PERSPECTIVE

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Time to seize the moment: "À la carte Europe" is the future for the EU

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INTRODUCTION

The failure of, and acrimony at, last week's summit has only added to the feeling that the EU is in a state of crisis. The recent French and Dutch referenda both resulted in robust rejections of the EU Constitutional Treaty;[1] the tensions within the eurozone are mounting as the eurozone's major economies continue to under-perform; and last year's enlargement of the EU is resulting in irreconcilable conflicts between "Old Europe" and "New Europe", especially with regard to the Social Market Model.

The EU's internal pressures are serious now and they are more likely to worsen than to improve… The status quo is looking unsustainable.

This Perspective discusses these issues and concludes that, in the absence of the EU institutions' preparedness to alter fundamentally the nature of the EU in the near-term, the time is right to seize the moment for a wide-ranging debate on the future of the EU. Serious consideration should be given to a restructuring of the EU along "à la carte" membership lines, in which all EU member states should be permitted (if not actively encouraged) to decide whether or not to participate in specific EU institutions and policies. In other words, all member states should be permitted to decide on the nature of their membership of the EU. If certain countries, the UK for example, wished to redefine their membership as one of free trade, along with constructive inter-governmental co-operation on other issues, then this "minimalist" package would, in an "à la carte Europe", be accepted as not just feasible but as positive and constructive as well.[2] At the same time, those EU countries keen for *de facto* political union to provide the necessary political support for the euro (for example) could be free to do so without being held back by the laggards. "À la carte Europe" would surely be to the advantage of all member states. It is the classic "win-win" situation.

The EU's internal pressures are serious now and they are more likely to worsen rather than improve, given the ongoing economic difficulties of the eurozone in the context of fiercely competitive globalisation and the next wave of enlargement which will comprise the relatively poor countries of Romania, Bulgaria and Croatia. The status quo is looking unsustainable. For the sake of the entity of the EU as well as its member states, alternative models should now be considered.

The received wisdom is that "à la carte Europe" is a political non-starter and that all member states must adhere to the existing highly integrated "one size fits all" model of membership.[3] There are currently no alternatives seriously mooted. Doubtless, there would be fierce opposition from the EU political élite to any proposals for radical reform. But this mindset singularly fails to accommodate the mounting pressures, disappointments, conflicts and failures within the EU. There is clearly a need for the EU to grasp the seriousness of its problems and look ahead rather than complacently sticking with the current model, old-fashioned, backward-looking and out of touch that it is, and vainly hoping that the problems will resolve themselves.

"À la carte Europe" is, therefore, not so much a non-starter as the obvious and forward-looking model of choice for a Europe that could enable the EU to survive and to prosper in the 21st century.

THE FRENCH AND DUTCH REJECTION OF THE CONSTITUTION

Since the early days of post-war Franco-German co-operation, formally beginning with the Treaty of Paris (1951) which set up the European Coal and Steel Community, the institutions and policy reach of the EU and its predecessors have expanded enormously. The key milestones have been the Treaty of Rome (1957), the Single European Act (1986), the Maastricht Treaty (1992), the Treaty of Amsterdam (1997) and the Treaty of Nice (2001).[4] They have all been key steps in the "ever closer union of the peoples of Europe" with the explicit aim of political union. The Constitutional Treaty (signed by the 25 member states on 29 October 2004) marked another major step forward in the European Project towards the goal of political union.

The "no" vote majorities in the French (55% to 45%) and Dutch (62% to 38%) referenda of 29 May and 1 June have undoubtedly upset the movement towards increasing political integration of the EU. For the EU's political élites, these votes were devastating. The initial Danish rejection of the Maastricht Treaty and the initial Irish rejection of the Treaty of Nice were not in this league of disruption and were, in any case, soon "put right" by second referenda in which the electorates obligingly voted yes. Even though the Constitution has yet to be formally declared unenforceable, there are currently few expectations that it will ever be enforced.

In the words of the OECD, there is, in the eurozone, "a chronic pattern of divergent activity".

TENSIONS MOUNTING IN THE EUROZONE

Tensions are also mounting in the eurozone. All too predictably the "one-size fits-all" interest rate policy is failing to accommodate the needs of the very diverse economies of the eurozone. In the words of the OECD, there is a "chronic pattern of… divergent activity".[5]

Germany's economy is expected to show very weak growth this year despite the first quarter jump in GDP (which is regarded as a statistical blip). Unemployment remains at around 11%. France's situation is less dire but an unemployment rate of around 10%, by any standards, is a symptom of an economy which is seriously under-performing. Italy's economy, especially vulnerable to cheap imports from China and the high value of the euro, is in recession. The eurozone's "big three" economies are failing to rise to the challenge of the intensification of global competition, reflecting the rise of China and India. They are also continuing to under-perform compared with most of the world's major economies – including the British, where economic performance has been really quite modest.[6, 7]

Meanwhile there remains reasonably healthy growth in Spain, Ireland and Greece. These diverse economic fortunes, along with the spectre of increasing inflationary pressures, have prevented the European Central Bank (ECB) from cutting interest rates. But with weak growth persisting in the major economies, pressures are growing for the ECB to reduce interest rates, not least of all from the OECD.

