

The post Brexit EU: Between Narrowing and Enlargement, Integration and Fragmentation

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The End of the European Dream?

- « Every empire will perish » (J-B Duroselle)....
 - but the EU is not an Empire..Created in the shadow of two Empires, one gone, the other declining..
 - 60th anniversary of the Treaty of Rome
 - 25th anniversary of the Maastricht Treaty
 - And then? A Europe at different speeds...
- The EU in bad shape
 - Crisis that lasts, collateral victim of subprime, Integration and enlargement threatened,
 - Weak growth, increasing disparities ..
 - Eurozone, the € future
- Eurocepticism spreading over Europe
 - After Brexit, other outings? Netherland, France temptations
 - Weakness of Italy, Greece still not fixed ..Eastern europe populism
- Answers to
 - Migration, « Illiberal State », Banking system, managing the after-Brexit ...
 - Trade, Trump and Europe,
 - New EU governance..Launching positive policies in infrastructures, numerization, training, innovation (Lisbon agenda)

Presentation in three parts:

- Some explanations of the dysfunctioning
- Four scenarios + Juncker's White Paper
- Choosing among different alternatives: a limited choice
- Conclusion

1. Some Failures...

- The EU instituted in Maastricht a wobbly public power:
 - Money but not the budget, not sovereign.
 - BCE a lender of last resort due to bypassing the rules.. (Draghi)
 - Strong asymmetries, misallocation though the Eurozone
- Error in the creation of the Euro
 - Led to deindustrialisation, social dumping, unemployment,
 - Damages caused by the € in Greece, Portugal, Spain.
 - Weaker countries fully supported the cost of adjustment.
 - Europe on the brink of dislocation? Risk of Nexit, Italexit, Frexit...
- The common currency
 - Introduced prematurely.
 - Handicapped by the ECB limited powers.
 - The Euro also suffers from increasing divergence of member state fundamentals.

- The Maastricht criteria and austerity
 - Member states condemned to pro-cyclical fiscal policies, protracted recession and mass unemployment, creating a North South divide
 - Fiscal consolidation (tax increases plus government expenditure cuts) results in an increase of the public debt/GDP ratio
- Tax competition.
 - Taxation across the EU not harmonized
 - Taxation competition destroys national and EU collective tax revenue potential. See Luxembourg or Ireland (Apple Europe), «tax holidays » (Portugal, Italy), fiscal dumping in BG...
- EU budget.
 - About 1% of EU GDP (against over 20% of GDP for the federal budget in the US). Limited leverage possibilities. Mostly distributed to CAP, structural funds (Eastern Europe)
 - No possibility of issuing and servicing EU debt, rules out financing major Europe wide investments in infrastructure or counter cyclical policies. (Difficulty to finance the Juncker plan)

Other points..

- Trade policy.
 - Clear democratic deficit, secret negotiations (TTIP, CETA), EC favorable to international investors, pro- multinational corporate bias from high officials of the EU.
- Migration.
 - Acceleration of migrant inflows Most of them economically migrants, not refugees. Negative balance of gain/losses of migration: lack of policies, mechanisms.
 - East-West divide: increase populism and negatives policies.
- Divergence of welfare policies.
 - European Social Model (not compulsory) diluted and debased by EU enlargement to the East (2004-2006), globalisation of labour and austerity.
 - -> Rejection of a financial transfer union has involved a *de facto* labour transfer union.
 - Impact on workers mobility: from East to West; shortages in the East: Czech Rep., PL..
- Tolerance of illiberal regimes
 - “Illiberal” regimes or democracies: Hungary (Mafia State?) and Poland: restricted freedom of speech, media pluralism and the protection of minorities. Accession state Turkey’s Erdogan, authoritarian evolution. Slovakia advocating a “raw majoritarianism”.
 - A fault line is dividing liberal and illiberal Europe

