

# The past and future of European federalism: Spinelli vs. Hayek

By Federico Ottavio Reho<sup>1</sup>

The year 2017 will mark the sixty-year anniversary of the Treaties of Rome. On this occasion, the European project will receive a thorough check-up, and important decisions will be made that will decide whether and in what form it survives.

In this context, it is crucial to recognise the long-overlooked contest between two competing visions of European federalism, propounded by two great figures of Europe's twentieth century: Altiero Spinelli and Friedrich Hayek.

Hayek's federation is not a strong and intrusive central government, but a limited framework for continental openness, dealing with core federal functions: defence, foreign policy and the four freedoms of the internal market. By contrast, in Spinelli's model of European integration, both the federal government and the federated entities are programmatically intrusive and centralised.

In the event, neither Hayek nor Spinelli decisively influenced the early steps of European integration, which followed the neofunctionalist approach promoted by Jean Monnet. While the logic of federalisation is transferring clearly enumerated and defined functions to the central level, the logic of neofunctionalist integration is sharing sovereignty in an ever-growing number of policy areas. The latter's prevalence contributes to explaining why the EU has grown to resemble a lopsided, upside-down confederation.

The recent past tells the story of a revolt against European integration that is taking dangerously big dimensions and demands urgent countermeasures. Honest pro-Europeans should admit that some sort of Hayekian federalism is the only federalism with some chances of success in our continent.

## Introduction

The year 2017 is likely to be pivotal in the history of the European project. On the one hand, it will confront us with one of the most complex political constellations in decades, with delicate elections in France and Germany, the beginnings of a new and unpredictable US administration, and the official triggering of Britain's withdrawal from the European Union under Article 50. On the other hand, it will mark the sixty-year anniversary of the Treaties of Rome, which put the project on a broader and sounder basis after its uncertain early steps in the realms of coal, steel and defence.

On this occasion, a project under clear strain will receive a thorough check-up, and important decisions will have to be made that will decide whether and in what form it survives. In this context, it is important that Europe's leaders are prepared to reassess one of the political concepts most abused in European integration: federalism. It is also crucial that they recognise the long-overlooked fight between two competing visions of European federalism, propounded by two great figures of Europe's twentieth century: Altiero Spinelli and Friedrich Hayek. The former influenced the past of European integration. The latter may be able to shape its future.

## European federalism: Hayek 1939 vs. Spinelli 1941

In 2010, in the wake of the Great Recession, the epic intellectual fight on the origins of economic booms and busts between Friedrich Hayek and John Maynard Keynes was rehearsed in two entertaining rap battles that quickly went viral.<sup>1</sup> It is less known that Hayek could equally feature in a rap battle against Spinelli – or perhaps Jean Monnet – regarding the most appropriate model of European federalism. Hayek and Spinelli never crossed swords directly, but they developed during the same period two competing blueprints for the federal integration of Europe. It is too often forgotten that Hayek was the first of the two to put out his federalist vision.

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In a remarkable short essay published in 1939, the Austrian economist, then teaching at the London School of Economics, defended the perspective of a liberal and decentralised federation in Europe. Like the European founding fathers after WWII, Hayek believed that “the main purpose of interstate federation is to secure peace”.<sup>ii</sup> However, he also had special expectations about the economic logic of federalism. A lasting federation, he argued, would not only require a political union, but also an economic one in order to eliminate the many policy-induced economic barriers that would artificially pit the interests of its constituent members against one another. The peculiarity of Hayek’s conception of economic union, unlike today’s discussions of the same topic, is its expectation that it could only be centred around a notion of “negative integration”, i.e. the unimpeded movement of labour, goods, services and capital, as opposed to the pursuit of active economic and regulatory policies at the federal level.

