

A Global Perspective on the European Economic Crisis

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1 The European Union in stormy seas

Beginning of the end or end of the beginning

Klaus Gretschmann

The future has many names:
for the weak it is the unreachable
for the fearsome it is the unknown
for the courageous it is an opportunity.

Victor Hugo

The report of my death was an exaggeration.

Mark Twain

Introduction

There is a fact which is widely known but of which we are rarely aware: European integration from its very beginning has always been a unique social, economic, and political experiment. Integration, communication, coordination, and cooperation between nation states on the basis of common rules and institutions and an ever-closer interlocking of powers between which there had been much friction and conflict over centuries, was the magic incantation. Johan Olsen's dictum holds true, according to which far-reaching tectonic shifts have been created in Europe over the past five decades, which contain a high degree of irreversibility, a kind of locked-in effect ascertaining that no falling away from what the EU has created, occurred. However, just this alleged irreversibility is today very much in doubt.

Both in economic and political terms, the EU is on life support. Its former attractiveness as an economic powerhouse, a political "soft power" and a much appreciated social model seems to be waning in the face of the Eurozone troubles, the political and military challenges at its borders, and its internal bickering and conflicts of interest. Far away from traditional integrationist thinking, which claims that the EU has always been on an irreversible trend towards an ever-closer union, some observers even hold that the end is near; that the Union is losing its internal coherence, its historical significance, and economic usefulness. Today, we witness disintegration and the *beginning of the end!* Other students of the EU integration argue that the EU has always fluctuated like the swing of a pendulum: periods of integration and disintegration have alternated. What we go through today is the *end of the beginning*, through the crises towards a new powerful

Europe, admittedly with still blurred outlines. This chapter will analyse what new deficiencies and qualities the crises have laid bare, what the odds are that these will be overcome, and which measures are required to arrive at the bright side.

The re-emergence of dormant yet fundamental problems

For many decades EU politicians have followed the guiding star of an ever-closer union. However, recent crises, notably debt and financial problems, political legitimacy, and over-bureaucratic machinery in Brussels have effected a sharp drop in the Union's attractiveness.

Political systems fray and decay Europe-wide. An increasing number of Member States from Spain to Greece are afraid that they may face "ungovernability" with dramatic consequences for the social and political glue holding the Union together.

Indeed, these are the most testing and taxing times for the EU. Geopolitical tensions are at historic levels, growth is stalling widely and citizens' dissatisfaction throughout the Union is growing. Public disenfranchisement with Brussels politics has become the focus of the crises. Reasons for growing Euroscepticism abound. At its very heart seems to be the perception (right or wrong) by the people in the streets that an elitist power cartel of pro-European agents with disregard for the real problems citizens all over the Union are facing has developed and has started a "power grab" from national governments beyond what is established in the Treaties. They feel disempowered, alienated, and subject to forces they cannot control.

Although Brussels is often the scapegoat for perceived aberrations rather than genuinely at fault, public antagonism has reached unprecedented levels that put the pro-integration proclivity and sentiment to a serious test. This may derail the EU project faster than we expect. Eurosceptic parties are advancing everywhere, and while their direct effects in elections are still modest, their way to shape the public discourse can be felt in many policy areas. Referring to a new state of fragility in the EU, Mark Leonard pinpoints "the root of Europe's political crisis: the necessity and impossibility of integration" (Leonard 2011: 1). It is without question that only if *Europe in its entirety* can be put back on the track of economic success is she able to remain a realm of peace, liberty, security, and welfare. Unfortunately, today Europe (with few exceptions) is rather a realm of recession, deflation, unemployment, and a lack of social and political stability. Before the financial and economic crisis of 2008 the belief prevailed that the European economy was in a state of "great moderation."¹ Today, it rather appears as if we were in an era of great volatility and instability. The ongoing nationalist revival in Western and Eastern Europe is caused by the confluence of several factors: It is the emergence of major new and pressing problems accompanied by placating and dispiriting remarks of politicians that rule the day, problems which may entail serious disintegration (Eppler and Scheller 2014) and furthermore:

- The persistent crisis of the Eurozone and the "Grexit" problem;
- serious disputes over migration and asylum issues;

- energy and climate policies;
- Russia and the revival of geopolitics; and
- technocratic and bureaucratic governance in the Union.

