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Judy Asks: Will the Euro Crisis Lead to Political Union?

Posted by: Judy Dempsey
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Every week leading experts answer a new question from Judy Dempsey on the

international challenges shaping Europe's role in the world.

Fraser Cameron director of the EU-Russia Centre

The euro crisis will inevitably lead to a closer European Union, albeit one inevitably based on a multi-speed system. The history of the past half century reveals that the EU has emerged stronger after each crisis. As a result of the latest crisis, arguably the most serious ever for the EU, the institutions will gain a strengthened supervisory role over the budgets of member states, and the closer coordination of fiscal policies will have a political spin-off.

The one constant in the EU is the centrality of the Franco-German axis and although the balance has swung in favour of Berlin, Germany has no desire to play a constant leadership role. This means that the Paris-Berlin duo will continue to dominate policy making but will have to operate in a more fluid environment and seek allies on a case by case basis to move the European project forward.

The most likely core group will involve the original six plus Spain, Finland, Austria, and Poland. The Brits and Czechs will remain marginalized. Others will seek to gravitate towards the core group when ready and able.

James Davis director of the Institute of Political Science, University of St. Gallen

It might seem paradoxical, but the answer to a financial crisis provoked by too much Europe is indeed more Europe. And although at first glance surprising, it is no accident that it is the providers rather than recipients of financial assistance who are the strongest proponents of political union. Germany in particular understands that its ability to influence world affairs derives from its leadership role in the EU. Dominant in Europe, Berlin moves on the international stage as the representative of the world's largest integrated economy, responsible for roughly twenty six percent of global economic output. Alone, Germany accounts for but five percent of global GDP, less than a quarter of the U.S. economy. Moving forward the situation is even more dramatic. Assuming continued strong growth in the BRIC economies, the EU will represent but 11 percent of global economic activity by mid-decade, Germany accounting for less than two percent of world GDP! So expect Berlin (with Paris in tow) to condition continued support for struggling euro economies on progress toward political union. Not a political union that enhances the clout and independence of the commission in Brussels, but one that strengthens the ability of Berlin to call the shots.

Mark Dawson professor of law at the Hertie School of Governance

Looking at the mechanisms established in response to the euro crisis, the EU is likely to increasingly have, over the next decade, the trappings of a fiscal Union. The legislation passed by the EU institutions in the last year allows more stringent supervision of national budgets than ever before. Political union, however, is

something different. It implies not just coordination of fiscal policies under the eyes of a benevolent bureaucracy but a broader transfer of political will and even political identity to the European level. Such a Union does not seem to be in the making.

Consider, for example, the institutions responsible for managing the euro during the crisis. The European Financial Stability Mechanism – designed to bail-out failing economies – is run largely at the whim of the national governments who provide its funding. At the same time, the institutions most influential in managing the crisis have not been the European Parliament and Commission (traditionally, the supra-national voices) but the European Council (a vehicle for national governments). As much as the euro crisis has “deepened” integration, it has also strengthened the say of national capitals in how the EU is run.

Fiscal Union may lead towards pressures for more political integration in the long-term. For now though, the crisis seems to have shifted power as much to Berlin and Paris as it has to Brussels.

István Hegedűs chairman of the Hungarian European Society, Budapest

Once upon a time, we dreamed about a single currency, temporarily called the European Currency Unit, to be used throughout a Europe without borders. As the old idea was gradually implemented under a new name, the Euro became a success story. Its strength, stability, and attractiveness to applicants and outsiders made the single money a symbol of an ever closer political union. Still, among the driving forces behind the historic development was an idealistic belief in a common European mission and the growing influence of its leaders.

The eurozone crisis has been met with a combination of middle-of-the-road rationalism and advocacy for a federal Europe. This reaction, in sharp contrast to the one sidedness of the Maastricht Treaty which blocked such efforts for almost two decades, has pushed the concept of European economic governance into existence. Moreover, nothing thus far suggests a U-turn towards returning competencies to national capitals.

Meanwhile, Jacques Delors and Guy Verhofstadt rightly criticize member states for their reluctance to accept the involvement of supranational institutions. The inclusion of the European Commission and Parliament makes the common decision making process more democratic and transparent than intergovernmental methods.

Daniel Keohane head of strategic affairs at FRIDE, Brussels

Since we are all dead in the long-run, the short-term answer is probably a bit of both. Assuming a eurozone of some type survives the current crisis (a complete break-up would lead to centrifugal forces prevailing), that group of countries will surely deepen their political cooperation on economic policies – not least because of the legal requirements in the new fiscal treaty.

But would a more centralized eurozone lead to deeper integration in other policy areas such as foreign and justice policies, eventually leading to a full-spectrum political union? Not necessarily. More federalism in economics does not automatically mean that other policy areas would become ever more centralized in Brussels.

