SECTION III: THE EURO FUTURE

Chapter 10

European Integration Past, Present and Future:
Moving Forward through Crisis?

Craig Parsons
University of Oregon
cap@uoregon.edu

Matthias Matthijs
Johns Hopkins University – SAIS
matthijs@jhu.edu
Europe will be forged in crises, and will be the sum of the solutions adopted for those crises.

– Jean Monnet (Memoirs, 1978)\(^1\)

As on other occasions in European history, this crisis offers a chance to progress; we must be ready to act on it. Let us not waste this opportunity to advance European integration.

– Peter Praet (Member of ECB Executive Board, 2012)\(^2\)

Introduction: Moving Forward through Crisis?

“European integration has progressively moved forward through crisis.” “Europe always emerges stronger after a crisis.” “Without previous crises, the European Union would not have reached the advanced stage it is at today.” Across EU history we have heard such slogans from European heads of state or government, EU officials, and scholars too. They tend to sing the ‘Europe moves forward through crisis’ refrain almost in tune whenever the next EU challenge comes along.\(^3\) The chorus has swelled to new volumes with the onset of the European sovereign debt crisis.

The revived prominence of Europe’s crisis rhetoric since 2010 is not difficult to explain. It is a reassuring frame that tells Europeans they have surmounted crises before and that the current storm clouds have a silver lining. Yet there is a risk in setting today’s challenges in such a dominant narrative. What if the prior construction of the EU did not actually arise from comparable crises in the past? What if this time is different? In that case the ‘forward-through-crisis’ narrative may encourage complacency at an especially inopportune moment. Europeans who face their first real crisis may conclude that long-
term solutions to their current problems will arrive in a functional, even quasi-automatic way. Rather than thinking hard about a political plan or road map that could lead them forward out of the crisis, they may continue to wait for real progress to emerge spontaneously out of mere technocratic tweaks.

This chapter, the second of three in the book’s final section addressing the future of the euro, argues that this risk is real. If we define political “crises” in a commonsensical way – as moments characterized by widespread agreement that something fundamental must change in public policy to avoid disastrous near-term consequences – then the euro crisis is without any doubt the first one in the EU’s history. None of the past major steps taken toward today’s EU featured these elements at all: no especially widespread agreement on major policy problems, and no pressure for immediate decisions under threat of imminent cataclysm. All previous steps did include some crisis rhetoric, certainly, but only in the vague way in which the proponents of almost any substantial public policy step link it to a “crisis” – by which they just mean anything they see as an important public policy problem. Beyond the rhetoric, all previous major steps to the EU resulted when leaders pursued a positive political plan for European integration amid widespread contestation of whether it was necessary or even desirable at that specific time. The EU was built around a forward-looking organizational project, never as a quick fix to pressing problems.

On the basis of these claims about EU history we then argue that the European sovereign debt crisis is different from previous episodes in two principal ways. First, this was a
crisis: inaction would have brought disaster. Second, this was an acutely political crisis: immediate problems forced EU discussions out of its traditional technocratic sphere, painfully highlighting both distributional conflicts between countries and party-political ideological conflicts over economic policy. For the first time ever, EU leaders felt that they had to pull together quickly and make blatantly political decisions.

As we see it, then, “this time is different” in roughly the opposite way from the phrase evoked by Carmen Reinhart’s and Kenneth Rogoff’s book on financial crises. Their book, aptly titled *This Time is Different*, established that the recurring belief among market participants that every new crisis is somehow ‘different’ from the last one, resulted in eight centuries of financial folly. Reinhart and Rogoff tell tales of governments headed into crisis who insist that everything is fine. In European integration, by contrast, leaders have regularly evoked crises where none existed. Now in a real crisis they face a deep, internalized version of the problem of the boy who cried wolf. In repeating their mantra, they are in danger of persuading the public and themselves that crises naturally generate good long-term solutions for complex institutional reform. Nothing in European history suggests that they do.

What kind of bolder, more proactive political plan might a less complacent European leadership provide? That is admittedly hard to say, though we summarize the ways in which EU leaders’ responses to the crisis so far are widely seen as falling short of resolving their underlying problems. In any case the euro crisis suggests that EU leaders’ work is not done. Experts agree that the steps taken in recent years mainly help Europe to
watch out for crises and react when they hit, doing less to meet the deeper challenges that make Europe vulnerable to such crises in the first place. Europeans can ill afford to adopt the status-quo orientation prevailing in American politics, where any constitutional reform is almost unthinkable. The young EU rests on far more fundamental instabilities than does the old US. Without a positive vision for its future, we fear the next time will not be so different.

The chapter begins by highlighting the teleologies that have imbued most thinking on European integration by both scholars and politicians, of which the ‘forward-through-crisis’ discourse is one result. Then we survey past steps in the construction of the EU and show that they had little relationship to real crises. Finally we dissect how the euro crisis is a real political crisis and how the responses to it seem not to represent strong forward movement for the EU overall. Our conclusion is not particularly optimistic, since we perceive many obstacles to the reinvigoration of a more positive and visionary European project, but we very much hope it spurs some brainstorming in new directions.

**The Teleology of Thinking about European Integration**

The pervasiveness of teleology – the belief in quasi-inevitable progress toward some end goal or final destination – is striking in most scholarly and active-political thinking about European integration. All scholars of Europe know that the theoretical literature on European integration began with the teleological ‘neofunctionalist’ writings of Ernst Haas. Building on the early integration insights of Europe’s ‘founding fathers’ Robert
Schuman and Jean Monnet, Haas hypothesized that both the functional interconnectedness of modern economies and powerful positive feedback mechanisms would spread economic integration from one sector to another. Attempts at integration in one sector would soon reveal incentives to integrate other sectors, persuading people that more of their problems were best addressed at the European level. The institutional bodies set up to coordinate early steps – the Commission and other supranational EU institutions – would also circle back to promote further steps by teaming up with interest groups and national officials. Thus the interconnected nature of modern economies and snowballing institutional delegations of power would gradually propel Europe towards a true political union.6

Unlike most ivory-tower constructs, Haas’s theory both came from and fed back into political beliefs among the actors it studied. As Haas once told one of us as a graduate student, his theory “basically took Jean Monnet’s beliefs and made them into social-science hypotheses.” Monnet subscribed to a functionalist school of thought in which the destructiveness of nationalist war and the interconnectedness of modern economies were pressing Europeans to integrate their national political systems. In his view change would come as the result of these technical processes of necessary adaptation to an evolving world, not out of ideological appeals. As he put it, “[p]eople only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them.”7 On a practical level, though, he also saw the need to inform people about these “necessities” through a persuasive effort, and he became a tireless advocate for the cause.
Haas then came along and made a theoretical prediction that functional interconnectedness and supranational persuasion would indeed drive integration forward.

