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Europe in Transition: Lessons to be Learned

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1. Introduction

In this age of instant global media coverage, it is easy to lose perspective as well as one's view of the horizon. A week is a long time in politics, as the saying goes. A week of media coverage may be even longer, one might add. And after months of coverage, a single issue may have turned from fact to fiction or from fiction to fact. An event can become a process, a challenge can become a problem, a difficulty can become a crisis. Cause and effect may become blurred by the subtle power of media and the shorthand that is inevitably used to frame a phenomenon. Explanations can give way to labels, for better or worse.

The European Union (EU) has been on this roller coaster for the last three years. When Lehmann Brothers of the United States (US) went bankrupt in 2008, the root causes of the crash were swiftly connected with that country's mortgage crisis (subprime bubble). Too many too-cheap mortgages had made too many Americans the owner of a house that they could suddenly no longer finance. It seemed to be solely an American problem to have lived beyond one's means; Europe was only challenged by finding a way to avoid the spillover effects from the US financial crisis. Three years later, however, the tides of fortune had changed. The sovereign debt crises of Portugal, Ireland, Greece and Italy turned into a crisis of the euro, if not of the European Union. Not only were causes and effects confused; context and implication had also become confusing.

In an effort to put these events into perspective, I offer ten points of reflection:

1. With the end of the Cold War in 1991, the search for a new world order began. For two decades now, this search has been framed as the "post-Cold War era", and in Europe it has been filled with an astounding series of transformative events. The Maastricht Treaty was signed in 1991, came into force in 1993, and turned the European Community into the European Union. This treaty paved the way for the Economic and Monetary Union, eventually leading to the introduction of the euro in 2002. It also opened the door to the evolution of a political union, which has so far remained nebulous, and largely focuses on foreign and security matters. The reluctance of national leaders to synchronize the economic and monetary unions with a political union—which has so far remained unconsolidated and thus inadequately addresses foreign and security matters—was largely based on the assumption that a common currency could exist without a common foreign policy.

In 1999, negotiations for EU enlargement to the post-communist countries of Central and Southeastern Europe (with Turkey also being recognized an EU candidate country) eventually led to the membership of ten such countries, and of Malta and Cyprus in 2004 and 2007. In search of better democracy, more transparency and increased efficiency, the EU initiated a

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revolutionary process of constitution building in 2002. The constitutional treaty failed in referenda in France and the Netherlands in 2005, but its substitute, the Lisbon Treaty, was signed in 2007 and came into force in 2009. Since then, however, the EU has been occupied with the fiscal crisis, all too easily labeled “the euro crisis”.

The past two decades have been substantial, dynamic and metamorphic for the European Union. The project of regional integration has been consolidated and extended both in depth and scope, and challenges testing the absorption capacity of EU citizens have been met. As the post-Cold War era comes to a close, the European Union is confronted with an unprecedented internal challenge and with an unprecedented set of global issues that are often discussed under the label of “global power shifts”. These events leave the EU with two options: either live up to the global context in which Europe operates today, or return to protectionist, myopic navel gazing. If it chose the latter course, the EU would not turn self-preoccupation and parochialism into a virtue, because such an approach would only give way to mutually exclusive, but simultaneously mutually reinforcing variants of populism, if not neo-nationalism across the region. Hence, the only real option is the former.

2. Processes of regional integration are not perfect operations of social engineering, but are man-made and actor-based, and thus will inevitably be subject to moments of trial and error, detours and unintended consequences. Unforeseeable events, indirect effects of exogenous or endogenous phenomena or causalities as a result of conflicting aims are inherent in any history of regional integration. Thus, the only meaningful distinction to make is between crises *of* integration and crises *in* integration.

