

Summary: Thanks to the euro, the EU has become an essential partner on the world scene, yet, during the euro crisis, its powers appeared inadequate, its financial resources insufficient, and its decision-making slow. As events unfolded, the euro problem has proven actually to be a lack of political will at the heart of European governance. The “power vacuums” at the heart of the European institutions call for remedies. To proceed, there are two possible pathways: either Europeans turn their backs on integration or they accelerate their progression toward it.

The Path Toward a Two-Speed Europe

by *Giancarlo Chevallard*

An exhausted Europe is emerging from the acute phase of the euro crisis. Its mood is bleak. Its economy is stagnant. Its international standing has suffered. The European Union (EU) is uneasy about its future. Having been the very embodiment of 50 years of European achievements, it is now increasingly questioned. Thanks to the euro, the EU has become an essential partner on the world scene, yet, during the euro crisis, its powers appeared inadequate, its financial resources insufficient, and its decision-making slow. Over the last decade, the euro was considered a jewel of the European unification process, but now that jewel seems to lost some of its sparkle.

The United States’ financial disaster of 2008 plunged the whole industrialized world into a painful emergency. The new single currency, the euro, was immediately put to an arduous test and indeed, became one of the contributing factors to the global crisis. As events unfolded, the euro problem has proven actually to be a lack of political will at the heart of European governance.

The currency’s situation appears paradoxical. The defence mechanisms of member states have proven to be inadequate. In fact, it was the new single currency that led to their erosion because countries could no

longer count on sufficient monetary reserves. To add to this problem, eurozone countries were insufficiently empowered because they could not count on resources normally available as a lender of last resort. That status was not extended to the European Central Bank.

This monetary handicap has been aggravated by the de facto power vacuum in the management of the economies. The EU institutions demonstrated an insufficient competence in guiding national governments in the deployment of their taxation, budgetary and credit powers.

Despite the weaknesses of the instruments available to the European economic and monetary union, its authorities succeeded in muddling through. Overcoming the dissensions among the member states, they managed to exert enough pressure on the EU to adopt minimum common measures. During each summit, European institution leaders showed their determination to resist market offensives, essentially by making additional resources available. So far, the euro has been preserved allowing for the monetary union to regain its precious credibility, especially in those influential U.S. and British circles that had already sentenced the euro to death.

The Pro-Europe Camp

These “power vacuums” at the heart of the European institutions call for remedies. To proceed, there are two possible pathways: either Europeans turn their backs on integration or they accelerate their progression toward it. The first course would entail renationalizing areas of competencies already transferred to the EU. The second would mean progressively bestowing powers on the European institutions that are necessary to effectively manage the economy.

Out of the chaos of the crisis, a divided Europe has emerged. It appears as if the “pro-Europe” camp is currently prevailing. However, the “pro-national governments” movement is by no means marginal. It has considerable support in some countries, the best example being the United Kingdom. Even in staunch pro-European countries such as the Netherlands or Italy, the anti-Europe movement is making inroads. While the well-known Eurobarometer poll from late 2011 shows majority support for the “pro-Europe” camp and Europeans still see the EU as the body best able to tackle the crisis, the poll also reveals that there is a sharp decline in trust in both national and European political institutions.

Still, the underlying pro-Europe sentiment is reflected in the many decisions recently taken by the EU. In contrast, national governments seem rather passive. The European Banking Authority, created two years ago, has closely monitored the financial institutions and has established stringent norms to this effect. Procedures for reinforced monitoring and controls of national budgets have been recently introduced. Financial mechanisms were set up to strengthen the defences of member states against market pressures. The European Stability Mechanism Treaty, signed in February 2012, will succeed the provisional European Financial Stability Facility. In addition, the European Central Bank has multiplied its interventions into the market.

The Unconventional “Fiscal Pact”

The heads of state and governments — with the exception of British and Czech leaders — also signed the Treaty on Stability, Coordination and Governance at the end

Out of the chaos of the crisis, a divided Europe has emerged.

of February. The received recognition for making the balanced budget rule mandatory. This rule includes an automatic correction mechanism and a penalty system administered by the European Court of Justice. It is noteworthy that the Treaty binds its 25 signatories and not the EU as a whole.