The ECB's decisions on interest rates cannot, however, rectify the problems of economic divergence, which will surely persist. Diverse economies require diverse policy responses and there is already discussion of extreme scenarios, such as the break-up of the euro, so that the individual economies can go their separate policy ways. One such example is a recent article in *Le Figaro* which quite explicitly asked the question whether the eurozone would finish by exploding.[8] Suffice to say the journalist avoided a straight answer, but the fact that this issue is even being discussed in the mainstream French press is extraordinary in itself, and would never even have been contemplated in the heady days of the birth of the euro. In Italy Roberto Maroni, the Italian welfare minister, has recently broken ranks by publicly speculating about the euro's future. And in Germany *Der Stern*, the German magazine, recently ran a report of a meeting where the euro was discussed which was attended by economists (some of whom have warned about the possible break-up of the euro) as well as by Hans Eichel, the German finance minister, and Axel Weber, the president of the Bundesbank.[9]

> Le Figaro, Der Stern *and the Italian welfare minister have all recently questioned the future of the euro.*

The euro is not about to break up but stresses are rising. And, in the longer term, it is difficult to envisage the currency surviving unless there is de facto political union of the eurozone states. Historically all monetary unions outside political unions have broken up.

"OLD EUROPE" VS "NEW EUROPE"

The high tax, protectionist, heavily regulated and inflexible Social Market Model, enshrined in the Constitution and loved by "Old Europe", is failing, backward-looking and old-fashioned. But any doubts that the Social Market Model has lost its power to influence EU policy should be dispelled. The European Parliament recently voted to ban the voluntary opt-out to the maximum 48 hour working week – though the ban was, fortunately, subsequently opposed by the EU employment ministers. And the Services Directive, aimed at improving competition in services, was effectively watered down by President Chirac (primarily though not exclusively) because it was seen as too Anglo-Saxon and might lead to "social dumping", with the shocking prospect of businesses moving to the more dynamic and competitive EU countries from the less. Ironically, at the same time as the evisceration of the Services Directive was announced (in March 2005), the Lisbon agenda aimed at "creating more and better jobs in a more dynamic, innovative and attractive Europe" was re-launched.

But cracks are emerging. The Social Market Model is increasingly challenged from within the EU, not least of all by the new member states. Although the economies of "New Europe" are small (barely 5% of total EU GDP), their entry as experienced reformers has changed the political dynamics of the economic debate in the EU, ruffling feathers on issues from tax reform to trade liberalization. Moreover, many of the leaders of the new countries have close connections with the US, which they see as a liberator and not a threat, and they are imbued with the ideas of free markets and liberty. And, interestingly, three of the most important economic portfolios in the European Commission are filled by the Lithuanian, Hungarian and Czech Commissioners. (See the annex for the current list of Commissioners.)

Conflicts between the critics of the Social Market Model and its proponents are intensifying, irrespective of the fate of the Constitution.

Having escaped the clutches of the USSR, several of countries of new Europe have instituted aggressively competitive tax regimes (Estonia has a 0% corporate income tax rate) and are in no mood to saddle themselves with the failing policies of the Social Market Model. The attempt, for example, to impose screeds of regulation across an expanded Europe of 25 nations looks delusional. Last year the eight Central and Eastern European countries grew by an average 5% and achieved an excellent export performance. Old Europe may huff and puff about "social dumping" and "unfair tax competition", but "New Europe", ambitious to grow and prosper, will surely ignore this, not wishing to jeopardize economic prospects.

In the battle of economic ideas the UK, a long-time critic of the Social Market Model,[10] has therefore gained allies. Conflicts between the critics of the Social Market Model and its proponents are therefore intensifying, irrespective of the fate of the Constitution.

And, it is to be emphasized, these conflicts are irreconcilable. There is very little stomach in "Old Europe" (specifically France, Germany and Italy) for any market led reforms of the Social Market Model. One of the reasons why France voted against the Constitution was because it was, erroneously and ironically, seen as too "Anglo-Saxon", when, on the contrary, it explicitly enshrined the European Social Market model.[11] The EU is already too free-market for France's socialist and protectionist tastes. In Germany, Chancellor Schroeder's modest labour market and welfare reforms have contributed to his political failure and humiliation. Suffice to say, France and Germany are still pivotal in policy-making in the EU and the notion that the EU is "going Britain's way" or could ever "go Britain's way" when France and Germany are so influential is misguided. The sooner this notion is despatched the better. Significant economic reform in the EU in the near future is not on the menu.

CAN EUROPE CARRY ON AS BEFORE?

Throughout its history the EU (and its predecessors) faced many setbacks. But they were eventually overcome and political integration continued. This time it is different. As already indicated, the current model of the EU looks unsustainable. The outcomes of the French and Dutch referendums have exposed major, irreconcilable, differences in how different countries wish to run their affairs and major dissatisfaction with the way the "one size fits all" model for the EU is developing.

