

A MULTI-SPEED EUROPE: BRITAIN ON THE SIDELINES?

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The title of the series of events run in 2013 by the Konrad Adenauer Foundation, the Federal Trust and Global Policy Institute contained the term “multi-speed” with reference to the possible future structures of the European Union. The conferences of the project however suggested that this term is potentially misleading, both in its implication that all members of the Union are travelling in the same direction, and in the number of sub-sets among those travelling in this direction it suggests. The crisis of the euro and the radical further integrative measures among the current members of the Eurozone in its wake suggest that, unless the euro fails to survive its (continuing) difficulties, in the foreseeable future the members of the European Union will best be regarded as falling into at most three distinct categories, those in the Eurozone, those aspiring to join the Eurozone and those who do not wish to join the Eurozone. Arguably, this categorization can be yet further simplified. A country on the brink of joining the Eurozone clearly has interests and aspirations very similar to those already in the Eurozone. Even those who have no capacity of joining the Eurozone in the near future, but wish to do so in the longer term are likely to find their national political and economic choices increasingly converging with those of the Eurozone. No country aspiring eventually to join the European single currency will wish to allow the political and economic gap between itself and the Eurozone to become unbridgeably wide. A configuration of the European Union is entirely conceivable in the medium or even the short term in which the Union will be divisible into only two important categories, on the one hand those already in the Eurozone or wishing to become so; and on the other those who have made a definite choice never to join the single currency.

Three considerations seem likely to be of decisive importance for the structures of the Union in response to these developments over the coming decades, namely the number of members of the Union definitely wishing to remain outside the Eurozone; the existence or otherwise of a significant group of member states aspiring in theory to join the Eurozone but reconciled to having no realistic chance of doing so for many years; and the nature of the political and integration undertaken by those already in the Eurozone and those on the brink of joining.

There is only one member state of the Union the government of which has firmly set its face against joining the euro, and where public and political discourse makes accession to the euro almost inconceivable in any proximate future, namely the United Kingdom. British commentators and officials sometimes like to claim this apparent singularity of the United Kingdom within the Union is less stark than it sometimes appears. They point to the unwillingness of Danish and Swedish public opinion to participate in the single currency, shown in referendums. They doubt the capacity of even economically more successful countries such as Poland to join the euro for many years to come; and explicitly question the capacity of countries such as Hungary, Romania or Bulgaria ever to do so.

Two points are worth making in response to such claims. First, it is simple diplomatic legerdemain to present the mentioned countries currently outside the Eurozone as in any way a coherent group

among themselves, let alone a group having shared attitudes or interests with Britain in regard to the Eurozone. Poland's political commitment to joining the Eurozone is difficult to doubt, and its joining the Eurozone is only a matter of time. This process may well be more protracted than some Polish spokesmen like to claim, but the direction of travel is undoubted. Even if Bulgaria, Hungary and Romania remain for many years outside the single currency, their natural and inevitable economic and political orientation will be towards the Eurozone. The claim sometimes advanced that over a period of time these Central and Eastern European countries in particular might have shared interests with the United Kingdom in constituting a coherent bloc of member states outside the Eurozone is an implausible one. Nor should it be taken for granted that Sweden and Denmark will indefinitely maintain their positions outside the Eurozone. There are powerful political and economic forces in Sweden and Denmark arguing that both countries are inevitably dependent for their economic well-being on the Eurozone's structural stability and to remain outside the single currency simply diminishes their political influence to no economic purpose. Even today, both Sweden and Denmark almost invariably follow the economic and financial lead of the Eurozone, with no opportunity to influence the Eurozone's decision-making.

Second, it has been a repeated fault of British policy within the European Union to over-estimate the support that it will or does enjoy for its long term policies. The tactical brilliance of the British administrative machine, widely and rightly admired within the Union, is in striking contrast to the limited strategic thinking and insight that has always undermined the United Kingdom's capacity to play a genuinely leading role in the Union. The hope that an unlikely coalition of countries not (yet) in the Eurozone will save Britain from confronting the reality of a united and increasingly coherent Eurozone, from which it alone will have excluded itself, bears all the marks of this wishful thinking. The humiliation of Mr Cameron at the European Council of December 2011 is a poignant reminder of proneness of British decision-makers to over-estimate the degree of support their own analyses really enjoy and to underestimate the will and capacity of others to implement their preferred policies.

