The State of the Union(s):

The Eurozone Crisis, Comparative Regional Integration and the EU Model

Joaquín Roy (editor)

Preface by
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The dramatic events of 2011 in the context of the European Union have forced analysts and scholars to reflect on what kind of entity will be in the next decade. Simultaneously, regional political integration and cooperation have been developing at a fast pace around the globe, creating great expectations and much confusion. The latest decisions of the EU Council have opened the door to an unknown chapter of European history. Consequently, the EU model or reference has suffered the impact of these factors and presents today a different face than decades ago and offers somewhat different challenges to be met. A set of questions dominates the news scene:

- What is the state of the Union(s)?
- Which direction is the EU going to take?
- How does the rest of the world understand regional integration?
- What are the consequences and impact of the current EU crisis on international business?
- Is the EU model, along normative and “soft” power, still valid?
- What standard or new theories can best be applied to explain new realities?

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Miami-Florida European Union Center/Jean Monnet Chair, 2012

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With the special editorial assistance of Alfonso Camiñas-Muiña

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EU-US Partnership: More Relevant than Ever?

João Vale de Almeida

At a time when our global awareness and connectivity is unprecedented, when countries like China, India, Brazil and others are emerging or re-emerging, it is natural to wonder what the implications are for the transatlantic relationship. Is the EU-US partnership more or less relevant than ever? Have we become passé?

I believe the EU-US partnership is more relevant than ever because:

- It is a partnership, not an on-again off-again relationship, developed over fifty years;
- It is vital to the health of the world economy (emerging from a brutal shock to the financial system and adapting to new players).
- It is effective in dealing with foreign policy challenges (for example Syria, Iran, North Korea)
- We have the obligation and the wherewithal, particularly if working jointly, to deal with threats to our societies and humanity from cyber-terrorism, terrorism, WMDs, climate change, energy security and poverty.

Perhaps we need to start thinking of EU-US relations as a 'Special Partnership' because it is like no other in the world in range and depth. In my own career, I have seen it endure and deepen through thick and thin, forged by common values, strategic objectives, but also by experience, by having been 'in the trenches' together in our response to the collapse of communism, to 9/11, to the financial crisis, the Arab Spring, Libya, Iran, North Korea, and now Syria.

Economic & Financial Reasons

No other economic relationship in the world is as integrated as the transatlantic economy. We still account for about half the world's GDP and about one third of all trade flows. We still define the shape of the global economy because either the US or the EU is the biggest trade and investment partner for almost all other countries in the world. Even if weakened by recession and challenged by new powerhouses that for the moment enjoy high growth rates, high employment and lower labor cost, the US and the EU are still the driving force behind innovation with most advances coming from science performed in our territories. Competitiveness is a challenge we both face, and we need to ensure that our efforts to curb public spending do not cut into the research and access to quality education that we need to remain in the game.

In Europe, we are tackling our jobs and growth issues on a variety of fronts including the Europe 2020 program, cross border educational exchanges, and of course through the post financial crisis measures to put our economies back on a growth trajectory.

In the EU-US context, the Transatlantic Economic Council remains an important instrument in achieving higher regulatory convergence and reducing red tape. The High Level Growth & Jobs initiative launched by Presidents Obama, Barroso and Van Rompuy last autumn is also extremely good news. However, for this to become more than an initiative with promise, it needs the sustained support of politicians and of business leaders on both sides of the Atlantic to truly make a difference. I am encouraged that things have got off to a running start as far as official contacts are concerned.

Multilaterally, there is still much to be gained from continued EU-US partnership. We need to ensure that our standards and approach to rule and policy making remain at the heart of the international system.

A word about the financial crisis:

The financial crisis has illustrated in a way no speech or op-ed could the level of integration of the EU-US economy. What began as a subprime mortgage crisis in California eventually sparked off the crises in Greece, Ireland and Portugal, threatening the core EU countries and our reputation and standing in the world. Over the past 18 months, I have had to explain to audiences all around the United States how and why it affected the weaker EU peripheral countries, the steps Europe is taking to deal with crisis and prevent a future one, and, the EU's commitment to the euro and Greece. In a nutshell, I have tried to explain why dramatic headlines one day don't mean the end of the euro the next.

From these encounters, it is clear that regular people still need to be reassured that the EU and the US will do all in their power to rein in the kind of behavior by governments and financial institutions that led to a full blown crisis. We owe it to our citizens, some of whom are living through harsh austerity measures, to make sure that it doesn't happen again. This means acting on both sides of the Atlantic to make sure our financial sectors are properly regulated, that we have effective oversight of our banks, and that our governments practice sound budgetary policy. In Europe we have made painful progress to put our house in order. We are not out of the woods yet. Shocks from other parts of the world would still be destabilizing, and we count on all our partners to help us in this effort.

Foreign Policy

Notwithstanding the fact that the External Action Service of the EU is little over a year old, I think the EU-US partnership has stepped up its capacity to deal with several crises unfolding at the same time thanks to the strong engagement of HRVP Ashton and Secretary Clinton.

- *The Arab Spring*: the EU and the US have worked extremely closely to nurture the new impetus for democracy in several countries after decades of autocratic regimes. Our leaders and our special envoys - Bernardino Leon (for the EU) and William Taylor (for the US) - continue to work together effectively and cohesively. Particularly in Libya, the EU and its member states have shown strong leadership, commitment – even daring - and the United States has supported us in this effort.
- *Syria*: with the UN estimating that more than 7,500 people have lost their lives, what is unfolding in Syria is a humanitarian disaster. Our sanctions against individuals and organizations appear to be working judging by defections from the regime. Whether or when to intervene as we did in Libya is a topic of some debate, though the differences between the two cases are obvious. We are urging President Assad to withdraw Syrian forces from besieged towns, to engage in a peaceful transition, and to allow immediate and unhindered access to those in need. Even though there is some speculation as to the extent of his control over the regime, international pressure is mounting for him to step aside and face the consequences for the brutal attacks on civilians by the Syrian regime. There must be a full investigation of what appears to be a gross violation of human rights and no lenience toward the perpetrators.
- *Iran*: our tightening of sanctions on Iran is an example of the determination and solidarity of the EU and the United States to put an end to the nuclear ambitions of Iran and the threat it poses in the region. The EU's oil embargo, and SWIFT's recent action to take away important life lines from the regime are significant developments and an incentive to Iran to come back to the table. We must do everything in our power to ensure that upcoming negotiations with Iran achieve our shared objective and that tensions between Israel and Iran do not escalate.
- *Afghanistan*: recent setbacks in the NATO mission in Afghanistan do not alter the fact that the EU and US remain essential partners in ongoing efforts to ensure a safe, democratic, self-sufficient and self-sustainable Afghan State, capable of exercising its sovereignty and protecting its citizens.
- *Balkans:* our cooperation is as strong and as vital as ever. We are both committed to increased stability in the region and fostering closer ties with the EU.

Global Challenges

- *Climate change*: while the EU and the US do not always see eye to eye on this issue , for all the differences real and perceived, it is clear to me that there is a broad understanding among our populations that climatic conditions are changing and having devastating effects at home and in some parts of the globe. Even among climate change skeptics I still find openness to discuss the issue, particularly if it is put in terms of water, development of clean energy and jobs. Nobody disputes that we have only one planet, with limited resources. This matter is hugely important to the EU. If we want to make progress at the global level, I believe the EU and US need to work together and that we need to show flexibility and practical leadership so we can move forward in a win-win kind of way.
- *Counterterrorism*: this is an area of intense cooperation which got underway right after and because of 9/11. Over the course of 10 years, we have achieved an extraordinary level of coordination, and our joint efforts have undoubtedly led to a safer world while still protecting the privacy and rights of EU citizens. The bottom line is that EU-US objectives are clear, and our partnership in this area has definitely paid off.
- *Nuclear proliferation*: the attempts to acquire nuclear capability among nations not signatories to the NPT raise concern because of the potential of these weapons to destabilize. We are working closely to prevent Iran developing nuclear capability for military purposes and are extremely concerned about North Korea's planned satellite launch which we see as a violation of its international obligations. We join the US in urging North Korea to refrain from the launch as it would undermine ongoing diplomatic efforts to create an environment conducive for the resumption of the Six Party talks.
- *Human Rights*: the EU and US we remain the champions of human rights in the world. Our joint approach and engagement has been particularly strong in supporting change in Burma and Belarus. Sadly, the abuse of human rights is a reality that we may never eradicate, and it will take ongoing vigilance, courage and determination from the United States and Europe to prevent it from debasing the lives of millions of people around the world. We must also continue to work together to eradicate poverty which prevents millions of people from living out their lives with dignity.

Conclusions

Though we are not at war, and relative to earlier generations have more comfort, freedom and security than they could have imagined, people here and in the US fear that the pace of global change is accelerating and the implications of it are unclear and out of their control. A war in one country can mean a wave of asylum seekers in another. In an era of budget constraints, these kinds of issues need to be handled fairly and forthrightly. In our rapidly changing world, new challenges emerging everyday require the EU-US partnership to continue to grow.

I think it is important to remember that we are not entitled to world leadership because of our present economic size, but rather obligated by our common values and belief in democracy, the rule of law and human rights. Only the United States and Europe have the experience, maturity and value set to cope with these challenges in a way that is beneficial not just for our bilateral interests, but also for the world.

On our side, the EU will have to ensure that we give our new service the tools it needs to do the job, and do more to pool defense and security resources. We need to use all the tools at our disposal, bilaterally and multilaterally, to provide the leadership this world so badly needs.

Introduction

The European Union Today: Crises, Hope and the Impact of Regional Integration

Joaquín Roy

Europe and Latin America are currently experiencing difficult times in regards to regional integration. Both regions are seeking to retrace their respective foundations of inter-state cooperation of different degree and function during the past decades. Such milestones are the Latin American Association of Free Trade (ALALC in Spanish, 1960) and the Schuman Declaration of 1950, the birth of the European Cold and Steel Community (ECSC). However, both regional entities and institutional bodies have taken different paths and have produced much different results. Europe has made spectacular progress when one historically compares expansion, enlargement and its most important achievement, the European Union. Meanwhile, Latin America has gone through a slow evolutionary process of its sub regional systems without a solid global initiative to include all countries south of the Rio Grande and Miami.

Today, both regions are immersed in uncertainty and doubt in terms of integration and economic development. The European Union (EU) is facing a major financial crisis which threatens its political spectrum. In Latin America, in addition to historically installed and legally respected sub regional systems (MERCOSUR, CAN, SICA, CARICOM), there have been other proposals (ALBA, UNASUR) with an integrative purpose that aim for different objectives. Furthermore, some countries have joined free trade areas (such as Venezuela's joining of MERCOSUR) both with the United States and with Europe. The failure of ALCA, the risky mission led by the United States in 1995, as an apparent widening of the North American Free Trade Agreement (TLCAN-NAFTA), suggested that Washington had opted for individual or limited territorial strategies (named "*alquitas*"). In the face of uncertainty of its own autochthonous systems, some Latin American countries such as Perú and Colombia opted for taking the North American route. They also rushed to make alliances with the European Union, following the example of Chile.

In this setting, the European process is being questioned both internally and externally, due to economic uncertainty. However, it is important to note that, although the Treaty of Paris (1951) initiated the ECSC and based itself on economic goals of a common market with the Treaty of Rome in 1957, founding the European Economic Community (EEC) and the European Community of Atomic Energy (EUROATOM), the main objective was always a political union. Today, the weakness and instability of the Eurozone threatens the EU as a whole.

Latin American integration has faltered since its inception due to its ingrained weaknesses, which are difficult to overcome. Nationalism and presidentialism as a juridical method of government remain under the impact of a strong populism. From independence to the modern day, the majority of Latin

American countries have not met the challenge of nation building, thinking that the state would fulfill that function accordingly. The problem is that national identity, an inclusive project in the Renan concept of the “daily plebiscite”, is an elusive goal, still an object of study for intellectuals. The feeling of non-membership to the national project by a majority of the population of many countries impedes the integration of the states themselves. Hence, Latin American identity remains an elusive dream, albeit necessary for a rigorous integration; furthermore, it is not a priority for citizens or governments.

Europe at a Crossroads

A rough overview of the front covers of major European and American newspapers and news broadcasts over the past two years, and especially the past few months, provides a truly spectacular and alarming mosaic. The recent panorama is dominated by the financial crisis of Greece, with its labor strikes and institutional paralysis, the threat of bankruptcy and its negative effect on the euro. It has been alarmingly estimated that the common currency would not survive if the crisis continued. This would in turn cause the EU to become a divided Europe, similar to the division of the Roman Empire. The dream founded in 1950 would disappear.

Historical and traditional political parties with a strong presence in the European Parliament (EP) have been unable to meet the demands of the unemployed, whose retirement lies in the distant future, and, worse yet, recent highly qualified university graduates face an uncertain future. Thousands have taken to the streets and squares of various European capitals, following the example of Madrid and Barcelona (whom some mistakenly compare to the movement which overthrew Mubarak in Cairo). As an alternative, new ultra-right movements with messages reminiscent of the Nazi-Fascist regimes of Germany and Italy have developed in place of the leftist movement gaining force, as was the norm in the first half of the Twentieth Century.

Meanwhile, a series of uncontrolled and unstoppable mass migrations has been triggered due to the deterioration of the political changes on the southern slope of the Mediterranean. EU Member States have responded with drastic measures. They have called for the urgent closure of borders, which presents the possibility of having the Schengen agreement become a vague footnote in the unfortunate new phase of European history. Moreover, the strengthening of national legislation would mean a rebirth of the worst European demons: nationalism, racism, discrimination and retaliation against minorities. According to the (exaggerated) predictions of some observers, new continental wars were to have been triggered.

No country from the Algarve region to Athens (and beyond, to Istanbul) is safe from the threat of serious disaster. Successive bank collapses are occurring, with stratospheric private and governmental debt piling up, an unsustainable deficit, an alarming rise in unemployment, and noticeable dangerous reactions of a nationalist and racist nature. In short, the process of European integration is being seriously questioned. The area of the Mediterranean, divided since the demise of the Roman "Mare Nostrum", is showing signs of a paradoxical consensus. Some southern countries are experiencing seismic political changes; the northern countries are suffering a serious crisis which threatens to affect the rest of the Union. Changes in the South have already left a mark on the political future of the neighbors to the North.

The current situation of the EU is reminiscent of the long period of what was called "Eurosclerosis" and "Europessimism" of the 1970s, and more recently, the rejection of the European Constitution. The halt to the process of integration was brilliantly overcome by the adoption and implementation of the Single European Act (SEA) of 1986, under the effective leadership of the president of the European Commission Jacques Delors, and the constitutional impasse resulted in the elaboration of the Treaty of Lisbon, in effect a miniature "Constitution”. The current crises are now more elaborate, among other reasons because of the notable effect of globalization and the irresponsible financial conduct of the first world power, the United States.

A dangerous group of symptoms, which threatens to become a chronic disease, has affected the most powerful economies of the EU, including two of its key states, France and Germany. The economic distress has challenged the leadership of both countries, unable to take the reins of the EU, as had historically occurred. Depending on the vote of their ideological sectors, as in the rest of the European Union, decisions have been made (or not) in Paris and Berlin which have contributed few solutions to the crisis and have failed to produce clear signs of improvement. On the contrary, ambivalence and contradictions, in addition to simple populist discourse, has alarmed EU observers and leaders who believe that, at the moment, the worst solution for the EU is re-nationalization.

It is true that the Arab socio-political explosion on the southern slope of the Mediterranean has surprised leaders and analysts, although many experts had already warned in the past of the unsustainability of the status quo. Also, circumstances have forced the leaders of France, Germany, Italy and the United Kingdom (as well as other countries according to their abilities, as it is the case of Spain) to make sensitive decisions. The truth remains that the strength of the uprisings in Tunisia, Egypt and Libya have revealed that the European powers are guilty of willingly being blackmailed for decades by autocrats of the southern slope, in exchange for ensuring stability. What remains to be seen is whether the reaction of each of the Governments was proper according to the emergency. The implementation of measures taken for internal solutions is also questionable.

The current situation shows that the European Union, through its institutions, is seen as a distant entity, unable to meet the daily needs and demands of its citizens. The consolidation of the common market, which was the promise of the Treaty of Rome of 1957 and then legally executed with the SEA, and strengthened by successive documents since Maastricht, has been evaluated as an unfulfilled mission that has not produced day to day benefits. The rise of the cost of living and the current financial crisis are attributed to the adoption of the euro.

It has been the preferred scapegoat, mostly due to banking interests, which has protected them from the ire of citizens.

Overall, it seems that what was once possible with the SEA is no longer convenient for EU states, and is explained by the theory of *"liberal intergovernamentalism"*. Governments are torn between the stark realities of the conditions of membership of the EU and its benefits. It seems that Europe is again experiencing an era that can be explained by Hoffman's "governmentalism". It is said often that the so-called "Monnet method" has been exhausted. David Mitrany's functionalism and Ernst Haars' neofunctionalism are a thing of the past. The theory of an economic and social sector "spill-over" seems to make no sense in a materially globalized planet, when the contrary should currently be the norm.

II

Causes of Distrust toward the European Process

The current unrest in Europe and the lack of effective responses to tackle the economic, social and political crisis hides a confusing web of causes and hypothetical explanations. First, the apparent deterioration in the functioning of the EU, reflected in the gradually low participation in elections to the Parliament has several roots, each worthy of separate analysis. Above all, it should be noted that the memory of war has been fading. This sentiment is most evident in the heart of the founding countries that were responsible for the outbreak of conflict (Germany), those which suffered occupation (BENELUX) and those who had experienced the humiliation of invasion, internal betrayal, and collaboration (France and Italy).

The tragedy and consequences that surrounded the founding fathers of the EU inspired in them the need to find an effective remedy to "make war something unthinkable and materially impossible" (according to the Schuman Declaration). New generations only identify World War II as a chapter in a distant past history. It is inserted in volumes collecting dust on the shelves of libraries and is merely revived in documentaries regularly generated by television stations or in a handful of films (primarily of Hollywood origin). The thought of war is no longer the engine of integration.

This aspect is so pronounced in the German case that it can be considered the nucleus of new symbols of identity that lie between the faults of the past and the present reality, moving toward a future free of repentance and continuous redemption. A current majority opinion considers that the tragedies of the past are unrelated to the issue of the new generations that are not identified with the mistakes of their parents and grandparents. They consider that the payment paid by the Division during the cold war and the efforts in the reconstruction of their own society and the contribution to the European process have met more than the demands of the victorious powers and neighbors who were victims of the Nazi madness. These sectors, not necessarily identified with some distinguishable socio-economic strata, are now wondering if they should subsidize the financial mistakes of other countries, while resisting the dilution of a rebuilt national identity by immigration. In sum, Germany has fulfilled more than its EU quota, and it is because of this that there exist doubts about whether or not to shore up to the euro and at what cost.

On the other hand, just as the so-called "German miracle" was in its time the motor of the EU, the organization of EU integration has nothing to be ashamed of in its balance of achievements. Paradoxically, while being chastised for its alleged failure, the EU has achieved more than its share of primary objectives. In its subsequent institutional transformations, accumulation of skills, and increase in the number of members, the EU has eliminated territorial wars, although in its outskirts (former Yugoslavia) there have been bloody confrontations, and there remain a number of open wounds. The plague of homegrown terrorism is on its way to being completely eliminated. After the demise of the Irish Republican Army (IRA) years ago, the criminal violence of Basque ETA has come to a permanent ceasefire and is expected to end. This panorama encourages some to believe that the EU is no longer necessary, a parallel reasoning that was once applied to NATO –its founding reason (the Soviet threat) ceased to exist.

While many sectors of the economy and integrated community life are classified as effective, their benefits are now taken for granted. It seems that a bureaucratic model is not necessary in order to support what is considered normal. This is another achievement of the welfare state, such as paid leave, unemployment benefits, affordable public transport, and a decent retirement pension. Finally, the EU would have died of success, when it barely exceed the age of sixty, less than the current life expectancy in Europe. This logic, however, ends up reducing the signs of the welfare state and progressive ideology to a mere economic conquest, such as monetary entitlements.

The Institutional Framework

Meanwhile, on the surface the main institutions of the EU continue to function as if almost nothing had happened. A walk through Brussels does not inspire a contemplation of battles between the staff of the Commission and the Council. There are no science fiction images, such as the ruins of the Berlaymont building or the *Caprice des Dieux*, as the people of Strasbourg call the Parliament Louise Weiss building, due to it resembling a Camembert cheese package. The only altercations are caused by periodic protests by farmers who claim the continuation of aid of the Common Agricultural Policy (CAP) and the human rights activists on the outskirts of the EU or in underdeveloped regions. Meanwhile, the almost 20,000 lobbyists continue their similar tenacious labor of observation and influence on a number of officials and legislators. Now, however, more sound demonstrations by members of the expansionist movement of the 15-M, founded in Madrid and Barcelona, have been duplicated in squares around the world.

The **i**nstitutions based in Luxembourg (primarily the Court of Justice) continue their role as systematically and quietly as in the past, as if they were still awaiting the accompaniment of the rest, as initially planned. In Strasbourg, voices of alarm about the future of the EU are only heard during the three or four days monthly devoted to plenary meetings, but the real decisions are left to Brussels. Ultimately, all remain faithful keepers of the maxima of Jean Monnet, inspired by the Swiss philosopher Frederic Amiel. "All is possible by the action of men, but nothing is permanent without the work of the institutions…the pillars of civilization".

The EU continues to be the combination of laws and the institutions that have put them into effect. At the moment, those that make up the political and legal constitutional framework have avoided becoming mere bureaucracies, as is the unfortunate and frequent case of other organizations. The difference, following Monnet logic, is that the necessary minimum of independence and autonomy has been conserved, and they have been equipped with appropriate budgets needed in order to continue fulfilling its functions. In spite of the erroneous reputations and the high salaries of personnel, the cost of EU maintenance is less than what it costs to run an average European city. It costs more to run Hamburg, Manchester, Valencia, Lyon or Gothenburg than it does to run the EU. This is a positive fact, especially if one considers that the majority of laws that are approved in EU countries originally stem from EU community legislation.

However, a deeper analysis of the functioning of the institutions at a personal level reveals that the EU is going through a phase of disturbing pessimism, especially at those levels which have existed long enough to have a comparative perspective. That generation which is approaching retirement level longingly remembers the energy and feeling of autonomy that existed at the end of the 1980s and almost the rest of the previous century. The end of the Santer Commission can be identified as the beginning of a new era. The apparent rise of the Parliament could be considered a victory for the legislative branch; in reality, the winner of the crisis was the Council. It was time for the counterattack executed by inter-governmentalism. Only the implementation of the Constitution project brought about a fresh air of federalism. But with the failure of the adoption of the text and the tortuous drafting of the Treaty of Lisbon, everything went back as it was. The EU was not going through the best moments of its history.

European DNA under Scrutiny

All of these problems and current gaps occur at a time when there had been a confluence of European identity signs that made the continent stand out from the rest, with which, however, it shares universal values, in the general sense of the term. The accusations coming from abroad which state that Europe does not exist and that its boundaries are unknown have no foundation and can be refuted with the opposite argument: Europeans are sure of what they are not. They do not accept as their own those customs which are considered foreign and harmful to shared beliefs and their own myths. These differences exist even in comparison with those countries that form part of the so-called Western world (most of the Americas and Oceania).

For example, it is clear that Europeans are more inclined towards the achievement of collective projects instead of accepting the primacy of individual success, as is the symptomatic case of the United States. The priority given to the benefits of the welfare state is not challenged. When governments have experimented with restrictive measures they have failed. This quality is not only perceptible in Southern Europe, a region that is accused of taking advantage of the benefits of protecting the State, but also remains strong in Germany. In the Nordic countries, the social support system is strong and willingly accepts the tax burden due to the benefits attached: good schools, safe public transport, excellent healthcare, and generous financial coverage in case of work related injury or retirement. The chosen path, if there are options, is optimally protection from birth to death, ratified by elections in which no party dares to suggest its dismantling,

In another area of shared values, Europe as a reflection of its cultural diversity, which is considered a positive legacy, leans toward cosmopolitanism and tends to avoid provincialism. External trends and fashions have been incorporated in addition to the local customs, as was the case during the Roman Empire. As a counterpart, the spirit of modern Europe has considered it an obligation to spread artistic and literary, economic, and political leanings to the rest of humanity. The civilizing mission, despite decolonization, is still very much alive.

Far beyond the mere separation of church and state, secularism has become a creed in a continent where religion has historically been inherent to political evolution. While in other regions religion has become an irreplaceable ingredient (Middle East) or has had a more noticeable influence (United States), in Europe there is a (alarming for many) decline in the practical canon of beliefs. Religion is being reduced to a historical relic. The papal message of the decline of religious practice in certain countries (Spain, notoriously) and the unfortunate loss of religious vocations clashes in many countries (with some exceptions, such as Poland) and has been damaged by the discovery of sexual abuses committed by a minority of the clergy. The questioning by religious experts about what is considered the right wing shift in doctrine has raised doubts in the members of the Catholic Church, a trend that explains the failure of the Vatican insisting on the inclusion of Christianity as an explicit reference of European legacy in the text of the Constitutional project.

Finally, as a result of the initial momentum to curb the European wars, EU States have been gradually affected by the reduction of military expenditures, a trend that has alarmed the United States. The last two decades, after the end of the Cold War, Washington has noticed the reluctance of European governments to increase the budgets for defense. Interestingly, with the threat of Moscow gone, NATO has been looking for a way to renew itself. The goal has shifted to maintain a conventional and nuclear umbrella over the Western half of Europe, but to provide resources that are broadly labeled "defense". While the United States has managed to maintain a fully voluntary and professional armed forces (for the displeasure of some politicians and military ranks), the progressive dis-appearance of conscription in Europe and the adjustment of budgets have called into question the military capability of most countries (with the exception of United Kingdom and France).

As a result, analysts looking for innovative theses have proposed that there is something inherent in the behavior and political psyche of both continents which clearly contrasts, makes the confluence of criteria difficult, and sometimes impedes the building of coalitions, as in the case of NATO and operations in Iraq. In a Copernican switch, Europe decided to opt for another alternative in place of trying to resolve all conflicts and disagreements with military force, but a number of countries have given in to the demands of Washington. This has led to the belief that Europeans hail from Venus, while the Americans with a Realist and Hobbesian vision are from Mars.

In contrast to the support for collective projects and an aversion toward the primacy of the individual, signs of governmental and individual selfishness have been emerging in recent years. At the state level, there is the temptation of abandoning the practice of subsidiaries, the hallmark of the EU system. There have been cracks in the division of labor and at all government levels (local, national, European). The Christian Democratic notion of charity has been questioned in a continent that has been historically affected by inequality, hatred and mistrust. The idea that charity begins at home is now favored, and which can be seen in German taxpayers' frustration with the practice of subsidizing reckless and irresponsible states (extreme case of Greece).

In that context, the negative nationalist reactions to the impact of the crisis and internal tensions in some states were examined with care, and also some haste, when searching for reasons to justify the new restrictive measures in order to expand and further the integration process. During the effective incorporation of ten new states (eight of them under the Soviet yoke for four long decades), a certain remorse for the hastening of the EU enlargement process was being detected. What was justified at the time as being a way to correct what was considered a historical injustice (the division of Europe by the Berlin wall and the iron curtain), the spectacular growth from 18 member states to 27 became the scapegoat for explaining the internal problems of the EU. Although the incorporation of the "neutrals" (Sweden, Austria, Finland) did not represent a problem, since their economic level and political development were on par with the rest of the Union of 15 (if not more), the digestion of several former members of the Warsaw Pact was difficult to digest. This is why Romania and Bulgaria had to wait for effective membership, which is still questioned today, among other economic reasons because of the high levels of corruption that have shaken the political systems.

This volume

The papers included in this volume are the edited result of a seminar held at the University of Miami, under the rubric of the title of this compilation: "The State of the Union (s): Comparative regional integration and the EU model", held on

February 24, 2012, in the setting of the University of Miami School of Business, under the co-sponsorship of its Center for International Business Education and Research (CIBER). The seminar was sponsored and organized by the Miami-Florida European Union Center of Excellence (MFEUCE), a consortium of Florida International University and the University of Miami, and the Jean Monnet Chair of the University of Miami. Other co-sponsors were the Miller Center for Contemporary Judaic Studies, the Center for Latin American Studies (CLAS), and the American Jewish Committee (AJC).

The proceedings were inaugurated by opening remarks offered by João Vale de Almeida, Ambassador of the European Union to the United States, who was welcomed by Manuel Santos (head of the Economics Department) and Leonidas Bachas (Dean of the College of Arts and Sciences). Rebecca Friedman (Florida International University, co-director of MFEUCE), and Ambler H. Moss, Jr. (professor of International Studies), Haim Shaked (head of the Miller Center), and Ariel Armony (Director of the Center for Latin American Studies, University of Miami) acted as chairs of the sessions, channeling questions and comments. The logistics of the seminar were effectively coordinated by Maxime Larivé (Jean Monnet Fellow, 2011-12), Alfonso Camiñas-Muiña (Robert Schuman Fellow, 2011-2012), and Dina Moulioukova (Ph. D. Graduate Assistant). Luis Vidal, James Aggrey and Jonathan Wirch (the staff of the Technical Support Unit of the College of Arts and Sciences) provided their customary irreplaceable services before, during and after the seminar, and most especially in the editing process.

The general theme of the seminar and this volume is that the dramatic events of 2011 in the context of the European Union have forced analysts and scholars to reflect on what kind of entity the EU will become in the next decade. Simultaneously, regional political integration and cooperation have been developing at a fast pace around the globe, creating great expectations and much confusion. The latest decisions of the EU Council have opened the door to an unknown chapter of European history. Consequently, the EU model or reference has suffered the impact of these factors and presents today a different face than decades ago, and offers somewhat different challenges to be met. A set of questions dominates the news scene: What is the state of the Union(s)? Which direction is the EU going to take? How does the rest of the world understand regional integration? What are the consequences and impact of the current EU crisis on international business? Is the EU model, along normative and "soft" power, still valid? What standard or new theories can best be applied to explain new realities? The papers of this volume aim at addressing these and other questions in four thematic blocs.

The first part is dedicated to the interrelated questions of what the EU is, what it does, and what it wants to do to meet the present challenges. **Markus Thiel** addresses the fundamental issue of European identity in the new century, in which he proposes that the entity has been moving from "external marker to internalized practice." He reviews the current conceptualizations of 'European identity', provides a practice-based account of transnational identity development anchored in solidarity, and problematizes an internally-focused identity in light of the current geopolitical challenges. **John McCormick** asks in a rather ironic sense, “What has the EU ever done for us?”, a question of humorous resonances. In his paper he reflects on some of the achievements of integration, the dynamics of the public debate on integration and possible future scenarios, and asks whether the present crisis represents a structural and policy failure or a failure to truly understand the character and possibilities of regional integration. In a paper that functions as a hinge with the next euro-related chapters, **Manuel Porto** analyzes the Strategy Europe 2020 as a means to meet the challenge of globalization, as well as two other “long-term challenges”: “pressure on resources” and “aging population”. He notes that the Strategy establishes three priorities: “smart growth”, “sustainable growth” and “inclusive growth”. In a realist way, there is also a concentration in a small number of feasible targets, a higher commitment of EU institutions (in particular of the Council), and of all levels of intervention in each country. The Strategy is strongly based on the markets, an aspect specially stressed by “a stronger, deeper, extended single market vital for growth and job creation”. It is not a protectionist strategy because “global growth will open up new opportunities for Europe´s exports and competitive access to vital markets”.

Alfred Tovias provides an introduction to the second bloc directly dealing with the sensitive topic of the Eurozone. He rephrases in a critical way an old Spanish saying (“*la unión hace la fuerza*”). This wisdom only applies if there is solidarity between the members of the group, and if each member proves constantly to the others that he is acting as agreed, and not simply using the others, as this would erode the sense of solidarity among members. This logic applies to the Eurozone because it is not an Optimum Currency Area (OCA). In consequence, either the two conditions above are verified, or members that are not conforming to the OCA criteria exit the union, in which case there is no need for the two conditions to hold. For their part, **George Zestos and Tatiana Rizova** tackle jointly the U.S. Subprime Mortgage crisis and the European Sovereign Debt. Their study identifies several factors that impede Europe’s recovery from the crisis --the treaties that established the European Union (EU) and the Economic and Monetary Union (EMU) and the dynamic of the domestic electoral and coalition politics. **María Lorca** offers an SWOT analysis. She presents an evaluation of how this crisis has affected the Eurozone by studying the weaknesses and threats that the project is facing, as well as what opportunities and strengths this crisis might bring if politicians, society, and markets work together to overcome this situation. In terms of strengths, she explains the role of the European Central Bank. The main weakness during this crisis has been the attitude of society who has vented its fears as its purchasing power, and living standards have been jeopardized. Finally, **Vivien Schmidt** relates the Eurozone with the wider issue of democracy. Her main argument is that the Eurozone crisis is not only economic, but also political. This affects EU governance, national governments, and the democratic legitimacy of both. For the EU, the deepening of Eurozone economic governance, in particular with the so-called ‘European semester' (EU Commission vetting of national budgets), raises questions about the legitimacy of this kind of 'throughput' process, which lacks 'input' legitimacy, and may not have any 'output' legitimacy either if continued budgetary austerity produces recession and no growth.

The compilation then turns its focus into the external dimension of the current crisis. **Joachim Koops** considers the setting of the ample relationship of the EU with the wider scenario of the international organizations. His comments on the achievements, impact and limitations of the 'The European Union as an Inter-organizational Actor'. The paper argues that despite intensified relations and institutionalized cooperation schemes, the EU has pursued a strategy of inter-organizational cooperation that seems to have been more beneficial for the internal build-up of its CSDP and external visibility, and less aimed at reinforcing the partner organizations. There is a need for a more 'genuine' implementation of effective multilateralism, which would benefit both the impact and reputation of the EU as an international actor as well as the development of more coherent and effective forms of global governance. **Jolyon Howorth** deals with the ever-present enigma of the role of the European Union as a model for regional regimes. He notes that, since the end of the Cold War, there has been an emergence of more than fifty regional regimes of an increasingly political type. These blocs have generated a virtual explosion of academic analysis, developing a sub-field of 'comparative regionalism'. One of the key debates is the extent to which the European Union is perceived around the world as a model to be emulated. The EU developed in response to European issues, challenges and conditions. Some of the processes it has generated may be replicable in other parts of the world. A theory of diffusion might argue that emulation has taken place. But when one examines precisely how the respective institutions actually function and what they represent within the entire system, the less possible it becomes to claim meaningful comparability. **Astrid Boening's** paper shifts focus to the south of the EU in a region that has been building: the Mediterranean. The European Union's (EU) foreign policy towards its southern neighbors is currently anchored in institutions such as the Union for the Mediterranean. The paper addresses how effectively the EU will be able to "manage" its southern neighborhood with soft power alone in the evolving de-stabilizations in North Africa and the Middle East, when security financing will likely be compromised in the future.

Shifting attention to the Western Hemisphere, **Finn Laursen** tackles the issue of comparative regional integration, specifically taking into account the cases of NAFTA and MERCOSUR. His paper highlights the fact that the founding fathers of the EU invented a new model which put emphasis on autonomous supranational institutions. Laursen then takes a look at how other integration schemes, NAFTA and MERCOSUR in particular, have tried to secure 'credible commitments'. The main variables discussed include: the degree of openness of the original contract to start an integration process, the degree of asymmetry among the main participants, the degree of pooling and delegation of authority, and the availability of leadership to overcome collective action problems. **Andrés Malamud** points out the return of sovereignty to central stage, with the result of Latin American weakening of integration. He directly claims that MERCOSUR has failed to meet its goals. All other regionalist projects in Latin America fare even worse, and yet, they have ironically fostered domestic democracy, economic reforms and the consolidation of regional security communities. In the midst of a growing gap between treaties and facts, regional elites have responded by signing additional protocols, building up powerless institutions and voicing rhetorical statements. The paper also evaluates MERCOSUR's performance in the context of Brazil's global emergence to show how the strengthening of national sovereignty - as opposed to its pooling or delegation - is at the heart of all regionalist strategies.

I. What Is the EU and What Does It Do?

‘European Identity’ in the 21st Century: Moving from External Marker to Internalized Practice

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Abstract

In view of the overall political and economic crises that the European Union (EU) has found itself in the past few years, starting with the constitutional rejection and continuing with the Euro-crisis, the question of the existence of a common ‘European identity’ or better, of Europeanized national identities, has moved to the forefront. This is not only a self-referential or academic debate, but has deep repercussions for the future integration of Europe, and the potential modeling for other regional blocs. This essay reviews some of the current conceptualizations of ‘European identity’, provides a practice-based account of transnational identity development anchored in the concept of solidarity, and problematizes an internally-focused identity in light of the geopolitical challenges of the early 21st century. Particularly in times of crisis, transnational solidarity provides a more optimal, internalized understanding of ‘European identity’.

