<u>Roundtable Discussion – Should the EU Stick Together?</u>

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Political Unity Must Come First

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If you are a eurosceptic this is the time when you are justified to growl, "I told you so." The European Union seems to have reached an impasse and the euro zone is still a mess. Great Britain is ready to cross the Rubicon and be the first country to leave the E.U. Or at least it's the first country ready to play the chicken game with Brussels in order to renegotiate its standing. Poland was never too enthusiastic and now, despite its ambition to become a major player, sounds more than reluctant to make the extra step and join the euro zone.

Milton Friedman, in a prophetic article published 16 years ago, predicted that the adoption of the euro would have the opposite effect of the one anticipated from its founders: "It would exacerbate political tensions by converting divergent shocks that could have been readily accommodated by exchange rate changes into divisive political issues. Political unity can pave the way for monetary unity. Monetary unity imposed under unfavorable conditions will prove a barrier to the achievement of political unity."

This is exactly what happened. The troubles in the euro zone shattered the European edifice. The crisis led to political divisions between North and South, rich creditors and poor "PIGS" (Portugal, Italy, Greece, Spain) but also to schisms in every single country: Austerity or growth? Bailout or exclusion? Payment or default?

These divisions might lead to extreme solutions that were almost unthinkable until recently: exiting from the euro zone or the E.U., or perhaps even abandoning the unification project altogether, which could result in isolationism or even something worse, like a rise to power of extremist parties touting radical agendas of nationalism, protectionism and statism.

Needless to say that such a development will have dreadful repercussions for Europe as a continent of peace, democracy and wealth. The divisions could be further exacerbated and war could be back. Not the military kind of war but an economic one where barriers will replace cooperation and reciprocity.

I am sure that almost everybody understands that this could be catastrophic in the long term in a globalized world with the U.S. and the BRIC countries (Brazil, Russia, India and China) as fierce competitors. I am also sure that most European leaders realize that Milton Friedman was right in emphasizing political unity as a necessary prerequisite for the monetary union. However I am not sure that they are ready to make the necessary steps. These steps are not politically costless and we are, after all, talking about politicians.

Membership Shouldn't Be à La Carte

Sophie Meunier
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Maybe Charles de Gaulle was right when he vetoed the entry of Britain into the European Economic Community (the precursor to the European Union) in 1963 and again in 1967: The British were not ready, he argued then, to adopt a "genuinely European" approach and see in the project of European integration anything more than a free trade area. Only after de Gaulle's exit from power did France open the way for Britain, which eventually joined the European Community in 1973.

Yet, from the start, the European Union was more than an arcane institutional machinery designed to foster economic growth among its members by lowering trade barriers and harmonizing regulations inside its single market. European integration was a fundamentally political and ideological project. It was a pragmatic construction designed to achieve the utopia (my colleague Kalypso Nicolaidis calls this the EUtopia) of peace in Europe through ties that bind and become too costly to sever, in exchange for some relinquishing of sovereignty. It is this fundamental bargain that the 2012 Nobel Peace Prize rewarded – one of the most impressive institutional success stories ever.

These ties that bind have so far enabled E.U. members to weather successive challenges, from the reunification of Germany to the current euro crisis. But this deep integration in Europe does not allow member countries to have their cake and eat it too by picking and choosing the policies that suit them the best and let them only contribute their fair share. Allowing Europe "à la carte" would defeat the purpose of European integration and ultimately lead to its unraveling. The euro experiment, along with the Schengen agreement removing border controls between participating countries, are as close as the E.U. has gotten to "Europe à la carte," allowing some E.U. member states to opt out -- the U.K. noticeably participates in neither of these.

One major lesson from the euro crisis is indeed that the E.U. is not insulated from what happens to a subset arrangement between some of its members. Rather, the success of the single currency depends on deepening political institutions further in the E.U, from fiscal integration to a banking union.

Ultimately, countries which do not share the collective, teleological vision of European integration might better call it quits before being dragged further along a road that they are not ready to take.

À la Carte Membership Would Work Best
Mareike Kleine
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The most pressing challenge that the European Union's member states will be facing in the years to come it not to decide what type of entity (single market, monetary union or political bloc) they want to become, but who will be member of what kind of entity?

What the European debt crisis has made obvious is that some institutional arrangements work only when its members are sufficiently similar. The debt crisis was in many countries caused by the fact that the one-size-fits-all monetary union did not work for vastly different economies. While conducive in some countries, it aggravated business cycles in others and consequently generated bubbles that eventually burst.

Two lessons are to be learned from this experience: The first lesson is that countries that are unfit for a certain policy or unwilling to participate should not join it. Greece, for example, simply should not have been allowed join the Euro. European leaders, not least France and Germany, did this because they cherished the illusion that once the Euro was in place, the structural pressure would be so high that the Eurozone economies, even Greece, would just magically converge. In reality, the convergence took place beforehand when countries sought to qualify for membership. It follows that those who are willing to go ahead with political union should do this even when others can't follow suit. The exclusivity of this club will be the best guarantee that the periphery will do what is necessary to become a member.

