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Conference Report

The Future of European Integration

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October 2012

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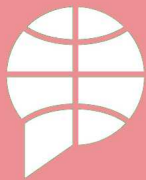
On 6 September 2012 a range of respected and expert panellists, from the spheres of politics, journalism, academia, diplomacy and business, met in Prague to discuss **the basic value of solidarity, the lessons learned from the economic crisis and visions for the future of the EU**. The conference entitled [“Future of European Integration: The Impact of the Financial Crisis on European Solidarity”](#) was organized by **European Liberal Forum (ELF)** in cooperation with **Association for International Affairs (Czech Republic)** and **Friedrich Naumann Foundation for Freedom (Germany)**, and supported by **European Parliament**. Official media coverage was arranged by **EurActiv.cz**.

Solidarity among member states is one of the crucial values of European integration, but it should not be abused to foster irresponsibility and moral hazards of some countries (especially those in the Eurozone). State **Minister Jürgen Martens (FDP)** from Saxony (Germany) was keen to emphasise that “those who want to receive financial aid must put in place adjustment programmes and run them under external control. Support without any conditions, in my opinion, cannot work”. There were complaints that the current debate in the EU seems only to focus on short-term solidarity, not long-term responsibility. All parties of the EU – those who give aid and those who receive aid – should live up to their responsibilities and no member state should simply wait till the last minute of desperation and presume that other members will jump to bail them out. True responsibility is the way to future stable and growth throughout the EU. With solidarity and responsibility, **Taavi Roivas (Estonian Reform Party)** noted, must also come conditionality. If we really want to help the countries who are in trouble, we should be strict with them. Otherwise, they will continue in their old ways, learning nothing and remaining completely unprepared for any other crisis in the future.

On federalism, Jürgen Martens noted that successful federalism in Germany could offer some examples to the leaders of the EU. **Richard Sulik (Freedom and Solidarity)** from Slovakia immediately questioned the effectiveness of the basic principle of fiscal transfers within a federation naming the example of Bremen (a state within the German federation constantly receiving subsidies from other states). Minister Martens mentioned Bayern and also Saxony as success stories where formerly less developed regions have become leaders, thanks also to fiscal transfers and European funds. Taavi Roivas pointed out that the key of solidarity should not be to ensure that everyone is the same and has the same amount of money, but to ensure that everyone has the same opportunity to develop and reach prosperity.

Richard Sulik argued that, although the notion of solidarity is important, the crucial values of the EU should always be the four freedoms within the common market. Furthermore, he heated the debate by posing the following question: is it fair that Slovaks must pay for the Greeks, who are much richer and who got into their problems only by their own fiscal irresponsibility?

The common sense definition of solidarity is that the rich should help the poor. Now, the root of much irritation is the fact that the situation is quite opposite: not only have the rich countries, such as Germany, to bail out Greece and other troubled economies, but much poorer countries, such as Estonia or Slovakia, must help as well. Yet, as the **economist Iliya Lingorski** pointed out, solidarity is (contrary to the common-sense definition) not about one-



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way transfers from the rich to the poor, but rather about sharing the benefits and burdens alike.

So far all member states have enjoyed the positive effects of mutual trade cooperation and increasing economic integration. At present, however, many European countries are also experiencing the darker side of growing inter-dependence. Challenges some of the 27 member states are currently facing can easily spill over to others. The bankruptcy of Greece may be followed by the default of Cyprus, Portugal, Spain and even some major economies. The threat of the domino effect now calls for a coordinated European approach.

Frank Hoffmeister of the European Commission was keen to talk on a more positive note since the EU has already made some progress (such as the European semester, the Two pack, the Six pack, the Fiscal compact). Much of that, however, had gone unnoticed by ordinary citizens.

As the speakers across the panels agreed, in Europe, the ever-growing economic integration had been decoupled from an equally fast political integration. This asymmetry is not augmenting the EU's difficulties in solving the crisis. The current problems of the Eurozone clearly demonstrate the lack of political backing in the monetary union. The Eurozone lacks an executive branch, a "government", rather than vague "governance". Various methods of coordinating the economic policies of the member states have failed to fulfil the role of government. What is more, the basic rules and principles of the fiscal union (namely the Stability and Growth Pact) have been violated frequently by both small and large member states. The Stability and Growth Pact was watered down by France and Germany in 2005 when both states struggled to meet the criteria of fiscal discipline. Moreover, there was no authority to enforce the rules: the Council of Ministers failed to apply sanctions against any state.

As a result, the Eurozone proved to be only a fine-weather construction – it worked well during the times of growth but stumbled upon the first real test during the recession. That, however, according to **Luděk Niedermayer, former vice-governor of the Czech National Bank**, does not mean that the whole idea of common currency was flawed. Without the Euro, Europe would hardly have attained the growth and prosperity it reached during the last decade. Furthermore, the economic union without a common currency would be subject to other types of economic challenges: constant threat of depreciations would lead to inherent instability increased by the speculation of financial markets.

