ROUTLEDGE STUDIES IN THE EUROPEAN ECONOMY

The Contemporary Crisis of the European Union

Prospects for the future

Ivan T. Berend

ROUTLEDGE

The Contemporary Crisis of the European Union

The European Union widened and deepened integration when it introduced the Single Market and the common currency, increasing the number of member countries from 12 to 28. After a quarter of a century, the 2008 financial and economic crisis opened a new chapter in the history of European integration. Prosperity was replaced by economic crisis and then long stagnation, with ramifications far beyond the economic arena.

For the first time, after more than half a century, some countries were almost forced to step out of the Union. History's most frightening migration crisis shocked Europe and led to the strengthening of several anti-integration parties in various countries. This pioneering book discusses the nine crisis elements that could lead to disintegration of the EU. Beginning with the Greek Debt disaster this book delves into the cause of the recent European crisis and then onto the recent immigration influx and its consequences, as well as Britain's exit from the Union. A concluding chapter, based on the facts of positive development during the crises years, gives a cautiously optimistic forecast for the future and asks the question: further integration or disintegration?

This volume is of great importance to academics, students and policy makers who have an interest in European politics, political economy and migration.

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Introduction

I am part of the generation that experienced hatred, discrimination, confrontation, and war in Europe. Our principal personal experience was the most devastating war in history, mass murder and untold suffering, followed by the division of "two Europes" for half a century. The toxic cloud of nuclear confrontation overshadowed our lives for decades. For me and my generation, the most promising development that ever happened in millennial European history was the integration of Europe. We rejoiced that Europe had learned the lessons of the past and was determined not to repeat it. My generation enthusiastically welcomed European integration. For the first time in our lives, we were proud to be Europeans.

It was never going to be easy to achieve that "ever closer union" of European integration, as the preamble of the Treaty of Rome described the goal of the six founding countries in 1957. For one, integration would not have even happened without the critical contribution of the United States, which pushed, and sometimes even forced, Europe to integrate. Its goal was to strengthen an integrated Western European ally, a United States of Europe, to face the Soviet danger in a rancorous Cold War conflict. Soon after the first tentative step, the formation of the European Coal and Steel Community, was made in 1951, it became clear that sectoral integration was not the best way to move toward the end goal. Europe soon found a better way, founding the European Economic Community in 1957. It created a common European market, with common tariffs, common supranational institutions, and common agricultural policy.

Still, European integration was not without its setbacks. Less than a decade after the EEC's founding, its first crisis essentially blocked further progress for twenty years. The "empty chair crisis" of 1965, initiated by French President Charles de Gaulle to stop supranationalization and preserve the sovereignty of nation states, slowed the integration process down and halted further supranationalization. Giving veto rights to each member country effectively thwarted the multi-governmental functioning of the Community for two decades.

However, the integration drive got a second wind beginning in the mid-1980s. In a new age of technological revolution and globalization, Europe found itself dangerously behind and unable to compete on the world market, and was thus forced to adjust by expanding integration. Large European corporations felt existentially threatened and saw enhanced integration, and the creation of a genuine common market, as their only hope. Important steps were taken to advance supranationalization. The Single Market of the European Union and the Schengen agreement ended borders within the Union, initiated unrestricted cross-border business activity, and allowed the free movement of goods, capital, and people. This process was significantly strengthened with the introduction of a common currency and a European Central Bank around the turn of the millennium. The corporate world began building up a network of branches, subsidiaries, and value chains across the continent, and essentially Europeanized the European economy.

At the same time, the concept of a truly integrated European Community became more and more appealing, and a continual enlargement process gradually increased the number of member states from the original six to nine in 1973, twelve in the 1980s, to fifteen in 1995, twenty-five in 2004 and twenty-eight by 2013. Five more countries in the Balkans are waiting to join.

Then, a new crisis hit in 2008. The collapse of a leading American mortgage bank led to an international liquidity crisis that shocked the global financial markets, and was then followed by an international debt crisis and the so-called Great Recession, the decline of the real economy. The 2008 crisis was the worst economic catastrophe since the Great Depression. Although it was a relatively fleeting episode in much of the advanced world, it hit Europe particularly hard. Two scholars stated in 2014:

> In the last five years deep cracks have appeared in the European project. The experience of recent years has revealed and exacerbated significant defiance in the European Union's economic and political construction .... And then, the unthinkable became a very thinkable reality: one or more countries could probably leave the euro, the euro zone could implode, or even that the European Union could disintegrate. To make matters worse, Europe faces not just one, but a number of highly complex crises.[1]

Indeed, the international economic crisis in 2008 gradually led to an extended, complicated crisis within the European Union. The hidden weaknesses of an unfinished common currency and a monetary union without fiscal unification (which had never been seen before) soon came to light and pushed the euro to the brink. The euro-crisis was most acute in Greece. The Greek debt crisis culminated in 2009 and remained unresolved until 2015. It strongly undermined European unity and threatened the demise of the common currency. The ideal of a European social market was also undermined by the recession and the austerity that followed. In some member states, welfare institutions nearly collapsed. After years of prosperity, a well-functioning economic system gave way to a deteriorating capitalism with speculative bubbles, massive unemployment, and increasing inequality – all of which endangered the European model of welfare capitalism.