Though we have no direct evidence of the penetration of ‘neofunctionalism’ beyond scholarly debates, it seems very likely that his work then provided academic legitimacy to Monnet’s views in European policy circles and institutions of elite education. Moreover, the political impact of these ideas extended not only to advocates of a “United States of Europe” but to many opponents as well. For example, teleological beliefs lay behind the extraordinary steps that French President Charles de Gaulle took to block the further development of the EEC institutions during the ‘empty chair crisis’ in the mid-1960s. He and Monnet agreed that the European institutions would tend to accumulate more power, but disagreed on whether the telos was desirable or not. The same kind of teleological views run rampant among British Eurosceptics today, who are convinced that Brussels will inevitably extinguish all hope and light on the continent. Similarly, the “bicycle theory” of integration – “it must keep going or it will fall over,” often evoked by Jacques Delors and others – is related to Haas’ teleology and his argument that integration should be conceived as an ongoing process, not an end-state.

Stepping back from Europe for a moment, it is thus fair to say that the dominant narrative on the EU is exactly the opposite of the US myth of the Founding Fathers and their Great Constitution. For Americans, their political system sprang full-formed from the greatest political document ever written. It is stable and few major improvements are imaginable. For Europeans, the EU is a fundamentally dynamic, partial and unsteady construct that
must and will continue to justify itself by delivering new benefits from “ever closer union.” Some look forward to this ongoing development, others do not, but few seem to imagine the EU staying as it is.

Today most scholars have moved on from neofunctionalism in EU studies or shorn it of its most teleological elements, but teleology nonetheless remains an active part of the academic scene. Haas himself pronounced neofunctionalism “obsolete” after de Gaulle’s attacks on the EEC.10 This did not evict teleological thinking from EU studies, however, because an equally strong teleological logic also animated the main competitor that came to dominate EU studies in the 1990s. On the surface, Andrew Moravcsik’s ‘liberal intergovernmentalism’ is an attack on Haasian logic of runaway institutions, arguing that national governments fully dominate the EU and carefully constrain the growth of supranational power.11 Yet Moravcsik does not reject that substantial delegations of power have taken place, and the way he explains them replaces the neofunctionalist teleology with another that is even more powerful and widely believed. It is globalization, he suggests, that encourages interest groups to see rising gains in cross-border movements and nudges national governments to seek open and coordinated policies with their neighbors. Moravcsik’s EU, which displays “normal politics in an era of globalization,” comes across as an even more inevitable product of massive underlying trends than any image from Monnet or Haas.12 When he explains the euro deal at Maastricht with this logic, as a largely rational-functional response to economic imperatives, he seems to imply that Europeans will do whatever is rationally necessary to fix the euro’s problems as well.
Neither in neofunctionalism nor in liberal intergovernmentalism is the notion of crisis a central one, but both nonetheless nourish the discourse of a Europe that moves forward through crisis. The two theories share foundations in rational-functional theorizing in which governments ultimately respond effectively to the demands of interest groups to solve unambiguously real problems. In both approaches actors are rational enough that they tend to deal with policy problems before they become full-blown crises, leading to accounts that focus mainly on long-term coalition building and bargaining. Still, the bottom-line explanation both theories give for all past steps in integration is that a large number of interest groups and governments were persuaded – either by functional and political spillover or by the forces of globalization – that something had to be done. For Europe to have come so far, delegating such unprecedented power to supranational institutions, both theories hint that Europeans’ past challenges must have been very compelling. Surely these past challenges shaded into actual crises at certain points.

But did they? We argue in the next section that until very recently, the construction of the EU never really displayed a process in which a wide variety of Europeans rallied to new integrative steps as the necessary response to pressing policy challenges.

**Past Crises: Overview and Assessment**

If history taught the comforting lesson that the EU always advances in crises, what would we see when we looked back at the major steps toward today’s Europe? Interpreting any
past development as a response to a “crisis” – as opposed to, say, as the agenda of a certain political movement, or as a bargain between multiple competing agendas, or as some other kind of political story – carries strong observable implications. In the approach to a crisis-driven step we would presumably find a spreading consensus that concrete policy failures called for new solutions at the European level. As policy failures sharpened, persuading many people that immediate steps were necessary, the consensus would extend to broad support for fairly specific solutions. Implementation would follow quickly to prevent the crisis from worsening. Different actors would likely have distinct priorities within the prevailing sense of crisis, leading to bargaining about precise features and distributional aspects of solutions, but few if any responsible actors would dispute the need for broadly similar steps. Throughout this process, the most crucial evidence of genuinely crisis-driven change would be *unusual consensus* that something needs to be done: actors who disagreed about policy priorities in “normal” times would be compelled by crisis to favor a certain collective response.

Unfortunately EU history does not offer this sort of comfort to crisis-struck Europeans today. Few of these features can be found in any step in the construction of the EU. Of course the EU as we know it today did arise and evolve to solve some fairly widely-perceived problems – a cycle of war, protectionist temptations, monetary instability, stabilization of transitional post-communist polities – but European leaders never confronted a time-pressured sense that failed agreements would be disastrous in the near term. With the exception of broad acceptance of the Eastern enlargement, no major element of their substantive deals ever attracted a notable rally of unusual consensus.
Widely different diagnoses of policy problems and desirable European-level solutions – including major actors whose first preference at each point was to do nothing – endured through all major deals. Differences were resolved in political maneuvering and bargaining rather than through crisis-compelled convergence.

