

# Prospects for the European Union

**Rising from the ashes of the Euro Crisis and Brexit**

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# Introduction

- Scope of my remarks
  - Centered on the European Union (EU)
  - Not about short-term cyclical prospects
  - Emphasis on structural, including institutional and political aspects
- A personal view
  - My perspective: a European who divides his time between the US (ca. 60-65%), Europe (ca. 30-35%) and elsewhere (ca. 5-10%)
  - Informed by my research on financial services policy
  - No consensus within Bruegel or PIIE

# EU Basics

- Started in 1950; named EU since 1993
- 27 member states; population 445 million
  - 86% of single market (incl. UK, Norway, Iceland: 520m)
  - 74% of Geographical Europe ex Russia / Turkey (604m)
  - 61% of Geographical Europe (729m)
- Euro area: 19 countries, 340m (76% of EU)
- Institutions and bodies
  - European Commission, Parliament, Court of Justice
  - Central Bank (ECB), Development Bank (EIB), agencies
  - “Council” (member states in various formats)

# Outline of Today's Remarks

- Looking back: 15 years of EU stress
- Looking now: EU politics & institutions
- Looking ahead: selected EU policy questions

# 15 Years of Stress

- 2005: rejection of treaty change
- 2007-2017: euro area crisis
- 2015: migration crisis
- 2016-: Brexit
  
- Political shocks in individual member states

# 2005: Treaty Change Rejected

- Stress
  - EU Constitutional Treaty ratification rejected in referendums in France and Netherlands
  - Prior sequence: Single European Act (signed 1986, in force 1987); Maastricht Treaty (1992/93); Amsterdam Treaty (1997/99); Nice Treaty (2001/03)
- Response
  - Lisbon Treaty (signed 2007, in force 2009)
  - No new treaty negotiation since (small amendment 2011)

# 2007-2017: Euro Area Crisis

- Stress

- Financial system turmoil, partly imported from US
- Fragmentation of the euro area financial space, impairing the area-wide transmission of monetary policy
- First-ever default of OECD country (Greece 2012)
- “Bank-sovereign vicious circle” and contagion; high perceived risk of euro-area break-up, peaking mid-2012

- Response

- Euro-area-level financial assistance: creation of the European Stability Mechanism (in stages 2010-2012)
- “Banking union” to break the vicious circle (from 2012)
- Euro area has successfully defended its integrity

# 2015 Refugee Crisis

- Stress
  - Surge of inward migration, particularly from Syria, Iraq and Afghanistan
  - Estimated 1.8m illegal crossings into the EU in 2015, of which over 1m to Germany
- Response
  - Hastily negotiated agreements with governments and non-state actors sharply reduced the flow of migrants
  - Gradual integration of 2015 migrants
  - Accelerated build-up of European Border & Coast Guard Agency (a.k.a. Frontex)



# 2016: Brexit Vote

- Stress
  - UK unexpectedly voted to exit the EU in referendum
  - Loss of a major member state (66m inhabitants)
  - First-ever reversal of EU enlargement
- Response
  - Negotiation within existing treaty modalities (Article 50); Withdrawal Agreement allows orderly exit process
  - EU protected Irish interests: Good Friday Agreement
  - No domino effect; actually reduced political appeal of exit (from euro area and/or EU) in other member states

# Domestic Political Shocks

- Stress
  - Electoral success of “anti-system” / “populist” parties brings them into governing coalitions at national level
  - Austria 1999; Poland 2005 / 2015; Hungary 2010; Greece 2015; Italy 2018
- Response
  - Orderly operation of EU institutions
  - Ongoing concerns about rule of law, particularly in Hungary and Poland

