

## The Crisis of the European Union: Diagnosis and Prognosis (A Voice Outside the Chorus)<sup>1</sup>

di Mario Patrono  
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*European unity means peace.  
What European disunity means, history tells us.*

*Time is always the hardest dimension to judge.*

On the eve of the new millennium, and close to the beginning of the Euro, the *pro tempore* president of the European Parliament, Nicole Fontaine, gave a speech regarding the integrated Europe: “In 50 years, we have come a long way in the direction of the safety and welfare of the peoples of Europe. [...] We live today in a Union in which citizens can freely move and settle without the obstacles of national borders. [...] The social integration is blooming. [...] The European Union is founded on democracy and rule of law. The citizens of the Union are linked by their most cherished ideals, freedom, security and justice.”

Nicole Fontaine had very solid reasons to draw up a view so reassuring, so optimistic about the state of the European Union, in November of 1999. The integration process pathway had, up to that moment, undertaken a long journey, which went forward “step by step”. Jean Monnet, the “constitutional father of Europe”, prefigured the “sector by sector” approach, also called functionalism, each step leading to the next one in a regular, consecutive progression, as a building strategy of European unification. The final step will be a federal Europe. Walter Hallstein, President of the European Commission from 1958 to 1967, explained in this regard: “the first step requires the second. If we want a common customs policy, we must soon have a common economic policy. If we have a common economic policy and, moreover, a common external tariff, we must have common ideas about our foreign trade policy. Here, we cannot stop now. Because the common foreign trade policy is strictly connected with the classical foreign policy and the foreign policy is, at the same time, defence policy. And we are now at the first chapter of what can be called the ‘political union’: the extension of the political union beyond the matters of economic and social policy.” “Supranational” authorities – the European Commission and European Court of Justice – would have the task of leading and pushing forward the integration process, under the rules and principles dictated by the Treaties.

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Apparently, the journey made up by the EU in November of 1999, and in some ways also in the years onwards, went on easily according to that envisaged plan. The common custom tariff was fixed briefly; the free movement of goods and workers, first, and then of services and capital, was now being made, after a slow and exhausting effort to demolish barriers of various nature that hindered it; has seen one stage after another: the rise in the number of Member States from 6 at the beginning to 28 today; a European Parliament elected, since 1979, directly by the citizens of Europe, which is now located at the centre of the transnational decision-making process; the adoption of the single currency – the Euro – in place of national currencies, and the growing number of Member States that have accepted it, from initially 11 to 19; the establishment of European citizenship, so every citizen of a Member State enjoys dual citizenship, national and European, a characteristic feature of a confederate State; the development, alongside of the common market, of an Area of Freedom, Security and Justice. Two more things. First, the general economic situation of the Union was, at the time of Nicole Fontaine's speech, completely reassuring, more it was excellent. Second, the EU was underway to become the world's largest trading block, inhabited today by about 500 million people.

Additionally, European integration has helped to pave the way to reach something still more important than the creation of the European Union as a trading block. The Union is the most successful example of changes of political regime in our time. More than half of its Member States were dictatorships until a few years ago. Their progress in the direction of liberal democracy has gone hand in hand with the journey toward accession to the EU. The yearnings for freedom and to "return to Europe" were mutually reinforced. Recently, the Nobel Peace Prize awarded to the EU in 2012 is a recognition of the capacity of the European Union to promote peace, democracy and human rights internally and around the world as well.

The first clouds appeared to obscure the sky of Europe soon after Nicole Fontaine's speech. The average differential between GDP and deficit spending began to grow. Starting from 2002, European economic growth, compared to that of the United States, began to slow down. On May 29, 2005, the French electorate said "no" to the "Treaty establishing a Constitution for Europe". Shortly after, on 1 June 2005 the Dutch people also said "no" to that Treaty. A worrying alarm, a "knockout blow" that few expected. Then other causes of strong alarm made their appearance. One cause of alarm is the growing presence in every European country of political parties and groups of extreme right and extreme left, which are, for different reasons, strongly against the European Union. These two anti-European polarities, as we soon will see, mark the two red wires of the European crisis. More clear evidence of the crisis is the decreasing popularity of the Union in public opinion in the Member States.

And finally we arrive at today. On May 21, 2015, at Riga, Latvia, the British Prime Minister David Cameron demanded to renegotiate the fundamental principle of free movement of people inside the EU, and the exclusion from the EU's commitment to an "ever closer Union", that is to clear the two pillars of the European Union. First, the social integration of European peoples. The second, the political integration of the States of Europe, and the strict solidarity between them. In other words, Cameron demands that the EU is brought to an end. So the crisis of the EU is now officially declared.