The second lesson I believe is that the EU should allow for some flexibility. One size simply does not fit all. What holds true for the monetary union also holds true for a number of other policies. For example, why should rural countries have the same agricultural policy as more industrialized countries? This is not a radical idea. It is already the case that countries cherry-pick the policies they want to be a part of. Only seventeen of the twenty-seven EU member states are also members of the Eurozone. The United Kingdom and Ireland chose not to be part of the Schengen agreement, the EU's single travel and immigration area. The United Kingdome might even decide by popular vote to leave the EU as a whole. Conversely, countries that are not members of the EU such as Norway and Switzerland implement EU laws and actively participate in some of its policies. To be sure, some countries might be better off with than without the EU. But nothing is to be gained from making countries participate in an arrangement that they are convinced is just not for them.

It Must Adapt, Not Disintegrate
Thomas Kleine-Brockhoff
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Should Europe really reverse course and disintegrate? Let's not open that Pandora's box, for it contains all kinds of evils that will be spread around Europe and its environs.

The European Union was founded on the rubble of war. It took hundreds of years for Europeans to understand that a common destiny is best served by common institutions. While the European Union's past was about peace, its future is about power. Given Europe's shrinking share of this planet's population and industrial output, its influence and its affluence can only be preserved when Europe acts in unison. It was a Brit, former Prime Minister Tony Blair, who has described this nexus as eloquently as anybody. And it is another Brit, one of Blair's successors as prime minister, David Cameron, who seems willing to bow to those who are bent on forgetting about it.

The price to pay for disintegration is higher than any conceivable gain. Disintegration is a lazy response to a nuanced current problem. It puts both peace and power at risk. Influence and affluence will both become a chimera. Little Englanders, little Deutschlanders and little Polanders will vie for attention and compete for global market share. Their conflicts, and, yes, maybe wars, a global tragedy in the old days, will return to Europe as a regional farce.

Make no mistake about it: There is a problem with unified Europe, and Cameron rightly acknowledged it in pledging to put U.K. membership in the European Union to a referendum. In fact, Cameron has deconstructed the founding myth of the European Union according to which its direction is "ever closer union." It is not. At least not anymore. And not for all. Certainly not for Britain.

The old continent's future will not become a "United States of Europe," much as many Americans (from George Washington onward) would like it to in the interest of simplicity and comparability. Nor will it become a 19th century style collection of nation states, despite the hope of some nationalists and isolationists. Rather, a multitiered European construct seems to be emerging.

At the core lies the euro zone that solves its problems through increasing integration and reform. Around this nucleus a ring of countries with different levels of integration with the euro core is developing. What binds these countries to the core is access to the single market. It appears that Poland will eventually join the euro zone, while Britain might become the Pluto to the euro zone's sun. To avoid disintegration, the European Union is headed toward a more flexible and adaptable system.

A Failed Euro-Zone, Financed by Germany
Charles Dumas
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The European Union's single market of 27 nations created major gains in prosperity, while, within it since 1999, the 17-member monetary union of continental countries that use the euro has caused great losses. Britain's possible exit from the E.U. sometime after 2015 largely reflects pressures arising from the euro's failure. Germany holds the key to whether the bulk of continental Western Europe continues with the euro failure, or completes the single market concept, so far not implemented in service sectors, as the focus of European progress.

And Germany has the most to lose. The north-central European free-market order Germans crave is now almost half out of the euro zone, with Britain, Scandinavia and Switzerland rejecting the euro. Important growing trading partners like Poland and the Czech Republic are increasingly reluctant to join the common currency, given how unforgiving it is of policy mistakes. To make the euro zone work at all, taxation, spending and banking will have to be streamlined, effectively creating a euro zone superstate. Such a superstate would be heavily weighted in population – which means voting power – toward the Mediterranean.

North-central European countries in the euro zone have a population of 120 million, whereas France's 60 million plus "Club Med's" 120 million gives the Mediterranean group a 180 million total. Germany wants free markets, public spending under control, and an end to restrictive practices. Will the Mediterranean countries go along with this, once the costs of holding the euro zone together have forced the adoption of a taxing-and-spending union? Fat chance! The superstate could be a nasty cross between a pantomime horse and a beached whale.

Increasingly, the German intelligentsia realizes the slippery slope it's on. But breaking out of the euro is always put aside in favor of being a team player and giving more financial assistance to the struggling south. Germany's ideology of a unified Europe reflects continued strong feelings of guilt from World War II.

Unfortunately, it will be docile German workers who will pay the price, not the business and policy elite. Before the euro, German workers agreed to restrain their wages, receiving a rising currency and spending power in return. Now their restraint provides a surplus to fund the Mediterranean mess. Over the 11 years since the 2001 recession, Germany's real consumer spending is up a mere 6 percent, compared with 16 percent in France, 15 percent in Britain and 23 percent in the United States.

Much is made of the cost of a German exit. But most of that cost has already been incurred – just not yet acknowledged. Meanwhile, the enormous cost of future subsidies to be paid by Germans is ignored. There is still time for the current drift to be reversed – though not until after Germany's general election next fall. But the chances of ending this neutering of continental Europe are shrinking by the day.

The euro was a straightforward wrong turn for Europe. Euro zone countries should accept the reality of its failure and revert to national currencies that permitted faster growth in the past.