The mostly hidden inner contradictions of the integration process turned out to be open wounds. In 2009, for first time in the Community's history, profound internal conflicts and crises undermined all notions of solidarity, the principal building block of integration. Moreover, the more serious crises in the Union's newer members, the former peripheral countries in the South and East, subverted the idea of a united Europe and reconstructed the "two-Europes" syndrome. One of those countries, Greece, was pushed to the brink and had to be bailed out three times. The Mediterranean countries that were well on their way to catching up with the West now showed surprising weaknesses. The residual repercussions of path dependence were apparent for all to see. The need of some for bailouts, and the insistence of others on austerity to reestablish fiscal balance, that is, the conflicting interests of creditor and debtor nations, gradually created a deep chasm within the Union.

The catching-up process of the less developed, former communist peripheral regions, which had been incorporated into the EU in the early twenty-first century, slowed dramatically. After an arduous process lasting a quarter of a century, it was now apparent that these countries were not even close to meeting their transformation goals. Some were unable to cope with the entrenched corruption, rampant clientelism, and resurgent authoritarianism of their political systems. The whole concept of the European Community now came into question. Had the EU expanded too quickly with countries that were not yet ready for membership? Had this expansion jeopardized the future of further integration?

Although some of the former communist countries of Central and Eastern Europe had quite successfully transformed their systems and adapted to the mores of the European Union, the residual weaknesses and resurgent authoritarianism in several countries underscored the core-periphery conflict within the Union. This problem shed new light on the EU's neighborhood policy, especially toward Eastern Europe. Assisting certain former Soviet republics, and offering associate membership status to them, signaled the EU's intention to expand further and to possibly include certain former Soviet republics such as Moldova, Georgia, Armenia, and Ukraine.

In the 2010s, however, this policy would meet its Waterloo in Ukraine. The Ukrainian crisis, which degenerated into a civil war and a Russian military intervention, led to a heated conflict between Russia and the EU. Suddenly wars and civil wars, the Ukrainian crisis, Russia's involvement and occupation of the Crimea, Russia's military violations of national air-space and waters in Europe, and its provocative military exercises in border regions all endangered European security.

Threatening as well was a revival of Islamic fundamentalism and murderous terrorism, which created an arc of danger around the Union. Europe's security, guaranteed and unquestioned since the end of the Cold War, was suddenly in peril. There were, to be sure, various elements to security, and this required Europe to act in harmony. Europe's dependence on energy imports, partly from Russia, became an important factor in security policy, and it necessitated coordinated arrangements to achieve energy independence. But now, for the first time since the end of the Cold War, security was also once again a military issue. Defense and the integration of armed forces and armament industries – issues that had never been on the EU's agenda before – now attained central importance.

At the same time, the EU's southern neighborhood, the Middle East and North Africa, began blowing up as well with civil wars and Islamic terrorism.

The violence and the misery pushed millions toward Europe. History's most dramatic migration crisis took place in 2014–16, and it led to an even more dangerous divide among EU member states than did the economic crises. The migration crisis pushed to the surface Europe's serious demographic crisis, which has been gradually worsening since the 1980s thanks to rapidly declining birth rates and the speedy aging of the population. Europe has had a dire need for migrant labor ever since the 1950s and especially from the 1980s on. While vital to the economy, immigration invariably created serious social and political difficulties. The EU devised an array of programs and directives to handle the issue, but to no avail. The integration of the several million "old" immigrants since the 1950s–60s had only limited success, while the recent wave of immigration has degenerated into a chaotic flood of refugees from crisis zones as far away as Pakistan and Afghanistan. Human traffickers killed and endangered thousands and created a genuine moral crisis. Europe has been put to the test, and should respond with joint solutions to this humanitarian nightmare. But so far the national interest of individual states has prevailed.