Now the question is: in what sense can we (must we) speak about a crisis of the European Union? In other words, what kind of crisis is the EU's crisis? The crisis of the EU certainly is different, for example, than the terrible economic crisis, the Great Depression, which hit the United States in November 1929 and lasted until the middle of 1935, finally tamed by the New Deal of President Franklin D Roosevelt. In the same way, it is much different from the economic crisis that once again gripped the United States from December 2007 to June 2009. Both were essentially economic and social crises. No one in the United States, even during the Great Depression, said: we should dissolve the Union, every State for itself, God for everyone! In contrast, the crisis of the EU is an "existential" one, which directly touches upon the need/utility of the States and the peoples of Europe to stay together within a close relationship, the Union.

There is also a second aspect to the European crisis. Side by side with the internal crisis ("existential", I defined it as), there is also an external crisis of the Union concerning its relationship with the world that surrounds it. The world is changing. Particularly what once upon a time was called the "Third World", i.e. the world of the poor people, is changing. It is now partly no longer poor (South Korea and Singapore, and even China, India and Brazil), and partly it no longer wants to be poor, and is demanding European aid for a better life. With respect to such an epochal change in the world that surrounds it, Europe has no strategies. This, in simple words, is the immensity of the crisis of the European Union.

The reasons for the crisis are numerous. I list here four of the most important reasons, in my view. The latest – the fourth – I would like to focus on more in depth.

1) The disappearance of the fear of war, or, in other words, the peace as an (supposed) endemic element of today's Europe. Many consider the European Union as vestige of the past. Today in Europe, the risk of war seems today to be vanished forever or at least limited to its extreme boundaries, a thing to watch TV News. The idea today is that – peace being finally consolidated there – the reinforcement structure around the European countries to keep them in harmony. This means that the EU is seen as a vestige of the past, which no longer serves, but which is instead a hindrance.

2) The failure of the (political) spill-over, or, in other words, Europe as a rubbish bin. Most analysts of the integrating process in Europe have considered the need for a spill-over that would have to develop under the push of the political leadership of the Member States, a push directed to create over time a European public conscience able to connect with the local and State identities. Like the nation State that, from an artificial entity which it initially was, became able to penetrate to the bottom of the collective consciousness of the people thanks to the ceaseless action of the elite of each State, in the same way the EU needs a similar spill-over. This spill-over has not occurred. On the contrary, the European leaders have often preferred, especially since 2000 and more since 2008, to use the EU as a rubbish bin, where to offload the more unpopular decisions. Having given to all bitter decisions, however necessary, the name of “European constraint”, the people now think: why should we continue to tolerate the European constraints? If we abolish them, our future will be much more happy. In other words, Europe is now perceived as a father-master who constantly rebukes, obliges and punishes. This causes a growing disaffection of Europeans towards the Union.

3) From welfare state to the hegemony of the market. The Maastricht Treaty (1992) had been a true turning point for many reasons. One of the reasons is that the Treaty radically overturned the relationship between social welfare and freedom of economic undertaking. Until that moment, especially under the constitution of some Member States, the market was free within the limits of the welfare state. Now instead, social welfare is allowed if, and up to where it is compatible with the “principle of an open market economy with free competition” (Article 3). This radical change frightens many. The Soviet Union collapsed, so there was no longer any reason to compete with the Communist world in terms of social security. In Europe many thought “the attack on the welfare state in Western Europe starts now.” At the referendum on the Maastricht Treaty, a shocking 49% of French people said “no”.

4) The Euro was born prematurely and affected by serious prenatal illness. 1989, the Berlin Wall collapses. 1991, the Soviet Union implodes. It happened before the analysts had expected it. Suddenly, two enormous problems arise.

