The EU crisis: integration or gradual disintegration?

John Palmer
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Faced with the costs of the splintering of the euro, EU governments will, however reluctantly, have to agree to deepen not weaken integration, writes John Palmer, former European editor of "The Guardian". And most voters will agree.

Two – seemingly diametrically opposed – conclusions have been drawn from the outline European Union agreement to reform the governance of the Euro-area following the crises which have recently hit Greece, Ireland and Portugal. The first is that the 17-nation single currency Euro-area – the core of the wider 27-member-state EU – is now becoming an economic and not merely a monetary union, and thereby moving closer to de facto political union. [1] The second conclusion is that the EU’s failure to agree a lasting solution to the problems afflicting some of the Euro-area peripheral economies might yet undermine the entire single currency system. And this could, some claim, taken together with a range of other problems afflicting the Union, eventually threaten the EU itself. Both these conclusions contain important truths. But they are less contradictory than they at first appear. The European Union faces a whole series of problems that impel member states to integrate still further or risk a gradual unravelling of what has already been achieved. But with every step forward opposition from Euro-sceptic populists and nationalists grows shriller. How will these contradictions be resolved?

Questions about the future of the EU go well beyond the travails of the euro, and reflect broader worries about the functioning of the Union’s institutions. Popular support for further European integration is diminishing, and this trend is being exploited by an increasingly assertive anti-EU, anti-immigrant far right in some EU countries, including Britain. [2] And the Union also seems impotent in the face of other global challenges. Progress towards a genuinely ‘Common European Foreign and Security Policy’ remains painfully slow, as confirmed by the differences over the Anglo-French intervention in Libya and earlier ‘western’ interventions in Iraq and Afghanistan. Even where the EU has shown progressive leadership – as over climate change – its global influence with China, Russia and the rising new BRIC powers seems to be diminishing, both commercially and politically. Meanwhile, within the EU itself public understanding of and confidence in the complex EU system of governance is waning. Hard line euro-scepticism is limited to a minority, but many citizens feel increasingly remote from EU decision-making, and complain about a lack of democratic accountability. As support for right-wing populist
parties has grown, so too has visceral opposition to further EU enlargement.

Nonetheless EU member states, conscious of their individual incapacity to deal with the challenges of a globalised world system, see little alternative to further integration. After the events of 9/11 in the USA, for instance, the EU moved from purely national to shared European decision-making on some internal security issues – a development previously assumed to be unthinkable. The global financial and economic crisis is also now pushing at least the Euro-area ‘core’ majority of EU member states to deepen their economic and financial co-operation and integration. The agreement to strengthen the Euro-area Stability and Growth Pact, together with the ‘Euro Plus Pact’ focusing on broader macro-economic reforms, may not yet add up to the ‘revolution’ hailed by European Commission President Jose-Manuel Barroso; but a number of key economic decisions will now be taken collectively by the Euro-area states.

The United Kingdom, with a handful of other EU states, remains outside the Euro-area agreement. But most of these states plan to join the single currency bloc, which they see as being at the heart of the ‘European project’, as soon as practical. The longer-term implications of this further UK self-marginalisation within the EU have received remarkably little attention from the British media or political classes.

Will the euro survive?

The collapse of Portugal’s centre-left government has been followed by an EU bail out agreement giving Portugal better terms than so far offered to Greece and Ireland, in an apparent recognition that measures previously adopted were not sufficient to address the crisis. The scale of financial support now available to help Euro-area countries in difficulty is unprecedented. There should now be more than enough financial fire power available – on current estimates – to meet the needs of Greece, Ireland and Portugal until a more permanent crisis mechanism comes into force in 2013. The signs are that Spain may not be obliged to follow its Iberian neighbour in seeking emergency assistance. The short-term provision of financial relief to the stricken ‘peripherals’, however, may only temporarily abate the Euro-area crisis. The European banking system still faces problems as a result of its massive exposure to sovereign debt; and further substantial re-capitalisation of the EU banks may still be needed to address the bad debt exposure of some banks. [3] There are also serious doubts about the capacity of Greece, Ireland and Portugal to generate the economic growth necessary to service their debts after 2013. Debt repayment terms for Portugal have been eased, and similar concessions are likely to be extended to Ireland and Greece. But will all this be enough?