Hayek’s insights are simple and compelling: on the one hand, the unimpeded movement of the factors of production – what we now call the four freedoms of the Single Market – would significantly limit the extent to which the federated states can regulate their internal economies, now exposed to competition from within the federation. On the other hand, in a vast and diverse union with different cultures and levels of economic development, interventionist economic policies would surely be perceived as intrusive, divisive and discriminatory, and therefore would be difficult to pursue. The results should be more liberal economic policies and the partial devolution of functions to regional and local units. The latter would compete in an open continental space guaranteed by strong but limited federal institutions. In a nutshell, Hayek’s federation is a limited framework for continental openness, not a strong and intrusive central government. It only deals with core federal functions – defence, foreign policy and the four freedoms of the internal market – and it encourages decentralisation and competition, not centralisation and harmonisation.

Spinelli’s vision of European integration could not be further from Hayek’s: he imagined that European unity should favour the struggle against inequalities through nationalisation and redistributive taxation.

Hayek’s federalist vision could not be further from Spinelli’s. In his celebrated Ventotene Manifesto, written with others in 1941, Spinelli devoted most of his energy to denouncing the crimes of “capitalist imperialism”, which he identified as one of the root causes of totalitarianism. Far from being centred on the vision of open, competitive and decentralised markets, his union has openly socialist goals: “the European revolution must be socialist, that is it must have as its goal the emancipation of the working classes and the realization for them of more

humane living conditions”. European unity should favour “the struggle against social inequalities and privileges” by allowing nationalisations and redistributive taxation.<sup>iii</sup>

Spinelli’s federation is clearly much more interventionist than anything Hayek could have conceived, and both the federal government and the federated entities are programmatically intrusive and centralised. In spite of Spinelli’s repeated attacks on “the absolute sovereignty of national States”, his European federation seems strikingly similar to them. Essential attributes of federalist politics and society such as the preference for decentralisation and voluntary cooperation, as well as the respect for national and regional identities, are entirely lost in Spinelli’s federalism, whose emphasis clearly is on forging strong central institutions and on pursuing a radical reform of European societies on egalitarian grounds.

### **The EU as an upside-down confederation**

Neither Hayek nor Spinelli decisively influenced the early steps of European integration. In 1954, the dream of quickly federalising Europe starting from defence foundered with the European Defense Community treaty. The era of neofunctionalist integration began: it had been heralded by the European Coal and Steel Community of 1952, with the French technocrat Jean Monnet as its prophet. This transition is crucial to understanding subsequent developments to this day. The logic of federalisation is transferring clearly enumerated and defined functions – normally defense, foreign policy and the powers to ensure economic unity – to the central level, while reserving all other functions to lower levels of government, in accordance with the strictest subsidiarity. The logic of neofunctionalist integration, on the contrary, is sharing sovereignty in an ever-growing number of policy areas, starting from those necessary to create a common European market.

Under a well-functioning federalism, member states generally have an incentive to jealously defend their prerogatives from federal encroachment. Under neofunctionalism, national governments have an incentive to free themselves from the tutelage of other constitutional powers by sharing sovereignty at the EU level, while maintaining a reassuring involvement in the formulation of common policies. Clear limits to integration are essential to a well-functioning federalism; open-ended integration is quintessential to neofunctionalism. “Ever closer union” is an appropriate motto for neofunctionalism; “as much union as necessary, as little union as possible” is a much better one for authentic federalism.<sup>iv</sup>

The prevalence of neofunctionalist integration contributes to explaining why the EU has grown to resemble a lopsided, upside-down confederation: since the Single European Act, its competences have expanded to affect, directly or indirectly, virtually all areas of public policy, for many of which it is jointly responsible with member states; following the Eurozone crisis, the EU even acquired powers of oversight and co-management of national budgets and economic policies that are unknown in any established federation, where usually only a strict no-bailout rule applies. At the same time, the EU's competences remain strikingly weak precisely in those areas where federal or confederal powers have been traditionally strong: foreign policy, defence and border control.

If Monnet's neofunctionalism was the dominant method of European integration, Spinelli's federalism seems to have been its most influential institutional blueprint. Self-styled European federalists imagine "the United States of Europe" as a state-like polity similar to those that unified the various European nations in previous centuries.

