

Unity and Upheaval

The Eurozone, the Treaty of Lisbon, and Crises in the EU

CHAPTER OVERVIEW

- The fall of the Berlin Wall and the end of the Cold War spawned an increasingly self-confident and influential EU. New rounds of expansion pushed the EU farther north and (most significantly) farther east. The initial post-Cold War era also brought significant deepening: a new joint currency (the euro), far-reaching institutional changes in the treaties of Amsterdam, Nice, and Lisbon, and a more independent and vigorous foreign policy.
- Yet these triumphs were followed by a severe financial and debt crisis in the eurozone and immediately after that an unprecedented migration crisis. Both exposed the limits of elite-led efforts to move the Union toward further integration as well as the inability of the EU to take quick and decisive action in the face of serious challenges.
- As a further blow, the UK has left the EU, the so-called “Brexit.” Some analysts initially warned that Brexit might prove to be a final fatal wound to the EU and trigger the eventual breakup of the bloc. Yet despite the fact that it continues to suffer from serious concerns about its democratic accountability and ability to act decisively, the design flaws of its common currency, and the strong tailwind both of these have given to anti-EU populists across the continent, there are few signs of a fundamental weakening, as the EU has moved forward, garnering support from Europeans who acknowledge its important value and achievements. Whether the impact of the COVID-19 pandemic will change this balance is not yet clear.

With the fall of the Berlin Wall and the end of the Cold War, the European project gained new prestige and importance and the EU evolved in fundamental ways. It began to prepare for expansion to include the states of Eastern Europe (including the territory of the former East Germany) once under the Soviet imperium, a move that would stand as a potent symbol of the end of the Cold War. It also deepened with the signing of the 1992 Treaty on European Union – popularly known as the Maastricht treaty – seeking to further integrate the states of what was now to be known as the EU both politically and economically. Economic integration later found its most substantial, as well as symbolic, expression in the creation of a new joint currency, the euro. Successful enlargement also created its own challenges, as the institutional machinery designed for twelve states was not well suited for two dozen or more. Further tinkering with institutional arrangements in the treaties of Amsterdam and Nice were deemed insufficient, and thus a new European constitutional treaty was envisaged that could provide an institutional framework – and an overarching vision – commensurate with the importance and power of the EU. The rejection of the

treaty by French and Dutch voters in 2005 indicated that EU elites may have reached too high; accordingly, a more modest, if not substantially different, framework emerged in the Treaty of Lisbon in 2009.

The EU today is a very different actor on the international stage than it was in its early years. It is a global powerhouse: the world's second-largest economy (after China but ahead of the US), its second-largest exporter and importer, and – with a population of almost 450 million – significantly larger than the US. It has also acquired newfound independence in foreign policy, however much it still punches below its economic weight. Both substantively and symbolically, the most recent rounds of enlargement have transformed the EU from a Western European economic club to one that includes most of Europe, such that “Europe” today is synonymous with the EU.

At the same time, a series of crises over the last decade have exposed serious problems in the European project:

- A global financial crisis beginning in 2007 soon after spilled over into a massive government debt crisis which demonstrated some of the weaknesses baked into the euro.
- A migration crisis beginning in late 2014 underscored the EU's inability to act quickly and decisively and highlighted serious east–west rifts among the member states.
- The UK's decision to leave the EU demonstrated the difficulty the EU has had in convincing a broad swath of Europeans (including of course the British people) that the EU works on their behalf – the most serious reminder of its longstanding “democratic deficit.”

Although forecasts of the death of the euro (not to mention the EU as a whole) have not been merely premature but misplaced, these three crises gave succor to the increasingly loud voice of anti-EU populists across the continent. Whether the impacts of the COVID-19 pandemic – primarily the emboldening of a few increasingly authoritarian EU states (such as Hungary) and the virus's potential to fundamentally alter free movement within the EU – will be lasting is difficult to say. Nevertheless, it is clear that amidst all these crises, most Europeans back the EU

THE EURO ARRIVES (1995–2002)

Leaders of the member states met in May 1998 to decide which applicants met the criteria outlined under the Maastricht treaty to join the new common currency. It was decided that all but Greece were either ready or were making good progress,¹ but the UK, Denmark, and Sweden declined to adopt the euro, at least initially. In June 1998 the new European Central Bank took ownership for monetary policy in the eurozone, and in January 1999 the euro was launched when participating states permanently fixed their currency exchange rates relative to one another and to the euro.

