

Collateral damage, four scenarios and the EU's global role

In May/June 2012 the euro crisis has reached another climax. There can be no doubt: the debt crisis is the biggest test in the history of European integration. The crisis has cast questions on the fundamentals of the European project. The unthinkable has become thinkable: the exit of a country from the euro zone, the end of the euro area – as least in its current form –, and even the disintegration of the European Union (EU) are no longer taboo and can no longer be excluded.

Nobody can give a sound prediction how the crisis will end and how it will affect Europe both inside and with respect to its global role. More than two-and-a-half years after the outbreak of the crisis, the EU and its members have not been able to get ahead of the curve. On the contrary, the crisis has gradually extended from the periphery of the Eurozone to its core; despite the fact that EU governments have enhanced European economic governance, including the establishment of crisis-reaction mechanisms like the EFSF (European Financial Stability Facility) or the permanent ESM (European Stability Mechanism), which seemed inconceivable only some years ago.

Whatever the final outcome, the crisis will fundamentally shape the future of European integration. Future historians will most likely look back and assert that the euro crisis had been a historically decisive moment. But what are the more fundamental consequences of the crisis? What are the scenarios for the future? And how could the potential outcome affect Europe's role in a new global setting?

Collateral damage caused by crisis

Beyond its more direct financial and economic effects, the crisis has inflicted collateral damage, i.e. unintended and unexpected consequences at both the national and European level, which are likely to determine the prospects of European integration. These effects are not always immediately visible, but they could jeopardise not only the EU's ability to manage and overcome the debt crisis but also its ability to address future internal and global challenges.

So, what collateral damage was caused by the crisis and how could it affect the future of the European project? Five major consequences are particularly worth mentioning: the growing distrust between national capitals and societies; a new balance of power and a lack of pro-

active leadership coalitions; novel challenges to democracy at both the national and European level; the widespread increase of 'Zukunftsangst' among European citizens; and, last but not least, Europe's creeping global marginalisation.

- *Distrust between national capitals and societies:* The European Union is burdened by a growing distrust among member states. The euro crisis and reactions to it have widened old cracks and opened new wounds, which will take time to heal and some scars are likely to remain. Old stereotypes and inappropriate historical reminiscences have reappeared.

Mutual recriminations about a lack of 'solidarity' carry the seeds of a new European divide. Anger over the crisis has been increasing in both weaker and stronger EU countries. The weakest hold that the EU and especially core countries in the Eurozone reacted too cautiously especially in the early phase of the crisis and that 'lender countries' have imposed too many burdens on member states in trouble while asking for too much too quickly. The strongest, on the other hand, feel overburdened and betrayed, and fear that they will have to 'pay' for the self-inflicted problems in Europe's (southern) periphery. On both sides there is an increasing national focus and a rise of populist rhetoric profiting from growing anti-EU sentiments – a phenomenon not 'only' witnessed on the extreme right or left but also in traditional centrist parties.

Obviously, the realities are more complex. However, different perceptions, readings and understandings of the euro crisis are creating a dangerous mixture, which could lead or foster not only political turbulence and social unrest within certain member states, but also to increasing political tensions within the Union and among EU capitals – an increasing danger as the crisis grows bigger and older.

- *A new balance of power and the lack of pro-active leadership coalitions:* The crisis has altered the balance of power inside the EU as Germany has become the leading player. This shift of power poses a challenge to Berlin, to other member states and to the EU in general.

Germany's role in Europe started to change already since the mid-1990s. The general feeling of belonging to the EU was never put into question. But during the last two decades, Berlin's European orientation has gradually become more pragmatic, less visionary and determined more by its immediate national economic, political and financial interests. This development is part of a more fundamental and long-term adaptation process following re-unification, which has led to a 'normalisation' of Germany's *Europapolitik*.

The experience of the sovereign debt crisis has fostered this process of 'normalisation' and Berlin's more hesitant European orientation became apparent in early 2010, when the ruling coalition government (CDU/CSU – FDP) led by Chancellor Merkel hesitated to set up a European rescue mechanism to financially support Greece and other peripheral Eurozone countries. While the argument of 'solidarity' was still effectively employed in the 1990s and early 2000s to convince Germans of the historical obligation to support 'big-bang enlargement', it has become much more difficult to make the case for solidarity in the framework of the sovereign debt crisis. Growing segments in the population – pushed by influential parts of the media – feel that Germany has to 'pay' for Europe and for a crisis caused by other member states mainly in the EU's southern periphery. Berlin's handling of the crisis has raised questions in other capitals and the Merkel government has lost a great deal of sympathy and support in wide parts of Europe. The German ruling political class and administration has been unable to

effectively explain its position and convey its policy choices to its partners. But the problem does not 'only' relate to bad communication. The underlying challenge was and remains more substantial: it is the result of different readings concerning the key reasons for the crisis and different policy preferences concerning crisis management.