George Soros, the billionaire financier, philanthropist, and integration advocate, bemoaned the deteriorating situation in a recent interview, which was published under the title "The European Union is on the Verge of Collapse," observing:

> The European Union now is confronted with not one but five or six crises at the same time …. The EU was meant to be a voluntary association of equals but the euro crisis turned it into a relationship between debtors and creditors …. That relationship is neither voluntary nor equal. The migration crisis introduced other fissures. Therefore the very survival of the EU is at risk.[2]

Dark clouds began ominously gathering above the European Union in the 2010s. The prognosis on the future of European integration is increasingly dire. The deterioration and even abolition of the common currency, the main symbol of unification, has become an ever-present danger since 2009. After decades of continued expansion, the possibility of the exit of several member countries is now on the horizon. The prospect of "Grexit" and "Brexit," a Greek and British exit, heralds an uncertain new era. Grexit has been avoided but still did not permanently disappear from the horizon. The decision for Brexit, unbelievable for most people, happened in the summer of 2016. Does this mean the end to Europe's commitment to forming an "ever closer union" or the Union itself? Will the European Union be reduced to being a mere free trade zone as some suggest? Actually a majority of Europeans are disappointed with integration and do not want it to continue. They do not believe that the Union is good for them.

Hence, these complicated crises have generated a legitimacy crisis as well. An alarming opposition has emerged within the Union. Parties opposing the EU and the common currency hold nearly a third of the seats in the European parliament and are gaining frightening strength at the national level in quite a few countries.

About this book and acknowledgement

This volume offers description and analysis of the major crisis of European integration at the present time. I will address nine overt or hidden crises in the European Union. Some of these crises, such as the euro-crisis, the Greek debt crisis, the Russian challenge to European security, Britain's exit from the Union, and the migration crisis, are regularly discussed in the political arena and in the media. Others, such as the demographic time bomb, the EU's continuing expansion and its controversial neighborhood policy, as well as the reversals in Eastern Europe's transformation and the negative attributes of contemporary capitalism, are more hidden and rarely mentioned in contemporary discourse. The chapters on these crises attempt to offer a wide-ranging portrait on the troubles in the EU in the 2010s. Will disintegration commence as some observers predict? Or is continued integration still possible? Will Europe find the right answers to the challenges and move decisively forward? Unfortunately, the European Union is almost always slow to respond, and its leaders' failure to find a solution often leads to hysterical interpretations of the crisis. What *really* happened, and is happening, in the mid-2010s, however, is discussed in the concluding chapter on the puzzle and possibility of further integration or disintegration. Some signs point to continued integration. A united banking system, steps toward quasi-fiscal unification through regulatory means, initiatives for joint energy policy, and military integration all signal potential progress toward a closer union. Other factors such as the Brexit and the strengthening of anti-EU forces in France and some other countries, the unsolved immigration crisis, and the reemergence of nationalism in Poland, Hungary, and other countries signal deadly dangers for the EU. I hope that the volume may provide a better understanding of these complex issues.

Ivan T. Berend
April 8, 2016

Lastly, I am very grateful to my wife, Kati, who contributed to my work in various ways – as usual. Let me also express my thanks to Robert Levy who edited and polished my draft manuscript with the greatest professional skill.

Notes

1 Archive of European Integration, AEI.Pitt.edu (always cited in this book as: *Archive of European Integration*), EPC, *Challenge Europe,* Issue 22, September 2014, Janis A. Emmanouilidis and Paul Ivan, "State of the Union and Key Challenges for Europe's Future."

2 George Soros, "The European Union is on the Verge of Collapse," *The New York Review of Books,* February 11, 2016.

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Part I

Inside economic and political factors of the crisis

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1 Britain: from outsider to inside-outsider and outsider again

Joining late, stepping out early

Britain and the idea of European addition

A handful of day-dreamers nurtured the vision of a federal United States of Europe already in the nineteenth century – one of them being the famous French writer, Victor Hugo. After the devastating Great War of 1914–18, the Austrian Count Richard von Coudenhove-Kalergi formed the Pan-Europe Movement, and the French Prime Minister Aristide Briand proposed establishing a federal Europe to the League of Nations. These movements and proposals, however, went nowhere.

It was Winston Churchill, the most influential British politician in the twentieth century, who first came up with the idea after World War II, in a speech in Zurich in 1946, of a United States of Europe based on French and German reconciliation. Because of the emerging Cold War confrontation that had motivated Churchill, the Truman administration considered this idea to be the best way to hammer out a strong Western alliance system against the Soviet Union and its allies. America, indeed, had the prestige, the power, the military might, and the economic strength to push the dream towards realization. Assisting as well were a few influential European politicians and governments who had learned the lessons of the "thirty years war of the twentieth century," as the two world wars are often called.

President Truman wanted Britain, the closest ally of the United States, to be the initiator and leader of European integration. His Secretary of State, Dean Acheson, revealed that he

> had made it a personal mission to convince Britain to join the European Coal and Steel Community . . . . Together with President Truman, he was convinced long-term U.S. national interests required that Britain be a founding member of an integrated Europe.[1]

Ten years later, in 1960, the British Embassy in Washington reported: "All [US] administration leaders cherished the vision of a Europe with British leadership."[2] Later, from Presidents John Kennedy to Barack Obama, American administrations have always urged Britain to join or remain within the European Union.