Before going into some of these problems in closer detail below, I do think it is useful if not outright indispensable to recall some theoretical foundations which can pinpoint the interest structure, and the behaviour of nation states in international settings.

The EU and her nation states – a most complex and complicated relationship

Analytical groundwork

Fundamentally, states seek to increase their power in international (economic) relations in order to create conditions that minimize the costs of pursuing their domestic priorities in an interdependent world. Their policy choices are conditioned by the constraints and opportunities they face in the international environment.

EU interdependence provides both costs and opportunities for all actors involved. The main benefit of interdependence is the welfare gain that results from a more efficient allocation of resources. The foremost price of interdependence is a relative loss in national decision-making autonomy. Under the conditions of interdependence the ability of a government to pursue its own domestic priorities is constrained by external forces over which it has little or no control. Governments can control domestic conditions only if they can influence the decisions taken in other countries. Thus, states want to avoid or constrain negative externalities of other governments' pursuits of domestic (economic) priorities.

Up until 2008/2009, it seemed to be a kind of generic law in integration that whenever a nation's ability to control its economy was constrained by either market forces, the most prominent of which is international capital mobility, or by spillover from economic policy measures abroad, integration provided a tool for regaining control and material sovereignty at a supra-national level, through the pooling of resources, co-operative governance, and institutionalization of rules for policy-making.

Against this backdrop, it is necessary to reconcile conflicting national preferences, perceptions, interests, and "beliefs." This is particularly relevant since the EU policymaking is only rarely built upon a shared, consistent, and coherent concept of policymaking for Europe as a whole.²

What the present crises have exposed is that many aspects that arise because of European Union integration have impacted severely on factors such as:

- *Sovereignty*: Governments are increasingly often unwilling to limit or constrain sovereign decision-making, for example by accepting binding rules or international monitoring of their own compliance with agreements.

- *Heterogeneous preferences*: Governments often have divergent interests and priorities as regards specific solutions, even where they share general long-term goals. Energy policy or CO₂ reduction policies may impact differently on individual EU Member States.
- *The “weakest link” problem*: Some desirable results can only be achieved when every government fully complies with a common approach. Success can be eroded by a single act of non-compliance, sometimes due to a country that cannot – at a reasonable cost – carry the burden.

However, there seems to be a waning will to coordinate policy in Europe. While Article 121 of the *Treaty on the Functioning of the European Union* requires Member States to consider their economic policies as a matter of common interest, the reality is that agreement on joint policymaking is rather thin. Whereas “*Euroland*” is characterized by a single currency and a single monetary authority, fiscal policy, incomes policies, and social policies in Europe are still the domain of national governments. This raises questions of policy consistency, compatibility of decisions, and instruments as well as the timing and extent of policy changes. The problem, however, is that there is as yet no clear vision of where we are heading.

Indeed, co-ordination is particularly difficult if policymakers do not agree on the “true model” (i.e. an accurate characterization of how the economy functions). What are required are common perceptions and interpretations of what elements can and should be influenced as well as a sufficient degree of homogeneity among the relevant actors. Unfortunately, as analysed in the literature on policy coordination in the late 1980s, difficulties can be attributed to four main factors:

- There are different national constraints on the policy instruments available (*limited domain*).
- There is disagreement about the effects (both of their scale and nature) of specific policy changes on policy targets (*differences in beliefs*).
- There are cross-country differences in the degree of (inter-)dependence (*differences in spill-over effects*).
- There are different models of how national economies and the EU economy work (*model uncertainties*).

Feldstein (1988) and Frenkel and Rockett (1988) have proven conclusively that if policymakers do not agree on the “true model”, policies may well entail welfare losses. In any international setting like the EU, the probability that there is model certainty and consensus is pretty low – notably in the wake of the crises.

The above argument about model uncertainties and disparate beliefs demonstrates that in fact (economic and monetary) integration has not yet sufficiently overcome national interests and is still embedded in and constrained by disparate (economic) beliefs and ideas of what kind of Europe we should envisage. Against this backdrop, there is a need to reconcile conflicting national preferences, perceptions, interests, and “beliefs.”

