

The uncertain state of the European Union

By JOERGEN OERSTROEM MOELLER

THE time may be right to take stock of the European Union. The eurozone has wriggled out of the debt crisis nightmare, but is not yet in calm waters. Russia is testing its resolve in Ukraine; a revamp of the common energy policy is on the agenda; the decisions to incorporate a fiscal union and a banking union in the EU framework need legislation; the recent elections to the European Parliament signalled public worries (although it is difficult to gauge the message); and last but not least, there is a real prospect of Britain leaving the EU in a couple of years.

As a European, it feels odd to witness a significant share of the European electorate turning against the grand political engineering that has brought peace and prosperity to the "old world"; yet this is what is happening. This mixture of scepticism and animosity on the part of the electorate can be explained by EU's inability to draw a convincing line between common policies and national policies. Competencies overlap, they may be blurred, and in some cases EU interference with citizens' daily lives is not clearly linked to the single market. The free movement of labour and social benefits to EU citizens working in other member states have become a hot potato. There is a widespread belief that migrating workers from Central and Eastern Europe accept lower wages and lower labour standards (social dumping) and exploit social benefits to their own advantage without contributing much. Analyses show that there may well be some cases, but generally it is an ill-founded assertion. The migrant workers contribute much more than they draw from social benefits.

Add to this the number of immigrants from non-EU countries (who in some parts of the EU has reached about 10 per cent of the population) and it is not difficult to understand the pressure felt by some Europeans – economically and may be even more, culturally. They meet people in their daily life questioning their local identity and insisting on their own and different identity. For any country that is not founded on immigration – as is the case for the US – this undermines the existing social and cultural network, and erodes confidence and trust among citizens. Social coherence comes under attack.

If economic growth had been high, money could have been thrown at solutions. But economic growth of, at best, 1-2 per cent means cuts in social welfare, rising unemployment, a higher pension age and a string of reforms that unquestionably improve competitiveness and the job outlook in the medium or long term, but cause short term hardship. All of this is difficult to swallow.

European politicians have not been able to convey the message that they understand this shift of attitudes, are able and willing to intercept them, and finally prepare ideas for solutions. For many people, it looks like governments are running on auto-pilot, not knowing how to do anything other than what they are used to doing. By instinct, people react by turning to political parties that offer simple solutions and blame others. These political parties advocate stopping the influx of foreign workers, ending social benefits to foreigners and an unspecified roll-back of

European integration. "If it weren't for all these foreigners, we would do quite nicely," is the refrain.

A large part of the electorate – no one knows exactly how large, as only 43 per cent voted – confided in political parties advocating "less Europe" and in some cases, even support leaving the European Union. As the key prescription for most politicians and more than 80 per cent of those elected to the European Parliament is "more Europe", a confrontation looms ahead. Europe's political machinery has never before had to digest a genuine political opposition to the union. The dilemma is deepened because the sceptics may have a voice in the parliament. However with only about 100 seats out of 751, they are not likely to be represented in the European Commission.

Right now, the political leadership is being forged for the next five years. A European stalwart, the former prime minister of Luxembourg, Jean-Claude Juncker, has been nominated as president of the European Commission. The remaining top posts will be filled by the middle of July.

Unless they manifest sympathy and responsiveness to the electorate's voice, European integration will be in for a rough ride – turning what was a warning shot into a political crisis. The key is to strike the right balance between EU competencies and national or even local competencies. This has been tried before but with little success. This time, the EU must move from words and declarations to deeds.

Visible signs of recovery

Signs of an economic recovery are visible even if it is far from certain that it will live up to expectations. It seems, however, that economic policies are just about right in finding the balance between reducing debts and sustaining the recovery. At least, this is what the International Monetary Fund pronounced recently. Interest rates have fallen dramatically in the Southern European countries – they are at or below 3 per cent for Italy and Spain – which provides room for manoeuvre, and European equities are generally considered a good buy.

The last thing that the EU wants to be confronted with is the demand from the British government to roll back parts of European legislation. The view among almost all other member states is that Britain may have a point – there are arguments for examining where the EU competencies have been pushed too far. But this cannot be done under threat from Britain. One of the golden rules of EU negotiation is to focus and insist on specific national interests, while refraining from demanding institutional or legal concessions. The British Prime Minister has done the opposite and thereby antagonised potential allies who were possibly willing to accommodate specific demands, but not to adapt EU's institutional structure to one country's taste.

It now looks increasingly likely that a referendum will take place in Britain on the issue of continued membership of the EU. According to opinion polls, a majority of voters could opt for leaving. If this becomes a reality, Britain and the EU would be engulfed in negotiations to define Britain's status vis-à-vis the EU. It is too early to guess,



Dissatisfied: Voters collecting ballots in a French polling station during the European Parliament election last month; Europe's political machinery has never before had to digest a genuine opposition to the union. PHOTO: REUTERS

but listening to statements, Britain would like to stay in the single market and not much else. The other member states would regard that as unacceptable – an affront – so negotiations would not be easy and could drag on. Britain itself may be in the process of dissolving the union between England and Scotland as the Scots vote on September 2014 about staying in the UK. Most likely, they will vote to stay; but if the government in London takes Britain out of the EU, the Scots may ask for a new vote and decide to leave the UK and join the EU. This is not fantasy, it is a realistic possibility – given where things stand right now.

Strangely enough, two major policy items touch British vital interests. Russia's attitude towards Ukraine and other European countries buying its oil and gas will without doubt force a rethink of EU's energy policy. Britain's North Sea oil and gas may be running out, but who knows whether there are new fields yet undiscovered. Britain cannot disregard what the EU decides on energy. The same goes for the banking union, now to be supplemented with a kind of capital market union transferring most financial regulation to the EU level. It is difficult to predict exactly how it will look, but as a global financial centre, London will feel the consequences. And European continental countries will not shrink from grabbing some of

London's business if they can. Unquestionably, the price for exit will be high – both for England and for the EU.

A weaker EU also faces the task of helping Ukraine to turn from a failed state into a modern country emulating the path of Poland since 1989. A political drama trapping the EU, Russia and Ukraine with the US heavily involved is unfolding. It may be decisive for stability and security many years ahead. If Ukraine is successful and if Russia similarly starts to modernise – both ifs being doubtful, but not unattainable – Europe may have managed to shed the constraints laid down by bad statecraft by the EU and Russia after the end of the Cold War. If not, the future embodies severe problems calling for resolve, clear policies and a rallying of the public inside the EU to map a course ahead. So far, not many signs of this are visible, but hopefully – as was the case in the past – Europe will rise to the occasion.

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