This is partly because current eurozone members often strongly disagree in other policy areas: witness French and German differences over Libya; or Franco-Italian spats on Schengen rules. Plus, not all EU members are eurozone members (albeit more would probably join if the eurozone survives). Can eurozone countries really expect to develop a more credible European foreign policy without the full involvement of the UK?

Because of the centrifugal forces prevailing in other policy areas, deeper political cooperation in the eurozone is unlikely to lead to political union for the foreseeable future.

Ivan Krastev chairman of the Centre for Liberal Strategies, an independent Bulgarian NGO

The euro crisis will lead to more political unity while centrifugal forces simultaneously prevail. It is naive to believe that the crisis will push the Union in a certain direction, in reality Europe will learn to live with even more contradictory impulses. What we are witnessing at the moment is greater unity of policy but less political unity. It is not simply that Europeans have failed to devise a common political response to the crisis, we have

even failed to develop a common conspiracy theory. There is no grand European conspiracy theory that blames America or China for the crisis. Instead, Greeks believe that the crisis is Germany's way of occupying Greece, while German conspiracy theorists are sure that Greeks are after German money. The same goes for the other member states. This crisis may be European but the imaginations remain national.

The big change brought by the crisis, which in my view has gone unnoticed by political commentators, is that prior to the crisis the expectation was that Western Europe was the model for the East. Now Eastern Europe is the model for the West. Ten years ago most Europeans believed that the EU could transform Bulgaria into Greece—a democratic and moderately wealthy place. The hope now is that the EU can transform Greece into Bulgaria—a relatively poor but fiscally disciplined and EU-friendly member state.

Jonas Parelo-Plesnersenior policy fellow at the European Council for Foreign Relations

The eurocrisis isn't likely to spill over into a political union for the EU. The key to further and deeper EU integration is a revision of the treaty. And that necessitates the consent of all member states, with ensuing parliamentary procedures, which will trigger referenda in several countries such as Ireland and Denmark and possibly even France and the Netherlands. In these latter two countries—two of the original six founding members—voters said no the last time Europe tried to change gear on political integration with the Constitutional Treaty.

Furthermore, national politicians are campaigning not on more Europe but a Europe à la carte that suits their electoral preferences. Witness Sarkozy's willingness to disband free borders. National politicians aren't selling more Europe as part of the eurocrisis solution kit. The EU has been a technocratic success with creating free markets, education exchanges, and free borders but it has not succeeded in creating Europeans. The eurocrisis isn't about to change that. As long as many citizens don't see the need for more Europe and no national politicians clamor loudly for it, then the EU will wobble along in its current shape.

Janusz Reiterpresident and founder of the Center for International Relations, Warsaw

For now, we have a multi-directional EU, but we may end up with a multispeed Europe. The debt crisis in some countries has led to closer forms of integration. Not long ago, it was unthinkable for the EU to play the significant role in the budgetary, economic, and constitutional affairs of its members that it does today. The establishment of unitary tax bases or labor market policies is a clear possibility, which would clearly affect member states' sovereignty. In that sense, the eurozone is moving toward closer political integration. But is that sufficient to call it a political union?

At the same time, other 'pillars' of EU political integration are being challenged. Even Schengen is under siege in some countries. National governments surrender to growing protectionist pressures in their countries. The EU agenda continuously clashes with national agendas. Intergovernmentalism is on the rise and the community institutions are getting weaker. Is this the way to political union? The disappointing results of the Common Security and Defence Policy and the following demilitarization of Europe in the age of the United States' 'Asia pivot' could also pose a real threat to Europe's political ambitions. Europe is not in decline, but it is in deep confusion.

Gianni Riotta member of the Council on Foreign Relations

Neither. Europe is not an elegant, black and white, *Nouvelle Vague* movie. Yes, there will be tentative steps toward a more binding union, but the populist waves against Brussels will also become difficult to surf. Assuming Sarkozy, Merkel, and a Monti-style technocrat will be in power next year, a gentle tug toward a more perfect union could be possible. European Central Bank Chairman Mario Draghi will give his silent consent from Frankfurt. Yet the strain of the euro debt crisis will be impossible to contain with cautious planning. Greece, Portugal, Spain, Italy, and, yes, France, will suffer to keep the markets at bay and manage their budgets. What will happen when millions of kids lose any hope of finding a decent job and scores of retirees see their monthly check shrink? How long can the social pain be silently endured?

According to Francis Fukuyama, we need a "technocratic populist" for president. Blend together Monti's coolness, Merkel's bureaucratic aplomb with a splash of Sarkozyian ebullience, a drop of Hollande utopias, and a hint of Le Pen and Mélenchon propaganda and you may get a "political union" cocktail without shaking

or stirring more anti-European resent. Until we manage to perfect “Technopopulism”, however, the sleep walking will continue.

Eugeniusz Smolarsenior fellow at the Polish Institute of International Affairs in Warsaw

In the short and medium-term, we will muddle through, balancing national economic, social, and political interests with indispensable European-wide measures.

