

The Limits of European Solidarity

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Europe's troubles go well beyond governments' fiscal crises. The European Union faces a crisis of legitimacy. In the name of solidarity, Europeans are being asked to subsidize irresponsible behavior, in reckless violation of the EU's treaties. To avoid a complete breakdown, Brussels panjandrums must recognize that a one-size-fits-all approach to Europe is no longer sustainable.

While European nations share many common interests, a single market among them, they differ on key issues. Central Europe, the Baltic countries and other more recent members of the EU are much poorer than Western European countries. The wealthier, more established EU nations tend to be concerned with wealth redistribution and protecting their existing social privileges, while the newer members are primarily concerned with economic growth and wealth creation.

The regulatory burden emanating from Brussels is therefore of particular concern to newer EU members. The strength of the Franco-German voting block in the European Parliament, for example, ensures that many regulations pertaining to the environment, health, safety and labor market are locked in according to western European interests and standards. These regulations are often unsuitable to Eastern European levels of economic development, costing jobs and reducing the standard of living in Eastern countries.

Overregulation from Brussels could become an even bigger problem in the future. The 2009 Lisbon Treaty, for example, went long way toward reducing national governments' autonomy in the economic realm, largely under the heading of "regional policy" and achieving "economic, social and territorial cohesion." The "economic government of Europe", as Berlin and Paris now propose, would go a step further in eroding national economic autonomy, by putting EU governments in lockstep on everything from taxation to spending priorities.

EU-orchestrated transfer from West to East, via the so-called "structural" and "cohesion" funds, were meant to take the edge off the costs of regulation in newer EU countries. Slovakia, for example, was entitled to some €1.6 billion from Western European tax-payers between 2007 and 2013, though it has left about 70% of the earmarked money unspent because it did not meet various conditions for use.

The system not only distorts capital allocation and fuel corruption in the beneficiary states. The EU is now wielding the threat of removing these international subsidies if its newer members refuse to toe the line on issues ranging from their tax policies to supporting Greek bailouts.

In October French President Nicolas Sarkozy said that "The failure of Greece would be a failure of the whole Europe...Yes, there is a moral obligation of solidarity. But there is also an obligation for economic solidarity-. It is not possible to leave Greece behind." It may well be that the French president feels morally obliged to help the Greek state and, by extension, the French banks that are heavily exposed to Greek public debt. But many in Slovakia do not feel bound by similar sentiments.

After the fall of the Berlin Wall, Slovakia underwent painful but necessary economic reforms, with the burden of the transition to capitalism squarely on the shoulders of the Slovak people.

Meanwhile, Greeks were enjoying artificial prosperity stimulated by government borrowing and spending. The average income in Slovakia was \$17,889 in 2011; in Greece, it was \$27,875. The average Slovak pension was \$491 in 2010; in Greece, it was \$1,775. Slovakia's national debt is 45% of GDP; Greek debt is approaching 160%.

Yet Slovakia is now being asked to borrow in order to lend to Greece, thereby sacrificing its relatively high credit rating and low interest rates. Is this solidarity?

The sums involved are not trivial. We calculated that, under its current pledges to Europe's bailout funds, Slovakia could be obliged to extend financial guarantees to Greece worth some €13 billion, more than the Slovak government collects in taxes each year.

This kind of "solidarity" with Greece also flies in the face of the rule of law. Article 125 of the Lisbon Treaty, for example, states that each EU member state is responsible for its own debts, and Article 123 prohibits the European Central Bank from lending to the EU member states. Both stipulations have been breached.

A Greek pullout from the euro zone would only acknowledge what increasing numbers of ordinary Europeans understand: that the European project has gone too far and too fast, that there are better ways to achieve integration and that it might be necessary to repatriate some powers from Brussels back to the member states. To follow blindly down the current path is not solidarity. It is hubris.