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Nilgün ARISAN ERALP[1]
Director, TEPAV European Union Institute

QUO VADIS EUROPEAN UNION?

The challenging process European Union has been going through lately, which is qualified as a "legitimacy" or "existentialist" crisis, was expected to end with the entry into force of Lisbon Treaty . However, the economic/fiscal crisis Greece has encountered right after Lisbon Treaty; the repercussions of the discussions regarding this crisis and the method of overcoming it on the Economic and Monetary Union (Euro) and on the EU ended up in questioning the direction to which EU is heading again.

[1] http://www.tepav.org.tr/en/ekibimiz/s/1139/Nilgun+Arisan+Eralp

Constitutional Treaty Crisis

The foundations of the "legitimacy" or "existentialist" crisis of the EU were laid in the early 2000s with the debate on "Constitutional Treaty". The main objectives of the Constitutional Treaty, which was to supersede all previous treaties was to close the "democratic deficit" to the extent possible and to improve the efficiency of the decision making mechanism. The Treaty would also refer to EU symbols which could be "attributed to the political union" such as EU flag and EU anthem.

In 2005, the rejection of the Treaty in the referenda in France and Netherlands - two founding members of the EU- marked the beginning of one of the most significant crisis in EU's history. Citizens of France and Netherlands did not want to approve a treaty which they were not informed about and thus they did not comprehend. This was interpreted by some as *"Constitutional Treaty being identified with the negative impacts of globalization and enlargement and becoming the scapegoat."* Some commentators take the "no" votes in the aforementioned countries as a sign that "*EU citizens will no more approve an integration process driven by elites and leaving them out*."

This situation necessitated the preparation of a modest Treaty. To begin with, the name 'Constitutional Treaty' , which is assertive in many aspects was made 'Reform Treaty'. After the signature of the EU leaders in 2007, it took the name of 'Lisbon Treaty'. Lisbon Treaty settled with amending Maastricht and Rome Treaty instead of superseding all other treaties of the Union. Moreover, references to the EU symbols were abolished, which was interpreted by some groups that the citizens of EU member states still have difficulty in accepting a '*supranational EU identity*'.

Lisbon Treaty which was finally put into effect on December 1, 2009 not only established the framework of a stronger European democracy, a more efficient and transparent decision making mechanism, and wider participation by European citizens, but also furnished the EU with the potential for acquiring a political power that would balance its economic power in the international arena. Nonetheless, to reach this objective, in practice a lot would depend on the performances of the persons assigned to the new positions created by the Lisbon Treaty, namely the 'full-time' EU president and foreign policy representative. The co-operation between the relevant institutions of the EU, especially between the Council and the Commission would also play a significant role in this sense.

Observers indicate that Former Prime Minister of Belgium Herman VAN ROMPUY appointed as 'EU President' can not be influential in the international arena for not having an impressive political personality. Former European Commissioner for Trade Baroness Catherine Ashton who was appointed as High Representative of the European Union for Foreign Affairs and Security Policy. is also being criticized for her inexperience in the field of foreign affairs and the fact that she has never not occupied an elected post.

These assessments give the impression that the strong EU member states are not willing to give up their authority in setting the EU agenda and making decisions at the EU and global level. To put it differently, like EU citizens, leaders of EU member states are also not ready to forego the sui-generis identity of the EU, somewhere between 'intergovernmental' and 'supranational

Global Financial Crisis and Impacts on the EU

The global financial crisis, which started to affect the EU countries in 2008 while the approval process for the Lisbon Treaty was going on, was initially considered as a crisis of 'Anglo-Saxon capitalism' that would not have considerable impact on the continental Europe. Nonetheless, in time the crisis intensified the problems facing the EU. In countries like United Kingdom, Ireland, and Spain, where the share of financial services in GDP is quite high, serious problems began to unfold. Finally, further consequences of the crisis, namely fall in consumer confidence and narrowing international trade volume challenge d even Germany, one of the leading exporters of the world. Some new EU member countries were affected even more seriously. In Latvia, national income dropped by 20% in 2009. Hungary and Romania along with Latvia had to apply to International Monetary Fund (IMF) .

EU countries, which were quite unprepared for the crisis, performed weakly regarding "joint struggle with the effects of the crisis" partly due to the fact that the EU treaties did not have definite provisions for the coordination of economic and fiscal policies.

Although the responsible behaviour of some EU leaders ended up in some kind of a coordination (which can be called *coordination reflex*[2] achieved as a consequence of working together for long years*)* which prevented the crisis generating catastrophic outcome, it failed to remedy low growth rates and high unemployment.

The most important lesson EU derived from the biggest crisis of its history was the emergence of an obvious need for a more effective economic governance, fiscal monitoring, and institutionalization of coordination at the EU level. This need was reflected in Article 136 of the Lisbon Treaty as follows: "The Council shall adopt measures specific to those Member States whose currency is euro to strengthen the coordination and surveillance of their budgetary discipline and to set out economic policy guidelines". Furthermore the European Commission, also with the concerns to generate positive results out of the crisis, prepared a new reform agenda (EU 2010) to replace the 'Lisbon Strategy' which turned out to be insufficient in solving the economic problems of EU.