The 'normalisation' of Germany's *Europapolitik* and the shifting economic and political balance of power bears three major consequences. First, Germany has neglected and lost its traditional role as a mediator between larger and smaller EU countries, actively reaching out in both directions to bring about a critical mass. On the contrary, Germany is increasingly perceived as an 'EU hegemon' imposing its will on other EU member states. Second, Berlin's strengthened self-confidence has disrupted the old balance between France and Germany, which up till the Kohl era was characterised by a display of modesty on the part of Germany *vis-à-vis* the *grande nation*. Third, the increased pressures on France, which has been struggling to counter the negative economic and financial effects of the crisis, and the circumstance that Germany is no longer perceived as a mediator have negatively affected the leadership role of the Franco-German engine, which has lost trust, credibility and to a certain degree also effectiveness. As a result, the EU suffers from the lack of an effective, balanced and pro-active leadership coalition at member states' level.

- *Challenges to democracy*: The euro debt crisis poses three closely interlinked challenges for democracy at both the European and national level: (i) increasing negative reactions to 'external interference'; (ii) a widening 'democratic gap' between the EU and its citizens; and (iii) a (further) loss of trust in political elites.

First, the crisis and the manifold reactions to it constitute a challenge for national democratic orders as the room of manoeuvre for governments and parliaments becomes more limited while the socio-economic situation in many member states deteriorates, which in return enhances criticism *vis-à-vis* the enhanced role of 'external actors'. Large parts of the public have become increasingly critical about the crisis recipe at both European and national level. Many citizens, especially in the countries most affected by the crisis, are less and less ready to accept 'interference' blaming the outside for their misery. The circumstance that national policy-makers abuse the EU as a scapegoat arguing that it is 'Brussels' (or the IMF) who is asking for structural reforms and public expenditure cuts has worsened this effect.

Second, the crisis has further increased the 'democratic gap' between the EU and its citizens as it has further intensified the perception that the Union is a distant, uncontrolled bureaucratic apparatus. This perception is not new, but the feeling that citizens are unable to (directly) influence the Union's decision-making process has increased in the context of the crisis as member states are more affected by decisions taken at EU level. In the past it has been argued that a higher level of politicization was necessary to effectively bridge the democracy deficit through for example a 'dramatization' of European election campaigns or a stronger personalization of European leadership structures. But is the EU and are member states ready to move to a higher level of politicization? There are doubts. National elites – including governments, parliaments, political parties and even constitutional courts – seem increasingly less supportive to a higher degree of politicization at EU level as they fear the potential consequences of their 'power castration', which would further limit their prerogatives in the last remaining bastions of state sovereignty.

Third, the EU's democratic legitimacy suffers from the circumstance that citizens have lost trust in national and European policy-makers due to the inability to manage the crisis. The declining trust towards political elites is not new and it is no EU-specific problem but a widely spread phenomenon inside and outside Europe. But the mounting loss of confidence in national and European policy-makers has particularly drastic consequences for the EU, which to a large extent is (still) perceived as an elitist project. In other words: growing distrust towards political elites leads to growing distrust towards the elitist European project. This is particularly harmful for the EU, which enjoys a much smaller benefit of the doubt than nation-states and is called into question more quickly and more fundamentally than its constituent members.

- *Increased 'Zukunftssangst'*: The future prospects for European integration could be gloomier in light of Europe's potential relative economic and political decline. During the past 60 years the EC/EU thrived while prosperity was constantly increasing in most parts of the continent and while Europeans found themselves – for good or for bad – in the centre of world history.

Today, Europe finds itself in a different situation. More and more Europeans feel a sense of insecurity and anxiety about their future and the future of coming generations. Citizens fear that the economic situation and living standards in Europe will drop and that the European social model will be increasingly challenged. *Zukunftssangst* has become a widespread phenomenon in many member states – especially in the weaker but also in stronger EU countries. People fear the consequences of Europe's potential economic and political decline – compared both to other world regions and to previous generations.

Under these circumstances, it becomes more and more difficult to argue that Europe will become more prosperous and more influential, if only EU countries would opt in favour of a higher degree of integration. To put it more bluntly: 'more Europe' might not turn the tide and reverse some of the megatrends of our time. And the often-used argument that Europe's prospects could be worse, if Europeans are unable or unwilling to deepen cooperation, is defensive and thus not particularly attractive neither for policy-makers nor for citizens.