EUROPE ACCORDING TO GREAT BRITAIN 2010

from Yanko Tsvetkov's Atlas of Prejudice
www.alphadesigner.com

LAS VEGAS



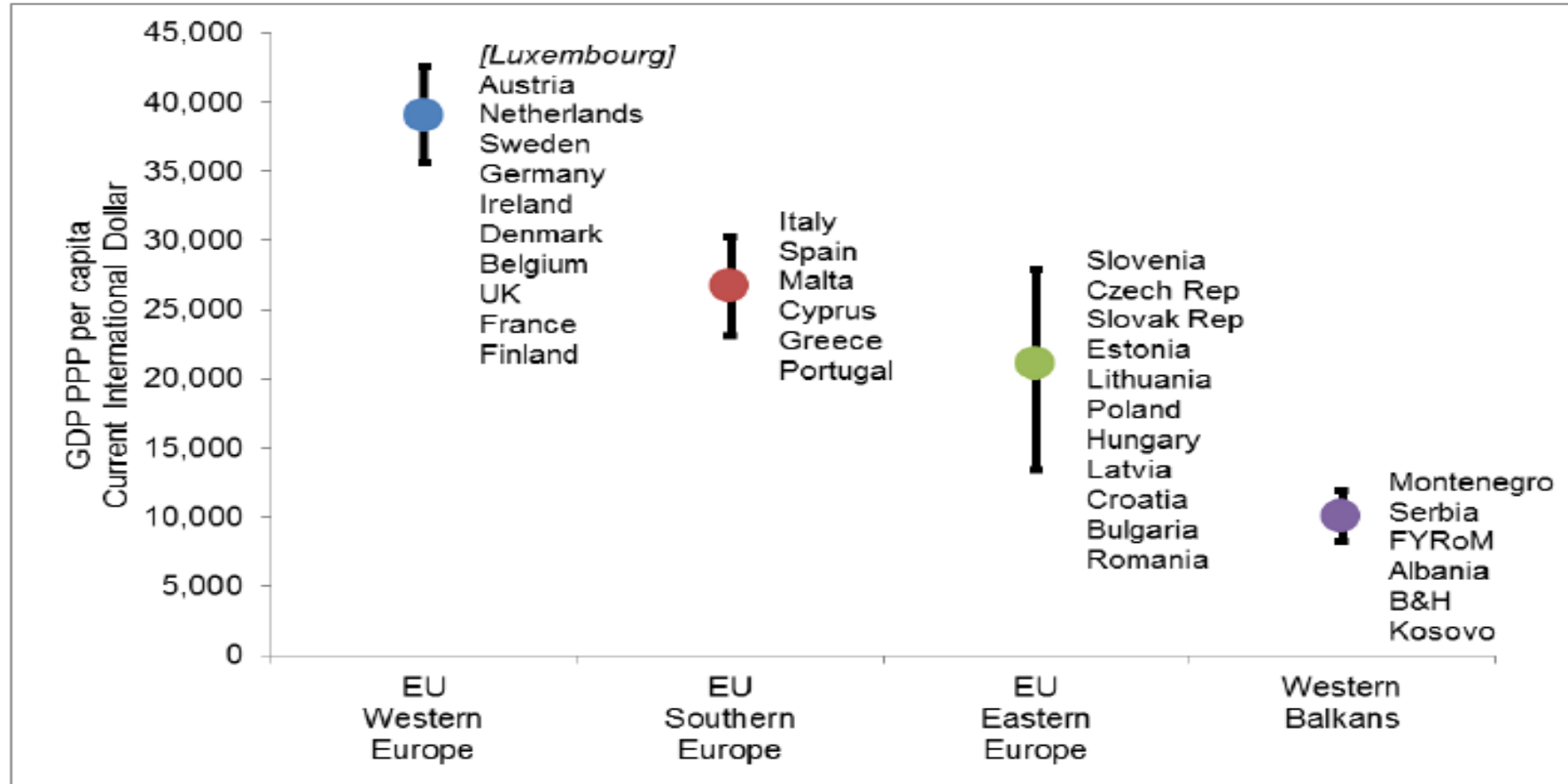


EU: What vision, which strategies?