Introduction: the (Ir)relevance of Identity for EU Integration

There has never been such a lengthy and momentous crisis as the one that the EU finds itself in this period of (dis)integration, starting with the constitutional rejection and continuing with the Euro-crisis. Hence, the question of a common European identity – or, to be more specific, Europeanized transnational identities - has moved to the forefront. This has deep repercussions for the future integration of Europe, and the potential modeling effect on other regional blocs. Simultaneously, identity-based conceptualizations of the common polity have increasingly been debated, so that an assessment of theoretical approaches and empirical findings is more relevant than ever. A common, transnational identity is customarily conceptualized as being based on the EU's integration policies. The EU, however, transformed only 20 years ago from an economic bloc to a political Union. Since the ratification of the Maastricht Treaty, which contained far-reaching political initiatives such as, for instance, the development of a Common Foreign & Security Policy, an internal Justice and Security pillar, concrete plans for the common currency and a (largely nominal) EU citizenship, many Europeans today experience a host of socio-political commonalities in the polity shaped by Brussels. Politicians and academics alike refer to the EU's harmonization of policies and homogenization of living conditions as bases for a viable feeling of Europeanness, as the historical memory of the continent, despite its common cultural connections and monarchial linkages, is tainted by the traumatic experiences of the (World) wars. Considering contemporary internal tensions and geopolitical external challenges, what are sustainable ways of creating and living 'European identity' in the future? In this essay, I review some of the current conceptualizations of 'European identity', provide an alternative, practice-based account of transnational identity development anchored in the concept of solidarity, and problematize an internally-focused identity in light of the geopolitical challenges of the early 21st century.

Aside from being a historic-cultural and contemporary socio-political marker, 'European identity' has an important spatial function: the continent is crisscrossed with border-transcending rivers, lakes, and mountain chains, whose sovereignty was fought over and shared as well, and the close contiguity of the member states has developed into a tight-knit network of pan-European trade – and transport links, with corresponding political consequences. From a historical perspective, the territorial unification of Europe was largely completed by the culturally European, but politically estranged, countries of the former Warsaw Pact that joined the Union in the past decade. These accessions were politically instrumentalized and ambiguously depicted as a 'return to Europe', particularly because these countries always understood themselves as integral geographic and cultural parts of the continent, even when separated by the Iron Curtain. It becomes evident that such a primarily spatial-cultural comprehension of European identity is problematic, just as the appropriation of 'Europe' through the EU appears problematic: for one, a few states such as Switzerland or Norway consciously decline the integration into the bloc, and on the other hand, the highlighting of geo-spatial characteristics and delimitations hides other, more politically contentious issues (such as the arguments used to rail against Turkish EU membership on the basis of culture, religion or territory).

Such a spatially-defined notion focuses tendentiously and primarily on EU-internal commonalities and external demarcations, thereby contributing to the ideational reinforcement of the concept of 'Fortress Europe'. It attempts to recreate an outdated imitation of national states that formed in the 18th and 19th centuries (and which is polemically termed a 'European Superstate' by those fearing greater integration), despite the fact that the postwar continental identity was supposed to overcome the national divisions that led to both World Wars. In practice, such fortification is achieved through institutionalized border and refugee policies such as those coordinated by the Schengen agreement or the external border agency Frontex, or, more subtly, pursued through a communalization of the Common Agricultural Policy, which artificially prevents many food producers from outside the common market to enter it in the first place. An identity and integration process, viewed this way, perceives itself primarily as a Eurocentric buffer against the challenges of a globalized world, rather than an open, multilaterally oriented region.

Historically, 'European Identity' as pronounced by the EU was in part stimulated by larger geopolitical tensions. Newer research interprets the initial 1973 Declaration of European Identity as a reaction to the belittling position of the U.S., which saw itself as a preeminent global power that aimed at relegating Europe to a regional one (Gfeller 2010). According to this view, a common identity was posited based on common political values and norms, but in part also on geopolitical aspirations, and in largely French opposition to American hegemonic ambitions. A contemporary parallel was conjured up in 2003, when in opposition to the U.S. invasion of Iraq, Europe's most well-known social philosophers, Jürgen Habermas & Jacques Derrida pronounced a pacific European identity as opposing U.S. unilateral foreign policy; this 'thin', externally-referenced identity disappeared, however, quickly when in the aftermath of the military strike inner-European differences emerged on how to react to this crisis, with some stressing transatlantic support, others neutrality, and others an independent European position. In the past few years, similar tensions have become visible in the EU- and Schengen-accession processes, in which polarizing statements on the Europeanness of candidate states were made, thus discursively creating in- and outsiders rather than a convergence and integration of candidate states into participants. All of these incidents reinforce that the concept of European identity should not refer mainly to a constitutive quality, but to a creative process that is contingent on transnational European practices which generates transnational identification, tolerance and cohesion. Such notion of identity avoids a static, endogenous application of the term in favor of continual internalization and socialization.

The first decade of the new century has shown that its geopolitical challenges require the EU to act simultaneously in a concerted manner, while conducting a differentiated multilateral foreign policy cognizant of how external diplomatic and economic relations impact upon the perception of the EU as global actor, and of how growing (im)migrant populations within the Union integrate their diasporic linkages and ties. Yet with the onset of the Eurocrisis, increasingly the internal relations of member states in the region are highlighted internationally, and intra-European variations in political culture (such as differences in attitudes towards governance or economic competitiveness, to name a few) are used as explanatory variables for the larger macro-economic problem. Internally, the EU is already institutionally challenged and operates in-between existing supranational laws and policies and the guarded prerogatives of the member states (in addition to balancing out the different policy stances between governments themselves). Examples abound and are evident in EU-internal consensus-finding, as with the divergent approaches towards strengthening the financial and fiscal policies of the Eurozone, the confusing assignment of leadership in the Union, or the opaqueness of the external policy formulation, with the problem-ridden European External Action Service or the various across policy-sectors segmented neighborhood agreements and partnerships, being cases in point. Although a basic consensus on common values and interests is necessary for cohesive international action, and accordingly is formulated within the treaties, these remain fairly abstract and general, just as the period of introspection following the failed EU-Constitution appears futile in hindsight. At the same time, the Union's integration-activism, in terms of both deepening of policies and widening of membership, combined with a largely top-down engineered identification policy based on symbolism and elite exchanges, causes consternation and disorientation among EU publics. This is ever truer in the realm of the EU, where for centuries, fairly homogenous societies have oriented themselves towards the nation-state model – as evidenced in the Eurobarometer surveys according to which a consistent majority, while expressing a varying degree of affinity for the EU and Europe, primarily relates to their country.

The EU's external identity in international relations is reflected to the degree to which existing and new member states become socialized and internalize a stance of solidarity, acting in accordance to the European norms spelled out in the Treaty preambles and other major documents, such as the now legally binding Charter of Fundamental Rights. These common normative and increasingly legal, references do not only constitute a self-referencing ideal, but also a significant challenge for the EU as global actor. The bloc, with the ongoing debt crisis and institutional reform attempts, is in danger of becoming irrelevant among the emerging powers from the Global South. Important policies are still preferably treated by many global powers in traditional bilateral ways, at times neglecting the Union and its laborious consensus-finding process, and the rise of the BRICS-states puts even more pressure on the Union to effectively be represented on the international stage. An added problem is that few partners have an understanding of the ways the EU functions, and they possess a sovereign perspective on many issues that the EU appropriates as communal in the European realm. No matter if one regards the U.S.'s suspicion of centralized or supranational governance, the anti-colonial attitudes expressed by many African or Asian countries, or the Middle Eastern criticism of the EU as secular-liberal and decadent – the EU's ideational appeal is universally contested. Yet, it also stands as an example of policy coordination for aspiring blocs such as the African Union or Mercosur, and could use its experiences to advance peaceful multilateralism if it survives the monetary crises. It is therefore essential to systematically analyze the substantive content of 'European identity', so as to draw meaningful conclusions about its suggestive power.

**Theoretical Perspectives:
From Unitary Marker to Pluralist Transnationalism**

Just as there are different perspectives available on EU identity, there also exist different disciplinary approaches and methodologies towards studying and measuring identity issues in the EU. Empirical studies have attempted to explore the extent of collective European identification through use of mass surveys such as Eurobarometer or the European Social Survey, or analyzed the impact of individual characteristics such as age, gender, religion, occupation and education, on it (McLaren 2006, Fligstein 2008). But in the past few years, critics have pointed out that on the one hand, such quantified studies may suffer from ecological fallacy (whereby aggregate collective identities are viewed simply as the sum of its individual parts), and that they cannot adequately describe this complex transnational phenomenon, in particular when the focus is less on phenomenological-descriptive but rather, causal-foundational issues. I would add that the fluid and socially constructed nature of transnational identification also suffers from these rather static measurements. Responding to such criticism, social scientists have increasingly looked to develop conceptual models and qualitatively oriented case-studies (Katzenstein & Checkel 2009; Karolewski 2009; Thiel 2011). Furthermore, these studies expanded the focus from the observable object to the larger, impacting context in which public spheres, discourse and media also play a significant role (Risse 2010; Diez-Medrano 2003). In addition, some normative and social-philosophical writings highlight more strongly a normative and teleological view of European identity (Habermas 2008; Nida-Ruemelin & Weidenfels 2007). These authors base their argumentation not primarily on empirical evidence, but on the necessity of post-national constitutional and socio-legal integration. Such studies also emphasize the completeness or finality of the Union and, while they add to this burgeoning topic, they suffer somewhat from real-world applicability.

More importantly, empirical social science has attested to the fact that despite common ideas and norms, no unitary 'European identity' exists, but rather a) a variety of domestically colored Europeanized identities persist (Risse 2010), b) the term is largely devoid of any substantial value content (Delanty 1999), and that c) the way Europe and the EU is framed by the domestic public spheres is decisive for the development of a transnational identity (Diez-Medrano 2003; Thiel 2011). The EU thus resonates varyingly with national identities depending on the specific socio-historical background and the complementarity of EU-advocated norms with the engrained collective identities prevalent in any given member state. Following this logic, despite the existence of shared values and particular socio-cultural experiences that are described as 'Europeanism' (McCormick 2010), many scholars doubt the presence of EU-particular values that would underpin a unitary identity. While the majority of Europeans consistently express in Eurobarometer surveys that in their eyes, the EU stands for democracy, human rights and peace, these notions are not particular to the Union or Europe (with the exception of the volatile notion of 'Euro', or McCormick's proposed post-materialist and social-democratic value stance of Europeans). Rather, EU-advocated norms mix with the existing liberal-democratic national identitive markers and produce domestic variations of the same basic idea of liberal-democratic governance. National identities still reign preeminent and, except for small elites, there is no expansive transnational homogenization of societal identities occurring until now. Habermas (2008) points out that the new media, together with the augmentation of transnational forms of pluralism and political will-formation may change that and lead to mass-based post-national identities, but his idealistic view must be questioned in view of the commercialization of public spheres and the emergent neo-nationalism of recent times. Similarly, the EU's own attempts at fostering transnational experiences through Erasmus student exchanges or the creation of Europe-wide political initiatives reaches only the Europeanized elite with limited meaning for ordinary citizens.

Any attempt to exhaustively define this multi-causal and complex phenomenon is illusionary. Rather, it matters if one views it as empirical marker of a collective group, as part of an individual's personality, or as an instrumentalized policy instrument to obtain cohesion. Despite these divergent perspectives, most scholars agree that it is socially based and continually constructed. Such socially anchored identity evolves out of the differentiation-function of collective identities: without the 'other', no 'us' can exist, and an individual cannot develop his identity without reference to and comparison with others. This applies to a pan-European transnational identification with the EU, as well as to external appearances of the EU in the global political system. In this sense, it is not only fundamentally social, but also constantly in flux, integrating certain components and delimiting others, and the constantly evolving institutional architecture of the Union further adds to this imprecision. According to this understanding, European identity has continually changed and thus is very different from the 1973 conception, or even from the one propagated in 2003, and has involved and included aspects of the dominant states, such as the French identity extension via its 'mission civilisatrice' or the German enmeshment of national and EU-identity (Risse 2003, 2010). A political sociology perspective on identity that is interested in the motivations and practices of acting European is better apt to capture the intricacies of the term. Transnational identity, seen this way, is internalized on the background of a framework of somewhat shared ideas and norms, but constitutes itself in different forms, depending on the actions and practices by EU citizens and institutions (Friedman & Thiel 2012). In a thoroughly globalized and Europeanized region such as the EU, the transformations in socio-economic as well as socio-cultural areas necessitate a performative conception of identity creation and active identification. This becomes ever more obvious during critical junctures, in which traditional forms of thinking and acting cannot suffice anymore– such as in the current stage of European integration and crisis.

Solidarity as a Practice-based Component of European Identity

With the erosion of domestic variations of the European social model (and the realization of the abstract nature of broadly defined EU-values), the notion of solidarity among Europeans as a building bloc towards a sustainable identity has received more attention over the past few years, and increasingly searched for on the supranational EU-level. In fact, it is nowadays prevalent in much of the media and political discourse about the tensions within the Eurozone. For one, the decline of social democracy and the rise of neoliberal ideology across the continent have been questioned since the crisis adjustment programs have revealed an augmented inequality within and across member states. But solidarity should not be solely understood as a leftist objective of solidarity rights associated with social protection or equality; though it is located in the realm of politics as the term is absent in the discourse of competitive markets: Solidarity is theorized to encompass notions of social (based on societal cohesion), civic (based on redistributional orientations) and even political (directed against injustice) common values (Scholz 2007) – three different but interrelated notions that find their reflection in the pressing issues of the EU today. The notion of solidarity in the EU offers value on many levels, as recent research has pointed out that such discourse gives shape to otherwise direction-less cosmopolitan tendencies, and provides an alternative for other competing concepts, such as securitization or citizenship (Ross & Borgmann-Prebil 2010). Solidarity as an applied part of European identity is today, under the influence of societal transformations effected by a common socio-economic space and the increase of diversity in the region, more important than ever, and can be found in different configurations depending on the level of governance (from local to regional to (supra-)national), not exclusively in the realm of social affairs, but also transnationally in the allocation of EU cohesion funds, which account for over about 35% of the bloc's budget – although the EU as neoliberal project, particularly in its current manifestation, is viewed as much as a creator as a solution to today's problems. In this regard, it is interesting to note that the erosion of equality on a national level, in large part caused by regional economic and financial integration, provides an impetus for the search of solidary measures on an EU-wide level in order to combat exactly those externalities.

But solidarity is also a theoretically significant basis for the development of transnational identity, as without it, no fundamental feeling of and action based on cohesion can develop as prerequisite for further transnational identity dynamics. The EU, with its distinct, yet increasingly eroded social model, seems more than ideal to address solidarity in its policies – not only to increase cohesion, but also to mitigate intra-European diversity and inequality. Regionally extended solidarity builds mutual trust among member states and thus adds another auxiliary variable for the development of transnational cohesion and identification – particularly, as solidarity historically always contained a strong transnational component from its pedigree in the international labor movement. Yet, the extension of solidarity challenges its provider to trust that solidary efforts on the recipients' behalf are eventually responded to reciprocally, thus building trust and cohesion over time. Empirically speaking, solidarity is a concept that EU citizens overwhelmingly embrace (84% of respondents in EB 72/2009 had a positive or very positive opinion of the term, and it was the number one priority across the bloc, alongside concerns for the environment); the EB report speaks for itself when addressing solidarity as a policy principle: "The European Union has more difficulty in personifying social values such as solidarity and equality, though these lie at the heart of the social demands of Europeans" (European Commission 2009, EB 72, p. 126). Lastly, while the solidarity provisions are most developed in the EU, other regional blocs can equally adapt solidarity principles and policies, based on their basic social-democratic political (as in Latin America) or communitarian cultural (as in Africa or Asia) orientations.

With regard to the EU system, solidarity fulfills a variety of supportive functions. On the macro-level, the question appears in how far solidarity with like-minded countries such as the U.S. is advised, in an age of mutual interdependence, particularly under the impact of the competitive rise of other (semi)authoritarian governance and development models. Liberal-democracy, however, may be too broad of a common denominator to meaningfully practice solidarity, and there is little incentive to foster common identification rather than coordination. Within the EU, solidarity between member states beyond the Lisbon Treaty's 'solidarity clause' - stipulating mutual assistance in cases of terrorist attacks or disasters - is essential, as (a lack of) it is evident in the current Euro-debt crisis. Such transnational feelings of cohesion necessitate tolerance for diverging political cultures and simultaneously, a respect for the overarching communal priorities in the process of economic, fiscal and labor market policy harmonization. The strongly articulated differences between Euro-creditor and –debtor countries signify a lack of solidarity on both parts, in which primarily political differences are treated as cultural ones (in the form of national stereotyping) and the political discourse becomes poisoned by populist rhetoric, and responded to by many EU commissioners with recent solidarity-suggestions for all governments involved. The question of cohesion becomes also more pressing in the formulation of externally-related policies: for instance, the common European Asylum System, which aims at formulating a common stance on the reception of asylum seekers and refugees, is in an ongoing deadlock over the even distribution of those populations, in which Home Affairs Commissioner Malmström noted a lack of solidarity among member states as well. Another facet becomes obvious in the power relations among the EU multilevel governance agents: here, horizontal solidarity between EU-Institutions and national governments, as well as vertically, between (supra) national governance institutions and civil societies, is essential. Such notion of solidarity accepts the liberal-democratic foundations of politics and discourages the playing up of populist-nationalist tendencies for domestic political gains. More concretely, this means that efforts to reduce the democratic deficit on a national level (Schmidt 2004) could be resolved through the stimulation of solidarity on a transnational level, be it through transnational bottom-up initiatives (such as the increased consultation of civil society in policy formulation, as is occurring after the EU's White Paper on Governance in 2001) or other basic democratic proposals (such as the European Citizens Initiative, which will take effect on April 1st, 2012, and requires that the Commission consider legislation if requested by at least one million citizens in seven member states). Scholars working on the Europeanization of transnational civil society have confirmed that "the identitarian vision of Europe predominates in civil society; they also show an emerging critique not of 'too much' Europe, but of 'not enough social Europe'" (DellaPorta & Caiani 2009, p. 119). Lastly, solidarity between individuals, in particular between 'native' EU-citizens and immigrants, should be realized with the recognition of a basic consensus on the maintenance of human rights and dignity, as well as tolerance towards and inclusion of social and ethnic minorities. Here, the EU can actually foster and more visibly promote inter-group solidarity (rather than focusing on the less pressing inter-generational solidarity), based on the now legally-binding civic and solidarity rights provisions spelled out in the Fundamental Rights Charter. The Commission has only just begun to invoke the document in contentious cases such as the French expulsions of Roma or Hungary's constitutional changes, but it is through the legal-political assertion as well as through cooperation of civil society groups with the EU institutions and agencies that solidarity can be practically realized in the EU multilevel governance system. Seen this way, European solidarity is conceptualized as a practiced testament of European identity, rather than some sort of institutionally propagated or political instrumentalized term.

Conclusion

While much of a recent Foreign Policy Magazine essay on the 'myth of Europe' is debatable, the assertion that "it is on the matters of diversity and solidarity, however, that the pan-European narrative falters most" (Harding 2012, p. 76) is further indication of the theory-practice gap underlying the manifold identity-crises in the Union today. The process of how solidarity, particularly during times of crisis, will be translated into policy practice, will to a large degree determine the future of the region.

On a societal level, practiced solidarity, whether in the treatment of perceived 'others' or as principled stance of political stakeholders in the allocation of power and resources, promises a positive contribution to the development of sustainable European transnational identities. An affirmation of common solidarity through concrete political actions by the EU, the national governments, and citizens transcends narrow nationalism, sustains social peace and links solidary action to the daily experiences of citizens – and thus provides a stronger instrument of common identification than the fairly abstract values promoted in EU preambles or in lofty identity-talk. Jean Monnet, the ideational architect of the European Union, is cited to have said that Europe "will not be made all at once or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity" (Ash 2009). Such understanding of European cohesion provides for a more optimal comprehension of European identity, rather than a phrase devoid of substantial content, or a politically instrumentalized concept. And acting in solidarity is neither confined to the political instances, nor an expression of the Left aiming at an equality of living conditions; rather, it asks of each institution, group and individual to realize solidarity in ways that further European cohesion and oppose injustice. Luckily, there seems to be sufficient room for improvement in this regard.

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What Has the European Union Ever Done for Us?

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Abstract

The problems of the Eurozone have presented the EU with the worst crisis in its history, generating much speculation about its broader long-term prospects. And yet the debate has been unbalanced. While euroscepticism has been attracting growing media and academic attention since the early 1990s, much less has been said about the extent of support for integration, which does not even have a label. And yet Eurobarometer polls indicate that support for the EU has held steady at between 50-60 per cent over the past decade, while opposition to integration has languished in the range of 10-20 per cent. This paper reflects on the dynamics of the public debate on integration, and some of the achievements of integration, and asks whether the present crisis represents a structural and policy failure or a failure to truly understand the character and possibilities of regional integration.

Introduction

At a time when the European Union is experiencing the most serious crisis in its history, it may seem both foolish and futile to reflect on the benefits and achievements of European integration. But this is precisely the time to be doing as much, because the public debate over Europe has become distractingly unbalanced in favor of pessimism and skepticism. Criticism of the EU has been gaining ground since the controversy over Maastricht in the early 1990s, and while it is not undeserved, constructive debate and the search for effective solutions to problems demands a more informed and thorough assessment. The doubts about Europe have become so prevalent that the phenomenon has its own label – euroscepticism - and its own body of academic literature (see Harmsen and Spiering, 2004; Taggart and Szczerbiak, 2008). Meanwhile, support for integration lacks either a label or a literature, and yet Eurobarometer polls reveal that public support for the EU outweighs opposition, the numbers mainly holding steady even as the Eurozone crisis has worsened.

This paper will reflect on the curious dynamics of the public debate on integration. In doing so, it will offer thoughts on the state of the EU, suggestions on the advantages of European integration and how it might be best understood as a model by the rest of the world, and conclusions regarding its wider significance and future direction. It argues that while the present crisis in the Eurozone may be a structural and policy failure, it can be traced in large part to the inability of ordinary Europeans and their leaders to understand and agree the character and goals of regional integration. The debate over Europe is not just unbalanced but also often misinformed, with a troubling mismatch between the manner in which it is often portrayed by political leaders and media pundits, on the one hand, and yet still continues to be viewed favorably by most Europeans, on the other. The state of the union is – in short – unclear and uncertain.

The Dynamics of the Debate on Integration

The title of this paper is suggested by a scene in the *Monty Python's Life of Brian*, in which a group of conspirators plan to strike a blow against the "Roman imperialist state", their leader beginning the discussion by asking – in a dismissive fashion - what the Romans have ever done for them. Members of the group hesitantly offer suggestions, ranging from aqueducts to sanitation, roads, irrigation, medicine, education, and public safety. The exasperated leader responds by conceding all these points, but still asks what the Romans have *really* done for them.

It can often seem as though the EU suffers the same problem of a lack of acknowledgement and recognition. We hear often about its failings and its weaknesses, and have been repeatedly told by analysts that it is on the brink of collapse. Jean Monnet predicted in his memoirs that 'Europe would be built through crises, and ... would be the sum of their solutions' (Monnet, 1978: 417), but also shrewdly noted that 'people only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them' (Monnet, 1978: 109). European integration has indeed witnessed many crises, from the collapse of plans for the European Defense Community in 1954 to the French veto of British membership in 1963, the empty chair crisis of 1965-66, the collapse of initial efforts in 1972 to prepare for monetary union, the Eurosclerosis of the 1980s, the foreign policy failures in the Gulf and the Balkans in 1991-92, the trials of the European Monetary System and the Danish rejection of Maastricht in 1992, the failure of the constitutional treaty in 2005, and the Irish vote on Lisbon in 2008.

In spite of repeated claims that such events have marked the near-end of integration, the EU has survived and generally emerged stronger, reformed, and more conscious of its limitations. Furthermore, Eurobarometer polls indicate that most Europeans have continued to view the EU favorably even against a background of crisis: between 2006 and 2010, for example, those who saw the EU positively outnumbered those who saw it negatively by approximately three to one (*Eurobarometer 76*, 2011: 20). In the period 2001-10, those who felt that their country had benefited from EU membership ranged between 46 and 59 per cent, a proportion that held steady during the collapse of the constitutional treaty and well into the Eurozone crisis (*Eurobarometer 73*, 2010: 132). A remarkable 62 per cent of Europeans said that they felt like citizens of the EU even as the Eurozone crisis picked up speed in early 2011 (*Eurobarometer 75*, 2011: 52). And yet the process of integration has come to be typecast as a source of problems ranging from a lack of transparency to an absence of leadership, a shortage of democracy, a propensity to waste money, an increase in the bureaucratic burden on Europeans, and a threat to the sovereignty of states. This is perhaps explained by four core problems.

First, the debate over Europe has fallen foul of the dictum that bad news attracts more attention than good news. The woes of the EU have often had the kind of dramatic qualities that beg for gloomy headlines, while the successes have been more gradual, less dramatic, and less newsworthy. The Eurozone crisis has been a prime opportunity for pundits and political leaders to issue dark warnings of calamity, while the successes of integration have often taken longer to emerge and the results have taken time to show themselves. Headlines such as "Eurozone on the verge of collapse" will inevitably draw more attention than "EU regional policy declared a success". So entrenched has the problem become that European Commission president Barroso was moved in a February 2010 speech at the European Parliament to reflect on the "intellectual glamour of pessimism and constant denigration" that was doing so much harm to the EU and to Europe's image.

Second, the debate has fallen foul of the complexity of the rules on the EU, which occasionally confuses even the experts. It lacks the kind of short and inspiring constitution that has for so long guided political discourse in the United States, and has instead relied on a series of treaties that are long, dull, mainly uninspiring, and have been periodically updated by technocrats before being placed before a confused and often apathetic public, most of which has had neither the time nor the inclination to read the details, relying instead on the media and pundits to interpret the content of the treaties and selectively extract the major points. Meanwhile, academic scholars have made matters worse with their frequent inability to make Europe either real or relevant, regularly bemusing even the employees of the EU with their often arcane jargon and theories (see Puchala, 1975, for an illustrative anecdote).

Third, the EU has fallen foul of an identity crisis. There is no agreement on what it is or what it should become, and without knowing whether or not it is on the right track, or even what track it should be on, it is difficult to make judgments regarding its progress. In the 1950s and 1960s, the European Economic Community was little more than a conventional international organization, much like the United Nations or the North Atlantic Treaty Organization. It is clearly today much more, but it continues to be defined less by what it is than by what critics warn that it might become: a federal United States of Europe. Again, academic scholars have helped little, employing such expressions as *actorness*, *sui* *generis*, and *multi-level governance* in their well-meaning but ultimately unsuccessful attempts to give the EU some identity. Few have summarized the situation as neatly as Michael Burgess (2006: 245) when he notes that “the EU works in practice but not in theory”.

Finally and most critically, however, the EU has fallen foul of what I call a knowledge deficit: most Europeans know little about how the EU works, which in turn makes it difficult for them to process or contextualize the news from Europe. The uninformed citizen has always been a reality of political life (Somin, 2004), noted alike by such observers as Plato, Hobbes, Machiavelli, Hume and Hegel, but confusion and apathy have been particularly evident in the case of the EU. Few Europeans follow the news on Europe with any regularity or attention, and most pay attention only when a new crisis breaks or when they are asked to vote in a national referendum. Several studies (for example, Sniderman, et al, 1991; and Page and Shapiro, 1992; Popkin, 1994) have suggested that voters can use ‘information shortcuts’ such as party labels, elite endorsements, or cues from trusted sources to help them decide, even where they lack much knowledge about the issues at stake, thereby giving themselves the capacity for reasoned choice. The same argument is made in the case of national referendums on EU issues by Hobolt (2009: 140, 234-39).

But Somin (2004) argues that cues can create at least as many difficulties as they solve: political activists often differ from the general population in socioeconomic terms, tend to be more partisan in their views, and by virtue of being opinion leaders may have interests that are different from those of voters. It is clear from Eurobarometer polls that most Europeans admit to having little knowledge of how the EU functions, and that they have significantly less understanding of the EU institutional structure than of national institutional structures. In *Eurobarometer 75* (2011), for example, respondents were asked to comment on the statement ‘I understand how the European Union works’: 45 per cent tended to agree, while 49 per cent tended to disagree, and eight per cent did not know. Thus they have little independent understanding with which to arm themselves against the arguments and appeals of the partisans, a problem that feeds into the democratic deficit and the elitism of the European project.

The Achievements of Integration

The debate over Europe, then, is structurally flawed, suffering uncertainty over what Europe represents and compromised by the clear inability of most ordinary Europeans to understand or contextualize the work of the EU. We hear much about its problems, but the debate cannot be complete without consideration also of its benefits and achievements. While it would be impossible to list them all in a short paper of this kind, it is worth considering three broad sets of such achievements by way of illustration, viz. the roles of the EU as a peacemaker, as a global power, and as an institutional model.

Europe as a peacemaker

The greatest achievement of European integration – so great, indeed, that it is often overlooked – has been to encourage a lasting general peace in a part of the world that was long a poster child for war and conflict. It is hard to imagine from our present vantage point the antagonism, doubt and foreignness with which Europeans regarded each other in 1945. And yet so successful has been the reconciliation of France and Germany (in particular) that the notion of European states going to war with one another again is unthinkable. So unthinkable, indeed, that we now take peace in Europe for granted; the region is living out Kant's notion of perpetual peace, and while the credit cannot be laid entirely at the door of European integration, its role has been essential.

At the heart of its contribution lie the benefits of economic integration, and particularly of the European single market. This was a goal with which even the most hardened of eurosceptics could agree (Thatcher, 1993:556), and while the task is not yet complete, the EU today has the world's largest and wealthiest capitalist marketplace. The speed with which this was achieved can be credited almost entirely to the European project, and even if the EU were to be closed down tomorrow, economic integration has created ties that would be near impossible to unbind.

The European project has also helped promote peace through its role in neutralizing the more damaging effects of nationalism. Where nationalists once promoted potentially dangerous political and strategic interests, they are today more interested in what Billig (1995) describes as "banal nationalism", associated with symbols rather than demands for self-determination. We have seen the dual phenomena of macro-integration and micro-disintegration at work, where Europe is coming together while there has also been greater recognition of national identities. (We are regularly told that European multiculturalism is dead (see Modood, 2007, for example), but such arguments are based on a misapplication of this contentious term; Europe faces troubling racial and religious tensions, to be sure, but the region has long been multicultural.)

Integration has also encouraged peace through its role in reducing state-based patriotism and promoting broader notions of citizenship and identity. Thanks in large part to integration, Europeans have become less foreign to one another and have come to realize how much they have in common. There is today a distinctive Europeanist view of politics, economics and society, which goes beyond support for democracy, human rights, and free markets (a feature of all liberal democracies), and includes more distinctively European support for welfare liberalism, cosmopolitanism (association with universal ideas), the collective society, sustainable development, secularism, and civilian and multilateral approaches to international relations (for more details see McCormick, 2010).

Europe as a global power

The second major achievement of the European project has been the way in which it has allowed European states to reassert themselves in the world. This may seem a hollow claim, given the EU's many well-publicized shortcomings in foreign and security policy, or its repeated crises of leadership (or lack thereof), but if we look past the headlines and consider longer-term trends, we find substantial achievements. The EU has collectively developed a set of alternative explanations for the causes of key international problems, it offers a new set of mainly civilian and soft prescriptions for the resolution of those problems, it represents the distinctive set of values listed above, its marketplace is both large and wealthy, it is the biggest source of - and magnet for - foreign direct investment in the world, it is by far the biggest provider of official development assistance, and while the Eurozone has had enormous problems since 2008, the euro is the first credible alternative to the US dollar since the latter displaced the pound sterling in the 1950s.

The reach of the EU is routinely overlooked because of the tendency of scholars and political leaders to define influence according to military power, and the EU has been overlooked in the race to credit new global influence to China, and even possibly India and Brazil. But the transatlantic division over Iraq not only made public for the first time the long-simmering policy differences between Americans and Europeans, but also revealed the considerable extent of public support among Europeans for developing EU foreign policies independent of the United States. The EU response was widely interpreted as yet another crisis, because of the divisions between EU governments opposed to and in favor of the invasion, but this analysis routinely overlooked the unity of public opinion, with polls finding 70-90 per cent opposition to the war in every EU member state.

It is in none of our interests to live in a world dominated by one or two superpowers, because to do so is to risk being subjected to the assertion of their political and economic agendas. The EU is the only effective channel through which Europeans can make their collective views heard, and it does this more often than we are led to believe. It has done it, for example, through a common trade policy in which all 27 of its states - representing 500 million of the wealthiest people in the world, and accounting for a bigger share of global imports and exports than any other trading bloc - act as one in dealings with the Americans, the Chinese, and the Indians. And on the foreign policy front, its abilities to speak as one continue to improve, aided most recently by the redesign of the office of high representative for foreign affairs and the creation of the European External Action Service. (Which have, it must be said, got off to a troubled start, but have been sailing relatively uncharted waters.)

Europe as an institutional model

The third major achievement of the European project lies in its institutional impact: it offers the template for a new approach to ordering politics, economics and society that contrasts with the flawed and increasingly irrelevant model of the nation-state. The latter has not been with us long, and even in its relatively short life it has been fraught with problems: states create artificial divisions among humans, they have often gone to war with one another, they regularly fail to deal with other states without building antagonistic alliances, and they often do a poor job of working with other states to address cross-border problems such as terrorism, pollution, illegal immigration, and the spread of disease (see discussion in Camilleri and Falk, 1992, or Ohmae, 2005). Few of these charges can be leveled at the EU. It has helped Europeans rise above narrow interests, has encouraged them to coordinate their responses to shared or common problems, offers them a means of pooling knowledge and expertise and of reducing duplication and overlap, and encourages them to take a more global view of the needs of human society. There have been problems along the way, to be sure, but examples of policy areas where cooperation has brought advantages include the following:

- Environmental management, where many problems either have common sources or are shared by multiple states;
- Competition, where the EU has developed the most stringent anti-monopoly laws in the world;
- Mergers and acquisitions, where the single market has encouraged European corporations to reach across internal borders;
- Education, where efforts to ensure the mobility of qualifications has gone hand in hand with efforts to encourage educational exchanges;
- Justice and home affairs, where cross-border police and judicial cooperation has been a vital addition to the set of tools used to fight crime;
- Transport, where coordinated European investment in trans-European networks has helped build new highways and railways that have improved links within the European marketplace.

Arguably the greatest institutional achievement of the European project has been its role – through the legal and political demands it makes of its members or aspirant members – in expanding and solidifying European liberal democracy. This has made the EU the most effective force in the world today for the peaceful promotion of democracy and capitalism. It encouraged the six founding states (France, West Germany, Italy, and the Benelux states) to work together in the 1950s and 1960s, it helped encourage the transition to democracy in Greece, Spain and Portugal in the 1980s, it went on to encourage democratic and free market change in post-Cold War Eastern Europe, and it continues today to spread democracy through the demands that it makes of its own members (such as Hungary), neighboring states that have aspirations to join the EU, and other states that seek access to the European marketplace.

And if imitation is the sincerest form of flattery, then we have only to look around the world at the other experiments in regional integration that have been inspired by the European case: these include ASEAN in southeast Asia, ECOWAS in West Africa, the Union of South American Nations, the Caribbean Community, NAFTA in North America, and the African Union. Their integrative potential (Nye, 1970) varies, to be sure, but clearly others think that integration is worthy of emulation, and there is almost no state that is not involved in at least one exercise in regional integration. If the EU is wrong, then so is almost everyone else.

Conclusion

The purpose of this volume has been to reflect on the state of the European Union in the context of the Eurozone crisis, and to ask what kind of entity it might become over the next decade. There is no question that the Eurozone crisis has been the most serious in the history of the EU, but it has by no means been the first and nor will it be the last. As noted earlier, the process of integration has been beset by problems and challenges over the years, some more serious than others. However, it has generally learned from these experiences and has emerged both chastened and reformed, even if it continues – like all systems of administration – to remain imperfect. This will almost certainly be the case, also, with the Eurozone crisis, the only difference being that the lessons and the resulting changes will be of a different scale.

As noted in the introduction, there is a fundamental problem deriving from a failure to understand, inform and engage. The EU is associated more in the public mind with problems than with achievements, suffering as it does from a culture of pessimism, a structural complexity, an identity crisis, and a knowledge deficit. And yet it has achieved a great deal, not least by way of its contribution to the building of a culture of peace in Europe, its role in helping European states to play a meaningful role on the global stage, and its possibilities as a political, economic, and social model. The state of the union continues to be mixed, as it has always been, but this is less a result of the flaws inherent to the European experiment than of the dynamics of the debate about Europe, which has become increasingly pessimistic but also often abundantly misinformed. The EU will survive the crisis in the Eurozone, but the crisis offers the opportunity for a more balanced and informed review of the nature of European integration, which could in turn provide more certainty about its possibilities, both for Europeans and for experiments in integration in other parts of the world. To end with a return to the title of this piece, the European Union has done a great deal for all of us, and it is critical that this more clearly understood and appreciated.

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All for One, One for All[1]

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Abstract

When several partners decide on a voluntary basis to go for unity or union, the common wisdom and a famous Spanish proverb whereby "Unity Makes Strength" ("*La union hace la fuerza*") is only valid 1) if there is solidarity between the members of the group; 2) if each member proves constantly to the others that he is acting as agreed and that he is not simply using the others, because this erodes the sense of solidarity among all of them. This also applies to the European Monetary Union, namely the present Eurozone made up by 17 countries, and in particular because it is not an Optimum Currency Are (OCA). Thus one of two options arise: Either something is done so that the two conditions above are verified, or members that are not conforming to the OCA criteria exit the union, in which case there is no need for the two conditions to hold; otherwise the present Eurozone of the 17 does not seem to be sustainable in the medium run.

