

## ***The European Union: The Threat of Disintegration***

– EuroMemorandum 2017 –

### **Summary**

#### **Introduction**

The crisis of the European Union (EU) is multifaceted and has visibly deepened during the last year. The British referendum on EU membership and the vote in favour of Brexit have only been the most explicit symptom of the disintegrative tendencies. The core-periphery rift in the euro area has continued. The arrival of a large number of refugees from the war-torn areas of the Middle East has resulted in acrimonious conflicts in the EU on the question who should take care of them. The way in which the pro-free trade forces pushed through the Comprehensive Economic and Trade Agreement (CETA) with Canada showed utter disregard for the objections of democratically elected bodies (e.g. the Belgian regions of Wallonia and Brussels).

In face of the multiple crisis of the EU, there is a relatively large consensus ranging from Social Democrats to right-wing nationalist forces to seek a flight forward towards an increasing militarisation of the EU. Otherwise, different strategies to deal with the crises can be discerned. The predominant response is muddling through. It is privileged by the majority of Christian Democrat, Social Democrat and liberal forces. This strategy continues the neoliberal mode of integration and seeks to preserve the present geographic shape of the euro area and the Schengen Zone. It will most probably not prevent the deepening of the disintegration tendencies. There are two sub-varieties of muddling through. One aims to combine it with more fiscal flexibility and more public investment. It is mainly advocated by Social Democrat forces in France and the Mediterranean. The other sub-variety abandons the integrity of the Schengen Zone and rather advocates a smaller Schengen Zone with tighter border controls. It is favoured by a relatively broad range of forces particularly in Germany, Austria and Central Eastern Europe. A 'core Europe' conception with a smaller and more compact euro area is advocated by right-wing nationalist forces like Lega Nord in Italy, Freiheitliche Partei Österreichs (FPÖ) in Austria and Alternative für Deutschland (AfD) in Germany as well as some Christian Democrat currents. On the right of the political spectrum, there are finally 'Europe of Nations' concepts. They tend to advocate focusing European integration on the Single Market and linked economic regulations. The nationalist right-wing demands more spaces of national competitive strategies. Right-wing nationalist parties, like Fidesz in Hungary and Prawo i Sprawiedliwość (PiS) in Poland, regard regional funds as an essential element of integration. Some forces of the nationalist right even tend towards leaving the EU.

On the political left, there are divergent strategies as well. Some forces advocate a form of democratic European federalism. The political presuppositions of such a project are extremely demanding. Other left-wing forces do not regard democratic European federalism as a realist solution and see the EU institutions as being particularly strongly shielded against popular pressures.

They propose an explicitly pro-social agenda and defying EU regulations and abandoning the euro area if this is necessary to bring about progressive policy changes.

### **1. Macroeconomic & development policies to challenge austerity and uneven development**

Since late 2014/early 2015 official EU policy has launched two initiatives in order to spark-off a recovery, the 'Juncker-Plan' and the clarification of the interpretation of the Stability and Growth Pact (SGP) with the aim of providing more fiscal leeway for member states. The overall results of these rather timid initiatives for non-monetary demand stimulus are quite discouraging: The euro area is still far from a sustained recovery and with the general weakening of the world economy and the uncertainties caused by the Brexit vote the fragility of the recovery has recently increased considerably.

Macroeconomic policy in the EU needs a different approach that will, in the short-term, deliver a strong and self-sustaining recovery which secures full employment and equitable growth and, in the long run, prevent the obvious macroeconomic imbalances. The present macroeconomic policy approach most unsuccessfully tries to achieve this by a combination of fiscal austerity and a competitive devaluation driven by 'structural reforms' on the labour market, i.e. basically by curtailing workers' rights, weakening trade unions and dismantling the welfare state.

A convincing alternative requires at least six important changes. (1) The balanced budget requirement should be replaced by a balanced economy requirement which includes the objective of high and sustainable levels of employment. (2) In the long-run a substantial EU level budget is required in order to finance EU-wide investment as well as public goods and services and establish a counter-cyclical European level fiscal policy which can support national fiscal policies. (3) Instead of focussing only on overall growth, a successful strategy should also give priority to overcoming disparities between different regions and sectors. (4) A long-run European investment strategy should be developed, addressing European, national and local development. (5) The current deflationary strategy of competitive devaluation should be replaced with a strategy of wage growth which ensures a fair participation of workers in national income growth and stable inflation. (6) Effective measures should be taken against tax competition.

### **2. EU monetary and financial policies: easy money reaching the limit?**

In 2016, the European Central Bank (ECB) continued and even reinforced its policy of very easy credit. However, there are signs that this policy may be reaching its limits. In the course of the crisis, the ECB has acquired vast new powers and responsibilities, which make its independence from all political instances in the EU an even greater violation of democratic principles. Meanwhile the main EU initiative in the sphere of finance, the Capital Markets Union, seems unlikely to yield significant economic benefits and will arguably be seriously disrupted by Britain's impending departure from the Union.