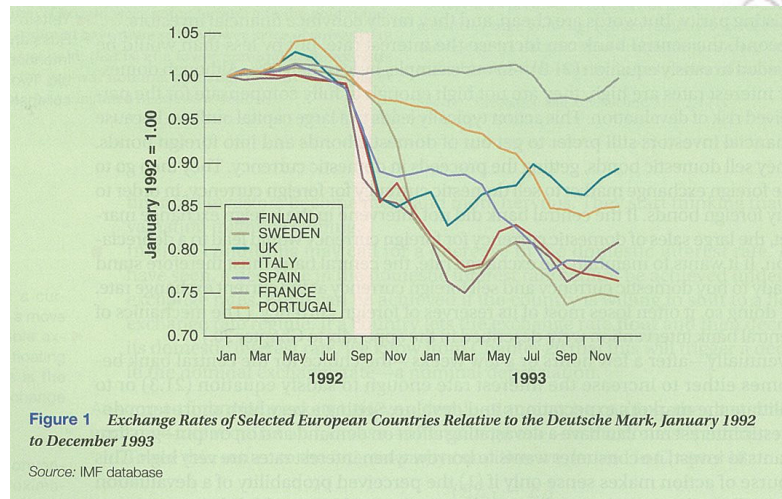
First, it started a biblical exodus of people, relegated up to then in Eastern Europe, towards the prosperous countries of Western Europe. After a dreadful migratory wave, which lasted approximately 10 years, and led to very strong turbulence in Western European societies, now the phenomenon seems to be stabilised at an acceptable level of migration. Rather, a new and serious problem concerning immigration arises from the North African shores. According to the International Organisation for Migration, based in Geneva, more than half a million people enter Europe each year, mostly through Southern Italy. The people accuse the EU with not having a clear and effective strategy about it. Some CJEU judgments, like the *Elgafaji* case C-465/07 [2009] 2 CMLR 45, certainly did not help. This overall situation, in the short run, has fermented the growth of strong and dangerous



movements and political parties of the extreme right, which oppose the EU on the basis of nationalistic views.

In my view, it urgently needs a central (European) government for Immigration.

**Secondly, the reunification of Germany, October 1990, has had grave consequences for the EU. The German government asked the European partners to give aid to withstand the financial burden of reunification. The following graph shows the economic turbulence had by the Member States as a consequence of the German reunification.**

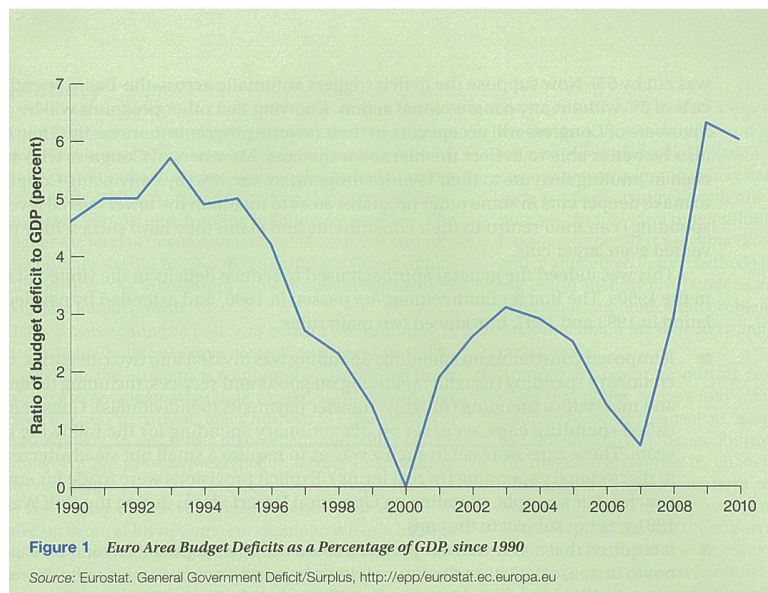


The problem was not a simple one. On the one hand, Germany at that time had the *Deutschmark* as its national currency. This was the strongest national currency then in circulation, even stronger than the English Sterling and the United States Dollar. On the other hand, the unified Germany would have had (and it has) a population almost double compared to Western Germany. Because voting in many (qualified majority voting) European decision-making processes is weighted, it meant Germany's weight doubled in European decision processes compared to previously. These two elements of strength were not acceptable together. The EU Member States decided to help Germany in its effort to reach its reunification. The condition was that Germany gave up the *Deutschmark* as its national currency. Germany accepted. At that point, the other Member States – except for a few of them – waived their national currency. Then, they decided to go rapidly towards a common currency: the Euro.

