

The future of Europe (a few thoughts)



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“Political union and the legitimacy challenge”



Problem

Can there be a more flexible and efficient mode of integration that takes into account the heterogeneity of

- economic capabilities and developments
- political preferences, social sensibilities and cultural circumstances?

Wie kann eine flexiblere, ökonomisch wie politisch leistungsfähigere Integrationsform gefunden werden, die der Heterogenität sowohl wirtschaftlicher Strukturen und Leistungsfähigkeiten als auch politischer, sozialer und kultureller Überlieferungen und Präferenzen entspricht?

The 5 scenarios

What do you want for the future of the EU?



Those who
want more
do more



Doing less
more
efficiently



Carrying
on



Doing much
more
together



Nothing
but the single
market

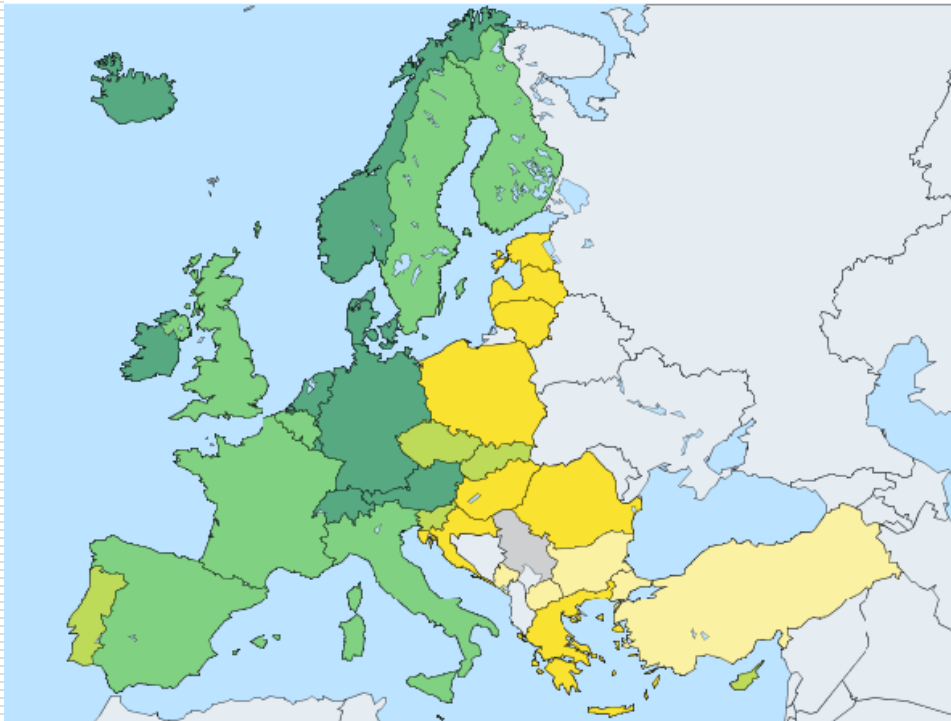


The argument in 2 minutes

1. Increased heterogeneity amongst EU 28/27 (and € 19)
 - Enlargement and Euro-Crisis
2. Increased decision-making costs and preference costs (Buchanan/Tullock 1962)
3. Larger clubs and / or deeper integration become more costly (Buchanan 1965, Alesina et al 2005)
4. Flexible enlargement and deepening become more reasonable
5. There are different models
6. EU as a club of clubs with reformed *acquis* would make economic sense (Brandi/Wohlgemuth 2007);
7. Status quo with more „enhanced cooperation“ is politically more likely.

