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The Eurocrisis and the Uncertain Future of European Integration

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Introduction

Eurocrisis? What eurocrisis? This August, the streets of Florence, Barcelona, and London were full of Europeans on their (unimaginably long) holidays, acting with apparent disregard for the dire predictions in the press of a European Union (EU) on the verge of bankruptcy and dissolution. Meanwhile, financial markets backed off from their attacks on the PIGS (Portugal, Ireland, Greece, and Spain) while those porcine countries moved forward with significant reforms, slashing their deficit and debt levels. German growth in the last quarter has driven eurozone growth to above U.S. levels, giving pause to euroskeptics and glee to euroboosters on both sides of the Atlantic.

And yet the EU is far from out of the woods. The past two years of global economic upheaval have sorely tested the EU's Economic and Monetary Union (EMU) and its crowning achievement, the euro. At base, the problem is simple: the EU is an outlier in political and economic history, and markets do not know what to expect from its unique combination of a single currency and separate nation-states. The eurozone crisis reveals the challenges of the EU's sui generis political status—no longer a mere collection of nation-states, yet not a fully fledged federal entity.

What, then, should we expect for the future of European integration? What does the still-unfolding eurozone crisis mean for the larger geopolitical position of the EU? Absent a crystal ball, any response is necessarily hazy and conjectural. Nevertheless, it is possible to sketch out some significant milestones and signposts that will determine the path of Europe's future. The critical question is whether the leaders and citizens of Europe are willing to upgrade their political institutions and equip them with the mechanisms to ease such financial and economic crises in the future. The way these issues are resolved—or not—will fundamentally shape the broader political future of European integration. The stakes are very high, and while the preliminary evidence suggests the EU is muddling through and is far from collapse, there has been little demonstration of the political leadership needed to creatively move the EU forward.

History of Innovation

The EU is one of the big success stories of international politics. It is astounding that the states of Europe, so long used to dealing with each other with bayonets and tanks, are now tightly bound together within a series of interlocking laws and institutions. Rather than shooting at each other, they spend their time squabbling over the rules of long-haul truck transport and labeling of genetically modified organisms. This degree of integration of sovereign nation-states is unprecedented in modern times and has formed the basis of the peace and prosperity of Europe. In pursuing their political integration through institutional and market means, rather than warfare and territorial acquisition, the EU has created a new type of political entity in the global system, one whose tight institutional linkages and political community will not disintegrate any time soon.

However, the EU's political innovation bumps up against the practical economic requirements of monetary unions and single currencies. No monetary union has ever succeeded without concurrent political union—including fiscal consolidation. Monetary unions are a modern invention, only coming into vogue in the latter part of the nineteenth century and spreading rapidly across countries like Italy, the United States, and Germany. The consolidation of rival currencies has always been part of broader state-building efforts, as a single national currency aided in prosecuting wars, building up administrative capacity at the center of a political union, and fueling the construction of a national identity. The few efforts at monetary unions without political union, such as the Latin Monetary Union and Scandinavian Monetary Union, fell apart within years. Indeed, there are intuitive reasons why political union supports monetary union. Difficult decisions around monetary issues are more easily made within communities joined by broader political solidarity. Fiscal and monetary policy work better when they are planned in concert. Thus the strange status of the European Monetary Union: a centralized monetary authority without fiscal capacity, and a relatively weak set of political institutions and identities.

For years, the strong ideational consensus on the policy undergirding the EMU papered over the disconnect between political, fiscal, and monetary union. At the creation of EMU in the late 1980s, lingering concerns over inflation and fears of an uncompetitive EU begat a firm agreement on the need for a strong, stable currency based on the deutsche mark. Sober central bankers in Frankfurt would run EMU and the euro with a single focus—price stability—and with a series of rules—the Growth and Stability Pact—that would clamp down on fiscal prolificacy and instill confidence in the euro (the fact that it was always known as the Stability Pact symbolizes the lack of attention to the growth side of the equation). That consensus facilitated bargains between France and Germany at Maastricht in 1992, where plans for EMU were signed into treaty law. Countries worked hard to get within spitting distance of the austere convergence criteria for entry into EMU. Financial markets bought Europe's political commitment and, in advance of actual deficit reduction, made possible the ultimate budget cuts by reducing interest rates on borrowing by highly indebted countries like Italy and Portugal. A happy circle of self-fulfilling beliefs about Europe's further integration predominated and the previously unimaginable idea of a single European currency became a reality in 1999, with euro notes and coins introduced in January 2002.