The crisis has triggered an expansion of the EU’s arsenal of instruments, similar to the “à la carte” approach during European integration. Accordingly, EU member states have established new common mechanisms, while deciding that not all countries are obliged to enter into them. Each member state has subscribed to the commitments that it was willing or able to pursue. This differentiated participation has reinforced the theory of a “multi-speed Europe.” The principle whereby all EU members sit in the same room irrespective of their level of commitment has been breached. Meetings in which only euro-countries attend have become more frequent. Despite the complaints from Britain and other non-euro countries, the euro-only meetings have succeeded to the point that they also take place at Heads of Government level. One of the significant features of this approach has been that the countries undertaking all the commitments — the top speed league — do not enjoy special status inside the European institutions.

Overall, the Treaty on Stability represents a significant step ahead. Effectively, the Treaty has been accepted among 25 countries acting outside the EU, setting aside the old principle whereby the “à la carte” integration takes place within the single EU framework.

The Treaty’s peculiarity is also highlighted by the fact that its ratification will not involve EU institutions. A limited number of signatory countries will suffice to ensure its entry into force. Furthermore, the euro-countries only format will be boosted since the Treaty stipulates that “Euro Summit meetings will take place at least twice a year.” The provisions concerning the majority rule decision-making are particularly innovative. Sanctions against countries allowing excessive deficits will be imposed with a majority voting procedure. Also, the president of the eurozone will be selected through a majority vote. These represent momentous changes. They might be seen as an indicator of a new architectural design, whereby a limited number of EU countries can decide to act through their own institutions and decision-making procedures, without taking all 27 EU members on board.

It is worth noting that the ambitious Treaty of Lisbon enshrines the multi-speed model by adding provisions for making new cooperative undertakings among a few countries possible. These are the arrangements for so called “reinforced cooperation.” The provisions have never been actually used and were not alluded to when concluding the new Treaty. No ad hoc cooperation was launched on that basis, despite the fact that important cooperative projects have recently taken off. Recent “reinforced cooperation” initiatives in the economic and monetary areas have their legal basis in two ad hoc treaties, concluded by different groups of EU countries outside the Lisbon Treaty framework. This indicates that EU members wishing to pursue more advanced integration prefer to do so outside the general EU framework, leaving aside the countries not participating in their endeavor.

The Case for More Treaty Reform

More may come along the same lines. The economic crisis has reopened the debate about the feasibility of the EU decision-making process. After ten years of laborious negotiations, the Treaty of Lisbon came into force in 2009. It ended a period of frequent treaty changes which had started with the Treaty on the Single European Market in 1986 and had accelerated in 1991 with the Maastricht Treaty. With the Treaty of Lisbon in force, conventional wisdom held that a long period of constitutional stability could only be beneficial. Today this proposition is debatable.

The economic crisis has shown the weaknesses of the decision-making process. It has demonstrated that the EU needs institutions able to ensure firm political guidance. Good management is necessary, but not sufficient to protect the euro. In order to safeguard the currency, EU political institutions need to back up the authorities managing the euro.

In recent months leading personalities from a range of continental countries have repeatedly called for the transfer of more political and economic power to the European institutions. German Chancellor Angela Merkel and a large number of the German public share this view. In conversations with other European leaders, Merkel has raised the idea of introducing a new system of EU governance, such as concrete constitutional reforms. Seeking to find consensus with her proposals, the chancellor has invited a

Good management is necessary, but not sufficient to protect the euro.

small group of government leaders to a meeting to engage in informal discussions on the subject in June, ensuring “more Europe” is at the heart of the German initiative. Prior to the European Parliament’s spring 2014 election, this initiative is likely to have produced a new draft European treaty. Its purpose will be to establish institutions empowered to effectively manage the euro and its related economic union with the intention of progressing toward political unity. It should also provide for new EU powers in fundamental policy areas like taxation, security, and foreign policy.

The new treaty will eventually be supported and ratified by countries willing and able to pursue this more advanced stage of European integration. This may happen by creating a separate union around a core of pro-integration countries. The original EU — as it was developed until today — will continue to bind the 27 member states as well as future member states. However, it will be complemented by a union made up of a smaller number of countries. This group will have agreed to pool larger portions of national competencies and powers together. It will be the “hard core” or “vanguard” — the nucleus of a reinforced EU. The treaties signed this year seem to suggest that this will be the path towards greater integration among the willing.

The crucial question in the months ahead really concerns which countries will be part of it. There are two relevant parameters. To qualify for the more integrated group, the country must be, first, willing, and, secondly, capable of adequately performing when it comes to the new responsibilities. Currently, 17 out of the 27 members have proved to be willing and able to participate to the euro. Great Britain and Sweden have declared their unwillingness, while Bulgaria or Romania have admitted to lack the capability. The euro is the most advanced EU achievement. Therefore, it would seem natural, but not certain, that the 17 euro countries will form the hard core, the nucleus. It is not certain because a number of euro countries may be not be

ready to transfer more powers in areas like security or taxation to Brussels.

