The “father” of the European Union, Jean Monnet, once wrote that an integrated Europe “will be forged in crises and will be the sum of the solutions adopted for these crises.” Today, as the European Union reels from the economic crisis and the political crisis triggered by the arrest of IMF former Managing Director Dominique Strauss-Kahn in New York, Monnet might have added that not every crisis is or will inevitably prove to be a boon for the cause of European integration.

Just a year ago the Greek government’s burgeoning budget deficit seemed to threaten the very existence of the Euro. And the German Chancellor Angela Merkel warned dramatically that if the Euro were to fail, so too would the European Union (EU) and with it the very idea of European unity.

How do the Euro and the EU look today?

The Euro is still with us. Indeed the Euro zone has expanded through the entry of little Estonia. While other EU member states in Central and Eastern Europe may not adopt the Euro as quickly as they anticipated prior to the current crisis, they have not renounced their goal of doing so. Meanwhile, through the creation of a bailout mechanism for the Euro zone and the adoption of an accord designed to ensure greater budgetary discipline among member governments, the Euro zone has begun to edge towards a higher degree of economic policy integration.

The same judgment can be made for the EU as a whole. None of the existing member states has left. Several states – including Croatia, Macedonia and Turkey – are still queuing to join. Indeed, with the recent addition of the global financial crisis victim, Iceland, the queue has actually become a little bit longer.

The apparent robustness of the Euro and the EU confounds the expectations of the media pundits who, as last year’s crisis unfolded, predicted the collapse of the single currency if not of the entire European integration project.

Nonetheless, it would be hazardous and premature to see confirmation of Monnet’s dictum in what has – or rather has not – happened during the last year.

Regional political integration – a process whereby geographically proximate states adopt and implement more and more common or joint policies – is most likely to occur when two conditions are met.

First, the region must exhibit a relatively high level of economic interdependence – there must be significant potential market gains from integration, prompting business interests in particular to exert political pressure to dismantle barriers to cross-border economic exchange.

Second, there must be a leading, big regional

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power that is willing and able to serve as a regional “paymaster”, mediating distributional conflicts that integration generates, and providing a sense of policy direction or orientation. If the level of political integration in Europe far exceeds that in other regions, this is in large part because European economies are more interdependent than those in other regions, generating powerful pressures on national governments to manage political issues cooperatively. But it is also and in particular because Europe has a big power – Germany – that, unlike big powers in other regions, has strongly supported closer regional political integration. It has acted as a regional paymaster (funding a higher proportion of the EU’s budget than any other member), while mollifying fears that it strives to dominate neighbouring states, either by exercising political leadership jointly, as in the Franco-German “tandem”, or indeed by acquiescing in other states, notably France, performing this role.

Neither of these two conditions of regional political integration is met now to the same degree as was the case in the past. To start with, the “permissive consensus” that for a long time allowed member governments to determine their policies on EU issues without paying much heed to their public opinions has been shattered during the last two decades. From Italy via Austria and the Netherlands to Finland, EU-sceptical political movements and currents have begun to form a countervailing power vis-à-vis the arguably once preponderant, pro-liberalisation influence of transnational business interests.

Meanwhile, the Euro crisis and the pressure to provide large-scale financial aid to Greece, Ireland, Portugal and potentially other southern Euro zone member states have of course fuelled a passionate political debate in Germany, raising question marks over Germany’s capacity and willingness to continue to function as the EU’s anchor state.

In what direction will Germany head?

Several factors or trends in German politics have made German governments’ commitment to the EU and European integration more limited and contingent.

First, since the late 1990s, Germany has been governed by a new generation of political leaders who did not directly experience the Third Reich and the Second World War and have more instrumental and pragmatic attitudes to European integration than their predecessors, such as Chancellors Konrad Adenauer and Helmut Kohl. The “romantic” pro-Europeans in Germany are a dying species. Second, the united Germany, no longer a front-line state in a divided Europe, is not as dependent on the goodwill of its neighbours and allies as it was during the Cold War.

Third, as the powers of the EU have expanded, encroaching increasingly on those exercised in Germany by the states, the Bundesländer, state governments’ resistance to closer European integration has also grown.

Fourth, called to adjudicate on the conformity of European treaty provisions with German Basic Law, the Federal Constitutional Court (FCC) has identified a number of red lines which the federal government cannot cross in its EU policies for fear that these would be declared unconstitutional, thereby provoking a potentially grave conflict over whether the FCC or the European Court of Justice has the last word in determining what is legal or constitutional in Germany.

Finally, as in other member states, German public opinion towards European integration – mobilised occasionally by the tabloid press - has also grown more critical in the post-Maastricht era. Particularly given the German public’s historically-rooted sensitivities relating to issues of currency stability and value, the German government has less flexibility dealing with the Euro crisis than with other EU issues and is correspondingly constrained to drive a harder bargain with debtor member states than would otherwise be the case.

Nonetheless, all these domestic political constraints have not prevented Merkel’s government from making major substantive concessions on the Euro, first by agreeing to a temporary bailout mechanism to assist Greece and then by agreeing to create a permanent bailout facility. Whether the ostensible quid pro quo for these concessions – namely fiscal restraint and policy changes in the bailed-out states – have prevented Germany from driving a harder bargain with debtor member states than would otherwise be the case.

Berlin’s policy on the Euro and European integration, in general, continues to be informed by the dual conviction that firstly the preservation of the Euro and the single market is good for the German economy, given that roughly two-thirds of all German exports are still sold in the EU (although a default by debtor states in the Euro zone on their loan repayments would cause a massive crisis among German banks). Secondly, European political integration is also good, as it allows Berlin to exercise influence in Europe without provoking fears of German hegemony that would prompt other countries to coalesce against it to balance its power.

Merkel’s government can still conduct a European policy based on these precepts because, unlike in many other EU member states, Germany has not yet seen the rise of an extreme right-wing or national-
populist political party that threatens to take critical votes away from the mainstream parties and deprive them of their capacity to win elections. Rather, the main German opposition parties, the Social Democrats (SPD) and the Greens, are more pro-European than the governing Christian Democrats and Liberals, attacking Merkel and her government for not doing enough or not acting fast enough to tackle the crisis of the Euro rather than for being too “pro-European”.

As long as this kind of political constellation prevails in Berlin, the EU and the Euro will likely be safe in Germany’s hands. But this means that the Euro’s and the EU’s future are more contingent than they were in earlier times. Moreover, although the Euro and the EU’s fate depends more on what Germany does or does not do than on the actions or non-actions of any other member, Germany cannot keep the European show on the road all by itself. Semi-detached as it normally is from the heart of Europe, the UK will not help. Spain and Poland are too small and/or economically too weak to help much. In managing the EU’s crises, Berlusconi’s Italy is more a hindrance than a help.

As so often in the EU’s history, Germany can realistically look only to France for support. In France, however, with presidential elections less than a year away, the shadow of the far-right Front National looms ever larger over the political landscape and charges arising from events that are alleged to have taken place in a New York hotel room have almost certainly destroyed the political career of the IMF Managing Director Dominique Strauss-Kahn, who, of all the conceivable candidates for the presidency, was at once the best-placed to win and the one with the strongest pro-European credentials.

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