

## The Summit of the European Council and its aftermath – the opinion of the Union’s Chief Expert of Economic Policy

Following the last summit of the European Council (comprising of leaders of EU member states) and the decision made to establish a reconstruction fund and to create the Next Generation EU programme, the talks of a Hamiltonian moment in Europe began. Let us recall: Alexander Hamilton created the American central bank and his actions made it possible to incur federal debt in place of state debt. This facilitated the country’s reconstruction after the War of Independence, and also lowered the cost of debt as well as made it easier for the states to pay it back. Moreover, the foundation of the emerging republic had been built in this way. Regional interests, thus far often divergent, became unified – and the federal government became the cornerstone of the emerging state. This Hamiltonian moment was a turning point: the restructuring of state debts was one of the key moments in the history of integration of American states. This is what is supposed to take now place in Europe. According to many commentators, the new draft budget, in particular provisions enabling financing of reconstruction funds, is to be such a Hamilton moment.

The concept of such a moment as a turning point, a crossroads in the history of the republic was formulated by J.G.A. Pocock almost half a century ago. He dealt with the Machiavelli moment – the situation when a modern republic (Florence in this case) faces the risk of collapse which, provided people have been made aware, leads to a policy reconfiguration necessary for it to survive. This is the moment when, as Pocock wrote, the republic stands at a crossroads and tries to salvage “political and ethical stability in the rush of irrational events perceived as completely destructive to all systems of secular equilibrium”. This is the moment when republican virtue confronts chance and corruption. Of key importance at this point is the change of political philosophy – because Machiavelli’s moment is a time when the hitherto experiences and knowledge of politics become no longer relevant. Machiavelli understood and recorded this experience in his masterpiece “The Prince”, henceforth Machiavelli’s moment. On the other hand, “The Prince” somehow reflects the process of reconfiguration of political philosophy and politics in Florence.

Such turning points repeatedly take place when a republic founded on secularised Western philosophy is on the verge of collapse. This was the case in 16th century England and 18th century North America. In case of the latter, it was James Maddison who played the role of Machiavelli, finally conceptualising American federalism and paving the way for the US constitution. The durability of the American republic was thus ensured by Hamilton and Maddison. The Machiavelli moment and the Hamiltonian moment secured the survival and development of the American republic.

In recent years, the EU has faced such a Hamiltonian moment, as many commentators are pointing out. But more importantly, it might actually be a Machiavelli moment already. The dispute-war waged by leaders at the last summit, post-Brexit, after the Eurozone crisis, and now in the midst of an economic storm sparked by the coronavirus epidemic, although it may appear to be a debate regarding the present, could be a moment of confrontation between republican virtues and corruption. The Union must find a firm foundation for its existence. European federalists are looking forward to that common debt becoming such a foundation. Maybe... if it in fact improves the situation of southern European countries. Maybe... although the issue of debt itself is not answer to the question of need for a new political philosophy of the Union.

It is still uncertain whether the EU has retained the vitality of the European republic or has already become an irreversible administrative behemoth where procedure prevails over virtue. Recent crises have made it possible to rethink and reconsider the concept of community. For the time being, they have been replaced by a dispute between the frugal faction – countries that are net contributors to the European project, and those usually described as spendthrift – the European south.

This is a dispute that reaches the very heart of the European project. For it is about who benefits more from the single currency and who benefits from the de facto status of a European tax haven. Although everyone benefited from the Euro, the distribution of benefits was asymmetrical. The countries of the European North benefitted more. By contrast, tax havens such as the Netherlands and Ireland benefit from artificial profit transfers. Undermining European solutions, they care above all else about their particular national interests. In the Netherlands, as much as 40% of CIT revenues are the result of profits transferred there artificially. The stable fiscal situation of countries such as the Netherlands may therefore be related to the asymmetry of benefits in the EU and the preference for national interests pursued through EU mechanisms. Although such a strategy is understandable and very beneficial in particular terms as the examples of the Netherlands, Ireland or Luxembourg show, it may sabotage the foundations of a European consensus.

At the EU summit, an agreement was reached, because the frugal countries gave way, but at the cost of significant concessions in their favour. They are especially visible in the case of the Netherlands – which, apart from the reduction of the budget contribution, gained in the near term higher remuneration for handling European customs duties. They are among the victors of this summit – from a pragmatic and competitive point of view. But is this a republican approach?

Nevertheless, the problem of the European Union is not the dissatisfied attitude of the thriving economies for which the EU and the common market bring almost nothing but benefits. The problem consists in the increasing headaches of the southern countries, exacerbated even more by the current crisis. The countries of the European south have been developing very slowly for over a decade. Greece still (in 2019, according to the World Bank) achieved the same level of development (measured by GDP per capita) as 2 decades ago, and the same goes for Italy. The Spanish economy grew by just over a dozen percent over that time. Let us compare: the German economy has grown by 30% since 2000, whereas the Polish economy by 100%. The post-pandemic crisis is likely to aggravate these disparities even further. Therefore, the Machiavelli moment should be a moment to re-formulate the European concept, but also a period of real, long-term development aid for the South – a bit like the Mediterranean countries obtained in the 1980s. Today, without aid or in a situation where control and distribution mechanisms included in the European budget and aid programs will drastically limit access to it, the political drift of the Union may become more and more dangerous to its existence.

This moment might be a turning point in the history of a republic. A moment of historical significance when fate can go two ways – it will either drift towards a crisis, or new concepts and ideas will restore its vitality. This moment in EU's recent history has lasted for several years, and the last summit is just yet another contribution to a longer process whose consequences are still not obvious. The summit of the European Council can be treated as a moderate success of the Polish government. It is also a moderate success for European federalists – although there is still a long walk ahead of us until we reach a Hamiltonian moment. Yet – so it would seem – the Machiavelli moment will determine the future of the Union. Either the idea of a republic will ensure its longevity, or divergent national interests



along with an excessive bureaucracy will keep the drift unchanged. The right answer in this increasingly complicated reality would be a common commitment together with an idea how to make use of it for the good of the republic.

**Piotr Koryś Ph.D.**

**Chief Expert of Economic Policy of the Union of Entrepreneurs and Employers**