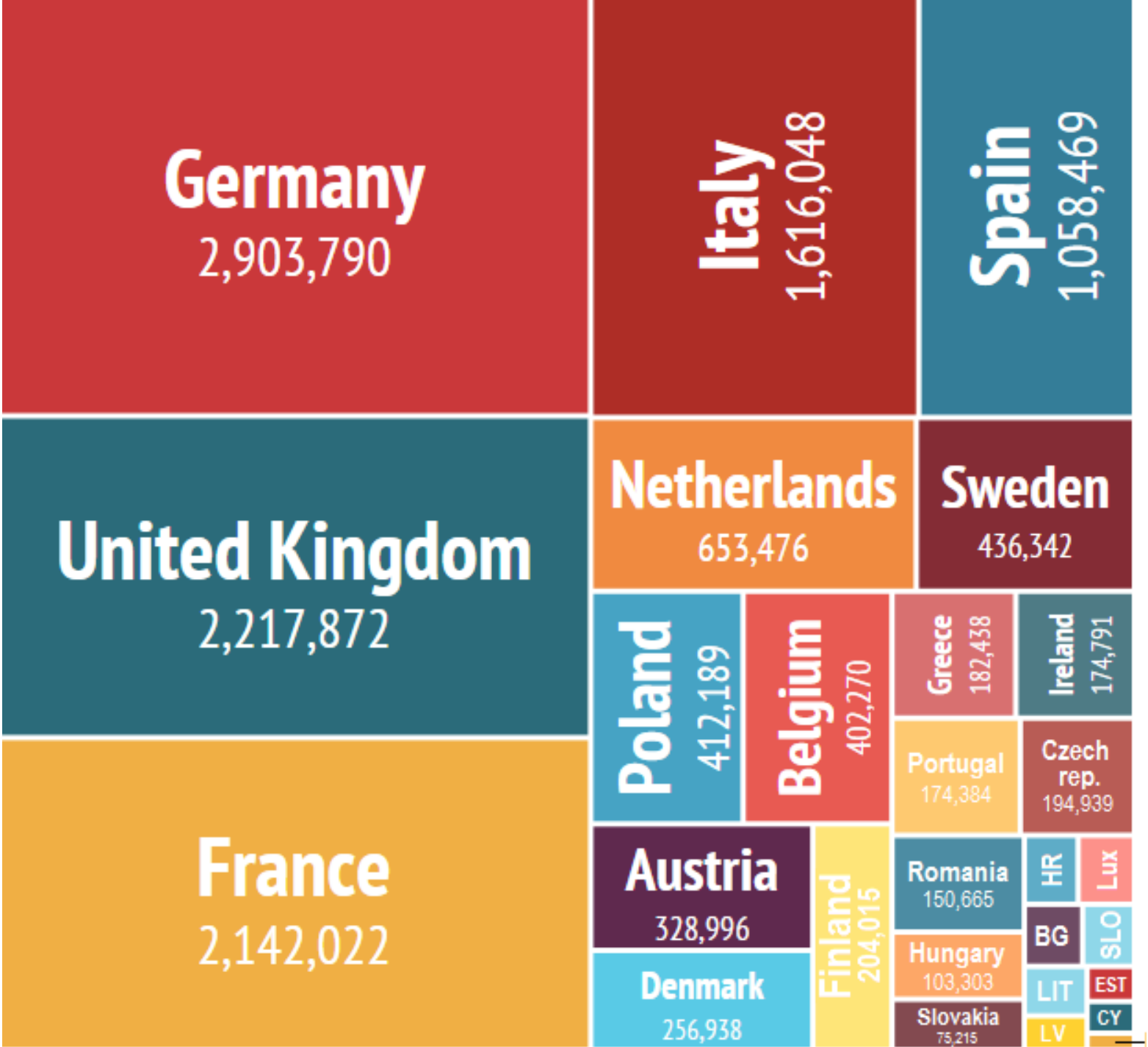
- A Europe without ideas, will, weak governance..
- What economic impulses for recovery, sectoral, transnational policies?
- Co-ordination within the Euro-zone: business policy, taxation, governance,
- Filling the gap? Still strong disparities among EU-27 (28-1..)
- Giving room to the idea of a variable geometry governance and integration?
- More democracy + more budget = Increasing role of public policies? (Aglietta)
- More control and implication of national parliament in the Eurozone? (Piketti)
- Two tier Europe, how to implement it. (Artus)
- But reluctances:
 - The phobia of moral hazard among Germans, unwilling to recycle trade surplus to support undebted countries
 - The Eurofatigue: limited outcomes
 - Populism: « the fault is Brussels »
 - The refusal of any institutional and economic progress by most members.
 - The solution : do with what we have? The Juncker White Paper: a fundamental change?

Slow convergence. GDP per head....

Chart 1: Convergence potential














Source: World Economic Outlook, IMF, October 2015.



...and Gross Basic Wages

Niveau de SMIC mensuel brut (en €) de 22 pays européens
Année 2016

	Montant du SMIC		Montant du SMIC
 Allemagne	1440,00 €	 Lituanie	365,00 €
 Belgique	1516,88 €	 Luxembourg	1922,96 €
 Bulgarie	214,75 €	 Malte	728,04 €
 Croatie	411,47 €	 Pays-Bas	1530,90 €
 Espagne	764,40 €	 Pologne	425,45 €
 Estonie	430,00 €	 Portugal	618,33 €
 Irlande	1546,35 €	 Rép. Tchèque	365,63 €
 France	1466,62 €	 Roumanie	254,22 €
 Grèce	683,76 €	 Royaume-Uni	1479,72 €
 Hongrie	350,69 €	 Slovaquie	405,00 €
 Lettonie	370,00 €	 Slovénie	790,73 €

Source : Brigitte LESTRADE : « L'introduction du salaire minimum en Allemagne : un premier bilan », Notes du Cerfa, n° 136, Ifri, février 2017

ifri Institut français des relations internationales

After Brexit, other Temptations?