Success will depend not positive measures but on Europe’s growing fears and failures in face of globalization, structural uncompetitiveness, and an aging population.

Unemployment needs to be tackled mainly by painful national reforms, strengthened by strategic European solutions. This requires the kind of political leadership and popular consent that can only be achieved by a credible, national democratic decision-making process. The EU still lacks necessary tools and democratic legitimacy to address the situation and will not have them for years to come. It would be unrealistic to imagine that certain member states— Germany, France, Holland, U.K.— will agree to measures that could weaken their competitive advantage. Nor can one blame them—turn-around in the south of Europe will take many years, even decades, while negative impacts in the north will be felt immediately.

While the crisis of the welfare state has led to some degree to a growing awareness of the benefits of the EU, national elites are still not doing enough to convince their citizens of the value of membership. A prolonged economic crisis, combined with mounting identity concerns resulting from growing immigrant populations, might easily produce nasty populist politics. Even if centrifugal forces would not prevail, the result might be status quo. And status quo is not an option.

The biggest threats to the EU are minimalist attitudes, short-termism dictated by electoral calendars resulting in political paralysis, narrow economic self-interest, and a lack of common strategic culture. This is not an environment in which one could embark on ambitious institutional projects such as a political union. In the present climate, completing single-market already sounds ambitious enough. Let’s hope that the present crisis produces an awareness of the need to seek strategic economic and political solutions.

Stephen Szaboexecutive director of the Transatlantic Academy

Europe is doomed to succeed. The alternatives to closer political and economic union are worse than moving forward. The rationale for more Europe has shifted from the original one of preventing another war to one of coping with globalization and the rise of the non-Western world. No single European state is large enough to cope with the pressures of global politics and global economics on its own. The real question is how large this Europe will be and who will it include? Will it form a core around the Eurozone with outer circles emanating out from the center? Will it become a federal Europe or continue to be something between a federation and confederation? Will it be a democratic or technocratic Europe. These are all open questions but the question of whether Europe will continue to grow is not one of them.

Nathalie Tocci deputy director of the Istituto Affari Internazionali

The renationalization of politics, populism and xenophobia all point toward dominant centrifugal forces in Europe. Yet the euro crisis has presented the stark choice between an unlikely political union and a far less likely breakup of the European Union as such. A political union has become a vital, and not optional, prerequisite of a monetary union. Given the improbable breakup of the European project, the question at hand is therefore not whether there will be political union, but rather what shape and form it will take. Some believe that an intergovernmental political union of shifting coalitions of willing and able member states is the way forward.

Appealing as it may sound to some as a practical way ahead, a solution which lacks the binding rules of supranationalism is unlikely to represent a stable state in the long-term. Moving forward, the only political union that could transform Europe into an effective 21st century power is one that would foresee a light federal (yes federal) structure, entrusting Europe with the (highly limited) power to tax, spend and borrow, with competences on security, diplomacy, development, border control, Europe-wide infrastructure, R&D, and redistribution. The crisis has shown that a third way is no longer possible.

José Ignacio Torreblanca head of Madrid office and senior policy fellow at the European Council on Foreign Relations

The answer depends on what you define as “political union”. If you set the bar as high as a federal political entity with an elected government, I don’t think we will reach political union. But if you define “political union” as a system in which the member states no longer have autonomous capacity to raise taxes, issue debt, prepare or pass budgets, engage in trade agreements, fix interest rates, retirement ages or labor market conditions, or devalue their currencies, we are almost there. That of course opens another question, in fact a huge one, which is “what kind of political system is that one?” and how do you legitimize it.

As for the centrifugal forces, I do not think the two options in the question which opens the debate are mutually exclusive. In fact, centrifugal forces may be a prerequisite for political union, for it is quite evident that such a political union, even in its more invisible and subtle form, can hardly encompass the current 27 members (plus Croatia and other likely members). Therefore, the question is whether something may have to die, the old Community, in order for something new to be born, the new Union. Apologies for having replied one question with two. I guess that makes me a typical European.

Richard Young director of FRIDE, Madrid and associate professor at the University of Warwick

Support for political union is likely to endure only if it is predicated on something more than an expedient management of the euro crisis. If the fiscal compact succeeds in smoothing the roughest edges of the crisis, pressure for near-term political union is likely to abate. The basic tension between a common currency and a multiplicity of political systems will remain. But the differences over what economic and political identity a full union should construct remain profound. This augurs ill for the generation of the deep consensus requisite to successful political union. In this light, unless the economic crisis deepens to even more dramatic depths, governments are likely to continue bridging such divides through the EU’s sui generis admixture of intergovernmentalism and supranationalism. Crucially, few current debates actually propose anything qualitatively new in terms of integration models, but a rebalancing of these very familiar tenets of the EU integrative experience. A recast and more vibrant political process has to be the prerequisite to nascent moves towards political union. If such process is flattened or circumvented, the problems supposedly attacked will merely worsen. Political disunion would then be at least as probable as deeper union.

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