I have to say here that between 1989 and 1991, there were the best conditions, also from the point of view of the support of public opinion, to go straight forward with European unification. For a number of reasons, this final step forward was not made. As a result of arduous and exhausting negotiations, the governments of the Member States gave rise to a compromise, having an abnormal shape. If I could use a Latin phrase, I would say: Parturiunt Montes. Nascetur Ridiculus mus. Mountains will be in labour, and an absurd mouse will be born. Sovereignty in the economic field was shared: on the one hand the monetary policy, on the other hand, the fiscal policy. Thus, the two legs on which the economic policy normally walks were now assigned

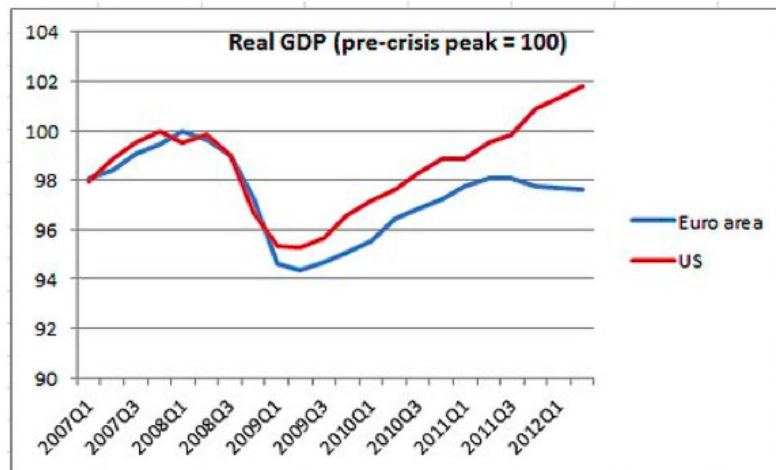
to two different entities: the monetary policy to the EU ( more precisely, to the European Central Bank); the fiscal policy to the Member States, only restrained by an unrealistic and ineffectual Stability Pact, encoded in the Treaty of Maastricht.

**The following graph shows the tremendous effort made by the Member States to reduce their deficits of the GDP, and the sharp increase in budget deficit. In 2010, the ratio stood at close to 6%, twice the SGP threshold; 23 out of 27 EU countries stood in violation of the 3% deficit limit. In March 2011, a new and more manageable set of rules, known as the Euro Plus Pact, was adopted. (Olivier Blanchard and David R Johnson *Macroeconomic* 6<sup>th</sup> edition, 2013, Pearson, Boston, pages 506-507).**



Question: Can an economic policy walk with only one leg? Prominent economists answer yes, it can: but slowly and carefully. In fact, the economic growth of the EU during the period 2002-2007 had been less than that of the United States, but linear and constant on an acceptable level, about 2.5%-3.1%. But walking with a single leg, having the support of a crutch, means it becomes impossible to make quick and sudden movements. In case of danger, it is not possible to run or to undertake timely movements in order to seek escape. So, when in 2008 the economic crisis, coming from the United States, reached Europe, the response of the EMU area had been largely inadequate. Unlike the United States, where the recovery lasted less than three years, in Europe the same crisis is not going to finish.

**The following graph shows the more rapid recovery of the United States economy, compared to the EU.**

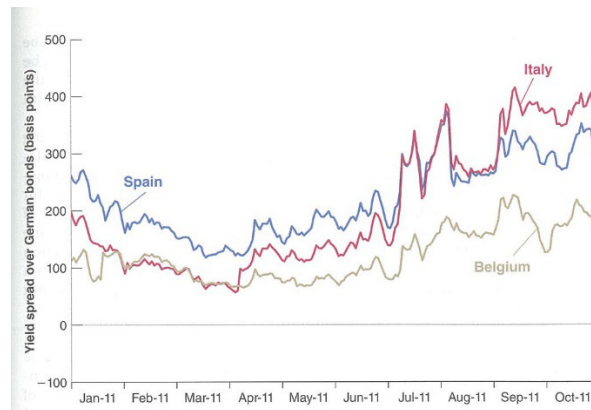


The fact is that the United States economy walks on two legs, and there is a central government for economy. In contrast, in the EMU area, both EU and Member States are walking with a single leg. The real difference is here. As a result of these tough conditions, powerful movements and political parties of the extreme left rapidly grew in some European countries, like Greece and Spain, making opposition to the EU their flag.

This, in my view, is the main reason for the crisis which lurks in the European Union for many years now. A crisis that seems to have weakened, if not completely destroyed, the confidence that the EU can guarantee economic prosperity for the people of Europe, that it can be the cure-all for all their problems.

Various intertwined with the main reason for the crisis, is also a second economic reason that operates within the EMU area and spreads its negative effects throughout the entire EU. I refer here to the crisis that directly affects some of the Member States of the EU, like Greece now, but also Eire, Italy, Spain and maybe Portugal. These States are affected by an endemically precarious economic situation, due to various reasons which are partly different for each State, and partly common. These countries are permanently close to the abyss of default.