A book chapter can only offer a brief and impressionistic historical survey to support such broad historical claims. We rapidly touch on the European Coal and Steel Community (ECSC), the failed European Defense Community (EDC), the European Economic Community (EEC), the European Monetary System (EMS), the Single European Act (SEA), Economic and Monetary Union (EMU) in the Maastricht Treaty, and Eastern enlargement. We focus disproportionately on French evidence, on which one of us has written extensively, and otherwise note German and British positions as the other most important players in major EU bargains. As thin and selective as our historical glance may be, we think it fully lays to rest the notion that integration has ever advanced through anything like today’s euro crisis.

Even advocates of crisis-driven integration tend not to interpret its first step in that light. French Foreign Minister Robert Schuman’s proposal of ECSC on May 9, 1950 is conventionally (and rightly) told as the invention of a new organizational model against considerable resistance – a “leap in the dark,” as Schuman put it at his press conference – not a reactive response to a consensually understood and pressing problem. Certainly many French and other European elites recognized broad policy challenges to which the ECSC was one solution. For France, the ECSC established a new framework for Franco-
German relations that allowed for continued oversight of West Germany (and guaranteed access to its high-quality coal) while meeting American pressures to wind down the Occupation. Neither in France nor anywhere else, however, did most elites rally to it as necessary to prevent imminent disaster. All relevant French interest groups opposed the ECSC treaty through its ratification. Not even a majority of French politicians ever supported it; Schuman bought the last few votes with a side concession on colonial policies.15 In Germany, Chancellor Adenauer had to overrule hostility from his powerful Economics Minister, Ludwig Erhard, and only shut down the opposition of German industrialists with help from the American occupying authorities.16 Outside of the most Euro-federalist circles, which were generally politically irrelevant, most European elites in the early 1950s would have been perplexed by the suggestion that ECSC was necessary to avoid an imminent crisis. To both its champions and its opponents, it was a deliberately experimental policy that departed from prevailing wisdom.

The EDC, by contrast, did surge onto the European agenda due to an immediate crisis—but no consensus ever acknowledged it as the right response. This second French proposal came in the early 1950s in response to the outbreak of the Korean War. For Europeans the war itself was not the crisis, however, since few of them shared America’s domino fears that it signaled an imminent Soviet invasion of Western Europe.17 Their crisis took the form of sudden American demands to shore up Western defenses by rearming West Germany. With considerable reluctance a sizeable number of policy-makers across Europe agreed to work out a plan that would use the ECSC model to maintain supranational authority over small German units. Again most interest groups in
most countries opposed this model relative to less novel ones – most obviously simply rearming West Germany within NATO – and military officers everywhere were divided but mostly skeptical.\textsuperscript{18} Ratification was achieved in West-Germany, Italy, and the Benelux, but in 1952 and 1953 French coalitional politics shifted control of the legislative agenda away from Schuman and his pro-EDC allies. Supported by less than a third of the National Assembly, with new leaders uninterested in making cross-issue payoffs to assemble a majority, the EDC failed. It seemed that the EDC was not necessary after all.

Perhaps, then, a true crisis set Europeans back on the “community” path opened by ECSC? Though venerated historian Alan Milward’s economic analysis suggested that the EEC treaty of 1957 was ultimately necessary to “rescue the nation-state,” his account largely ignores that few Europeans at the time perceived either a crisis of the nation-state or the EEC as the functional solution to it.\textsuperscript{19} After the Messina conference of 1955 – now hallowed in EU lore as the launch of the “Spaak Committee” that morphed into the EEC negotiations that led to the Treaty of Rome – the most common reaction across Europe was disbelief that anyone could consider further talks on the contested “community” model.\textsuperscript{20} The British declined to participate with snide comments that they could not imagine any sort of successful result.\textsuperscript{21} Two conditions made a new deal on trade liberalization seem more pie-in-the-sky than unavoidably necessary. First, most French policymakers were convinced that French business could not survive more open competition. France had effectively reneged on all prior commitments to liberalization in the 16-nation Organization for European Economic Cooperation (OEEC) since 1949.\textsuperscript{22} Second, despite a byzantine web of protectionism, intra-European trade was expanding
very rapidly in the mid-1950s. Milward notes this “remarkable” growth, musing that a trade pattern often attributed to the EEC was clearly developing before it. If proponents of European free trade had plenty to complain about in the mid-1950s, then, they could point neither to a trade crisis nor to a widespread sense that a new deal was even possible.

In agriculture it may seem more plausible to see a crisis at the time, especially in France. Export subsidies in Europe’s largest agricultural producer were reaching budget-breaking levels in the mid-1950s. Successive French governments felt strong pressure to secure international outlets to placate rebellious paysans. Yet if the creation of the EEC’s Common Agricultural Policy (CAP) has entered legend as the lure that drew France into the Common Market, the fact is that French farmers took a long time even to see a supranational agricultural community as acceptable, let alone as critical to solve their problems. An agricultural community was viewed as a Dutch idea that would liberalize farm trade, and almost all French farmers preferred the more familiar vehicle of bilateral export contracts. As Milward notes, French farmers “remained until almost the last moment suspiciously antagonistic of anything more complicated [than bilateral contracts], especially anything that would provide a market for other peoples’ surpluses in France.” As part of the EEC negotiations the French government was pleased to secure a transitional period during which the Germans contracted bilaterally to buy French farm exports, while any sort of “common policy” would only begin to be discussed within three years. Not until well into those talks in the 1960s did most French farmers come around to seeing the CAP as likely to be more beneficial than threatening. In sum, no consensus connected a farm crisis to the EEC solution in the late 1950s.
We must regretfully ask readers to look elsewhere for the tale of how the EEC plan overcame these obstacles, since our current object is just to highlight the absence of crisis-driven politics in the EU story.\textsuperscript{26} Consider, then, its next substantial step two decades later. The European Monetary System was Europe’s first enduring response to increased exchange rate volatility in the post-Bretton Woods era. This 1979 commitment to defend fluctuating bilateral bands between currencies responded directly to a concrete policy problem. Broadly varying exchange rates made a mockery of the EEC’s goal of a level playing field for intra-European trade. In particular the Deutschmark (DM) perennially appreciated against other currencies. This asymmetric relationship was vastly worsened by a depreciating US dollar, from which a steady flow of capital went disproportionately into the DM and pushed its value upward. Germany’s partners complained that they could not keep up the relative value of their currencies \textit{vis-à-vis} the DM. German exporters complained of weakening competitiveness.