The basic conditions imposed for the bail-outs – notably swingeing public spending cuts – are weakening rather than strengthening the peripherals’ ability to grow their way out of crisis. And there is growing expectation that first Greece and then Portugal and Ireland may have to ‘re-structure’ their debts. This could take the form either of a negotiated partial default or – more likely – an agreed extension of debt repayment periods and/or conversion of part of bond holdings into some kind of equity.

The German government still opposes the immediate issue of Euro Bonds, which, by exploiting the Euro-area’s strong collective credit, could provide far less costly aid for the weaker economies and thus reduce their debts burden. The core EU governments seem
unwilling or unable to articulate the case for greater Euro-Area solidarity. Yet, ironically, it is they who will benefit most if a banking collapse and a Euro-area fragmentation triggered by the peripherals’ debt problems is avoided.

The new Growth and Stability Pact will strengthen Euro-area discipline on debt and budget deficits. Euro-area states are now committed to far-reaching restructuring of national pensions, health and welfare policies. Sanctions against those who deliberately break the Stability Pact rules are less likely to be blocked in future. Euro-area states will assume collective responsibility for key economic decisions.

This means that Euro-area governments’ national macro-economic policies will have to be approved by the Commission and their partners. In practice this represents a shift from ‘national sovereignty’ to de facto greater shared sovereignty in important economic decisions. But while the UK remains outside the new Euroarea arrangements, the British government will not block the EU Treaty changes implementing the new system. The coalition’s stance may reflect a desire for prudential insurance against any future switch to a domestic economic ‘Plan B’ - when the UK might have to seek the goodwill of the EU as a whole.

Other questions of how the new strategy is to be implemented remain unanswered. What is meant by action to redress ‘economic imbalances’? The core Euro-area states insist this is aimed at economies running ‘excessive deficits’. But pressure is building for balancing action to also be taken against those running ‘excessive surpluses’. Serious doubts persist about whether the longer-term economic reforms set out in the Europe 20/20 strategy will achieve sustainable growth. The current austerity drive, aimed at reducing budget deficits as well as real wages and social welfare benefits, is meeting growing resistance within the EU. Meanwhile an economic competitiveness gulf still divides the northern ‘core’ economies around Germany and the southern and western ‘peripheral’ economies. Left unresolved these problems could indeed call into question the future of the Euro-area and even the wider EU. Chancellor Merkel has warned that ‘if the euro fails, Europe fails’. But all that conceded, a future break-up of the Euro-area let alone the fragmentation of the EU still looks very unlikely. Far more likely is an eventual change of Euro-area and EU economic policy.

**The costs of Euro-area and EU fragmentation**

The costs of a break-up of the Euro-area would dwarf those implied by its defence. The expulsion of the weaker, peripheral countries from the euro area would lead to big devaluations of the ‘re-nationalised’ currencies. The resulting inflation would make it even more expensive to finance budget deficits and make a banking collapse more likely. The consequent decline in employment and living standards would risk a contagious economic depression across Europe.

Suggestions that the strong, core Euro-area countries might quit as a group are also not credible. The exchange rate of any ‘core euro’ limited to Germany and its partners would rise dramatically and undermine the very export expansion which drives the current economic upturn in the core area. Taken together with the vulnerability of their own banks, this explains why Germany and the core Euro-area states will do almost anything to avoid a break-up of the single currency. Nonetheless the three peripherals do face
looming insolvency unless the terms of ‘bail-out’ aid are eased and EU macro-economic policy is reversed to prioritise sustainable growth. In the European Parliament there is growing support for a different economic strategy to drive further European integration. This includes replacement of the traditional GDP measurement of economic progress with alternatives which also reflect environmental and social objectives. [4] MEPs also want to see much more determined EU coordinated action against tax avoidance, and a common EU corporate tax base.