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As far as Hayek's influence on European integration is concerned, it was mostly indirect or accidental: the enunciation by the European Court of Justice in 1979 of the principle of mutual recognition, which opened a short-lived window of regulatory competition in Europe, was accidentally Hayekian.<sup>v</sup> The Single Market Project – promoted by Margaret Thatcher's Britain and the Commission in the 1980s – was indirectly Hayekian.<sup>vi</sup> The significance of Hayekian federalism as a broad institutional blueprint for tomorrow's Europe has not yet been adequately explored.

### **Hayekian federalism for the European Union?**

For a long time, Hayek was thought to have lost his fight with Keynes on boom-and-bust, until the Great Recession lent renewed credence to his theories on the business cycle. Similarly, his federalist blueprint fell into oblivion soon after it was published, while Spinelli's and Monnet's integration models held sway for the best part of European integration. The Great Disillusion with the EU in recent years may offer a welcome opportunity to resurrect it.

With hindsight, we can surely say that Hayek captured the essence of European federalism much better than Spinelli. He had understood that a federal or confederal order in Europe could only succeed if it abandoned the hierarchical, centralising and interventionist tendencies of the modern nation-state in favour of cooperation, decentralisation and respect for diverse identities. "The price we have to pay for an international democratic government", he wrote, "is the restriction of the power and scope of government",<sup>vii</sup> and he went as far as to argue that the readiness to accept such a restriction "will be the acid test of whether we are intellectually mature for the achievement of suprapstate organization".<sup>viii</sup>

The more a polity is large and diverse, Hayek implies, the lesser role politics should play in it: politics – most of all democratic politics – is about uniformity, standardisation and majority rule, which tend to be extremely divisive in a vast federation whose members are understandably jealous of their historically grounded differences and identities. In that context, the tasks of common institutions cannot go much beyond arbitrating conflicts among members, consensually administering a few common policies and enforcing a framework of economic openness – "negative integration" – within the union. The detailed regulation of economic life and the attempt to reshape the social and cultural values of constituent members represent "the rock on which all the hopes for international organization may founder".<sup>ix</sup>

The detailed illustration of the division of competences and powers in a Hayekian federation goes much beyond the scope of this short paper. As I have written elsewhere, however, "the common institutions would uphold the shared values of Europe's civilisation, guarantee the integrity of the common market, administer both the monetary policy of the federation and an effective foreign and defence policy, and take over the few security and welfare obligations necessary to ensure the free movement of people and to grant equal rights to all citizens. All other functions would flow back to the member states, harmonisation would be kept to a minimum and decentralisation of power would be encouraged at all levels, as would the widest regulatory competition between different administrative units in the integrated continental space".<sup>x</sup> There is no doubt that the European level should be given responsibility over foreign relations, defence and border control.<sup>xi</sup> As with economic policy – and for the same reasons – the European federation should presumably administer these powers in a rather "negative", defensive way: given the diversity of strategic perceptions among member states, the pursuit of an active – let alone an aggressive – foreign and defence policy would likely cause irreparable divisions among the states.

Hayekian federalism also helps to recast the way in which we think about the future of economic and monetary union. Unlike most proposals for a “genuine economic and monetary union” since the onset of the Eurozone crisis, Hayek did not believe that a federal currency in Europe would require budgetary centralisation and economic harmonisation. In fact, his short observations on the topic seem to imply quite the opposite: “the latitude given to the national central banks”, he explains, “will be restricted at least as much as it was under a rigid gold standard – and possibly rather more”.<sup>xii</sup> In other words, Hayek expected a common currency to severely restrict the discretion of monetary policy. As a consequence, fiscal policy would also have to become more conservative, as monetary policy could no longer be used to indirectly finance public expenditure: national governments would be forced to cut borrowing and make their markets more flexible and competitive, as they used to be up to WWI, under the historical gold standard.

Hayek’s prediction proved, once more, correct in the early phase of the crisis, when countries in the Eurozone periphery, once used to continuous competitive devaluations, had no choice but to balance their budgets and reform. The pressure has now eased due to the expansionary monetary policy of the European Central Bank and its decision to break the Maastricht framework of rules in order to purchase government bonds. For the long run, however, a decentralised monetary union is only conceivable if we return to a strict no-bailout framework, open up banking and finance to continental competition and reform national economies in the direction of lower debts, slimmer public sectors and greater flexibility.

