

# EU using 'backdoor to create super state', warns economist



# EU using 'backdoor to create super state', warns economist

Philipp Bagus, of the Mises Institute, said some of the bloc's leaders have been masquerading behind claims they want to see a "deepening of the European project" instead of openly branding their objective as a "European superstate".

German, Finnish, Dutch and Austrian leaders have demanded stricter limits on fiscal deficits and debt brakes, while some have gone even further.

French President Emmanuel Macron has called for widescale Eurozone reforms – which include a European minister for finance, a separate eurozone budget and the harmonisation of tax rates.

Mr Macron sought support from German Chancellor Angela Merkel for his reforms, however, many believe the changes would create a "transfer union" that would see Berlin provide more financial resources than it would receive from a collective fund.

However, Mr Bagus believes the EU's current risk sharing mechanisms have created a so-called "transfer union in which risks are socialised" while "not yet institutionalised".



GETTY

EU news: Economist warns EU super state can be created through the 'backdoor'

The transfer union is not yet institutionalised. European elites are working on it

The Austrian economist suggests the European Stability Mechanism and European Central Bank have all played their own role in the hidden creation of a European super state.

Mr Bagus says the ESM, which is the Eurozone's bailout fund, allows "irresponsible governments" to "get a reward for their behaviour financed by less irresponsible governments".

The ESM has a €500 billion capacity to bailout governments when the stability of the entire Eurozone is in danger.

In a post on the Mises Institute website, titled "The EU's Backdoor Path to a Unified Superstate", the economist adds: "The ECB, thereby, has become a hedge fund betting on the survival of the euro.

"The ECB buys the bonds in function of the percentage that member states hold in the capital of ECB.

"Without the program less solvent governments would have had to pay higher interest on their bonds and might have had to default."

Mr Bragus says if bonds are not repaid in the future then the ECB will suffer losses or the "purchasing power of the euro falls, the losses may be ultimately shared by all Eurozone members".

# EU using 'backdoor to create super state', warns economist

He proceeds to declare the EU's Target2 payment system as another source to for financial irresponsible countries to benefit.

Using the example of a payment from a Greek firm to a German counterpart, Mr Bragus illustrates the system using "money creation" and not "real savings".

He said: "Imagine a Greek entrepreneur purchasing a truck produced in Germany with money created by his Greek bank out of thin air.

"When the entrepreneur pays the German exporter, his bank account shrinks and the money appears on the German bank account. In order to do the payment, the Greek bank draws on its account at the Greek National Bank or borrows new reserves from it.

"The German bank increases its account at the Bundesbank or reduces its refinancing.

"On the level of central banks the Bundesbank receives a credit against the ECB while the Greek National Bank gets a debit."

Mr Bragus proceeds to blame the payment system for allowing overspending to occur with the risk shared by the entire bloc.

## What countries are in the EU?

Wed, September 14, 2016

## In the wake of Brexit, we look at the 28 member states that are in the European Union.



Getty

1 of 29

Countries that are in the European Union

He adds: "Instead of issuing Euro bonds guaranteed by all member states and import goods, there is another way to achieve the same result.

"Greek banks can simply create money issuing Target 2 debits to the ECB in order to finance the importation of goods."

The economist concludes that all of the separate financial mechanisms set up across the bloc have already developed the Eurozone into a "transfer union".

# EU using 'backdoor to create super state', warns economist

He said: "Euro bonds or euro budget is not necessary to have massive redistribution in the Eurozone.

"The Eurozone is already a transfer union in which risks are socialised producing irresponsible behaviour.

"However, the transfer union is not yet institutionalised. European elites are working on it."