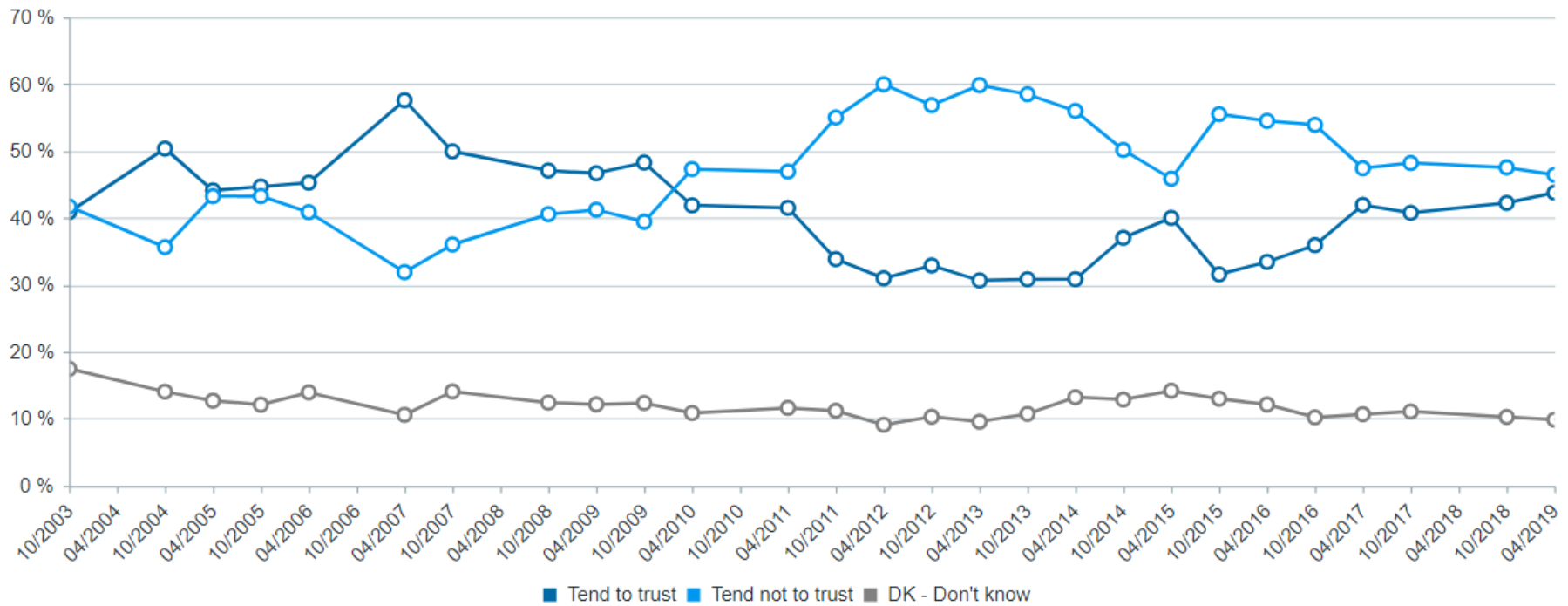
# Wrap-Up

- EU has experienced a lot of negative events in past 15 years
- It has also displayed significant shock-absorption capacity
- EU currently not “in crisis”
  - Moved in a few years from exporter to importer of global instability
  - Negative coverage in international media partly due to special UK (and to an extent US) situation

# Trust in the EU

I would like to ask you a question about how much trust you have in certain media and institutions. For each of the following media and institutions, please tell me if you tend to trust it or tend not to trust it.