On Solidarity, Benevolent Hegemons and Godfathers

It is improper to state, contrary to what we frequently hear, that the Eurozone is not working because of a lack of political leadership. This would only become important once the citizens of the 17 countries which are part of the Eurozone decide by a wide majority what they want in the last instance, either a political federation or simply a confederation. That is certainly a difficult question to answer, even by informed voters. This is why federal unions materialize frequently when there is an external menace. The latter is likely to give a strong push to the federal project (as was the case of the United States of America or the Swiss Confederation), helping to focus the minds of undecided voters. It is the external menace that pushes citizens to start thinking like Alexander Dumas' "Mousquetaires": "All for one, one for all". In truth, EU institutions should be delighted if they could identify an external enemy right now. But there is none,

[1] This chapter is an abridged version of a paper that will appear in the summer of 2012 in Spanish in a special issue of the *Revista de Economía Mundial*, number 30, dedicated to the Euro.

even less since the fall of the Soviet Union. Islamism, even of the virulent sort, is not perceived as a glooming menace for the immense majority of Europeans. Neither is there an internal menace of a renewal of the European Civil War of the XX century, as the memory of the First and Second World Wars and what led to them is receding and has lost galvanizing force among older generations, not to mention the younger generation, where it is nonexistent. What about selecting the US dollar as the enemy to justify the sacrifices needed to sustain a monetary union with a federal project, so as to compensate the power of the American currency? This is a non-starter, as we know that the US was prepared to act as a benevolent hegemon between 1944 and 1971. Certainly things have changed since then, but not sufficiently as to make the US currency the enemy. With all that one can criticize US administrations since President Carter, the United States, since the demise of the Bretton Woods system, has never practiced a policy of "competitive devaluation" as it could have done. It actually did it in the 1930s (by Franklin Roosevelt, a president considered paradoxically as very pro-European at the time).

In truth, a union (including a monetary one) does not increase the power of the group in itself, neither internally nor externally. If a Union is reached between different units on a voluntary and contractual basis (as in a marriage or for the matter as in the European Union of the 27), the Union is not likely to increase in power if on the one hand there is no solidarity among the different units (as with the Mousquetaires) but also on the other hand, if the different units do not constantly prove to the rest that they stand by what they agreed to and that they are not simply taking a free ride on the others, because this erodes precisely the sense of solidarity (think about the kibbutz principles). In order to minimize the temptation of a free ride, strong institutional structures are needed, as well as a system of legal sanctions that can be imposed from the Center, even if needed by force, hence the need to establish a Court of Justice and a federal police. After all, we know that a federal country cannot function like a huge kibbutz, which is based on a voluntary association among its members. One of the partner countries may be prepared to act as a benevolent hegemonic power or, in more graphic terms, as a Godfather, or the Union is imposed by a non-benevolent power by force (e.g. the project of a European federation, as conceived by Napoleon, or the Warsaw Pact).

Should Monetary Union Come Before or After Political Union?

Such was, in a more or less explicit language, the message of the late Chancellor Kohl of Germany. He sustained openly that a Monetary Union was not possible without political union. It is also clear that he saw the latter not only as a must but, in his particular case, wished it to be so. On the contrary, it is not clear if at that time this was also the wish of the majority of German fellow citizens. Most professional economists were, curiously enough, in agreement with Kohl's thesis, particularly the German ones, but even more so, the Anglo-Saxons. The difference between the first group and those of British nationality was that the latter did not want Britain to be part of a political union which, like Chancellor Kohl, they saw as necessary, or together with their colleagues in the US, were skeptical about the will of continental European to engage in the big step that political union entails.

This clear-cut opinion was defended on the basis of the fact that a Eurozone of 15 or 20 sovereign states would not be, in any case, an Optimum Currency Area, a concept developed by Robert Mundell, a Nobel Prize winner in Economics (Mundell 1961). It was inconceivable, so the argument went, that with such a large number and diverse countries it would be possible to manage a unified monetary policy which would suit each of the member states, unless all of them would adhere strictly to the theory of neoclassical economists and excluding monetary policy as a macroeconomic policy tool (i.e. that money is strictly a trade facilitator, like monetary gold in the past).

There were even professional economists, like Jacques L'Huillier (1998) in Switzerland or Jose Luis Oller (1997) in Spain, that argued that it was better to do as Switzerland did, first the political union and then the monetary union. This is so insofar as the latter depends on a previous agreement among the members on the degree or amount of fiscal solidarity in order for the monetary union to be sustainable. They both stressed that one cannot force things and that counting on the fact that, in the event of a monetary crisis, a rushed and improvised decision on fiscal solidarity taken under stress was not only unlikely, but unwise and full of political risks. At the other extreme, a minority opinion held mainly in France was openly defended by well-known economists, such as Jacques Rueff, a former President of the Banque de France, who sustained that "Europe will be done by money or it will not be done" .("L'Europe se fera par la monnaie ou ne se fera pas", quoted by Donges , 1998 , 10).

This last thesis is equivalent to saying that political will can achieve everything, including being prepared to pay the net economic cost of the move if necessary to maintain a dysfunctional Monetary Union that includes members which should not be included, and not including countries that should be included, but are not (e.g. in the case of Switzerland and the Eurozone). Needless to say, even an enthusiastic pro-European leader and French economist such as Jacques Delors did not adhere to this extreme view. He must have been aware of what the famous MacDougall Report of 1977 had argued, namely that a Monetary Union would require a strong centralization of fiscal policy. However, he and the group of experts drawing the Delors Report later on in 1989 followed their political instincts, not their economic ones. They reflected the lack of enthusiasm among European leaders of the time for fiscal union and stated quite a different approach than the MacDougall report. What had to be done was to apply a fiscal discipline on all the member states of the monetary union and not adopt a Keynesian perspective of fine tuning economies. Delors was aware that if the centralized monetary policy was to be inspired by the German neoclassical views (see above), strictly devoted to feed the Eurozone with enough liquidity so as not to have neither inflation nor deflation, it was absolutely necessary to leave to the member states a margin of maneuver in fiscal policy so as to use it to stabilize the domestic economy of an individual member state in case of need, but within some limits. It was mysteriously said that fiscal policies had to be coordinated without being specific about how this would be achieved.

Is a Currency Area Feasible Without Fiscal Union?

From what was said in the preceding section, it becomes clear that it was politically impossible in the 1990s to imagine an EU budget contemplating public expenditure of the order of magnitude requested by the MacDougall Report. The latter was inspired by what was being practiced in existing federal or confederal unions in the world, namely expenditure reaching more than 15 percent of GDP, contrasting with EU expenditure turning around 1 percent only. Summing up, fiscal policy remained in the hands of member states. The EU budget was too small to exert a solidarity function. As is well known, the educational, health, social security and defense systems are in the hands of EU member states and it is the latter which absorb the immense majority of expenditure in a national budget. Take note that the distribution of expenditure for the different items just mentioned reflects national preferences. This in turn reflects widely different cultures, something that does not happen in the United States, Canada or Switzerland. In these countries there is a wide consensus about education, health and defense matters. Not only is there no overlap among EU member states of public expenditure structures, but fiscal systems are widely apart from one member state to the other (e.g., income tax, corporate taxes, and so on). And each member state decides on its own how much it wants to tax its own citizens.

The idea was that countries would have to respect the Stability and Growth Pact once they became part of the Eurozone. It was actually a very light fiscal discipline regime because France was opposed to automatic sanctions being used against countries that violated rules regarding excess deficits. Any sanction was to be decided by ECOFIN, a political non-technocratic body; when France and Germany flouted the rules they did not sanction themselves…

It was known since the start that the initial Eurozone of 11 member states was much wider than an Optimum Currency Area. In passing, it was clear to all that the German Mark area (the old "Snake" of the 1970s) was closer to an OCA than the Eurozone of the 11. It was thus clear that the ECB would face a very difficult task. It was possible, however, to justify the existence of the Eurozone by arguing that the microeconomic benefits of having a common currency were very large (contrary to the opinion of neoclassical economists which always said that money is a veil; in other words, it is a simple trade facilitator). We know now in hindsight that these expected benefits have been widely exaggerated. In two recent research papers (Sadeh & Verdun 2009; Sadeh 2011), it has been amply proven that trade due to the creation of the euro increased at most by 15 percent in the first five years of its existence. The United Kingdom has not lost trade-wise from not being part of the Eurozone. Neither has the financial performance of London decreased, as predicted at the time. The problems confronted by Switzerland regarding tax evasion are not due to the creation of the euro nor of the ECB. Among the principal actors in the operation against Switzerland are the United States and the United Kingdom, apart from Germany and France. But Brussels and Frankfurt do not count for the matter. It can even be argued that the OECD takes more a lead in this issue than the EU or the ECB.

Furthermore, Sadeh (2011) brilliantly proves that, after the creation of the euro, there has been increasing economic divergence between the German business cycle and one of the PIIGS, Malta, Cyprus, and also Denmark, France and the Netherlands. According to different recent empirical research papers there has been price convergence in the Eurozone for traded goods, but this is due more to the creation of the Single Market than to the creation of the euro. What is more revealing is that neither the EMU nor the Single market has achieved price convergence of non-traded goods; on the contrary, there has been divergence. And in another empirical work, Sadeh (2009) shows that the member states of the Eurozone have diverged in their degree of backing of domestic microeconomic reforms.

In other words, the economic divergence among Eurozone member states has been (using language drawn from psychology) more substantial than the convergence leading to a certain degree of schizophrenia that did not prevail in 1999, and, thus, leading to an identity problem. Who represents the typical member state of the Eurozone? It goes without saying that by raising the number of Eurozone members from 11 to 17 only made the monetary union even more dysfunctional than at the creation in 1999, and it becomes increasingly more hazardous to pinpoint the typical Eurozone member state.

The Present Eurozone Crisis: Distinguishing the Short Term from the Long Term

The focus of this paper is not on the short term problems facing the Eurozone in early 2012, such as the debt and banking crisis; they are amply treated by the press, other media and academic work, and therefore well known to the wide public. But the more critical problem in the medium and long run is largely ignored by the media, the Eurozone member states' governments, and of course Brussels, namely the lack of competitiveness in a series of member states when compared to Germany. The excuse for not addressing this problem is that the debt and banking crisis must be solved first. This is a wrong approach because markets understand the underlying problem of competitiveness. It is obvious that some, if not all, of the PIIGS, if staying inside the Eurozone, are going to have a quasi-permanent problem of competitiveness, unless they are willing to take the risk of deflation. Taking into account that some of the PIIGS are among the less open economies in the Eurozone (e.g. Greece), it seems evident that belonging to the Eurozone is of second order of importance for service firms supplying local consumers and the State, plus all non-exporting SMEs. This applies as well to the increasing number of poor consumers that do not travel abroad to other European countries for leisure or shopping. Add to this that, for some of the PIIGS governments, the possibility of obtaining resources at short notice imposing an inflation tax (i.e. by printing money) appears a tempting proposition in a case of urgency, particularly acute if the government has no more capacity to obtain loans or is unable to impose more taxes, apart from the inflation tax just mentioned. At times, inflation is "the tax of last resort". Finally, factor in the equation that what is more important to low-and medium-technology firms, prevailing in most of the PIIGS, is that the government recuperates the possibility of doing competitive devaluations, even if they know that this is only a short term solution. It is a way to do deflation without generating unemployment and which is based on the monetary illusion of a large majority of the population. This mechanism is well known to Italian, Greek, Portuguese and Spanish entrepreneurs. In passing, it has been proven that deflation per se rarely reestablishes competitiveness. This is why it appears at some stage that it is better to exit the Monetary Union and devaluate. The demise of the Gold Standard and the Gold-Exchange Standard are due to this sort of logic process. Devaluing to gain competitiveness requires strong monetary illusion by workers and consumers only if there is no terms of trade deterioration, or if we assume a very open and small economy, such as the Netherlands. On the contrary, devaluation tends to be more effective in very large and non-open economies (such as the US in 1933 or the Spain of the 1960s). We can reasonably expect that Greece and Portugal are in the first case. It is already more difficult to assume that Spain , Italy and Cyprus are non-open economies, but the first two have the advantage of very large domestic markets, something making the option of exiting the monetary club very tempting.

Exiting the Eurozone: Advantages and Disadvantages

Does this mean that leaving the Eurozone would be easy for any of the PIIGS? Clearly not. Entry into the Eurozone required assuming a series of short term fixed costs, increasingly higher in the era of the computer. It is for this reason that leaving the Eurozone would also have fixed costs, even more devastating if the cost of entering the euro has not yet been covered. After all, it took three years from the creation of the new currency in 1999 to the issuing of paper money in 2002. These costs, however, are once-and-for all and should not be confused with other costs related to default, as indicated below.

The political cost of exit can also be devastating. But once a country has left (say Greece), other members would be tempted to do the same. A "domino effect" would take place, in the opposite direction than the one taking place when there is an EU enlargement, which always incites those who did not want to be part of the EU to ask for membership. For instance, the exit of Greece would create discomfort, if not havoc, in countries already marked by faltering financial markets, like Cyprus or Portugal. On the other hand, Germany or the Netherlands would see the move in a positive light, as they would consider this a necessary trimming of the Eurozone's lawn.

In view of the above, other Eurozone countries could try to prevent wavering members from leaving (e.g. Portugal, Cyprus, Italy), either by sanctioning them or by buying them. The first scenario is the famous one of preventing secession popularized at the time by the economist Martin Feldstein, at the time Chairman of the NBER. This scenario was badly interpreted in Europe believing that, when he said in 1997 that the creation of the euro would lead to war, he was referring to a war between the EU and the US, when he was referring actually to the US Civil War (1861-65). It is assumed, then, that Eurozone member countries will not let a total disorderly Greek default to happen because it would be detrimental to some French and German banks, and due to the threat of a "domino effect". However, the temptation of Greece to declare an open default increases with time because of the competitiveness problem above mentioned. Kenneth Rogoff has argued in a recent paper that economic history shows that countries reduce the weight of external debt as a share of GDP by defaulting, and not by growing more rapidly than average, nor by reimbursing debt. If they are countries with their own currency, they can attempt to get rid of external debt by surprise inflation. Obviously, this option does not exist for members of a Monetary Union.

One must take into account that if there is default without leaving the Eurozone, the political and social costs do occur immediately after default, thus making it a much less costly divorce because the cost in terms of havoc and welfare have already been largely paid (e.g. a run on the banks), and now after the divorce, devaluation is a possibility, making brighter the future of all citizens. Default is somehow a bad dream while exiting the monetary union (i.e. the Eurozone), as in a divorce. Argentina's experience in 2001-2002 is a case in point. In this context, it is easy to contemplate that after France and Germany realize that some of the PIIGS want to leave the Eurozone and try to deter them from doing that for fear of contagion, they will capitulate and see exit as something not only inevitable but positive. In the opinion of the author, as indicated above, Germany and the Netherlands might see such a move as a necessary trimming of bad herbs (and not as is currently argued by those against secession as punishment, revenge or sanction of bad pupils). In this context, it is evident that as long as the second indispensable country in the Monetary Union, namely France, accepts the German outlook, the Eurozone has a guaranteed life. Another matter would be if Germany shows no further interest in holding on to it, but this does not seem to be a realistic outcome for the coming two decades.

Conclusion

If the creation and perpetuation of a Monetary Union imposed by force and/or based on conquering and occupation (e.g. Napoleon/Hitler) is excluded, as it should be, in the case of the Eurozone, the only benevolent hegemon that comes to mind is present-day unified Germany. But it is legitimate to have doubts about this, given its relatively small economic size compared to the rest of Euroland (not to mention the EU at large). More to the point, given the weight of the past, Germany could not assume this role even if it wanted to, if one or more members of the Eurozone refuse to accept this voluntarily. It is not likely either that the German parliament would be prepared to consider the idea even if all the other 16 Eurozone members beg it to play this role, because it would run against the whole idea of the European Union (a union among equals). Thus, a real monetary union must be based on solidarity when the chips are down, not only in one direction from Germany outwards but among all the 17 member states. Are the 16 other members prepared to help Germany when in need? Would these countries have considered coming to the help of Western Germany when it had to engage in the immense task of economically stabilizing Eastern Germany? Food for thought…

The issue of solidarity is linked to the issue of actual membership of the present Eurozone. In other words, the real problem of the Eurozone is not its survival, but its present composition. Going back to the discussions that took place before the Werner Plan was adopted in 1970; it is worthwhile remembering what was said at the time, that to guarantee the success of the Plan, serious thoughts should be given to the number of countries that would enter, apart from Germany and France (and then the EEC was made up of only six countries!). It was argued that a small monetary union, leaving aside Italy, would be more compact and lasting as it would be less heterogeneous, even if it were politically less acceptable and would have created many tensions between insiders and outsiders. On the basis of this criteria, it was said that Italy should be included, knowing, however, that, sooner or later, there would be some asymmetric shock that would test the amount of solidarity among the Six.

Today, the leaders of the Eurozone are faced with exactly the same dilemma, but the conflict rarely rises to the surface in discussions at the European Council level. In the mid-1990s, many academic experts said that the future EMU decided upon in Maastricht could be established under the circumstances of the moment, but that in the medium and long run it would not be sustainable without some type of federal structure or political union, because of asymmetric shocks. This was due to the heterogeneity of economic structures of the members and different habits in the management of economic policy. Apparently, the architects of the Maastricht Treaty then and the ECB now, not to mention the present discussions around the euro crisis, all did and have continued to ignore at their own peril the importance of the principle of solidarity when divergence of competitiveness levels take place.

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II. The Eurozone:
A Problem or a Solution?

EU Responses to the Challenge of Globalization

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Abstract

Following the responses to other challenges, the process of European integration has one main challenge in the 21st century: globalization with increasing competition from previously less developed countries.
The Strategy Europe 2020 is to a great extent supposed to correspond to this challenge, as well as to two other "long-term challenges": "pressure on resources" and the "aging population".

To correspond to these and other challenges, the Strategy establishes three priorities which are mutually reinforcing: "smart growth", "sustainable growth" and "inclusive growth". In the first case, there is the purpose of "developing an economy based on knowledge and innovation"; in the second case, the purpose of "promoting a more efficient, greener and more competitive economy"; and in the third case, "fostering a high-employment economy delivering economic, social and territorial cohesion".

In a realist way, unlike the Lisbon Strategy, there is concentration in a small number of feasible targets and a higher commitment of the institutions (the EU Council in particular) and of all levels of intervention in each country.

Finally, it is a Strategy strongly based on the markets. It is specially stressed that "a stronger, deeper, extended single market is vital for growth and job creation. A protectionist strategy is excluded, taking into account that "global growth will open up new opportunities for Europe´s exports and competitive access to vital markets".

1. Introduction

Along the years, the process of European integration has been taking place in response to different challenges: in the beginning, there was the challenge of peace; afterwards, there occurred the challenge of efficiency, which required changes in the decisional procedures; and more recently, the challenge of enlargement by the inclusion of a significant number of previously communist countries. In the 21st century, it is clear that one main challenge is the challenge of globalization. It is not a new challenge, but it has now new features, requiring reinforced answers.

A new map of the world

Over the span of five centuries, beginning with the Portuguese discoveries, European countries dominated the world. The situation changed in the 20th century, particularly after the Second World War. The United States and the Soviet Union had political and military prevalence all over the world; economically, there was the prevalence of the so-called "triad" formed by Europe, the United States and Japan.

It is, however, clear that we will have (we already have) a new map of the world for the 21st century, and with new world powers, with the emergence of the BRICs in particular, Brazil, Russia, India and China. We therefore face a difficult challenge: in a world which Europe cannot ignore or avoid, we can either adopt a protectionist attitude by "closing" the borders or we can see the world as a place with new opportunities for enlargement.

2. The Institutional Responses

New challenges often require institutional responses. Such was the case of the challenge of inefficiency, requiring the first revision of the Treaty of Rome and the Single European Act, which eliminated the need in most of the cases to have the approval of Community legislation unanimity. It was also the case of the more recent enlargements requiring more flexibility in institutions, what with the participation of 27 countries. Recently, the approval of the Treaty of Lisbon had, to a great extent, the purpose of corresponding to the new challenge of globalization.

The High Representative for External Policy and Security

The purpose of this figure with increased powers is to have somebody specifically responsible for those areas; however, doubts arise with the division of responsibilities among different entities. In the new framework, the President of the Commission rightly retains important responsibilities in external affairs; im-

portant responsibilities in the external area are given to a totally new entity created by the Lisbon Treaty, the permanent President of the Council.
With this framework, it is, of course, difficult to avoid the duplication of interventions (or the lack of intervention), in some cases being unclear as to who should intervene. From the outside (for third countries) it is not clear who represents the Union. It is not solved; on the contrary, it has become more difficult to answer the question posed by former US Secretary of State Henry Kissinger when he asked, “Which telephone number should we use to talk to the European Community (now the EU)?

Increased Efficiency, Assuring the Approval and Avoiding the Postponement of Required Decisions

In no previous case had there been such a significant increase in the dimension of the EU Community, going now from 15 to 27 countries (28 in the coming year with the integration of Croatia).We should therefore be afraid of difficulties and delays in the approval of important and urgent decisions. Steps should be taken to facilitate the decisional procedures. A specific mention can be made to the reinforcement of the procedure of enhanced cooperation, promoting greater flexibility with the Lisbon Treaty through article 20 of the Treaty of the European Union and articles 326 to 334 of the Treaty on the Functioning of the European Union.

3. The Answer with the Establishment of Strategies

Keeping well in mind the new challenges, a great effort is being made with the establishment of European strategies. One of them is already at the end, but it is worth considering, especially when approving and implementing a new strategy.

a). The Lisbon Strategy

For the beginning of the new millennium, a strategy was approved by the Portuguese presidency on March 24, 2000, at the Lisbon Summit. The initiative was made keeping in mind the loss of Europe’s relative position to the United States, in the rates of growth and employment, and in particular in the area of the so-called “new economy” (based on information and communication technology).
It was stated that the European Union should be in 2010 “the world’s most competitive and dynamic knowledge-based economy, being able to guarantee a durable economic growth, together with a quantitative and qualitative improvement in employment, and greater social cohesion, while respecting the environment”.

There was, however, one very critical evaluation made by the commission chaired by former Dutch Prime Minister Wim Kok. The Kok report (2004) criticizes the number and the dispersion of objectives and instruments, trying to intervene in too many areas: “Lisbon is about everything and therefore nothing”.

As Ardy (2007) has rightly stressed, the Lisbon Strategy has achieved by bringing together previous policies "into a high-profile package which would demonstrate the Union´s determination to embrace a radical and comprehensive reform agenda to meet challenges posed by globalization, the e-revolution and the demographic shift in Europe´s population"; and it was a step forward, with the use of the procedure of the enhanced method of cooperation. With the Lisbon Strategy, having given some contributions and having been an interesting experience (with positive and negative indications), it was clear that a new initiative should be taken.

3.2 The Strategy Europe 2020

A few years later, the challenges would not be much different. With special relevance, we have now the confirmation of the world role played by other countries, in particular by the BRICs, and we have a crisis, to which a quick and effective solution must be found. The new crisis is strongly harming previously rich countries, but not the newly emerging ones, particularly China and India, which have had a sustainable yearly growth of 7 to 8 percent over the past two decades; in some years, China had a two digit growth.

With their enormous internal market of more than one third of the world population, China and India could compensate some reduction in the exports to the previously industrialized countries with an increased internal demand, made by hundreds millions of people. With the increasing role of these and other countries, a protectionist EU response was feared. A new strategy was proposed on March 3, 2010: COM 2020, with the title "Strategy for a smart, sustainable and inclusive growth".

The Long-run Challenges

In the words of COM 2020, after acknowledging that" the world is moving fast", it is stated that "the EU must now take charge of its future", with responses to the "long-term challenges": "globalization, pressure on resources, aging population". In the 21st century, European world predominance is over. As mentioned before, it was a predominance shared with other powers; politically and militarily there was a bi-polar world, with the USA and the Soviet Union). It is, however, clear that we will have in the 21st century a new world, a multipolar world, in which Europe will go on having an important economic role, but in which, together with the "tríade", there will be other important powers (BRICs and other emerging countries).

There has been an interesting evolution in regards to natural resources. The Malthusian pessimism, on the overall sufficiency of the world resources, is passed (despite the enormous increase of the world population in the 20th century), but with the hope that the world population will be stabilized at around 9 to 10 billion inhabitants. Concerns about the sufficiency of oil and perhaps other natural resources also exist. Required precautions must be taken in regards to CO_2 emissions and forestry devastation.

Finally, there is a big problem with the aging population in Europe as well as China. *In some cases, we already have a decrease in the overall number of inhabitants, in some rich countries attenuated or even avoided with the inflow of immigrants.* In general, we have a high increase of older people, with a high burden on social security systems, which are paid by a decreasing number of employed people.

Priorities

It is having in mind the worries just mentioned that the Strategy Europe 2020 establishes the three priorities, which “are mutually reinforcing”: smart growth, sustainable growth and inclusive growth. In the first case there is the purpose of “developing an economy based on knowledge and innovation” (the comparative advantage of Europe cannot be in other factors, as geographic localization or the price of capital, not to mention the cost of labor). In the second case, there is the purpose of “promoting a more resource efficient, greener and more competitive economy”; of course, with an increasing attention given to the environmental conditions. In the third case, there is the purpose of “fostering a high-employment economy delivering economic, social and territorial cohesion” (the “inclusion” of the citizens is both an opportunity for them to rightly fulfill their personal “dreams” and of having a fuller use of all capacities of the countries and of the regions).

Are there Reasons for a Realistic Hope?

In another section, with the title “Europe can succeed” (p.7), “many strengths of Europe are mentioned. These are strengths mentioned also in the Preface, written by the President of the Commission, José Manuel Durão Barroso. It is the case of “a talented workforce”, of “a powerful technological and industrial base”, of “an internal market and a single currency that have successfully helped us resist the worst” and of “a tried and tested social market economy”.

But even with the acknowledgement of these potentialities, can we be sure about the accomplishment of the purposes stated in the COM? Should we not fear something similar to what happened with the Lisbon Strategy? Benefitting from the experience acquired, three ways are established.

The first way is the concentration of attentions and means, avoiding the temptation of trying to intervene in all areas. It is a concentration which has support in the principle of subsidiarity (reinforced by the Lisbon Treaty), according to which should go the European Union level only what cannot be better made at a level closer to the citizens: by the countries or even by the regions , the local authorities or other participants in the society, including the citizens, with their initiatives, but also the short and decreasing dimension (in percentage of the GDP) of the EU budget leads us to the need for the efforts made by the countries being increased.

A second way is a stronger institutional commitment, including, in a realistic way, the compromise of the countries, through the European Council. In the words of COM 2020 (p.4), “the European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilize citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU Committees, to national parliaments and national, local and regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision”. And a greater concretization, for each institution (and other entities) of the European Union, as well on the participation of national, regional and local entities, is made in section 5.2, with the title “Who does what?”

So, COM 2020 is quite clear, calling the attention to the responsibilities of each European and national entity, in a process in which main responsibilities are attributed to the countries, which cannot avoid their responsibilities. We can be in agreement or not (we personally do agree), but in the European Union the countries remain with great powers. As stressed in the document (p. 27), “contrary to the present situation where the European Council is the last element in the decision-making process of the strategy, the European Council should steer the strategy, as it is the body which ensures the integration of policies and manages the interdependence between Member States and the EU”.

One third way is of course the use of the budget. The EU budget is, however, a very small budget, which cannot be compared to a federal budget. Furthermore, it is not increasing relatively to the GNP of the Union; on the contrary, along the years it is losing position. According to the first proposals for the coming financial perspectives, for the period 2014-20 (COM(2011)398 final and COM(2011)final, both of the 29.6.2011), it will represent along the years (from 2014 to 2020) only 1.05 % of the EU GDP .In fact, the issue open is not the dimension of the budget, it is only the question of its adequacy to the established priorities. It is a budget which of course cannot be used to promote countercyclical policies or income redistribution in the European space. With its limitation, it has mainly the aim of contributing to a better use of the potentialities of the Union, with an allocation purpose (see for example Porto, 2007). But even this purpose can only be more relevant with an additional strategy, the European funds not covering the total expenditures made.

4. The Reinforcement of the Confidence in the Internal and External Markets

As mentioned, with the present challenges, in particular with the challenge of globalization, we could fear from Europe a protectionist response.

Having in mind competition from countries not only with lower labor costs but also with important stocks of capital and improving technologies, it would be the way of preserving our firms and our jobs. It is a strategy which could be feared, notwithstanding the lessons of theory and of experience, showing very clearly the best results of openness. The history shows, however, that in society there are forces, in particular forces of organized groups, which frequently lead to protectionist policies (see for example Porto, 2009, pp. 171-91).

However, this was not the line of COM (2010)2020, stressing in section 3, with the title "Missing links and bottlenecks", that "the Commission intends to enhance key policies and instruments as the single market, the budget and the EU´s external economic agenda".

4.1. A Single Market for the 21st Century

This is exactly the title of section 3 of the COM that we are analyzing, And the initial words of this section could not be clearer, stating that "a stronger, deeper, extended single market is vital for growth and job creation". In this line, having well in mind the effects already obtained with the "1993 single market", other steps are being given. It was the case in 1997 of an initiative of the Commission, "The Action Plan for the Single Market", in 2000 of the Lisbon Strategy and in 2010 of the Monti Report "A New Strategy for the Single Market"; with President Barroso stating, in the letter through which this report was demanded, that "the single market is, and will go on being the "angular stone for European integration and sustainable growth".

However, COM 2020 is well aware that much is still left to be done. In section 3, after the first sentence, quoted above, reference is made to the risk arisen from the present crises: "the crisis has added temptations of economic nationalism". And having in mind this risk it is strongly underlined that "a new momentum – a genuine political commitment – is needed to re-launch the single market".

It must be so with the acknowledgement that "often, businesses and citizens still need to deal with 27 different legal systems for one of the same transaction. Whilst our companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the USA or Japan can draw from their large home markets", acknowledging the need to maintain and even to reinforce the single market.

Special attention is given to the new opportunities offered with "the arrival of internet", in particular to the need for the creation of "a single services market", based on the "Services Directive"; being added that "the full implementation of the Services Directive could increase trade in commercial services by 45 % and Foreign Direct Investment by 25 %, bringing an increase of between 0.5 % and 1.5 % increase in GDP".

Section 3.3 of COM 2020, with the title "Deploying our external policy instruments", is quite clear on the response of the European Union to the challenge of globalization. We can remember again that world competition, mainly from the new emerging countries, could lead to the protectionist temptation. The response of Strategy Europe 2020, however, is totally different, seeing globalization not as a threat, but as a way of having larger opportunities. The beginning of the section (p. 21) is quite clear, stating that "global growth will open up new opportunities for Europe´s exporters and competitive access to vital imports". It states, after mentioning the pressure of emerging countries (p.6), that "every threat is also an opportunity"; and it was acknowledged (p.12) that "the EU has prospered through trade, exporting around the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs, we must improve our competitiveness vis-à-vis our main trading partners through higher productivity". Along this line, it is added in section 3.3 (p. 21) that "all instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets worldwide". This is an idea reinforced three lines later with the statement that "an open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalization that will boost growth and employment". The text could not be clearer, seeing globalization much more as an opportunity than a threat.

While very often we see the growth of emerging economies in a negative light, with the possibility of bad consequences for our firms and our jobs destroyed, COM 2020 stresses (p. 21) that as "a part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed economies are doing to anticipate or adapt to future trends".

5. Conclusion

Nothing is said about avoiding the emerging markets. On the contrary, the need to participate in these markets is strongly stressed, but participation in world markets requires a clear definition and the fulfillment of the "rules of the game". "Free trade" must be "fair trade". It must be so in particular with the participation in world organizations, with requirements on all areas (for example in the social and in the environmental areas) which can have implications on international trade. As stated in COM 2020, action should be taken "within the WTO and bilaterally in order to secure better market access for EU business, including SMEs"; and attention must be given to "new areas such as climate and green growth", in the WTO and in other (specialized) organizations. With these requirements, we are defending our workers and our entrepreneurs from unfair competition from countries which do not follow the same rules; but we are also defending the citizens, in particular the workers, of those countries: favored with better social and environmental conditions that their authorities are in this way forced to adopt.

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US Subprime Mortgage Crisis and the European Sovereign Debt: Why the European Sovereign Debt Crisis Has Not Been Resolved Yet

George K. Zestos and Tatiana P. Rizova

Abstract

The European sovereign debt crisis has not been resolved yet despite the unprecedented and massive bailout rescue packages given by the EU and the International Monetary Fund (IMF) to the most afflicted countries – Greece, Ireland, and Portugal. The study identifies several factors that impede Europe's recovery from the crisis – the treaties that established the EU and the Economic and Monetary Union (EMU), their governing system, the complex dynamic of the domestic electoral and coalition politics in the seventeen Eurozone states, and Germany in particular. Tackling this and future economic crises in the region will require bold permanent regulatory and governance reforms rather than the chaotic and half-hearted measures undertaken to date.

Introduction

Nearly four years have elapsed since the eruption of the U.S. subprime mortgage crisis and its spread to the European Union. Nevertheless, the survival of the European common currency is still in jeopardy. The purpose of this paper is to address three important issues – (1) the causal link between the U.S. subprime mortgage crisis and the European sovereign debt crisis, (2) the asymmetric effects of the crisis on two sub-groups of EU countries and its origins in the most vulnerable EU economies, and (3) the distressing absence of a much needed European political solution to the crisis.

The U.S. subprime mortgage crisis constitutes the most serious recession after the Great Depression in the U.S. It caused millions of Americans to lose their homes and jobs, and still threatens the U.S. economy. The crisis, which spread abroad quickly, was created after a U.S. housing market bubble burst in 2007. One of the factors that played a major role in the formation of the U.S. subprime mortgage crisis was the adoption of an extremely expansionary monetary policy during the recession of 2001-2003.

The repeal of the Glass-Stegall Act by President Clinton's administration and its replacement with the Gramm-Leach-Bliley Act in 1999 radically changed the structure of the U.S. financial and banking system. The Gramm-Leach-Bliley Act, also known as the Modernization Act of 1999, liberalized the U.S. financial and banking system. This was a major reversal of the financial and banking regulatory regime that had prevailed in the U.S. after the Great Depression. Financial deregulation allowed the proliferation of many structural products (financial derivatives). Home mortgages were the most important underlying assets for these novel financial derivatives. After 1999, banks and other U.S. depository institutions relaxed their lending standards and extended home loans (mortgages) to many unqualified applicants. Banks engaged in such imprudent lending practices because they were no longer required to keep their loans on their balance sheets. Under the new financial and banking regime, home lending institutions could sell their mortgages as soon as they signed them. Investment banks began purchasing home loans since they were able to finance such purchases by issuing mortgage backed securities (MBS). It is widely recognized that poor lending practices encouraged by the new securitization lending business model were at least partially responsible for the U.S. financial crisis[1]. Wall Street bankers combined mortgage-backed securities with other financial assets and created many novel financial structural synthetic products by dividing the combined bundles of assets into tranches (slices)[2]. One of the most notorious derivatives is called a Collateralized Debt Obligation (CDO). Investment banks ranked these new securities according to the credit ratings of their underlying assets and the priority of payments of interest and principal to the investors. These complicated financial derivatives were often re-bundled with other securities and divided again to create second and even third-layer types of securities which became known as CDO^2 and CDO^3.[3] Investment banks flooded the U.S. market and also sold these securities abroad. Many investors found them attractive because they paid a high rate of return.[4] The complexity of these products confused the markets, which failed to price them correctly. The suspicion, however, was that a great percentage of these exotic new financial products were based on bad home loans; thus these securities were very risky and became known as toxic assets.

[1]Wray, L. R. (2007)
[2] See Acharya (2009)
[3] Such an approach was intended to increase the share of AAA-rated securities. However, it resulted in an increase in the amount of low-quality synthetic securities.
[4] International trade liberalization and financial integration policies which started under the Reagan and Thatcher administrations in the 1980s contributed to the spread of the crisis abroad.

The Crisis Spreads to Europe

Large amounts of toxic assets were sold in Europe and other parts of the world. Financial institutions in the UK, Ireland and Spain unknowingly invested in toxic securities more than any other European countries. This is how the U.S. subprime mortgage crisis initially entered Europe. There are two groups of European countries that were affected by the European financial crisis. The first group constitutes those countries that had experienced chronic fiscal instability by generating large public deficits and high debt-to-GDP ratios and the second those EU member states that were afflicted by low and chronic international competitiveness. Relatively large trade and current account (CA) deficits are caused by countries' low international competitiveness. EU countries that are presently at risk are those with both large and negative external and internal (private and public) balances. Over the past decade these countries also generated low national saving rates. Public debt-to-GDP ratios in a few Eurozone countries are close to being unsustainable.[5] This scenario brought the Southern EU countries close to default in the last few months of 2011 and the beginning of 2012. Greece, Ireland and Portugal were the first group of Eurozone countries to be affected by the crisis.[6] These three countries received rescue packages jointly provided by the EU and the IMF.

The first signs of contagion rippled through Europe when the U.S. subprime mortgage crisis threatened several Central and Eastern European countries (CEECs); these countries were exposed to financial risk because their banks had borrowed large amounts from some EU member countries' banks. Hungary, Ukraine and Latvia suffered the most. The EU and the IMF responded promptly by providing relatively small rescue packages, which proved to be very effective. Unlike the three Eastern European cases, Greece, Ireland, and Portugal received large rescue packages of unprecedented amounts from the EU and the IMF. Despite the high expectations for a reversal of the crisis, the recession is still deeply rooted in some European countries. It now seriously threatens two large Eurozone economies (Italy and Spain), the rest of Europe, and the Economic and Monetary Union (EMU).