It seems therefore highly unlikely that in anything other than the short term there will be any coherent group of member states in the Union ready willing and able to imitate the British decision to remain indefinitely outside the Eurozone. The question of the appropriate relationship between those in the Eurozone and those not in the Eurozone will resolve itself essentially into the question of the appropriate relationship between Britain and the rest of the European Union. This question is in its turn likely to depend crucially upon the nature of the integration, both political and economic, in which the members of the Eurozone and their penumbra of aspirant states engage.

THE INTEGRATING EUROZONE

The entire history of the Eurozone crisis has been defined by the schizophrenia of the member states in regard to the necessary steps to resolve the crisis. There has been a widespread and genuine recognition, not least in Germany, that the crisis has demonstrated an inadequate existing system of governance for the Eurozone and that much of the answer to these inadequacies lies in a more centralized mechanism of decision-making. In parallel to this recognition however has co-existed an extreme reluctance of most member states to cede national (or more precisely governmental) sovereignty to central bodies. This has led to slow, reluctant and sometimes risky decision-making, as the heads of state and government have grappled with this schizophrenia. Nevertheless, the direction of development has been clear. Circumstances have forced the European Council towards ever greater measures of sovereignty-sharing. The current Eurozone and its aspirant partners will emerge from the Eurozone crisis with a much more centralized and indeed "federalized" form of governance than it has had heretofore. This process is already far

advanced and is likely to go much further in coming years. If, as seems likely, the euro is to survive, its political and economic structures will need to evolve in a way that will reassure all the currency's members that their legitimate interests are properly respected in the Eurozone's decision-making. This is far from being the case today.

Concern (and in some quarters gratification) has been expressed at what is seen by some as the abandonment by the European Council of the traditional "Community method", whereby strong and independent central institutions such as the European Commission played a decisive role in the shaping and policing of the network of reciprocal obligations which is at the heart of the Union's workings. Attempts to resolve the Eurozone's crisis have until now apparently focussed on meetings of the European Council and of the Council of Finance Ministers, where the Commission and European Parliament have played an only subsidiary role. Mrs Merkel has even spoken of a new "Union method" of decision-making, which would emphasize the central role of the European Council and other formations of the Council of Ministers. It must be doubted however whether, if the euro is to survive and prosper, such largely intergovernmental arrangements will be sufficient to meet the case. It is of course entirely understandable that at times of crisis, and when decisions need to be made about the fundamental reworking of the Eurozone's system of governance, the European Council should come to the fore. But a number of considerations speak against such predominantly intergovernmental arrangements as being the template for the Eurozone's future institutional development.

First, those measures already in place for the reform of the Eurozone accord to the European Commission and (to a lesser extent) to the European Parliament substantial new powers in the policing and enforcement of these new procedures. Many years of experience have shown the impossibility of members states being willing to police themselves, either individually or collectively. There is therefore good reason to believe that the evolution of the Eurozone will over time come correspond to the traditional "Community method" of the Union, whereby initial decisions of principle, whether in the form of treaty amendments or other legal texts, are taken by national governments, and their all-important implementation is left to the Union's central institutions. Second, it is more than doubtful whether essentially intergovernmental approaches to the evolution of the Eurozone can ever suffice to reassure markets about the system's underlying solidity. It is not by chance that the most centralized and powerful of the existing institutions of the Eurozone's structure of governance, the European Central Bank, played such a decisive role in the autumn of last year in reassuring global markets that the single European currency was underpinned by at least one powerful source of centralized decision-making. Global markets will never be finally reassured of the euro's stability in the long term by the protracted horse-trading and episodic conflicts that inevitably afflict the workings of the European Council. The most "federalized" current institution of the Eurozone's governance is likely to prove over time the pattern rather than the exception in the Eurozone's future decision-making structures.