The crisis of the Eurozone

The troubles facing the euro area are many and substantial. However, most of the problems that have materialized over the past years have already fuelled the literature at the time when the introduction of a common currency was discussed:

- EMU was designed as a profoundly different policy regime, albeit sold to the public as a re-birth of the German monetary system.
- The probability of asymmetric shocks, which had been analyzed as a danger to a unified monetary policy regime, was ignored or outright denied.
- The one-size fits all problem of a single interest rate for the Union as a whole was defined as “manageable.”
- The European Central Bank (ECB) was sold as a Bundesbank clone both in its structure, independence, and policy style.
- The Stability and Growth Pact (SGP) was a poor substitute for a lacking common or at least co-ordinated fiscal policy among Member States.
- No system of fiscal equalization was considered even though it would have been badly needed to balance out the different welfare and income levels among Member States.
- The loss of the exchange rate mechanics in a monetary union was widely underestimated.
- The fact that a unified low interest rate at the German level which enabled the high interest countries to lower their debt burden and trigger new capital inflows at low costs was ignored.
- It was assumed that the monetary unification would entail political integration in its own right; however national interests and political rivalries lasted.
- Institutional and legal rules and regulations were thought to hold water but were never watertight; rather, they were subject to political gusts of wind influenced by the powers that be.

(Gretschmann 1993)

However, those who dared to speak up about the flaws and downsides of the EMU were either ignored or side-lined (Geppert 2014). Indeed, while for more than a decade the introduction of the Euro could be viewed as a success story, today the Euro has uncovered its political downside: it has become an explosive charge, a divisive device which contains the main ingredients for setting individual Member States of the Union apart. However, the argument that the very existence of a single currency has brought misery to many parts of Europe and has severely damaged the European project goes too far. Yet admittedly, being locked in a currency union makes it on the one hand easier for deficit countries to build large imbalances through tapping the “savings and capital pools” of the rich countries at very low costs (i.e. interest rates) and makes it – at the same time – impossible to find an easy escape route and adjust their economies in difficult times.

Today, the Eurozone faces the prospect of ongoing deep recessions in individual Member States and concomitantly strong support for populist parties. It is possible but not probable that Eurozone governments will bite the bullet and agree to a fiscal union including a degree of risk mutualisation and transfers between participating economies. Rather, we observe today a reverse thrust away from an ever-closer Union. Weak public finances in a group of countries, persistent imbalances, slow productivity growth, unemployment, etc. became increasingly overt and distinct in the wake of the global financial crisis. And there is no denial: the Eurozone and its governments have repeatedly broken the legal provisions and limitations which they have committed the Member States to respect at all costs in the Maastricht Treaty. The running excuse as spelled out by then-French Finance Minister Christine Lagarde, viz. that politicians have violated the Treaty repeatedly only in order to save Europe, sounds hollow and apologetic. The same applies to the many decisions of the ECB, which appear to trespass into areas that are explicitly forbidden by the Treaties.³ Consequently, a wave of scepticism has ensued both in the general public and in professional circles.

The “Greece Problem” between gimmickry, tragedy, and sound economics

Sometimes the impression prevails that politicians (ab)use economics like drunkards use a streetlight: they are in search of a foothold not of light or even enlightenment. This proposition seems to be strongly supported by the discussion on Greece and Grexit. Indeed, the *Greece problem* is only partly about sound economics; rather, it displays all the ingredients of political gimmickry: both creditors and debtors play all kinds of tricks on each other – stalling for time, refusing to compromise, threatening to defect, setting incentives, etc. This confirms the theoretical analysis above: there is no trust and solidarity, no convergence of beliefs and models, but rather a lot of national self-interest as well as more deals than ideals on all sides of the negotiation table.

Let us backtrack for a moment. Ever since the beginning of the sovereign debt crisis in Europe 2009/2010 (in the wake of the Lehman collapse), Greece has played a major role. Due to its very shaky economy and its over-indebtedness, capital markets decided to test the euro by dropping Greece bonds, making Greece debts impossible to finance. Greece was left with no chance but to apply for outside help and both the EU and IMF promised a rescue package, which proved to imply a heavy social and economic burden: cut-backs in public spending, sacking civil servants, increasing taxes, and cutting wages and pensions accompanied by privatizations in exchange for massive bail-out money. More than 5 years and many emergency summits and stimulus packages later, it is again Greece which may mark, as some pundits maintain, the end of the Eurozone and possibly even the EU as we have known it. Indeed, we have entered the most critical phase that the single European currency has seen so far. In the wake of massive negative effects resulting from the – some say imposed, others indispensable – austerity measures, the Greek elections of December 2014 produced a new hard-left

government to run the country. The new ruling Syriza players aimed at a reversal of the “malign” bailout reforms.