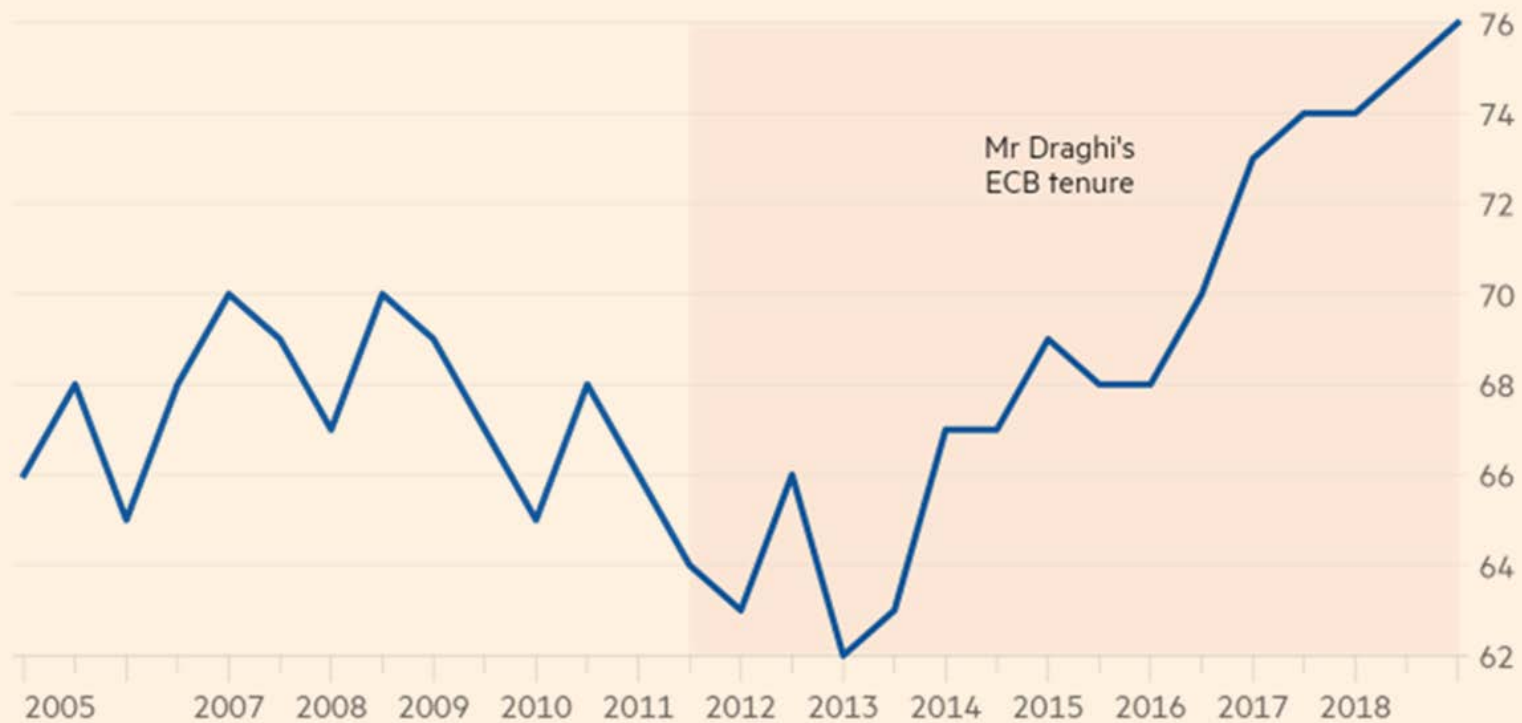
The European Union  
European Union (from 10/2003 to 06/2019)



# Support for the Euro

## Support for the euro has risen

% of the population of eurozone countries who are in favour\*



\*In favour of European economic and monetary union with one single currency, the euro