Finally, "Union method" of decision-making by definition lacks legitimacy. It will always be vulnerable to the accusation that it is simply a construct whereby the strong countries of the Eurozone impose their own will and interests on the weak. Germany and other currently relatively strong countries within the Eurozone have been in recent years the target of much criticism in this respect. Rather than blaming individual countries and their leaders, however, critics should concentrate rather on the way in which the Eurozone has until now been run. Predominantly intergovernmental decision-making, of which the "Union method" is a contemporary example, cannot guarantee, or even promote the philosophy of supranational reciprocity which is the only bedrock on which the single European currency can be maintained.

VARIABLE GEOMETRY

The preceding paragraphs present a starker view of the European Union's future institutional structure than that often embraced in this country. An influential view in the United Kingdom of the possible future development of the European Union has been until recently that of "variable geometry", the hypothesis that few members of the Union would participate in all the activities of the Union and many would participate only in some of the Union's activities. This hypothesis is obviously closely related to the hope already discussed that Britain will have for many years to come "allies" outside the Eurozone with whom to make common cause in the Union's decision-making procedures. But this analysis, which is admittedly today less prevalent in this country than it was, is largely wishful thinking. The great majority of the Union's members already participate in all the activities of the Union, including the single currency. This homogeneity is likely to increase rather than to diminish with time. It is certainly possible to imagine that in the short or even the medium term it may be possible for a country resolved to stay outside the Eurozone to participate in some of the less integrated policy areas of the Union, such as defence and foreign relations. But a condition of this possibility is that such areas as defence and foreign relations retain, even in the context of a more politically and economically integrated Eurozone, the relatively loose and intergovernmental structure that they exhibit at the moment.

If, as may well be the case, the progressive economic integration of the Eurozone leads in due course to more integrative developments in such spheres as foreign and defence policy, then it will become increasingly difficult for outsiders such as the United Kingdom to play or even aspire to play a significant role in these policy areas. Nor is this process of British marginalization likely to be confined only to areas of the Union's activities which may be reinforced in the future. Even the United Kingdom's capacity to play a decisive role in the aspect of the Union's activities traditionally most important to it, namely the single European market, may well be compromised over time by its self-willed estrangement from the integrative processes of the Eurozone.

BRITAIN AND THE EUROZONE

Mr Cameron and his colleagues sometimes like to present the question of future British relations with its partners in a European Union increasingly defined by the evolution and integrative implications of the Eurozone as a general European problem, illustrating the need for a more "flexible" and "reformed" European Union as a whole. It is indeed the official position of Mr Cameron that he will be seeking after his hoped-for re-election in 2015 a generalized reworking of the way the Union functions, not merely specific exemptions and exceptions for the United Kingdom. Any such hope is far-fetched, as Mr Cameron himself may well realize. In so far as the United Kingdom's partners favour significant reform of the European Union, there seems little appetite for following in this regard any blueprints emanating from London. Occasional overlaps between British and, for instance, German preferences in individual policy areas of the Union's activities should not distract from this underlying reality. It is widely and plausibly believed among Britain's European partners that if re-elected Mr. Cameron will simply be seeking a series of "cherry-picking" arrangements for the United Kingdom, arrangements for which it will be extremely difficult to achieve even a majority in the European Council, let alone the necessary unanimity for Treaty changes. There is already within the European Council considerable reluctance to undertake any amendments of the Treaties that might bring about the necessity of national referendums. This reluctance will be even more difficult to overcome in the interests of one single member state seeking favourable arrangements for itself.

None of the above should be taken as implying that a re-elected Mr Cameron would be incapable of obtaining from his partners some marginal and occasional concessions to traditional British

concerns such as competitiveness, deregulation and the liberalization of services. But there is no realistic possibility of these concessions being as far-reaching as Mr Cameron might hope, even less that these changes will be sufficient to satisfy the expectations that have been generated by the continuing debate on European issues within the Conservative Party. At best, Mr Cameron will find himself confronted with a choice between attempting, unsuccessfully, to convince his party that he has succeeded in redefining the nature of British participation in the European Union, or recognizing that he has failed in his stated European objectives and recommending a negative vote in the referendum he has promised for 2017 at the latest.