Nonetheless, the eventual EMS deal did not occur under immediate market pressure, nor did it ever attract especially wide consensus. Instead it perpetually evoked the political and distributional fights we might expect from a deal intended to hold the DM down and other currencies up. Before, during, and after the EMS agreement, strong-currency advocates applauded outside of Germany and grumbled within it while weak-currency advocates did the reverse. Critics of European authority like Margaret Thatcher or the French Gaullists opposed the deal.\textsuperscript{27} Moreover, to the extent that the EMS accomplished its founders’ goals – encouraging a convergence of inflation rates and monetary policies
by the late 1980s – it did so ironically by nudging Europe toward sharper moments of explicit crisis. That is, the EMS commitments contributed to the concentration of long-term economic evolutions into short-term political crises. The DM’s upward drift continued, but what had previously been a gradual process now sparked periodic conflagrations in defense of the EMS thresholds. Currency speculators jumped in to elbow currencies past these targets. Similar crises would have occurred in an EMS-less Europe, certainly, but the EMS rules generated even much more explicit and sharper pressure on policymakers in weak-currency countries to imitate German policies.

The next step in EU history, the Single European Act (SEA) of 1986, probably attracts more crisis-driven rhetoric than any other. All educated Europeans know the tale of “Euro-sclerosis” in the early 1980s – anemic growth, high labor costs, mounting unemployment, and a sense of being surpassed by both the US and Japan – and how it provoked the relance of the EEC with the SEA’s “Single Market 1992” program and institutional reforms. Also setting the scene for the SEA deal were a series of EEC bargaining impasses over the British budgetary “rebate,” CAP spending, and Iberian enlargement that gave its meetings a distinct sense of political crisis at their nadir in 1983. While there is no denying that the SEA process featured a masterful orchestration of crisis language to help sell an important political initiative, however, it addressed no immediate policy problems at all. To the contrary, the “1992” program and institutional reforms were long-term shifts whose consequences are still playing out today. And if a superficial historical glance seems to display unusual consensus around the SEA – like the assent of both British conservative Margaret Thatcher and French socialist François
Mitterrand, or ratification in the French Assembly by a huge majority of 498 to 35 – this impression falls apart under closer scrutiny.

Consider these two examples more closely. Thatcher said explicitly at her press conference after the final deal that she was never persuaded that EEC treaty reform was necessary. She accepted a hard-driven bargain in late-night talks and soon regretted that she had – complaining later (according to some sources) that she was “tricked” by Commission President Jacques Delors on the extent of institutional reforms.29 Meanwhile Mitterrand remained skeptical about the liberalization focus of the deal, but reluctantly accepted it in order to obtain the institutional reforms he sought.30 The SEA’s ratifying majority in the French Assembly was comprised mainly by two parties with internal majorities that disliked the treaty. Mitterrand’s Socialists had little enthusiasm for the “1992” liberalizing plan. Most voted the party line because it was difficult to disavow a deal identified personally with their President.31 Jacques Chirac’s Gaullists generally opposed the SEA and took over the government between its signature in March 1986 and its ratification in December. They passed it only grudgingly due to threats to their coalition from their small pro-European allies and pressure from Mitterrand’s presidential powers.32 In our view these examples are representative of the broader politics of the SEA. Like previous steps in the EU story, it came together thanks to bargains between competing agendas and common dynamics in organizational politics. It featured neither immediate crisis pressures nor unusual consensus around specific European responses.
And what of the single currency deal in the Maastricht Treaty of 1992? Behind the EMU negotiations from 1989 to 1991 it is fair to see two sources of pressure that might qualify as “semi-crisis” conditions. First was the asymmetric burden of EMS commitments in the late 1980s, which were exacerbated by the complete liberalization of capital movements as part of the SEA’s “1992” agenda. The ongoing flow of money into the rock-solid DM gave Germany’s EMS partners only one way to maintain their EMS pegs: keeping national interest rates slightly above Germany’s to keep capital flowing into their currencies. The full liberalization of capital movements in 1988 sharpened these pressures, such that any hint that EMS members’ rates might stray from Germany’s baseline sparked rapid outward financial flows. Though this subordination of other EMS members to German monetary decisions was not necessarily economically disastrous, it was politically difficult to sustain. Second, the fall of the Berlin Wall in November 1989 and the surprisingly rapid reunification of Germany just a year later generated political pressure for a gesture to reassure Europeans – inside Germany and out – that the new Germany would maintain its European commitments.

But as tempting as it is today to think that European leaders felt compelled to respond to these conditions, EMS asymmetry and German reunification were more policy problems than immediate crises. Nothing in particular would have happened given inaction on either issue for a few years. Nor did the concrete proposals that led to EMU ever attract broad consensus. In France some unusually broad agreement emerged that something should be done to escape the asymmetries of the EMS, with major political figures across Left and Right (including Chirac) arguing in this period that Europe either had to unravel
the EMS or move forward to some more balanced arrangement. As that “something” became the EMU proposal in the hands of Jacques Delors and advisors to Mitterrand and German Chancellor Helmut Kohl, however, support in France and across Europe fragmented in familiar divisions over economic policies and pro- and anti-Europeanism. Chirac and other sovereignty-conscious figures on the French Right opposed the single currency. Most of the French Left despised the orthodox monetarist conditions in the EMU plan – to the point that Mitterrand relied more on votes from the Right to scrape out a petit oui in his referendum on the treaty in 1992.

Kohl took steps to ensure that Germany had the kind of non-debate about integrative steps that had been typical in its politics since the 1950s, though everyone suspected what Kohl later admitted: that any popular vote on EMU would have rejected the single currency. The British were certainly not persuaded that any particular new European initiatives were necessary. And obviously the euro’s recent travails make it ever more difficult to see EMU as a functional response to compelling policy problems. Many economists warned at the time that the plan suffered from exactly the vulnerability behind today’s crisis: enduring differences between national economies would lead to divergent performances over time, especially given large shocks (like, say, the near-collapse of the global financial system in 2008 and 2009).