**The following graph shows the increase bond spreads in Spain and Italy compared to Belgium. The parameters are the German two year bonds.**



These reasons – which may not all be operating in each country, but which all operate in Italy – are the high level of corruption inside the public sphere, the weight of a welfare state too generous and too heavy to be supported financially, an unsustainable level of tax evasion and tax avoidance, and the length of judicial proceedings. These burdens cause half, if not more, of the public deficit problems in these countries. Without these physiological bad habits, their economic situation would be acceptable, if not even prosperous.

Now Greece seems to be close to default. When an independent country runs out of money to pay its debts, and cannot borrow anymore, it normally has two options. One is devalue the currency, the second is to choose to default. The first is not an option for Greece, due to the fact that, having the Euro as its currency, it does not control it. The second option certainly is possible, if Greece decides to give up the Euro. The problem is that neither the EU, nor Greece, want to do so.

A State's default is always a disaster. Salaries and pensions partly lose their purchasing power, sections of the population that have a low or middle income are seriously impoverished, the interest rates on the loans that the country needs increases, the international credibility of the country decreases and the foreign investments shrink. Thus, national governments, especially those "of the left" attempt to avoid default for as long as possible. The case of Greece is emblematic in this regard. One must add that, especially for European countries which are in trouble, it is tremendously important to be seen as a serious member of the mainstream European Union.

In its part, the European Union fears that Greek default would spark its exit from the Euro and potentially cause a domino effect of crisis across Europe. The countries of Southern Europe could become a powder keg ready to explode. This is one of the reasons why the EU prefers to bail Greece out rather than letting a member of the Eurozone default. But these rescue manoeuvres, first in Ireland, now for Greece, are not painless. The taxpayers of the prosperous northern European countries are



increasingly frustrated at spending money to support corrupt or short-sighted countries. Because of this, the citizens of these rich countries are also becoming more anti-European.

The EU, built after World War Two in order to stabilise the peace in Europe, now threatens to become a danger to peace. It seems a tragic paradox, a wicked joke of history.

What will happen now? There is no way one could see into the future. We can only say that there are three possibilities about the European Union's long-term future, at least in theory.

First possibility. The EU remains still in the same situation as present, without going either forward or backward. This possibility is the most likely, if the present economic crisis comes to an end. In this case, the other two scenarios will be deferred over time.

Second possibility. The process backtracks. One after another, as a domino effect, various States and finally all States, leave the Euro. The EMU dissolves. Each State regains its monetary sovereignty and then its full economic sovereignty. Also the European Union dissolves, becoming – best case scenario – a common Free Trade Area, as UK wanted since the beginning. In a few years – maybe 3, maybe 5 years – some States would have defaulted. Sovereign again, European States face off each other in a bad climate. Resentment grows, and solidarity is sapped. As after a war. A dangerous possibility.

Third possibility. The process goes forward. The European Union takes charge of both monetary powers and fiscal powers. The European Union becomes a “light” federal State. The UK leaves the EU. The EU, in addition to the powers already now exercised, enjoys special powers when a Member State spends itself into near-bankruptcy. The EU also has a few exclusive powers in the field of foreign policy, management of both internal and international emergencies, and federal justice. The army is under federal command.

This third possibility, in a short period, is very less probable than the second, i.e. the dismembering of the EU, unless a miracle happens. Maybe, the brains trust supporting the British government may prefigure as possible, a political future in which, one after the other, first Scotland, then Northern Ireland, and lastly Wales could leave the United Kingdom, leaving England alone. In such prospect, certainly not unrealistic, the British government could be encouraged by the existence of a

European home, where England can take refuge. And if my (maybe fantastical) dream becomes a reality, that is, the accession of New Zealand, Canada and Australia to the European Union alongside England, Scotland, Northern Ireland and Wales, peace in the world will have made a huge step forward.

Conclusion. In my view, we need not less Europe, but a better and more efficient Europe which is more unified. We need a great European public debate. We need a great European leading class. We need integration mechanisms among the European people. The particular forms of social mediation developed in the contemporary world also apply to the process of European integration – like the equal treatment by law, the “market”, the representative State, citizenship, human rights protection, and so on – are necessary, but not sufficient forms, to unify the European peoples. They, therefore, must be complemented by other forms of integration that are able to act at the level of collective consciousness.

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