[5] Even after it received its first rescue loan, Greece still has an unsustainable debt-to-GDP ratio. It is now negotiating its second rescue program with the EU, the IMF, the ECB, and the private bond owners who hold Greek government bonds. These negotiations aim to restructure the Greek debt, allowing a partial write-down (haircut) of the values of the private bonds. An agreement between the Greek government representatives and those of the bond holders, who are headed by Charles Dallara of the Institute for International Finance, is expected to bring the Greek debt-to-GDP ratio down to 120%. The IMF forecasts that if such an agreement is reached, the Greek debt-to-GDP ratio will become sustainable again.

[6] Southern EU countries include Greece, Italy, Spain, and Portugal. Ireland is also included in this group although it is not a Southern country.

The asymmetric effects of the crisis on the Southern EU countries in relation to the Northern Eurozone member states is revealed by the rising spreads of these countries' interest rates versus the German 10-year government bond interest rate. Interest rates began rising at the end of 2009 when the crisis started spreading rapidly in Europe. No such interest rate increases were observed in Northern European countries.

The countries that experienced the largest interest rate increases were Greece, Ireland, and Portugal. They received joint EU/IMF rescue packages when it became evident that they were unable to finance their public debts by borrowing from the market. It is a common belief that the Southern Eurozone countries increased their public debt because they were able to borrow at low interest rates after the adoption of the euro. As figure 1 in the Appendix shows, however, three Eurozone countries had already accumulated high debt before the euro was launched in 1999. Excessive public debt-to-GDP ratios in Greece, Italy, and Belgium made it necessary for EU leaders to bend the Maastricht convergence criterion that no country's public debt-to-GDP ratio should exceed 60%.[7] It is evident from figure 1 that Southern Eurozone countries experienced rising public debt-to-GDP ratios starting in 2009, the year the crisis spread in Europe. Contrary to Southern countries, Northern Eurozone countries' public debt-to-GDP ratio hardly increased.

It all started in Athens, Greece. After Greek Prime Minister George Papandreou of the PASOK party won the elections in October 2009, he reported to the EU Commission that the preceding government had misrepresented data on the Greek public deficit. He stated that the projected Greek public deficit for 2009 would be 12.7% of GDP rather than 5.7% as the previous Greek government had reported. The news did not sit well with European Union leaders and particularly with the Credit Rating Agencies (CRAs) which started downgrading the Greek government bonds. Meanwhile the crisis started spreading to other countries such as Ireland and Portugal and to a lesser degree to Italy and Spain. The Northern EU countries, however, were not affected by the crisis to the same extent. Consequently, the Eurozone is experiencing its first asymmetric shock after its establishment in 1999.[8]

The Formation of the EMU

In this section we focus on specific deficiencies that may hinder the restoration of stability in the Eurozone and pose a threat to the very existence of the euro, the Eurozone, and the EU. Countries that had joined the EMU and adopted the euro gave up their monetary and exchange rate policies but, for the most part, maintained control over their national fiscal policies. This arrangement turned out to

[7] This shows that the launch of the EMU was a political decision.

[8] For first time in the history of the Eurozone two groups of Eurozone countries were affected differently. This constitutes an asymmetric shock.

be detrimental to a few Eurozone countries, and now constitutes the most important challenge to the euro.

Eurozone countries also lost their exchange rate policy. Prior to joining the EMU, countries that were in recession could devalue their currencies to improve their trade balance, and thus ease their economies out of the recession. The only way for countries that joined the euro to improve their trade balance is through an internal devaluation. This requires a reduction in real wages that is tantamount to a decline in the standard of living. In an attempt to resolve the current crisis, the EU and the IMF put together rescue packages that required governments to adopt austerity programs including public and private wage and pension cuts, reduction of public sector employment, and privatization of public enterprises.

EU countries that adopted the euro were required to meet the Maastricht convergence fiscal criteria. EMU candidate countries had to keep their public deficit-to-GDP ratio below 3% and the public debt-to-GDP ratio below 60% to qualify for EMU membership.

At the insistence of Germany, whose leaders wanted to make sure that EMU countries respect the two fiscal Maastricht criteria regarding public deficits and debts after the introduction of the euro, member countries signed the Stability and Growth Pact (SGP) in 1997. However, the SGP was violated repeatedly by many countries and its provisions were enforced selectively. When small EU countries such as Portugal and the Netherlands violated the pact, they were required to comply. When the large countries such as France, Germany and Italy violated it in 2003, they convinced the other Eurozone members to freeze the mechanics of the Pact and thus they avoided penalties. After two years of disputes among the EU Commission and EU countries, the SGP was revised to fit the preferences of the larger countries. As a result, the SGP lost all its credibility. When the crisis began spreading in 2008, the EU, the G20, the IMF, and the OECD urged countries to adopt expansionary coordinated fiscal and monetary plans to avoid a recession. Since then, most of the EU countries have violated the SGP. As the financial crisis escalated, the southern Eurozone countries and Ireland were still experiencing stagnation, while most Northern EU countries returned to positive growth.

The EMU was launched despite reservations by several economists that the candidate countries do not constitute an Optimum Currency Area (OCA)[9]. The formation of the EMU received strong support by Jacques Delors, the charismatic president of the EU Commission and EU country leaders. European unification was a political project inspired by daring visionaries like Richard Coudenhove Kalergi and Jean Monnet. The integration of Europe was a gradual process; disagreements and internal crises always existed and were the norm rather than the exception in the EU decision making process for many years. All major and minor crises in the past were resolved faster than the present crisis.

[9] For an extended discussion of OCA, see McKinnon (2004), Mundell (1973), and Zestos (2006).

EU country leaders had repeatedly demonstrated an amazing ability to reach agreements after tough and difficult negotiations.

The political situation in Europe has now changed dramatically. The great visionaries of the Pan-European movement for a United Europe have been eclipsed. Gone is the generation of charismatic pro-European leaders who created the European Union. Contemporary European politics are mainly dominated by neo-liberal pro-business parties that focus mostly on international competitiveness and job creation at home. Most often, job creation at home is at the expense of their workers' compensation, social cohesion or other EU countries' workers and businesses. EU leaders seek re-election and hence promote economic policies and programs that appeal to voters. Neo-liberal nationalists and even Eurosceptic political parties are present in every EU country, either as governing parties, coalition members or as parliamentary opposition. Pro-European leaders and political parties do still exist, but they are not presently in power. This is one of the reasons the crisis has not been resolved yet. If pro-European parties do not emerge to power and become more influential, it is possible for a devastating recession to paralyze the European economy and end the European project.

Germany's Adamant Position

Chancellor Merkel, the leader of the German Christian Democratic Union (CDU), consistently demonstrated that the preservation of European unity is a low priority. She has managed to block every proposed program to save the euro and the EMU. If the euro becomes the victim of this crisis along with a battered European economy, this will be the second time that Germany refused to help the rest of Europe at a very critical moment. Germany is the largest and strongest EU economy, and received more benefits than any other EU country. Thus, it was expected to take a leading role in resolving the crisis. As a matter of fact, German leaders' indecision and a continuous flow of conflicting information coming from various levels of the German government frustrated the markets and undermined any hope in the possibility of a quick political European solution.

German politicians definitely face some political constraints. Angela Merkel's Christian Democratic Union and its junior coalition partner – the Free Democrats – did suffer significant electoral setbacks in most of the 7 state elections held in 2011. These electoral results delivered bitter losses not only to the governing coalition, but also to the European project. The results signified that German voters were hardly pleased with the way the German government was handling the European crisis and the implication that German tax payers would have to shoulder some of the financial burden of the Greek, and possibly other countries', sovereign debt.

One must also think carefully about the electoral results of the two coalition partners – the CDU and the Free Democrats. Both parties suffered substantial setbacks in the regional elections held in 2011. The CDU suffered losses in the states of Mecklenburg-Vorpommern, Bremen, Baden-Wuerttemberg, Saxony-Anhalt, and Hamburg. The Free Democrats suffered losses in 6 out of the 7 regional elections. Their overall level of support in four of the states was so poor that the party lost its representation in their state assemblies. Though many German voters oppose the idea of paying other countries' sovereign debts, their reluctance to do so should not be used as a convenient excuse to act resolutely in dealing with the European sovereign debt crisis.

The first victims of a possible domino effect in this crisis will be international trade and foreign investment. In the long run, the standard of living of every European country will drastically decline. If these pessimistic predictions turn out to be correct, then for a second time within the last two decades, Germany will be responsible for a major setback in European integration. The Central Bank of Germany (Bundesbank) was considered primarily responsible for the 1992-1993 European exchange rate crisis because it placed German interests above European ones.[10] The collapse of the ERM caused massive losses to the EMS member countries' resources due to speculative attacks against several European countries' currencies. Economists pointed to the hegemonic, non-compromising, and inflexible stance of the Bundesbank as the cause of the EMS collapse.

The Bundesbank has now been replaced by the ECB, which is expected to support European interests. Upon Germany's insistence, however, the ECB was created in the image of the Bundesbank. The ECB is bound by the European treaties to pursue only price stability. If the EMU collapses in the near future, the German government and Chancellor Merkel will probably be criticized for their hegemonic, uncooperative, and anti-European stance. Chancellor Merkel and her government have given greater priority to perceived German interests than European unity, as they followed policies that would appeal to the German taxpayers. Price stability is a necessary prerequisite for economic growth. Several studies have shown that countries which have rendered independence to their central bank were the most successful in attaining both price stability and high economic growth.[11]

In the present situation, however, attaining price stability at the cost of massive unemployment in several European countries and the risk of the breakup of the EMU should not be the first priority of European leaders. Many economists agree that the U.S. Federal Reserve model, which allows the Fed to pursue both price stability and economic growth is superior the ECB's model. This is especially correct, if the U.S. model is evaluated based on the performance of the U.S. economy during and after the 2007-2009 financial crisis.

The U.S. Fed adopted expansionary monetary policy during the U.S. subprime mortgage crisis that so far has not triggered increases in the price level. According to many analysts, the Fed contributed to the low U.S. unemployment rate by providing easy credit that has helped pull the U.S. economy out of the Great Recession. During the last four years, the Fed always maintained its federal funds interest rate lower than the ECB's repo rate. In addition, the Fed embarked

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[10] Paul DeGrauwe (2007)

[11] See Alesina and Summers (1993)

on a new monetary policy after it drove its federal funds rate down to zero. The Fed purchased a variety of private and public securities that increased its monetary base by 3.2 trillion dollars. The ECB did begin to buy government securities of the most affected Eurozone countries. Opponents of this policy claimed that it would violate the “no bailout” clause, and therefore the ECB has now slowed down in pursuing this program.

Several northern European countries are also responsible for not been willing to make an adequate contribution to the effort to save the euro, the Eurozone, and the EU. These countries, like Germany, are big beneficiaries of their participation in the EU and EMU. They have been generating CA surpluses for a long time, while Southern European countries sustained CA deficits, this is shown in figure 2 in the Appendix. These asymmetries constitute the core issue of the current crisis and unless European leaders recognize that they are a major problem, the crisis will not be resolved.

Austerity Plans Alone Cannot Save Countries

Chronic large government deficits that lead to excessive indebtedness can cause contractionary effects on the economy. Some authors show that government deficit reductions can increase real GDP. Levy (2001) has provided evidence from the United States that the *Omnibus Reconciliation Act of 1993,* also known as the Deficit Reduction Act of 1993, which introduced spending cuts and tax increases on high income earners, successfully reduced the U.S. deficit. This policy generated a sequence of government surpluses in the late 1990’s under the presidency of Bill Clinton. A group of models that examine fiscal contraction adopted as a response to severe economic or fiscal crises show that large fiscal consolidation for high deficit countries can raise consumption and output.[12]

The idea of fiscal consolidation and permanent reduction in public deficits and debt for Greece is unavoidable and necessary in order for the country to return to normalcy. However, restoration of fiscal stability will not be a panacea for all of Greece’s problems. It is imperative for Greece to reduce employment in the public sector, which politicians eagerly created to gain popularity and votes. Though unpopular, such a decision will not only make the public sector more efficient but will also help Greece to gain fiscal stability and avoid a disorderly default.

The austerity programs imposed on Greece, Ireland, and Portugal also require the opening-up of several protected occupations. Such programs were expected to introduce efficiency that would lead to price reductions, and hence benefit consumers. This policy is necessary and important but if it is introduced abruptly, it will have detrimental effects on the welfare of these people. Most economists know that the painful austerity programs imposed by the EU/IMF are not a solution to the European debt crisis. A reduction of the debt-to-GDP ratio

[12] See Giavazzi and Pagano (1990) and Perotti (1999)

requires economic growth. Simple arithmetic knowledge of ratios confirms that. One way for highly indebted countries to pursue growth is to differentiate between public consumption and public investment. In this case highly indebted Eurozone countries must apply Draconian austerity measures only on public consumption. For example, increased wasteful public consumption in Greece became an impediment to stability and economic growth. On the contrary, public investment must be encouraged because spending on advanced technology, infrastructure, education, job training, and promoting a green economy will boost economic growth and enhance international competitiveness and human capital development. Furthermore, whereas it is imperative for a few countries to restore fiscal imbalances, that does not mean it is necessary for every country to reduce public spending simply to comply with Germany's obsession with fiscal austerity in the middle of a recession.

Lack of EU Leaders' Determination

If the heavily indebted countries that received rescue packages had requested assistance earlier and had the Northern EU countries responded earlier without IMF participation, the crisis would not have reached its current dimensions. Perhaps no one summarized the quintessence of the Eurozone's predicament than Christine Lagarde: "If we had been able to address it [the euro crisis] right from the start, say in February [2010], I think we would have been able to prevent it from snowballing the way that it did."[13] Had European Union politicians acted decisively to stem the crisis early in 2010, they would have convinced markets that the European currency is backed by unwavering political will.

Eurozone and EU countries have demonstrated little determination to do what it takes to save the euro and the Eurozone. The markets learned that quickly, and thus reacted negatively to every rescue plan proposed by European country leaders to date. Furthermore, the initial terms of the rescue packages were unfavorable and could not help the countries out of the crisis.

The interest rates on the rescue loans that Greece, Ireland, and Portugal agreed to pay exceeded their respective growth rates. Therefore, if lending terms do not change and economic growth does not improve, these countries will be unable to reduce their national debts.

On January 31, 2012, an EU summit in Brussels 25 EU countries agreed on a new treaty to establish a fiscal compact. According to the treaty, contracting members will respect government deficit limits. Countries that violate the fiscal ceilings will be penalized and the treaty will be enforced by the European Court of Justice and the European Commission.

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[13] Howard Schneider and Anthony Faiola, "Hesitation by leaders drove cost of Europe's crisis higher" *The Washington Post*, June 16, 2010. Available: http://www.washingtonpost.com/wp-dyn/content/article/2010/06/15/AR2010061505598.html Accessed January 27, 2012

It is unlikely that this treaty will ever be ratified. The SGP experience has repeatedly proved that rigid rules are violated and threats are not the best way to convince countries to cooperate. The fiscal compact treaty includes both private sector involvement (PSI) and collective action clauses (CACs) in future rescue programs of countries at risk. It was, again, Germany that persuaded the 25 EU countries to include both PSI and CACs although their importance was downplayed in the agreed treaty. It was stated that they will be a possibility in rare cases. Chancellor Merkel has been campaigning to introduce PSI and CACs in every future rescue program to alleviate the burden of tax payers and discourage bond holders from investing in countries based on the belief that their investments are protected by bailout packages. This arrangement was expected to solve the moral hazard problem. Many analysts are convinced that the PSI programs are one of the reasons that the sovereign debt crisis has not been resolved yet. Bond owners have withdrawn massive amounts of funding from all Southern European countries and Ireland because of the fear of haircuts. For example, almost a year ago Mohammed El-Erian, CEO of the largest bond company in the United States PIMCO, pulled all investments out of Greece, Portugal, and Ireland. Many others followed suit. Presently, only Greece is negotiating a PSI program with its bond holders and the negotiations have been prolonged increasing the risk of a credit event.[14]

Conclusion

We argued that European country leaders have failed to respond promptly and decisively to the European sovereign debt crisis. EU leaders intended to teach candidate Eurozone countries that any forthcoming bailouts would be neither automatic nor easy to obtain. Such an approach was meant to address the moral hazard problem and also made politicians popular among the electorate. The crisis began in the U.S. and entered Europe via contagion as a result of economic and financial integration. Consequently, the U.S. bears some responsibility. Greek politicians deserve severe criticism for following imprudent economic policies. This situation led their country to the brink of bankruptcy and the loss of the country's sovereignty. Reports by Greek government officials to the EU Commission that their predecessors had hidden and misrepresented the Greek fiscal statistics opened Pandora's Box. When this information became public knowledge, it triggered a sequence of downgrades of the sovereign bonds of several EU countries. This led to rising interest rates and massive capital outflows from Southern Eurozone countries.

Credit Rating Agencies (CRAs) were criticized for failing to signal the U.S. Subprime mortgage crisis and Greece's excessive debt, which allowed it to borrow beyond sustainability. Once CRAs began downgrading European countries' public debt, they were exceptionally aggressive to the extent that they en-

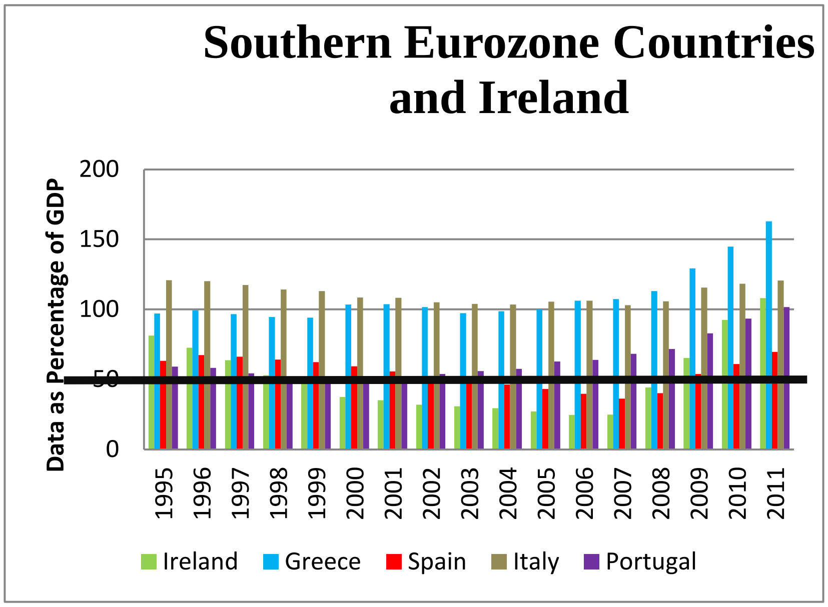
[14] See Zestos and Rizova *Ekathimerini* (January 9, 2012)

couraged short selling of sovereign bonds. These actions allowed speculators to profit from Eurozone countries while they were bringing these countries close to bankruptcy. Both the U.S. and the EU have been very slow in regulating CRAs, which still maintain an almost oligopolistic global position. It is estimated that there are about 600 trillion over-the-counter securities that are not registered in any official exchange. Total world GDP is approximately 65 trillion dollars. Hedge funds, credit default swaps, (CDSs), CDOs, MBCs, and other financial derivatives all contributed to the crisis. Such an immense amount of liquidity that moves around the world in search for profit and high rates of return is destabilizing. The structure of the international financial system is inherently unstable and can threaten any country.

It is, however, clear that all possible reasons suggested above would not have prolonged the crisis, if the EMU had not been designed and launched as an incomplete and imperfect structure. We suggest that this is the appropriate time for the EU countries to accept the challenge and complete the unfinished European Project, or run the risk of disintegration.

Figure 1

Gross Public Debt as Percentage of GDP



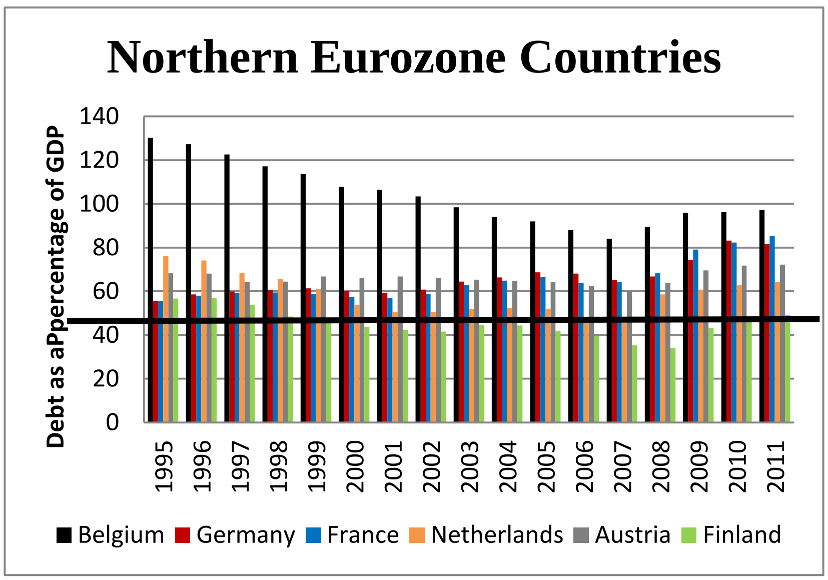
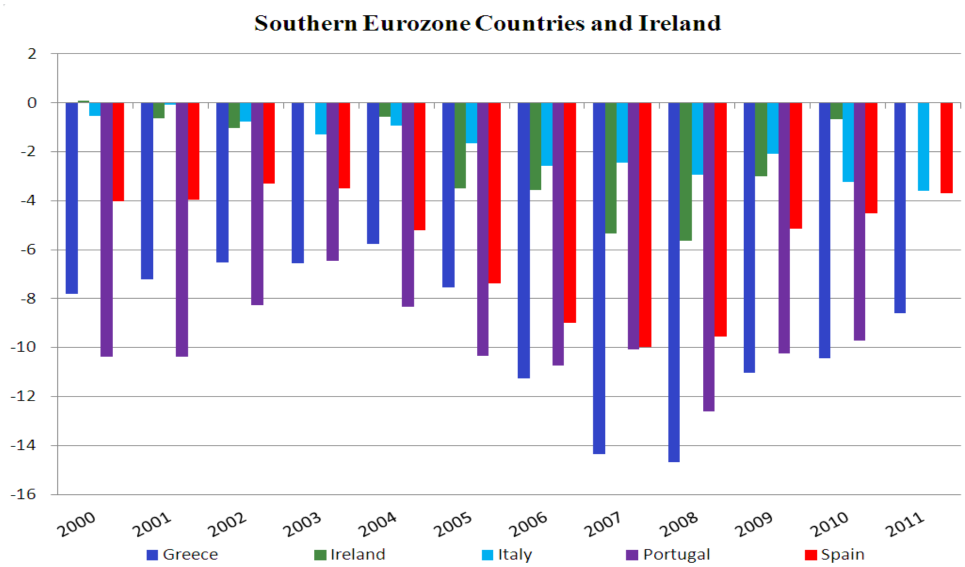
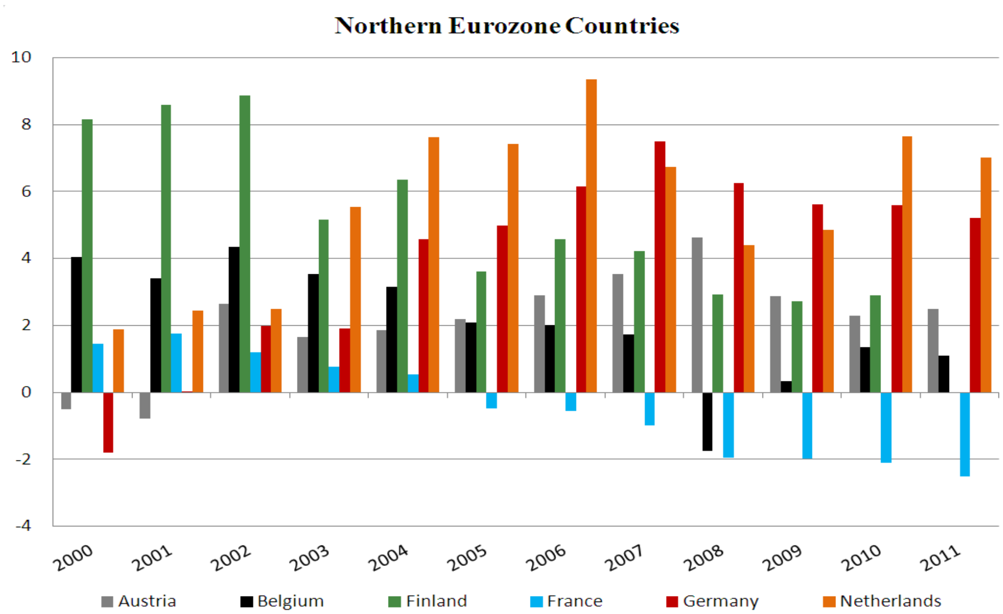


Figure 2

Current Account as a Percentage of GDP





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The Eurozone and the Economic Crisis: An Innovative SWOT Analysis

"Never was so much owed by so many to so few."[1]

María Lorca

University of Miami

Abstract

The euro area debt crisis, which began in early 2010 in Greece, will become a reality in 2012, since unemployment is reaching new highs and business and consumer confidences have worsened as recession fears looms. Whether the area and the common currency survive this crisis will be a matter of how the political class learns to cooperate among themselves, how society deals with economic measures, and if the markets stop being shortsighted and focus on the long-term. The purpose of this paper is to use a SWOT analysis to present how this crisis has affected the Eurozone by studying the weaknesses and threats that the project is facing, as well as which opportunities and strengths this crisis might bring if politicians, society, and markets work together to overcome the situation.

This paper will highlight that the main strength of the project rests on the attitude of society that is, up to this point, silently coping with a very difficult economic situation and tough restructuring measures that are negatively affecting their purchasing power and living standards. The paper will also elaborate on how the role of the European Central Bank is the Eurozone's main weakness. This crisis has shown that there are plenty of opportunities for the Eurozone to become the political and economic power that the founding fathers envisioned, if the fiscal pact is implemented and governments improve their finances. However, there are a number of threats, the most important being the high price of oil, which may hinder recovery.

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[1] Winston Churchill, August 20, 1940, in recognition of the Royal Air Force's role in the Battle of Britain.

Introduction

The euro is facing an economic crisis and its survival depends on a number of exogenous and endogenous factors. More importantly, the possibility of an economic recovery is fading and the region is feeling the economic, social, and political pains of recession. However, the Eurozone is not the only area suffering economic sluggishness. The International Monetary Fund (IMF) has announced a lower forecast for global growth in 2012 and it explains that

> "*World Economic Outlook* (WEO) projections indicate that global growth will moderate to about 4 percent through 2012, from over 5 percent in 2010. Real GDP in the advanced economies is projected to expand at an anemic pace of about 1½ percent in 2011 and 2 percent in 2012, helped by a gradual unwinding of the temporary forces that have held back activity during much of the second quarter of 2011."[2] (2011, XV)

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[2] World Economic Outlook at http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf (accessed February 2012).

Summary of Events	
1992 – Feb 7: Maastricht Treaty is signed	2010—March 18: Papandreu asks EU members to come up with a financial aid plan within a week
1992 – Sept 16: The European Exchange Mechanism faces problems with the UK forced to leave	2010—April 12: Eurozone member states agree to provide up to 30bn euros in loans to Greece for the next year. The IMF agrees to provide additional 15bn euros in funds
1996 – Dec 13: EU leaders agree on the Stability Pact	2010—April 21: Greece begins talks to receive financial help to face 8.5bn euros in bond redemptions due the following month
1999 – Jan 1: The euro is created with 11 countries	2010: April 22: Greece's budget deficit is 13.6% of GDP – more than previously forecasted
2001- Jan 1: Greece enters the euro	2010: April 23: Greek government officially asks for a bailout from the EU and the IMF
2003—Nov 24: Germany and France override EU budget rules for the third year	2010—May 2: Greece is granted a 110bn euro rescue package for a 30 billion euro in austerity measures over the next 3 years
2005—March 20: The Stability and Growth Pact is relaxed	2010—May 9 &10: EU finance ministers agree to set up a 750bn euros rescue mechanism named the European Financial Stability Facility (EFSF)/ The initial capital is of 440bn euros
2008—Sept 15: Lehman Brothers files for bankruptcy	2010--Nov 14: The Irish government says Ireland does not need a bailout
2009—Oct 20: Newly elected Greek government discovers that the deficit will be 12.5% of GDP	2010—Nov 21: Ireland applies for a bailout
2010—Jan 21: The Greek government explains Greece will not need a rescue package	2010—Nov 24: Ireland gets 85bn euro bailout
2010—Feb 2: Greece announces its austerity package to get a deficit in line with the requirements in 2012	2011—March 21: The EU finance ministers agree on a permanent bailout mechanism—the European Stability Mechanism – with a lending capability of 500bn euros starting in 2013
2010—Feb 11: EU leaders have an emergency meeting and agree to take actions to protect the financial stability of the euro	2011—April 6: Portuguese Prime Minister requests EU bailout which is granted on May 18 for 78bn euros

The Strength: Euro Skepticism and Social Unrest

The scale and persistence of the economic crisis that is affecting the European Union for the past three years is taking a toll on European public opinion. Two main questions are at stake. First, how this economic crisis has affected public opinion on the role of the euro must be analyzed. Second, how the need for economic reforms is affecting European public opinion on the project must also be looked at.

This section uses the findings of the Eurobarometer 75[3] (Spring 2011) to conclude that society is blaming the euro. The single currency is not perceived as a tool that has helped overcome the effects of the crisis. However, society agrees that the reforms undertaken by most of the countries and the reforms that are to come are very much needed in order to solve the current and future economic and fiscal problems. Most importantly, society understands that these measures are needed to put the countries on the path to recovery. This attitude shows that society understands the problems and is ready to endure the painful reforms. This is the biggest strength of the European project.

More than half the interviewees—51%--think that the euro has not cushioned the effects of the economic crisis, while 37% defend the role of the single currency. The Eurobarometer shows that the residents of the Eurozone are much more likely to agree that the euro has had a cushioning effect (42%) than those outside of it (30%). It is interesting to point out that countries with economic problems such as Greece and Portugal believe that the euro has not been able to cushion the effects of the economic crisis. Also, the United Kingdom, due to its euro skepticism, disagrees with the view that the euro has cushioned the effects of the economic crisis quite significantly.

QC4 Could you tell me whether you totally agree, tend to agree, tend to disagree or totally disagree with the following statement: Overall the euro has cushioned the effects of the economic crisis.

	Total 'Agree'	Diff. Sp.2011 - Aut.2010		Total 'Disagree'	Diff. Sp.2011 - Aut.2010
EU27	37%	-2	EU27	51%	+3
Euro zone	42%	-1	Euro zone	50%	+2
Non-Euro zone	30%	+1	Non-Euro zone	51%	+1
RO	38%	+7	BG	42%	+10
UK	24%	+5	HU	51%	+10
LV	32%	+4	EL	60%	+8
EE	40%	+3	LU	50%	+8
FR	32%	+3	PT	50%	+8
AT	56%	+3	FI	42%	+8
⋮	⋮	⋮	CY	61%	+7
SI	34%	-6	SI	63%	+7
PT	42%	-7	SE	60%	+7
EL	38%	-8	⋮	⋮	⋮
CY	33%	-8	FR	62%	-2
HU	40%	-8	LV	51%	-3
LU	43%	-9	UK	58%	-4

Source: EUROBAROMETER .2011. *Europeans, the European Union and the Crisis*. No 75 (spring).
http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_cri_en.pdf

[3] Eurobarometer .2011. *Europeans, the European Union and the Crisis*. 75 (spring) at http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_cri_en.pdf (accessed February 2012).

Some of the last Eurobarometers have shown that Europeans are very understanding of the fact that governments must make painful reforms in order to reduce public deficit and debt. In fact, the results show that in autumn 2010 more than three out of four Europeans agreed with and understood that there were certain measures needed to be taken in order to reduce the public deficit and debt of their country. More importantly, they understood that these reforms could not be delayed. It is also interesting to note that "respondents in the euro zone are more likely (79%, compared to 73% outside) to think that the measures to reduce the public deficit and debt of their country cannot be delayed."[4]

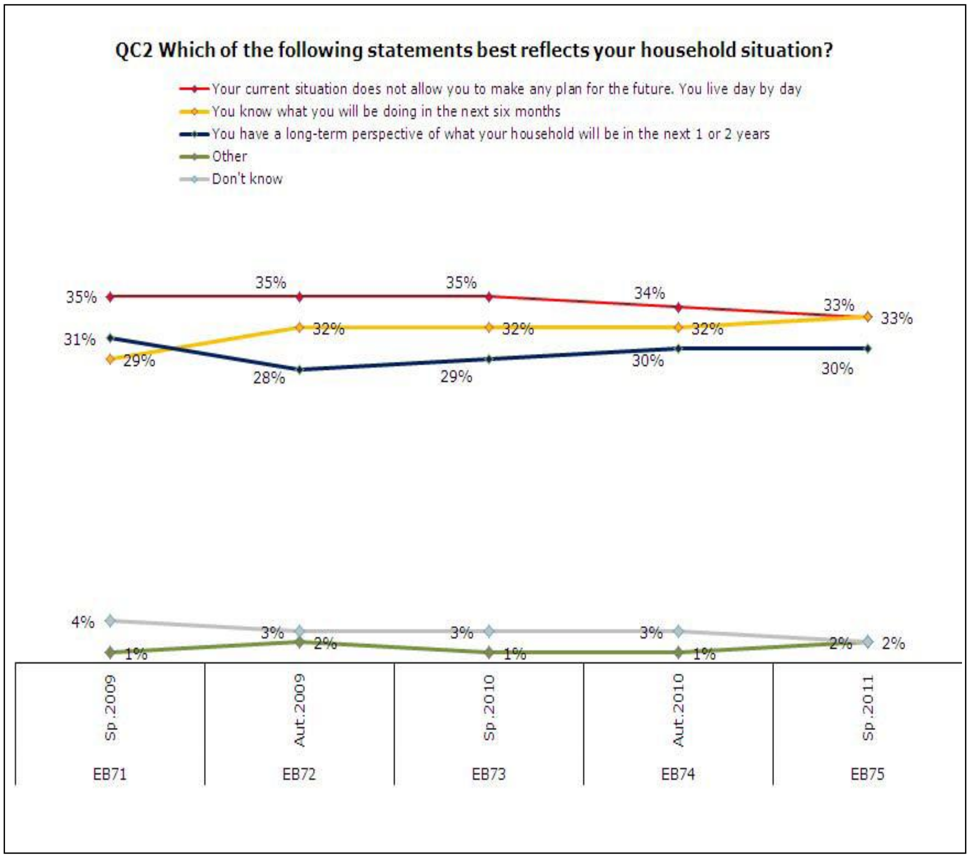
It is important to mention that 63% of Europeans believe that the European Union has sufficient power and tools to face up to international economic competition. The autumn 2010 Standard Eurobarometer, aimed at establishing Europeans' opinions on how to improve the performance of the European economy, shows that public concern lies in education and training, entrepreneurship, and restoring order to public finances. It is interesting that the results are almost the same in the three groups: EU27, Eurozone, and Non-Eurozone countries.

[4] Eurobarometer .2011. Europeans, the European Union and the Crisis. 75 (spring) at http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_cri_en.pdf (accessed on February 2012).

QC5 Which three initiatives could most improve the performance of the European economy?	EU27	Euro zone	Non-Euro zone
Improve education and professional training	48%	50%	44%
Make it easier to set up a business	34%	35%	32%
Reduce public deficits and debt	34%	35%	32%
Invest in research and innovation	29%	33%	21%
Use energy more efficiently	25%	24%	26%
Strengthen regulation of financial markets	21%	22%	19%
Make it easier for companies to access credit	20%	22%	17%
Invest in environmentally friendly products and services	15%	15%	13%
Invest in transport (motorways, railways, etc.)	11%	8%	17%
Increase the number of working hours	6%	7%	6%
Increase the retirement age	5%	4%	5%

Source: EUROBAROMETER. 2011. *Europeans, the European Union and the Crisis*. No 75 (Spring). http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_cri_en.pdf.

Despite the current economic crisis and the uncertainty that it causes, one third of respondents thought that their current economic situation does not enable them to make any plans for the future, while another third answered that they did not know what they will be doing in the next six months. Further, the percentage of people who believe that the current situation did not allow them to make any plans for the future remains almost the same: 35% of the people in the spring 2009 compared to the 33% in the spring 2011 report. However, the percentage of people who knew what they will be doing in the next six months increased from 29% in spring 2009 to 33% in spring 2011. Finally, 31% of Europeans have a long-term perspective on what their household will be in the next year or two, a percentage which has dropped to 30%. I believe that these variations are not significant, given the current economic crisis and financial uproar that has shaken the foundations of the project.



Source: EUROBAROMETER. 2011. *Europeans, the European Union and the Crisis*. No 75 (spring). http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_cri_en.pdf.

European society is showing its "maturity", as 80% of the respondents understand that making excruciating reforms is a necessary measure that will benefit future generations. However, when the idea of reforms is expected to reduce the current living standards to guarantee the living standards of future generations, these measures are not that welcome and society is equally divided, as 50% support this statement and 45% disagree. However, the urgent reforms needed to help the country face current and future challenges are widely accepted (86%).

