WHERE IS THE EU GOING?

COLLAPSE, FISCAL UNION, SUPERSIZED SWITZERLAND, OR EMERGING DEMOCRATIC POLITICS

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Bajo el título genérico La transformación de la política en Europa *se desarrolló la primera Lección Magistral de la London School of Economics (LSE) de 2015. Simon Hix examinó el marco político dominante, el comportamiento del cambio político dentro de la Unión Europea y los posibles resultados futuros. El segundo día de la clase magistral se centró en los resultados de las elecciones en Reino Unido del 7 de mayo y en los impactos tanto para el panorama político en Reino Unido como para la UE. En el último día se analizó la comunicación política, mirando cómo ha cambiado en los últimos años con la aparición de los medios digitales y el impacto en el panorama político.*

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The EU is a remarkable achievement. This might seem an odd claim to make in the midst of the Eurozone debt crisis and with Europe's declining global significance. Yet, over the last 60 years we have built a unique architecture to create and govern a continental-scale polity. From a broad historical and global perspective this achievement should not be underestimated.

On the economic side, the EU has achieved the free movement of goods, services, capital and labour within a market of almost 500 million people. Meanwhile, on the political side, the EU has developed a multi-level system of government with multiple checks and balances, which enables Europe's elected leaders to make decisions about market regulation at the European level while maintaining power over taxation and spending at the national level. This architecture has become a model for other regions of the world, such as South America and East Asia, who are trying to establish their own single markets.

In response, some Eurosceptics would no doubt argue that global economic integration could be a substitute for European economic integration. Who needs a continental-scale market in Europe if a global market could provide even greater economies of scale? Such claims are delusional. The fundamental difference between the EU and global economic integration is on the political side. Without far more convergence on social and political values on a global scale, a world community will not be able to adopt market creating and correcting measures necessary for a single market to function. For example, agreement on basic carbon emissions standards and core labour standards is extremely difficult, and global standards on the equal treatment of men and women in the workplace are virtually unthinkable. As a result, it is unlikely that global economic integration will develop beyond the removal of trade barriers in a subset of goods and services. Economic integration in Europe is of a wholly different magnitude, and the benefits of this greater degree of economic integration have only been possible because European citizens share some basic values about how economic and social relations should be organised and regulated.

Nonetheless, now that the basic architecture of the EU has been in place through successive treaties over the last 25 years, the EU is at a crossroads. The EU faces several fundamental policy and political challenges. On the policy side, first and foremost is the financial crisis in the Eurozone. Other policy challenges include Europe's energy market and how to overcome our energy dependency on outside states. Europe's economy needs further structural reform, to increase our global competitiveness. Europe needs a more effective climate change policy. The free movement of persons is under threat from fears of an influx of migrants from the conflicts in North Africa and the Middle East. And, Europe needs to better protect its interests and project its values on the world stage.

On the political side, the main challenge is leadership. Who is in charge? Merkel and Sarkozy are trying to take a lead on the Eu-

José Borrell y Simon Hix

rozone crisis. But, in an EU of 27 member states, Germany and France no longer have the legitimacy they had in the EU of 6 or even 12 countries. And, where is the Commission? The creation of the single market and the Euro was the apogee of the Commission's powers. Since Jacques Delors the Commission has been absent from major policy debates and has become marginalised in the making of EU legislation, as the key issues are now resolved between the European Parliament and the Council.

Crisis and collapse

So, where will these challenges lead? Are the achievements of the last half century under serious threat? Here are four possible scenarios of what might happen in the next decade.

First up is ***crisis and collapse***. In this scenario, the current crisis is exacerbated when Greece eventually defaults on its public debt, perhaps followed by Italy and/or Spain. The reason for the defaults would probably be growing opposition to 'bailouts' amongst the publics of several northern states, such as Finland, the Netherlands and Germany. Reacting to these sentiments, the financial markets might then force Greece and perhaps also Portugal out of the Euro (although leaving the Euro would risk massive capital flight as businesses and families try to keep their savings in Euros rather than have them converted into a new currency).

Provoked by the crisis in the Eurozone, the United Kingdom government might then seek to renegotiate our relationship with the EU, and demand a blanket opt-out of EU social and labour market regulations in the single market. An acrimonious debate would ensue, whereby several other states would demand tariffs on British imports unless British firms apply the common rules.