This is the only way for euro members to be able to retain control of their budgetary and economic policies under a lean federalism of the Hayekian type, as opposed to the heavily centralised federalism advocated by Spinelli. Mainstream conservative parties should accept the constraints imposed by monetary union and argue for radical restructuring of national economies that would give them more flexible and resilient structures. This transformation need not entail a lesser commitment to social cohesion, but a more intelligent one, with more streamlined, targeted policies that economise resources and focus on the really needy.

### **Conclusion: the relevance of Hayek’s vision**

The recent past tells the story of a revolt against European integration that is taking dangerously big dimensions and demands urgent countermeasures. Honest pro-Europeans should admit that some sort of Hayekian federalism is the only federalism with some chances of success in our continent. Unlike Spinellian federalism, which emphasises unity up to breaking point, Hayekian federalism is true to the EU’s motto “unity in diversity”, with an emphasis on diversity.

If the EU’s rhetoric and institutional practice had been closer to Hayekian federalism, several recent blows to European integration could have been averted. The most important among them is perhaps Britain’s decision to leave the EU, which was certainly facilitated by traditional pro-European slogans such as “ever closer union”<sup>xiii</sup> and “more Europe”, as well as by the pervasive nature and seemingly endless growth of the EU’s regulations and powers.

Hayek’s ideas, on the contrary, allow for a minimalist and decentralised federation, essentially entrusted with a few long-term policies and with the powers of a guarantor or trustee, as opposed to an intrusive ruler. Albeit confusedly, more and more EU countries seem to be demanding a political offer along these lines: all over the Union, polls consistently show support for a stronger EU in core federal areas such as defence and foreign policy, whilst signalling widespread fears about the loss of national identity and autonomy.

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There is now a window of opportunity to rethink European integration in a more Hayekian direction. Both the politics and the economics of our time seem favourable to such an endeavour. We should grasp this opportunity and put our mind and energies to task before this window closes, so as to have clear and convincing proposals for the next round of treaty changes. The choice between a quarrelsome break-up of European unity and a centralised federation is a false one: there is a third way, and we should take it before it is too late.

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- i They are available under the following links: <https://www.youtube.com/watch?v=d0nERTFo-Sk>; <https://www.youtube.com/watch?v=GTQnarzmTOc&t=31s>.
- ii F. A. Hayek (1948), *Individualism and economic order*, University of Chicago Press, Chicago, p. 255. Republished in this volume, the essay “The economic conditions of interstate federalism” had first appeared in September 1939.
- iii A good English translation of the document, originally written in Italian, can be found at [http://www.cvce.eu/content/publication/1997/10/13/316aa96c-e7ff-4b9e-b43a-958e96afbecc/publishable\\_en.pdf](http://www.cvce.eu/content/publication/1997/10/13/316aa96c-e7ff-4b9e-b43a-958e96afbecc/publishable_en.pdf).
- iv The old German liberal motto (“So viel Staat wie nötig, so wenig Staat wie möglich!”) comes to mind in this regard.
- v F. Scharpf (2009), “The asymmetry of European integration or why the EU cannot be a “social market economy”, Working Paper 6, Freie Universität, Berlin.
- vi J. Gillingham (2003), *European Integration, 1950-2003*, Cambridge University Press, Cambridge, pp. 6-15.
- vii F. A. Hayek, Op. Cit., p. 271.
- viii Ibid., p. 266.
- ix Ibid., p. 272.
- x F. O. Reho (2015), “Did we get it wrong? The true meaning of European federalism, *European View*, Issue 14, p. 85. Available at <http://link.springer.com/article/10.1007/s12290-015-0342-x>.
- xi Whether these competences are administered under a federal or confederal institutional framework would entirely depend on political will and circumstances.
- xii F. A. Hayek, op. cit., 259.
- xiii An exemption from the “ever closer union” clause of the Rome Treaty was a clearly stated objective of David Cameron’s renegotiation of Britain’s relationship with the EU.