As the last basic step to the framework of today’s EU, consider the admission of post-communist countries that profoundly reshaped the European club. Here, finally, we encounter a decision to which practically all elites rallied across member-states and
political divides. Though the prospect of Eastern enlargement provoked many debates in the early post-Cold War years, by the mid-1990s it was clear that enlargement would happen. Disagreements were limited to its timing and modalities. Enthusiasm certainly varied widely – from eager British happy to spread out and hopefully water down the EU club, to generally positive Germans concerned about stabilizing their close neighbors, to resigned French or Spaniards worrying about diversion of CAP funds and an EU arena re-centered to the east. By 1994 or 1995 it was difficult, however, to find a non-extremist politician who argued openly against letting in the Easterners. In our view the most widely-shared rationale was stabilization: refusal of the new applicants could lead them to turn away from the West, free markets, and democratization, whereas the prospect of EU membership would create tremendous leverage for reform. Still, even if the end of Europe’s division seemed to compel Europeans to a momentous choice about the breadth of integration, a decision that took almost 15 years to implement is hard to describe as a response to a “crisis.” Both the motivations and fears surrounding enlargement concerned very long-term trends. At no point did leaders feel major time pressure to act.

In sum, if we assign any real meaning to the word “crisis,” the notion that European integration has advanced through crisis is not just questionable. It is entirely wrong. No major advance in European integration has ever occurred under crisis-driven conditions. This short chapter cannot additionally support a view of how European integration has occurred, but our selective bits of evidence hint at how we think the main story runs. It is a supply-side story driven by champions of a positive organizational project, not a demand-side process in which Europeans were broadly compelled by unambiguous
problems to agree on endorsing integration in this form. The visionary project of “community-style” Euro-federalism intersected with a variety of other long-term concerns – like keeping Germany in check, subsidizing farmers, taming currency volatility and inflation, or advancing neoliberalism – to construct a certain institutional framework for integration. The end of the Cold War then effectively imposed an extension of that framework to post-communist Europe, creating long-term pressures for enlargement that western Europeans ultimately felt unable to reject.

It is only in recent years that we have had the opportunity to see what it looks like for the EU to address a real crisis, to which we turn next. As we have all seen, it is not pretty.

The Euro Crisis: Qualitatively Different and Insufficient Response

The current crisis facing the euro is the biggest test Europe has faced for decades, even since the Treaty of Rome was signed in 1957.

– Angela Merkel (Bundestag, May 18, 2010)

Scholars of International Political Economy see the euro crisis as the most significant aftershock of the global financial crisis and the Great Recession that ensued in 2009. From the point of view of European integration, we argue in this section, it is the first real crisis since the origins of the EU project. We first explain why the euro crisis is different. Then we argue that the EU’s responses, while certainly significant by any stretch of the imagination, are widely seen as falling short of long-term solutions to avoid similar crises in the future. While all previous major steps in European integration did more than many relevant actors wanted – vigorously pushing forward-looking organizational plans to the limits of their support – steps taken during the euro crisis have generally been perceived
as minimalist and reactive.\textsuperscript{41} That should not be surprising: it is what we might reasonably expect more generally from crisis-driven reform in complex institutional settings.

\textit{Why This Time Is Different}

We believe that the euro crisis is qualitatively different from previous ‘crises’ of European integration. We find that the nature of a supranational sovereign debt crisis, without the legitimate supranational institutions needed to cope with it, laid bare all the structural, institutional, and ideational contradictions that were inherent in the design of Economic and Monetary Union (EMU). The irony, of course, is that the euro was meant to solve these contradictions once and for all by fostering economic convergence. The euro crisis struck at the very heart of the tension between the centrifugal logic of Europe’s domestic politics and the centripetal demands of making a common multi-state currency function smoothly.\textsuperscript{42} We identify two fundamental differences between the euro crisis and the many previous ‘crises’ of European integration. One is the existence of imminent market and political pressure with the potentially disastrous consequences of inaction. The other is the ejection of the EU from its technocratic ambit due to the explicit politicization of European decision-making.

The European sovereign debt crisis is in essence the first ‘real’ EU crisis given that it required a decisive intervention without which the single currency, and most likely the EU itself, would not have survived.\textsuperscript{43} In the past, whether it was the “empty chair crisis”
of the 1960s, or the monetary crises of the European “snake” in the 1970s, “euro sclerosis” in the 1980s, or the dismemberment of the Soviet Union in the early 1990s, the EEC or the EU could have stood by and done nothing. There would have been no financial and economic calamity. The euro crisis was the EU institutions’ first time dealing with real-time financial markets, with national governments realizing that they were helpless in responding to the crisis on their own, and that swift collective action at the EU level would be needed in order to stave off pending disaster. More than twenty EU summit meetings were convened in Brussels to find a lasting and ‘comprehensive’ solution in just the first thirty months of the crisis. Those meetings underscored the difficulty of getting seventeen national finance ministers to agree on a common approach. The stakes had never been higher, since inaction would have led to a break up of the euro, and maybe even the end of the EU as we knew it. That existential risk to the project of European integration itself had never existed before.

The euro crisis has also meant a significant encroachment by the European Union on national decision-making powers, especially in the realm of fiscal policy. If Harold Lasswell was right, and “politics” is mainly about “who gets what, when and how,” then the euro crisis was first and foremost a crisis of European politics.44 During the negotiations over the new Treaty on European Union (TEU) at Maastricht in December 1991, Helmut Kohl and François Mitterrand had been careful to avoid transferring significant fiscal powers to Brussels, fearing a popular backlash against EMU. Instead, they had opted for broad and numerical ‘convergence criteria’ that all member states would need to follow. With the new ‘Fiscal Compact,’ which was agreed to in December
2011, Europe took a significant and unpopular step in directly controlling national member states’ budgets. As Vivien Schmidt illustrates in chapter five of this book, the failure of the Commission’s “one-size-fits-all” approach to fiscal policy underscores the tension inherent in Europe’s direct interference in what was always believed to be the legitimate preserve of the nation state. It was one thing to give up sovereignty over monetary policy in the early 1990s, but quite another step to give up national autonomy over fiscal policy. For most EU member countries, this really is one step too far, hence the ambiguity and foot-dragging that characterizes the debate on fiscal union.