The impasse would then be resolved by an agreement on a “new EU”. This new EU would involve a core group of states, based around France, Germany, the Benelux, Austria and perhaps some central and Eastern European states, who have the Euro, full free movement of persons, full access to the single market and the full *acquis* of EU rules and regulations, and a periphery group of states who have various bi-lateral arrangements with the core to gain access to the EU single market in return for applying some minimum EU standards. In this scenario, the United Kingdom, and perhaps Greece and Portugal, Denmark and Sweden, would join Switzerland and Norway on the EU periphery.

How likely is this scenario? I would not give it more than a 20 per cent probability. The EU has proven to be pretty resilient. And it is easy in the midst of a crisis to ignore the fact that the alternatives to the EU single market and the Euro are not very palatable for most states. Britain, for example, which has a large proportion of trade with non-EU states, has more than 55 per cent of its total trade in goods and services with the other 26 EU states, and this trade constitutes more than 20 per cent of British GDP. If Britain decided to renegotiate its relationship with the EU, or even to leave the EU, it is highly unlikely that the remaining EU states would grant Britain full access to the single market. They would assume that one of the main reasons Britain would want to opt-out or leave would be to avoid EU social and labour market regulations, which increase business costs. But why would the rest of the EU allow British exporters to undercut goods and service providers inside the single market who would still have to apply the standards? The continental-scale market is only viable because everyone accepts the basic minimum rules. If Britain ended up on the periphery of the EU, British goods and service providers would invariable face new non-tariff barriers in the single market. After all, Britain is not Switzerland and Norway. These two states are not in the EU but are allowed almost full access to the single market only because they have higher production costs and higher social and environmental standards than the EU average.

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Fiscal Union

The second potential scenario is ***fiscal union***. In this scenario, as bond yields sky-

rocket in the Eurozone sovereign debt crisis, the EU decides to establish a genuine fiscal union. This would involve a new central financial resource, for purchasing bonds of Eurozone member states, as well as the establishment of EU bonds, issued by the European Central Bank. But, in return for this major step on the road to fiscal federalism, which effectively means bailing out several Eurozone states, Germany, Finland, the Netherlands, France and the other contributors to the fund would demand common EU rules on minimum taxation levels, public pensions provisions (including retirement ages), and EU oversight of national taxing and spending policies. In one sense, this would be the logical next step in Bela Balassa's teleological vision of economic integration from the 1960s, where a single market naturally follows from a free trade area, a single currency follows from a single market, and a fiscal union follows from a single currency.

The basic elements of this union are already on the table. The EU already has the Financial Stability Mechanism, which was set up to support Greece and has been increased as the debt crisis has spread. Germany and France have already proposed a new set of common commitments for managing public finances inside the Eurozone, in an attempt to prevent states finding themselves in a similar situation in the future.

However, genuine fiscal union is something fundamentally different to these recent initiatives and more akin to fiscal federalism in the United States or Germany, where the central federal budget is used to make massive transfers between states in times of economic crisis. Genuine fiscal union in the EU would require the EU to have a much larger budget, well above the current 1 per cent of EU GDP. For example, in the mid 1970s, a report for the Commission on how to set up a single currency recom-mended that the EU budget should be increased to at least 5 per cent of EU GDP for a single currency to be sustainable.

And the size of the public funds that would need to be pooled in a fiscal union is the reason why this scenario has a relatively low probability of happening, probably around 10 per cent. In a time of fiscal austerity, a majority of taxpayers in Germany, France, Finland, the Netherlands, and Austria would rather see the Euro collapse than allow a huge proportion of their national budgets to be handed over to the EU to stabilise the currency. The EU does not have the legitimacy for such a major transfer of resources. A fiscal union would also have to overcome a challenge in the German Constitutional Court, which would almost certainly rule that a fiscal union would require changing the German constitution and the EU treaties to explicitly allow such a transfer of sovereignty. Finally, and above all, citizens in the states receiving the funds are unlikely to support handing over power to Brussels to govern their domestic tax systems, pensions systems, and so on.