Heterogeneity I: GDP /capita (PPS)

GDP per capita in PPS
Index (EU28 = 100) - 2015



Legend

29.0 - 53.0

53.0 - 74.0

74.0 - 89.0

89.0 - 123.0

123.0 - 271.0

Not available

Minimum value:29.0 Maximum value:271.0

EU28 = 100

€19 = 106

LU = 271

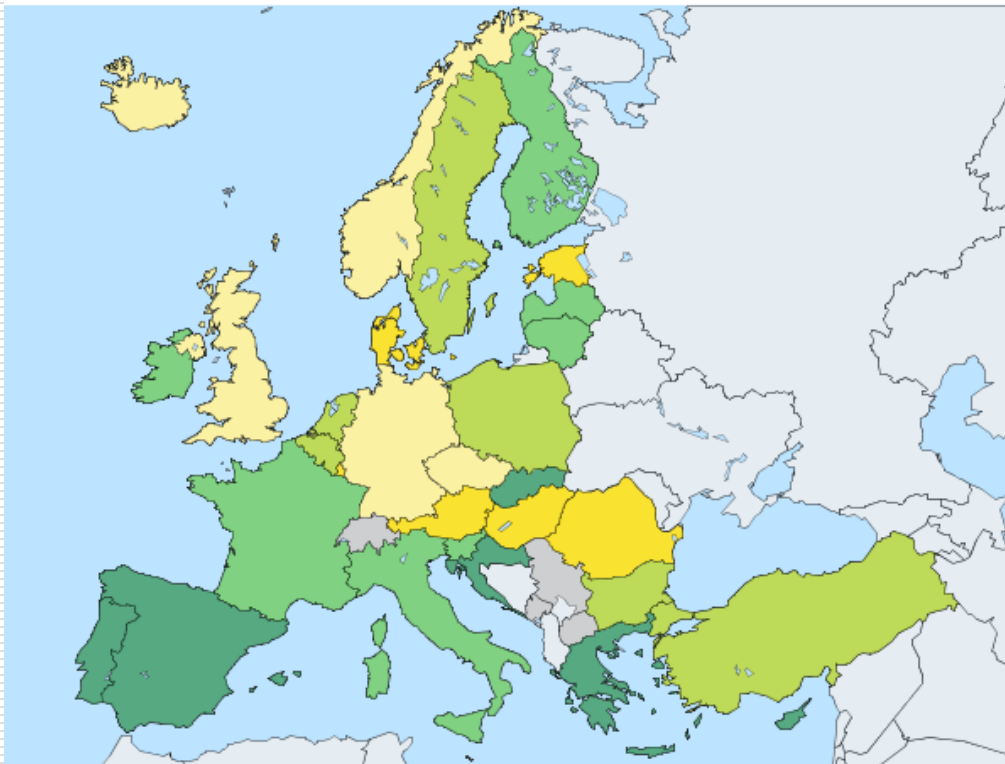
BG = 46

Heterogeneity II: Unemployment (ILO)