Source: Eurobarometer

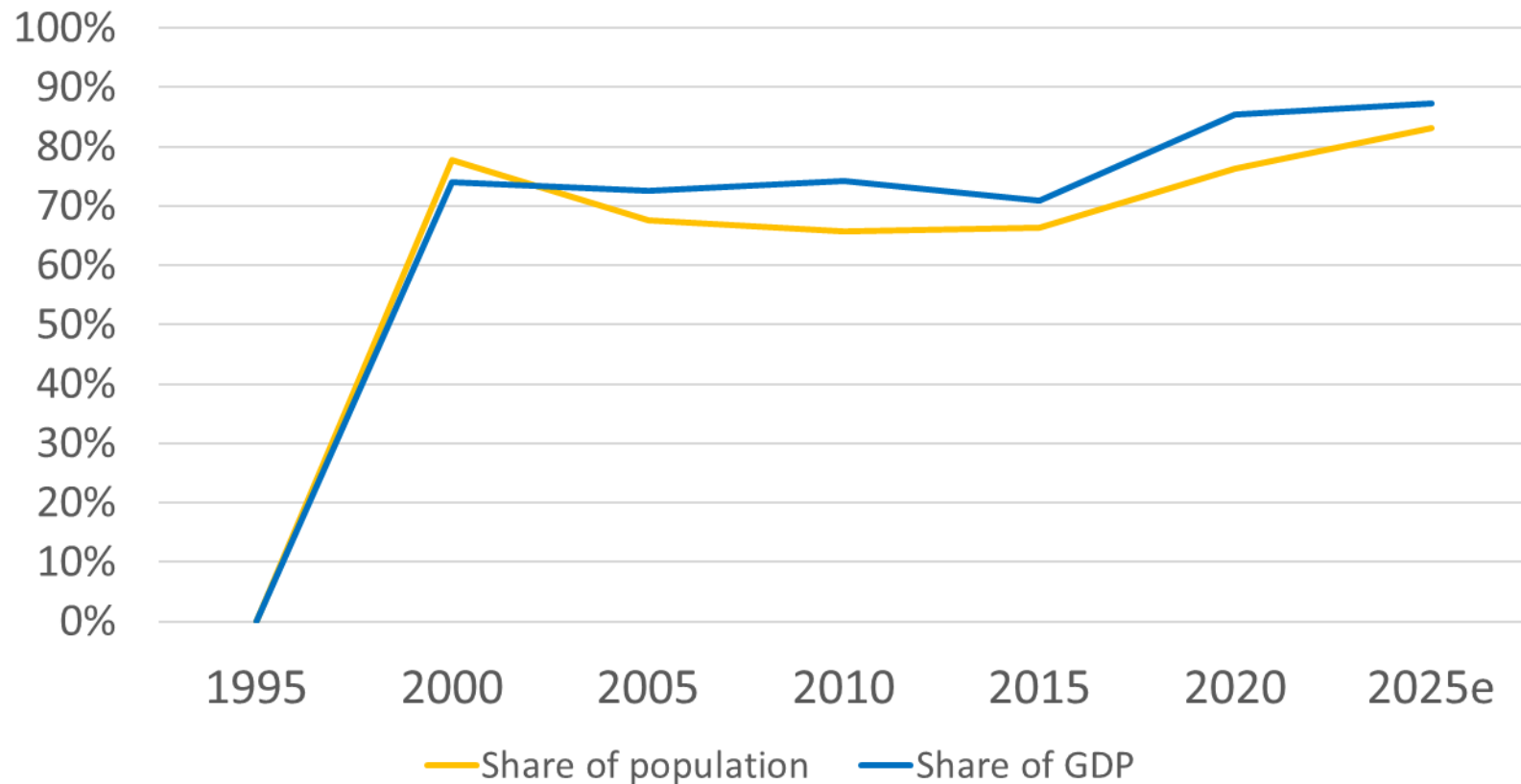
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# Shifts in Political Geography

- Enlargement of 2004 (and 2007/2013) still to be fully absorbed
- Brexit implies center of gravity moves East
- Euro area becomes more dominant
- German unipolar moment coming to an end