In the wake of the new government taking office, Greece and her lenders have tried to agree on a new reform program, which would enable the creditors to release 7.2 billion euros that in 2015 remained in the second rescue package. Ever since, ever newer proposals and papers have been produced and submitted by both sides – each time purportedly the very last offer – before being rejected or withdrawn and the whole process started all over again. In the meantime, economic agents and market participants were losing their last ounce of trust and confidence, capital outflows maximized, the Greek government was no longer able to pay Greece’s bills, company shares were falling rapidly, and unemployment mounted to 27 per cent.

The new government was fighting hard to avoid being forced to carry on the “old” reform strategy; yet basically the choice was between two evils – either to sign up to the new austerity measures against which they had campaigned, or plunge Greece into default and the possible exit from the Eurozone.

Against this backdrop, there was only one strategy left: demanding major debt relief while rejecting reforms. Knowing that Europe would do its utmost to avoid a Grexit (less for economic and more for political reasons), the calculus was stalling for time until the very last second before full default and hope that the creditors would blink and go for a “soft” deal.

As convincingly argued by Aristides Hatzis:

there are two conflicting narratives about the deadlock in negotiations between Greece and its Eurozone partners. (1) Greece is governed by populist radical leftists who blackmail the Eurozone by threatening to explode the financial equivalent of a suicide bomb, i.e. Grexit. (2) Greece is bullied by callous partners who are only interested in making an example of it.

(Hatzis 2015: 7)

In this setting, there is also the domestic logic involved. The government cannot give in and accept a new bailout agreement based on the “old design”, signaling that it would break every promise they had been elected for, viz. no more austerity. On top of this, there is a strong ideological opposition within the Syriza party to virtually any deal with creditors, consequently threatening to break up the government.

In order to break the impasse, this kind of gambling has to stop. However, in the face of the amount of money and reputation at stake, this is hardly probable. On the one hand, no party can give in without a drastic loss of domestic political support; on the other hand no side is prepared to take the blame if talks fail and a Grexit ensues.

Unfortunately, Greece’s new rulers have played the game in a most inept way, alienating and feuding with the partners, trying to make them lose face and thereby making it more difficult to compromise. Athens may be “dangerously miscalculating” in the belief that Greece’s creditors will, at the last minute, “blink”.

Greece may count on quite a lot of external pressure on the EU to solve the Greek problem by a U-turn in their economic and political approach, viz. towards more growth stimuli and less austerity. Notably, the USA, Japan, and Canada worry about the unforeseeable consequences of a breakup of the Eurozone. They are afraid that the world economy, fragile as it is, may be hit hard and that a kind of failed state might result at the south-eastern corner of NATO. And indeed Greece is playing its bargaining chips quite skillfully: Closer cooperation with Russia, funds to ask for from China, vetoing the Russian sanctions in the European Council, etc. have been put in the midst. Moreover, both the EU and the IMF may be afraid that when it comes to a Greek default their money (in June 2015, up to 240 billion euros plus an additional €83 billion in ECB liquidity assistance) may be lost. Small wonder that under strong domestic political pressure the Greek government was playing for time, alternately refusing to submit a list of meaningful reform proposals and then coming back with new and sometimes awkward ideas, just to be rebuked again.⁴ This stalling strategy enabled Prime Minister Tsipras to “silently” envisage and carry out a “referendum” on the reform proposals, viz. “obligations” that the “institutions” (i.e. ECB, IMF, COM) and the Member States wished to impose.

The final deal to unlock the more than €86 billion bailout involves laws that implement VAT hikes, cuts pensions, takes steps to ensure the independence of Greece’s statistics office, and puts measures in place to automatically slash spending if Greece fails to meet its targets on primary surpluses (revenue minus expenditure excluding debt servicing costs). Moreover, Greece will have to overhaul its civil justice system, bring bank resolution laws in line with the EU rules, and will have to sell off €50 bn of Greek assets (via privatization).