Supersized Switzerland scenario

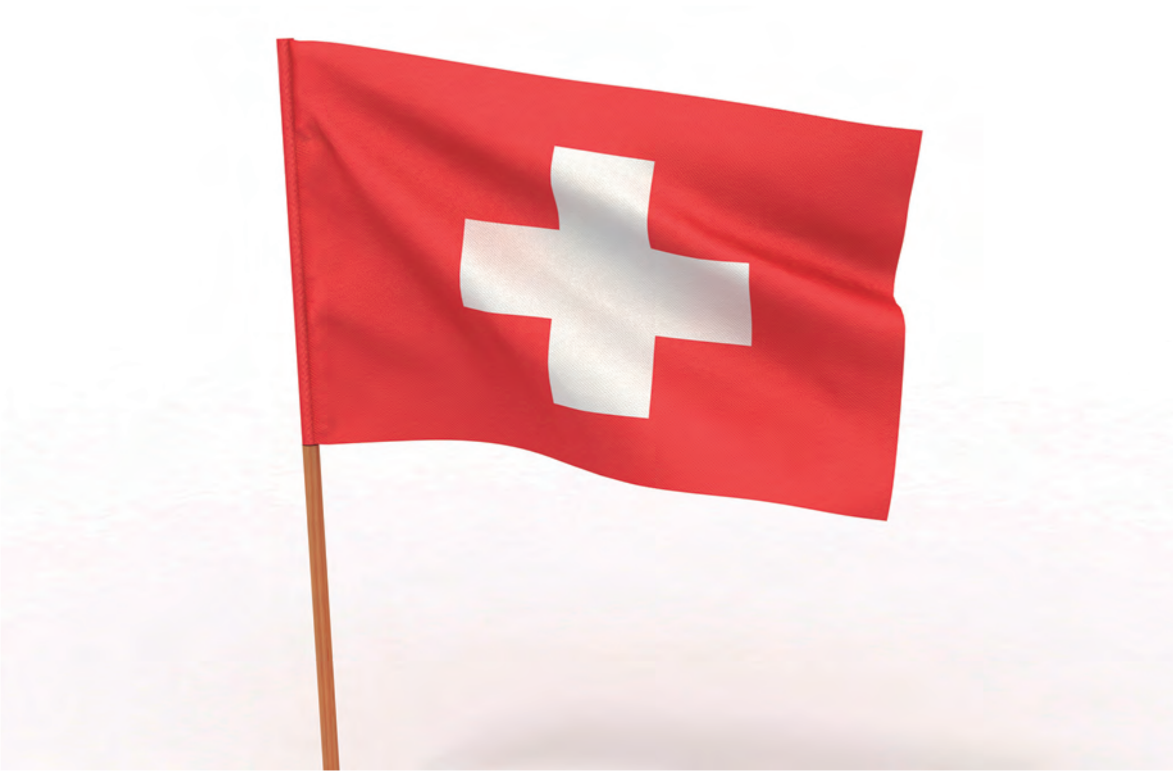
A far more likely scenario is that the EU will muddle through the crisis, as it always seems to. I call this the ***Supersized Switzerland*** scenario. Why Switzerland? Well, like Switzerland, where the Prime Minister rotates between the parties, the EU is has no identifiable leader. Van Rompuy is President of the European Council, Barroso is President of the Commission, and the Presidency of the Council of Ministers still rotates every six months between the member states. Also like Switzerland, EU decision-making is slow and consensual rather than quick and decisive. And, like Switzerland, the EU may be a rather nice place to live and work, but is increasingly an 'outdoor museum' for American and Asian tourists and decreasingly relevant on the global stage. That's not all. Just as there is growing opposition to consensus and gridlock in Switzerland and increasing antipathy to Islam, there is growing anti-EU sentiment and opposition to foreigners throughout the EU. Sedate irrelevance might be fine for a small wealthy country in the middle of Europe, but it's not much fun for a continent of half a billion people!