The Weakness: The European Central Bank

The Eurozone's debt crisis is sending the area into a second recession and, as a result, the European Central Bank is taking action. The sudden collapse of economic indicators, particularly of industrial activity and services, and the financial instability in Europe in the last quarter of 2011 induced the ECB to inject an unprecedented amount of liquidity into the financial system in December 2011. The result was the expected; the liquidity has revived certain economic indicators which are now suggesting that the Eurozone might be able to avoid the worst case scenario: the collapse of the banking system.

However, this action might have two weak points. On the one hand, it shows that the only help the Eurozone is receiving is directed at the banking system. In other words, the resources of the European economy are selectively concentrated in saving the banking sector hoping this will trickle down into society; so far, this has not been the case. This intervention does not tackle the need to implement a radical reform of the monetary and financial sector. Instead, these are just patches of dubious value that only allow the ECB to gain time, and that is costing a lot of money.

The second weakness lies in the fact that the ECB is funded by member states. In other words, the capital used to intervene in the market "belongs" to member states. In more detailed fashion, "the capital of the ECB comes from the national central banks (NCBs) of all EU Member States. It amounts to €10,760,652,402.58 (as of 29 December 2010) … the net profits and losses of the ECB are allocated among the euro area NCBs in accordance with Article 33 of the Statute of the European System of Central Banks and of the European Central Bank."[5] Since the beginning of the Greek crisis up to August 2011, the European Central Bank has already spent 77,000 million euros to acquire sovereign debt from the Greek, the Portuguese, and the Irish in the secondary market and it is still actively buying securities to alleviate the pressure. If Greece, or any other country for that matter, defaults on its sovereign debt, the ECB will take a direct heavy toll which will be passed on to nation states.

The European Central Bank has proved to be an institution that can easily adjust and cope with the necessities of each moment. Since its creation, the ECB has had three Presidents. Win Duisenberg was in charge for the first four years, but it was Jean Claude Trichet who has done the most to strengthen the institution by endowing the Bank with a more transparent communication policy and making sure it achieved an internal cohesion that has been helpful in the goal of speaking with one voice. His main task up until the break of the Greek sovereign crisis was to maintain inflation under control at an average of 2%. This has not been a big struggle. The "sacrifice ratio" was very high and it has always been debated if the ECB should have allowed for higher inflation in exchange for more growth and employment. The mandate to maintain inflation under control forced Trichet to raise interest rates in 2008 and 2011, two actions that he has confessed regretting, particularly since it has been demonstrated that the need to control inflation did not prevent the creation of a real state bubble in countries such as Spain and Ireland while growth was stalled. In fact, the Taylor Rule has shown that the price of money was totally inappropriate between 2001 and 2007 in the Eurozone: the periphery countries should have interests of around 5%, while hard core countries such as northern European countries should have the interest rate set between 2-4%.

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[5] European Central Bank Website at
http://www.ecb.int/ecb/orga/capital/html/index.en.html (accessed February 2012)

However, the debt crisis made Trichet take steps that have divided the institution, and there have lately been dissidents within the ranks such as Axel Weber, President of the German Bundesbank, in January 2011 and Jurgen Stark, ECB Chief Economist in September 2011, for their disagreements with Trichet's bond purchasing policy. In October 2011, Mario Dragui became the President of the European Central Bank. Dragui's understanding of the economy and the multiple challenges that the Eurozone and the EU project is facing is leading him to change the course of action in the ECB. The EBC had been, up to Dragui's arrival, extremely conservative, mainly because the economic situation up to the current crisis did not require any bold monetary policy. Since mid-2011, the economic situation has gotten more complicated and the new President had no other option but to press forward with more drastic measures.

Since the last regular hearing in October with former President Trichet and now under Dragui, the ECB has taken a number of steps to ensure that it will continue to deliver price stability in the medium term in an environment that remains very challenging. These steps relate both to changes in our interest rates and to non-standard measures. To begin with, the ECB has changed interest rates. The Governing Council decided in early December to lower the key ECB interest rates by 25 basis points, following an additional 25 basis points decrease which took place on November 3rd, 2011. These measures were taken despite the fact that inflation was 3.0% in November 2011 and it is expected to stay above 2% for several months to come. The second measure that has been taken was to change the non-standard monetary measures in order to attempt to prevent a credit crunch and provide banks with access to funding markets. In order to attain these goals, the ECB has taken a number of measures. The most important of all has been the agreement on a three-year refinancing operation to support the supply of credit to the euro area economy. The purpose of this measure was to tackle the risk that financial markets tensions might affect the capacity of the euro area banks to obtain refinancing over longer horizons. That is, the ECB wants to ensure that banks continue to have access to stable funding, also at longer maturities, which gives them the ability to continue lending to firms and households.

Another problem that the ECB has been trying to fix is the fact that some banks have difficulties accessing refinancing operations because they are lacking eligible collateral. In order to solve this situation, the ECB agreed not only on a temporary expansion of the list of collateral, but also intends to enhance the use of bank loans as collateral in Eurosystem operations. These measures should support bank lending by increasing the amount of assets on euro area banks' balance sheets that can be used to obtain central bank refinancing. Finally, the Governing Council decided to temporarily reduce the reserve ration from 2% to 1%, a measure aimed at fostering money market activity. This was expected to increase the incentives for market participants to engage in money market transactions.

As a consequence, on Wednesday December 21, 2011, the ECB loaned €489billion to 523 European banks for three years at an interest rate of 1%, which is an unprecedented measure for the amount and period. This measure is called a Long Term Refinancing Operation (LTRO). The ECB President, Mario

Draghi, had been pressing banks to take the money since announcing the plans earlier in December and on Monday, December 19, he warned of a chance of a credit crunch claiming that euro zone bond market pressure could rise to unprecedented levels early next year. French banks have almost quadrupled their intake of ECB money since June to 150 billion euros, while banks in Italy and Spain are each taking more than 100 billion euros. This move eased immediate fears of a credit crunch but left unresolved the question of how much will flow to needy euro zone economies as the funds should bolster banks' finances, ease the threat of a credit crunch and maybe tempt them to buy Italian and Spanish bonds easing the currency area's sovereign debt crisis.

This move has been seen as the Eurozone’s version of quantitative easing as it allows European banks to borrow at low rates and in turn buy up sovereign debt. The idea is that European banks buy high yield sovereign debt from troubled countries which banks can use as collateral in the LTRO to receive cheap cash they can use to buy still high yield sovereign debt and pocketing the difference in borrowing cost. This is what might explain the fact that in the last few months, auctions of peripheral European Sovereign debt have been very successful. This is an alternative way of Quantitative Easing as the ECB is not allowed by Art. 123 to directly buy bonds from troubled countries. In fact, Article 123 reads[6]

> Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as ‘national central banks’) in favor of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments. (101)

Also, the ECB is pressing for countries to put their financing in order. This is also the reason why the ECB is not opening the flood gates to buy sovereign bonds in unlimited amounts. The ECB does not believe that the US response to the Federal Reserve’s expansionary monetary policy has been the adequate one. In fact, it has been declared that in the US “once the Federal Reserve made it known it would use quantitative easing to buy Treasury debt, the Congress abandoned any attempt to deal with U.S. deficit. The ECB has learned this lesson and

[6] Official Journal of the European Union (2011). *Information and Notices*. 51, 30 March at
http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:FULL:EN:PDF
(accessed February 2012).

is not letting European governments slide back into their old habits. It wants some discipline."[7]

It is important to mention that Dragui has been actively pressing member states to implement what he calls the Fiscal Compact to put finances in order. He claims that this compact should be a three pillar structure. First, he has explained that governments should work at the national level by implementing national economic policies geared to obtain fiscal stability, improve economic and competitiveness growth, and create jobs. Second, Dragui has posited that these fiscal rules must be enshrined in primary legislation; hence, national legislation should contain limits to structural deficits and debt. Finally, he has advocated the need for a stabilization mechanism and defended the role of the temporary rescue fund (EFSF) and the permanent European Stabilization Mechanism (EMS).

The Opportunity: New Rules to Reinforce the Fiscal and Monetary System

The current economic crisis brings to mind the words of Albert Einstein who declared “Let's not pretend that things will change if we keep doing the same things. A crisis can be a real blessing to any person, to any nation. For all crises bring progress.”[8] As a consequence, the EU is working to improve the two most important pillars on which rest the stability of the project: the stability pact and the banking system.

This crisis has shown that there are plenty of opportunities for the Eurozone to become the political and economic power that the founding fathers envisioned if the fiscal pact is implemented and governments improve their finances. On December 9, 2011 European leaders proposed and agreed to work on a new fiscal pact tightening budget discipline, which will hopefully be signed on March 1, 2012. The idea is to give to the Executive European Commission power to reject national budgets plans that deviate from agreed EU targets. This project has been vetoed by Britain and criticized by some who believe that it will cause more harm than good, as it might send countries into a recession.

As for the euro, the Eurozone member states will respond to downturns in economic activity due to a reduction in the demand of exports in the following way. To keep production and unemployment from falling, the national central banks would have lowered interest to boost national investment and consumption. The increase in the unemployment rate would have decreased tax revenues and increased the need for government transfers—activating the automatic stabilizers. To help the economy, the governments have the option to lower taxes in order to increase the disposable income at the same time that the government def-

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[7] Cox, Jeff. 2011. “Europe Using US as a Model to Beat Debt Crisis: Bove. CNBC.com, December 13 at http://www.cnbc.com/id/45655607/Europe_Using_US_as_Model_to_Fix_Debt_Crisis_Bove (accessed February 2012).

[8] http://blog.josepruano.com/2009/01/albert-einstein-on-crisis.html (accessed in February 2012).

icit is increased. Finally, the value of the currency would have declined due to a lower demand for currency to buy exports.

On December 9, it was agreed to control fiscal deficits. The idea of a well-managed budget deficit is that member states should not be allowed to run fiscal budget deficits in good times, but only in bad times. The problem with the Eurozone is that most members have been growing budget deficits in good times which, in times of economic difficulty, have become unsustainable. Thus, most Eurozone countries are suffering from structural and cyclical budget deficits. The new fiscal rules are designed to prevent countries from running structural budget deficits by seeking constitutional changes that require balanced budgets, although they are agreeing to cap structural deficits at 0.5% of GDP with penalties to those who surpass the 3% of GDP. Those against this measure argue that the needs to maintain the fiscal deficit at 0.5% of GDP will force countries to cancel any automatic fiscal stabilizer, thus reducing even further the demand and sending countries into a depression.

Furthermore, there is a need to make sure that the banking system in the EU is "healthy"; that is, it is necessary to measure the resistance of European banks during economic instability. The idea was to have a report on how solvent banks were to avoid a European version of the "US-banking-crisis" scenario particularly since the EU banking system is threaten by the difficult situation of Greece. This study, known as the Stress Test, would hopefully calm the markets and reassure investors that the European banking system is solid. There have been a number of stress tests. The first one took place in September 2009 when the Committee of European Bank Supervisors (CEBS)—the institution in charge of making this analysis—ran a very limited stress test on 22 banks that went almost unnoticed because the results were not made public. The second test took place in July 2010, pressured by the events that unfolded in Greece and the exposure of European banks to a possible Greek default. The results showed that seven out of the 91 banks tested failed.[9] The third time, 90 banks were tested. The results were presented on July 16, 2011. The stress test targeted approximately 65% of the European banking sector and 50% of the banking sector in each country. According to the results, 8 out of the 90 banks tested have failed.[10] Finally, in early December the European Banking Authority published the results of a new round of European stress tests. This time, the results showed that European banks are missing 115bn euros in capital in order to be considered ready to face financial instability.[11]

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9 BBC News Business. 2010. "Seven EU Banks fails stress test". July, 23 at http://www.bbc.co.uk/news/business-10732597 (accessed February 2012).

10 Hooper, John, Giles Tremlett and Gil Treanor. 2011. "Europe's banking regulator reveals eight banks failed stress tests". *The Guardian*, July 15 at http://www.guardian.co.uk/business/2011/jul/15/european-banks-stress-test (accessed February 2012).

11 http://www.ft.com/intl/cms/s/0/8de33032-21b9-11e1-8b93-00144feabdc0.html#axzz1ky895a9o (accessed February 2012).

The stress test showed that banks need to work on their capital requirements to have the proper capital buffer in order to deal with a financial meltdown and avoid the US banking crisis. The Basel Accords are a number of agreements in charge of providing recommendations on banking regulations. The Basel Accord has been defined by the Bank of International Settlements as a comprehensive set of reform and measures which have been developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision, and risk management of the banking sector. The aim of the Basel Accord is to improve the banking sector's ability to absorb shocks arising from economic and financial stress, improve risk management and governance, and strengthen the transparency and disclosure of banks. There have been three Basel Agreements. The latest one—Basel III—has estimated that the European banking exposure to Greece reached €98.2bn ($138bn). Thus, to calm markets and investors' fears, the EU has been the first area where these rules have become law obliging state to work towards the quick implementation of the so-called Capital Requirement Directive, which forces large banks to have bigger and better levels of capital ready to face a crisis. In an informative way, Basel III is asking banks to achieve some specific capital requirements.

1. The Common Equity Tier One (CET1) requires financial institutions to increase the percentage of risk-weighted assets from 2% to 4%, but the problem is that there are 14 strict criteria to determine what can be counted as CET1.

2. It requires financial institutions to implement a Capital Conservation Buffer, which should account for 2.5% of risk-weighted assets.

This means that the total capital requirement is now 7%. This new reserve requirement poses two intertwined threats to the system. First, banks have to put more money away to comply with this requirement which, in turn, will mean that there might be less money available for the banks to lend; this will reduce the liquidity available. Second, if the EU is the only area, or country, to implement these requirements, the EU would be at a disadvantage with less capital available.

Basel III is aimed at imposing tougher capital requirements and liquidity standards. There are also plans to implement the liquidity standard. The new liquidity requirements are asking lenders to build up liquidity buffers by buying government and corporate bonds. However, buying these in times of distress such as the current times is expensive and could force lenders to slow down lending to the economy. The Liquidity Coverage ratio (LCR) aims at ensuring that banks in "in normal times have a sound funding structure and hold sufficient liquid assets such that central banks are asked to perform only as lenders of last result and not as lenders of first resort."[12] Most of the liquidity buffer has to be in the form of top-rated government bond with the remainder in highly rate corporate bonds. The idea was brought to the front line as some of the banks that run into problems – Northern Rock in Britain—had to be nationalized because of liquidity problems. Implementing the Liquidity Coverage Ratio may represent a significant challenge for some banks but the benefit of implementing the LCR outweighs the cost of implementing it.

The Threat: The Price of Oil

An increase in the price of oil could negatively affect the economic recovery in Europe. The reason is that the barrel of oil is priced in US dollars, which means that Eurozone member states must sell euros and buy US dollars to pay for oil. Since the euro is losing ground against the American currency and the price of oil is increasing, Eurozone nation states are facing a difficult situation. As a consequence, the price of oil is putting an extra burden on the feeble economy of the EU, particularly during the winter time when the demand for energy rises due to heating needs in most countries. By the same token, the Eurozone has enjoyed during the past years a preferred position as the value of the euro has been extremely high, which has helped pay the energy cost.

Since February 2011, the world is watching a number of social revolts in the Middle East that are negatively affecting the price of oil to increase. According to the latest data, the cost of the EU annual need for oil surpasses $400bn. If BP previsions are right, this year will be the first with an average annual oil price above $100 a barrel.[13]

On January 4, 2012[14] European governments agreed, in principle, to ban imports of Iranian oil. This will be a heavy blow to Tehran just months before the Iranian election. EU diplomats have yet to set a date for the embargo which will force Tehran to find other buyers for oil. EU countries buy about 450,000 barrels per day (bpd) of Iran's 2.6 billion bpd in exports, making the bloc collectively the second largest market for Iranian crude after China. To add insult to injury, China has already cut its order of Iranian oil by more than half in the past months. Still, Tehran has declared that this embargo will have no impact on the country as

[12] Jones, Huw. 2012. "Global regulators signal leeway on new bank liquidity rules. *Reuters* , January 8, at http://www.reuters.com/article/2012/01/08/us-banks-regulation-idUSTRE8070PD20120108 (accesses February 2012).

[13] BP Statistical Review at http://www.bp.com/sectionbodycopy.do?categoryId=7500&contentId=7068481. (Accessed February 2012).

[14] Reuters. 2012. "Europe Agrees to Ban Imports of Iran Oil; No Date Set". CNBN.com, January 4 at http://www.cnbc.com/id/45871593 (accessed February 2012).

"We could very easily replace these customers."[15] However, some Eurozone member states are concerned about the economic impact of an embargo at a time when Europe is struggling with massive debt problems. Still, in retaliation Iranian Vice-President Mohamad Reza Rahimi warned that no oil would be allowed to pass through the Strait of Hormuz if the West applied sanctions on oil exports. Brent oil, a European crude company currently trading at $113 a barrel, could break $200 if Iran closed the Strait of Hormuz.[16]

Final Words

The European Union and the Eurozone are at their finest hour. The possibility of a Greek default is now widely accepted and expected; further, the thought of a possible break up is no longer a taboo as Germany, Finland, and the Netherlands are openly expressing that they are now ready to face the ultimate case scenario as they have contingencies plans. Thus, the possibility of Eurozone disintegration should be considered unless member states agree on a true deeper integration at a monetary, economic, and political level and become the "United States of Europe." Only this full integration will transform this bloc into a true common currency area which will guarantee its survival, since the Eurozone is lacking some of the most important ingredients: salary and price flexibility, economic homogenization, and the possibility of fiscal transfers.

The Eurozone is suffering a current account crisis which is exacerbated by the fact that Spain and Italy are suffering from a liquidity problem, and Portugal and Greece from an insolvency problem, which forced them to run government deficit and grow their international debts. It is well know, that in order to reduce external debt, a country has only three options: reduce its debt, not pay its debt, or devalue. Since devaluation is not an option, and not paying back debt is economic and political suicide, the only option left is to reduce what it is owed. As a consequence, the only solution is for these countries to start a painful deleveraging process, implement public austerity, and a draconian internal devaluation.

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[15] Irish Times. 2010. "EU Agrees in Iran oil imports ban". January 5 at http://www.irishtimes.com/newspaper/world/2012/0105/1224309832183.html (accessed February 2012).

[16] Forrest Jones. 2012. "Oil Could Soar 80 Percent of Iran Closed Hormuz, Analyst Says" *Moneynews*, January 10 http://www.moneynews.com/StreetTalk/Oil-Iran-Hormuz-close/2012/01/10/id/423676 (accessed February 2012).

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The Eurozone Crisis and the Challenges for Democracy

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Abstract

The Eurozone crisis is not just economic; it is also political. The governance processes through which it has sought to resolve the economic crisis have raised a number of challenges for democracy in the EU and its member-states. These include its effects with regard to democratic legitimacy not just on 'input' politics and 'output' policies but also 'throughput' processes. For the EU, decision-making during the crisis has altered the 'democratic' institutional balance through an increase in intergovernmental and non-majoritarian governance, while the recourse to technocratic processes raises questions about the legitimacy of this kind of 'throughput,' absent representative 'input' and effective 'output' if continued budgetary austerity produces recession. For all member-state governments—but most notably for the unelected technocratic governments of Greece and Italy—national democratic legitimacy through 'input' representation is also at issue.

Introduction

The Eurozone crisis is first and foremost an economic one, as the markets bet against the euro while pushing up the interest rates on the debt of the weaker peripheral countries to unsustainable levels —first Greece, then Ireland and Portugal, now Spain and Italy. The EU has responded late for the most part with a range of policies that have so far failed to calm the markets. These have included loan bailouts to Greece (the second of which is currently under negotiation) and loan guarantee mechanisms for other countries at risk of contagion (the European Financial Stability Facility (EFSF) and the yet to be deployed European Stability Mechanism (ESM)), financed in conjunction with the International Monetary Fund (IMF). Moreover, the EU member-states have all agreed to self-imposed across-the-board austerity policies along with radical deficit reduction, to be monitored by the Commission, while those countries under the tutelage of the Troika (EU Commission, ECB, and IMF) have had to agree to even greater austerity in exchange for debt relief (i.e., Greece, Ireland, and Portugal). Concomitantly, the European Central Bank (ECB) has been buying up government debt on the secondary markets and, most recently, provided three-year low cost loans to private banks also to buy government debt. Only this last measure has seemed to ease market pressure. But there has been no growth, with the EU predicted to slide into recession next year.

EU policies, in short, have not solved the economic crisis. And in the interim, the governance processes through which the EU and its member-states have sought to solve the economic crisis risk engendering a political crisis as well. Decision-making has become more and more remote from the citizens, as EU member-state leaders—dominated by France and Germany—have taken all the initiatives, along with the European Central Bank (ECB) and the International Monetary Fund (IMF). This has marginalized not just the EU Commission, tasked with technocratic oversight using automatic rules, but also the European and national parliaments, excluded from debates or decision-making. National citizens, moreover, are generally ignored, whether as voters with expressed preferences, as members of interest groups or social movements, or as protesters in the streets.

All of this represents a challenge to democracy at both the EU and national levels. If we consider democratic legitimacy in the systems theory terms often applied to the EU, the problems involve not only the lack of effectiveness of the 'output' policy solutions to the crisis but also the minimal representative 'input' into decision-making as well as the limited efficacy, accountability, and inclusiveness of the 'throughput' processes by which those decisions have been taken. In what follows, we begin by defining these legitimacy terms, then turn to the challenges from Eurozone governance to EU democracy, and finally to the challenges to national democracy.

Theorizing Democratic Legitimacy in the EU

Democratic legitimacy in the EU is often theorized in terms of two legitimizing mechanisms derived from systems theory: *input*, judged in terms of the EU's responsiveness to citizen concerns as a result of participation '*by* the people,' and *output*, judged in terms of the effectiveness of the EU's policy outcomes '*for* the people' (Scharpf 1970, 1999). Input is concerned with citizen's active participation and deliberation in EU political processes and the representativeness of EU institutions. Output relates legitimacy primarily to policy outcomes, that is, to the effectiveness of EU solutions to problems. Debates about EU legitimacy have tended to divide between those who argue that the EU can be legitimated on output alone, because the policies produced by independent regulators in multiple veto systems intrinsically serve the general interest (Majone 1998; Moravcsik 2002; Caporaso and Tarrow 2008; Menon and Weatherill 2008), and those who insist that input politics are necessary and insufficient in the EU (e.g., Bellamy and Castiglione 2003; Mair 2006; Hix 2008).

What is generally missed in this dichotomous formulation of EU legitimacy is a third legitimizing mechanism, also derived from systems theory, that focuses on what goes on in the 'black box' of governance between input and output, which I term 'throughput' (Schmidt 2012; see also Zürn 2000; Benz and Papadopoulos 2006). Throughput focuses on EU governance processes *with* the people, analyzed in terms of the efficacy of the decision-making processes (Scharpf 1988), the accountability of those engaged in making the decisions (Harlow and Rawlins 2007), the transparency of the information (Héritier 2003), and the processes' inclusiveness and openness to consultation with the interest groups of 'civil society' (e.g., Coen and Richardson 2009; Greenwood 2007; Smismans 2003). The quality of the governance processes, then, and not just the effectiveness of the outcomes or the participation and representation of the citizenry, is an important criterion for the evaluating EU legitimacy. It has long been among the central ways in which EU institutional players have sought to counter claims about the poverty of the EU's input legitimacy and to reinforce claims to its output legitimacy. In so doing, they have operated under the assumption that good throughput may serve as a kind of '*cordon sanitaire'* for the EU, ensuring the trustworthiness of the processes and serving, thereby, as a kind of reinforcement or, better, reassurance, of the legitimacy of EU level governance.

As for the interaction effects of the three, whereas input politics and output policy can involve trade-offs, in which more of the one makes up for less of the other, throughput does not interact with output and input in the same way. Although throughput is also an important component of the EU's democratic legitimacy, better quality throughput does not offset bad policy output or minimal input participation. But bad throughput—consisting of oppressive, incompetent, corrupt, or biased governance practices—undermines public perceptions of the legitimacy of EU governance, and it can even throw input and output into question by seeming to skew representative politics or taint policy solutions (Schmidt 2012).

The multi-level nature of the EU system further complicates matters, since these legitimizing mechanisms are largely split between EU and national levels. Because the EU lacks the input of a directly elected government, its democratic legitimacy rests largely on the throughput processes and output policies of the EU level, whereas input representation remains situated largely at the national level. This makes on the one hand for national 'politics without policy,' as more and more policy decisions have moved to the EU level while leaving the politics of the left and right to the national level; and on the other hand for EU 'policy without politics,' since in EU institutions the politics of the left and right is much less present than the politics of national interests in the Council, the super-majoritarian politics of the public interest in the European Parliament, and the politics of organized interests in the EU Commission (Schmidt 2006, pp. 21-29).

And yet, and here is the rub, the actual content of the policies can be very political. The economic policies in response to the Eurozone crisis in particular are highly conservative, following neo-liberal and ordo-liberal (read German) ideas about the need for radical deficit reduction and harsh austerity policies to deal with high deficits and debts, even during times of economic recession. But they are presented as technocratic solutions to which 'there is no alternative' (echoing Thatcher's famous phrase). As such, they are not subject to political debate or parliamentary deliberation. The crisis has as a result only exacerbated the EU's 'policy without politics.' This is because decisions on the rules to be applied to Eurozone countries have been made largely absent EU level input via parliamentary involvement while the rules themselves tend to make recourse to throughput processes via automatic rules and technocratic oversight in the implementation of the output policies.

The Challenges to European Democracy from Eurozone Governance

Prior to the Eurozone crisis, the legitimacy of the euro was largely founded on its policy output. This was generally seen as positive because the euro protected Eurozone countries from major currency fluctuations as it maintained credibility as an international currency. The ECB, as a non-majoritarian institution with great independence from political authority, was given high points for the efficacy of its management of the currency, and thus also gained throughput legitimacy. In this pre-crisis period, however, the ECB's independence was occasionally challenged, in particular by French leaders, when its anti-inflation focus led to interest rate hikes that had negative effects on unemployment and growth. Moreover, when the Stability and Growth Pact was first defied by France and Germany in the early to mid-2000s, then altered to meet their concerns, questions were raised about the quality of the throughput governance of the Eurozone. But leaving this aside, the lack of input politics was largely seen as legitimate up until the Eurozone crisis.

Once the crisis hit, and in particular once some member-states had to go to the IMF and the EU for loan guarantees and bailouts while the Eurozone member-states generally agreed to EU oversight of their budgets, the democratic legitimacy of technocracy—or output and throughput vs. input—became the main issue.

With regard to the ECB, the main question has remained: How good is its output or efficacious its throughput, given its very narrow interpretation of its already narrow mandate? The ECB has largely refused to do what other Central Banks do, which is save their currencies by acting as a lender of last resort or, more simply, by quantitative easing (printing money). This is because its mandate as established by the treaties does not allow it to buy government debt on the primary markets, and emphasizes maintaining price stability as its primary objective. And yet, it did buy member-state debt on the secondary markets, beginning in May 2010, in order to help stop the contagion from the Greek crisis spreading to the other vulnerable countries. Ensuring the stability of the monetary system is also part of its mandate.

So has the ECB produced effective output and efficacious throughput? Some commentators question the effectiveness of the output, criticizing the refusal of the ECB to hold on to member-state debt, which would have pushed down long-term interest rates. Instead, they argue that the ECB has neutralized its bond purchases by reselling them to private banks. As a result, instead of stabilizing the financial markets, it has allowed the crisis to go on, and on (Guiggen 2011). That said, the ECB's most recent move, of lending to the banks at a 1% rate of interest for a period of three years in view of their using that money to buy government debt—mainly in their own countries—has proven highly successful in easing market pressure, as a kind of backdoor quantitative easing. So here, technocratic (throughput) governance may finally have produced effective (output) policies.

The EU policymaking process suffers from another set of problems, involving trade-offs between different kinds of input legitimacy as well as throughput legitimacy. By prioritizing decision-making through EU Summits, the European Council, and the Council of Ministers, EU member-state leaders have shifted the institutional balance increasingly toward the intergovernmental—acting as the indirect (input) representatives of their countries. They have not done this well in terms of throughput efficacy, given the delays and hesitant solutions that repeatedly have failed to calm the markets. The Council's suboptimal throughput, moreover, is accompanied by little input participation by the European Parliament, the only directly elected body in the EU, and less throughput involvement by the EU Commission, now tasked with technocratic oversight of national budgets.

The lack of involvement by the EP, first of all, raises further legitimacy questions, since EU-based democratic input derives not just from citizens' indirect representation through the Council—EU leaders' justification for calling all the shots—but also from citizens' direct representation in the European Parliament (EP). The political leaders don't acknowledge this, especially since they seem to have moved toward assuming that an intergovernmental Europe is the best way to govern. Note Merkel's statement in her speech at the College of Europe in Bruges (Nov. 2, 2010), in which she claims that with the new 'Union Method:' "a coordinated European position can be arrived at not just by applying the community method; sometimes a coordinated European position can be arrived at by applying the intergovernmental method;" and Sarkozy's statement in his Toulon speech on the Eurozone crisis (Dec. 1, 2011), in which he states that 'Europe needs more democracy' and defines a more democratic Europe as 'a Europe in which its political leaders decide.' But even were intergovernmental governance to be perceived as sufficiently legitimizing as (indirect) input, problems stem from the fact that it is the Franco-German couple—or perhaps only Germany—in control.

The EU Commission's technocratic (throughput) function involving the vetting of national budgets, moreover, is also problematic with regard to the input legitimacy that the EP would normally provide. The fact that the European Parliament has largely been sidelined in Eurozone decision-making means that it cannot deliberate or contest the decisions of Eurozone leaders with regard to the criteria for technocratic oversight, let alone revise the criteria—which are largely those of the Stability and Growth Pact, reinforced in the 'Six Pack' voted in summer 2011, or the 'fiscal compact' under consideration today in the treaty of 25 (following the UK veto in December 2011, with the addition of the Czech Republic's opt-out). Even more importantly, the Commission's power to vet national budgets before governments submit them to national parliaments undermines one of the main pillars of national parliaments' representative power—control over national budgets. The fact that the EU Commission's mandate is not just to vet national budgets but to sanction governments that don't mend their ways only adds insult to injury with regard to national parliaments' input legitimacy.

As for the input legitimation of technocratic governance itself, this becomes an issue once we recognize that most of it operates without much democratic input control. It is not just that the EU Commission's oversight role takes precedence over national parliaments and is outside the reach of the EP. It is also that the ECB operates in its highly independent 'non-majoritarian' role without any government or parliamentary control, unlike its national level equivalents, that always operate in the shadow of national politics (Schmidt 2012). And the IMF only increases the weight of the non-majoritarian, when it comes to the loan bailouts and loan guarantee mechanisms for EU member-states in need of rescue.

Policy output is also in question. There has been little public debate over the recipe for economic reform—austerity for all, across the board—which has largely been imposed by Germany in exchange for agreeing to loan bailouts and guarantees. But it has not been working, as seen from the deepening crises in Southern Europe and the slowdown in European economies generally, including Germany. And the 'fiscal compact' agreed on Dec. 9, 2011, which intends to rigidify the criteria agreed but not enforced in the Stability and Growth Pact and set them in stone—meaning the Treaties—is likely only to make matters worse economically. This is because even if the debt crisis is resolved, hiding behind it is a growth crisis for the member-states generally, and a competitiveness crisis for the Southern Europeans (Schmidt 2011b; see also 2010).

The throughput processes pose yet another problem for democratic legitimacy. The implementation of the austerity rules tends to be automatic, with technocratic oversight. The assumption here is that good technocratic throughput by the Commission—as opposed to political input by the Council and EP—will serve as the '*cordon sanitaire'* ensuring the trustworthiness of the processes and, thereby, their legitimacy. But if the rules appear oppressive—as they are likely to very quickly for the Southern European countries—or biased, because they benefit export-oriented Northern European countries with corporatist wage-bargaining systems and penalize the South—then the legitimacy of both the input and the output will be questioned.

The Technocratic Challenges to National Democratic Legitimacy

Further questions related to democracy versus technocracy must be raised for the EU member-states. These are highlighted in particular by the resignations of Papandreou in Greece and Berlusconi in Italy and their replacement by technocratic governments. And issues related to technocracy only intensify when we add the EU Commission's increasing powers of surveillance of member states' national budgets—crowned by the 'fiscal compact' agreed on Dec. 9, 2010—not to mention the powers of the Troika (IMF, European Central Bank, and EU Commission) when it comes to Eurozone member states that have had recourse to loan bailouts (Greece) or to the European Financial Stability Facility (EFSF) (Ireland and Portugal).

The answers to the questions about democracy vs. technocracy are mixed. Berlusconi's replacement with a technocratic government—precipitated primarily by global market pressures—may actually still be seen as democracy at work—with the EU to the rescue. Papandreou's replacement—precipitated by the pressures of the Eurozone powers and Papandreou's own ill-advised gamble on 'direct democracy'—depends upon how things play themselves out.

Berlusconi's demise has mostly to do with the power of the financial markets and how these have forced a response from a stalemated Italian political system—rife with patronage and clientelistic politics and led by a man who was spending his time attending to his own best interests rather than those of the country. Berlusconi's last ditch effort to get the markets off his back, by offering to have the IMF vet Italy's reform efforts every three months, is testimony to this, as are earlier agreements to respond to EU Commission recommendations for budgetary cuts. But even without those outside pressures, Italy has been having an internal crisis of national democracy for a while now. The fall of Berlusconi may very well be a new chance to make democracy work—with the EU playing a positive role. Italy has been 'rescued by Europe' in the past, in the mid-1990s when technical governments followed by the Center Left under Prodi performed the seemingly impossible, making a massive effort to put the country's accounts in order to join the Euro, as noted above. This could happen again, with 'remaining in the euro' becoming the rallying cry of a technocratic government trying to make Italy competitive again, until new elections are held. But this will work only if the new Prime Minister Mario Monti manages to bring not just the political parties but also the people along with him. The early signs are good in this regard.

In the case of Italy, then, democratic legitimacy could be said to be preserved if we think of what happens as a tradeoff: the country briefly gives up participatory input, represented by the policies of an elected government, for potentially good policy output provided by a technocratic government with efficacious throughput. There is still a legitimacy problem, of course, because the government is not elected. But this is attenuated by the fact that the Monti government is perceived as legitimate by the public. This is largely because it is democratically anointed and supported by input politics, given that it was appointed by the elected President and governs through a massive Parliamentary majority that includes the major parties.

Papandreou's resignation, by contrast, is more problematic with regard to the democracy/ technocracy tradeoff. In order to avoid default, Papandreou had to make a 'pact with the devil' that all countries in danger of default do: give up control over national policy in exchange for a supranational bailout. Even this can be considered democratically legitimate to the extent that a country for a short time gives up participatory input in exchange for good policy output. The difference is that when non-Eurozone countries go to the IMF, they give up control of their economic policy in exchange for a negotiated reduction in debt and a short, sharp period of austerity plus a devaluation of their currency. Greece, as a member of the Eurozone, could not devalue its currency, and in the first bailout it did not even get a renegotiation of its debt, promised only in the second bailout package. In exchange for following the policies dictated by the Troika (IMF, ECB, and EU Commission), the bailout, including the second tranche, was according to projections only going to bring its debt back to its old level of 120 % of GDP in ten years, accompanied by a an equally long sharp period of austerity that would produce devaluation not of the currency but of salaries along with a massive reduction in welfare state entitlements and services.

So what Greece got is no participatory input and bad policy output dictated via the (not so efficacious) throughput processes of the Troika. While Papandreou ignored the increasingly vociferous protests of the Greek public over the past two years, thereby denying the protesters any participatory input, the policies themselves produced no growth while imposing increasing pain on a disenfranchised public. This is a recipe for disaster. In this light, Papandreou's call for a referendum could be seen as a genuine desire to bring participatory democracy and political citizenship back in, by allowing the electorate to vote on whether to accept the bailout package and, by extension, to stay in or to leave the Eurozone. The catch here, however, is that in re-enfranchising the Greek public he was single-handedly dis-enfranchising the greater public of Eurozone countries, for whom the fate of the euro itself was likely to depend on the outcome of the Greek referendum (Dehousse 2011). Any ‘no’ vote would have been an economic disaster for Europe, by endangering the survival of the euro. Moreover, the run up to the referendum would have spelled economic disaster in Greece, with a run on the Greek banks as people in Greece worried about the uncertainties of the outcome. Various scenarios discussed in the press had Greece out of the euro, followed by Italy, then Spain, with France under severe pressure due to the exposure of its banks and possibly out while Germany would constitute a northern euro zone.

The democratic legitimacy of the new technocratic government under Prime Minister Lucas Papademos will depend largely on the extent to which it can produce good policy output, with policies that work—by not just inflicting pain but also generating growth. The only way to do this would be to gain the public’s trust—lost to the previous government—by truly representing the Greek public’s interests. This would entail quietly working out compromises with the Troika that exchange structural reforms for growth strategies focused on job and business creation and necessarily a slower reduction in deficits.