Another lesson learned from the crisis was mentioned by **Richard Ďurana (Slovakia) from the Institute for Economic and Social Studies**. The painful truth of this crisis, and an absolutely essential message we should take from it, is that politicians and bankers are too close in EU states. This, of course, will not be welcome news to our political leaders. Fiscal responsibility on the part of both politicians and bankers and the clear division of the political and banking roles in the economy are needed if we are to avoid similar problems in the future. Politicians need to become amenable to large structural changes too – changes to the very core of financial systems – with short-minded politics left aside.

Finally, the role of the ECB was important for the EU to reassess. Ďurana was keen to emphasise that the ECB should only "serve as a supervisor of the banking sector and not a



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saviour of irresponsible banks”. Further to this, according to Hoffmeister, the ECB must also apply strong conditionality to its loans as a proof of new sovereign responsibility – otherwise indebted countries will never learn the responsibility necessary to develop sustainable growth. Mario Draghi is right to state that the ECB should also only purchase government loans if countries fulfil their conditionality.

The conference panellists also looked beyond the immediate tools required to solve the current crisis, aiming to discuss ways of preventing such crises in the future. Some expressed hopes for an increase in power for the European Commission to monitor the activities of the EU member states, but this may inadvertently lead to an even greater democratic deficit in the European Union. Others looked to the prospect of a federal Europe, though this at present remains no more than a vision, as vague as it is unattainable.

Even the term “federalism” is perceived quite differently across Europe, which only creates more confusion. In Germany and in many of the West-European states federalism is linked with the political consolidation of democracy, autonomy for regions, and with economic prosperity. In Eastern Europe, however, federalism as a legacy of communism evokes a defunct centralistic model leading to unjust transfers.

Yet another term that complicates the debate is “sovereignty”. Increased sovereignty for nation states is an argument embraced not only by populist politicians. In a globalized world, **Piotr Maciej Kaczynski from Centre for European Policy Studies** argued, the traditional idea that sovereignty resides in nation states has turned out to be an illusion. Spanish political institutions may have had the competencies to deal with the problems of the Spanish banks, but they did not have the tools and capacity to turn them into effective measures. Europe faces a paradox: politicians voted for by national elections feel threatened by Brussels’s ever-expanding controls, but even then Brussels remains too weak to have a sufficient impact when dealing with the crisis.

On top of that, Europe as a whole seems to have lost its narrative. So far, each move towards a deeper integration in Europe has been backed by a specific story: in the 1950s and 1960s it was the peace-project, the 1990s were characterized by efforts to reunite Western and Eastern Europe. How should European leaders sell a possible new treaty to reluctant populations?

The founding fathers of the European project were all federalists, but were seldom explicit about it. Since the idea of a federal Europe was too bold at that time, they wanted to reach federation slowly so that nobody would really notice. Similarly to what we might call “creeping federalism”, we witness today a kind of inadvertent federalism: we are forced by circumstances to move in the direction of a federal Europe, but nobody really wants it (the case of “Merkozy”). Now these methods have reached their limits. True, the American federation was also born out of a financial crisis, but there is one big difference: there were keen minds later known as federalists (Jefferson, Madison and Hamilton), who shaped the political discourse towards the acceptance of the federation. Europe lacks the leaders who would stand up for a compelling idea why further integration is beneficial.

There is another equally, if not more, important lesson to learn from the United States: the federation would have never become a reality had there been the condition of unanimous



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agreement of all states of the confederation. **Thomas Klau, the director of European Council on Foreign Relations in Paris**, had a clear recommendation for the future: the unanimity in the sphere of the institutional redesign should be removed to break the current institutional deadlock. Introducing new treaties without complete unanimity may become necessary for the future – treaties could be introduced with perhaps only a three-fifths majority of member states or of the total population of the EU. Those who voted against any such treaty would be given the opportunity to develop a relationship with the EU much like that of Norway or Switzerland. In the case that such a change to the rules of reform were to be blocked by any member states, in Klau's opinion, "the only remaining alternative is founding something new outside of the EU." **Giulio Ercolessi from Italy** continued this view, stating that – although it may be an awful alternative – those who oppose change must be left behind.

Similarly, the EU should reform its constituency. Without that the EU will not overcome the democratic deficit. An introduction of pan-European elections may in the short term lead to a lower turn-out, but it would change the political landscape of the EU for the better. The prevailing bureaucratic and diplomatic methods could be matched by more transparent democratic voting procedures.



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Association for International Affairs (AMO) is a preeminent independent think-tank in the Czech Republic in the field of international affairs and foreign policy. Since 1997, the mission of AMO has been to contribute to a deeper understanding of international affairs through a broad range of educational and research activities. Today, AMO represents a unique and transparent platform in which academics, business people, policy makers, diplomats, the media and NGO's can interact in an open and impartial environment.

In order to achieve its goals AMO strives to:

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- arrange international conferences, expert seminars, roundtables, public debates;
- organize educational projects;
- present critical assessment and comments on current events for local and international press;
- create vital conditions for growth of a new expert generation;
- support the interest in international relations among broad public;
- cooperate with like-minded local and international institutions.

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