Unfortunately, the ultimate deal that has been reached will be a short-term fix rather than a long-term solution, as it does not bring sufficient real debt relief.⁵ What is imperative is that Greece increase growth and productivity. For this, domestic and foreign investments as well as fresh money is needed, together with a long-term, cross-party package that addresses fundamental institutional problems and is supported across Greek civil society. The creditors, on the other hand, need to back such a long-term plan, and put wise fiscal targets and promising debt relief on the table.

What stands between Greece and prosperity is not another labour reform or wage cuts to make the economy more “competitive”, nor further fiscal consolidation or a pension reform to instill confidence in investors. The real issues run deeper than that. Only if Europe is able to help unlock the growth potential of Greece and do away with growth and productivity impediments,⁶ will it be able to pass the litmus test of its existence. However, for this process to be implemented, we may need to reinvent an active and activist EU!

Migration and asylum: gutless procrastination rather than tough decisions

Next to the Euro’s problems, recent surveys show that the EU citizens worry most about immigration and asylum policies in the Union and the Member States. Also, in spite of immigration and asylum having been named as one of the ten priority

policy areas of the Juncker Commission, both EU decision-makers and Member States' politicians seem to be sitting on their hands, shying away from making courageous decisions for fear of their constituents' reaction.

Indeed, although already a running theme in the Union for many years,⁷ in the more recent past Europe has been surprised and overwhelmed by the massive rise of illegal immigration and large numbers of fugitives and asylum seekers from all over the world and notably Africa, Near, and Middle East and the Balkans.

The migrant traffic and trafficking is rising for various reasons: the disintegration of North African countries such as Libya, the Shia-Sunni wars in the Near East such as in Yemen; repression in Eritrea; civil war in Sudan and South Sudan; the situation in Nigeria and last but not least wars and terrorism in Iraq and Syria. People coming to Europe are trying to find shelter, refuge, and sanctuary here. Others would simply like to escape their poor economic situation back home. The EU's general public is irritated and confused and faced with a trilemma:

- 1 On the one hand the European values dictate to help fugitives from outside the Union on moral grounds. Notably, rescue operations in the Mediterranean seem to be the tall order of the day, in order to prevent the Mediterranean Sea from becoming a watery mass grave.
- 2 On the other hand, rescue operations making the crossing of the sea less risky may well contribute to a mounting wave of migrants into Europe, as the risks will be reduced and the incentives will rise.
- 3 From a purely rational vantage point and leaving humanitarian aspects aside, rescue operations or even – as discussed in some circles – the opening up of large legal channels for immigration – would not serve the regulation but rather the stimulation of immigration into the Union, the reason being that this would *not* help at all in stabilizing the situation in the countries of origin.

So, Europeans are afraid that ten years from now, Europe will look completely different unless we are willing to take hard decisions and make “tough choices” on migration and asylum. Unfortunately, leaving lip service aside, leaders and politicians within the Union do not agree on the right decisions and basic philosophies and rules on this phenomenon. In addition, different Member States are affected to varying degrees by migration and asylum seekers.⁸ And, while the churches and various southern European political leaders have made appeals for a shared commitment to humanitarianism, further north the migrant flood has stoked a surge of anti-immigrant sentiment.

While many citizens of Europe feel and perceive that Europe cannot absorb all the millions from Africa, the Near East, or Asia who wish to gain access in order to share western standards of living and wealth, the EU politicians are most reticent to make the decisions needed. The need to define a ceiling (at whatever high or low level) regarding the volume of the inflow has NOT so far been acknowledged by either Member States' politicians or the Union's representatives. Rather, the European Commission is in search of finding a fairer way to distribute asylum seekers and migrants in the EU.

Despite problems with some reluctant Member States, the Commission unveiled concrete proposals for the relocation and the resettlement of large numbers from outside the EU across Member States. Under the Commission's scheme, the 28 Member States would be required to accept asylum seekers in proportion to the size of their economy, unemployment rate, and population. However, such a distribution key needs to find acceptance with the populations in the respective countries and needs to be adopted by the Council, voting by qualified majority. It looks like the plan will be rejected due to exactly the national policymakers' rationales as described above.