The European Parliament wants the EU budget to play a greater part in stimulating conditions for sustainable growth – including increased investment in human and physical infrastructure. This is where the issuing of Eurobonds, and the introduction of a hypothecated EU tax (replacing inadequate and highly complex national financial payments to the EU budget), could support economic recovery.

The Euro-Memorandum network of socialist and green economists across the European Union has urged a comprehensive series of the policy changes which need to be made at Euro-area and EU level. [5] These reinforce demands by European trade unions, civil society organisation and left forces at national level for a radical change of policies to boost growth and employment.

Taken together they include:

* Extending the EU loan support repayment periods to give the peripherals more time to meet their debts and avoid insolvency.

* Issuing Euro-bonds so that the euro-area can exploit its collective power to borrow and hence lend at much lower rates than are being currently charged to Greece and Ireland.

* Requiring bondholders in the banks to shoulder a greater proportion of the losses incurred, through negotiated debt re-scheduling, preferably after the permanent system of Euro-area support comes into force in 2013.

* Expanding domestic demand in the stronger core economies in surplus (notably Germany) and increasing EU investment in energy alternatives and economic and social infrastructure to offset demand contraction and higher unemployment in the peripherals.

* Enforcing stricter EU surveillance over the performance of Euro-area economies. The Euro-area should have powers to penalise those pursuing either irresponsible budget deficits or irresponsible budget surpluses.

Most northern EU states still resist key aspects of this approach. But as market pressures resume on the peripherals and the costs of inaction become clearer, a policy U-turn may only be a matter of time. The balance of probabilities is that the EU will – slowly and inconsistently – strengthen the governance of the euro-area, agree to collective oversight of national fiscal strategies, soften and extend repayment terms for existing ‘bail out’ loans. But defusing the deeper crisis will require Euroarea governments to change economic direction.

**Is a ‘common’ European foreign and security policy**
possible?

The EU has always found it difficult to agree and then implement a common foreign, security and defence policy. In spite of a repeated desire to ‘speak with one voice and act together’, the reality is often different. Pursuit of ‘national interests’ still frustrates effective unity over relations with Russia and China. The split over the Iraq war was very public, and the EU is still divided about how to respond to US strategy in the Middle East and Afghanistan. But under the Lisbon Treaty, a potentially more powerful Foreign Policy High Representative – an embryo EU foreign minister – has been appointed; and the European External Action Service – an embryo EU diplomatic service – has also been established. Comparison of the voting record of EU states in the UN today compared with that of twenty years ago demonstrates that they are gradually learning speak with one voice.

Acting together remains problematic. Much will depend on how successfully the European External Action Service – once it is fully up and running – is in translating common policies on key international issues into effective collective action by the EU. One arena where this will be tested is in the Middle East (after the Arab revolutions), and particularly in relation to the issue of EU readiness to formally recognise an independent Palestinian state.

Some developments now favour a stronger EU foreign policy role. The spiralling costs of national diplomatic and military establishments have resulted in major national budget cuts. Streamlining overheads and rationalising these functions through the EU is now becoming more attractive. The increasing US disengagement from Europe – clearly signalled by the Obama administration – as well as the imperatives of rationalising arms spending, have already led to a remarkable degree of Anglo-French defence coordination. [6] This may become a model for further ad hoc defence integration with other EU states in future.

Is EU enlargement running out of steam?

The enlargement of the EU to countries in central and Eastern Europe has proved a remarkable success. It has helped bring peace and stability to the heart of a historically war-torn continent. But popular enthusiasm for further enlargement is weakening.