As an overall consequence, the perspective of relative decline makes it more difficult to negotiate a new 'grand bargain' among EU countries. The search for compromises beyond the lowest common denominator becomes more difficult in the absence of positive-sum trade-offs profiting all (or almost all) EU countries. On the contrary, as the 'going gets tough' a growing number of policy-makers and wider parts of the public might conclude that the national path looks more promising. And some might even hold that the EU and support for weaker member states are a burden on the way out of the crisis in a world increasingly influenced by other very vital and energetic powers.

- *Global marginalisation*: The euro crisis has already accelerated the process of Europe's marginalisation on the international scene. In the midst of a major transformative moment in global affairs it is still unclear which role the 'old continent' will play in the twenty-first century. As in 1945 and 1989 Europe today finds itself again at a crossroads and things can move in two very opposite directions: the EU could either help Europeans to co-determine the future rules of global governance or Europe could rather face decline, gradual marginalization and in the worst case even global irrelevance.

Taken together as an entity the Union and its members on paper have the economic, political and foreign policy capacities to (continue to) play a decisive role in a global

setting characterized by the (re-)emergence of new major players. But in order to do so, EU countries need to bring their collective weight to bear. However, as the old continent faces the manifold economic, political and social challenges of the euro crisis, the EU once again suffers from introspection, from a loss of strategic direction and a loss of attractiveness both inside and outside Europe.

Crisis scenarios and Europe's global role

The manifold consequences and long-term structural effects of the crisis both at national and European level will to a great extent determine the Union's (in)ability to manage and (hopefully) overcome the crisis. At the same time, the outcome of the crisis will strongly affect the EU's overall future including its role in the international scene, i.e. the ability or inability of Europeans to effectively co-influence global economic and political developments. It seems thus worthwhile to examine some potential scenarios and to ask how the final outcome of the crisis might determine the EU's future global role.

Four potential scenarios

In light of the current situation one can distinguish between four basic scenarios: (1) Euro implosion and EU disintegration; (2) 'United States of Europe'; (3) orderly disintegration ('back to the future') or partial break-up of the Eurozone ('core Eurozone'); and (4) 'ambitious muddling through'.

- **Scenario 1 – Euro implosion and EU disintegration:** In a worst-case scenario the sovereign debt crisis could lead to an implosion of the Eurozone, which in return could (eventually) lead to an overall disintegration of the EU in its current form. This scenario (still) seems rather unlikely. But the danger of it occurring has increased over time and, today, one cannot exclude it from materializing if things should get out control; if the euro crisis reaches a point of no return as the 'crisis snowball' keeps on growing and at some stage becomes unstoppable. In this scenario, the implosion of the common currency could lead to severe political and economic confrontations within and among member states, which at the end of the day undermines not 'only' the functioning but also the *raison d'être* of the EU.
- **Scenario 2 – United States of Europe:** On the grounds of this scenario, the EU and its members are ready and able to make one giant leap forward involving a massive transfer or rather pooling of national sovereignty towards an 'Economic and Political Union' worth its name. This would entail a fundamental reform of the EU Treaties and a substantial deepening of integration not 'only' in the area of fiscal and economic affairs but also in other fields such as foreign and security policy or justice and home affairs. The prospects for a big qualitative leap towards a 'United States of Europe' seem very slim considering the increasing distrust between national capitals, the lack of effective leadership coalitions, the fear of 'power castration' at national level, and the difficulties in negotiating a new grand bargain among 27 EU countries with different sometimes antagonistic views about the perspectives of European integration.
- **Scenario 3 – Orderly disintegration or partial break-up of the Eurozone:** This scenario is based on the assumption that the Eurozone cannot be 'rescued' in its current form and that an orderly disintegration or partial break-up of the euro area is feasible. In the framework of this scenario, one can distinguish between two sub-options: In a first variation ('*back to the future*'), the common currency would fully dissolve and member

states would return to a *status quo ante* i.e. to a lower integration level ('Single Market Plus') without a common currency. In a second, less radical variant the Eurozone would not fully disintegrate, but those EU countries who are incapable of bearing the economic, financial and political costs of remaining within the Eurozone would decide to 'voluntarily' exit from the euro area, which at the end of the day would lead to a kind of 'core Eurozone'.