Having said that, this scenario is probably the most likely, with a 50 per cent probability. The reason is because any change in the EU – such as reorganising the EU into a core and a periphery or taking a major step forward to fiscal union– is very difficult. Such changes would require all 27 member states to agree, and then be ratified by national parliaments and in referendums in several countries. We saw how difficult it was to ratify the Lisbon Treaty, which in hindsight was far less significant than either the 1986 Single European Act, or the subsequent treaties agreed in Maastricht and Amsterdam. Hence, finding some way of muddling through the crisis is probably what the EU will do. This would probably involve some small elements of fiscal union, building on the Financial Stability Mechanism, and some further efforts to harmonise national fiscal policies within the Eurozone and for collectively monitoring national fiscal policies.

This scenario would be less of a problem for Britain than the full fiscal union scenario. Establishing a fiscal union between the members of the Eurozone would inevitably mean relegating Britain to the second tier. In the short term this might not cause too many problems for Britain, as the Eurozone states would focus on a larger crisis fund and some common rules for national fiscal policies. In the longer term, however, a fiscal union would involve harmonized minimum corporate tax rates and even marginal rates of personal taxation. This would inevitable cause conflicts between Eurozone states, who would have to harmonize rates, and states outside the Eurozone, who could apply lower rates and so undercut the Eurozone. In the end, a fiscal union within the Eurozone might be a slippery slope to a two-tier EU, along the lines of the first scenario. Hence, a more informal and less ambitious set of policies along the lines of a Supersized Switzerland is less likely to put Britain in the invidious position of choosing between signing up to fiscal union or being relegated to the second division in Europe.

Emerging democratic politics

Finally, however, there is a more optimistic scenario for progressives in Europe, which I call ***emerging democratic politics*** in Brussels. In this scenario, something new happens in the June 2014 European Parliament elections: rival candidates for the Commission Presidency are declared before the elections.



This might seem a rather trivial change to the way European elections currently work, where the Commission President is currently proposed by the heads of government and ratified by a majority of MEPs in a newly elected European Parliament. On the contrary, rival candidates for the most powerful executive office in the EU could start to transform the way EU politics works.

Some elements of this scenario have already started to happen. José Barroso will stand down at the end of his second term in 2014. The centre-right European People's Party (EPP), to which Barroso belongs, have already announced that they will propose a candidate to succeed him, probably from amongst the group of sitting EPP prime ministers. In response, the centre-left the Party of European Socialists (PES) has announced that they too will propose a candidate for the post. The liberals, greens, radical left, and perhaps even anti-EU parties will no doubt propose their own candidates.

With several names on the table in 2014 there will be a European focus to the European Parliament election campaign for the first time. These elections are usually fought as mid-term national contests on the performance of national governments and national party leaders rather than on EU issues, or candidates for the European Commission, or ideas about the direction of the EU policy agenda. This might change if there is a battle for the Commission Presidency.

EU politics is currently largely ignored by political editors of newspapers and TV news programme. This is for understandable reasons, since newspapers and TV news are fighting for space in highly competitive media markets, and so have no incentive to allocate valuable space to EU politics when there is enough material to file their pages or minutes from their domestic 'political soap operas'. News media need political personalities and identifiable winners and losers, so they can provide infortainment: who is up, who is down, who is clever, who is stupid, and so on. A campaign for the Commission President would provide editors with the content of a European level political soap opera for the first time. The candidates would no doubt issue their own "manifestos", setting out what they plan to do in their five-year term. There would also probably be a live TV debate, hosted by the European Parliament, with streaming video on the internet and images for newspapers and news channels. There would be ample material for the media, who would compete for interviews with the key candidates, and over attempts praise or poke fun at the leading personalities. Quality newspapers, such as The Financial Times, The Guardian and the The Times, would no doubt take a lead in reporting on the campaign. There would probably also be numerous "support X" and "stop Y" websites and blogs on the pros and cons of the candidates.

This would not be a truly "democratic" election, in that the choice of the Commission President would still be made by the European Council and the European Parliament. Under the rules in the EU Treaty, the European Council proposes a candidate for the Commission President by a qualified-majority vote, and there is then a simple majority vote in the European Parliament. If the European Parliament rejects the nominee of the heads of government, they have to propose a new candidate. Under these rules, rival candidates for the Commission Presidency would make it very difficult for the heads of government to force through candidate which does not have the support of a majority in the newly elected European Parliament –rather like the Queen asking the party leader who commands the support of the majority in the House of Commons to form the government. Neither the centre-right EPP nor the centre-left PES are likely to have a majority of seats after the 2014 elections. As a result, these two political groups will have to offer something to the centrist Alliance of Liberals and Democrats for Europe to win their support for an EPP- or PES-backed Commission President. The Commission is already a political coalition, but for the first time the political deal that constitutes this coalition would be transparent.