Total unemployment rate

% - 2015

Percentage of total population



Legend

3.1 - 3.7

3.7 - 4.3

4.3 - 5.5

5.5 - 6.7

6.7 - 14.8

Not available

Minimum value:3.1 Maximum value:14.8

EU28 = 6.0

€19 = 6.9

DE = 3.2

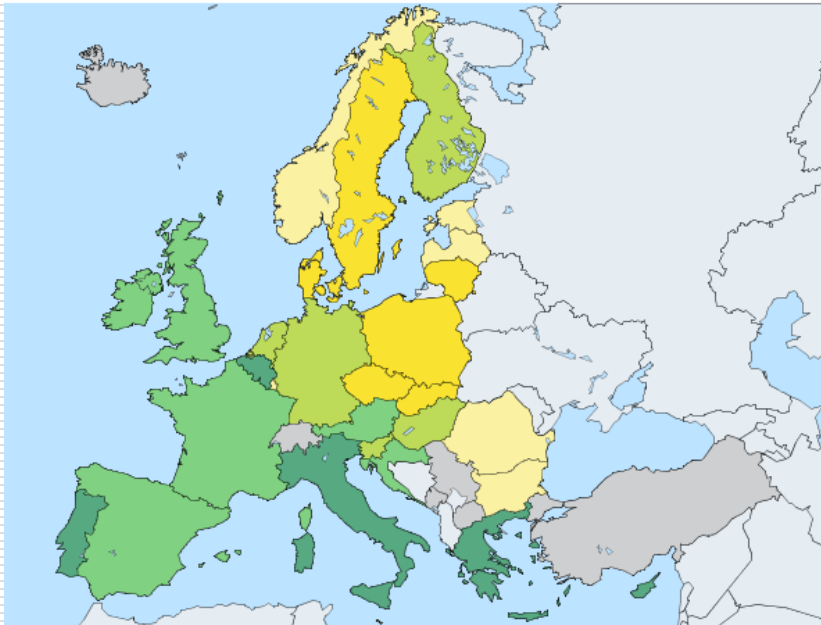
GR = 14.8

Heterogeneity III: Public Debt / GDP

General government gross debt

% of GDP and million EUR - 2015

Percentage of gross domestic product (GDP) Percentage of gross domestic product (GDP)



Legend

9.7 - 38.4

38.4 - 52.9

52.9 - 83.2

83.2 - 99.2

99.2 - 176.9

Not available

Minimum value:9.7 Maximum value:176.9

EU28 = 85.2

€19 = 90.8

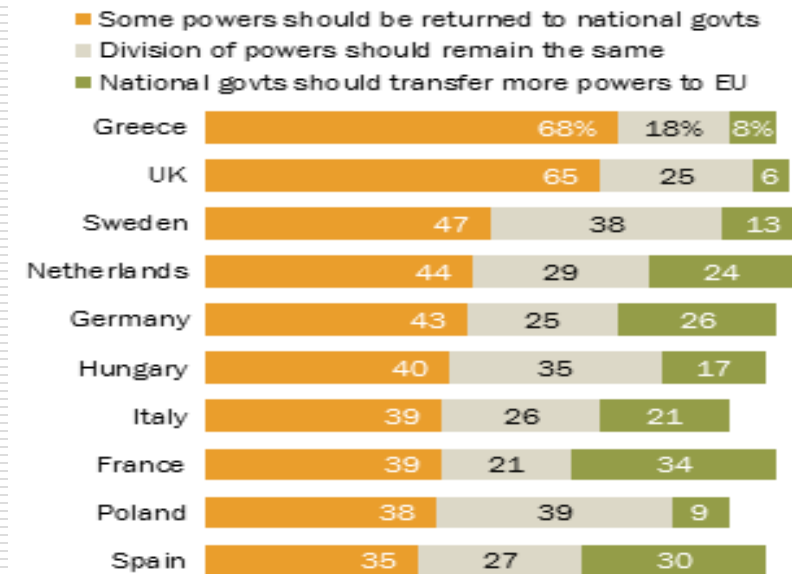
EE = 9.7

GR = 177.0

Heterogeneity IV: Political preferences

Disagreement on 'ever closer' union

Which statement best describes your views about the future of the European Union?



