphs I have identified in the Preface, i.e. that the euro has fostered prosperity, that it is widely supported by Europeans, and that divergences between eurozone members are owed to the crisis (but are unrelated to the single currency itself) do not seem to stand up to the facts.

Austerity: the (other) elephant in the room

¹⁵ Ibid, pg. 14.

¹⁶ Ibid.

¹⁷ Ibid, pg. 166.

¹⁸ Ibid.

¹⁹ <https://www.theguardian.com/business/2012/oct/07/economics-failure-european-monetary-union>

²⁰ Reflection Paper, pg.9.

²¹ Other authors have in this regards also considered the Commission's stance on the performance of the euro to be overly positive. See for instance fn. 9

²² For instance, the Commission discusses the introduction of stabilisation mechanisms, which many authors consider very important if the EMU is to succeed. See, generally, Stiglitz.

In response to the dire economic predicament certain eurozone countries found themselves in during the 2008 Financial Crisis, the Troika imposed austerity measures on the ailing member states^{23,24}. “Austerity” policies are guided by the belief that by cutting spending or raising taxes in a country in recession experiencing a fiscal deficit, the country can be nursed back to health²⁵. In Greece, for instance, the Troika forced large decreases in government spending in, amongst others, public education and other basic services²⁶. Similar policies were imposed on other crisis countries, such as Spain, Portugal, Italy, the United Kingdom, and Ireland²⁷ — though nowhere with as much zeal as in Greece. Austerity measures have been met with huge democratic opposition from the citizens of the affected countries, and have generated massive political upheaval²⁸, with more than 60 percent of voters in Spain, Greece, and Portugal rejecting the austerity parties²⁹. Moreover, the Greek people directly rejected the imposition of the Troika’s austerity programmes in referendum³⁰ – though ultimately it seems to no avail³¹.

According to Stiglitz, austerity policies have *never* worked: rather than stimulating growth they lead to deeper and longer recessions³². The figures – with the crisis countries growing at snail’s pace, facing

²³ The topic has been widely discussed by academics and commentators, who are generally critical. Apart from Stiglitz, see also for e.g. Cooper, Vickie, and David Whyte, eds. 2017. *The Violence of Austerity*. Pluto Press. As stated clearly in the Introduction: “This book is about the devastatingly violent consequences of government policy conducted in the name of ‘austerity’. It is about the toll of death and illness and injury that so-called austerity policies have caused.” The book is one focussing on the social costs of austerity policies in the UK; Seymour, Richard. 2014. *Against Austerity: How We Can Fix the Crisis They Made*. London: Pluto Press. Seymour argues that austerity, which has had a devastating effect on the poorer segments of society, is a product of class ideology and a wider plan of the elite to re-engineer society according to their interests; Schui, Florian. 2014. *Austerity: The Great Failure*. Yale University Press. Schui shows that arguments in favour of austerity were -and are- mainly based on political and moral considerations, rather than on economic analysis; Engler, Philipp, and Mathias Klein. 2017. “Austerity Measures Amplified Crisis in Spain, Portugal, and Italy.” *DIW Economic Bulletin* 7 (8): 89–93, who find that austerity policy has had a negative impact on productivity in Spain, Portugal, and Italy, and has neutralized the effects of structural reforms in these countries – the paper thus contradicts the notion that austerity policies failed because of poor structural reforms, and suggests that causation in fact went in the opposite direction; Oxfam case study. 2013. “The true cost of austerity and inequality: Italy case study”, available at: <https://www.oxfam.org/sites/www.oxfam.org/files/cs-true-cost-austerity-inequality-italy-120913-en.pdf> which finds that “in Italy, austerity measures have so far failed to generate economic growth or reduce debt, and continue to exact high social costs”.