For more than five decades, European integration has been accompanied by the latter kind of crisis, and more than once, it has triggered deeper integration. The open question regarding the current fiscal crisis in the EU, which has generated a certain crisis of confidence in European integration per se, is the following: How can we know whether it is yet another crisis *in* integration or a much more dramatic crisis *of* integration? The honest answer is: We cannot know with definite, scientific certainty. What people build up, people can destroy. But until proven wrong, we can deduce from history lessons and current causalities that the current set of challenges for the European Union is also a crisis in integration, and one that may eventually strengthen and deepen the integration project. The next necessary steps in the process will produce the appropriate leadership for the task; since the beginning of the sovereign debt crisis, practically all incumbent national governments have lost elections and been replaced by a new set of leaders across the EU.

3. The argument against this crisis-in-integration hypothesis is based on the primacy of a static national perspective. As the fiscal crisis that has emerged since 2008-2009 puts trust in the European project to the test, the majority of voters may eventually resort to the proven political system that combines identity, democracy and accountability: their respective nation-states. If this occurs, the EU may implode in the absence of a trans-national identity, solidarity and democracy; at best it will fade into marginality.

The argument in favor of the crisis-in-integration hypothesis stems from three factors: First, from the normative assumption that the political will to continue with the EU (and its promise of an “ever deeper union” among its states and people) will prevail, because there is no other choice if Europe wants to control its destiny. Second, from the functional assumption that European integration has reached a state of irreversible institutional solidity that will inevitably be followed by the appropriate structures and responses. Third, from the media hype and political cacophony that frame the current crisis as one of the euro rather than as one of fiscal mismanagement.

4. Media shorthand refers to a euro crisis; a sense of disconnecting perceptions and perspectives among different EU member states; and a certain re-nationalization of European politics and, more importantly, of European attitudes. This perspective highlights the perceived limits of European integration. It views the project as lacking accountability, a long-term identity and the transformative commitment of common leadership.

The counterargument proceeds as follows: The current crisis stems from grave policy failures in several EU member states, rather than in the EU and its organs. National actors in several member states have held the EU hostage with their irresponsible beggar-thy-neighbor policies, creating a sovereign debt crisis from overspending, which was supported by banks in other member states that pushed the recipient countries to become addicted to soft loans without ensuring sufficient productivity, competitiveness and fiscal austerity.

It can indeed be argued that the sovereign debt crisis in the EU has demonstrated and escalated the inappropriate asymmetry between a Europeanized currency now shared by 17 EU member states and the continuous primacy of national macroeconomic decision making and rule observance. The failure in implementing the ambitious objectives of the 2000 Lisbon Agenda—aimed at turning the EU into the most dynamic knowledge-based economy in the world—was rooted in insufficient national observance of the necessary structural reforms. The same fate may befall the 2010 Lisbon Agenda (which is awaiting implementation), as long as the monetary union is not coupled with a full-fledged economic union. Either the European Union will continue to be burdened by macroeconomic and fiscal asymmetries or, exercising good economic governance (perhaps by establishing the proposed European Ministry of Finance), it will be able to successfully manage these asymmetric realities between strong and weak, and export-oriented and non-competitive economies in a truly federal system of decision making and rule compliance.

5. The current crossroads of European integration is a test in trust and solidarity. For more than two centuries, political thought in Europe has focused on notions of freedom and variations of equality and justice. Solidarity (the third normative category associated with the legacy of the French Revolution), has been neglected. It has not been Europeanized, and, in its more theological, spiritual and religious connotation—brotherhood—it has not been politicized. Trust and solidarity cannot be imposed; they are a matter of give and take, a two-way street in which both sides agree to predictable, reliable and reciprocal consensus, and to the associated rights *and* duties necessary to maintain a viable and sustainable concept of these values.

In real terms, these concepts mean that all EU member states must treat each other as partners, including fully respecting mutually agreed-upon norms, rules and policy principles. In the end, this is what the net contributors to the bail-out of countries with overly sovereign debts have done. And it is what they expect the recipients of such union transfer resources to fully do now by applying strict austerity measures that enable them to return to a level of fiscal credibility in accordance with EU norms and international rating agency criteria.