### **3. Migration and EU solidarity**

Migration within and from outside the EU has severely strained the unity and solidarity of the EU. It was one of the key factors in the Brexit debate and influenced the final result in June 2016. Migration has also become the main rallying point for the right-wing movements and parties across the EU from Poland in the East to France in the West with little attention to the facts of migration. There have been different flows of migration at work with different economic and political dynamics. For some countries like Britain it is the intra-EU migration from Eastern European countries that has been flagged up as a 'problem', despite being part of the EU mandated 'free movement of labour' whilst for others like Germany it is migration from outside the EU. Some countries like Poland have sent over a million migrants to other EU countries whilst being a strong voice against migrants from outside the EU, especially from Syria and other parts of the Middle East and North Africa region.

What are claimed to be the problems are the pressure on social resources and threat to national and cultural identities. Whilst the former is a result of long standing neglect of public provisioning under various neoliberal economic policies, the latter is more of an excuse to blame the 'others' for social and economic problems facing the poor – in part due to the very same neoliberal free trade and globalisation policies. There is also very little evidence for the assertion that migrants have misused welfare support in migration receiving countries.

There are alternatives to the current xenophobic and anti-immigration policies in the EU. In the medium-run there is a need for cultural and political work to change public perceptions on the value of migrants to host countries, whilst in the short-run economic and financial resources do exist and can be mobilised to alleviate the pressure on host regions as well as to support the people who have been forced to seek refuge in the EU.

#### **4. The right-wing and economic nationalism in the EU: origins, programmes and responses**

The multiple crisis of the EU has facilitated the rise of right-wing nationalist forces. The nationalist right encompasses a wide range of positions, from nationalist liberal conservative forces to those that are openly fascist. Some of them advocate programmes that are rather neoliberal whereas others combine neoliberal with national-conservative elements, some of which include heterodox elements. Social policies are characterised by a mix of workfare elements and conservative measures. The latter ones aim at restoring 'traditional' gender roles. In several West European countries with a significant population of migrant origin, right-wing nationalist parties aggressively advocate an exclusionary 'national preference'. Counter strategies should not simply oppose 'European' to 'national' solutions. They should rather propose inclusive and egalitarian policies. Strategies must deal with the decline of peripheral regions and many rural areas. The strategies should be based on territorial levels where the chance of concrete successes seems to be largest. Often, this would be the national rather than the EU level.

#### **5. European external relations**

Since the beginning of the temporary suspension of negotiations over the Transatlantic Trade and Investment Partnership (TTIP) and the initiation of the Comprehensive Economic and Trade Agreement (CETA) ratification, the latter has stolen the limelight. Strong currents among left-wing parties, trade unions and social movements, however, consider CETA to be as regressive as TTIP in regard to democracy and the state of law. One of the most controversial clauses pertains to the exclusive and unilateral right allowing transnational corporations to sue governments before private arbitration tribunals for losses incurred following a change in legislation. Although CETA declares that 'the right to regulate within their territories to achieve legitimate policy objectives' is guaranteed to the states, any possibility of standing in a tribunal with looming colossal indemnities is sufficient to paralyse any action from governments. Moreover, given the imposing presence of US companies in Canada, they could realise, via CETA, a substantial part of TTIP's objectives. Taking into consideration that the CETA has still to be ratified by national parliaments, the member states' level will be the key level for opposing CETA.

Nowadays the European Neighbourhood Policy (ENP) is in limbo. The Eastern partnership is failing after the Ukrainian crisis, for which it is partially responsible, while civil wars are raging in the south and – above all – in the south-east of the Mediterranean. The ENP is therefore becoming, on its two fronts, the collateral victim of the US confrontational policy towards Russia. The breach created by the Ukrainian crisis is paving the way for outside interventions, which are reinforcing divisions and fragmentation within the EU. It also lays bare and exacerbates the EU's inability to act independently. The Ukrainian government, encouraged by the ambiguous attitude of the US and despite the catastrophic situation in the country, is blocking the implementation of the Minsk Agreement drawn up by the EU, whilst the Russians are tending to by-pass Paris and Berlin in order to have direct contact with Washington. The ENP approach has been based on making countries of the EU

neighbourhood adopt parts of the EU *acquis communautaire*. Such integration deepens de-industrialisation tendencies in the periphery. And in a couple of cases, like Ukraine and Moldavia, it has deepened internal geo-political fault lines. Instead of promoting deep free trade and subordinate integration, EU neighbourhood policies should establish forms of mutually beneficial cooperation, for example at sectoral levels.

The full text of the EuroMemorandum draws on discussions and papers presented at the 22nd Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group in cooperation with the Faculty of Economics, University of Coimbra, from 15-17 September 2016 in Coimbra, Portugal.

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