²⁴ The media has also reported extensively on austerity policies and their consequences. The sentiment is generally that austerity policies in the eurozone have been an abject failure. For a taste, see generally: <http://www.bbc.com/news/10162176>; for a piece more focused on Spain see: <https://www.forbes.com/sites/timworstall/2015/09/14/krugmans-right-spains-austerity-proves-that-its-the-euro-that-is-the-problem/#3e359a307fde> where the author agrees with economist Paul Krugman on the disastrous consequences of austerity for Spain, and the egregious role played by the Euro: “Without the ability to devalue the only other option is that internal devaluation. The screwing down of wages by making large parts of the workforce unemployed. Which is, as everyone can note, exactly what has happened in Spain. And that disastrous economic policy is purely and only a result of the idiocy of the euro itself. Without the euro it wouldn't have happened. With the euro it was and is inevitable whenever there is an asymmetric economic shock that hits the European economy.”; For a critical appraisal of the balance of austerity measures in Spain, see (only available in Spanish): https://www.eldiario.es/agendapublica/impacto_social/Balances-politicas-austeridad-Espana_0_225727611.html; see also (available only in Spanish): https://elpais.com/elpais/2012/05/04/opinion/1336155967_574034.html where the author concludes that austerity measures have amplified inequality and have greatly harmed the poorer segments of Spanish society; for a more personal look at the consequences of austerity for Greek families, see: <https://www.aljazeera.com/news/2018/02/begging-bread-greek-family-austerity-180202135428686.html>; see also, on Greece: <http://www.dw.com/en/greece-reeling-from-austerity-and-a-broken-economy/a-41143557>; for a British perspective, see for e.g. <http://www.dailymail.co.uk/news/article-5431565/Archbishop-Canterbury-says-UK-split-Brexit.html>, where the Archbishop of Canterbury is quoted as saying: “There is a danger that there is a schism in our society into which the most vulnerable are falling. *Austerity is crushing the weak, the sick and many others*” (emphasis mine); and <https://www.theguardian.com/business/ng-interactive/2015/apr/29/the-austerity-delusion>, which collates the arguments raised in favour of adopting austerity measures in Britain around 2010 against the effects of such policies five years after and concludes that “All of the economic research that allegedly supported the austerity push has been discredited”; Reports from Italy are not flattering for austerity either, see (available only in Italian): <http://www.lettera43.it/articoli/politica/2015/03/23/austerita-in-italia-gli-effetti-deleterii-di-6-anni-di-riforme/142761/>, which looks at the negative effects of austerity on the cost of Court proceedings, on Fundamental rights, on employment, and on education. In a nutshell: “Giustizia più cara. Spesa per l'istruzione ferma. Miraggio lavoro. Cortei violenti.”; and http://www.ilsole24ore.com/art/commenti-idee/2016-12-07/il-caso-italia-e-pericoli-l-eurozona-l-austerita-adesso-deve-finire-143345.shtml?uid=ADHdAL9B&refresh_ce=1, which calls for an end to austerity measures: “La cosa di cui ha bisogno in primo luogo l’Eurozona è abbandonare la politica dell’‘austerità’”.

²⁵ Stiglitz, pg. 46.

²⁶ Ibid; See also: <http://www.bbc.com/news/business-13940431>

²⁷ See fn. 20.

²⁸ Anti-austerity protests have been widespread and frequent across Europe. See, for instance: <http://www.bbc.com/news/world-europe-20320993>

²⁹ Stiglitz, pg. 147; The recent crushing defeat of the Italian ruling party, the Partito Democratico, in the Italian general elections of 4 March 2018, can also be seen as a response to austerity. See: <https://www.newyorker.com/news/our-columnists/why-the-center-collapsed-in-italy-recession-austerity-and-immigration>.

³⁰ <https://www.standard.co.uk/news/politics/greece-dramatically-rejects-austerity-with-huge-no-vote-in-referendum-10367652.html>

³¹ <https://www.theguardian.com/world/2015/jul/10/greeks-resigned-to-bailout-plan-despite-voting-against-austerity>

³² Ibid, pg. 133. See also Blyth, Mark. 2013. *Austerity: The History of a Dangerous Idea*. Oxford, New York: Oxford University Press. Blyth argues that austerity policies are dangerous. While one state may try to cut its way to growth, the idea cannot work when several states try it simultaneously: all that is achieved is to shrink the economy. The author demonstrates that the arguments for austerity are tenuous and the

high levels of unemployment (often well into the double digits³³), and little confidence as government spending is slashed, not to mention the tragic human costs as middle and lower income households see their standards of living plummet – seem to confirm this³⁴. Indeed, austerity has been largely discredited following the 2008 Financial Crisis, with a great many experts agreeing that austerity measures are not only ineffective, but counterproductive³⁵. Even the International Monetary Fund, once an avid austerity supporter, has recognized that austerity hurts the economy³⁶.