Greece is not the only country to potentially undermine EU ‘democracy’ by imposing its own decisions on Europeans as a whole. Germany’s constant evocation of its Constitutional Court to delay decisions or to push for Treaty change has been another way one country can hold the entire EU hostage. Chancellor Merkel used the Constitutional Court first as an excuse to stall on bailing out Greece in spring 2010, leading to a worsening of the crisis and the need to create the EFSF against further contagion. She used it also to insist on creating an ESM within the Treaties in fall 2010, which led to a steep increase in interest rates on Irish debt, forcing Ireland to find shelter with the EFSF. The Constitutional Court ruling on democratic oversight of decisions has additionally meant that the Chancellor has to consult the Bundestag (the German upper house of Parliament) on any major decisions. This has entailed repeated breaking up of European Council meetings to consult the Bundestag in order to satisfy the rules imposed by the Constitutional Court. The point here is not that member states should do away with national democratic processes they consider necessary to maintain legitimacy but that this can cause problems for European democracy if these kinds of national democratic exigencies are multiplied across EU member states (Dehousse 2011). The irony here is that Germany has insisted on ensuring the full reign of its own parliamentary democracy while denying this to the EU level, where it pushes instead for automatic rules and technocratic oversight that deny the possibility of parliamentary deliberation at the EU level.

Conclusion

In the final analysis, the biggest problem posed by the Eurozone crisis for democratic legitimacy is at the national level, with regard to input politics. Only the biggest countries can throw their weight around like Germany, and demand that their own constitutional considerations take precedence over those of the EU as a whole. For most member-states, and in particular for those caught by the Eurozone crisis, their elected governments don’t have a choice, which also means that the people’s choice doesn’t matter. This has engendered a massive loss of trust in national governments. The Eurobarometer polls show that trust in government was down to 10% in 2010 in Ireland from 41% in 2007, down to 19% from 46% in Portugal, from 41% to 22% in Greece, and 52% to 21% in Spain. And it is even worse in terms of political parties, with Greece at only 5% and Ireland at 9%; and it is not much better in Spain (11%) and Portugal (14%). Moreover, while all unions can do is agree to concessions while gaining nothing in return, as in the Spanish pension agreement and the Irish Croke Park deal, all social movements like the Spanish *indignados* manage is to mobilize members for protests and demonstrations that get them nothing other than, sometimes, news coverage (Armingeon and Baccaro 2011).

If the Eurozone crisis resolves itself very soon, and the austerity measures actually work, then we might be able to argue that the tradeoff between reducing input politics in favor of output policy solutions, governed by throughput technocracy, was worth it. But the likelihood that the debt crisis will be resolved soon is low, given that the ECB has not as yet deployed its ‘big bazooka’ as lender of last resort, the EFSF and ESM have not been increased to bazooka size, and Eurobonds remain off the table. In the interim, with all member-states except the UK and the Czech Republic signed up to the austerity of the fiscal compact, and the UK outside but imposing its own equally austere economic policies, the growth crisis is looming, along with the competitiveness crisis for Southern Europe. In this context, EU and national government legitimacy is certain to be questioned, putting strains on political citizenship, and leaving an open playing field to the Eurosceptic extremes on the right and the left.

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III. The External Dimension

The European Union's Relations with Core International Organizations: The Track-Record So Far

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Abstract

With the publication of the European Security Strategy in 2003, the European Union has placed particular significance on enhancing its relations with major international organizations across a variety of policy-fields. Accordingly, the EU's overarching 'foreign policy philosophy of Effective Multilateralism' (Barroso 2004) calls for the EU to reinforce global governance schemes with a strengthened United Nations at its core and strong transatlantic relations, embodied through a comprehensive EU-NATO 'strategic partnership'. This paper takes stock of the achievements, impact and limitations of the 'European Union as an Inter-organizational Actor' during the last decade. It will be argued that despite intensified relations and institutionalized collaboration, the European Union has nevertheless pursued a strategy of inter-organizational cooperation that seems to have been more beneficial for the internal build-up of its own Common Security and Defence Policy (CSDP) and external visibility and less aimed at reinforcing the partner organizations. The paper will argue for a more 'genuine' implementation of effective multilateralism, which would benefit both the impact and reputation of the EU as an international actor as well as the development of more coherent and effective forms of global governance.

Introduction

"To meet today's global security threats, the European Security Strategy calls for a more effective multilateralism as the only way forward. Close co-operation with the UN and NATO are [sic] essential for a more effective multilateralism."

(José M. Barroso 2009)

In June 2003, against the dislocating back-drop of the Iraq War that rather forcibly exposed the European Union's (EU) external ineffectiveness as well as its internal disarray, the EU's former High Representative for the Common Foreign Security Policy (CFSP) Javier Solana presented his first draft of an EU document that was intended to reassert the EU as a capable and coherent international actor. In his *'European Security Strategy (ESS) – A Secure Europe in a Better World'* Solana introduced a key term to the EU's official foreign policy discourse that was to become synonymous with the ESS as a whole*: effective multilateralism* (Council, 2003, 9). This overarching EU foreign policy guiding principle included the EU's declared goal of strengthening – and closely cooperating with – the United Nations (UN) and the North Atlantic Treaty Organization (NATO), particularly in the realm of peacekeeping and military crisis management (ibid, 9-10). Barely a year after the final draft of the ESS had been adopted by the EU, the then newly elected EU Commission president, José Manuel Barroso picked up on this term and declared "the European Union pursues a specific foreign policy philosophy which I would term 'effective multilateralism'" (Barroso 2004: 3). So doing, the Commission elevated the new concept to a cornerstone of an emerging EU 'Foreign Policy of Effective Multilateralism'. Arguably, for the first time in the EU's history, the organization had given itself a clearly identifiable and distinct foreign policy objective; and one that has been firmly rooted in a discourse of strengthening global governance through inter-organizational collaboration.

Indeed, during the nine years since the ESS was first adopted, there has already been a remarkable range of far-reaching developments and advances as a result of the EU's active promotion of effective multilateralism on the ground. Particularly in the context of the EU's Common Security and Defense Policy (CSDP)[1], EU-NATO and EU-UN cooperation schemes were vital in enabling the EU to launch its first six military missions in the Western Balkans and on the African Continent (Grevi et al. 2009; Koops 2011). Furthermore, more institutionalized and more permanent cooperation mechanisms have been established, such as the NATO-EU Capability Group or the UN-EU Steering Committee. Beyond the CSDP, the European Commission and the European Council have during the last decade also expanded their 'strategic partnerships' with more than 30 major international organizations and UN Agencies (Emerson et al. 2011). Thus, the emergence and the EU's actual promotion and implementation of 'effective multilateralism' were welcomed by policy-makers and commentators alike and viewed as having potentially significant implications – not only for the EU's own evolution as an international security actor, but also for more comprehensive and coherent schemes of global (security) governance.

Yet, recent developments inside and outside the EU have put some fun-

[1] In this chapter, I will use the new post-Lisbon Treaty acronym Common Security and Defense Policy (CSDP). In order to avoid confusion, it should be noted, however, that prior to the Lisbon Treaty from 1999 to 2009 CSDP was referred to as European Security and Defense Policy (ESDP).

damental question marks behind the impact of 'effective multilateralism' as well as behind the motivations, capacities and performance of the European Union as an 'Inter-organizational Actor' (Jørgensen 2009; Kissack 2010; Koops 2011). From NATO's perspective, the lack of 'reciprocity' in EU-NATO relations and the tendency of some member-states to systematically block more meaningful cooperation between both organizations has led to widely shared frustrations (De Hoop Scheffer 2007). United Nations officials, on the other hand, increasingly voice their disappointment over the EU's alleged inward-looking approach to international security governance and its general inability to provide much-needed peacekeeping support and critical resources (Gowan 2009). The rather sobering saga of the EU Battle groups, first greeted with high hopes by EU member states and the wider peacekeeping community, then widely ridiculed as a 'paper tiger' due to not having been deployed even once so far, serves as a case in point (ibid).

Assessing the first decade of the EU's pursuit of Effective Multilateralism, this chapter seeks to provide a critical appraisal of the EU's track record in engaging in cooperation with key international organizations so far. Whilst EU-NATO and EU-UN relations in the field of peace and security serve as the main case studies of this chapter, the discussion will also generate more generalizable observations and conclusions about the impact and performance of the European Union as an Inter-organizational Actor.

The structure of the chapter will be as follows: the next section will offer a brief overview of the history of, and evolving scholarship on the EU's inter-organizational relations with both NATO and the United Nations. Thereafter, the chapter will take a closer look at the EU's implementation of EU-UN and EU-NATO 'effective multilateralism' on the ground. Here the main inter-organizational effects and dynamics the EU's six military operations carried out so far will be examined. Finally, the concluding section will provide some general remarks about the dangers of a too inward-looking and self-promoting EU approach to inter-organizational global security governance.

A Brief History of the EU's Inter-organizational Relations

Research on the European Union's relations with other international organizations has burgeoned during the last decade (for the most comprehensive works, see Laatikainen and Smith 2006; Wouters et al. 2006; Jørgensen 2009; Blavoukos and Bourantonis 2011; Koops 2009, 2011; Costa and Jørgensen 2012). Of course, problems related to inter-organizational relations are not a new phenomenon. In the mid-1960s, the proliferation of international organizations with overlapping memberships in Europe prompted the Secretary General of the Council of Europe at the time to warn member states in a confidential communiqué (entitled *Duplication and Co-operation Between Organizations*) about "the imperious necessity to make some progress in the long and arduous task of giving a more coherent structure to the growth and development of international organizations" (Council of Europe 1966, cited in Smithers 1979: 30).

From an EU perspective, the peculiarity of Cold War dynamics also structured and limited to a large degree the relations (or lack thereof) between the European Community (EC) and other organizations, especially in the ' high politics' field of peace and security. Contacts between officials from the EC and the North Atlantic Treaty Organization were explicitly prohibited until the early 1990s (Ojanen 2004: 12). Yet, in other 'low politics' fields the EC and its institutional predecessors did establish closer links with other organizations (particularly Agencies and Programmes of the UN system) from the early 1950s onwards.[2] During the 1970s, with the onset of the European Political Cooperation (EPC) mechanisms, the EC also gained an elevated position in international politics through its observer status in the UN General Assembly since 1974 and its role as a player in its own right in the negotiations of the Conference on Security and Cooperation in Europe (CSCE) between and 1973 and 1975 (Möckli 2007). It was not, however, until the end of the bipolar global order and the outbreak of the Bosnian War (1992 – 1995) that the opportunities and imperatives for closer inter-organizational cooperation intensified (Biermann, 2008: 154). Indeed, in its new post-Cold War Rome Declaration and its Strategic Concept of 1991, NATO already called for a 'new security architecture' based on a "framework of interlocking institutions" between, inter alia, NATO, the EU, the CSCE and the United Nations. (NATO 1991a: para 3, see also NATO 1991b: para 33). Yet, the cumbersome NATO-UN 'Dual Key' Arrangements as well as the general failure of the EU, CSCE and UN to exert meaningful influence during the Balkan wars highlighted not only the weakness of the post-Cold War security architecture in Europe, but also underscored the limits of effective inter-organizational cooperation. As a result, the Organization for Security and Cooperation in Europe (OSCE)[3] reiterated in its inaugural Lisbon Report of 1996 the need for a "mutually beneficial and mutually reinforcing security network" between core international organizations, whilst the United Nations repeatedly pleaded for closer relations with regional organizations (Boutros-Ghali 1992, 1995; United Nations 2000) that should ideally transform into a 'system of interlocking peacekeeping capacities' (Annan 2005). Against this backdrop, the far-reaching decisions taken by European leaders and EU policy-makers on the Common Security and Foreign Policy (CFSP) in 1991 and on the Common Security and Defense Policy (CSDP) in 1998 and 1999 created both fundamental risks and unprecedented opportunities in the field of inter-organizational relations.

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[2] One of the earliest formal cooperation agreements dates back to the European Coal and Steel Community's Cooperation Agreement with the International Labour Organization (ILO) in 1953. Further agreements were signed by the EC with, *inter alia,* the Food and Agricultural Organization (1962), UNESCO (1964) and the World Health Organization (1982).

[3] In 1995, the Conference on Security and Cooperation in Europe was transformed into a permanent organization and renamed as the Organization for Security and Cooperation in Europe (OSCE).

First of all, the decision to build up an autonomous military security dimension within the European Union inevitably posed questions about the role of NATO and US in the new European security framework. Whilst the Clinton administration welcomed European efforts to strengthen their military capacities, concerns about European 'autonomy' and direct challenges to NATO led to the formulation of some strict 'red lines', summed up infamously by Madeline Albright's 'Three Ds'. Accordingly, the development of CSDP should neither lead to the *decoupling* of North American and European security, nor to the *duplication* of NATO assets, nor to the *discrimination* against non-EU NATO members (Albright 1998). Arguably, as will be discussed in more detail below, 14 years on it seems as if all three fears have become an uncomfortable transatlantic reality: during the last decade the EU increasingly autonomized and decoupled from NATO (albeit not entirely from the US), duplicated several institutions (such as the ESDP military institutions and the EU Battle groups) and inevitably discriminated against NATO members that are not part of the EU, most notably by excluding Turkey and the US from core decision-making procedures and CSDP institutions, such as the European Defense Agency (EDA). Nevertheless, during the first five years of CSDP between 1999 and 2004, NATO and the European Union forged one of the most densely institutionalized relations between two separate organizations with a wide range of positive results and significant – albeit hitherto untapped- potentials.

In parallel, the EU's relations with the United Nations in the field of peace and security also grew into more formalized arrangements with the onset of CSDP in 1999. After informal staff-to-staff contacts, the EU Council Presidency report of June 2000 boldly declared that CSDP "will enable Europeans to respond more effectively and more coherently to requests from leading organizations such as the UN" (Council 2000). With the build-up of CSDP and its operationalization in 2003, particularly in the context of the EU's Military mission *Artemis* – launched in June 2003 in support of the UN Peacekeeping mission in the Democratic Republic of Congo – hopes were raised that the EU's policy of 'effective multilateralism' could indeed lead to a strengthened UN security governance system and a strategic EU-NATO partnership at the core of reinvigorated transatlantic security relations. Yet, a closer examination of the EU's military CSDP missions and its inter-organizational relations with NATO and the UN from 2003 to the present reveal a less optimistic picture.

The European Union's Relations with NATO and the UN in the Field: 'Effective Multilateralism' or 'Instrumentalist Inter-organizationalism'?

As highlighted by the table below, all of the EU's six military missions so far have been carried out in some form in cooperation with either NATO or the United Nations. Indeed, it could be argued that close cooperation with both organizations was essential for breaking the taboo of the EU becoming a Military Actor and for kick-starting the military missions of CSDP in the first place. Ever since the failure of the European Defense Community (EDC) in 1954, the EU had restricted itself to 'civilian' and 'soft power' approaches to international security, leaving the military, hard end of security cooperation to NATO. Particularly for British governments, the veto on developing any European security arrangement outside NATO was non-negotiable. Even Tony Blair's reversal of this position at St Malo in 1998, which laid the political foundations for CSDP at the bilateral Franco-British level, was advanced under the firm assumption that CSDP would strengthen NATO and would reassure the Americans that the Europeans could close the gap of their capability short-falls. It was thus also a British General – Graham Messervy-Whiting – who was tasked by the EU to set up the new CSDP procedures and institutions (EU Military Staff, Military Committee and Political and Security Committee) between 1999 and 2001, borrowing heavily from NATO (and the Western European Union) as a model (Koops 2012). Furthermore, the heavily negotiated and highly technical 'Berlin Plus Agreements' that were concluded just in time for the EU's first ever military operation – Operation *Concordia* in Macedonia, launched in March 2003 – ensured on the one hand EU access to NATO and US military assets (including Operational Headquarters and NATO's D-SACEUR double-hatted as EU Operational Commander), but on the other also allowed for some degree of continued US influence and control over CSDP. As long as EU Military Missions were conducted in close cooperation with NATO, Britain and other trans-atlantically minded EU member-states had little objections. NATO provided not only internal and transatlantic legitimacy for launching the EU's first military mission, but it also provided the EU with external credibility towards a skeptical public in both Macedonia and in the context of the EU's 2004 *Althea* Mission in Bosnia, where negative memories of the EU's failure to act decisively during the Bosnian War (1992-1995) were still wide-spread. Thus, during the first four years of CSDP, NATO not only served as an institutional model, but also as a critical enabler and provider of internal legitimacy and external credibility for the EU's missions in the Western Balkans.

However, with growing experience in the field of hard security (*Concordia* served as an excellent test run of Berlin Plus mechanisms and the EU as a Military Actor) clear ambitions emerged both at the member-state level and EU-institutional level to differentiate itself from NATO. Even though EUFOR Althea in Bosnia was launched in 2004 again in close cooperation with NATO under the Berlin Plus Agreement, Solana explicitly briefed the new EU Force Commander to ensure that the EU mission would be clearly 'new and distinct' from NATO's preceding SFOR operation (Leakey 2006: 59), thereby heightening the potential for image and identity rivalries. Indeed, in this context the role of Javier Solana was crucial. Whilst having been a key driving force for the establishment of formal EU–NATO relations from 1999 to 2003, since the inception of Concordia, CFSP's High Representative was now increasingly pushing for the Europeanization of military activities and a more visible EU role (Barros-Garcia 2007). Here, closer cooperation with the United Nations also offered scope for demonstrating the autonomy and independence of the EU in hard security affairs. Indeed, barely three months after the launch of Concordia, France pushed for an autonomous

EU military mission (*Artemis*) in support of UN's MONUC mission in the Democratic Republic of Congo. Whilst the rather robust mission was celebrated as an EU military success and laudable effort 'EU-UN Effective Multilateralism', the bypassing of NATO, the US and 'Berlin Plus' structures raised not only eyebrows and temperatures in Washington. Similarly, the second EU-UN mission, *EUFOR RD Congo* launched in 2006, provides another illuminating case. Whilst an initially reluctant Germany was persuaded both by French policy-makers, and in particular by the EU High Representative Solana, to take on the overall command of the mission (Interview with German

Inter-organizational Dimensions of the EU's Military Missions (2003 – 2012)

	EU-UN	**EU-NATO**	**Implications for EU Actors**
Concordia (2003)	-	NATO as kick-starter, credibility-provider 're-assurer' and taboo-breaker	First ever EU Military Operation
Artemis (2003)	UN as legitimacy-provider and focus-point for EU autonomization. Limited Intervention	Lack of EU-NATO Consultations. By-passing Berlin+ and breeding mistrust	Demonstrating Actorness and Autonomy; Supporting UN, but on strict EU terms
***Althea* (2004 - present)**	-	Second & last application of Berlin Plus (cumbersome). NATO provides credibility & legitimacy, control	Largest and most 'comprehensive' military mission to date; Recovering image in Balkans
EUFOR RD Congo (2006)	Supporting UN, but difficulties in coordination. No 'rehatting'	Demonstrating EU autonomy from NATO	'Normalizing Germany'? Actorness Growth
EUFOR Tchad/RCA (2008 – 2009)	Difficult coordination, but first instance of re-hatting	Further distances between EU and NATO	Ability to conduct complex mission. Inability to generate forces
NAVFOR Atlanta (2008 - present)	In support of World Food Programmed	Rivalry over Missions – Two parallel operations	First ever naval operation – led by British OC; Motives?
EU Battle groups	In support of UN? Undermining SHIRBRIG? Disillusionment	Rivalry with NATO Response Force	Catalyst for Internal Integration; Loss of Credibility
Support to AU AMIS (2005)	-	Outright competition with NATO over AU Support	Strengthening EU-AU Relations on expense of EU-NATO ones

Source: Author's elaboration, based on Koops 2011.

EU Council Secretariat Official, Brussels, 6 July 2007), Germany at first suggested a mission under the 'Berlin Plus' arrangement in cooperation with NATO. In the end, the French insistence on an independent EU mission run from the German Operation Headquarters prevailed. Hence, *Althea* remains only the second and so far last instance of formal NATO-EU cooperation in the field. Particularly the running of two separate anti-piracy missions by both NATO and the EU off the coast of Somalia since 2008 screamed out for more formalized cooperation – yet less cooperation, not more seems to be the more common norm in EU-NATO relations during the last five years. The public spat in 2005 over which organization should support the African Union's mission in Sudan luckily remains so far the absolute low-point. Whilst the United Kingdom, Italy and The Netherlands preferred a NATO mission, France, Germany and Greece supported the idea of an EU mission. In the end, after severe inter-organizational procrastination that did as much damage to the credibility of each organization's rapid reaction mechanism as to the relevance of Berlin Plus itself, both organizations launched separate missions (Varwick and Koops 2009: 107).

However, whilst the EU shifted its focus from NATO to the UN for conducting military operations, this does not mean that EU-UN relations have been problem-free. The insistence of the EU on very short time-frames (*Artemis* only lasted for a mere 3 months, *EUFOR RD Congo* 6 months and, *EUFOR Tchad/RCA* for 12 months), strict end dates (instead of end states) and a general reluctance to leave equipment or soldiers behind (who could 're-hat' with blue helmets as part of the ongoing UN missions), have caused substantial frictions between both organizations. Despite deeply institutionalized inter-organizational relations (in the form of two joint declarations on cooperation and the formalized exchange mechanisms of the UN-EU Steering Committee) differences in organizational culture, interests and approaches persist. The hope that the EU could provide much needed capacities and support for the UN (above all, rapid reaction capabilities in the form of the EU Battle groups) has so far not turned into reality on the ground. Particularly the indecisiveness and incapacity of the European Union to play a meaningful role in Libya this year has fuelled suspicions that CSDP is a victim of internal disagreements between the EU's Big Three – France, Germany and the UK - and of a general 'mission fatigue', aggravated by the departure of Solana as a key driving force for EU CSDP operations.

The European Union as an Inter-Organizational Actor: Doing More Harm than Good?

The most fundamental critique one can make about the EU's approach to 'effective multilateralism' is that it has not really lived up to its own inter-organizational aims outlined in the European Security Strategy. Instead of strengthening and reinforcing its partner organizations, such as NATO and the UN, it has so far rather instrumentalized them in order to advance its own actorness growth, visibility and image as an international security actor. Furthermore, cooperation with NATO and the UN has had fundamental 'spill over' effects that advanced (tenuous) EU-internal integration and Europeanization effects instead of effective inter-organizational 'global governance' outcomes that could both strengthen the partner organization and responses to pressing policy issues. For instance, operation *Artemis* gave birth to the EU Battle group concept that sparked substantial internal EU coordination and cooperation, joint training and standard convergence among EU member-states without having been put to use for UN-support mission – or indeed, any missions for that matter. The inward-looking promotion of the Battle groups also has had detrimental effects on its partner organizations. In a time of scarce resources, member states that were both members of NATO, the EU and UN rapid reaction mechanisms had to make strategic decisions whether they wanted to put their time and money into the NATO Response Force, the Standby High Readiness Brigade for United Nations Operations (SHIRBRIG) or the EU Battle groups. For many countries, the EU option seemed the most attractive. This led not only to shortfalls for the NATO Response Force, but more detrimentally, also contributed to the demise of SHIRBRIG (see Koops 2011, 393 – 424). Founded in the aftermath of the Peacekeeping failures in Somalia, Rwanda and Srebrenica by Denmark, Canada, the Netherlands, Sweden, Norway, Poland and Italy, SHIRBRIG was supposed to provide the UN system with a readily deployable peacekeeping tool. Between 2000 and 2009 its members and observers grew to 23 states and it contributed to five missions on the African continent. Furthermore, since 2004 it served as a model and mentor for the African Union's African Standby Forces (ASF). The EU stressed in various EU-UN documents and implementation plans the reinforcement of SHIRBRIG (Council 2004). Indeed, the EU would have been well placed for advancing an effective UN-EU-African Union scheme of 'interlocking peacekeeping capacities' that Kofi Annan envisaged in 2005. Unfortunately, the EU not only failed to capitalize on these opportunities, but also inadvertently contributed to SHIRBRIG's demise as core member-nations (especially the Nordic countries) chose to switch their preferences to CSDP and the EU's Battle group scheme.

More research is needed in order to understand the actual effects and overall impact of the EU's approach to inter-organizational partnerships. Do they mostly advance its own actorness growth or do they also strengthen the partner organizations and their overall effectiveness for solving major issues in international affairs? Emerging research on other EU-IO partnerships, such as with the Council of Europe (Kolb 2012), OSCE (van Ham 2009) the UN Human Rights Council (Macaj 2012) warns about similar dangers where uncoordinated and inward-looking EU activism and actorness promotion comes at the price of weakening other organizations and global governance approaches overall.

The European Union has set itself the ambitious goal of advancing forward-looking implementations of 'effective multilateralism' in close partnership with other core international organizations. Even though considerable achievements have been advanced, serious challenges remain. For the sake of global governance and the EU's own credibility as a meaningful international actor, it should focus its energies less on self-promotion, 'quick impact' and visibility, but rather invest more thought, skills and resources in mutually reinforcing and mutually empowering EU-IO partnerships. Otherwise, despite significant advances, the EU's inter-organizational activities and approaches risk to do more harm than good. In this light, more emphasis on gathering, identifying and actually implementing lessons learned from cooperation schemes, but also from the experiences of other international organizations are all vital ingredients for a more systematic approach to effective multilateralism. This also means, at times, to strengthen the institutions and mechanisms of other organizations rather than devising new EU-internal institutions if there is no comparative advantage to be gained. Effective Multilateralism properly implemented requires thus in the majority of cases quiet leadership behind the scenes with a view to supporting and empowering other actors through resources, coordination and long-term cooperation.

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EU Region-Building in the Mediterranean: A Missed Opportunity?

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Abstract

The European Union's (EU) foreign policy towards its southern neighbors is currently anchored i.a. in the Union for the Mediterranean (as an upgrade of the EuroMed Partnership (EMP), which represented the southern dimension of the EU's European Neighborhood Program (ENP)). The proposed paper seeks to address how effectively the EU will be able to "manage" its southern neighborhood with soft power alone in the evolving de-stabilizations in North Africa and the Middle East, when security financing will likely be compromised in the future, both EU-wide as well as national budgets, as emerging actors will seek to absorb assets in the greater Euro-Mediterranean region. Adding to this *problematique* is the trans-Atlantic link towards the security constellation of the Euro-Mediterranean, in light of the EU's evolving financial crisis (and the financial implications this likely will have on any "consolidation" of EU hard power, specifically the security of the EU's southern border) vis-à-vis the U.S. stated interest by President Obama that U.S. hard power will shift away from Europe (and its role in NATO there for European security) towards the Pacific in the foreseeable future.

Introduction

This paper aims to trace some of the macro strategic currents affecting power shifts in the Euro-Mediterranean region. It incorporates previous research (e.g. Boening, 2008a, Boening 2008b,, Boening, 2009[1]), which assessed the Euro-

[1] This was later independently recognized on a more general trans-Atlantic level by the "Euro-Atlantic Security Community", a unique process created in 2009 called the Euro-Atlantic Security Initiative (EASI) by the Carnegie Endowment for International Peace,

Mediterranean region as a Regional Security Super Complex (representing a modification of work by Buzan and Waever (2003) pertaining to a Middle Eastern Regional Security Complex). The notable actors of a Euro-Mediterranean Regional Security Super Complex would be to the north especially the EU, represented post-Lisbon formally via the European External Action Service (EEAS) as well as European Commission programs (specifically those geared to relations with the southern neighborhood, such as the European Neighborhood's EuroMed Partnership(EMP)/Union for the Mediterranean (UfM)) as a soft power projection in this region, and NATO as the transatlantic link of a Euro-Mediterranean Regional Security *Super* Complex (EMRSSC), representing a soft[2] as well as a hard power aspect. Additional "actors" of an EMRSSC are i.a. the national policies of the UfM member states (MSs), These are outlined in this paper amidst the radically changing regional and inter-regional dynamics asserting themselves following the Arab Spring, starting in the winter of 2010/11, as well as the possible consequences of likely changed foreign and military capabilities of the EU following the reverberations of the Euro crisis, starting in 2011.

The EU's Political and Economic Projection South within the Union for the Mediterranean

The initiatives of the EMP and UfM are intended to extend the European area of stability south, and to create a pluralistic security community whose practices are synonymous with peace and stability (Adler and Crawford 2004). The UfM was also "designed as the EU's preferred tool for engaging Islam in a 'dialogue of civilizations', and is central to foreign economic policy in the region as a whole" (Crawford 2005, 1).

This is significant in the wider globalization setting, such as an analysis of the dynamics within the UfM, as well as to capture not simply power gains and expansion spheres of political interest considerations, but to address the socio-cultural aspects of economic integration, and to eliminate dependencies in terms of the English School writers, such as Hedley Bull might, and hereby achieve, ideally, political harmonization within the area of the UfM (perhaps comparable to what the European Coal and Steel Community achieved after World War II between France and Germany).

In the absence of another alternative for peaceful coexistence, we observe how the agreements and programs[3] between UfM MSs have started to contribut-

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and reaffirmed on Feb. 3, 2012 at the Munich Security. Conference by twenty-six former generals, senior policymakers, and businesspeople from Russia, North America, and Europe, who warned that the security situation in the Euro-Atlantic region is sliding backwards, and called for the creation of a new, more ambitious security dialogue in the region.

[2] In terms of non-Article 5 missions, such as the Istanbul Cooperation Initiative and the Mediterranean Dialogue

[3] Ranging i.a. from the establishment of solar grids in the Maghreb, to common heritage preservation projects, Mediterranean Sea de-pollution and fish re-stocking.

ed to interdependence between them, enhancing the zone of increased trust (through predictable and stable institutions), as well as peace and prosperity due to improving the functioning of market economies, accountability and transparency. The UfM also started to contribute to a reduction of economic boundaries and cultural prejudices[4] to counteract the marginalization of the Middle East and North African regions (MENA) in globalization processes and to contribute to the stabilization of this region politically through economic integration with its neighbors across the Magreb and Mashreq, as well as with the EU. Perhaps Robert Putnam's proposal (in Lloyd, 2006) can be applied to the members of the UFM: "What we shouldn't do is to say that they should be more like us: We should construct a new 'us',"such as a regional Euro-Mediterranean 'us'."

Soft power has significant security implications, the optimal mix between the two constantly being adjusted (Heisbourg 2001, 6/7), based on the political realities of the day as well as progress in the process of harmonization among UfM members. Heisbourg (2001, 7) points out that *capability* is not merely a function of military hardware, but equally a "function of strategic vision" (Ibid.). The UfM was founded to represent the soft power security-political interface among countries bordering the Mediterranean on the North and South via a vision of cooperative security. This contrasts with the past "vertical" North-South confrontations such as the Reconquista and the Crusades, or the South-North conflicts, such as the Battle of Potiers in the 8th century and the sieges of Vienna by the Ottomans (Heisbourg 2001, 7), or the perpetual South-South disagreements in this region.

However, aid and debt relief have not pivotally improved political stability or economic wellbeing in MENA adequately pre-Arab Spring. Instead the EU prefers to support developing countries to commit themselves to good policies (Williamson and Beattie 2006) through the promotion of trade coupled with aid. While from the Southern perspective, partnership entails the process of political cooperation in which a number of soft-security issues (such as terrorism and migration) are dealt with on a case-by-case basis to avoid the "Second Image Reversed," i.e. reciprocal domestic-international factor dynamics to affect MENA's foreign policies (such as any threat to MENA's concepts of national sovereignty), according to Chourou (2001, 62, quoting Aliboni 2000), this contrasts with

> (t)he EU perspective [which] seems more complex and far-reaching. Partnership-building means that political co-operation has to be upgraded with a view to strengthening the broad and long-term foundations of security… by achieving sustainable development, political democracy and good governance … This entails a much closer interplay between inter-state and intra-state frameworks, for

[4] Compare the FTA being signed between the EU and Morocco in early 2012, and the European Parliament's vote in favour of a Protocol, which provides a legal basis for Morocco's participation in EU programmes (ENPI Feb 14, 2012. http://www.enpi-info.eu/mainmed.php?id_type=1&id=27964&lang_id=450.

> regional security is dependent on a set of domestic processes of democratization.

Threats to the EU's "Management" of its Southern Neighborhood

Escribano (2005) points out that the ENP's (in contrast to the UfM's regionspecific) economic prescriptions had been perceived as merely cosmetic in the past. However, security perceptions in particular

> are a decisive component of Mediterranean security in North-South and South-North relations alike. In the minds of a number of European publics, political Islamism – identified with terrorism and, at its worst, confusingly identified with Islam itself – tends to replace the defunct Soviet threat as the number one enemy, potentially at its best (Vasconcelos 1999, 31).

Hence, security in MENA is based partially socio-economically, and partially politically (e.g. through the radicalization of Islam), while the United States, especially through NATO, contributes substantially to the security perception in the Mediterranean. The UfM's role in Mediterranean security had been through deepening institutionalization (with correspondingly increasing trust among its partners through iteration and predictability) as the potential political spill-over in terms of Ernst Haas' neo-functionalist theory, and social-cultural rapprochement, often through the efforts of NGOs.

Just this promotion of diversity can become the Achilles heel when it promotes resistance, exemplified in the current struggle among EU MSs in agreeing to solutions to the Euro crisis. Until the financial and economic crisis in Greece showed that the EU's control over its MSs' fiscal discipline was inadequate, few doubted the EU's power rivalry with major powers, at least economically. However, since 2011, the catastrophic consequences of the EU to e.g. enforce monetary stability requirements of its *acquis* on MSs have not only called into question the EU's ability to assert internal legal compliance, much less its "soft power" in asserting its influence on other states to follow the rule of law. As economic power translates into not only political soft, but also hard power (e.g. a considerable threat to EU interregional security), this paper will briefly highlight some of the threats to security the EU faces to its (greater) "South".

The founding of the UfM as a "re-invigorated" EMP represents an incomplete "project," to a large extent due to progress in this area being dependent on the resolution of issues being worked out elsewhere, and the results of which only gradually feed into the security processes devised for the Mediterranean itself (Spencer 2001, 29). This includes the considerable number of issues which are (still) being dealt with on a bilateral basis, not an EU-MENA basis.

Has the EU now become not a pro-active, but a reactive actor – not a trendsetter, but "maintaining" at best, fearing for "losing the peace" (e.g. Libya as a case study) in terms of its interests in the southern Mediterranean (i.e. control illegal immigration (coupled with ensuring the human security associated with it), especially if the socio-economic and political pressures there continue to build up pressures on some populations groups, such as the young and unemployed, to emigrate from the south to the north; or ensuring energy security directly (e.g. ensuring the development of the solar grid) and indirectly (e.g. oil shipments from the Gulf and Libya) as another specific example, which are threatened by the compromised EU soft and hard power, leading to the current shift in the EMRSSC.

The "Current Transformation" of the Euro-Mediterranean: A Joint Space of Inter-Dependence or a Radical Shift in Power Equilibrium between North and South, Partially due to Inter-Regional Intervening Variables?

Arab Spring and Greater Inter-Regional Sectarian Instability: The Ideological and the Political

While many factors underlying Arab uprisings since late 2010 were against authoritarian regimes and/or rules, they came to a boil often because of socio-economic pressures. However, they were also re-assertions of popular values, such as the desire to have religious values asserted in everyday life. This is not only apparent in the recent election results in Egypt, but is also (inter-regionally) evident in the Shia uprisings in Bahrain, and the Saudi kingdom's efforts to quell theirs through sharply increased social spending, and most recently the Sunni opposition[5] to the violent (Shia) Alawite rule of the al Assad regime in Syria. While these internal ideological decisions may be national issues for the countries involved, the EU may not want to forget that some of its own dominant ideologies are being violated in MENA on numerous occasions during these processes: the burning of Christian symbols, such as Coptic churches in Egypt, being a bitter indication of this. Additionally, let us not forget the terrorist groups, such as Hamas, which are Shia–backed and strengthening. Perhaps genuinely engaging the populations on the southern Mediterranean economically, politically and socially (the "3-basket structure" of the EMP originally, and largely maintained, at least in theory (compare the Marseille Declaration of November 2008), by the UfM), rather than shunning them as "third world masses" would have laid a better basis for communication and trust, rather than creating a backlash of popular anger in MENA now. While the EU's sanctions in tandem with Arab League sanctions against the al Assad regime as of early February 2012 are an example of political policy coordination between the northern and southern Mediterranean, the results as of the time of writing have not been decisive.

Tragically, with the EU facing a severe financial and economic crisis, the political will and material means (despite verbal assurances to the contrary) at the EU's disposal may not move the UfM's progress further along – at a time when the drastic socio-political "re-structuring" in its southern neighborhood would indicate an enhanced need for this support there. Ironically, the trigger to the Eu-

[5] Al Qaeda being one of their sections, nevertheless

ro crisis was the financial meltdown of a small (Mediterranean) country, Greece, which some authors interpreted as having reciprocally "unleashed a wider economic conflict between the largely Protestant north and a Catholic/Orthodox south" (Muenchau 2011) in the EU internally.

Lack of EU Military Hardware and Logistical Capability/Coordination

Operation Desert Dawn in the spring of 2011 demonstrated clearly that "European NATO" (i.e. specifically England and France) were not able to conduct even a simple operation such as this autonomously: basic coordination between those two countries was a failure, leading President Obama to request the Canadians to take its lead to avoid the U.S. being involved a third time within a decade in an "Arabic" military exercise (although the U.S. nevertheless supplied nearly 90% of the missiles launched again Gadaffi's installations – either because the European NATO partners were unwilling to contribute their part, preferring lip-service against Gadaffi's atrocities to putting their money where their words are, or they were simply unable to materially supply them). This lack of hard power "consolidation" in the EU is reflected in the PESCO/French-British military co-operation agreement – more "parallell to" than "within" the EU[6]. Either way, talk is cheap – and quite visible to everyone evaluating them for their purposes, even if the EU perhaps finds this strategy economically and politically clever.