In order to regain citizens' trust and confidence all over Europe, and to compensate for the loss of the EU attractiveness, policymakers need to act jointly and with a focus on the troublesome issue of determining the amount of migrants to accept and only as a second step to decide about the national quotas. As long as policymakers are beating around the bush, the EU's attractiveness and popularity will continue to be severely damaged. So, alongside the Euro problem, asylum and immigration issues are a second explosive charge able to bring the EU integration to an end.

Where are the citizens? Legislative overreach, bureaucratic regulation, and the lack of subsidiarity

The citizens in the EU have learned that the EU institutions – not least the European Commission – are often acting as players to grab more power and influence (Eurobarometer 2014). EU bureaucrats push their little pet projects – no matter how many more urgent and important problems are hitting the peoples of Europe. European officials engage in a multitude of rather unimportant activities and legislative initiatives and produce legislative overreach. Any attempt to slow down or slim down such over-activism has so far run into trouble (a) inside the Commission since Commissioners wish to gain a high public profile as political benefactors and (b) inside the European parliament where the MEPs clearly favour more legislation (no matter how sensible) over less in order to justify their own role, existence, and budgets (EurActiv France 2015).

Today, just a third of citizens in EU support the idea of ever-closer union. Support dwindles as people think integration has “gone too far” and powers should be handed back. In a survey of 7,000 people from seven European countries by polling firm Opinium Research, just 35 per cent said they supported closer union (Groves 2015). Moreover, across Europe citizens' trust in the EU has plummeted to around 35 per cent – compared with over 50 per cent only a decade ago. This despite the EU institutions gaining more powers. The only feasible way to regain people's trust seems to be to bring back decisions closer to home – “European localism and subsidiarity” is the tall order of the day.

Examples of “power grab” and fighting for more centralization among EU institutions and Member States abound. Notably, interferences from and intermeddling by the EU Commission in matters such as Eurozone decision-making, migration crisis, environment, social policy, or energy policies where

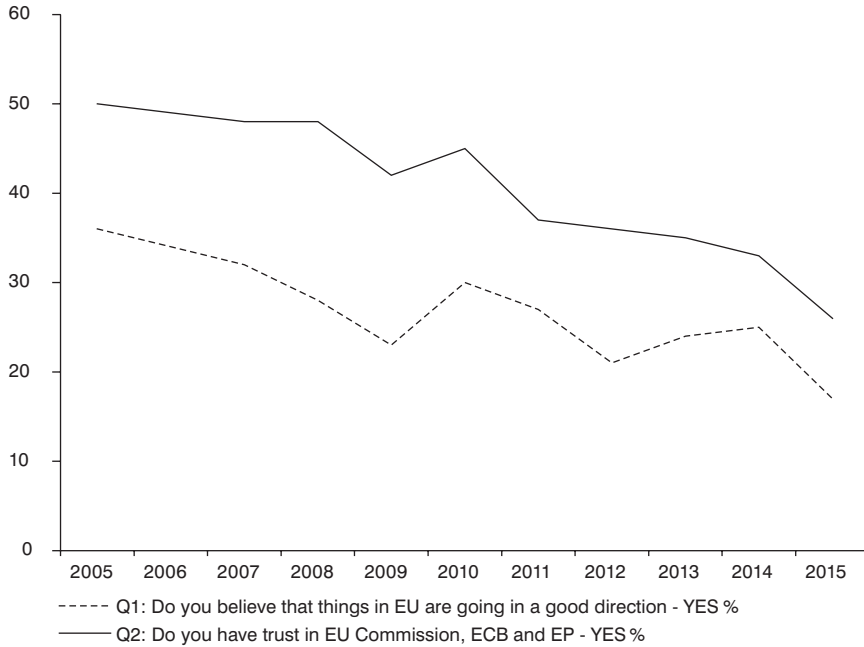


Figure 1.1 Trust in the European Union

Source: Standard Eurobarometer, various issues

the Treaty of the Functioning of the EU (TFEU) gives them only very limited competences, are matters of continuous rivalry. Article 114 TFEU, laying down rules for the approximation of the provisions in Member States, which may affect the functioning of the internal market, has always been used to justify EU action (Herzog 2014: 91).