Greece/Euro/Crisis of the Economic and Monetary Union

Right after the adoption of the Lisbon Treaty, when "talk of the town" the Treaty was a turning point in ending the inertia EU was in and how the EU prevented the economic crisis to turn into a catastrophe, a multidimensional economic/fiscal crisis burst in Greece. This crisis poses great importance for EU's future considering both its reasons and outcomes. The new government came to power in fall 2009 declared that the ratio of budget deficit to the GDP reached 12.7%, twice the ratio declared by the former government, shocking EU officials as well as markets. What is more important was that the public debt of Greece reached 125% of the national income of the country. When

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[2] Loukas Tsoulakis, Olaf Cramme, Roger Liddle, 'An EU "fit for purpose" in the global age : Can we rise to the challenge ? 'www.policy-network.net", Autumn 2009

it was also unfolded that Greece acted 'economical' when declaring the macroeconomic indicators to be fulfilled to become a member of the Eurozone (Maastricht Criteria[3])[4], the credibility of the Eurozone was shaken and the currency depreciated against U.S. Dollar.

The only issue that called the Eurozone, ore more broadly the Economic and Monetary Union (EMU) into question was not the weaknesses in the supervision of compliance with Maastricht criteria of the EU countries to join the Eurozone. Another and probably a more important problem was that, the legal and institutional infrastructure of the economic/financial policy control was not solid given a structure where the complete sovereignty in monetary policy and exchange rate policy is transferred to the European Central Bank as per the EMU terms[5].

In fact that the weakness of coordination among EMU in economic/fiscal policies cold lead serious problems in the future despite the solidity of monetary policy pillar was discussed widely in late 1990s when the EMU was formed. These discussions were shortly among "monetarist" and "economist" approaches.

Monetarist approach, taking departure from the assumption that EU member states have similar economic structures, claimed that economic and monetary union should be launched as soon as possible and with as less prerequisites as possible. Whereas the economist approach, which assumed a more cautious stance, drew attention to real factors such as growth rates, inflationist pressures, unemployment, and labour market flexibility. Pointing out the differences among member states on the basis of these factors, economists argued that a healthy economic and monetary union and thus a single currency system cannot be established unless these differences are eliminated. In short, the matter is question was whether or not the fiscal and structural policies that will inevitably be set at national level in line with the economic requirements in specific member countries would time to time contradict with common monetary policy the main target of which is to secure price stability.

In the EU presidents summit held on 16 June 1996 in order to ensure convergence across fiscal policies as well as other economic policies of the countries within EMU a "Stability and Growth Pact" was agreed on. As per this Pact, member countries have to pursue a balances public finance policy in the medium term to prevent excessive budget deficits[6]. However in time these criteria was violated by many EU member countries, particularly by the founding members France and Germany but no sanctions was

[3] Maastricht Treaty defines the following "macroeconomic criteria" member states should fulfill in order to join the Economic and Monetary Union (EMU):

-Countries are to have a rate of inflation a maximum of 1.5 per cent above the average in the three lowest inflation EU countries;

-Member states might have a maximum planned or actual budget deficit of 3 per cent of GDP per annum;

-Member states must have a maximum planned or actual total public sector debt of 60 percent of GDP;

-Long-term nominal interest rates in member states should be a maximum of 2 per cent above the average of those in the three lowest rate countries;

-Currency of a member state should not be devaluated against the currency of another member state over the last 2 years.

[4] Loukas Tsoulakis, " We can't go on like this: Greek debt crisis and Euro", ELIAMEP Special Paper, March 2010

[5] Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Luxemburg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain

[6] Here the basic criterion for the definition of excessive budget deficit is a deficit more than 3% percent of GDP. The only exception to this criterion is when the GDP contracts by more than 2%.

imposed on these, proving that fiscal policies did not have an equal weight with monetary policies within the EMU.

The recent fiscal crisis Greece is facing has featured these discussions once again and EU ministers of finance made a principle decision for EMU to secure the fiscal stability within the Eurozone ending its 'incapability'. This attempt requires a *'coordination system with a sanctioning mechanism'* for economic/fiscal policies, which the current institutional structure of the EU does not allow. Therefore, Olli REHN, European Commissioner for Economic and Monetary Affairs stated that he will prepare a by-law draft to 'strengthen the *economic policy supervision and coordination'* as per Article 136 of the Lisbon Treaty.

While the Greece crisis is tried to be solved through assertive implementation of stability measures geared to limit budget deficit and public sector debt, it was finally decided in the EU Summit on 25 March 2010, despite the unwillingness of Germany, that a significant proportion of the external funds required for the success of this attempt should be provided by the EU. On 11 April 2010 economy and finance ministers of EU agreed on providing a €30 billion to Greece in the context of the principal decisions made on March 25. It is also expected that the IMF will contribute by a support of $15 billion. If this happens, Eurozone will be forced to use IMF funds for the first time throughout its history. It is evident that this development does not contribute to the credibility of the EMU. Furthermore, it is hard to understand why the possibility that one member country encounters serious financial problems it was not foreseen within the Euro system and potential measures to this end were not discussed.