The expansion of the EU from its original 6 to 27 member states has multiplied the inherent complexities of EU governance. Institutional reform has lagged behind enlargement. The EU is committed to accept countries in the Western Balkans into membership – once conditions for accession have been met. Croatia is likely to be first, but Montenegro, Bosnia, Kosovo, Serbia, Macedonia and Albania will only follow much later. Any further enlargement will make the need for further EU institutional reform inevitable. Membership negotiations with Turkey are currently stalled, with French and German leaders insisting that Turkey should only expect a ‘Privileged Partnership’ with the EU. Ukraine, Belarus (after democracy is achieved), Moldova and the Caucasian states can only expect limited co-operation links with the EU and not membership. Success for Turkish accession also requires further democratic reform (including the rights of the Kurds and other minorities). But entrenched Islamophobic and anti-Turkish forces within Union will also have to be overcome. Failure of Turkey’s bid will only serve
to weaken Europe’s relations with the Muslim world and its influence in the Middle East. In the end, when conditions are right the EU may want to form a wider but more limited sovereignty-sharing community with its eastern neighbours, including Russia and Turkey.

Reforming EU governance

Although EU institutional reform has been painfully slow, successive treaties have transferred important decision-making from the sphere of nationally based ‘inter-governmental cooperation’ to ‘the Community method’. This is where laws are enacted by the elected European Parliament and the Council of Ministers – representing member states – on the basis of proposals from the European Commission. The European Court of Justice retains the final power to adjudicate on the legality of the actions by EU institutions and national governments. The reason for this transfer of decisions to the EU level is simple. Member states of the EU – even the biggest – find it increasingly difficult, acting alone, to tackle the problems that globalisation has thrown up. Contrary to the popular view in the UK, the least accountable aspects of the EU system are represented precisely by those decisions that are taken through inter-governmental cooperation, outside of the framework of collective decision-making and EU law. The uneasy co-existence of supra-national EU legislation and inter-governmental cooperation has evolved into a hugely complex governance system which the public find difficult to engage with. Voter participation in elections to the European Parliament has been declining in recent years. Some draw the conclusion that the search for a European demos is doomed to fail, and insist that democratic scrutiny of the EU must revert solely to national Parliaments. But national Parliamentarians acknowledge their systemic failure even to hold national governments properly to account in EU decision-making.

Closer co-operation between national and European Parliamentarians is essential if the impact on civil liberties of inter-governmental cooperation on internal security questions is to be properly accountable. Of all the EU institutions, the European Parliament has grown most in political influence, and an even greater role for the Parliament seems inevitable. It will elect future Presidents of the Commission, and could eventually share with the Commission a right to propose European Union legislation.

Low voter turnout in European elections is a serious problem. But part of the problem is that elections for the European Parliament tend to be fought over purely national issues, and fail to offer voters genuine choices about the kind of European society they wish to see. Only when European parties are empowered to fight European elections with distinctive European programmes, and with powers to appoint the EU Commission (the executive) can voters be given significant choices and thus greater incentives to vote. [7]

Nonetheless there has been a slow emergence of a ‘European politics’, testified to by the fact that votes in the European Parliament now increasingly reflect ideological rather than national differences. [8] The Parliament’s political groups (Social Democrats, Christian Democrats, Liberals, Greens, Left Socialists, Populists and the far right) are gradually evolving into fully fledged European political parties.

A crisis also of the European left

A decade ago social-democratic governments, or coalitions led by social democrats, held
power in most EU member states. Today the centre left is out of office across the Union, with exception of Greece, Spain and a handful of other countries. Even in their Nordic strongholds, Finnish, Swedish and Danish social democrats are in opposition. Social-democratic parties (including Labour) appear paralysed by the global crisis of finance capital. They are unsure how to respond to the loss of public support for free market neoliberalism (with which they had forged close links in office), or how to articulate a coherent alternative. This shift in the centre of political gravity in the EU has had a dramatic impact on the political character of the main EU institutions. Where a decade ago the Social Democrats were the pre-eminent force in the Council of Ministers, constituted a majority of EU Commissioners, and formed the largest party in the European Parliament, today the centre right is the dominant political force across the Union. There has also been a worrying increase in support for far right populist, euro-phobic, racist (and in some cases neo-fascist) parties in both western and eastern Europe. Their gains have been made at the expense of the centre right, the social democrats and even of the Communist Party in Italy and France.