- Difficult for Euro zone countries to leave (France...) in spite of strong asymmetry fueled by the € crisis,
 - Economies strongly linked to the €: accumulation of assets, liabilities, entwined
 - High cost of leaving: currency devaluation, loss of value of assets for the most integrated countries (Netherland..)
- Which alternative for non euro-zone?
 - Problems of size, specialization, dependencies, linkages
 - NMS
 - Poland, Slovakia, Hungary, Czech Republic: limited space to gain more autonomy against Brussels, high dependency (capital, trade)
 - Tough position of NMS against negative impacts of Brexit: loosing structural funds, but against Multi Speed
 - Limited interest of Russia , China for NMS, WB?
 - Fragmented markets
 - Politically instable, corruption
 - No big deals: see China's FDI among NMS. 16+1: a limited impact

2. From Brexit to EUxit? 4 Scenarios

- 4 Scenarios, Two possible, two unlikely
 - A. Status quo and improvements at the margin
 - B. A federal option leading to a two (or multi) tier Europe
 - C. Slow unraveling of governance and monetary institutions paving the way to desintegration: the « French populist » approach
 - D. The end: A Europe bursting with the emergence of various regional dynamics: the end
- Many problems
 - How to measure impacts
 - What future for the Neiborough policies
 - How countries in WB accession would stand?

A.Improving the existing system

- « The system basically is good, just necessary to make some reforms »
 - Better control of the Commission, make it more transparent, reduce regulations, review the principles of subsidiarity, show the people of Europe that the EU defends their interests and works for their well being.
 - Relaxation of austerity plans, the Maastricht criteria, to give more oxygen to national economies, especially now mired in crisis.
 - More fine tuning in the day to day management of the EU instead of applying rules, fines
 - The launch of cross-border plans (Juncker Plan) to stimulate employment in many sectors with visible effects.
- Probably the most likely scenario:
 - Maintain the status quo.
 - Introduce marginal reforms
 - Enhance co-operation in some areas
 - But no vision, no willingness to go further. Old trade off between federalism and sovereignty still remain

B. More Federalism¹: from one to a two (or multi) tiers Europe?

- Refocusing the construction and integration around a small circle of member countries
 - Willing to engage in a federal process.
 - Increased budgets, financial integration, strategic investments, spending on research and development.
 - Creating strong positive externalities spreading over the rest of EU members
- Who will be among the few?
 - Three or four levels: € (only some?), non € zone & opt-out countries (DK, S), NMS, Difficult implementation of this scenario. Would encounter many difficulties: how to accept politically and impose a demotion to the second and third circles?
- How to articulate and implement coherent policies?
 - High cost of setting up, negotiating , monitoring, implementing programs..

Federalism 2: The two tiers EU (P. Artus)

- Divide the EU in two parts: € zone members and the other
- € zone countries:
 - Linked to the €: level of assets, liabilities: difficult to pull out without losing value, currency devaluation..
 - more federalism, looking for positive externalities (taxation) reducing asymmetries (internal mechanisms within the €)
 - Subsidiarity: concentrate on sectors producing strong externalities
- The others: Different status: similar to EEA countries (Norway..) linked to the EU
- Pb: Management of a EU «à la carte».
 - End of the European dream...High cost and time consuming of coordinating common actions between the different levels.
 - Temptation to roll back, to freeze access to second, third tiers..

C. Dismantling of EU governance and monetary institutions: the beginning of the end

- The continuation of the crisis, the inability to reduce budget deficits in the euro zone, the fragility of the banking system in several member countries would lead to the questioning of the EMU and some of its regulation
- € transformed into a common instead a single currency.
 - Back to monetary independence, to national economic policies to promote employment, exports with the risk of feeding inflation and increasing public deficits.
 - Return to the « monetary snake », to competitive devaluations repeatedly.
- At European level, the monetary easing would lead to strong tensions,
 - A hybrid €, Neuro in the north, Seuro in the south?
 - Would be both a regression from what has been created, and the the « beginning of the end »: the unraveling of the single market and European integration.
 - Program which has the favors of both right-wing and left-wing populists especially in France