Much has been made in British governmental circles of the new system of “double majority” introduced within the decision-making procedures of “Banking Union” as a possible model for future arrangements designed to safeguard the interests of the United Kingdom and other non-Eurozone countries within the developing single European market. Britain is unlikely ever to join the Banking Union, but is understandably concerned about its impact on the City of London and the British financial system more generally. The system of “double majority” will require for some financial decision-making a simple majority of those states in the Eurozone and also of those outside the Eurozone, in addition to the necessary qualified majority from all member states taken together. But it should certainly not be taken for granted that under this transitional arrangement the United Kingdom can be sure of normally mustering even a simple majority for its point of view among the other non-Eurozone states. The arrangement moreover will lapse when only four EU member states remain outside the Banking Union. The new “double majority” arrangement within Banking Union gives some extra room for manoeuvre to the non-Eurozone states, including but not only the United Kingdom. It is a heroic leap of faith however to imagine that similar concessions can be expected for the United Kingdom alone when, as is increasingly likely, it finds itself over time voting on matters of the single market outside the Banking Union against a qualified majority of other member states largely made up of the Eurozone countries. Financial and banking issues are that area of the European Union’s activities where the United Kingdom’s bargaining power might have been expected to be strongest. The limited nature of the concessions it has been able to achieve in this context are a poor augury for optimistic expectations of being able to reduce the influence of the Eurozone’s members in determining future developments of the wider single European market.

DEMOCRACY IN THE EUROPEAN UNION

It is undeniable that the deepening of integration implied for an increasing portion of the European Union by developments in the Eurozone brings with it challenges to understandings of democracy based exclusively upon the nation state. Aspects of the single European market, European competition policy and the Common Agricultural Policy have in the past undermined the traditional prerogatives of national parliaments, but never on as profound or systematic a basis as that implied by the existence and now the deepening of the Eurozone. Three principal responses to these challenges have been proposed by the governments of the member states, the greater involvement of national parliaments, a rule-based rather than discretionary model of economic development for the Union and enhancing the role of the European Parliament.

Of these three responses, the first can easily be achieved, but is likely to be ineffectual, or even counter-productive. The European Union is a political structure based on the principle of shared sovereignty and shared decision-making. This has implications just as challenging for the role of national parliaments as for the role of national governments. While these national parliaments can and no doubt should spend more time scrutinizing the European activities of their national governments, it is a chimera to imagine that European democracy can be constructed upon the

basis of aggregated national parliamentary authority. Even more than is the case for the existing single European market, the Eurozone's workings will inevitably create, at least in the short term, winners and losers both sectoral and in some cases national. It is entirely reasonable that national legislatures should seek to minimize the disadvantages and to maximize the advantages to their country and its leading economic sectors. In the many cases where this is impossible in the short term, the attempted aggregation of domestic parliamentary accountabilities can only lead to deadlock and a clash of apparently equally legitimate national parliamentary sovereignties. If the Eurozone survives, it will need to find better mechanisms of securing democratic legitimacy than that arising from forty national parliamentary chambers, each claiming in the name of its own parliamentary legitimacy a veto on political and economic choices which it finds uncongenial.

Nor should it be assumed, as is sometimes the case in for instance German political discussion, that a largely "rule-based" governance structure for the Eurozone will obviate the need for democratic accountability beyond the national level. It is more than doubtful whether any "rules" can be elaborated that can deal with all the unpredictable dilemmas of economic policy-making. It is true that if the Growth and Stability Pact had been more effectively enforced in the first decade of this century, many problems arising for the Greek economy in particular could have been avoided. But such an analysis cannot be applied to the respective situations of Ireland, Italy, Spain and Portugal. On the contrary, these countries generally regard themselves as greatly hampered in their attempts to re-establish economic growth by the inflexible application of one-sided rules that may have been relevant to Greece, but which when applied to the Eurozone as a whole created paradoxical and undesirable outcomes for most countries of the Eurozone. Moreover, rule-based governance does not necessarily create the objective "level playing field" seen by its advocates as mitigating the need for parallel European levels of political accountability. The content and application of the system's rules will run the risk of being seen as imposed by the relatively rich and powerful on the relatively poor and less powerful. Those who have drawn up the rules will often be more impressed with their objective merits than will those who have seen no choice but to accept them in order to avoid yet worse outcomes.