Apart from fiscal policy, the euro crisis also saw a ‘re-politicization’ of monetary policy in the European Union. The conduct of monetary policy used to be thought of as a largely tedious, dull, and technical policy domain. It had become widely believed by the late 1980s and early 1990s that one could not trust politicians with one’s money. The old, “embedded liberal,” belief that monetary policy could be used first and foremost in service of achieving domestic economic objectives, like full employment, had been badly battered during the 1970s and 1980s in the wake of the Great Inflation. As price stability replaced full employment as the main objective of economic policymaking, because the short-term tradeoff between unemployment and inflation had seemingly collapsed along with the oil shocks and the stagflation of the 1970s, governments eager to convince the markets that they had a credible commitment to long-term price stability started to move towards tying their own hands, following the German example. With a vertical Phillips Curve, the best governments could hope for was to maintain price stability by limiting the growth of the money supply, while using microeconomic ‘structural’ reforms to move
back towards full employment.\textsuperscript{49} Best practice therefore was to place monetary policy in the supposedly safe hands of unelected technocrats who could run a truly independent central bank with the sole legal and institutional mandate of maintaining price stability.

The neoliberal policy consensus, which had reigned over much of the economics profession since the early 1980s, also helped put to rest the view that monetary policy, especially during economic downturns, could have significant distributive effects. At Maastricht, it was agreed that the ECB would not monetize any member country’s debt (the ‘no bailout’ clause). The Stability and Growth Pact – with its limits on national deficit and debt ratios – was meant to avoid such a scenario in the first place. During the most acute phases of the euro crisis, it was obvious that the only institution capable of acting was an unelected body based in Frankfurt, which would have to break its politically agreed institutional mandate in order to be successful. While the ECB’s decisions were political in nature, they were not subject to democratic control.\textsuperscript{50} Faced with turmoil in their sovereign bond markets, national leaders found themselves powerless without the support of a central bank they had no way of influencing.

The euro crisis was the first crisis of EU integration to really uncover the tensions between the democratic incentives in national politics and the institutional logic and non-democratic demands for quick decisions required to successfully run a supranational currency union. With EU leaders primarily accountable to their own national parliaments, they were most likely to do just enough to keep the euro alive, rather than aiming for stronger steps that would forever reassure financial markets that the single currency
would function properly.\textsuperscript{51} The existing democratic deficit in the European Union, where voters feel far removed from the decisions made in Brussels, would therefore only widen. Of course, the EU has been an elite project from the start, but the euro crisis illustrated that, for better or worse, democratic legitimacy still lies mainly with the nation states.\textsuperscript{52} Compared to past crises, national leaders this time were more reluctant to agree on major steps forward in EU integration, and carefully guarded most of their national decision making powers. The main difference between the euro crisis and previous crises is that, in the past, the decisions to move forward with further integration were taken on a voluntary basis. This time around, the decisions were thrust upon national leaders by genuine threats of imminent breakdown.

The sovereign debt crisis hence exposed the European Union as a ‘political’ entity, taking it out of its ‘technocratic’ comfort zone. From 1951 to 2009, European integration had been associated with delivering the goods, in terms of fast economic growth and growing prosperity for the West during the first thirty years, and in terms of increased economic freedom during the last thirty years. For the South and the East, European integration meant economic catch-up and convergence, human freedom and dignity, democratic consolidation, and the chance of belonging to or rejoining the West and reaping all the benefits of becoming modern societies. From 2010 onwards, the euro crisis cast the European Commission in the role of “villain” in the Mediterranean – telling them to cut social spending, increase taxes, and push through painful structural reforms, which threatened to tear apart their societies’ communitarian social fabric. In Greece and Italy, more directly, the EU was seen as behind the anointing of unpopular technocrats to
political office, who were then forced to implement highly political decisions, all without any real say of the people.\textsuperscript{53} While the European Union in the past had been associated with greater welfare, it would now be associated with greater pain. Still lacking the democratic legitimacy to be truly effective, throwing the EU into the choppy waters of messy left-and-right politics was always going to be a tough game to play for Brussels’ EU officials.\textsuperscript{54}

Finally, the euro crisis exposed a growing gap between a Northern ‘core’ and a Southern ‘periphery’ within the Eurozone. While this gap had been narrowing since the early 1980s – both in economic and democratic-political terms – the sovereign debt crisis laid bare the fragile foundations of the convergence that the euro had brought about between the mid-1990s and 2009.\textsuperscript{55} North-South divisions widened after the euro launch in 1999, with labor costs widening and total factor productivity divergences pricing Mediterranean goods and services out of the European market. As the economies of Southern Europe and Ireland were booming in the early 2000s, wages tended to grow faster in those countries compared to their trade partners, especially Germany. The persistence of growth and inflation differentials across the EMU have therefore led to diverging movements in international competitiveness and large trade imbalances within the euro area. After Greece announced in late 2009 that its fiscal situation was far worse than previously reported, the analysis in Northern Europe quickly became a morality tale of profligate and lazy ‘Southerners’ versus hard-working and frugal ‘Northerners.’ This popular image has never really gone away from the debate, and has made calls for EU-wide solidarity, which had buttressed EU integration until then, increasingly ineffective.
**The Limits of Crisis-Driven Reform**

*We are confident that [new measures in the latest euro rescue operation] will contribute to the swift resolution of the crisis.*

José Manuel Barroso and Herman Van Rompuy  
(Joint letter to G-20 leaders, October 2011)

In September 2013 Commission President Barroso told the European Parliament that the end of the euro crisis was “within sight.” In October 2013 economists at Germany’s ZEW think tank declared the crisis “over for now” as a variety of economic indicators turned upward. In an immediate sense they seemed to be right. Bond spreads had declined steadily since mid-2012. The euro had enjoyed a modest but sustained rise. Most parts of the European economy had bottomed out and were showing some signs of growth. At the time of writing these signs have again weakened, but for the moment the problem is stagnation – an absence of growth – not an imminent crisis.