The more difficult part of this course of action is to arrange these operations in a way that generates support and legitimacy in the respective societies. Because the EU has gone beyond the mechanics of a union of states in providing this assistance, its bail-out policies will and have deeply affect(ed) its citizens and taxpayers; the EU's reciprocal interdependency has never been more tested. The fragile level of its citizens' solidarity and trust is the biggest liability for the EU, and will probably remain so for years to come. It is likely only after trust has been restored that the most integrationist fiscal measure to cope with similar situations in the future—the establishment of euro-bonds—will be able to gain acceptance.

6. The EU and private banks decided to reduce Greek debt by 50 percent, and many economists expect that a rescheduling of the other half of its debt may be inevitable. Politicians are trying to hold off on such decisions until the European Stability Mechanism (ESM), with its joint public and private banking responsibility, has been properly consolidated in 2013, followed by a banking union. Several national elections (including Germany's in autumn 2013) will follow that, prior to the next European Parliament election in 2014, after which a new European Commission will be installed. Debt rescheduling within a currency union has never happened; caution and hesitancy at moving toward such a decision are thus fully understandable. The fear that debt rescheduling for Greece could trigger a similar effect in other EU member states is salient, especially regarding Italy.

For now, only three options beyond the level of technical economic measures to cope with the root causes of the debt crisis are feasible:

- *Continuous limited debt relief and limited bail-out without clear debt rescheduling.* As a consequence of this option, investors would realize that the euro zone countries are unwilling or unable to fundamentally cope with the excessive spending trends in some member states. Without fiscal discipline, investment would not enter the euro zone or even leave it. To prevent the import of inflation, interest rates would increase, which would continue and even deepen the debt crisis.
- *Greece (and possibly other euro zone countries with overly high sovereign debts) defaulting despite the EU's crisis management practices since 2010.* Because lender banks are heavily affected, a cascade of bank crashes and/or bank nationalizations may occur. The result could be a breakdown in the cohesion of the current euro zone, with some countries leaving and/or a two-tier monetary system emerging. The end of the single market would have disastrous effects on the EU's global credibility and on Europe's internal cohesion.
- *A substantial and deep new wave of economic and political federalism emerging.* This situation could include a strong system of economic governance, such as the imposition of fiscal rules and austerity measures, the introduction of euro bonds and a new and sophisticated financial regulation system that would prevent a re-emergence of the current crisis. Member states would need to render further economic and political sovereignty to the EU organs for this to occur.

7. Currently, the 17 euro-zone governments include 40 political parties. A wide spectrum of interests and policy positions is represented, echoing a broad spectrum of policy orientations. In spite of some innovations that the Lisbon Treaty introduced to improve the interplay between EU organs and national parliaments, the sociological links between EU societies have not made much headway. Elections are won or lost in EU member states, including elections to the European Parliament. It is therefore easy to blame Brussels for challenges or failures, while lauding national governments for anything that succeeds in the EU. As long as Europe-wide political parties cannot properly compete for a majority in the European Parliament (which, if such parties could, would then be able to hold the European Council fully accountable for any important EU governance decisions or omissions), the EU system remains incohesive. It might also need to establish a European Senate, representing national parliaments at the EU level.

For the foreseeable future, establishing a direct source of income for the EU will remain the most crucial challenge in overcoming its current structural inadequacies. So far, EU member states are highly reluctant to accept the proposal by the EU Commission (and supported by the European Parliament) to establish a direct EU tax. This method, of course, would lead to reductions in direct national contributions to the EU budget. For now, the EU practices the reverse of the situation that triggered the American War of Independence: while the battle cry of the US' founding fathers was "No taxation without representation!", one might say that despite more-or-less general co-decision-making mechanisms between the European Parliament and the European Council, the reality there is one of "representation without taxation". This situation would be untenable should accountability for fiscal matters be increased in the EU.