Austerity policies have however done more than damage the economy of the eurozone: they have eroded the democratic fibre of Europe and the bonds of solidarity between member states, perhaps beyond repair; with creditor countries (such as Germany) showing astonishing disdain towards debtors (such as Greece)³⁷, and the gaping schism between the two groups becoming ever wider³⁸. Some authors have — in my opinion rightly — even pointed out that the failures of the eurozone, and especially, of the Troika’s austerity programmes have significantly contributed to the broader scepticism about the value of European integration, as evidenced in the growth of Eurosceptic, nationalist “populist” parties and Brexit³⁹. In this sense, Muro and Vidal contend that the 2008 Financial Crisis has exacerbated divides on three fronts: between citizens and European institutions, between Southern and Northern Europe, and between citizens⁴⁰. One might add, by deduction, that the poor handling of the crisis has then accentuated such schisms even further.

Against this backdrop, and considering the impact its austerity programmes have had on the eurozone (and considering, further, how the ratio of the Reflection Paper is the strengthening of the EMU), it would be reasonable to expect the Commission to take this opportunity to reassess its faith in such measures (like the International Monetary Fund has done), or at the least address the issue head-on. Is the Commission aware of the dire consequences its austerity programmes have had on the populations in the crisis countries? Is it aware of how ineffective its austerity programmes have been in improving the economic health of the affected countries? Is it aware of the far-reaching criticisms and discontent its austerity programmes have generated? How does it respond to these criticisms – and perhaps more importantly, are we to expect a new wave of austerity programmes (and another lost decade)⁴¹ next time one or several eurozone countries face a financial crisis?

Unfortunately, as Marelli and Signorelli point out, no comments are made about the failure of the so-called “expansionary austerity”⁴². It does not in any way follow from the Reflection Paper that the

evidence thin. Rather than increasing growth and opportunity, austerity has almost always led to low growth and an increase in income inequality.

³³ For instance, unemployment in Greece peaked at 28% in 2013. See: <https://tradingeconomics.com/greece/unemployment-rate>. Spain’s unemployment peaked at 26,94% in the same year. See: <https://www.statista.com/statistics/453410/unemployment-rate-in-spain/>.

³⁴ See, in general, Stiglitz.

³⁵ Ibid. See also this study by the IMF: <http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm>; also: <https://www.theguardian.com/commentisfree/2017/jun/14/the-guardian-view-on-austerity-economics-it-failed>

³⁶ See “Will It Hurt? Macroeconomic Effects of Fiscal Consolidation,” chapter 3 of International Monetary Fund, World Economic Outlook: Recovery Risk and Rebalancing (Washington, DC: International Monetary Fund, 2010), pp. 93– 124.; see also fn. 23, and <https://www.theguardian.com/commentisfree/2012/jun/04/austerity-policy-eurozone-crisis> where the author argues that austerity policies have always lead to recession throughout history, and wonders why we keep pushing an idea with such a bad track record: “So, if the whole history of capitalism, and not just the experiences of the last few years, shows that the supposed remedies for today’s economic crisis are not going to work, what are our political and economic leaders doing?”; and: <https://www.theguardian.com/commentisfree/2013/mar/11/austerity-almost-never-works>, where the author emphasises the role of austerity policies (and its consequences, such as joblessness) in the rise of the

Third Reich: “ In Germany, the Social Democrats stupidly clung to the orthodoxy of austerity, pushing joblessness up to 30% by 1932, and opening the door to the Nazis.”

³⁷ See Stiglitz.

³⁸ See, for instance: <http://blogs.lse.ac.uk/eurocrisispress/2014/06/10/mind-the-gaps-the-political-consequences-of-the-great-recession-in-europe/>. Austerity has also been found by some to be partly to blame for the widening gap between rich and poor *regions* of Europe: <https://www.economist.com/news/europe/21709336-austerity-partly-blame-gap-between-poor-and-rich-regions-europe-widening>.