France and Germany aspire to maintaining their economies as protected social market bastions and creating an EU which is seen as a power rival to the US. Both of these aspirations require strong political integration with Franco-German domination. But this is not achievable since last year's accession of the ten new countries. Other countries, including many of the new accession states, wish to open up to global markets and dilute Franco-German power. There is no reason to believe that the aspirations of these blocs will converge. On the contrary, they are likely to diverge. Europe cannot carry on as before.

The EU will sooner or later have to change and acknowledge that the "one size fits all" model does not work.

CONCLUSION: À LA CARTE EUROPE IS THE MODEL FOR THE FUTURE

It is in the interests of the UK and the other 24 EU member states that the EU survives and prospers. But given the current difficulties, there have to be doubts whether this objective is being met and, indeed, whether it can ever be met under the current "one size fits all" integrationist model. The EU will sooner or later have to change and acknowledge that the "one size fits all" model does not work in a rapidly changing world and with such diverse member states. The sooner this is acknowledged, the better.

"À la carte Europe" has to be the future of Europe. The UK could then make the decision that a free trade relationship, accompanied by constructive inter-governmental agreements, is the way forward. Moreover, the UK is very unlikely to be alone. Many of the new accession countries and the Scandinavians, specifically Denmark and Sweden, are likely to find this model very attractive. The tectonic plates of the global economy are inexorably shifting. No country can ignore this. The economics are driving this debate. If European countries are to retain prosperity they must be globally competitive. And individual European countries should be free to respond to the global "competitiveness challenge" as they believe to be appropriate and not be held back by EU policies they regard as damaging.

At the same time the "core" eurozone member states could then be given free rein to push for a *de facto* economic and political union in order, for example, to provide the necessary political support for the euro. If they do not do this, then the currency will surely not survive. France, in particular, would surely welcome this opportunity to be free to build a Europe they have always wished to build.

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2. Norman Blackwell, *What if we say no to the EU Constitution?*, CPS, April 2004, discussed aspects of renegotiating membership of the EU for the UK.

3. Though the UK is not, for example, a member of the eurozone (along with 12 other member states) and has not signed up to the Schengen agreement. There are also currently other limits to the freedom of movement of people from the 10 new member states.

4. See Ruth Lea, *The essential guide to the European Union*, CPS, May 2004, for details.

5. Christopher Giles, "OECD warning for Europe", *Financial Times*, 25 May 2005.

6. Ian Milne, *Four economic blocs: the USA, the EU, India & China: growth differentials over the ten year period 1996-2005*, CPS Perspective, February 2005.

7. Ruth Lea, *The UK: better than the eurozone – but worse than other Anglophone economies,* CPS Perspective, February 2005.

8. Jean-Pierre Robin, "La zone euro finira-t-elle par éclater?", *Le Figaro*, 19 May 2005.

9. David Smith, "Thinking the unthinkable as euro trembles", *Sunday Times*, 5 June 2005.

10. Though it should be noted that the UK economy has become more "European" and less competitive since 1997. See Ruth Lea, *Tax 'n' spend: no way to run an economy*, CPS, July 2004.

11. Wolfgang Munchau, "Social Europe's hollow victory", *Financial Times*, 6 June 20005. Incidentally Munchau concluded that "Europe faces a choice between continued failure and Anglo-Saxon capitalism".

ANNEX

THE CURRENT COMMISSIONERS

Commissioner	Member state	Portfolio
José Durão Barroso	Portugal	President
Margot Wallström	Sweden	First Vice-President, Institutional Relations & Communication Strategy
Jacques Barrot	France	Vice-President, Transport
Franco Frattini	Italy	Vice-President, Freedom & Security [& Justice]
Siim Kallas	Estonia	Vice-President, Administrative Affairs, Audit & Anti-Fraud
Günter Verheugen	Germany	Vice-President, Enterprise & Industry
Joaquín Almunia	Spain	Economic & Monetary Affairs
Joe Borg	Malta	Fisheries & Maritime Affairs
Stavros Dimas	Greece	Environment
Dalia Grybauskaite	Lithuania	Financial Programming & Budget
Benita Ferrero-Waldner	Austria	External Relations & European Neighbourhood Policy
Jan Figel	Slovakia	Education, Training, Culture & Multilingualism
Mariann Fischer Boel	Denmark	Agriculture & Rural Development
Danuta Hübner	Poland	Regional Policy
Andris Piebalgs	Latvia	Energy
Neelie Kroes	Netherlands	Competition
Marcos Kyprianou	Cyprus	Health & Consumer Protection
Charlie McCreevy	Ireland	Internal Market & Services
Peter Mandelson	UK	Trade
Louis Michel	Belgium	Development & Humanitarian Aid
Janez Poto nik	Slovenia	Science & Research
Viviane Reding	Luxembourg	Information Society & Media
Olli Rehn	Finland	Enlargement
Vladimír Špidla	Czech Republic	Employment, Social Affairs & Equal Opportunities
László Kovács	Hungary	Taxation & Customs Union

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