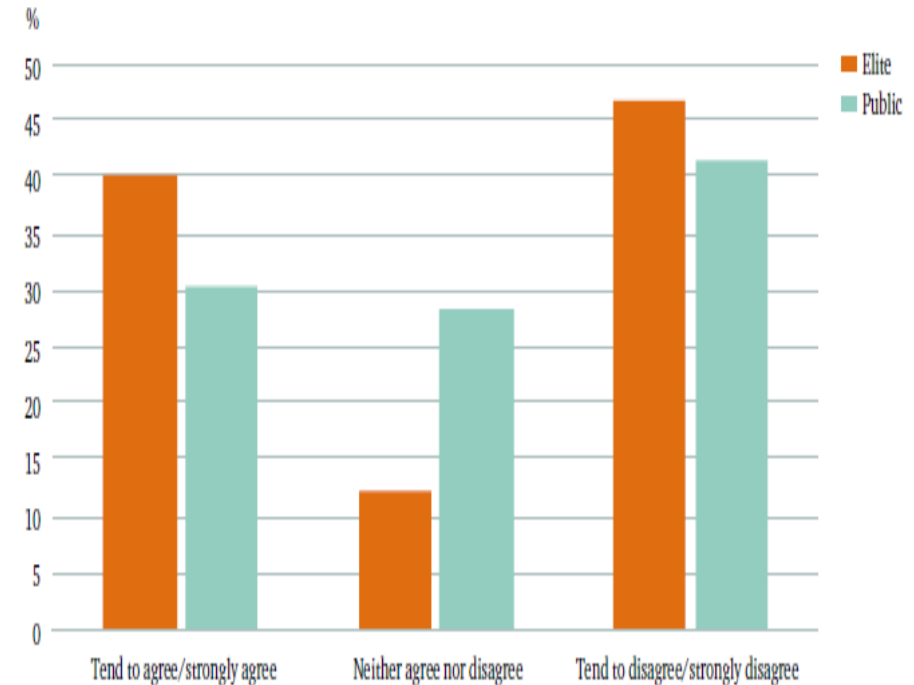
Note: Don't know responses not shown.

Source: Spring 2016 Global Attitudes Survey. Q49.

"Euroskepticism Beyond Brexit"

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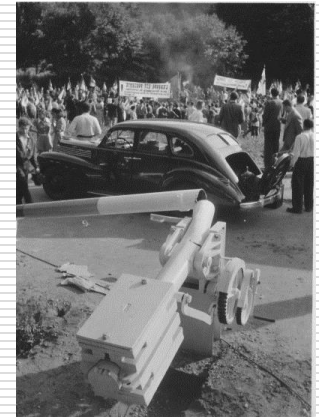
Figure 7: Ever closer union? 'The EU should become a United States of Europe with a central government'



Single market club I (free trade zone)

- „good“: free trade dividend.
 - Mutual recognition of basic freedoms.
 - Gains from trade and specialisation on larger market (Smith), dynamic efficiency through enhanced competition ...

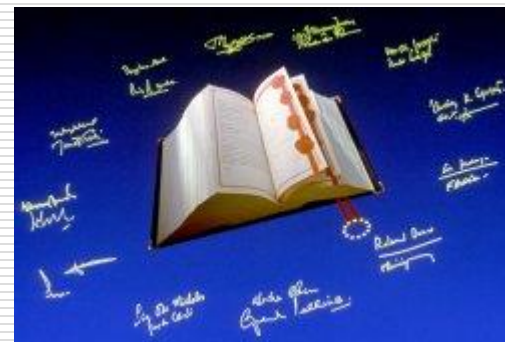
- Optimal club-size of free trade „club“ = ∞
 - (with every new member benefits for all increase)
 - EU is „too small“



Single market club II

(„completed single market“)

- Policies aimed at uniform market regulations (consumer protection, norms, standards, tax agreements ... etc.)
- Optimal club-size becomes finite, since decision-making and external costs (D and E) increase.
- Delegation to EU-Commission reduces D, but, but increases E.



„CAP“ - Club

- Economically „efficient“ club-size:
 - 0 (no „good“)
 - 1 (given distributive preferences in a country that is ready to bear the costs by itself).