US Pivot in NATO Towards the Pacific

In light of the preceding, the EU should take particular note of the U.S' formal strategic security shift in late 2011/early 2012 from an Atlantic (including Mediterranean) to a Pacific orientation, emphasizing that U.S., *not European*, security priorities will prevail in current U.S.budget and strategic considerations. In light of the preceding, the EU should be very concerned about its hard power capabilities, which were previously to a large part anchored in the U.S.' NATO presence on continental Europe, including the Mediterranean, especially Morocco, Turkey, and, inter-regionally in parts of the Middle East. While the U.S.' 2012 Defense Strategy Review of course highlights that the transatlantic relationship remains significant in promoting global and economic security (compare footnote #1), and reaffirms U.S. Article 5 commitments, the EU depends on petroleum shipments from the south-eastern greater Mediterranean (as Russian supplies cannot be considered reliable) (compare e.g. EUobserver Feb. 3, 2012)[7], never mind

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[6] Compare Military Permanent Structured Co-operation under the aegis European Union which has stalled. Instead, a "two-speed Europe is going to be institutionalized on the field of military affairs, where the British-French 'Euro-core' will take the lead, and others will join only if London and Paris want it". (Nemeth 2012, 1).

[7] In light of the planned expansion of the western embargos towards Iran in early 2012, and Iran's planned reduction of petroleum exports in February 2012 in response to this, Russian "unreliable oil deliveries" gain strategic traction in terms of an Syrian-Iranian-

other threats originating from its southern border, such as all types of illegal trafficking. This requires the EU not to deny its military vulnerability in this region as a result of mismanaging the opportunities the U.S. offered in the past within NATO in Europe - as well as those the UfM could have achieved in the area of soft power, had they been taken more seriously by those able to maximize them.

In this dilemma enters the laudable, if questionable (too little too late?) declared intent of the Arab League and the UfM to strengthen regional cooperation to address the threats to the stability necessary for smooth economic transactions in MENA following the Arab Spring – and the effect this has on stabilizing populations following the political and military destabilizations. And, yet, the withdrawal in January 2012 of the Arab Union's monitoring mission of human rights abuses during the preceding months (if not years) by the Syrian Assad regime may just be a further indication that the southern Mediterranean region is reliant on external assistance to not only deconstruct those aspects of the political past which are not longer tolerated by their *demos,* but that external assistance will be necessary again to accomplish this – whether with the EU, the U.S. or a combination through UN/NATO R2P-assistance in this specific case. In this sense, and others, the U.S. can be expected to engage in MENA – even if its security commitments to Europe *per se* will be drawn down to the bare minimum.

Inter-Regional Intervening Variables (Threats) to EU Security and Stability, Ultimately by and to its Southern Neighborhood

China (and Others') Asset Grab

The shift of power perceptible in the Euro-Mediterranean region due to the significant economic shifts having started in the northern Mediterranean (i.e. the EU) and the political shifts in the southern Mediterranean, cannot yet be estimated in their broader dimensions. In the absence of the IMF's ability to raise monies from the U.S. or even from emerging countries, such as in Brazil and Turkey, for a Euro bail-out, the EU is turning towards China for especially large, and growing (Hook and Sakoui 2012) FDIs in its infrastructure. In the global free market place, this appears as a logical and win-win solution to the EU's financial and economic troubles. Yet, the speed with which China seeks to take over strategically significant infrastructure projects in Europe might at some point give geo-political strategists pause to think: not only is the quality of Chinese workmanship often questionable, but their reputation as "tenants" and as "landlords" in similar projects in Africa and Latin America is rarely laudable. More significantly, in this context their military assertiveness, despite official declarations to the contrary, cannot be assumed to peaceful. Hence, once Chinese control of European infrastructure gains strategic momentum, Europe may find itself less able to physically govern itself internally or at least resist Chinese demands con-

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Russian axis, demonstrated during Russia's veto on February 3, 2012 at the UN Security Council regarding Bashar al-Assad's resignation.

cerning internal – and global - economic and physical management[8]. Examples are China's potential purchase of Euro bonds, conditional on EU acquiescence to grave Chinese political and economic demands[9], such as its refusal to pay the air carbon tax (starting in February 2012) as well as its veto on February 3, 2012 at the UN Security Council regarding Bashar al-Assad's resignation.

Of course, the political balancing event might "simply" be an EU recession, which would in turn depress Chinese exports to the EU, further weakening the Chinese economy – and its political and hard power.

Conclusions: The Cost of Omissions – When the Cost of Not Saying "No" is Higher than the Cost of Losing a Popularity Contest

In conclusion, the Euro-Med region continues evermore as a regional security complex based on the following facts, with the UfM as a promising option nevertheless: In addition to the historical political, economic, social ties, as of 2007, the EU has already formally recognized its relationship with the (southern) Mediterranean and the Middle East as strategic (Council of the European Union report 16572/06) in all its implications: energy (e.g. EU-Africa-Middle East Energy[10] Conference in Sharm El Sheikh November 2007), the humanitarian impact of environmental degradation, including controlled migration of especially North African populations who have historically a strong presence there, especially in those EU MSs bordering the Mediterranean, as well as youth exchanges (especially to contrast the active student recruitment by Chinese universities in Africa). Additionally, the establishment of an UfM free trade area in the next few years with, ultimately of a pan-African-European free trade area and the acceptance of UfM-membership application by Iraq once they fulfill the EuroMed's *acquis* (Beatty 2007)[11] underscore a Euro-Med regional security complex.

By avoiding and/or misunderstanding the significance of the Eastern Mediterranean for its economic and political future, the EU gambled it away. The inability of the EU to play a significant role in its southern neighborhood either directly (e.g. mismanaging Turkey's EU candidacy), or indirectly (e.g. through lack of control of the EU's economic means (i.e. the Euro-zone) to control its

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[8] Compare China's calls on Germany to save the Euro (Dey, 2012).

[9] Compare Angela Merkel's visit to China, seeking accelerated Chinese FDIs and Euro bond purchases in February 2012 – and being partially rebuffed (China becoming "concessionary" upon R. Zoellig's resignation from the World Bank and its desire to be permitted to play a significant role in naming a replacement).

[10] Energy in MENA does not refer to petroleum resources alone, but also solar energy (McKie 2007)

[11] Recognizing that some authors have sounded very pessimistic alarm bells in the past, e.g. Everts (2004, 155), who wrote that "The manner in which European leaders have chosen to handle, or rather mishandle, the Iraq crisis has inflicted serious and possibly lasting damage to the EU's ability to frame and implement a credible set of policies towards the greater Middle East… Thus the prospects for a meaningful EU role, as opposed to national ones, are exceptionally poor."

politics (e.g. to the south) paints a pessimistic perspective of the EMRSSC's economic and socio-political future, now that the northern and southern Mediterranean need each other more than ever. The EU-Turkey relationship e.g. could have been managed more effectively for the benefit of controlling Iran (as a poignant example how the Euro-Mediterranean has considerable inter-regional significance for the EU). By sidelining Turkey's EU-candidacy, the EU ironically delegated the power to influence the south-eastern Mediterranean and the regions beyond it[12]. On the other hand, the U.S.' relationship with Turkey[13] remains strategically significant – and the former's influence in the region likely as well.

In this light, the UfM could be interpreted as a liberal material as well as a Weberian value society, potentially contributing to overcoming not only ancient tribalism, as the EU has overcome ancient internal civilizational confrontations, but in the paradigm of the UfM parameters per se: while church and state are aspired to be separate, pure economic liberalism without values is not acceptable to many peoples in the UfM, but can be – and are - combined. Reminding ourselves that one of the goals of the ENP is "to share everything but institutions" (between the EU and its neighbors), it is perhaps not overly optimistic that the UfM is not simply an area of shared security, but also a *sui generis* of international society for the neighbors to maximize on the benefits of globalization, and buffer its negative consequences in their countries and across the region. Martin (2007) makes this point when he suggests instead of "either/or- thinking" to adopt instead "integrative thinking," which embraces contradictions to lead to more nuanced decisions and strategies.

While we strive for a positive-sum world (Wolf 2007), some relationships are more privileged than others. The UfM certainly could have this potential in delineating an EU security paradigm for its (greater inter-) regional southern neighborhood:, while recognizing that it is a continuous process: there is not one road to modernity (Hoffmann 1966; Talor 1983), nor one recipe for regional integration, but peace as a step-by-step process through regional integration.[14] Amidst the truly grave socio-political and economic conditions facing the northern[15] as well as the southern Mediterranean currently, and with little help to be expected from outsiders any longer, the greater Euro-Mediterranean region is left to dancing with itself – with the vultures circling the sky[16]. When the Euro-

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[12] Note Turkey's very pronounced stance (i.a.) against the Russian and Chinese UNSC vote on February 4, 2012 again al-Assad (and in fact, its strategic support of this regime's opposition in the preceding months, and continuing to date)

[13] Despite the prospect of a nuclear-armed Iran, Ankara is not likely to develop its own nuclear weapons, unless there were a breakdown in Turkey's security relationship with the United States (Uelgen 2012).

[14] Which was after all started already some 3,000 years ago by the Phoenicians, with a divine nod according to mythology when the Greek Zeus sought his bride among them.

[15] Note the latest Moody's downgrades in February 2012 not only of southern EU MSs, but also the "watch-" status of some core EU MSs

[16] "China's defence budget is expected to almost double by 2015 as Beijing accelerates its spending on fighter jets and other military equipment, according to defence forecasts,

Mediterranean region could have become the socio-political and economic engine for both shores of the Mediterranean…

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the FT reports. IHS Jane's analysts said they believe China will spend $120bn on defence this year and that will grow to $238bn in 2015 – a combined annual increase of 18.75 per cent and more than the joint total of NATO's top eight members, bar the US. China's economy grew at an annual rate of 9.2 per cent in 2011" (FT 2012). http://www.ft.com/intl/cms/s/0/7b58ac0a-5592-11e1-9d95-00144feabdc0.html#axzz1mKKYs6or

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The European Union as a Model for Regional Regimes Worldwide

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Abstract

Since the end of the Cold War, we have seen the emergence of new regional regimes of an increasingly political type. There are approximately fifty such organizations in existence today. These blocs have generated a virtual explosion of academic analysis. The sub-field of 'comparative regionalism' has recently come into its own. One of the key debates is the extent to which the European Union is perceived around the world as a model to be emulated. The EU is the most elaborate and highly developed of the existing blocs, but it has developed in response to *European* issues, challenges and conditions. Some of the processes it has generated may be replicable in other parts of the world. A theory of diffusion might argue that emulation has taken place. However, when one examines precisely how the respective institutions actually function and what they represent within the entire system, the less possible it becomes to claim meaningful comparability.

Introduction

Since the end of the Cold War, we have witnessed an apparent mushrooming of regional (largely trade-based) regimes. Whereas there were only some 50 of these in 1990, there are 313 of them in 2011[1]. Approximately 50% of these are bilateral agreements between just two sovereign states. However, beyond that type of limited agreement, we have also seen the emergence of new regional regimes of a more political type, some of which are re-incarnations of pre-existing bodies, and some of which are brand new. There are approximately fifty such organizations in existence today. Some, mainly the preferential trade agreements (PTAs)

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[1] See WTO figures at: http://rtais.wto.org/UI/publicsummarytable.aspx In fact, as many as 490 regional agreements have been registered with the WTO, but about one fifth of them have failed.

or free trade areas (FTAs), have gone little beyond commercial cooperation. However, others have involved various degrees and levels of structural integration. Such regional regimes range from the Arab League, chronologically the first of all such bodies, founded in 1945, a decade before the EU, via the Association of South East Asian Nations (ASEAN - 1967), South Asian Association for Regional Cooperation (SAARC - 1985), Mercosur (1991), South African Development Community (SADC - 1992), North American Free Trade Association (NAFTA – 1994), Pacific Islands Forum (PIF – 1999), Shanghai Cooperation Organization (SCO – 2001) and the African Union (AU – 2002), to the Union of South American Nations (UNASUR), the last of the crop, founded in 2008. These bodies have progressively taken on the scale and dimensions of continental-size blocs. What is the significance of this development? How central is the EU experience to this phenomenon?

With the advent of these blocs has come a virtual explosion of academic analysis of their significance[2]. The sub-field of "comparative regionalism" has recently come into its own (Sbragia 2008). It has a dotted past. In the 1960s, several scholars attempted to launch such a sub-field by comparing embryonic regional regimes, mainly in Africa, with the EU as it existed at that point (Haas 1961; Nye 1968). Thereafter, as the EU went through the doldrums of the 1970s, comparative regionalism tended to wither on the vine. It was only after the Cold War, as the new regional regimes began to mushroom on every continent, that the literature on comparative regionalism underwent a renaissance. Many of the early studies of the phenomenon tended to interpret it as structurally linked to globalization or to the hegemonic role of the US as the sole superpower (Mansfield 1998; Baldwin 1993; Mansfield & Milner 1997; Katzenstein 2005). There was no suggestion that these new regional entities were following any specific model, and certainly not any European model. Indeed, the general assumption was that they were coming into existence primarily for endogenous, local reasons, usually connected with the aim of optimizing trade.

More recently, a new body of literature has begun to argue that these regional regimes are, in many cases, explicitly modeled on the European Union. In the case of ASEAN, one German scholar, Anja Jetschke, goes so far as to argue that "there is convincing evidence that Southeast Asian states have downloaded European institutions and policy programs since the very establishment of the EEC in 1957" (Jetschke 2011). Other scholars have noted, for example, that epistemic communities composed of European lawyers (specifically those involved in the Jean Monnet network), working closely with South American lawyers, established the *Andean Court of Justice* (ACJ – the third most active international court in the world) precisely on the model of the European Court of Justice (Saldias 2010); or that the "expansionist law-making" of the *European Court of Justice* (ECJ) has been copied wholesale by the ACJ "in ways that constrain national sovereignty beyond what states had intended" (Alter 2010: 563). Tobias

[2] The Bibliography to one recent overview (Börzel 2011) listed around 250 academic papers on the subject.

Lenz has posited what he calls "a model of EU influence" based on four causal mechanisms: learning, rewards, emulation and socialization (Lenz 2010: 17-29). His argument is that there is a very clear and repeated pattern of EU "steering" with regard to the world's regional regimes which results in a significant influence being enjoyed by the Union, both with respect to the recipient entity's institutional design and with respect to policy outcomes. Lenz has recently consolidated this analysis in a new study which analyzes the EU's influence on regional institutional change in *Mercosur* and the *Southern African Development Community* by arguing a process of diffusion. By focusing on market-building objectives and dispute settlement mechanisms, his study concludes that both of these major regional regimes have tended to adopt EU-influenced institutions despite the fact that more appropriate models based on closer to home, pragmatic, sovereignty-respecting preferences have been available. Lenz's analysis suggests that the EU has indeed "affected outcomes in several specific ways that are irreducible to, and quite different from, mainstream functional accounts of economic regionalism". He concludes that, despite clear awareness in South America and South Africa that the EU does not necessarily have the solution to local problems, these embryonic regional regimes embrace EU practice "under conditions of uncertainty and promoted by EU-oriented domestic actors as well as the EU's direct involvement in the process" (Lenz 2012).

Tanja Börzel, from the *Freie Universität Berlin* has recently emerged as the most energetic academic scholar seeking both to pin down the taxonomies of regional regimes of integration and to assess their comparability with the European Union as a model (Börzel 2011; Börzel 2012). She focuses on the several dozen cases where genuine integration has taken or is taking place. She argues that bodies such as ASEAN, the Economic Community of West African States (ECOWAS), the Arab League and Mercosur are all deepening their integration, introducing institutional changes which follow the EU's lead, consolidating their trade arrangements around a customs union and flirting with ideas of monetary union. They are also setting up dispute-settlement procedures and delegating significant aspects of political authority. More significantly, perhaps, they are beginning to tackle "issues connected with security such as non-proliferation, disarmament, territorial disputes, migration, terrorism and human trafficking" (Börzel 2011: 12). The African Union, indeed, has gone even further than the EU in organizing a common security and defense policy intended to foster and strengthen democracy (Streibinger 2012). Börzel sets out what she calls a new research agenda in comparative regionalism which she believes will help to clarify the differences between the different drivers (economics, power and norms) of the different regional regimes around the world, and the ways in which rationalists, institutionalists and constructivists would approach such issues. She concludes that a key feature of regionalism in the 21st century "is the extent to which it draws on existing forms" and she argues that "due to its lasting success, the EU has become an important reference point in Latin America, Africa and Asia, as a model to emulate or to resist". As examples she cites Telò 2001; Farrell 2007; Henry 2007, Katsumata 2009 and Jetschke 2010.

In addition to this academic literature, there are many instances of statesmen and leaders explicitly insisting that the EU is and can be a model. As Lenz noted, the former foreign minister of Thailand, Thanat Khoman, stated in 1992 that "for many of us and for me in particular, our model has been and still is the European Community, not because I was trained there but because it is the most suitable form for us living in this part of the world" (Khoman 1992). The former President of the European Commission and former Italian prime-minister Romano Prodi believes that "our European model of integration is the most developed in the world. Imperfect though it still is, it nevertheless works on a continental scale […] and I believe we can make a convincing case that it would also work globally" (Prodi 2000). Robert Cooper has theorized "the breaking of nations" as the cardinal feature of the European Union – a model which goes beyond Westphalia and creates a "post-modern" community which is waiting to be joined by others, among which he cites ASEAN, NAFTA, Mercosur and the AU (Cooper 2005: 42). To what extent is it true that the European Union can be considered an appropriate and/or fitting model for regional regimes throughout the world? In order to begin to answer this question, we need first to be clear about what the EU *is*. This paper is predicated on the belief that each of these regional regimes has come into existence primarily, if not overwhelmingly, for reasons peculiar to the geographic region they embrace and to the specific histories from which they emerge. In this sense, they are all different from each other in their underlying raison d'être and ambitions.

This may not be the most appropriate moment to be laying down definitive prescriptions about the EU's essence. The *visionary dimension* of the Union currently seems to be under some threat. In the two – or even three – most sensitive areas of policy, those that go to the very heart of sovereignty (monetary policy, security & defense policy and, arguably, external borders), there are today questions over the EU's ability to square the circle between the interests of the individual member states and the interests of the whole. Economic and monetary union and the single currency were launched at least as much as *political* – identity-building – projects as they were for strictly economic or financial reasons. Many people knew (and said) at the time of the launch that a monetary union with no common fiscal or redistributive policies was a huge gamble. But these same people assumed that, when push came to shove in this area, further integration would be virtually inevitable – because the only alternative would be the unraveling of the complex structures that had been so painstakingly erected (Feldstein 1997). The "common" security and defense policy was launched for powerful reasons arising out of the movement of history's tectonic plates after the end of the Cold War. The fall of the Berlin Wall spelled the inevitability, sooner or later, of American disengagement from Europe. Europeans had little choice but to face up to the responsibility of organizing their own security and, if necessary, their own defense (Howorth 2007 & 2012). They spent twenty years from the outbreak of the Wars of Yugoslav Succession in 1991 trying to fill the gaps in their own military capacity and organizational and decision-making processes. The crisis in Libya was *precisely* the type of regional crisis which CSDP had been established to manage. And yet when the moment came in spring 2011, the EU *per se* was nowhere to be seen. A majority of its member states saw no national interest whatsoever in protecting the citizens of Benghazi and watched from the sidelines while a small number of member states, led by the UK and France and assisted by six others, used NATO as a framework/platform within which/from which to carry out the mission (Howorth 2012). The implications of this for the future of CSDP are far from clear (Valasek 2012).

But for the purposes of this paper, we need to engage with the literature that tells us *what sort of animal* the EU seems to be. Only then can we really test the comparability of the other regional regimes. The core issue here is precisely the tension between the parts and the whole and what that says about *identity*. If the vast majority of the citizens of the EU still *identify* first and foremost with their nation-state *rather than* with the Union itself (which is the case), then the project itself might be deemed to remain in an experimental phase.

Throughout recorded history, groups of human beings have come together for two main purposes: being together and doing together. Being involves identity, doing does not – or at any rate not necessarily. An association or a committee is for doing (something) together. Society is for being together. Being has to do with the deepest communicative dimensions of a collectivity: language, psychology, empathy, values, memory. It speaks to a sense of continuity and collective destiny. Doing involves the more organizational dimensions of collective action: institutions, hierarchies, structures. It has no necessary association with the past but looks resolutely to the future. The rule of *being* is consensus; that of *doing* is the majority. In short, being is essentially about what we call culture, while doing is about what we call politics. When the two are in harmony that is what we call *political culture* (See Figure 1). The most effective groupings of human beings have been those imbued with a deep and meaningful political culture – the harmonization of being and doing. The tendency throughout history has been for these groups to grow continuously larger – families, tribes, city states, provinces, regions, etc. – and occasionally they have grown too big.

Figure 1. Being and Doing

BEING	**DOING**
Essentialist	Functionalist
Identity	Common Purpose
Society	Association/Committee
Communication (language, values memory, destiny)	Organization (institutions, structures, projects)
Culture	Politics
(Consensus)	(Majority)

Political Culture

Empires attempted to gobble up entire functional political cultures and subsume them into a massive entity. But it never worked, and eventually Empires collapsed because they did not succeed in *combining being and doing in a meaningful political culture.*

For the past two centuries (but only for the past two centuries), the optimal form of the combination of being and doing in a deep political culture has been the *nation-state* (Howorth 2000). The huge challenge facing the new regional regimes is that of transcending the nation-state by creating a new political entity which will not share the fate of Empires, but will gradually generate a new and higher level of that crucial combination of being and doing which will eventually amount to a higher form of political culture. The key question: is the European Union on track towards (or even approaching) that point?

Many actors and authors have grappled with this problem of attempting to state precisely what sort of beast the EU is. The former German foreign minister Joschka Fischer called, in a 2000 speech, for the EU to turn itself explicitly into a federal state (Fischer 2000). The former European Commission President Jacques Delors called the EU an "unidentified political object". LSE Professor William Wallace saw it as "less than a federation; more than a regime" (Wallace 1983). Oxford University's Jan Zielonka sees it as a *future* "neo-medieval Empire" (Zielonka 2007), while Gary Marks sees it as a new form of previous European Empires (Marks 2012). The EUI's Philippe Schmitter called it a "condominio" or a "new post-Hobbesian order" (Schmitter 2000). Harvard's John Ruggie, anticipating Cooper, saw it as "the first truly post-modern political form" (Ruggie 1993). Robert Keohane and Stanley Hoffmann saw it primarily as a "network of pooling and sharing sovereignty" (Keohane & Hoffmann 1991) while Liesbeth Hooge & Gary Marks have operationalized the notion of a "system of multi-level governance" (Hooge & Marks 2001). Rainer Eising and Beate Kohler-Koch present the EU as a form of "network governance" (Eising & Kohler-Koch 1999). Thomas Risse has recently published the most comprehensive inquiry into whether or not we are seeing the emergence of a "community of Europeans" through an investigation of transnational identities and the appearance of a public sphere (Risse 2010). He argues that, through the repeated transcendence of crises and through a growing public discourse which expresses itself in an increasingly politicized way, the EU is progressively moving towards the constitution of that "community" which would amount to a new political culture. Finally, in recent years, there has been a veritable profusion of academic writing converging around the notion that the EU is essentially a "normative power" (Whitman 2011). All of these approaches have inherent value, but the coexistence of so many different interpretations of *what the EU is* makes it almost impossible to put the EU in a glass case with a pink ribbon and a clear label which would allow us to compare it with similar regional regimes in other parts of the world, all of which remain under-analyzed and under-theorized, particularly in comparison with Europe. Furthermore, none of these approaches proves terribly helpful in answering the question about the combination of being and doing, about the potential for a new form of *political culture* because they all eventually come to the same circular conclusion: that because the EU *is not a state* it cannot therefore be expected to function optimally in those key areas of policy such as monetary and financial or security and defense with which I started this discussion.

The best theoretical approach is that of Boston University's Vivien Schmidt, who has pondered deeply the issue of the "state-like" qualities of the EU and has suggested that it is, in fact, a "region-state in the making", by which she means "a regional union of nation-states in which the creative tension between the Union and its member states ensures both ever increasing regional integration and ever continuing national differentiation" (Schmidt 2006: 9). She believes that this will take the EU some way towards solving the conundrum of being and doing, although she recognizes that, for the foreseeable future, the identity (the "being") of a large majority of the EU's citizens will continue to be *national*. Currently only about 5% of EU citizens, when polled by *Eurobarometer*,[3] claim European identity as their primary identity, while roughly the same percentages (around 45% each) claim either exclusively national identity or a mix of national and European identity.

[3] The *Eurobarometer* results, while scientifically credible, are nevertheless to be used with caution: http://ec.europa.eu/public_opinion/archives/eb/eb74/eb74_en.htm

If we pursue Schmidt's model in some more detail, we can begin to see whether the EU can be compared in any meaningful sense with the other regional regimes around the world. If we take the issue of sovereignty, Stephen Krasner has identified four key types: "international law sovereignty" (recognition by other states); "Westphalian sovereignty" (non-interference by outside states); "interdependence sovereignty" (control within and across borders); "domestic sovereignty" (exclusive power within the polity). The USA and China (as well as other consequential *nation states*) enjoy all of these. The EU *per se* enjoys none of them. Nor is it self-evident that any of the other major regional regimes has moved towards the acquisition of any of these forms of sovereignty. However, the EU does in fact *share* most of these types of sovereignty *with its member states*. It has gone a great deal further than any other regional regime in pooling and sharing all forms of sovereignty. This is a feature which is still totally lacking in any of the other regimes we are considering. As far as the issue of the boundaries is concerned, we find that, in this instance, some other regional regimes have tended to be *more comprehensively inclusive* than the EU has been. The AU, the Arab League and UNASUR simply incorporated from the outset every state in the region, while ASEAN, like the EU, has gradually expanded membership. Both the latter blocs currently stand on the threshold of even further expansion, thus posing the question as to whether there will ever be "fixed borders". In these key respects, the main regional regimes have taken very different paths.

Another area where the EU has been forced to compromise has been in introducing arrangements which have produced differential membership of different policy areas. The borderless space of Schengen currently embraces twenty-five member states, but EU members Bulgaria and Romania are not (yet) in, while the UK and Ireland have an op-out. On the other hand, non EU-members Iceland, Norway and Switzerland are included in Schengen. The Common Foreign and Security Policy excludes Denmark, which has an opt-out (except that Denmark has an ambassador on the *Political and Security Committee*). The Eurozone is comprised of seventeen member states. Only the Single Market embraces all twenty-seven. This confused pattern reflects the innovative way in which the whole has had to make do with something less than the sum of the parts. But the outcome has been what Stefano Bartolini has called the "de-differentiation of European polities" after centuries of differentiation into nation states (Bartolini 2005). This pattern of differential membership of various different policy areas is one which is not reflected in other regional regimes.

Schmidt's analysis of the EU as a "regional state" goes on to look in great detail at the implications of this unique polity's variable boundaries, composite identity, highly compound governance and fragmented democracy (in which government *by* and *of* the people now largely takes place in the nation states while government *for* and *with* the people takes place in Brussels). She argues that we are witnessing *policy without politics* in the latter *and politics without policy* in the former. In short, she describes a system which is <u>so unique</u> that it defies any meaningful comparison with other regional regimes. The EU is without any doubt the most elaborate and highly developed of all the existing regional regimes. But it has developed in response to *European* issues, to *European* challenges and to *European* conditions. Some of the processes it has generated may be replicable to some extent in other parts of the world. Some of the institutions may have (do have) the same or similar names. A theory of *diffusion* could well argue that emulation has taken place. But the moment one leaves theory aside and examines precisely what the respective institutions actually do and how they function and what they represent within the entire system, the less possible it becomes to claim meaningful comparability. We still lack the sort of in-depth studies which will allow us to gauge the extent to which we can make meaningful comparisons between the workings of the different institutional agencies of these different regional regimes. Can the ASEAN Secretariat be meaningfully compared with the European Commission? Notwithstanding the inputs of European jurists to the establishment of the Andean Court of Justice, does the Court really carry out comparable functions to those of the European Court of Justice? In what ways is it meaningful to compare the Pan African Parliament to the European Parliament? Until we have such studies, the proposition that the EU serves as a "model" for regional regimes worldwide will remain an untested hypothesis rather than a substantive assertion.

Conclusion

My own tentative conclusion is that the growth of regional regimes around the world affects the international system and international relations in two tangible ways. To the extent to which it constitutes a genuine pooling of sovereignty and a robust decision to eschew the use of force in inter-state relations, then it marks one more significant step beyond Westphalia. There are, of course, those scholars who argue in the European case that the regional regime has amounted to the "rescue of the nation state" in that the whole has given the parts both more clout and lots of things to do on the international stage (Milward 2000; Moravcsik 1998). But the majority of analysts recognize that something new and different – and probably important – has emerged. We are not quite sure yet what it represents in terms of the international system, but we sense that it is significant in relativizing the omnipotence of the nation state – particularly if it is spreading all across the globe (albeit in forms which are not directly comparable to each other). The other way in which these regional regimes affect the international system is in systematizing a new way of doing international relations – through the rule of law, consultation, cooperation and "effective multilateralism" – rather than in the manner in which IR has been conducted for the greater part of history. In that sense, the EU – and, if its example is followed elsewhere in the world, other regimes – might still make history.

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IV. The Americas

Comparative Regional Integration and the EU Model: How to Achieve Credible Commitments (NAFTA and MERCOSUR)

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Abstract

In this paper the author will outline some essential characteristics about the EU designed to assure 'credible commitments' and take a look at how other integration schemes, NAFTA and MERCOSUR in particular, have tried to secure 'credible commitments'. The main variables to be discussed include: the degree of completeness of the original contract to start an integration process, the degree of asymmetry among the main participants, the degree of pooling and delegation of authority, and the availability of leadership to overcome collective action problems.

Introduction

Scholars often say that the EU is *sui generis.* There is no other regional organization quite like it. Some aspects of it resemble a federal state, with binding decisions reaching individuals. Other aspects are purely intergovernmental cooperation based on consensus or unanimity. Overall the EU is not a state. It does not have the monopoly of force that sovereign states are supposed to have. But it is more than a typical international organization like the UN. It has created unique supranational institutions (For a more extensive discussion, see Laursen 2011).

Andrew Moravcsik has seen 'pooling and delegation' of sovereignty as essential characteristics of the original institutions created by the European Communities (EC) in the 1950s (Moravcsik 1998). Pooling is the term used for the acceptance of majority voting, in the EU case normally qualified majority voting (QMV), in the Council of Ministers. Delegation refers to the autonomous powers given to the Commission and the European Court of Justice (ECJ) at the outset and subsequently also to the European Parliament (EP). The Commission has an exclusive right of initiative in many areas and it represents the EU externally in a number of policy areas, especially trade. The ECJ makes binding decisions. The EP has increasingly become a co-legislator together with to the Council starting with the Maastricht Treaty in 1993 and now becoming the general rule after the entry into force of the Lisbon Treaty in December 2009. The EP is directly elected by the people in the member states since 1979. Through these institutions a number of common policies have been developed over the years, starting with trade and agriculture in the 1960s. In parallel with the expansion of the functional policy scope the EC/EU expanded geographically from six to 27 members. It is therefore fair to say that the policy and decision making mechanisms of the EC, the so-called Community method, has been rather successful. According to Moravcsik it created 'credible commitments.' It helped the EC/EU overcome so-called 'collective action' problems, problems that exist if the actors, in this case states, are tempted to cheat on agreements or face difficult distribution problems.

It should be admitted that the EU has not always been successful. It has used intergovernmental cooperation to try to develop a Common Foreign and Security Policy (CFSP) and more recently a Common Security and Defense Policy (CSDP), but with limited success. It invented the so-called Open Method of Coordination (OMC) to help create jobs and a more competitive economy through the so-called Lisbon Strategy (2000-2010), again with limited success. Further, it created an Economic and Monetary Union (EMU), without creating 'credible commitments' in the area of fiscal policy, thereby allowing the current sovereign debt crisis to develop.

The lesson from the European experience, however, seems rather clear: if you want credible commitments, one approach is to pool and delegate sovereignty! This should be contrasted with the fact that none of the other integration schemes in the world have used something like the EU's Community method. This then raises the question: Are there other ways of getting 'credible commitments' in a regional integration schemes? Walter Mattli, has argued that leadership can assist states in overcoming 'collective action' problems (Mattli 1999).

A third possibility of getting credible commitments has been suggested: a relatively detailed and complete contract with dispute settlement mechanisms. This is the NAFTA approach. Its contract is relatively complete, while the EU, MERCOSUR and ASEAN contracts are relatively incomplete (Cooley and Spruyt 2009). NAFTA's rather complete contract may have contributed to its relative success, but in limited areas and the institution is static compared with some other regional integration schemes. It will take the negotiation of a new treaty to deal with new issues. The EU approach with a 'framework treaty' is more dynamic. It creates the institutions that can develop new policies and reform old ones (Laursen 2010). It therefore appears that MERCOSUR and NAFTA could have been better off if they had adopted something like the Community method with pooling and delegation of sovereignty. Why haven't they?

The demand for integration, according to rationalist theories of integration, is related to the economic interdependence of the countries in question. One indicator of demand for regional integration is intra-regional trade. The proposition is that the higher intra-regional trade, the more economic actors will demand steps toward more integration (Mattli 1999, Moravcsik 1998). Table 1 shows what happened to intra-regional trade through the 1990s and the beginnings of the 2000s in three regions. In NAFTA and MERCOSUR, intra-regional trade increased relatively substantially in the 1990s. Intra-regional trade fell sharply in MERCOSUR in 2001 and 2002 – because of the Argentine crisis. After having reached 24.8 per cent in 1998, it fell to 11.6 per cent in 2002. No comparable decline was recorded in the other regions. Since 2004 the intraregional trade in MERCOSUR has increased slightly. In NAFTA it has fallen slightly. In the EU it has remained high.

Table 1: Intra-regional Export Shares, 1970-2008

	1980	1990	1992	1994	1996	1998	2000	2002	2004	2006	2007	2008
NAFTA	33.6	41.4	43.7	48.0	47.6	51.0	55.7	56.7	55.9	53.9	51.3	49.5
EU	60.8	59.0	59.5	56.8	62.8	62.5	61.6	60.6	60.7	67.4	67.9	67.3
MERCOSUR	11.6	8.9	14.0	19.2	22.7	24.8	20.8	11.6	12.6	13.5	14.9	15.0

Sources: International Monetary Fund, *World Economic Outlook*, October 1999, Table 5.1, 129; The World Bank, *World Development Indicators*, 2004 and 2005, Table 6.5; 2006, Table 6.6; 2009, Table 6.7, and 2010, Table 6.7.

The Case of NAFTA[1]

I shall first give a brief overview of NAFTA's institutions in view of trying to compare NAFTA's institutional capacity and achievements with those of the EU. NAFTA's institutions should be seen against the background of NAFTA being a rather complete contract, a long and detailed treaty that requires less *ex post* implementation than the EU and MERCOSUR based on shorter framework treaties or relatively incomplete contracts (Cooley and Spruyt, 2009).

The main institution created by is *The Free Trade Commission* (FTC). It shall "supervise the implementation of the agreement" and "supervise its further elaboration." It also gets involved in resolving disputes regarding the interpretation or application of the agreement and it supervises the various committees and working groups established by the agreement. It consists of cabinet-level representatives from the three member states or their 'designees' and meets normally

[1] This section borrows from the concluding chapter in Laursen 2010.

at least once a year. Meetings are chaired "successively by each Party" (McKinney, 2000, 24).[2]

The FTC has been able to accelerate tariff reductions in the mid-90s. It has also contributed to dispute settlement under Chapter 20 which foresees the establishment of an arbitral panel as a third step after consultation and a meeting of the FTC. Most disputes have been solved through consultation. Chapter 19 – anti-dumping and countervailing duties – does not foresee consultations or involvement of the FTC before the establishment of an arbitral panel (McKinney, 2000, 31).

If we compare the FTC with the EU Commission it is clear that the FTC has very limited competences. As McKinney observes, "It has no physical location and no staff members of its own." He goes on to say:

> As its name indicates, the Free Trade Commission was established to deal primarily with trade facilitation matters as they arise in the context of the NAFTA agreement. It was neither intended nor designed to deal with the broader issues of economic integration as those that the European commission regularly addresses. The European Union has chosen to pursue a deeper level of economic integration than have the countries of North America, and a more elaborate institutional structure is required (McKinney, 2000, pp. 31-32).

In the NAFTA set-up there is also a *Commission for Labor Cooperation*. NAFTA was negotiated during the administration of President George Bush in 1991 and signed on 17 December 1992. During the election campaign that year Bill Clinton had expressed some reservations about NAFTA and he promised to negotiate supplementary agreements on labor and environmental issues if elected. These side agreements were negotiated from March until August 1993, when the agreements were signed. After ratification by Canada, USA and Mexico NAFTA went into effect on 1 January 1994 (McKinney, 2000, 7-13).

One of the supplementary agreements was the North American Agreement on Labor Cooperation (NAALC). It establishes the Commission for Labor Cooperation which is formed of a Council of Ministers and a tri-national Secretariat. The Council consists of the three labor ministers or their representatives. It meets at least once a year in regular sessions.[3]

Space does not allow a detailed account of the work of the NAALC. Suffice it to give the assessment of a leading scholar:

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[2] The NAFTA Secretariat has a tri-national web site at www.nafta-sec-alena.org (last accessed 29 January 2012). It has links to the text of the NAFTA, status reports of panel reviews and panel decisions and reports. There are also links to the three national sections of the Secretariat where additional information can be found.