³⁹ See, for instance: <https://theconversation.com/how-austerity-took-britain-to-brexit-61761>; see also: <https://www.ft.com/content/5557f806-5a75-11e7-9bc8-8055f264aa8b> although the author focusses on the Financial Crisis, and not necessarily on austerity policies.

⁴⁰ See fn. 37.

⁴¹ I have borrowed the term from this article: <https://www.theguardian.com/business/2012/oct/07/economics-failure-european-monetary-union>

⁴² Ibid.

Commission admits the failures of its austerity policies, nor does it follow that the Commission is aware of the degree of criticism and discontent such policies have generated across the EU.

The Commission's aloofness with regards to the failings of the euro (as discussed in the previous section) and of its austerity policies are alarming for reasons that will be discussed in the conclusion.

Conclusion – Rationality, not ideology

In this paper, I have criticized the Commission's Reflection Paper on two counts, which ultimately reveal the same underlying flaw in the Commission's approach to the EMU (and perhaps beyond). First, the Commission appears unwilling to accept the full extent of the euro's sub-par performance. It generally exalts the single currency, and associates it with "prosperity, stability, and protection"; It even calls it a "success story"⁴³. Although the Commission does admittedly make a few concessions on this front, its take on the single currency is still an overwhelmingly positive one. This assessment of the euro however clashes with the reality of its performance – which has overall not been good. Similarly, the Commission does not adequately discuss the implications of its austerity policies, despite their massive impact on the eurozone (for the worse, as most now argue). Second, the Reflection Paper fails to acknowledge the full extent of the scathing rebukes made both against the euro and the Troika's austerity policies.

The Commission's attitude reveals two things. First, it reveals the Commission's reliance of *ideology* as a guiding principle; and its subsequent readiness to ignore or downplay evidence that contradicts its firmly entrenched beliefs. The Commission's insistence that the euro is a success story, very much in spite of the facts, illustrates this. It goes to show that, for the Commission, to a large extent, the euro is a matter of ideology rather than of economic science.

The same can be said about the Commission's austerity policies; they are never questioned nor even properly addressed, despite their preeminent role in the financial crisis – which the Reflection Paper is a direct response to. As Stiglitz suggests, there seems to be a *wilful* failure to look at the evidence⁴⁴. Although Stiglitz' observation refers specifically to the unwillingness of European Leaders (and especially Germany) to accept the failures of the Troika's austerity policies – it holds true here too.

Second, it reveals that the Commission is highly impervious to criticism and, even more troublingly, popular dissatisfaction. Reading the Reflection Paper without any prior knowledge of the 2008 Financial Crisis, one would think that there exists something close to a Europe-wide exultation of the Euro. To the contrary, many well respected economists and some of the shrewdest commentators have slammed the single currency for its role in the crisis. In the same vein, there has been an upheaval against the Troika's austerity policies coming both from civil society and experts. One would never know, however, from the Reflection Paper.

In sum, I have distilled two main issues from the Reflection Paper: (i) The Commission's reliance on ideology, rather than rationality, as a guiding principle when it comes to the euro and its austerity programmes; and (ii) the Commission's disconnect (deliberate or not) from civil society, and its volitional insulation from criticism. What is the upshot of this? Ultimately, the Commission's reliance on ideology may lead to irrational choices which are unproductive at best, and counterproductive and harmful at worst – like its austerity programmes. It may also make it blind to some of the evident shortcomings of its "pet projects", such as the euro. On the other hand, the Commission's aloofness in the face of loud dissent coming both from experts and civil society risks broadening the schism between the EU and Europeans. The Commission's conspicuous indifference to criticism and popular discontent

⁴³ Reflection Paper, pg. 6.

⁴⁴ Stiglitz, pg.

lends credence to the “EU democratic deficit” argument, which has been echoed so frequently among “populist” parties⁴⁵.

At a time when the support for the EU seems to be waning in the face of growing economic inequality and populism, there can be no room for blind pride and ideology. Cool-headed, rational economic thinking must trump dogma, and receptiveness to constructive criticism must be a priority. These enlightened principles are what Europe stands for. Now is the time for the EU to show that it does too.

⁴⁵ <https://www.socialeurope.eu/populism-austerity-and-democratic-deficit>