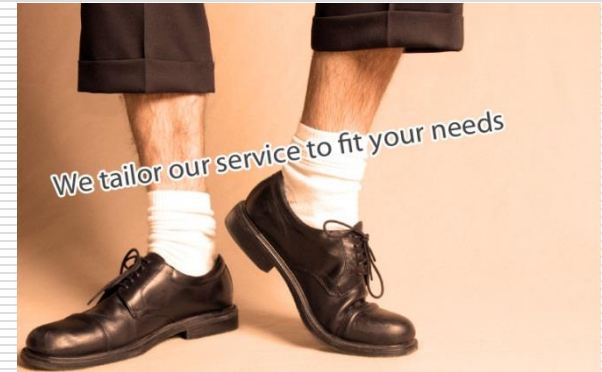
„Euro“ - Club

- Good: common currency.
- Benefit: lower transaction costs, stronger competition (without competitive devaluation).
- Problem: Elimination of two price signals / adjustments: exchange-rates and (central bank) interest rates.
- prerequisites: similar competitiveness, similar debt-proneness, similar reaction to shocks, or:
 - Very flexible prices (wages) or mobile labour
 - No „moral hazard“ (bail-out)
 - Credible debt-breaks
 - Willingness for large transfers



Club-theoretical insight

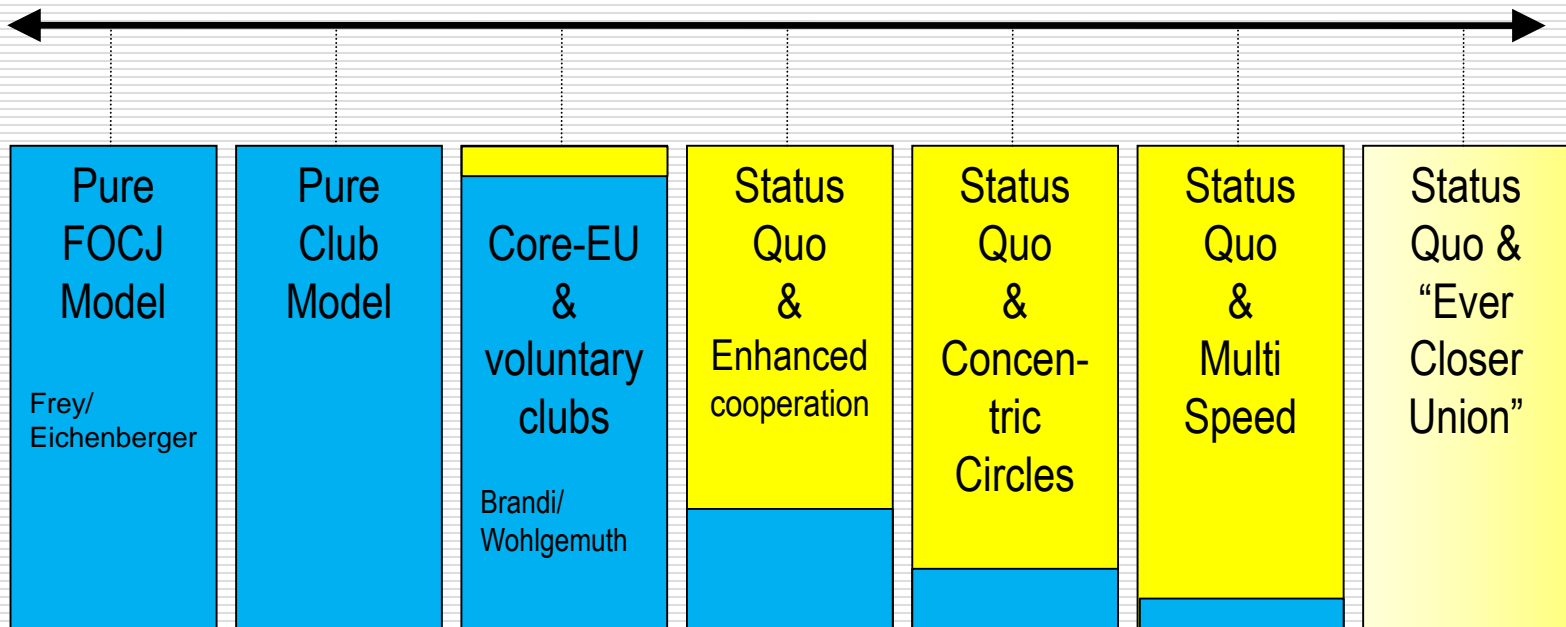
- „one size fits **not** all“
- EU is often too large and deep ...
 - e.g. EMU, CAP
- ... and often too small and shallow
 - e.g. free trade, migration, environment, foreign policy
- Deepening and widening should be **differentiated** according to policy areas