[3] The home page of the Commission for Labor Cooperation is: www.naalc.org (last accessed 29 January 2012)

> While monetary enforcement assessments and trade sanctions exist as possible methods of enforcing the terms of the NAALC for some issues, their use for that purpose is highly unlikely. The road to having a matter considered by an arbitral panel is a long and tortuous one. Multiple opportunities and incentives are provided to settle the dispute before that stage (McKinney, 2000, p. 46.)

The established system thus depends on consultations between domestic institutions. Only in exceptional cases, for a narrow range of disputes, can binding arbitration be used and such a step can be decided by a two-thirds majority vote in the Council of Ministers. This slight element of 'pooling of sovereignty', as mentioned, is not very likely to be used.

The second side agreement negotiated by the Clinton Administration is the North American Agreement on Environmental Cooperation (NAAEC), which has established the *Commission for Environmental Cooperation.* (CEC).[4] Environmental groups in the United States were worried because Mexico had lower environmental protection than the United States. They feared a 'race to the bottom'. Labor unions feared that capital might migrate to Mexico because of lower environmental standards. Including an agreement on environmental cooperation thus was a way to improve chances of ratification (McKinney, 2000, 90).

The CEC is composed of a Council, a Secretariat and a Joint Public Advisory Committee (JPAC). The Council meets at the ministerial level at least once a year. The Secretariat, in Montreal, is an independent body.

Potentially an important is Part V of the agreement, which allows for complaints from a member state about "a persistent pattern of failure" by another "Party to effectively enforce its environmental law" (Article 22). If the Parties cannot solve the issue "the Council shall convene." However, in 2000 McKinney concluded:

> … The process involved in sanctioning countries for a persistent failure to apply their environmental laws is by design highly convoluted, with multiple opportunities for the accused country to escape the sanctions. The clear intent is for environmental disputes among the member countries to be settled through consultation and cooperation. No disputes have yet been filed under Part V, and the likelihood that they will be seems remote. No private party access exists under Part V of the NAAEC, that is, consultations that begin the dispute settlement process under Part V of the agreement must be initiated by a NAFTA member government. Informal consultations among the member governments will likely preclude the more formal proceedings of the Part V dispute settlement process (McKinney, 2000, 109).

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[4] The home page is at: www.cec.org. (Last accessed 29 January 2012).

The decisive difference between NAFTA and the EU appears clearly here. There is no delegation of powers to supranational bodies like the European Commission and the ECJ. The possibility of delegation to panels under Part V of the environmental agreement has not been used.

Although the NAAEC foresees votes in the Council by two-thirds majority votes, and thus 'pooling' of sovereignty, this possibility has not been used. In the EU, if a Member States fails to implement the *acquis communautaire* it is usually the Commission that starts proceedings, not another member state, although a member state could do so in principle.

NAFTA's achievements

The official view of NAFTA is positive. NAFTA has created the world's largest FTA and created more trade and foreign direct investments (FDI). During its first 10 years of existence trade among the three member countries doubled, from US$306 billion in 1993 to almost US$621 billion in 2002. In the case of Mexico, the poorest member country, trade increased even more than for the United States and Canada. Mexican exports to the US grew by 234 percent and exports to Canada grew by 203 percent.[5] Also FDI more than doubled between the three member countries, from US$136 billion to US$299.2 billion between 1993 and 2000. The official view is also that environmental protection and respect for basic labor standards have been strengthened by NAFTA's side-agreements. Economic growth 1993-2003 was 38% for the United States, 30.9% for Canada and 30% for Mexico. And it is claimed that productivity rose 28% in the United States, 23% in Canada and 55% in Mexico.[6]

Some NGOs, however, have been much more critical in their assessment of NAFTA. The US Public Citizen for instance says that "NAFTA contained 900 pages of one-size-fits-all rules to which each nation was required to conform all of its *domestic* laws – regardless of whether voters and their democratically-elected representatives had previously rejected the very same policies in Congress, state legislatures or city councils".[7]

Without going further into claims and counter-claims it seems that most observers agree that NAFTA has created both trade and investments. However, as one should expect, the gains have not been evenly distributed, and there have

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[5] "NAFTA: A Decade of strengthening a dynamic relationship" downloaded from: http://www.ustr.gov/Trade_Agreements/Regional/NAFTA/NAFTA_at_10/Section_Index.html (Accessed April 2010, no longer available, but available at http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/nafta10.aspx?lang=en&view=d , accessed 29 January 2012).

[6] NAFTA: A Decade of Success" downloaded from: http://www.ustr.gov/Document_Library/Fact_Sheets/2004/NAFTA_A_Decade_of_Success.html (Last accessed 29 January 2012)

[7] Quoted from the organization's website: www.citizen.org/trade/nafta/ (Last accessed 29 January 2012).

been losers. NAFTA itself has not created mechanisms to deal with distribution issues, apart from special programs for the Mexican-US border area. It is also fair to say that the records of the side agreements on labor and environment have been disappointing. According to Armand de Mestral "all three governments have been hostile and defensive in response to complaints." And in the case of the NAALC "measures were seldom taken following a complaint" (de Mestral 2011, 656).

Table 2: Descriptive summary of NAFTA

Nature of agreement	**Institutional capacity**	**Leadership**	**Achievements**
Law treaty (relatively precise and complete contract): Specific policy rules in the treaties	Under the general NAFTA: No pooling, some delegation in respect to dispute-settlement Under the labor and environmental agreements: Some pooling, but not employed in practice; Some delegation of authority to panels, but used sparingly No redistribution	Some US leadership at the outset No institutional leadership	FTA-Plus: Goods, services, investments, competition Important increases in intra-NAFTA trade and FDI Cooperation on labor and environmental issues: Relatively minor effects so far

Source: Compiled by the author.

The Case of MERCOSUR[8]

The Southern Common Market (MERCOSUR) was founded by Argentina, Brazil, Paraguay and Uruguay by the Treaty of Asunción of 21 March 1991 (MERCOSUR, 1991a). The preamble said that expansion of domestic markets, through integration, was a vital prerequisite for accelerating economic development.

[8] This section borrows from Laursen 2010.

More specifically, the purpose was to establish a common market. This would involve

> The free movement of goods, services and factors of production between countries through, inter alia, the elimination of customs duties and non-tariff restrictions on the movement of goods, and any other equivalent measures;
> The establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States, and the co-ordination of positions in regional and international economic and commercial forums,
> The co-ordination of macroeconomic and sectoral policies between the States Parties in the areas of foreign trade, agriculture, industry, fiscal and monetary matters, foreign exchange and capital, services, customs, transport and communications and any other areas that may be agreed upon, in order to ensure proper competition between the States Parties;
> The commitment by States Parties to harmonize their legislation in the relevant areas in order to strengthen the integration process (Article 1).

This can be summarized as first of all adding up to a customs union with a common trade policy. Beyond that goal was also a common market which would be based on coordination of policies in specific areas, including money, as well as harmonization of legislation. This might take MERCOSUR towards an economic union. But were the commitments credible? Here we have to remember that MERCOSUR is very incomplete contract compared with NAFTA. At the same time, it also aims to go much further than NAFTA.

Institutional Setup

The Treaty of Asunción established two main institutions (Article 9):

(a) The Council of the Common Market

(b) The Common Market Group

The Treaty specified that “The Council shall be the highest organ of the common market, with responsibility for its political leadership and for decision-making to ensure compliance with the objectives and time-limits set for the final establishment of the common market" (article 10). As to composition it was specified that "The Council shall consist of the Ministers of Foreign Affairs and the Ministers of the Economy of the States Parties." It would meet "at least once a year with the participation of the Presidents of the States Parties" (Article 11). A rotating presidency was foreseen (Article 12).

As for the Common Market Group, it was defined as "the executive organ" and it would have "powers of initiative." It would propose specific measures for applying the treaty, monitor compliance and "take the necessary steps to enforce decisions adopted by the Council" (Article 13). The treaty also established an "administrative secretariat" in Montevideo to service the Common Market Group (Article 15).

How were decisions to be made by the two institutions, the Council and Common Market Group? By "consensus" it was stipulated (Article 16). So there was no pooling of sovereignty.

Was there delegation of sovereignty? No. The organizational structure established by the Treaty of Asunción did not foresee autonomous supranational institutions like the European Commission or the European Court of Justice (ECJ). The established organs were purely intergovernmental.

The Protocol of Ouro Preto of 17 December 1994 added more institutions and was more specific (MERCOSUR, 1994). The new organs created were the MERCOSUR Trade Commission (MTC), the Joint Parliamentary Commission (JPC), the Economic-Social Consultative Forum (ESCF), and the MERCOSUR Administrative Secretariat (MAS).

The new MERCOSUR Trade Commission would be "be responsible for considering complaints referred to it by the National Sections of the Mercosur Trade Commission and originated by State Parties or individuals, whether natural or legal persons" (Article 21). So it would have some functions similar to those of the European Commission without getting its independence as well as a judicial function without approaching anything resembling the ECJ.

The Joint Parliamentary Commission would represent the parliaments of the States Parties. It would have an equal number of members representing each State Party, to be appointed by the respective national parliaments. It would be able to make recommendations (Article 22-26). It was not given any real political, budgetary or legislative powers.

In the following years there were some additional institutional changes, including creation of a Permanent Review Court (Pena and Rozemberg, 2005). It was created by the Olivos Protocol in February 2002 (MERCOSUR, 2002). Similarly it was decided in 2004 to create a MERCOSUR Parliament (Parlasur). In 2007 it replaced the Joint Parliamentary Committee. But the Parliament has not been given legislative, budgetary or control powers (Caetano et al., 2009, 63-70). And in 2005 a MERCOSUR Structural Convergence Fund was created

(INTAL, 2009). Brazil is the main contributor. The main recipients are Uruguay and Paraguay.[9]

The establishment of a Permanent Review Court and a Parliament are potentially important innovations. Their powers are not comparable to those of the ECJ and the European Parliament, but they can be seen as steps in the direction of creating better institutions, where a learning process may eventually lead to further changes.

Overall it is fair to say that the MERCOSUR institutions have a strong intergovernmental bias.[10] Despite the similarity in names they are much weaker than EU institutions. MERCOSUR also has a fundamental problem of asymmetry. Brazil is by far the biggest country. If weighted voting, as it exists in the European Union, had been adopted in MERCOSUR, Brazil would be able to dominate.

Did the politicians and member state governments then succeed in overcoming the "collective action" problems through leadership? When Mattli wrote about MERCOSUR in 1999 he said:

> Within MERCSUR Brazil is the dominant economy. It accounts for approximately 75 percent of total MERCOSUR GDP and for 80 percent of its industrial manufacturers. Nevertheless, Brazil has been reluctant to use its economic and political position to assume active regional leadership. Whenever short-term national interests have been at stake, Brazil has relegated MERCOSUR to second place. (Mattli, 1999, 160).

Arguably this is still the case today. At the same time, however, it should be admitted that joint presidential leadership has sometimes allowed MERCOSUR to move forward (Malamud, 2003). But that kind of leadership is not the most reliable, especially if one of the member states, Brazil, hesitates.

Whether the recent institutional changes mentioned above will allow MERCOSUR to improve its performance remains to be seen. Intra-regional trade, which fell drastically after 1999, has not yet reached the levels of the mid-1990s. Today it is not only much lower than in the EU and NAFTA but also lower than in ASEAN.

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[9] For 2010 figures, see: http://www.mercosur.int/innovaportal/file/655/1/DEC_016-2009_ES_Presupuesto%20FOCEM%202010.pdf (Accessed 29 January 2012).

[10] On this, see also Bouzas, 2002, Bouzas et al., 2002; Bouzas et al., 2008, and Gardini 2011.

Table 3: Descriptive Summary of MERCOSUR

Nature of Agreement	**Institutional capacity**	**Leadership**	**Achievements**
Framework treaty Specific requirements to establish customs union and common trade policy Coordination and harmonization foreseen to establish a common market Treaty supplemented with protocols	No poling or delegation Practically no redistribution Ad hoc dispute settlement tribunals *Recent reforms may gradually improve institutions:* Permanent Tribunal of Revision (2004), opinions not binding Structural Convergence Fund created in 2005 Weak parliament, PARLASUR created in 2006	Weak Brazilian Leadership Weak institutional leadership	Incomplete customs union Weak implementation Major steps needed to achieve the declared goal of a common market

Sours: Compiled by the author.

Conclusion

Conclusions based on two or three cases must necessarily be somewhat tentative. But n=3 is better than n=1. I have summarized the findings in tables 2-3 above comparing NAFTA and MERCOSUR with the EU. The argument has been that 'institutions matter'. But it has to be admitted that the ubiquitous question of over-determinations remains (Przeworski and Teune, 1970). Apart from looking at the institutions I have also, albeit rather superficially, talked about leadership. Further, the question of asymmetry emerged as a potentially important variable that may explain why MERCOSUR has not chosen a complete contract or supranational institutions to deal with collective action problems.

Among the three integration schemes covered in this analysis the EU and NAFTA have been the most successful, albeit at different levels of achievements. These two organizations approached the question of 'credible commitments' in different ways, but, according to Mattli, leadership was available in both. The EU included 'pooling and delegation' of sovereignty. NAFTA was based on a very detailed treaty, a rather complete contract which reduced *ex post* implementation issues, but also made the organization more static. So the question is, was it leadership or the different ways of dealing with credible commitments that were decisive for the relative success?

Table 4: (Tentative) Explanatory Conclusions

Case	**Independent variables**	**Intervening variables**	**Dependent variable**
EU	Moderate power asymmetry High degree of interdependence Guiding ideas (Monnet)	Supranational institutions Incomplete contract Leadership readily available	High degree of achievement of objectives (increasing over time)
NAFTA	High power asymmetry High degree of interdependence Ideas unimportant	Intergovernmental institutions Complete contract US leadership	High degree of achievement of objectives (stationary)
MERCOSUR	High power asymmetry Low degree of interdependence Limited ideational inspiration	Intergovernmental institutions Incomplete contract Limited leadership	Low to moderate degree of achievement of objectives (relatively stationary)

Source: Compiled by the author

MERCOSUR is an incomplete contract. Nor does it have strong commitment institutions. Further, regional leadership has been weak. It has been less successful. Admittedly, demand for integration was also lower in South America than in Europe and North America due to lower degrees of interdependence. MERCOSUR and NAFTA further exhibit greater asymmetries than Europe. So we have to admit that the differences are over-determined. The analytical findings based on the research design outlined in the introductory chapter in Laursen (2010) are summarized in table 4. The main independent variables are power, interests and ideas. The intervening variables are the nature of institutions and availability of leadership. The dependent variable is the degree to which objectives are achieved.

This leaves some important questions for our future research agenda: Why are some regional integration schemes better able to achieve the stated goals than others? There is no doubt in my mind that interdependence and power asymmetries are important structural factors that must be considered in our efforts to find answers. They affect both demand and supply of integration. Further, institutional choice in an integration scheme remains of central importance. Pooling and delegation of sovereignty is the most obvious way of creating credible commitments. There may be an alternative in the form of a relatively precise and complete contract from the beginning. But such an alternative will be more static and less able to adjust to new challenges.

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Sovereignty is Back, Integration Out: Latin American Travails with Regionalism

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Abstract

After 20 years of its foundation, the Common Market of the South (Mercosur) has failed to meet its declared goals. Far from being a common market and not yet a customs union – or even a fully-fledged free trade zone -, it has neither deepened nor enlarged. Remarkably, all other regionalist projects in Latin America fare even worse. Yet, they have arguably fostered domestic democracy, economic reforms and the consolidation of regional security communities. Aware of the growing gap between treaties and facts, regional elites have responded by signing additional protocols, building up powerless institutions and voicing rhetorical statements, with the EU model often in mind and paper but rarely in practice. As a result, Latin American regional blocs have lost a shared *raison d'être* and have been attached a different purpose by each of their member states. This presentation evaluates Mercosur's sprawling goals and declining performance in the context of Brazil's global emergence. The aim is to show how the strengthening of national sovereignty - as opposed to its pooling or delegation - is at the heart of most regionalist strategies. Ironically, the setback of regional integration and the comeback of national sovereignty in Latin America parallel the developments that are afflicting the EU.

Introduction

After 20 years of its foundation, the Common Market of the South (Mercosur) has failed to meet its declared goals. Far from being a common market and not yet a customs union – or even a fully-fledged free trade zone -, it has neither deepened nor enlarged. Remarkably, all other regionalist projects in Latin America fare even worse, albeit they have arguably fostered democracy, economic reforms and peaceful regional relations. Faced with a growing gap between treaties and facts, regional elites have responded by signing additional protocols, building up powerless institutions and voicing rhetorical statements, with the EU model often in mind and paper but rarely in practice. As a result, Latin American regional blocs have lost a shared *raison d'être* and have been attached a different purpose by each of their member states. This paper evaluates Mercosur's sprawling goals and declining performance in the context of Brazil's global emergence. The aim is to show how the strengthening of national sovereignty - as opposed to its pooling or delegation - is at the heart of most regionalist strategies. The article proceeds as follows: first, it introduces integration theories in order to show that Latin American regionalism can be explained by existing approaches. Second, it analyzes Mercosur's travails with integration and its current situation. Subsequently, it brings forth lessons from the Latin American experiences that may shed light over the developments that are currently afflicting the European Union. The last section concludes.

Application to Latin America of Europe-inspired Theories

Regional integration can be defined as the process of "how and why (nation states) voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves" (Haas 1971: 6). To this definition, Malamud and Schmitter (2011: 143) add that states "do so by creating common and permanent institutions capable of making decisions binding on all members. Anything less than this – increasing trade flows, encouraging contacts among elites, making it easier for persons to communicate or meet with each other across national borders, promoting symbols of common identity – may make it more likely that integration will occur, but none of them is *the real thing*."

This conceptualization stands in contrast with the so called New Regionalism Approach (NRA), which allegedly "refers to a phenomenon, still in the making, that began to emerge in the mid-1980s, in contrast to the 'old regionalism' that began in the 1950s and faded away in the 1970s" (Hettne and Soderbaum 1998: 6). Malamud and Schmitter (2011: 143) consider a debate with the NRA futile, as "its definition of the phenomenon is so broad that it encompasses several different species under the same label, and thus cannot be subject to standardized comparison." I will argue here that an old theory developed to explain European integration in the 1950s and 1950s, ironically called neo-functionalism, holds more potential to grasp current developments in Latin America than newer and fancier ones such as the NRA. This is mainly due to its core mechanism: spillover.

Neo-functionalism was first developed by Ernst Haas around the 1960s. It drew on functionalism, an earlier approach advocated by David Mitrany whose main pitfalls were the neglect of political and geographical factors. The neo-functionalist approach argued that "what matters most is a utilitarian calculus on the part of actors, and not a dramatic or passionate commitment to a new order" (Haas 1975: 12). The theory conceived of integration as an open process, characterized by the spillover from one area to another. Spillover refers to the process whereby members of an integration scheme, dissatisfied with the bloc's performance, "attempt to resolve their dissatisfaction either by resorting to collaboration in another, related sector (expanding the *scope* of the mutual commitment) or by intensifying their commitment to the original sector (increasing the *level* of mutual commitment) or both (Schmitter 1969: 162). The notion is that integration in one sector will create incentives for integration in other sectors, in order to fully capture the benefits of integration in the sector in which it started. Although neo-functionalism was sensitive to the difference between background, initial and process conditions, it "had more to say about the ongoing role of institutions than about the factors that explain the birth of regionalist schemes" (Hurrell 1995: 60): its main accent and stronger predictions were focused on the process. Once integration had started, neo-functionalism saw it being fostered by two sorts of spillover: functional and political, as politicization was considered as initially avoidable but later inescapable. This mechanism predicted that integration would become self-sustaining, as the emerging conflicts of interest would be dealt with by enlarging the tasks and expanding the authority of the common institutions. Indeed, European integration has been driven as much by intergovernmental treaties as by unforeseen, interstitial change, that is, structural transformations brought about by the daily operation of EU institutions rather than by the strategic calculations of national executives (Farrell and Heritier 2007). In particular, the Court of Justice has been crucial to foster integration, even – or above all – during the seeming stagnation ages of the 1970s and early 1980s. It did so by establishing the direct effect of community law and its supremacy over national legislation between 1963 and 1964, and by banning unilateral restrictions on trade through the establishment of the principle of mutual recognition in 1979.

Over time, however, spillover did not take place as expected. What first appeared as a mechanical process changed afterwards into an extremely contingent phenomenon with several ramifications. Schmitter (1970) conceived of it as a member of a more numerous family (see Table 2). According to its two defining variables, scope and level of authority, spillover meant the simultaneous increment in both indicators. In contrast, the simultaneous decline was called spillback. Retrench meant greater decisional authority along with less coverage of issue areas, whereas muddle about named the opposite case. Two extra possibilities were also anticipated: spillaround, that defined an increase in the coverage of issue areas with no change in the level of authority, and buildup, which implied greater levels of authority irrespective of any increment regarding its scope; both spillover and buildup were oriented toward the construction of a political community. Finally, encapsulation meant the maintenance of the status quo. In Latin America, spillover and buildup rarely occurred as regional institutions were continuously created but not given effective powers. Mercosur, in particular, was to be increasingly characterized by spillaround.

Table 1 - Spillover Family

		SCOPE OF AUTHORITY		
		+	=	-
LEVEL OF AUTHORITY	+	Spillover	Buildup	Retrench
	=	Spillaround	Encapsulation	Spillback
	-	Muddle about	Spillback	Spillback

Own elaboration based on Schmitter (1970). See also Malamud (2010).

Diagnosis of Regional Integration in Mercosur and Beyond

Malamud and Gardini (2012: 124) have argued that, "Latin American regionalism has never been all-encompassing but rather territorially segmented, therefore disintegrating the conceptual Latin American space at the same time as it has sought to integrate sub-regions. This trend has only been accentuated more recently, giving birth to new blocs that are tearing South, Central and North America apart. More confusingly, some of these sub-regions overlap." Following Phillips and Prieto (2011), they claim that "the presence of segmented and overlapping regionalist projects is not a manifestation of successful integration but, on the contrary, signals the exhaustion of its potential. This is not incompatible with the proliferation of cooperation initiatives. Yet regionalism understood as 'comprehensive economic integration' in a macro-region is losing ground to regionalism understood as 'a set of diverse cooperation projects' in several sub-regions. Recent developments have shown traits such as the primacy of the political agenda, an increased role of the state, growing concern for social issues and asymmetries and an attempt to escape from broadly neoliberal and US-endorsed dynamics" (Malamud and Gardini 2012: 124). This shift has been addressed by concepts such as post-neoliberal or post-hegemonic regionalism (Riggirozzi and Tussie 2012; Sanahuja 2009), which seek to overcome the open or new regionalism approach. I contest this perspective and argue that Latin American regionalism is not evolving towards yet another paradigm but is instead rolling onto itself, either spilling around without deepening or going back to standard cooperation arrangements. Mercosur is the clearest example of the former case, spillaround.

Mercosur has overtly failed to meet its declared goals, as it is neither a common market nor a customs union. It does not even work as a free trade zone, as border barriers and obstacles to trade are frequently raised and never fully removed. True, it has achieved other relevant – if tacit – objectives, such as supporting democracy, economic reforms and peaceful regional relations. This, however, should not be confused with integration. The main reason for Mercosur's fizzling out is that its underlying formula, i.e. preferential access for Argentine goods into the Brazilian market in exchange for Argentine support for Brazilian international strategies (Bouzas et al 2002), has exhausted its fuel without being replaced. Consequently, Mercosur has acquired disparate meanings for each member state.

The external agenda has provided some glue that is lacking indoors (Gómez-Mera 2009). Unlike the Andean Community, negotiations with the EU are still underway as a bloc, though their prospects are dim – to be optimistic. Although it is Brazil, as opposed to Mercosur, that sits at top international fora such as the BRICS, IBSA, and the WTO 4-party negotiating table, the possibility of signing a bloc-to-bloc agreement with the EU keeps Mercosur sense of being alive. However, the signature of a strategic partnership agreement between the EU and Brazil – not Mercosur – in 2007 has done little to promote a happy ending in the bi-regional negotiations. As regards enlargement, Venezuela has been a "full member in process of accession" (this oxymoron is official-wording) for the last five years. The accession protocol has not been ratified by Paraguay, an eloquent manifestation of a double phenomenon: the growing inoperability of the bloc and the fuzziness of its in-out borders.

Mercosur is a case of supply-side integration (Perales 2003). Interpresidentialism, its main working mechanism, is the outcome of combining an international strategy, presidential diplomacy, with a domestic institution, presidentialism (Malamud 2003, 2005). Presidential diplomacy is the customary resort to direct negotiations between national presidents every time a crucial decision has to be made or a critical conflict needs to be solved. Another way to put it is that Mercosur is, from birth, power-oriented rather than rule-oriented.

The legalization of internal procedures, as well as the judicialization of conflicts, have not taken place but in paper. Mercosur's top dispute settlement institutions have been called on only 15 times in 20 years. Formal institution-building was not due to functional needs but to the pressure of epistemic communities and transnational networks (i.e. jobs for lawyers and judges). A standing case in point is the Permanent Review Tribunal, established in 2006, which has been said not to be permanent or a real review instance - and not even a tribunal (Perotti 2008). Likewise, the development of a parliamentary institution (Parlasur) is an outcome of professional and political lobbying (national legislators and academic sectors), but also a legitimizing resource born out of mimesis (Dri 2010). The marketplace of ideas regarding regional integration is substantially limited to one successful source, the EU. In fact, Parlasur has no legislative competences, no oversight capacities, no popular representation, and hardly any transnational party politics.

The consequence of Mercosur's sprawling institutions and declining performance has been the diversification of expectations that member states attach to it. For Brazil the bloc has become an instrument to administer its relations with Argentina, long considered the only country important for Brazil to which Brazil is also important. Symmetrically, Mercosur's main function for Argentina is now to bind Brazil and prevent it from making unilateral decisions or going global alone. for Paraguay Mercosur is not an option but a doom (paraphrasing Celso Lafer, who once said that, for Brazil, the FTAA was an option while Mercosur was destiny): it is unavoidable – as exclusion costs would be higher than permanence - though not necessarily good. In the case of Uruguay, exclusion costs and political inertia explain the decision to stay in the bloc, although in this case the ruling coalition's ideology also plays a role.

In sum, Mercosur is not what it is purported to be in the official discourse. Albeit its balance sheet is marginally positive, the divergence of words and deeds has damaged its reputation and jeopardized its usefulness. Regionalism is still a compelling foreign policy but its goals and outcomes are no longer integration but cooperation, in line with the revitalized will of the larger states and dependent status of the smaller ones.

Lessons from Latin American Integration[1]

How useful is the Mercosur – and, more generally, Latin American - experience to test hypotheses drawn from EU case? There are at least five dimensions in which this can be evaluated: the generalizability of the theories outside the EU, the different dynamics of origin and operation, the impact of domestic institutions, the timing of institutionalization, and the nature of politicization.

Generalizability outside the EU

To speak of theories of European integration is as inappropriate as to speak of theories of German politics or of American parties: theories are not case studies but systematic explanations of general phenomena. However, the singularity of the EU development have led analysts to discuss the problem of n=1 – i.e. the possibility of crafting a theory that only applies to one case (Caporaso et al. 1997). A way to avert such situation has consisted of moving away from integration to governance (Hooghe and Marks 2001) – and from international relations to comparative politics (Hix 1994), approaching the EU by comparison with federal states (Majone 2005; Sbragia 1992). However insightful this may be, it only solves half of the problem: it puts the adjective – European – in comparative context, but it leaves the noun – integration – in the dark. Comparative regional integration, not comparative governance, is the only way to deal with the root phenomenon. And, outside Europe, nowhere but in Latin America have integration attempts and thinking developed so extensively across space and so consistently

[1] This section is based on, and contains fragments from, Malamud (2010).

over time. Without Latin America, n=1 would not be a research problem but a fact of life.

The different dynamics of origin and operation

The first approaches that promoted or sought to explain European integration were not fully sensitive to the contrast between birth and growth of integration. Federalism focused on founding events and functionalism on ongoing processes. Only with the advent of neofunctionalism in Latin America was the distinction between background conditions, conditions at the time of union, and process conditions made (Haas and Schmitter 1964). However, neofunctionalism remained more able in accounting for integration dynamics after union, while liberal intergovernmentalism shed more light on the initiation or relaunching of a regional organization. The analysis of the Latin American experiences has confirmed the validity of this division of labor among theories, showing that they are not rival but rather complementary, depending on context and timing.

More recently, Warleigh-Lack (2010) has advanced an analytical framework that focuses on four dimensions: genesis, functionality, socialization and impact of regional organizations. Genesis asks why states join – and stay within – an integration process. Functionality investigates how a regional organization functions once it is established. Socialization and impact, in turn, study the outcome of the process, whether at the ideational or material levels. This typology suggests that the factors that account for origin (and resilience), operation (and evolution), and outcomes (either ideational or material) are not necessarily the same; therefore, no single theory of integration is capable of explaining the whole process. This finding is consistent with research results such as those collected by Laursen (2010: 14). Indeed, the structural model he develops in order to explain comparative regionalism allows for two values of the dependent variable: cooperation and integration, depending on the weight of three causal variables (power, interests, and knowledge or ideas) and their interaction with two intervening variables (institutions and leadership). If interests are not convergent and supranational developments are missing in both institutions and leadership, integration is out of reach.

The impact of domestic institutions

Direct presidential intervention has played a crucial role in both the start and the development of every integration process in the continent, while no equivalent figure to such supranational bargainers as Jean Monnet, Robert Schuman or Jacques Delors is to be found. The capacity of presidential intervention to advance integration was not evident from the outset. In CAN, the Andean Presidential Council was belatedly established in 1990 but only consolidated in 1994. In CACM, Wynia (1970: 331) early suggested exploring “the effects of the national political roles of presidents on their implementation of regional commitments”. However, decades of political instability put into question this insight. Since the

1990s, though, democratization led to an increase in the impact made by chief executives.

In the history of European integration, the most noteworthy interventions of chief executives were those of De Gaulle in the 1960s and Thatcher in the 1980s, and both were detrimental to integration. However, the necessity to institutionalize the influence of national executives led to the belated creation of the European Council in 1974, twenty years after the EEC was founded. The Latin American cases show that, given certain institutional settings, chief executives were the only available driver of integration. Presidentialism, alongside power-oriented rather than rule-oriented political traditions, has made a difference that EU pioneers could not have predicted. Yet, there is not enough evidence to tell whether these developments challenge the neofunctionalist low-politics argument or, instead, support its political spillover hypothesis.

Timing of Institutionalization

The timing and sequence of institution-building can alter the effects produced by institutions. For example, the early introduction of executive summits is likely to reflect, but also feed, stronger intergovernmental procedures. In the EU, the role played by the Court of Justice has been recognized as crucial in pushing integration forward into unexpected, and often unintended, developments. The option for triadic (judicial) rather than dyadic (diplomatic) institutionalization of dispute-settlement mechanisms distinguishes the EU from Mercosur and has shown greater spillover potential. However, apparently similar institutional outlooks may conceal huge differences: even though CAN established a sophisticated institutional architecture since its origins, member-states' reluctance to relinquish sovereignty prevented the precocious regional institutions from generating spillover effects. As Dominguez (2007: 127) stresses, "institutional design features have explained little about the efficacy of organizations." Although he adds that the key exception has been automaticity, the greatest transformations of sub regional organizations took place after the establishment of decision-making bodies involving the national presidents.

As CAN shows, regional integration may suffer from excessive or, at least, precocious institutionalization – and not only from institutional deficit, as some believe to be the case in the EU. Mercosur performed reasonably well in its first years precisely because it chose not to replicate the strategy of the Andean Pact, which had tried to emulate the EU form instead of function. Had Mercosur done alike, its ineffectiveness could have eroded the legitimacy of the integration project as a whole. The under-development of common institutions cannot persist for long if integration is to move ahead, but reforms in their scope and authority must be timed with regard to needs and perceptions (Malamud and Schmitter 2011). The promoters of the 2004 Treaty establishing a Constitution for Europe could have benefitted from this lesson.

The nature of politicization

In the EU, politicization is understood as a process opposed to technical management. Caporaso argues that power has been downplayed because "integration studies, as a field, has a 'technicist' orientation," but also because of "the nature of the EC itself" (Caporaso 1998: 347). The mechanism through which political leaders agree on general principles and leave the drafting of the detailed rules to leading national and supranational technicians is known as the "Messina method." Both neofunctionalists and intergovernmentalists agreed on this definition, notwithstanding the focus of the former on technical management and of the latter on political preferences. In Latin America, though, this conceptualization was only valid during the first theoretical surge; afterwards, the technicians that had driven integration in LAFTA and CACM waned and top politicians took charge. Since then, politicization has been understood as opposed to institutional checks rather than to technical management. Whereas in Europe politicization meant democratizing and taming regional agencies, in Latin America it meant not establishing them. Nye (1965: 872) had early on alerted about the risks of "premature overpolitization," echoing Haas's suggestion that high politics was inimical to integration. Although Haas later withdrew this argument, the Latin American experiences have vindicated his earlier claims. EU students and practitioners may want to take this issue into account when considering proposals regarding such questions as common defense or joint representation in international organizations.

A last lesson can be drawn. Several scholars fail to appreciate the nature of the phenomenon by focusing on the adjective, regional, rather than the noun, integration. The former indicates scope, not substance. The conventional usage of the word Europe to refer to the EU tends to misdirect observers from politics toward geography, culture or identity: this is a mistake, especially when applied to "regions" that are not organizations. For, as Latin America teaches, "natural" regions can be dysfunctional for regional integration.

All the above further suggests three areas of research that EU studies could profit from. The first regards disintegration; to date the EU has only seen Greenland off, but never has a member state left. This might change, and the CAN experience demands a better understanding of the conditions under which it could happen and the effects it may produce. The second area concerns informality and non-compliance; as the Greek tragedy shows, deceit could be more harmful than open rejection of common rules. Scrutinizing any Latin American bloc would have sent an earlier wake-up call to those who interpret rules at face value. The final research avenue leads to actorness: EU officials have long fantasized about a world built on regions, in which the EU would be both demiurge and role-model. After analyzing the evolution of Latin American regionalism, though, it seems wiser to recalibrate downwards the potential of interregionalism. This calls for more realism and less complacency when studying integration from

Europe, in line with similar recommendations from insiders that have gone unheard (Torrent 2005).

Conclusion

Integration is a potentially global phenomenon, and therefore it should be recognized whenever it appears. This requires standard definitions and theory that can travel. Malamud and Schmitter (2011) compare this concept with a similarly contested one in political science, i.e. democracy: They argue that "there are as many types thereof as there are countries in which citizens are formally equal and rulers are accountable; yet, lacking these characteristics, we do not call it a democracy. The same applies to regional integration: either there are sovereign states that voluntarily transfer parcels of sovereignty to joint decision-making or there are not, and in this case we do not call it integration. We have resisted the temptation to stretch conceptual definitions or dispose of working theories when a given phenomenon does not turn out as expected, as long as those concepts and theories are capable of explaining why this happened. EU lessons are useful to understand South American travails with regional integration precisely because they can also make sense of non-integration – instead of calling it otherwise and pretending that it is a new animal" (Malamud and Schmitter 2011: 155). In other words, non-integration and disintegration are phenomena that can be grasped by theories developed to understand European integration. The EU may be leading the way once again – this time only backwards.

The setback of regionalism is accompanied, if not led, by the return of big regional powers to central stage. In the case of Brazil, "its ambitions are increasingly defensive (...) The main goal is no longer to integrate South America into a regional bloc (…) but rather to limit damages. Now, it seems sufficient to stabilize the region and prevent political instability, economic turmoil and border conflicts. The name of the game is to *keep quiet* rather than *lead* the neighborhood, since preventing trouble in its backyard seems to be a necessary condition for Brazil to consolidate its global gains" (Malamud 2011: 20). The role of Germany in the EU is still to be seen, but what is already clear is that the European decision-making center has moved from Brussels to Berlin – or Frankfurt at best. National sovereignty, not the pooling thereof, is giving cards again.

Regionalism is still a (regional) process and a (national) foreign policy. However, too many scholars tend to overstate the former and overlook the latter. In this article I have claimed that Latin American efforts at regionalism are neither based on a shared identity nor aimed at common goals but are rather national strategies to maximize the foreign policy goals of the contracting governments. These goals differ: in the case of the smaller states, they regard visibility, redistribution, and the avoidance of exclusion costs; in the case of the larger states, they aspire to safeguard regional stability and to line up a followership that helps them gain recognition out of the region (cf. Nel 2010; Malamud 2011). Unlike Europe, the pooling of sovereignty has never been regarded as either a means or an end, and national sovereignty has always been more valued than any potential gains from integration. The conclusion is that regionalism in the Western Hemisphere is about multilateral dialogue, political cooperation, and public diplomacy, but no longer about integration.

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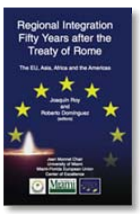	**The European Union, fifty years after the Treaty of Rome (March 25, 1957): The EU model in the Americas, Asia and Africa.** Joaquín Roy and Roberto Domínguez (eds). Miami: European Union Center of Excellence/Jean Monnet Chair, University of Miami, 2008. http://www6.miami.edu/eucenter/books/fifty%20years%20front.jpg
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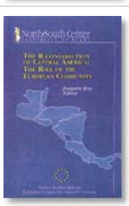

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