Indeed, over-activism has characterized the EU legislative process and procedures: in 2014, the EU issued 2304 regulations and provisions. Rather than focusing on the grand issues as outlined above and on correcting the framework conditions of national policy-making, the EU has lost her grand thinking and has slipped into regulating the “small things of everyday life” For this aberration Roman Herzog (2014: 85) has coined the term “norms based hypertrophy”. Is it really the principal task of the Union to determine and decide which fuel we fill into our tanks, which kinds of chocolate we eat, which light bulbs we buy, how much water we flush down our toilettes, or what type of ladder we are allowed to climb?

For the normal citizen, this smells of undue prohibition, intervention into our private lives, bureaucratic paternalism, and an erroneous sense of mission by those in the distant Brussels. The political and social value added of an ever-closer Union thus dissolves into thin air! Integration is losing its legitimacy, while paternalism prevails. The impression is created that the EU strives for imposing rules by decree from above.⁹

Indeed, under its traditional governance structure, the EU has turned into a legislative machine trying to interpret her fields of competence ever more widely (Eppink 2007). The Commission is ceaselessly working on weaving an ever-closer web of harmonized European laws and regulations – the result thereof, the *acquis communautaire*, is presently estimated to comprise some 100,000 printed pages.

The model of an “ever-closer union” seems to have reached its limits. And the crises have laid bare the deficiencies and insufficiencies that the EU has developed over the past decades. Today, to many observers the model looks degenerated and misplaced. It certainly does not appear up to solving the real problems in the years ahead. There are many reasons for the EU to rethink its project, should we intend to preserve the basic value of a unified Europe. However, only one thing is worse: not to even acknowledge the trouble Europe faces.¹⁰

Either we stop Europe’s self-deceit and over-ambition, acknowledge unpleasant truths, ready ourselves for tough choices, get our act together and exit our “fools’ paradise” or we will end up as a footnote in the future textbooks of history!

By way of conclusion: how to avoid the “beginning of the end” and to turn it into “the end of the beginning”

“The European idea”, once hailed as a model for the world, is about to lose its attractiveness due to misperceptions, arrogance, ambition, and insufficient self-criticism. Today we are confronted with the depletion of an ideal.

Over the past 60 years or so, scholars of the European integration have convincingly argued that the process of integration is path-dependent and, therefore, more or less irreversible. And indeed, despite the fact that the EU is often considered an “unfinished union on the way to an unknown destination” (Weiler 1999), and in spite of being criticized as a “soft power”, (Cooper 2004; and critical analysis in Witney 2014), it is moving ahead steadily. While undergoing major changes over the last 50 years – from six Member States in 1959 to twenty-eight today, and from a “trade-driven” (Customs Union) via a “factor-driven” (Single Market) and a money-driven (EMU) to an “innovation-driven” undertaking – the EU has acquired both political and economic influence and reputation. Its model of regional integration, which promised until recently unprecedented socio-economic progress, badly needs overhaul and redesign. So, the question arises: does the “irreversibility theorem” still hold today or has it been overcome by recent crises, tectonic social shifts, and new political framework conditions. Or is the EU falling victim to Paul Kennedy’s “the rise and fall of great powers” (1987), even before it managed to be one?

In a globally interwoven setting “externalities” are changing the boundaries between domestic and international politics and are eroding the traditional modes of governance. National decision-makers must focus on international and intra-EU cooperation; new “extra-national” institutional arrangements have gained in significance; existing organizations adapt their working methods; and economic policy coordination is badly needed. At the same time, however, the citizens of

the Union being used to trust primarily their national representatives mistrust such developments in which they are not involved and which they cannot control. This comes under the magic formula of “subsidiarity” (Gretschmann 1991). The former President of the European Council, Herman Van Rompuy, tried to capture this by pointing out that the EU of the past may have devoted too much effort and attention to “space” while ignoring “place”:

With Europe, the focus has always been on space. From the very start, the typical action was to remove borders, for goods, workers, investment, to let people and companies move, take initiatives, seize opportunities. Even today – on fields as diverse as energy, telecom or the digital economy – it is still about bringing down borders, creating this big common “space”. But we’ve never really thought of Europe as a home, a shelter, and today we pay a price for it. Europe, the great ‘opener’ of opportunities is now perceived by many as an unwelcome ‘intruder’, the friend of freedom and space is seen as a threat to protection and to “place”.¹¹

Economic crises not only involve costs in terms of money and capital, but also in terms of trust and confidence in the competence and integrity of political and economic elites. Loss of confidence paired with poor reasoning and weak persuasiveness of the leaders give rise to social instability and disillusion on the part of the citizens.