8. The current stage of European integration is intrinsically suffering from a widespread attitude to perceive the EU based on its limits rather than on its opportunities. Internally, this myopic attitude translates into populism; externally, it translates into seeing global trends as a threat rather than an opportunity for transformative partnership. This outlook is especially visible (and deplorable) in the bureaucratic and hesitant reaction of the EU (at the levels of the EU organs, member states, civil society and media) to the Arab Spring of 2011. Instead of embracing the genuine quest for dignity, freedom and universal human rights expressed by a non-violent yet frustrated young generation across the Arab world, Europe adopted a mixture of wait-and-see-skepticism focused on migration worries. With this attitude, the opportunity was lost to turn the Arab Spring into a new strategic approach aimed at forming a partnership for democratic transformation in the Arab world, coupled with a new and proactive initiative for a revival of peace negotiations in the stalled Middle East, aiming at a two-state solution, with recognition and security for Israel on the one hand and a viable Palestinian State on the other.

Under the current European frame of mind, it is unlikely that the EU as a whole will make a move in any direction on the matter of membership negotiations with Turkey. As long as many societies view Europe based on its limits, their leaders will not pursue policies that embrace opportunity and promote vision. Hence, the Turkey issue will continue to be handled as it has since negotiations opened formally in 2005: no one wants to be blamed for any negative effect that may follow from stopping the negotiation process, while at the same time no one has the courage to move the agenda forward. Therefore, organized frustration is the only available scenario in EU-Turkey relations right now.

9. It is extremely difficult to predict the outcome of a political process that will stretch over years and even decades. When the European Economic Community was founded in 1957, only a few committed personalities were convinced that it in a matter of decades a common currency would become the logical and inevitable consequence of the path that began with the Rome Treaties. When the Maastricht Treaty finally set the stage for the advent of the euro, no one could anticipate the developments ahead. In 2002, when the EU introduced the euro, the disastrous scandal of four wars in the Balkans opened the eyes of the last skeptics to the fact that Europe as a whole would need a robust foreign and security policy to project its values and principles beyond its immediate borders. No monetary union can function long term without economic governance and no foreign and security policy can function without a true strategic consensus and outlook. In 2011, the EU was doubly shocked: it was no coincidence that the crisis over Greece's debt and over the humanitarian intervention to bring the Libyan dictatorship of Gaddafi to an end happened at the same time. Both countries—although fully unrelated as far as the character of their respective crisis was concerned—had been kept for all too long on the periphery of issues that were essential to the functioning and well-being of "core Europe".

Now more than ever, internal policy cohesion and coherent global strategic positioning must be addressed together to move from thinking in terms of limits to thinking in terms of opportunities. Maastricht 1991; Greece and Libya 2011; how Europe looks internally and how it operates globally in 2031 remains to be seen. We only know that by then, Europe's share of the global population will have shrunk further (to approximately seven percent). Should Europe wish to remain master of its own destiny, the European Union will need to become truly federal by choice or it will become marginalized by force.

10. Since the end of the Cold War, region building has become a new feature of the global order. Older regional groupings have been overhauled, and new ones such as MERCOSUR (an economic and political agreement among, to date, five South American countries) have been founded. Often, the EU served as a point of reference for these alliances, if not a model. The EU must now itself learn from others: from the strategic thinking of the US, from the optimistic dynamism of China, India and Latin America, from the quest for renaissance in Africa. This necessary change of attitude is not a zero-sum game. It is not simply about global power shifts and it is not about the oft-cited decline of the West. It is about how to advance the normative and legal, institutional and structural and procedural and policy ingredients of global governance to meet the challenges and opportunities of the twenty-first century. In this process of global configuration, the European Union can play its role as a book of experience, as a source of diversity in unity, as an inspiration in coping with challenges and as a yardstick for managing change in a regional context.