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THE UNCERTAIN FUTURE OF EUROPE

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INTRODUCTION

In 2014, Europe faced an array of problems, most notably with the monetary union and the diversity of its members (population and country level), despite Brussels' attempts to ensure sound foreign and economic policies. In conjunction with these problems, a surge of polarisation within the European Union (EU) is occurring. At one end an increase in and deepening of European integration and homogenisation of legislation, and at the other end a turn towards nationalism and disintegration.

This Tutwa brief argues that the former is indeed driving the latter and that in order to maintain European integration and broaden its agenda for enhancing peace and welfare, it may well be justified to move a step back and to partially 'disintegrate'. More Europe is not necessarily better Europe.

The problems have become even more obvious in the period of political realignment following the European election, which swept an increasing number of so-called Eurosceptics into the European Parliament. Adding to that, the appointment of a new European Commission (EC) was highly controversial, this time even more than in the past. It was also not easy to find suitable replacements for Mr van Rompuy and Mrs Ashton. Whereas the new European President's stature is undisputed, the High Representative of the European Union for Foreign Affairs and Security Policy still has to earn a reputation. The appointments process also revealed many national sensitivities continuously being superimposed on staffing discussions.

To be sure, European integration is a great success. It has brought peace and wealth to a continent erstwhile suffering from constant conflict. Therefore, it has to be defended by all means.

The future of Europe is a challenge for all actors. It requires courage and sober calculation. It also requires an open and unlimited discussion. Where is Europe heading? Is Euroscepticism justified? Is integration leading the wrong way? Should integration instead be halted and redirected?

THE SINGLE EUROPEAN MARKET

Begin with the heart of European integration, the single market. Here the four freedoms (trade in goods, trade in services, movement of capital, and free movement of labour) of the single European market are sacrosanct. They constitute the core driver of the EU's success story.

All Single Market regulations have been recognised, mutually, by the country of origin principle. Along with the protection of the four freedoms this ensured both economic and political competition, which has one important function in this regard: it promotes innovations.

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The success is further based on the subsidiarity principle. This implies that regulation takes place on the lowest possible political level; only those people affected by a problem decide on the solution. Europe-wide harmonisation is only effective and welfare enhancing in cases where externalities (i.e. problems in one area affect people in other areas) apply.

As a consequence, expenditure and tax policy, for example, have not been harmonised. Rather they have been left to national competencies, since they reflect national characteristics. They should remain decentralised as tax policy is a national, sometimes even sub-national, economic issue.

Labour market regulation and social policies are also of national or sub-national concern, as they again reflect national differences. Recent suggestions to harmonise and unify national welfare systems are thus very premature and may well cause more Euroscepticism, in particular if the impression is that strong redistribution from one country to others is planned in the name of solidarity. Solidarity can only be serious if it is potentially mutual and based on a common understanding, prerequisites which are currently lacking.

In addition to internal competition, the EU relied on opening markets to imports (except for agricultural products) and largely refrained from protectionism, even in the wake of the world-wide financial and economic crisis after 2007.

TROUBLING MATTERS IN EUROPE

There are other, less benign, policy areas. The European Monetary Union (EMU) continues to struggle with member states’ unique domestic problems. Italy has suffered from continued recession and declining labour productivity; France persists in its reluctance to implement fiscal reforms; Greece will see record debt last year; and Germany has decided to dump successful policies from the previous decade, such as the benign labour and old-age protection reforms.

EMU members consistently ignore appeals made by the European Commission for more stable fiscal policies, while the costs of the European Central Bank’s (ECB’s) low interest rates become gradually more visible. Political pressure from the reform-reluctant governments is expected to extend the policy of low interest rates; in light of which the decision by the ECB to purchase government bonds regardless of their rating is not a good sign. It is highly probable that the ECB will purchase government bonds on a large scale in 2015.

Unemployment has continued to rise as almost one in five of young people not in training are idle. This is a huge problem that the EC is looking to solve with generously funded programmes, thereby not emphasising urgently needed labour market reforms.

The EU’s foreign policy has also been disappointing. Its reaction to the Ukraine crisis was lax sanctions, divided action and a somewhat cowardly decision-making process with consequent results. The reaction to Russian sanctions is whiny and the refugee question on the Mediterranean coast remains unanswered. Adding to this list is the meagre response to the escalating events in Iraq.