Opportunistic concessions made by mainstream politicians to the far right both on European issues and immigration (an increase in migration being an inevitable consequence of globalisation) have only strengthened its influence. Exploiting concern about increased numbers of refugees fleeing conflict and repression in North Africa, French and Italian leaders in particular have pandered to the xenophobes, in seeking authority to re-impose national border controls. This poses a threat to the Schengen pact, which assures the right of free movement of peoples within the EU.

On the other hand, voter opposition to austerity economic policies and the widening of social inequality has been growing throughout the Union. Weakened European trade unions are still struggling to convert broader alliances with civil society and social movements - who are facing public spending cuts, unemployment and lower living standards - into a potent EU-wide political force. The political picture may, however, be about to change. Militant mobilisations by students and sections of workers are being reflected in the gradual emergence of a more coherent European alternative to austerity orthodoxy. Most EU social-democratic parties (but not yet Labour) acknowledge the need for deeper economic union and fiscal re-distribution in the EU. They are, at least verbally, committed to an alternative, environmentally and socially sustainable, economic strategy to fiscal deflation. Green parties are emerging as mainstream rather than marginal political players. They are closing the gap with the Social Democrats in Germany and the Parti Socialiste in France in terms of voter support. They seem likely to emerge as more or less equal partners with the social democrats in governments in Germany, France and some other EU countries in the near future.

The far left has had less success in establishing itself, either nationally or at the EU level. In Italy the fragmentation of the once influential Communist Party has helped facilitate Berlusconi’s rule. However in Germany Die Linke (‘The Left Party’) is now represented in the Bundestag and some regional assemblies; and its support may become necessary for the SPD and the Green Party in forming a coalition after the next German general election.

Some European left socialist think tanks, such as the Rosa Luxemburg Stiftung, now speak more openly about the need for ‘more Europe - not less’. [9] And outside Britain
and some Nordic countries, Green Parties also strongly advocate close EU integration and even a more federalist Union. The far left, however, is divided between unreconstructed advocates of ‘national sovereignty’ and those – for example Die Linke and the Danish People’s Socialist Party – who now argue for a more progressive social and environmental focus for further European economic integration. Pan-European initiatives are now emerging to coordinate opposition to ultra-liberalism and to distil the foundations of an EU wide left platform. [10] The left parties, as well as the other emerging European parties, will have to fashion a new relationship with their national affiliates. One model might be that of national ‘federal’ parties and affiliated parties such as exist in the UK or Spanish region/nations.

An overt politicisation of the EU governance system seems underway. In the past the virtues of consensus in the interests of ‘the construction of Europe’ were valued more than those of democratic political conflict. But only when democratic European politics and elections offer serious choices about the future of European society can EU governance be given energy and legitimacy.

**Conclusion**

The disintegration of the Euro-area or even of the EU itself is not inconceivable. But there is still widespread public acceptance that the economic, social and political costs of EU disintegration would be dangerous. Most voters want to build on the achievements of the EU and even accept that the Union needs the powers necessary to function effectively. [11]

A break up of the Euro-area presupposes that the forces of populism and xenophobia first establish political hegemony across the Union. This is not impossible, and the growth in popularity of parties such as the French National Front is a warning. But such a disaster will only come to pass if democratic – and particularly left – forces prove incapable of responding to the economic, political and social crisis of neoliberal capitalism. The struggle for progressive alternatives will take place at an EU, not just national, level. Further European integration seems inevitable. The question is: what political and social values will inspire that integration?

**Footnotes**


2. Typical of the many commentaries concerned about a possible break up of the Euro-area is this: [www.neurope.eu/articles/106085.php](http://www.neurope.eu/articles/106085.php).


5. The Euromemo alternative economic strategy report is at [www.euromemo.eu](http://www.euromemo.eu/).
6. Although this agreement is not designed to lead to a specifically 'European' defence, it is likely to be a model for similar agreements between EU member states: www.thisislondon.co.uk/standard/article-23893316-anglo-french-force-to-be-sealed-by-historic-military-agreement.do.

7. These issues are dealt with very well by Professor David Marquand in The End of the West: The Once and Future Europe, Princeton University Press 2011.


10. See www.guardian.co.uk/commentisfree/2011/may/01/austerity-europe-leftalternative.


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