The Possible Way Forward

Europe may be on the eve of a historical moment and taking historical steps. But, caution is “de rigueur.” That the necessary steps will be taken cannot be taken for granted yet. First, they are based on German determination and on Merkel’s vision. She has proved to be a tenacious and coherent leader, but she is facing national elections in 2013. Only if German voters equip her with a new four-year mandate, and thus new strength, will Merkel be in a position to deploy her leadership toward the goal of reinforcing the European Union.

Secondly, today’s growing malaise could work to the effect of paralyzing Europe. With the economic crisis imposing heavy sacrifices, Europe is seen as the culprit by an increasing segment of public opinion. Governments and leaders may hesitate to confront their citizens with proposals for a stronger EU.

Governments and leaders may hesitate to confront their citizens with proposals for a stronger EU.

It is easy to predict that slow speed countries, like Britain or Sweden, will fight against it. They will resist because of their status of non-euro countries. But they will resist also because of the damaging effects of a reform that would exclude them from the sphere and the body of decision making. European history illustrates how pro-Europe countries such as Germany, France, Italy, Spain, or Belgium have been able to disregard euro sceptical objections. On several occasions, they have decided to move ahead at their own preferred speed. They can be counted on to back initiatives, like the German one, designed to reinforce the European Union, even if this means sidelining low-speed members.

At this point it is useful to recall one of the key lessons of European integration. Every major EU achievement has

been realized as a response to a situation of crisis, be it political — for instance, the collapse of Communism — or economic — for instance, the challenge of the globalization — or social — for instance, the free movement of people. On each occasion, Europeans have understood that their interests would be best served by acting together. They have moved ahead accordingly. Another lesson from the past is that the EU has progressed only when concrete integration proposals have been put forward by one or more countries.

Finally, in order to be sustainable in the long term, the system needs an open door. Every country must have the opportunity to move from one group to the other, from low-speed Europe to hard-core Europe.

Today it seems as if we are witnessing the very beginning of a similar process. Germany is sounding out its partners about their possible support for a new initiative designed to strengthen the EU. France’s position will be decisive. After the May elections, its leadership will have a crucial responsibility. If the new president opts not to join the German initiative, history will condemn him. France’s decision, however unlikely, may lead to unintended consequences. In these unstable times the status quo is fragile. Such a decision may turn out to be the incubator of a process of EU dilution. Moreover, it would contradict decades of European leadership.

The Window of Opportunity

On the other hand, the coming two years offer a window of opportunity that France is likely to seize. France’s initiative is particularly decisive with regard to EU foreign and security identity. Its world role, its UN status, its defence spending, its culture and its nuclear responsibility are solid foundations to make the EU a credible global player. For a number of reasons, the new president is likely to engage accordingly. More than ever, partnership with Germany is a necessity for France. Acting jointly to strengthen the EU will be the most persuasive demonstration of this excellent relationship. France’s exclusive assets in external relations will guarantee its European leadership, complementing the German one in the economic and monetary sectors.

France and Germany will start to prepare their joint initiative soon in order to be ready to launch the negotiation of a new treaty after the German elections in 2013. The most controversial question will be the extent of the transfer of

powers to supra-national European institutions. Germany has declared it will support a federal model. France prefers arrangements that allow her to use national prerogative as a last resort. It is fair to assume that a formula will be agreed upon that combines the need for an effective executive authority of the EU, with the exceptional use of national veto powers.

Once the Franco-German proposals are on the table, the other EU countries will be asked to decide whether they would like to join in drafting the new treaty. Great Britain will almost certainly refuse. The choice for Nordic countries will be difficult. Possibly, they will not join in at first, but reserve the right to keep the door open for later accession. It is likely that other countries will participate with a proviso regarding exceptions or long preparatory periods. The future treaty will consequently bind a considerable number of EU countries immediately.

Other developments will play in favor of a successful process of strengthening the existing treaties. The president of the European Council, Herman Van Rompuy, for one, is likely to play an increasingly relevant role. During his first mandate he demonstrated his negotiating talent as well as his political acumen and his legal expertise. With the first class team assisting him, he will keep the drafting process of the treaty on track on a daily basis.