Important things have been done, admittedly, to get to that point. Previous chapters have carefully dissected the steps of European responses (especially chapter 3 by Erik Jones and chapter 4 by Nicolas Jabko), so we can simply underscore that collectively they amount to a period of institutional reform in which major new powers have certainly been transferred to the European level. Through the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM), better-off member-states accepted a new mechanism to conditionally support those who fall into debt crises. In order for Germany to agree that such funds could ever be disbursed, the Treaty of Stability, Coordination and Governance (the ‘Fiscal Pact’) augmented the Commission’s
role in overseeing national budgets. Most recently the member-states agreed to lodge a Single Supervisory Mechanism (SSM) for banks in the ECB, giving it direct oversight of the largest 150 banks of ‘systemic importance’ and selective surveillance of the rest. Common standards were also set by which national authorities will “bail in” shareholders and bondholders in failing banks before turning to national and European funds for taxpayer-funded “bail outs” (though these will only go into effect in 2018). In a set of developments that were more informal but also more important in directly calming the crisis, the ECB gradually broke out of its original impassive orthodoxy to shore up banks with near-unlimited long-term financing and teetering governments with large purchases of sovereign bonds.

In broader perspective, perhaps the most significant aspect of these new delegations of authority is that they have taken place in the full glare of distributional politics. Richer northern nations have agreed, after endless and agonizing meetings, to front some money for poorer southern ones. True, they attached so many conditions to this support—in the form of pressure for austerity—that to date the negative effects of the conditions are more evident than the positive effects of the support. However misguided the insistence on austerity conditions has been, though, the bailouts and new infrastructure for future bailouts have calmed financial markets. These are major developments in a Europe where the possibility of cross-national transfers was previously limited to haggling over regional development funds and agricultural subsidies that never even approached one per cent of the Union’s total economic output.
Yet even were we to take a Germanic view of these steps as generous and solidaristic (as opposed to a more French-leaning, or Mediterranean, view of them as an oppressive cure worse than the disease), we would still have to see them as far more reactive than proactive. As Jones and Jabko both emphasize, echoing most other academic and media commentary, the general perception is that these steps have been slow, reluctant, and focused minimally on crisis avoidance. They make Europe somewhat better able to handle crises that have begun to erupt, but not more integrated or stronger in general. This is the most obvious with the ESM and the ECB’s extraordinary actions. The ESM and the ECB’s “outright monetary transactions” (OMTs) have not actually been used. During stable periods these capacities will sit in the background and have little effect on integration. Stronger oversight of national budgets (the European ‘semester’) may offer the possibility of evolving in the direction of fiscal coordination, but for the moment it focuses on preventing the worst behaviors rather than developing substantively common behaviors. The two steps agreed so far in “banking union” – the SSM and shared rules for resolving bank failures – are more properly about common policies, but they too are mechanisms to watch for bad behavior that are not yet complemented by common capacities that could correct it.

By late 2013, the Germans appeared to be insisting successfully that “there [would] be no European backstops, but rather national backstops” within any banking union. In other words, if banking union makes any progress at all, the resolution mechanisms will adopt parallel national rules but not a ‘truly’ Single Resolution Mechanism (SRM) or a common deposit insurance scheme. Wharton School economist Richard Herring calls this
“building banking union on a one-legged stool.” Without the other legs of a genuine SRM and common deposit insurance, he argues, a banking union will do little to break the multiple constellations of toxic relationships between weak banks and weak sovereigns that have driven the crises in the Mediterranean and Ireland. Overall, then, this round of reform has given Europe new mechanisms for telling banks and governments that they are in trouble and new instruments to save them in extremis. That matters, but it does not do much to alter the core incentives, resources, or rules for economic action that prevailed before 2007. We might expect the increased moral hazard issues of stronger crisis management capacities to roughly balance out with the shaming power of the Commission’s fiscal oversight.

What else could Europe do? Besides a “three-legged” banking union, the best-informed economic observers like Jones and Jabko frequently mention some ‘mutualization’ of sovereign debt (the idea, currently moribund, of “Eurobonds”), significant increases in the EU budget in the direction of a proper “fiscal union,” improved central clearance mechanisms, plus the never ending work to “complete the single market” to increase free flowing economic adjustments on the ground. The basic goal of all such ambitious proposals is to go beyond crisis reaction capabilities to create a Europe in which national economies and their governments are pushed more towards convergence and where flows between them are better able to adapt fluidly to the divergences that remain. In other words, they would be steps to build a better Europe, not just steps to head off imminent disaster.
Our point is not that any such steps will be easy. Nor are we unsympathetic to European leaders’ reluctance to look beyond immediate crisis management. To the contrary, we admire anyone who can move the enormous, complex organization of the EU in any direction at all. Today’s leaders have fashioned some new tools to calm financial markets and kept their continent from going over a cliff. (They have simultaneously pushed parts of the continent over a cliff through austerity conditions, but at least in terms of financial markets they have averted a widening meltdown). Perhaps it is not really fair to ask the people at the helm in the storm of the century to develop plans for a better ship while steering clear of the reefs.

It is fair, though, to insist that Europeans not mistake passage of the reefs for construction of a more seaworthy vessel. In particular they should be careful not to equate their improvisations during the crisis with the kind of political action that built the EU or could rebuild it into something substantially better. This is an especially important message for academics to offer to politicians. Leaders have no reason to know EU history in great detail and thus no reason to question the comforting and politically useful notion that the EU has always moved forward through crisis. Our comparative advantage is that we can step back and see the EU’s progress in both breadth and depth.

In sum, then, today’s leaders must keep in mind that major transfers of sovereignty that change Europe on the ground – not just bolster it against crises – have never bubbled up mainly out of technical perception of policy problems or reactive responses to crises. Substantial policy problems have always existed behind big changes in the EU, certainly.
One reason why the “Constitutional Treaty” was such a failure was that it was the only major attempt to renegotiate the EU treaties for which no one even claimed a connection to a particular policy problem. In the ECSC, the EEC, the EMS, the SEA, and the EMU, however, not only did certain leaders tackle substantial policy problems, they advanced very particular (and quite contested) diagnoses of problems and their solutions that connected them to proactive goals of changing Europe in the long term. We can disagree about whether their changes were for the better, of course, but in our view the empirical record is clear that the key leaders in all of these steps followed conscious positive political agendas rather than being compelled by “crisis” to do anything that was widely perceived as necessary. In each of these cases the main leaders, especially in France and Germany, stepped well beyond their normal domestic support, in a context where many policy options were available, to pursue initiatives that linked policy problems with major new transfers of sovereignty to the European level.