Alternative strategies of „flexible integration“

Economically „rational“

Politically realistic



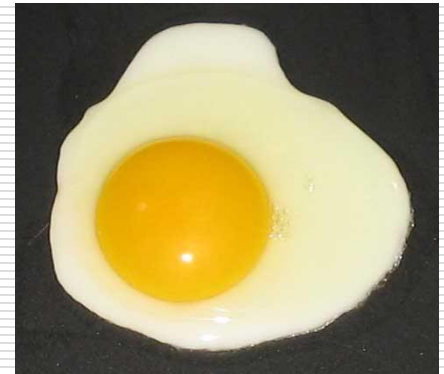
Two-speed Europe

- ❑ Brandt 1974 (Merkel/Sarkozy 2010ff)
- ❑ Status Quo (acquis) is given
- ❑ **More** Integration is goal
- ❑ No permanent differences!
- ❑ **Temporarily** delayed implementation for some (e.g. ECU)
 - One size fits all, ever closer Union ... sooner or later
 - „faits accomplis“, „agenda setting“ of the pinoneers?
 - „raising rivals` costs“?



Europe of concentric circles

- ❑ Schäuble/Lamers 1994,
Fischer/Delors/Chirac 2000,
Chirac/Schröder 2003,
(Merkel/Sarkozy 2010ff)
- ❑ Status Quo (acquis) given
- ❑ „Core“ & Periphery
- ❑ **territorially** defined
- ❑ Permanent differences possible
 - Two-class club instead of
differentiated flexibility



„Enhanced cooperation“

- Amsterdam Treaty (1997), AEUV, Art. 326 ff.
- Status quo (acquis) given
- Seldom used (FTT, patents, divorce)
- Strong conditions:
 - „last resort“, „at least 1/3 MS“, „social cohesion“.
 - Commission has initiative, Council and EP agree.