- **Scenario 4 – Ambitious muddling through:** A fourth, less radical but rather likely scenario expects that 'muddling through' will remain the EU's dominant mantra for the foreseeable future. However, contrary to the past, the increasing (existential) pressures from the crisis on the stability of the euro and the circumstance that the EU and its members are constantly and very closely scrutinised by markets and citizens will require bold policy responses in the area of EMU over the next months and years going well beyond the lowest common denominator. At the end of the day, 'ambitious muddling through' will out of necessity lead to a higher level of *sui generis* economic and fiscal integration – especially among the countries of the Eurozone – including a binding deficit coordination and some (limited) form of a collateralization of debt. The resolution of the crisis will require 'more Europe' – although it is impossible to predict the final outcome, as this will be the result of a very delicate compromise at the end of a complex process bridging highly divergent positions both within the EU and among the countries of the Eurozone. Euro countries will progress faster than the rest, but chances are high that the deepening process and membership in the Eurozone will remain open to other member states. EU countries will be keen to avoid a deep split within the Union between 'ins', 'pre-ins' and 'outs', which could have (very) negative repercussions for the EU including the Single Market as the cornerstone of European integration. In an initial phase and in order to save time in light of the urgency of the crisis, this process might require one or more additional intergovernmental agreements/treaties (besides the stability treaty) between the countries of the Eurozone open also to non-Euro countries who are ready and able to join in. In the end, however, one can expect that the core elements of these intergovernmental agreements/treaties will at some point in time be included into the Union's legal framework, which will most likely require a reform of the existing EU Treaties on the grounds of a process (Convention) involving besides governments also other key actors at European and national level including first and foremost the European Parliament and national parliaments.

Potential implications for Europe's global role

What would the above described potential developments mean for Europe's global role? None of the scenarios – with the exception of the unlikely speedy qualitative leap towards a 'United States of Europe' – is promising news for Europe's immediate perspectives as a global actor.

Following a Eurozone implosion and a disintegration of the EU in its current form (scenario 1), Europe – including also its biggest powers – will most likely confront marginalization and irrelevance in international affairs. The 'old continent' would be sidelined and the EU would fail one of its key strategic objectives i.e. to enable Europeans to manage and co-determine

global and regional developments in a highly dynamic international environment on the grounds of their values, their historical experience, and last but not least their interests.

An orderly disintegration or partial break-up of the Eurozone (scenario 3) would have less devastating effects on Europe's global role. However, one can expect that this scenario would have severe political consequences for the EU, as it would (strongly) affect the relationship between member states. Political standoffs and reciprocal accusations could at least for some time lead to paralysis. Rising nationalism and anti-EU populism in a significant number of member states and a poisoned atmosphere among EU countries could have severe negative spill-overs on other policy areas including foreign policy, security and defence.

Finally, what are the potential effects of the 'ambitious muddling through' scenario for Europe's global role? Given the many variables and uncertainties, it is almost impossible to give a sound prediction. However, one can expect that continuous introspection, a further loss of strategic direction and the EU's loss of attractiveness outside Europe would in the immediate future further undermine the Union's ability to effectively co-influence global developments. In addition, the circumstance that crisis management will continue over the next years will most likely increase the trend that EU countries – especially the big(gger) ones – seek to intensify their bilateral relationship with other key global actors in order to maximise individual political and economic benefits. We might also witness leadership rivalries among big(gger) EU countries, especially concerning external relations, where other EU capitals could attempt to balance the Berlin's predominant role in economic and fiscal affairs.

With respect to policy developments in specific fields such as CFSP (Common Foreign and Security Policy) and CSDP (Common Security and Defence Policy), one might witness a more fundamental meta-effect resulting from a further deepening of economic and fiscal integration: member states could be inclined to compensate a gradual but substantial loss of their economic and fiscal sovereignty through a more national approach/focus in other policy areas. In some ways, we have already in the course of the crisis witnessed this effect in other policy fields like in the case of Schengen, where governments are trying to relax the conditions under which member states can impose internal border control checks.

In the long run, ironically, Europe's global role could 'profit' from the crisis if the EU will be able to 'exploit' the current crisis and emerge stronger than before. Looking back, European integration seems to follow an 'iron law' to grow out of crises. The founding of the European Communities in the 1950s, the Single Market project (Europe '92), the abolition of border controls (Schengen), the establishment of joint policies and institutions in the fields of foreign policy, security and defence, the introduction of the euro, the Constitutional Treaty and the entry into force of the Lisbon Treaty in 2009 are visible examples that even though European integration has not been crisis-resistant, it has proven to be crisis-proof.

However, today, an increasing national focus and anti-EU populism, mounting economic and socio-economic challenges in an increasing number of member states, the growing 'democratic gap' at both the national and European level, a poisoned atmosphere among EU countries and even between national societies, and the lack of pro-active leadership coalitions pushing in the same direction could lead not only to introspection but also to a standstill, which at the end of the day could challenge future prospects and past accomplishments. If, on the other hand, the EU and its members want to prove the 'iron law' of European integration once again, they will have to make long-term strategic choices with increasing and maybe even irreversible costs if decisions are delayed. Muddling through might remain the dominant mantra, but it must be ambitious enough not to risk things getting out of control, which could lead to the worst of all scenarios, i.e. the implosion of the Eurozone and the disintegration of the EU as we know it.