British refusal to join

Consecutive British governments, however, whether Labour or Tory, have mostly rejected such an idea. Churchill expressed his view regarding Britain's standing in Europe, which served as the foundation of the UK's policy for generations, when he remarked in 1946: "we are with Europe, but not of it. We are linked, but not comprised. We are interested and associated, but not absorbed." Britain, he promised, would assist the United States of Europe from the outside, but not as a member from within.[3] "Everyone knows," he added in 1950, "that . . . in all our thoughts [f]irst, there is the Empire and Commonwealth; secondly, the fraternal association of the English-speaking world; and thirdly . . . the revival of united Europe . . ."[4]

Between 1945 and 1951, the Labour government of Clement Attlee shared this view and, despite strong American pressure, declined to join or participate in European integration. The first clear expression of British resistance to integrating with the continent had already occurred during the preparatory period of the American Marshall Plan in 1947–48. The Truman administration had sought the political and military unification of Western Europe, which, it believed, would follow a preliminary stage of economic integration with the establishment of a customs union. The administration of the Marshall Plan pushed this agenda forward by establishing an institutional system, the Organization for European Economic Cooperation (OEEC), which enhanced cooperation and joint decision-making, and set lower tariffs and other trade restrictions, during the plan's four-year lifespan. This was not an easy task after decades of economic nationalism and a myriad of quantitative trade restrictions, tariff wars, and quota systems. Is spite of the "carrot" (abundant economic assistance), the Marshall Plan failed to establish the common customs union; but it did pave the way for future integration, with, among other things, the foundation of a Payment Union. One of the primary reasons for the failure was British resistance. Although Britain became the largest recipient of US assistance, it refused to comply. The former Foreign Minister of Holland, Ernst H. van der Beugel, who had worked on creating the OEEC, concluded in a 1966 book about the Marshall Plan: "No single fact has been so harmful to the possibility of the development of OEEC as an instrument for integration as the British refusal to commit itself to full partnership with the continent of Europe."[5]

British resistance would continue in the years to follow, with its refusal to join the European Coal and Steel Community in 1951 and the European Economic Community in 1957. Not unlike Churchill, the Labour Party would declare in 1950 that Britain is

> the nerve center of a world-wide Commonwealth . . . [and] we in Britain are closer to our kinsmen in Australia and New Zealand . . . than we are in Europe . . . . The economies of the Commonwealth countries are complementary to that of Britain to a degree which those of Western Europe could never equal.[6]

When Churchill became Prime Minister again in 1951, his government retained the policy of the previous Labour government and kept Britain outside the integration process.

After World War II, the British political elite continued to consider Britain to be a great power, the winner of the war, the center of the Commonwealth and a vast colonial Empire, and one of the three major Western powers along with the United States and an integrated Europe. This sense of British self-importance was partly a consequence of the country's "island mentality." As David Cameron put it in 2013, "it is true that our geography has shaped our psychology. We have the character of an island nation – independent, forthright, passionate in defence of our sovereignty."[7]

Another motivating factor was the legacy of the past. For centuries, Britain had built up the world's largest colonial empire. In the first half of the twentieth century, the British Empire comprised more than 458 million inhabitants, a fifth of the world's population, and its land mass entailed nearly 34,000,000 square kilometers, almost a quarter of the earth's. Even after the collapse of its colonial system by 1960, Britain remained the center of a Commonwealth containing nearly seventy countries. Following the Industrial Revolution and during the nineteenth century, Britain became the apical industrial nation and the predominant world economic power. The psychology of global preeminence would survive the collapse of the British Empire and the decline of the country's standing, especially during the second half of the twentieth century.

Changing British attitude

A gradual change began with the loss of the Suez War against Egypt in 1956, the first major failure of Britain's traditionally successful "Gunship diplomacy," and culminated with the collapse of Britain's colonial empire by 1960. The psychology of Empire, however, did not die easily. Generations had been socialized accordingly. As an English friend once explained to me in the 1970s, in every classroom he attended as a child hung a world map, much of which had been colored pink, the color of the British Empire. US Secretary of State Dean Acheson's oft-quoted remark is thus quite understandable: "Great Britain has lost an empire and has not yet found a role."

Britain's ambition was clearly expressed by its attempt to counterbalance the foundation of the European Economic Community with the establishment of a competitive British-led European Free Trade Agreement (EFTA) signed in Stockholm by the "Outer Seven" (Norway, Sweden, Denmark, Austria, Portugal, and Ireland, old trade clients of Britain) in 1960. In contrast to the success of the European integration and skyrocketing European trade and growth, Britain's efforts failed. Although three more countries would later join it, the EFTA had incomparably fewer achievements than did the EEC. Britain remained frighteningly behind the continent in the 1950s and 1960s. Consequently, subsequent British governments would understandably change the UK's position and apply