# Euro Area vs EU

Share of euro area to EU total



# EU-Level Political Trends

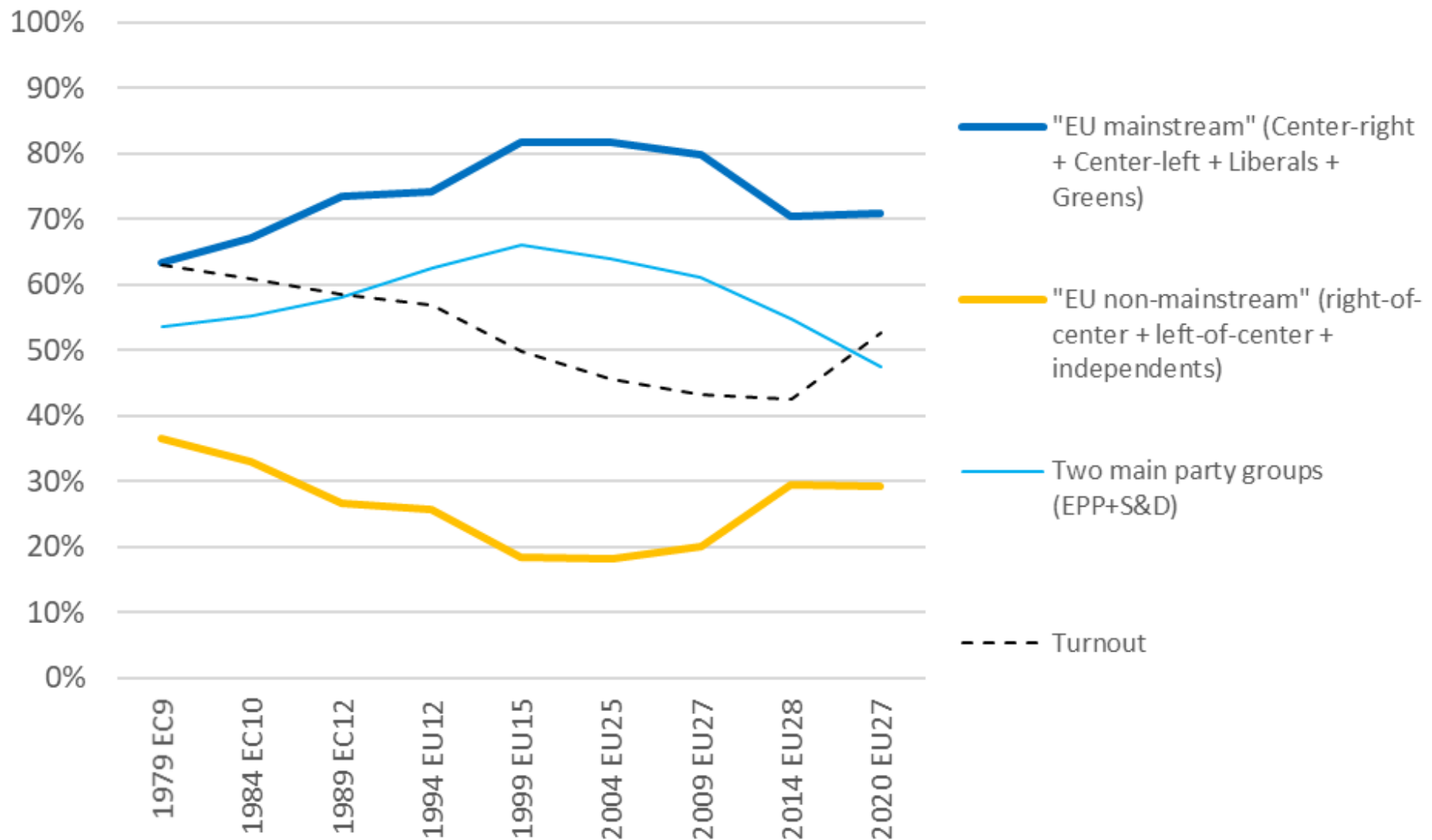
- Fragmentation of the party landscape (“Dutchification”)
  - In member states, and in the European Parliament
- European Parliament Election 2014
  - Surge of “populist” parties, many advocating exit
- European Parliament Election 2019
  - Significant increase in turnout
  - Slight decrease of “populist” vote share
  - Many of which have shifted towards change from within



# Selected quotes

- Marine Le Pen, French National Rally
  - “We must have the same referendum in France and other EU countries... The UK has begun a movement that can’t be stopped” (tweet commenting Brexit vote on June 23, 2016)
  - “We are no longer isolated at all on the European stage... we can legitimately hope to change Europe from within” (Irish Times interview, February 2019)
- Matteo Salvini, Italian [Northern] League
  - “Everyone who votes for us will know that a Northern League government would get rid of the euro and move back to a national currency” (Financial Times interview, October 2016)
  - “The League is not thinking about Italy’s exit from the euro or the EU. To be clearer still, so that journalists stop feeding strange fantasies: the euro is irreversible” (Il Foglio interview, October 2019)