In order to avoid the notion that the end of the European integration is getting nearer and to rather make sure that the present crises are just the end of the beginning (in historic terms) of a new powerful and united Europe, Europe today needs a refreshed rationale and a new vision for the future. Its representatives must assure the citizens that they intend to preserve variety and national peculiarities, a broad variety of choices and lifestyles, and at the same time reinvigorate a genuine European spirit. This needs to go hand in hand with “benign” measures to transform and modernize the European economy in order to create more jobs, growth, and welfare. Unless Europe can come up with convincing and compelling answers, the EU is bound to further lose credibility, confidence, and trust. One thing is certain: integration, without a firm foundation in the will of the peoples of Europe, is bound to fail!

Notes

- 1 “Great Moderation” refers to a reduction in the volatility of business cycle fluctuations starting in the mid-1980s, believed to have been caused by institutional and structural changes in developed nations in the later part of the twentieth century; this was the view of Ben Bernanke in a speech at the 2004 meetings of the Eastern Economic Association.
- 2 Essentially, there are two major forces at work: deals and ideals. As we know from economic psychology, ideals tend to dominate in periods of economic well-being, high growth rates, and stable political situations, in which certainty and security prevail; whereas interests and deals become the predominant force in situations of

instability, economic slow-down, unemployment crises, etc. When it comes to deals and interests playing the major role, there seems to be less leeway for visions: only if there is interest mediation and positive gains for those involved, will agents stick to treaties and contracts. If interests cannot be made compatible, agents will start to defect. It seems to be quite obvious that due to the many elements of instability and uncertainty currently arising, interests may dominate over ideals.

- 3 Notably, in 2014 and 2015 the ECB has been on the verge of overstretching her competences by buying government bonds with new money to sure up national economies in trouble, which can be interpreted as funding bankrupt governments through money printing and swamping the world with liquidity. This triggered a bitter dispute about quantitative easing and whether the ECB has stepped beyond its remit.
- 4 However, thanks largely to the ECB, the Greek government appears able to secure a favourable outcome in the end – including increased financial assistance and reduced reform requirements. Basically, Greek citizens take out loans from local banks, funded largely by the Greek central bank, which acquires funds through the European Central Bank’s emergency liquidity assistance (ELA) scheme. They then transfer the money to other countries to purchase foreign assets (or redeem their debts), draining liquidity from their country’s banks. The big black hole caused through capital outflows in the Greek banks’ balance sheets is thus filled by the ECB. Cf. Sinn (2015).
- 5 Still, by the end of July, the IMF declared itself unwilling to join any bailout scheme until debt relief demands are met.
- 6 For an excellent overview see Petrakos et al. (2007).
- 7 See Communication from the Commission to the European Parliament and the Council—5th Annual Report on Immigration and Asylum (2013) (COM(2014) 288 final) accompanied by the Commission staff working document (SWD(2014) 165 final).
- 8 Four or five countries currently receive around 70 per cent of the EU’s migrants/refugees. Until mid-2015, Italy has received two-thirds of the irregular immigrants who arrive in Europe and is the third (most popular) country after Germany and Sweden for the number of requests for political asylum.
- 9 In this situation, the often heard arguments that the proponents of EU integration should focus on public relations and marketing the achievements of the Union, communicate the benefits from the EU, and get the citizens better informed will fail. The old saying that “personal experience beats indoctrination and instruction” prevails today more than ever! Only a focus on policy delivery may be able to tackle the problem of a fraying and collapsing Union.
- 10 “Futurologist” Jeremy Rifkin (2004), whose book sales seem undented by a record of consistent mis-prognostication, claims emphatically that the post-post-modern era is characterized by the EU model of pooled sovereignty, peaceful cooperation, soft power and social justice. Europe is “the new superpower to come” and will run the twenty-first century. Reading this against the backdrop of the recent crises and the rise of Euroscepticism, I do think he is wholly incorrect.
- 11 Speech by President Herman Van Rompuy upon receiving the International Charlemagne Prize, Aachen, 29 May 2014 (European Council President EUCO 120/14 PRESSE 321 PR PCE 110).

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