It was hoped by many of the architects of the single European currency that the Eurozone would act as a unifying political and economic force for the member states that participated in it. This has only patchily turned out to be the case, not least because, as a consequence of the already mentioned schizophrenia of the member states about the necessity of effective sovereignty-sharing, the institutions set up for the running of the single currency were overwhelmingly national in character rather than supranational. This created, as the Eurozone crisis has shown, a bias towards national solutions and adversarial positioning within the single currency's governing structures. This briefing note has suggested that such predominantly national structures need to be replaced, if the euro is to survive, by much more in the way of supranational institutions, seeking consensus certainly but rejecting national vetoes, in order to protect the interests of all participants. Although it is widely believed that the European Parliament has been little more than an ineffectual observer in the crisis of the Eurozone, it still remains the only possible conduit of European supranational democratic legitimacy. If the Eurozone survives and prospers, so will the European Parliament. If the Eurozone does not survive, the Parliament will merely be one among many casualties of its failure. Eurosceptics are not wrong in denying the present existence of an EU demos, which they rightly regard as an essential building-block for any functioning democratic system. This present reality by no means entails however that such a demos cannot emerge in a relatively short space of time. The European Parliament has reasonable hopes of being both the motor and the beneficiary of this process. For all its faults, the Parliament is the only forum in which the internal and external policies of the Union can possibly be discussed and legitimized. No question is more important for the future of the Eurozone and that of the European Union as a whole than that whether the European Parliament can grow into this demanding role.

CONCLUDING REMARKS: BRITAIN AND GERMANY

In what has preceded a number of critical remarks have been made about the current European policies of both the British and German governments. This should not be taken as implying that the positions of these two governments are either similar between themselves or equally deserving of criticism. In the face of great economic and political difficulties, Germany is honestly attempting to secure a better and more secure future for the Eurozone. Critical questions about the strategy it is adopting to bring this about should not obscure this reality. The British government for its part is systematically uncertain about its attitude to the problems of the Eurozone. With one of the souls in its breast, the British government (and more particularly its supporters in the mass media) hopes for the collapse of the single currency, both as a validation of Britain's decision not to join the euro and for fear of the threat to British interests (real or imagined) from the successful reconstruction of the currency. With its other soul, it hopes for the success of the Eurozone, both as a vital market for British goods and services and a potential source of vast economic instability, from which Britain could not protect itself, in the event of an implosion of the single currency. Not all the views expressed to their continental neighbours by the British government on the best way to save the euro are incorrect. Unfortunately, its credibility in urging these remedies is entirely undermined by the British absence, reaffirmed in more categorical terms by this government than its predecessor, from the single currency and shared decision-making it imposes.

In certain aspects of European policy-making, there is an overlap of interests between the British and German governments, on such issues as the European budget, European social legislation and some aspects of the Common Agricultural Policy. But these overlaps should certainly not be overstated. Germany sees its national future as lying at the heart of a more integrated European Union, in which the Eurozone and its development play a central part. The present British government emphatically does not. Despite the need for diplomatic civilities between allies, little purpose is served by the denial of this fundamental contrast. Misconceptions about the supposed convergence of views on European issues between Germany and the United Kingdom run the substantial risk of causing avoidable friction in the long term, as the partners accuse each other of bad faith and wilful self-deception. As long as Britain remains within the European Union, there will be at least as many specific questions on which Britain and Germany agree as those on which they differ. But these areas of convergence should not be allowed to occlude the fundamental difference of analysis and interest with which the two countries view their respective positions within the European Union.