# European Parliament Groups

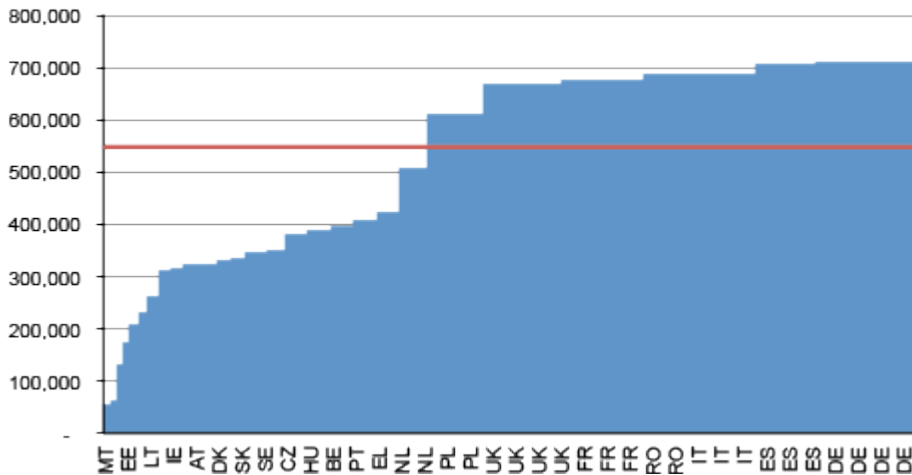


# EU Democratic Deficit

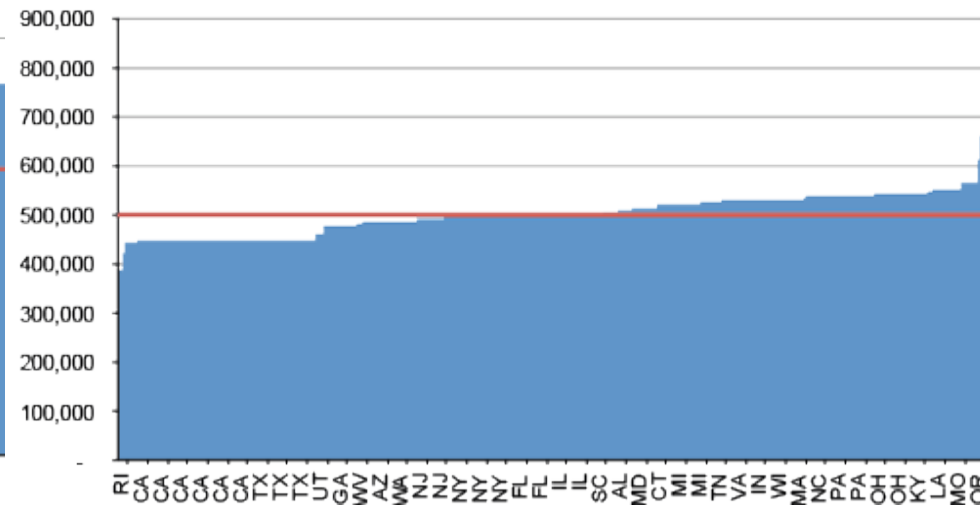
- European Parliament (EP) has less power than most democratic parliaments
  - No taxation authority, no borrowing
  - Limited power on spending
- EP also does not comply with principle of representative equality
  - Difference only of degree with other parliaments
- Council (member states) decision-making dynamics are not democratic
  - e.g. treatment of euro area crisis

# Representative Inequality

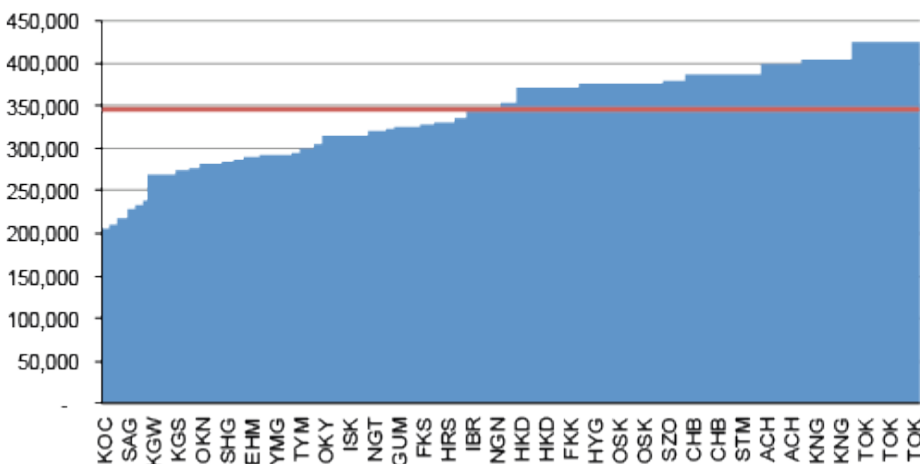
EU Parliament: Average Voting-Age Population per MEP, 2009  
(751 proportionally represented seats)