The go-go years of the dot-com expansion and the global credit bubble economy that followed allowed Europe to enjoy a strong euro, fueling real estate booms across the continent and in the United Kingdom without any serious stresses on European unity. The original EMU consensus held fast, and economic circumstances delayed tough decisions about how to coordinate EU political economies in tough times.

Need for Political, Monetary, Fiscal Union

Today, however, the party is clearly over, the bill has come due, and history is knocking on the door. So what will determine whether the EU stalls in its integration project or moves forward? The current economic narrative in Europe is unsure, fragmented, and does not provide the necessary political foundation for extensive institutional capacity building. For now, the lack of consensus about the correct macroeconomic formula for Europe seriously compromises any further progress in integration. The most advanced area, perhaps, is agreement on the need for more robust financial regulations, and the EU has been developing rules and institutions addressing this issue over the past eighteen months. However, price stability and austerity still have a stranglehold on policymakers, despite the risks of deflation and continued high unemployment. Surely the EU is not alone, as global leaders flirted with Keynesianism at the Group of Twenty (G20) summit in London in spring 2009, then skittered away from a coordinated fiscal expansion in favor of more orthodoxy regardless of economic bad news. For an elite political project that relies on some basic community agreement about the shape of economic governance, this policy disagreement is very difficult to overcome.

A clever observer of EU history would ask, however: What about the potential for the dynamics of crisis to resolve these problems through EU institutional innovations? Could this be the time for the type of push for further political integration that a strongly centralized fiscal federalism would imply? Could this be the moment when the EU moves from being a sui generis freak of history to the broader political union needed as the basis for a single currency?

The history of the EU shows that crisis often—but not always—leads to increased integration. Crisis alone will not produce results unless there is the political will and creativity to respond with decisive innovation. From the initial establishment of the European Coal and Steel Community in response to the challenges of postwar reconstruction to the single-market innovations of the 1980s, examples abound of the ability of political elites to seize crisis for policy innovation. Even so, long periods of stagnation in political, economic, social, and security arenas have persisted even in the face of serious dysfunction. In the early years of the EU, the so-called empty chair crisis blocked movement on needed decision-making reform for years. A long period of economic stagflation and hard times in the 1970s brought little in the way of policy integration.

Conclusion: At the Crossroads

Today certainly represents a *crisis push* moment. Yet despite some limited EU capacity building, there has been a striking lack of coordinated political leadership across the European capitals in the face of market pressures. If anything, the zeitgeist favors political entrepreneurs whipping up anti-EU feelings as austerity programs begin to bite, rather than pushing for further integration. The end of the

Cold War and the generational change in leadership from a visceral commitment to the EU as a critical bulwark against political instability mean that Germany is no longer playing its postwar role as the engine of integration in tight embrace with France. Angela Merkel and Nicolas Sarkozy are far from the dynamic duos of Helmut Schmidt and Valéry Giscard d'Estaing, or Helmut Kohl and François Mitterrand, that powered many of the big bangs that formed today's EU. Neither is the European Commission led by an innovative policy entrepreneur like Jacques Delors, who managed to frame the single market initiative and the euro project as imperative for EU competitiveness. Therefore, a combination of historical contingencies, and the particular personalities involved, means that the creative and bold moves of the past will be very hard to come by.

About the Author

Kathleen McNamara is an associate professor of government and foreign service at Georgetown University. She is author of *The Currency of Ideas: Monetary Politics in the European Union* and coeditor of *Making History: European Integration and Institution Change at Fifty*.