Another issue highlighted through the efforts to overcome the Greek crisis was the 'solidarity' principle, one of the founding principles of the EU. Germany, who pioneered the establishment of the EMU, acted reluctant to transferring funds to Greece to support the struggle against the fiscal crisis for a considerable period underlining that the responsibility was on the shoulders of Greece and that EU support can only be provided alongside with the IMF' support. These developments naturally spread the impression that the solidarity principle has been shaken and gave way to discussions on the '*will unity prevail over diversity?'* axis. Germany is now foregoing its leading role in the establishment and enlargement of EU, particularly concerning the finance of EU policies, as well as in the establishment of the EMU. The country believes that it has 'come of age'; i.e. it has enough legitimacy at the international arena to attach priority on national interests as other member countries do. Some commentators maintain that, the fact that a generation that does not remember the war and post-war period dominates the country's population has a role in the shift of focus toward prioritizing national interests in EU policy.

Conclusion and Evaluation

These developments, regardless of whether we define them as a 'legitimacy', or 'existence' or 'identity' crisis, indicate that EU is going through challenging times.

EU citizens, even the citizens of founding member countries, demonstrate in any occasions that they will no longer allow the 'elitist orientation' approach that had role in the establishment and advance of the EU and that they do not lean towards the *'politically unionized federal Europe'* idea which founders of the EU seek to ensure gradually via economic integration.

On the other hand, as the appointments to the posts that will allow a 'single voice' within and outside of the EU also reveal, even the leaders of Germany, which is seen as the locomotive of the EU and France, which state that they could not let go the ''federal Europe' dream seem reluctant to take EU beyond a sui generis 'supranational' identity posited at some point between a intergovernmental Europe and federal Europe. As a result, for now a further deepening in the direction of political unionization across the EU does not seem possible; neither is to expect a consensus as to the direction the EU will go or the shape it will take.

It can be claimed that Greece/ Economic and Monetary Union /Euro crises will raise an opportunity for strengthening economic policy coordination and that EU will need a new socioeconomic consensus to ensure the sustainability of the Single Market and Euro. However, the crises should not be assessed only from an economic perspective. As stated by the former President of Germany, Gerhard SCHROEDER and First President of European Central Bank Wim DUISENBERG among others at the establishment of the EMU, "*introduction of a single currency is not solely a political decision; the future of the monetary union depends on steps to be taken in the realm of political integration*" and "*Successful implementation of Euro and economic policies it requires will allow us test whether or not the political union, the ultimate target of the European Union can be fulfilled.*" Given the current circumstances however, it is not possible to say that the EU performs well so far.

It is doubtless that all these problems are translated onto the enlargement policy, the most important foreign policy tool of the EU and EU's reluctance to further enlargements becomes more apparent day by day. Interruption of the transition to democracy and free market economy in some new member countries due to the economic crisis adds up to this reluctance, too. This reluctance gradually becoming more evident reduces the credibility of membership criteria across candidate and potential candidate countries and damage the catalyzing role of the EU in the reform processes.

So, is it the end for the EU? There is a significant amount of people who believe or want to believe this. However an objective assessment of conditions does not deliver such a conclusion. Particularly the important achievements of the Lisbon Treaty, i.e. adoption of qualified majority decision except some matters including enlargement, foreign policy, security, and taxation, and the narrowing of the 'democratic gap' with levelling the decision making rights of the European Parliament and European Council of Ministers for 90% of decisions, cannot be underestimated.

Nonetheless, it is also evident that EU has to take strategic decisions to overcome this challenging period. In the past the Union managed to come out of similar crisis more powerful. Member countries responded to the economic crisis in the mid 1970s by reducing non-tariff barriers to trade between each other; creating a Union constituting of a separated market incapable to compete with Japan and USA by the early 1980s. As a result of the steps taken to solve this problem, EU established a unique Single Market free from any barriers and added countries like Norway and Switzerland into this market.

With a strategic approach, EU can even use the 'Euro crisis' as an opportunity to establish an institutionalized coordination mechanism, the biggest gap of the Economic and Monetary Union, and found a ‘joint fund’ to tackle potential crises, if opposition by some member states are eliminated.

However, going beyond this is not much likely, at least in the short term. The current state of affairs imply that the EU is at the brink considering the process of gradual and extended deepening via economic integration and that a serious leap should come next. In order to utilize these crises as an opportunity to establish ‘a new EU’, there is need for courage, vision and strategic decisions to be made upon these manners. Leaders that are capable of making such decisions came to stage in the establishment period of the EU, the overcoming of severe crisis and in the historic moments such as the reunification of Germany. Days ahead will tell if the history will repeat itself.