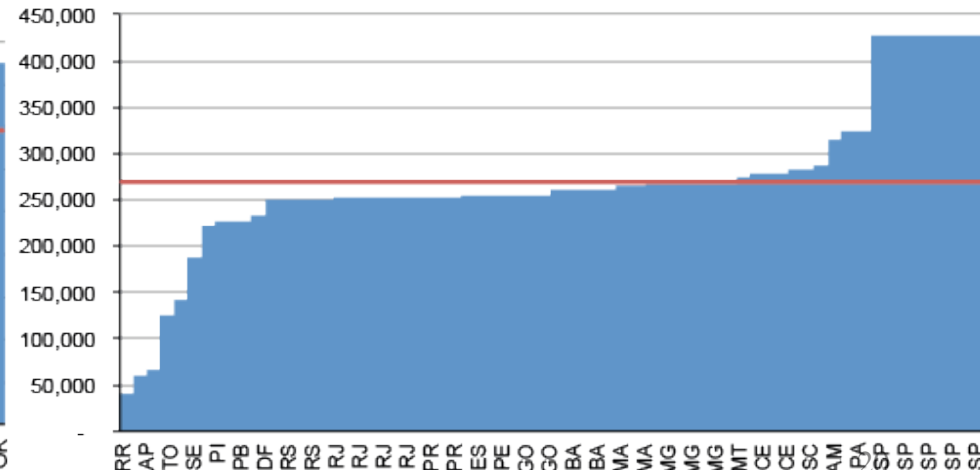
US House of Representatives: Average Voting-Eligible Pop. Per Congressional District, 2009  
(435 single-member districts)



Japan House of Representatives: Average Voting-Age population per Elector, 2012  
(300 single-member constit., excludes members from 11 blocks)



Brazil Chamber of Deputies: Average Voting-Age Population per Deputy, 2010  
(513 proportionally-represented deputies)



# EU Executive Deficit

- EU institutions lack full range of instruments available to executive in most countries
- Gap between public expectations and capabilities
  - e.g. opinion polls consistently suggest public support for more EU-level foreign policy capacity
- As a result, EU is reactive not proactive in the face of threats and events
  - e.g. no EU-level threat assessment capability

# Rise of EU Agencies

- One technique to mitigate executive deficit is “agencification”
  - Political agreement to pool executive power in areas limited in scope
- EU competition policy (from start)
  - Expansion of authority, especially state aid control
- European Central Bank
- New agencies: e.g. ESMA, Frontex

# Selected Policy Questions

- Euro area crisis lessons
  - Can the banking union be completed?
  - Can the euro area fiscal framework be fixed?
  - Are there realistic steps towards fiscal union?
- External economic policies
  - Can the EU's “green deal” ambitions be projected to the rest of the world?
  - Can the EU sustain its ambitious trade policy?
  - Can the international role of the euro be increased?

# Selected International Issues

- EU-UK: constructive relationship?
- EU-Western Balkans: path to enlargement?
- EU-Russia: deterrence against aggression?
- EU-Middle East: containment of turmoil?
- EU-China: areas of cooperation?
- EU-US: impact of Trump reelection?
- EU and global rules-based order
  - “Geopolitical Commission”, “guardian of multilateralism”  
(new EC President Ursula von der Leyen, 2019)



# Final Thoughts

- EU remains a historically unique political and institutional experiment
- Its potential is discovered through its reaction to events
  - Jean Monnet (1976): “Europe will be forged in crises, and will be the sum of the solutions adopted for those crises”
- Responses to last 15 years’ stress suggest deep reserves of resilience
- May be tested in novel ways in near future

# Thank You For Your Attention

Nicolas Véron