Italy is likely to contribute positively, given that its relevance will relate to the central position occupied by it in the run up to its EU presidency in 2014. Looking at the past, Italy's intense European commitment and diplomatic skills have been decisive for the launching of historical treaties, such as those on the single market in 1985 and on the monetary union as well as on the common foreign and security policies in 1990. The situation today is comparable.

Once again, Italy is present on the EU scene with a highly committed European elite symbolized by its prime minister, Mario Monti. It intends to mark its return to the European family core by giving new impetus to the EU, having already established a confident relationship with Germany. Italy moreover has an overall pro-European influence on most of the continent's countries. As the Arab turmoil has shown, Italy's assets in the Mediterranean will be important for European stability. With Monti at the helm, Italy can be counted on to use its skills and its good relations to broker high profile European agreements.

During such an important phase, the EU presidency will enable Italy to use its diplomatic skills and its influence.

In the past, major EU reforms have been prompted by outside challenges. Today Europe is confronted with the increasing turbulences in its Mediterranean neighborhood. Active management of these crises is essential for the European security, for the stable supply of energy and raw materials, for unimpeded trade and communications and for the smooth governance of the migratory flows. Only a reinforced foreign and security affairs capability can ensure Europe's ability to meet these challenges.

Today Europe is confronted with the increasing turbulences in its Mediterranean neighborhood.

Changing U.S. attitudes oblige Europe to respond. No longer of pivotal importance to U.S. interests, EU partnership will be tested in a number of ways. This could take the shape of the EU being asked to do more when assisting the United States in global conflict management operations, and requests to sustain higher defence burdens will become more pressing. The new administration will confront the EU with imperious requests to this effect. The pressure from Washington will also increase in order to obtain a more vigorous European contribution to exit from the economic crisis. The United States will continue to question the benefits and drawbacks of the euro, insisting at the same time for more determined protective actions by European leaders. Overall, the EU will be expected to become a stronger and more reliable partner on economic and monetary issues.

The Coming Confrontation

The current outlook for Europe appears rather bleak: The public is apprehensive and the anti-Europe movement is growing. Some countries are strongly in favour of differentiated EU integration. Some others are not able to reach its most advanced stages. This heterogeneous group shares one firm belief. Any attempt to grant new powers to the European institutions binding all member states must be resisted. The current format of an EU allowing groups of

countries to enter into differentiated levels of commitments is quite satisfactory. Each country must decide whether to engage in the most demanding areas of integration such as economic and monetary affairs or the common foreign and defence policy. Today, a multispeed Europe on the level of the whole EU is the most that the euro-sceptical group can tolerate.

On the other side, a number of countries, probably the majority, are dissatisfied about the current governance and the level of integration. They are convinced that in today's environment "more Europe" has become a necessity. The vast majority of the intellectual community as well as public opinion in most member states appears to share this conviction. The most important European partners seem to advocate a strengthened EU capable of delivering more — on monetary and fiscal as well as foreign policy. Accordingly, the EU institutions need to be strengthened by new competencies, resources, and decision-making processes. To be effective this must translate into a new EU treaty to be signed by a group of able and willing countries which decide on equal footing to enter into a more advanced form of integration. The signatories would agree, without exceptions, to form a cohesive group under reinforced rules and institutions and endowed with more competencies and powers.

The two groups will confront each other in the next couple of years. The outcome is open given the current soul searching in Europe. One has to hope that the pro-integration group will eventually prevail. Indeed, recent European history, the collective memory of the EU institutions, and today's environment suggest that, laboriously, the pro-Europe camp will prevail in the end.

About the Author

Giancarlo Chevallard is the president of Paralleli, Euro-Mediterranean Institute, Torino-Italy, and a former EU Commission official.

About The EuroFuture Project

The German Marshall Fund of the United States understands the twin crisis in Europe and the United States to be a defining moment that will shape the transatlantic partnership and its interactions with the wider world for the long term. GMF's EuroFuture Project therefore aims to understand and explore the economic, governance and geostrategic dimensions of the EuroCrisis from a transatlantic perspective. The Project addresses the impact, implications, and ripple effects of the crisis — in Europe, for the United States and the world.

GMF does this through a combination of initiatives on both sides of the Atlantic, including large and small convening, regional seminars, study tours, paper series, polling, briefings, and media interviews. The Project also integrates its work on the EuroCrisis into several of GMF's existing programs. The Project is led by Thomas Klein-Brockhoff, Senior Transatlantic Fellow and Senior Director for Strategy. The group of GMF experts involved in the project consists of several Transatlantic Fellows as well as program staff on both sides of the Atlantic.