That is what will need to happen if Europe is to move forward after this crisis. Leaders will need to play up some technical problems noted above – including, probably, with some crisis language! – and insist that EU institutional reform is crucial to their resolution. They will need to be popular at home so they can burn political capital to override or pay off the contestation that will arise. And they will also need quite a bit of luck. Unfortunately, the conditions for this sort of polity-building leadership in Europe have become much more challenging since Maastricht in the early 1990s.

**Conclusion: Is Forward Movement Imaginable in the EU Today?**
We have argued that the common rhetoric that European integration moves forward through crisis, though comforting, is dangerously wrong. Those who care about constructing a viable future for the euro, Europe, and Europeans cannot afford to let historical misrepresentations encourage complacent views that progress in European integration is quasi-inevitable. Whereas the first fifty years of European integration were driven by a coherent and proactive (even aggressive) political project, Europe’s leaders in recent years have acted in a very different mode. They have reacted rather desperately to cataclysmic threats with the minimal bargains they could forge between the different populations and organizations they represent.

Once again, we do not mean to suggest that this new mode is surprising. There are good reasons for the absence of a forward-leading vision for the EU today. For one thing, the organization reached the end of its previous blueprint in monetary union. A single currency was foreseen already in the 1950s, but not even the most ambitious federalists have ever produced a coherent organizational plan about next steps thereafter. Eastern enlargement also set that blueprint in a far wider and more diverse framework. As we have seen, expansion of the club to the East was ultimately the most consensual major reform in the EU’s history, but it was also never part of the original vision for the club. All previous thinking about why integration was good for Europeans was premised on bargains among relatively similar West European countries, and inclusion of much poorer post-communist countries left the unfinished blueprint even more uncertain.
Moreover, the “greatest generation” of postwar West European leaders, of which many members perceived integration as an existential issue – either positively or negatively – left active European politics in the first years of the new millennium. Helmut Kohl and Jacques Chirac were the last major figures who entered politics soon after the war but before the EEC became successful. Without a doubt, subsequent political generations have their pro- and anti-Europeans, but they have all grown up in a “community” Europe and tend to be less likely to expend political capital to advance or oppose it (with the notable exception of the British Conservatives, who are a living organizational monument to Margaret Thatcher’s hostility to European authority).\textsuperscript{60}

Nor do we mean to suggest that the path is wide open for a return to a Europe-building mode. Even if pro-European leaders emerged to champion a new vision that connected policy problems to expanded Euro-authority, we would not be terribly sanguine for their success. The Franco-German couple might use the lingering euro crisis to mobilize new proposals for fiscal union, or might link a new treaty to a common foreign and security policy, but they would face a post-Lisbon EU arena where ambitious treaty reform for the whole EU looks next to impossible. With anti-EU forces far more mobilized than in previous eras, it is hard to imagine any treaty surviving through all the national opportunities for opponents to sabotage ratification. More likely might be an “enhanced cooperation” framework that could have the additional appeal for core West European members of restoring some separation from British, Danish, and eastern European doubters. Yet this option would face its own challenges, forcing Euro-federalists in
Brussels and national capitals to endorse a definitive break with hopes for a coherent United States of Europe.

Europhiles may nonetheless take some heart from another reading of the story we have told. In arguing that integration has never moved forward functionally and automatically out of crisis, we have also emphasized that integration has advanced despite major contestation and uncertainty. This suggests that Europhiles who champion deeper improvements on the flawed euro system may actually have an advantage over their predecessors: where the latter had to frame policy problems in certain ways and invent crises to justify their political agenda, the former can draw on a real recent crisis to make their case. We still hold that the EU will not address its deeper challenges and vulnerabilities until a coherent organizational vision and bold leadership return to champion it, but recent experience of a real crisis may compensate to some degree for the heightened obstacles to treaty reform. If a new generation of Europeanist leaders steps forward to connect the lessons of the euro crisis to “ever closer union,” the future of the euro might indeed witness progress toward a more integrated continent. And ‘crisis’ might finally deserve a bit of the credit for it.
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Endnotes

2 Praet (2012).
4 Reinhart and Rogoff (2009).
5 Haas (1958).
6 Haas (1958); see also Lindberg (1963) and Schmitter (1970).
7 Monnet (1978), p. 109. Politicians and policymakers often quote this passage of Monnet’s memoirs. For example, Nemat Shafik (2012). Deputy Managing Director of the IMF.
8 Matthijs (2013).
10 Haas (1975). See also latter-day ‘neofunctionalists’ including Burley and Mattli (1993) and Schmitter (2004).
13 We leave out the Constitutional Treaty that became the Lisbon Treaty, since it is obvious that no pressing crisis drove this initiative (which had no a priori policy focus at all).
14 For one of the closest and best-researched accounts, see Duchêne (1994).
15 Willis (1968), p. 100.
20 For example, see Raymond Aron’s column in Le Figaro, June 3, 1955.
21 Deniau 1994, p. 54.
26 For a full account, see Parsons (2003).
29 Attribution of the Thatcher cite is difficult, but it is widely quoted, as in Parker (2008).
30 See Parsons (2010).
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36 Pop (2013).
37 See, for example, Martin Feldstein (1997).
38 For a nuanced discussion of the motivations to eastern enlargement, see Schimmelfennig (2003).
40 Kahler and Lake (2013).
41 On this point, see Chapter 9, by Wade Jacoby on “the timing of politics and the politics of timing,” in this volume.
43 For ‘crises’ defined as situations needing a decisive intervention, see Hay (1999) and Matthijs (2010).
44 Lasswell (1936).
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46 You could argue that the Great Recession re-politicized monetary policy worldwide, not least in the United States.
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