Economic Crisis and the Future of European integration: Preliminary Thoughts[1]

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The global financial crisis led to high levels of unemployment, a drop in structural growth and excessive levels of debt in Europe. An ageing population and increasing dependence on resources aggravated the crisis. Most importantly, and contrary to some expectations, the impact of the crisis varied significantly from state to state and between the North and South of the Union. The implications for the stability and solidarity of the unification process were inevitable: in less than two years, the gap between the donors and recipients within the EU grew, bringing with it pessimistic forecasts for the future of regional integration and a lack of support for the EU in many member-states. The varying levels of damage among EU states illustrated the undoubted risks and obligations that stem from integration, and particularly from monetary unification. At the time of writing, the EU and especially its south, is still struggling to win the battle against the crisis.

Literature on the effect of crises on European integration has led scholars to argue that, in a rather counterintuitive manner, crises tend to push integration forward (Handley, 1981; Tsoukalis, 1992; Schmitter, 2011). As early as 1981, and in spite of noting a stalling of integrative efforts during the 1970s economic crisis, Handley presented evidence that collective crisis resolution empowered discourses of Europeanness within the European public. The current crisis has, however, posed serious challenges and doubts regarding the cohesion and future integration of the Union. Two factors have contributed to that: (a) the uneven distribution of its impact and (b) the three different levels on which resolutions have been sought: national, EU-wide and Eurozone. These divisions have spurred debates not only on the possibility of further integration, but also on the form that this integration will assume. The following sections attempt to distinguish the preoccupations embedded in these debates.

The power of the Franco-German Axis

As Desmon Dinan has pointed out in his writings, the history of European integration has not been smooth. Rather, as liberal intergovernmentalists have long argued (see Moravcsik, 1992) behind the decision to integrate – or to integrate further in this case – often lies bargaining, difference of opinion, power games among member states. Council conclusions, in this light, are seen as an outcome of bargaining rather than as supranational entrepreneurship, socialization or effects of identity creation and solidarity among Europeans. In

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this context, the decision to respond to the crisis by moving towards more integrated governance in the Eurozone, can be viewed as a consequence of struggles among EU members and as a result of pressures by the Franco-German axis. Indeed, the strongest pressure for a change in the Lisbon Treaty, in order to create a new mechanism for crisis management and aid for countries in financial difficulty, came from a united Merkel-Sarkozy front as early as October 2010. The inclusion of sanctions in the form of the suspension of voting rights for member states "flouting the EU rules" in the Franco-German pact, led numerous other EU members, and the Commission itself to react. This, in turn, highlighted internal disagreements,leading the German Chanceller to telling the Bundestag:

> *"It is true that a German-French agreement is not everything in Europe. However, it is also true that without German-French agreement a lot of things don't happen." (Spiegel 27/10/2010)*

The Franco-German "competitiveness pact", a plan for closer economic integration which involved separate summits for the euro zone, famously caused multiple complaints by non-Eurozone members, such as the Polish prime minster, Donald Tusk, who accused the French and German leaders of trying to divide the EU and humiliate the Euro "outsiders" (Economist, 12-18/03/2011). The Commission itself expressed severe doubts regarding the plan, which in its initial proposal was to be supervised by national governments, giving it a completely intergovernmental quality. Only after securing a much more substantial role for the Commission, was the pact, renamed as "pact for the Euro", approved.[3]

Dividing Europe?

Discussions regarding the division of Europe focused on two sets of problems: the Eurozone insiders and outsiders, and the economic disparities which – with the exception of Ireland – took on a North/South dimension. It has been noted before, that since its inception, the EMU has at times been viewed as instrumental in the creation of a two-tier Europe, diving the EU into core and peripheral members (eg. Bayoumi, 1992; Garrett, 1993). Nevertheless, the lack of a common economic policy exclusive to Eurozone members appeased preoccupations about a dramatic gap between insiders and outsiders. The construction of European economic governance brought these preoccupations back to the surface.

The second category of division, which was quintessentially quantitative, gradually shifted into a discursive and ideational one. On the one hand, states such as Greece, Ireland and Portugal, all situated at the periphery of Europe and suffering from economic and social fragility, were forced to redefine their relationship with the European establishment and their richer counterparts. The perception of themselves as "weaker" members of the European family were evidenced in the resentment expressed in the media and public spheres, and by attempts, by Greece until March 2010, and Portugal until March 2011, to resolve the crisis largely based on national means and avoiding bailouts from their fellow EU members. As Van Rompuy stated, one problem was that Greece only asked for help after three months (18/07/2010).