D. A Europe bursting with the emergence of various regional dynamics






- Failure of Scenario 1 and 2, next step after scenario 3
 - Failure to resume with growth, reduce unemployment
 - Permanence of a strong anti-European feeling among the populations of 28-1,
 - Success of new Brexit type referendums?
- Toward the fragmentation of the EU
 - The emergence of strong polarities north and east of Europe around Germany and its industrial base in Eastern Europe (Central and Eastern European « dependent capitalisms »).
 - France and southern countries Italy, Spain, Portugal implementing strategies with the South of the Méditerranée, Morocco, Algeria, Tunisia , other MENA and sub-saharian countries?
- What about South-East Europe countries
 - Waiting for a hypothetical membership? Further enlargement postponed (Western Balkans)
 - Perspective to remain permanently at the periphery? (or « Detour from the Periphery to the Periphery »: Berend, Ranki)
- Geopolitical instability:
 - Influence and threat of Russia on its former « possessions » (Baltic States..) and dominated states: CEE, in Western Balkan (Serbia, Montenegro..)

Comparing with the White paper's scenarios with our 4 scenarios

Change of governance, of the perimeter of action
Between our scenario 1 and 2

- 1: Business as usual
- 2: Reinforcing 1 for some
3. Toward the two-speed EU
4. Increasing subsidiarity
5. New pace for integration

But federalism, budget, taxation, foreign policies, etc..should be addressed..

	<p>Carrying On <i>The EU27 focuses on delivering its positive reform agenda</i></p>	<p>+ +</p>	<p>The positive agenda of action continues to deliver concrete results The unity of the EU at 27 is preserved</p>
	<p>Nothing but the Single Market <i>The EU27 cannot agree to do more in many policy areas beyond key aspects of the single market</i></p>	<p>- -</p>	<p>The unity of the 27 may still be tested in the event of major disputes The gap between promise and delivery will only progressively be closed if there is collective resolve to deliver jointly</p>
	<p>Those Who Want More Do More <i>The EU27 proceeds as today but allows willing Member States to do more together in specific areas</i></p>	<p>+ + -</p>	<p>Decision-making may be simpler to understand It becomes harder to address issues of concern to more than one Member State and therefore the gap between expectations and delivery widens on common challenges Citizens' rights guaranteed under EU law may become restricted over time</p>
	<p>Doing Less More Efficiently <i>The EU27 focuses on delivering more and faster in selected policy areas not acting in where it is perceived not to have an added value</i></p>	<p>+ + -</p>	<p>The unity of the EU at 27 is preserved while progress is made possible for those who want more The gap between expectation and delivery closes in countries who want and choose to do more Questions arise about the transparency and accountability of the different layers of decision-making Citizens' rights guaranteed under EU law vary depending on where people live</p>
	<p>Doing Much More Together <i>Member States decide to do much more together across all policy areas</i></p>	<p>+ + -</p>	<p>European citizens feel that the EU is only acting where it has real added value A clearer focus of resources and attention on a number of selected domains helps the EU27 to act faster The EU at first has difficulty in agreeing which areas it should prioritise</p>
			<p>There is far greater and quicker decision-making at EU level Citizens have more rights under EU law Parts of society which feel that the EU lacks legitimacy or has taken too much power away from national authorities risk being alienated</p>

Which scenario will be implemented

- Political factors
 - *Political shock*: French elections, € crisis, Italy.. from status quo A to C? End of the EU..
 - *Political willingness*: From A to (partly) B, positioning on the Juncker's scale?
 - In both events: Periphery, Neighborhood policy, external and trade relations (Russia, US..), Migration...
- Scenario A or A+, to B or B-..
 - In fact: around scenario A
 - Changes in governance, not all advancing at the same pace, less regulation but looking for higher externalities
 - Which difference between « multi speed » and « *à la carte* » participation (Eurozone, Schengen, opt-out)

Variety of Speed...

- Some crucial questions not addressed
 - Which EU perimeters in the futur? Which cooperation with the UK and other non members states
 - Eurozone/non eurozone: managing deeper integration and the single market
 - Which articulation between central monetary, central fiscal and national fiscal policies
- Mechanism, bond markets, recycling German trade surplus.
- Deeper divides
 - North South (within EU-15)
 - East-West
 - No Balkans integration
- Avoiding a « Germanification » of Europe

Conclusion: the way ahead

- The worst is not desirable, possible, only scenarios A and (part of) B
- Europe bashing but strong Europe resilience
- Juncker's White Paper: what to focus on? What agreement between the partners?
 - Timelines and priorities: short, medium, longer term
 - Priorities:
 - Political will and institutional engineering
 - Management of the exit and new forms of co-operation with the UK
 - Eurozone and single market
 - EU and the world economy

