

THE EUROPEAN UNION, TEN YEARS LATER

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In May, 2004 there was no financial crisis, the Constitutional Treaty had not yet been rejected in referenda in France and the Netherlands, and there were no divisive issues between North and South within the EU. The EU was still celebrating the end of the division of Europe and confidence was relatively high.

Today, there is a pervasive sense of crisis in Europe. The sense of crisis exists in a context where, besides the financial and debt crises, we have other crises as well, which are longer term in perspective. One is the crisis of globalization and heightened global competition, which has led to a tendency to de-industrialization of some European economies, (but not of the German). The 2010 Lisbon strategy which was intended to counter economic decline was a failure, and we are now looking to the 2020 strategy.

The crisis of social democracy and of the European social model is connected with this crisis. The demographic facts of ageing populations make welfare very difficult, and health and old age pensions as well. These demographic facts are adding to problems in the same direction, making the survival of the European social model even more difficult. There are also other economic issues which make some European economies less competitive than that of the US.

The solution to these issues according to European Commission is (a) technological development, (b) completion of the Single Market and (c) more flexible labour market and welfare systems ("The Scandinavian model" of social welfare.) We know that these recipes work as those countries which

have adopted them are not suffering as much as others today. The most notable one is Germany.

Only one year after the 2004 "big bang" enlargement, we had, in the summer of 2005, the crisis of the rejection of the Constitutional Treaty in France and the Netherlands. This was partially the result of the fear of enlargement or as it came to be semi-jocularly known "the fear of the Polish plumber". Enhanced Euroscepticism which had been evident since 1992 with rejection of Treaty on European Union (Maastricht) in Denmark and its unexpected adoption by only a narrow margin in France.

We also have the structural problem of the coexistence within the EU of highly developed and less developed countries, with a common currency. The southern countries, are not only less developed, but they also have clientelist state-economy-society systems. These problems were compounded by the fact that the common currency was decided on in 1992, largely for political reasons, and with defects of economic design. The smooth coexistence of the two types of economies with a common currency requires much stronger economic, social and political governance in the EU. These facts are not widely understood in the South, where it is widely believed that Germany is in a hegemonic phase of trying to dominate Europe.

However, Oxford Professor of Contemporary European History, Timothy Garton Ash, reasons that "...Germany manifests absolutely no neo-Wilhelmine ambition to dominate its neighbours or anyone else", and criticises Germany for a "reluctance to lead". Leadership he says was thrust on Germany by her economic strength and a "half-baked currency union".

The "turgid politics of its inception" explain the incompleteness of the arrangements of the currency Union.

This however does not mean that Germany does not deeply influence the other countries of the EU, due to its economic strength, and its wish for the EU to be globally competitive, which means that each member of the EU and all together, need to have competitive economies. Hence the austerity measures. This is why Germany is so insistent on structural reforms in borrowing countries. Chancellor Merkel asserts that Europe has 7% of the world's population, 25% of the world's production and 50% of social welfare expenditure in the world.

However there is also a tendency for Germany and Germans to take a moralistic rather than a pragmatic attitude. And Timothy Garton Ash also concedes that "German economics often sound like a branch of moral philosophy, if not Protestant theology". Additionally, Germany, like others, seems to make major decisions about Europe on the basis of its own democratic electoral politics. In this connection there is a major criticism by serious analysts, such as Jurgen Habermass, that the German electorate has not been correctly informed about the eurozone issues, and how much Germany has benefited from the introduction of the euro. Timothy Garton Ash quotes one estimate that Germany's accumulated trade surplus with the rest of the EU from the introduction of the euro in 1999 to 2011 was more than a trillion dollars.

Some have argued in Cyprus since March, 2013, that the country should reject the Memorandum and the Troika measures, risking leaving the euro, and in turn risking its EU membership; which some of us argued strongly against; for both political and economic reasons. An extremely important

reason for Cyprus staying in the EU is that small countries need the European Union more than large countries. And for Cyprus, entering the EU was not a tactical, but a strategic achievement, one that finally reconciled the discrepancy between its culture and history on the one hand, and its geography on the other, a discrepancy from which it suffered for centuries. There is also plenty of evidence that small countries, like Luxembourg, which use their wits, can contribute to the progress of European integration, and in the process, to their own security and prosperity.

Cyprus needs to contribute, together with the other members, to fixing the bad design of the Euro, both economically and institutionally. The Euro will be on the path of long-term stability when the trade deficits between core Europe and periphery Europe begin to close. At the moment it is happening through massive austerity and recession reducing demand in the periphery, but to be stable in the medium term, it needs to happen through the periphery becoming more competitive, and more able to earn its way in the world. More competitive economies in the periphery, means adopting something like the kind of reforms which are being forced on us by the Troika.

And the core countries, and particularly Germany, are going to have to consume more and invest more in their countries.(This will also be politically and from a communications perspective difficult at a time of austerity in the periphery.) Perhaps it is to be regretted that there is no Troika telling Germany what to do. However there are plenty of good economists in Germany. They know that the continuing wealth of Germany depends on the continued existence of the Eurozone, which helps generate German trade surpluses. It is also the case that German banks are exposed to 400

billion of Greek, Spanish, Portuguese and Irish debt. So the survival of the Euro Area seems to be the most likely target for all to aim and work for.