On the other hand, one of the main arguments of Greek opinion makers against the European response to the Greek crisis was the delay and reluctance in adopting a bailout plan. They argued that European solidarity as well as EU's capacity to take swift and efficient action was sorely tested by the Greek crisis and unfortunately failed the test. They stressed that the EU was taken aback by the severe situation partly because it lacked an immediate and effective mechanism to deal with this kind of crisis and partly because of the lack of consensus and political will. Angela Merkel had long resisted to emergency loans, not least because of fierce German public opposition to the bailout before a key election on May 9 in the state of North Rhine-Westphalia. But German reluctance was not solely to blame. The length and bitterness of the negotiations had shed light on differing national interests within the EU block and on the reluctance to pri-

3. For the full pact see: ttp://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/119809.pdf

oritize the Union over these interests. At the same time, the Greek debt crisis had highlighted the problems of monetary union with no supranational economic governance, and the necessity for the construction of the latter in order to avoid further damage to the common currency and to the EU market. Thus, while national interests surfaced, the necessity for more integration appeared as the sole way forward.

At the same time, the crises facing the PIGS have affected the way the rest of Europe has viewed them. The lasting dispute between net contributors and net receivers within the EU seemed to have been exacerbated due to the economic challenges posed by the crisis. So, as Tsoukalis points out, the crisis is testing not only the cohesion, but also the solidarity of the EU. "Strangely enough", he adds, "this may lead to further integration because when it comes to the crunch the Germans have to face the risk of the survival of the Euro which is of interest to them. So crisis is leading to integration, but integration without appetite, integration out of necessity", i.e. integration in order to prevent disintegration (Tsoukalis, 2011).

While the solidarity test is ongoing, the setting in motion of the architecture of European economic governance and the appeasement of the debates on the exit of Greece from the Euro, which would allow it to re-nationalize its monetary policy and use traditional instruments, such as currency devaluation, to face the crisis (Open Europe, 02/2011), suggest that – willingly or unwillingly – the EU has stood up for its members. Scenarios about the "end of the Euro" have, at the time of writing, been left behind and the agreement seems to be that the EU, as a whole, will construct, once again, the solution to this crisis.

External Relations

It is worth mentioning that the crisis also impacted the perception of the EU and the EMU as models for regional and monetary integration respectively. Indicatively, it has been noted that in member-states of ASEAN, which has traditionally used the EU as a point of reference, the crisis in Europe began to be used as an argument against a move towards monetary integration (Idis, 2010). In South America, where the EU model has often been used to point out the benefits of regionalism (Lenz, 2008), discourses on Europe's declining power emerged as a counter argument (Lazarou, 2011). The failure of the Union for the Mediterranean - a regional initiative promoted by the EU - to live up to expectation, suggests that, among other things, even in its own neighborhood the EU model has lost its "soft power". For Europe, whose longtime foreign policy strategy has been based on the projection of the attractiveness of its own integration model, this marks a major hit in terms of its global "actorness".

At the same time, while the EU struggles with the quest for the least painful and most constructive solution to the crisis and for the preservation of supranational governance, another actor figures continuously more in the European setting: Beijing. Since the outbreak of the crisis, China has been increasing its holdings of European countries' debt, most recently including Spain. With the world's largest foreign-exchange reserves[4] , China appeals to European political and corporate leaders as a considerable source of investment capital. In addition, the emphasis on the "belief in Europe's potential to re-emerge out of the crisis" in Chinese foreign policy discourse, has helped promote relations between the two regions (Kerdos, 01/2011). It would be safe to say that as a result of the crisis China has become a strategic political partner for Europe, a fact which is even reflected in the bilateral discussions for the re-framing of global monetary governance.

Conclusion

In 1993, soon after the signing of the Treaty of Maastricht, Loukas Tsoukalis criticized the new treaty for not creating any institution for the coordination of fiscal policies and wrote in his new book The New European Economy:

> *"The new treaty has left several important questions unan-*

4. $2.648 trillion at the end of September according to the Wall Street Journal, January 7 2011 "EU Aims to Seal Deal with Beijing"

> *swered:[...] they refer to the costs and benefits of EMU in a community which is still characterized by a high degree of economic diversity and relatively limited political cohesion and also in a Community where political institutions fall far short of economic ambitions"(Tsoukalis, 1993, 227)*

Critics of the EMU repeatedly put forth, at the time, that monetary union requires a much more developed European political system to be effectively managed. While the EU has matured politically since then, the impact of the financial crisis has illustrated that the progress made has not been enough. In the more optimistic scenario, the crisis is now triggering the next steps in European integration, towards that direction. In more skeptical approaches, this could signal the failure of the unification project to adapt to the global environment.

Every ten years the EU sets out an agenda to be achieved within the decade. In 2000 the agenda agreed upon in Lisbon (better known as the "Lisbon Strategy") set out to make the EU "the most competitive and dynamic knowledge-based economy in the world". By 2009, successive EU Presidencies (Sweden first, followed by Spain) admitted to the failure of this vision. Given the current state of the economy, the strategy for the next decade, the "EU 2020" strategy has identified stronger economic governance as the main goal. But, as the crisis has exemplified, only through political unity will this be achieved.

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