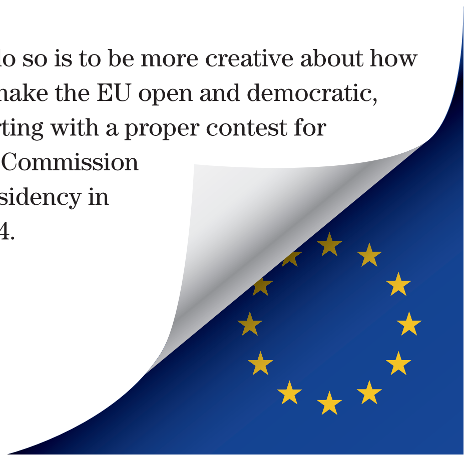
If a contest of the Commission Presidency in 2014 really happens, attracts good quality candidates, and captures the imagination of the European publics, the EU would be transformed. The Commission would be reinvigorated, and the winning candidate would emerge with a mandate to pursue policy reform on several fronts. There would still be all the usual checks and balances in the EU, in that any policy proposals would still have to be approved by the national governments in the Council as well as the European Parliament, and decisions would be policed by the European Court of Justice and national courts. But, for the first time since Jacques Delors a significant proportion of the public might be able to name the person who holds the highest political office in the EU, while the people who preferred one of the losing candidates might even start to engage more with EU politics. Finally, the EU would have the injection of democratic politics it vitally needs to be able

The EU has proven to be pretty resilient. And it is easy in the midst of a crisis to ignore the fact that the alternatives to the EU single market and the Euro are not very palatable for most states to tackle the huge policy challenges facing us in the next decade.

But how likely is this emerging democratic politics in the EU? I would say only about 20 per cent. Many European politicians resisted a contest for the Commission Presidency in 2009 and will probably try to stop it happening again in 2014. After all, the politicians who would lose most from this scenario would be the prime ministers of Germany and France, who try to run the EU from the European Council. The last thing they want is a Commission President with a rival mandate.

Nevertheless, things might be different in 2014. First, Barroso was standing for a second term in 2009 and so all the sitting prime ministers were reluctant to openly support a rival candidate against the person they had been doing business with for several years. In 2014 there will be a clean slate, and every side will be trying to win the highest EU office for one of their politicians. Second, in the face of a genuine existential crisis of the EU, Europe's leaders might see a more democratic EU as the only way to build the legitimacy they need for their policy reforms.

The EU is in crisis. But it is worth saving. If it was scrapped tomorrow, more than 70 per cent of it would have to be rebuilt exactly as it is. Our standards of living and our consumption and lifestyle choices are not sustainable without a continental-scale single market. European-level executive, legislative and judicial institutions are necessary to govern such a market, while a common set of rules and regulations are vital for a market to function fairly and effectively. We should also not forget that many other regions in the world are envious of what Europe has managed to achieve in a relatively short space of time. My hope is that Europe's politicians and policy-makers realise this before it is too late. There is time to save the EU, and the best way to do so is to be more creative about how to make the EU open and democratic, starting with a proper contest for the Commission Presidency in 2014.



Bio

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Se unió a la London School of Economics and Political Science (LSE) en 1997 y fue ascendido a catedrático en 2004. Estudió su carrera universitaria en la LSE y su doctorado en el Instituto de la Universidad Europea en Florencia. Es director del grupo de Ciencias Políticas y Economía Política en la LSE y es coeditor del periódico Políticas de la Unión Europea. Ha sido visitante en las universidades Stanford, Berkeley, UC San Diego, Sciences-Po en París, la Escuela Hertie de Gobierno en Berlín, el College of Europe en Brujas, y el Instituto Coreano de Política Económica Internacional en Seúl. Simon ha sido asesor del Gabinete Ministerial de Reino Unido y de la Oficina de Exteriores y de la Commonwealth, del Parlamento Europeo, de la Comisión Europea, del Centro de Política Europea y del Banco Asiático de Desarrollo.