At the same time resistance from within Europe is rising as the United Kingdom (UK) intensely debates the future of the EU. Almost 20 years ago, Brian Hindley and Martin Howe, in their book *Better off out?*, raised the idea of a Brexit scenario: British exit from the European Union. While the two authors were relative outsiders in the discussion at the time, the dimensions of the debate echo more loudly today than ever before.

Differences between member states' per capita income and growth rates are significant and as a result so are the differences in economic policy concepts. Some countries (e.g. the UK, the Netherlands and Germany) subscribe to a more classic liberal economic policy concept while others (France and Italy) put more faith in government intervention. There are other differences in members' institutional aspects, especially with respect to corruption; the southern European countries are perceived as being more corrupt than the northerners. This creates distrust, as became obvious during the Euro crisis.

In principle most of these differences are not harmful in an integration space if the depth of integration takes them into account; unfortunately this is not the case. Far too many policies have been harmonised, particularly monetary policy in the EMU, without due consideration of different monetary policy stances and the lack of convergence between members. In countries with different problems, different interest rates and exchange rates are a necessity, but in a monetary union this is not feasible and neither is the high flexibility of the real markets that is required to balance these issues.

As long as monetary policy ignores these differences and does not harness reforms and higher flexibility, unemployment will remain high, forcing governments to increase social spending. Due to the gap between richer and poorer countries, this may cause richer countries to shoulder the expenses and arguably fuel nationalism in the participating countries. The German federal government is currently reviewing how to overcome the problem of increased social spending on non-German EU citizens without having to discriminate against any member country. It is obvious that increasing social spending for foreigners who apparently take advantage of the system may increase Euroscepticism even despite their small numbers; most immigrants in Germany are indeed hard-working and entrepreneurial.

Regulatory unification and the application of the *acquis communautaire* (the Community law) in a heterogeneous EU raises even more concerns. Due to the differences in countries' institutional configurations, enforcement becomes a problem, which in turn creates more inconsistencies between the countries and their citizens.

The EC plays an ambivalent role as it has contributed significantly to enforcing the European internal market and leveraging the enormous growth and wealth of the intra-European division of labour. On the other hand, the EC often behaves as the economic theory of bureaucracy suggests, trying to broaden the range of EC tasks via nonsensical regulations and harmonisation wrapped in endless guidelines.

The situation may even be exacerbated if European elites demand further harmonisation all the while dismissing critics as narrow-minded nationalists.

European identity, or the lack thereof, also plays its part in assigning blame for the prevailing problems as Europeans only identify themselves as European in the third instance, for example they see themselves as French, then Breton, then European.

European decision-makers seem to ignore these problems in an irresponsible manner, furthermore assigning blame for the crisis to their critics.

HOW EUROPE CAN BE SUSTAINED

What can be done? The first policy option is best characterised by more integration and more joint policies, such as a common fiscal policy. The obvious advantage is that coordination of fiscal and monetary policy is easier. The obvious disadvantage is that no government is willing to sacrifice its fiscal autonomy. More Europe in this sense rather means more problems.

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Therefore, consider a second policy option. A paradigm shift is necessary. Instead of responding to every problem with a reflexive reaction of closer integration, the exact opposite should occur.

The core of required change lies in not only deepening the achieved integration but, paradoxically, reverting to individual solutions. There is no shame in a state leaving the EMU or repealing key regulations; rather, a failure to recognise that deeper integration policy is having undesirable side effects is worse. In this sense a step back can be a step forward.

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Another avenue worth exploring is a multi-speed solution to integration. The larger the number of member states in the EU, the less homogenous the club, and the less likely it is that common rules will be successfully applied.

The old European Economic Community was relatively homogenous and worked as a very successful customs union, but even this type of harmonisation becomes harder when member states differ greatly in terms of income, economic policy and informal institutional characteristics like corruption.

In this light, membership of the EMU should be voluntary and not automatic. This requires clear rules which should be formulated as soon as possible. The European *acquis communautaire* should not be mandatory; a better solution might be to provide real and monetary integration á la carte.

In summary, a comprehensive reform of the integration model is required, with the aim of protecting the four freedoms of the internal market. Other integration steps may well be uneven and follow different speeds, selected by the member countries to their own advantage. European integration is too valuable to be overstretched. More Europe is not necessarily a better Europe.

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