Core-acquis and EU as Club of Clubs

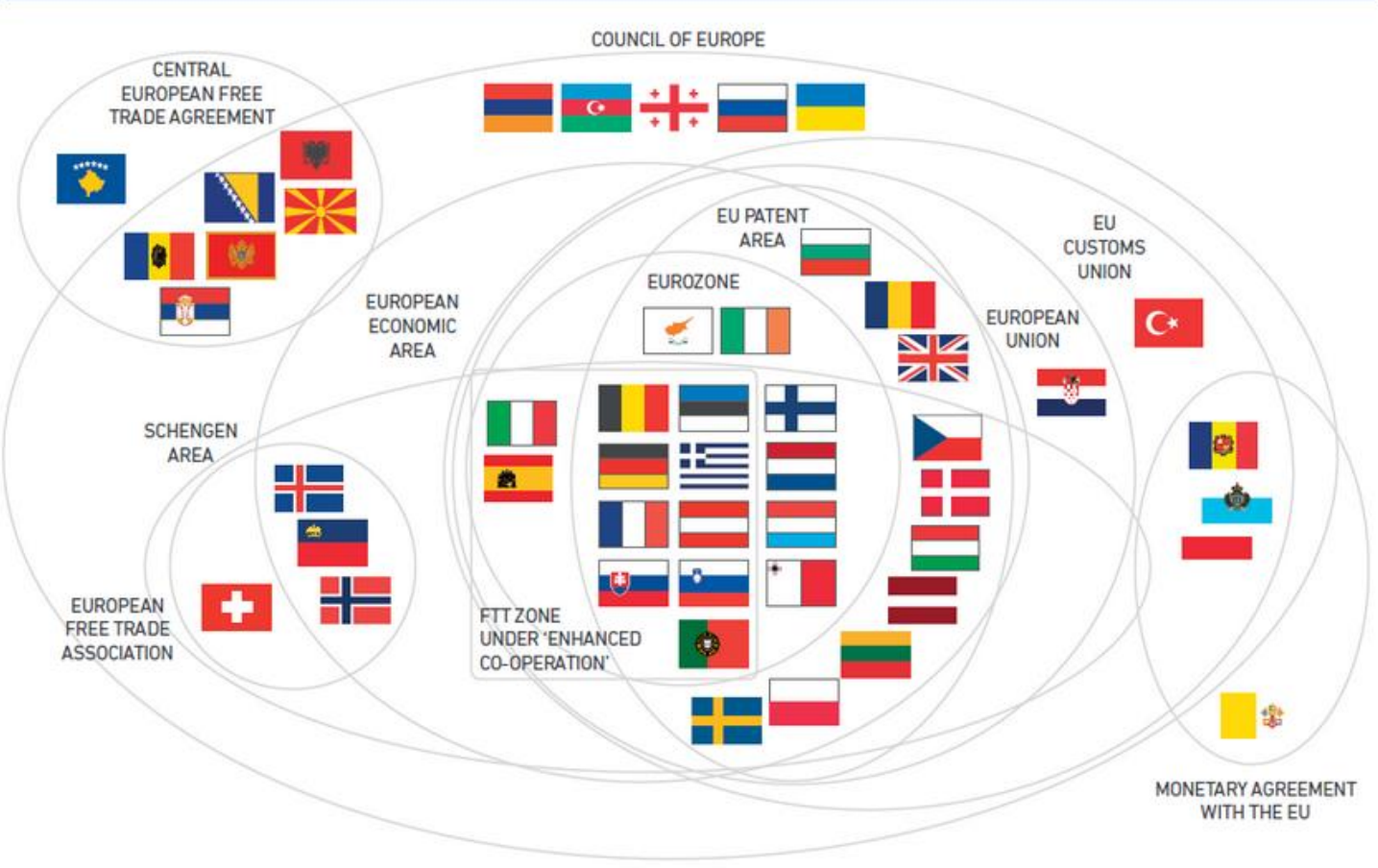
- ❑ Revision of acquis to a „core“ of common interests
- ❑ For the rest: devolution & opening for voluntary enhanced cooperation
- ❑ => differentiated intensities of integration in differentiated policy areas for different MS
- ❑ Functional, not geographical differentiation (≠ concentric circles)
- ❑ Commission / EP as „guardian of the core“ and initiator of (sub-) clubs ...

The common core and optional deepening

- With EU-wide public goods,
- EU-wide need for internalization,
- High economies of scale and
- Low D and E:
- **Core-acquis** for all (s.a. “Continental partnership”):
 - Universalizable rules of just (government) behaviour:
 - Ban of protection and domestic legal privileges
 - 3-4 basic freedoms as individual rights
 - Common anti-trust policies
 - Common diplomatic initiatives
 - Cooperation in migration policies
- The rest: **functionally differentiated** integration-clubs of the „willing and capable“.

Not so unreal after all:

Exhibit 60: The 'multi-sphere' Europe²⁸⁷



Europe à la carte?



Lord Dahrendorf, Jean Monnet Lecture 1979:

I have often been struck by the prevailing view in Community circles that the worst that can happen is any movement towards what is called a *Europe à la carte*. This is not only somewhat odd for someone who likes to make his own choices, but also illustrates that strange puritanism, not to say masochism which underlies much of Community action: Europe has to hurt in order to be good ... The European interest (it is said) is either general or it does not exist ...

I believe that ... such a view is not only wrong, but in fact an obstacle to further European integration.

Europe à la carte?



Europe à la carte ... must become the rule rather than the exception, if European union is not to get stuck in a mixture of incomprehensible technicalities, systematic cheating on the part of some, demands for exceptions which destroy overly complex systems, and a sense of frustration and misery all around.