Cyprus should strive to contribute to efforts to sort out the institutional issues of the Eurozone and the Union. Ever since the 2004 enlargement re-nationalization has been occurring within the EU. The main Lisbon Treaty reform which is powerfully operative is the upgrading of the power of the European Council. It has substantially taken over leadership from the European Commission. And the European Parliament and the Court are being excluded from crucial decisions taken in the context of the Eurogroup.

The Single Resolution mechanism was stuck for months due to differing views of the Parliament and Council on the role of Community and intergovernmental institutions in its functioning. There are intense disagreements about whether there should be further pooling of sovereignty in the Union. Sometimes, centralization as in this case, comes at the cost of great complexity and compromise on ad hoc mechanisms of decision making, which are not based on the community method and are difficult to understand. The way that the Eurogroup functions is precisely an indication of the problems of the direction the EU is moving in. For the Euro area countries and particularly the small ones, the shrinking of the Community method (including the elimination of the Commission's role, and that of the Parliament and the Court from crucial decisions), is catastrophic and needs to be reversed.

The Community method is not the most elegant system of governance. The Federalist Union, Altiero Spinelli, Joschka Fischer and Guy Verhofstadt are right in principle, but the European nation states are not about to abolish themselves, so the community method is the only system of governance

which can assure the coexistence of large and small states, with democratic legitimacy within the EU.

One barrier to rational decision making is that the fear of the Polish plumber has seized the EU for good. This fear has two components which change in weight from time to time. In 2004-5, a very weighty component was the offer of services across borders, and the fear of what was then called "social dumping". The other weighty component was the fear of immigrants. The latter is now even sometimes considered to be a threat to national identity.

Additionally this fear is combining with the dismantling of social welfare provisions in many countries, to create a basis for extremist movements. This is very grave. There is something in common now between extreme right anti-European and anti-immigrant movements with Islamic fundamentalist movements. One thing that they have in common is their foundation on national identity politics. National identity had been de-emphasized until recently in Europe in favour of civic identity as the basis of the state and democracy.

Not only populist euroscepticism which is a threat within and identity politics which is a threat on the borders of the EU, but also neofascism in certain cases, is on the rise, fed by the crisis, and its social consequences. In some countries the populist extreme right seems to be the only political force that is expressing interest in social welfare, (together with xenophobia, racism, and in some cases outright neo-nazism). The two developments together are bringing not only renationalization, but also the National Front in France, Jobbik in Hungary and Golden Dawn in Greece as front-runners in the European elections.

The growth of the far right in some countries is pressing the moderate right in anti-immigrant and anti-EU directions. In both the Netherlands and the UK, demands for renationalization are being heard, probably partly in response to Eurosceptic parties like those of Gert Wilders and Nigel Farage.

Europe needs to listen to Jurgen Habermas. Attitudes towards immigrants and multiculturalism are linked to attitudes towards European construction. Tolerance of the nationals of the disadvantaged world who wish to live amongst us is not unrelated to how we can deal with European issues. Additionally, since the beginning of modernity, the market and the polity have repeatedly needed to have their boundaries readjusted and we are going through such a period, where boundaries probably need to be redrawn if social cohesion is to be maintained, and conflicts avoided.

Anti-Europeanism is unfortunately evident not only on the far right, but also on the left, as with the United European Left (GUE) .

These trends which are threats not only to the European Union, but to stability, prosperity and peace in Europe, can only be reversed by development, prosperity, and good national and European governance. The first means technology and education, what use to be called a knowledge-based economy. The second cannot mean a federal Europe as Altiero Spinelli, Joschka Fischer and Guy Verhofstadt sometimes persuasively advocated. The reason for this is that neither the European nation-states nor their citizens wish their self-abolition. Jurgen Habermass and other pro-european thinkers agree on this. But this must mean consistent use of the community method.

This includes the institutions for the Banking and the Fiscal Union, which means further economic governance, and concomitantly, further integrated democratic political governance for the EU. Does this mean “ever closer Union” and ultimately federal union? This question does not need and anyway cannot be answered now. Mario Draghi provided some of the answers in his speech to the Harvard University Kennedy School of Government on 9 October 2013. Firstly, he proposes that we should replace the phrase “ever closer union” with the American constitutional phrase “a more perfect union”. This is not difficult. The phrase “ever closer union” was omitted even from the draft Constitutional Treaty.

Given the necessity of the common currency for the single market, and given the necessity to regulate banking and fiscal policies given the single market, there is no alternative but to pool enough sovereignty to create the necessary single bank supervision and resolution mechanism and the fiscal union which will regulate government debt. Recently it can be said that some good if messy progress has been made in both.

But it does not stop here. The major project which Habermass has referred to as the “realignment of markets and society” is urgent, as is the need to safeguard the role of supranational democracy and the Court. The issue of integration of European societies, social welfare and the European social model, an integral part of European civilization, cannot be left to left wing demagogues and right wing populists and fascists any more. If the European Union did not exist, we would need to now invent it to face the problems confronting Europe.