The monumental task of preparing consumers and businesses in the eurozone for the physical switch to the euro proceeded, as did the printing of fourteen billion new euro banknotes and fifty-six billion euro coins. There was much discussion about the designs of the banknotes, which could not be tied to any one country but instead had to capture general European themes. The final decision was to use designs based on styles of architecture that were found throughout Europe. As for the coins, one side had a common design while the other featured designs peculiar to the participating states: so, for example, the Belgians, the Dutch, and the Spanish chose images of their monarchs, Ireland chose

the Celtic harp, France used an image of Marianne (a mythical icon of liberty), and Germany used the German eagle.

With these distinct national emblems in place, the final switch to the euro began on January 1, 2002, as consumers and businesses turned in their old coins and banknotes for euros. The original plan was to make the transition in a period of six months, but the new currency found fast footing: within a month the euro was accounting for 95 percent of cash payments in participating countries, and the switch was largely complete by the end of February. After years of often heated discussion, the single currency was finally a reality. Gone were deutschmarks, drachmas, escudos, francs, guilders, lire, markkas, pesetas, punts, and schillings, and for the first time since the Roman era, much of Europe had a single currency. It was a remarkable achievement, standing as one of the most substantial steps yet taken in the process of European integration.

Not everyone climbed aboard the Euro train: Denmark and Sweden turned down membership in the euro in national referendums, so the focus of interest now switched to the UK, where debate about whether or not to join was heated. The government of Tony Blair set five criteria that would have to be met (including assurance that there would be no negative impact on jobs, financial services, or foreign investment) and insisted that a national referendum be held on the issue. Blair himself was in favor, but opinion polls regularly found a large majority opposed to adoption, and the referendum was repeatedly postponed. In January 2007, Slovenia became the thirteenth country to adopt the euro, with Cyprus and Malta following in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014, and Lithuania in 2015.

With the single market almost complete and the euro circulating in the majority of EU member states, the core goals of economic and monetary union should have been close to fruition. Yet unresolved concerns about low productivity and high unemployment persisted, to which the EU responded with the launch in March 2000 of the Lisbon Strategy. This initiative was aimed at making the EU “the most competitive and dynamic knowledge-based economy in the world” within ten years, with the specific goals of liberalizing telecommunications and energy markets, improving European transport, and opening up labor markets.² But these high hopes did not anticipate the global financial crisis that erupted in 2007, followed by a government debt crisis in the eurozone in 2008, both of which sent policy makers reeling.

CHANGES TO THE TREATIES: AMSTERDAM AND NICE (1997–2001)

The ink had barely dried on the Maastricht treaty before EU leaders agreed that a new intergovernmental conference should be convened to take stock of the progress of European integration and to discuss the institutional and policy changes that many felt were vital in light of the projected growth of the EU to a membership of twenty countries or more. The result was the Treaty of Amsterdam, signed in October 1997 and enacted in May 1999.³ Much was expected of the treaty, but it fell short of moving Europe closer to political union, and the leaders of the member states were unable to agree on substantial changes in the structure of EU institutions. Plans were confirmed for enlargement of the EU to the east, the goal of launching the single currency in January 1999 was cemented, and more focus was shifted to policies on gender equality (see Box 4.1), asylum, immigration, unemployment, social policy, health protection, consumer protection, the environment, and foreign affairs.

Box 4.1 Gendering the EU

The EU remained very much a “man’s club” in its first several decades, barely glancing at the rights of women. Yet a key legal component for actions against nondiscrimination on the basis of gender in the EU was already articulated in Article 119 of the Treaty of Rome which stated that “Each Member State shall ... ensure and subsequently maintain the application of the principle that men and women should receive equal pay for equal work.” It was not until a 1976 EU Court of Justice decision, *Defrenne v. Sabena*, however, that this provision became a tool to drive forward sweeping attempts to ensure gender equality. In this historic case, Gabrielle Defrenne, a flight attendant with the Belgian national airline, Sabena, had been forced into a lower paying job under a company policy that required female flight attendants, unlike their male counterparts, to retire at age forty. Defrenne argued that the lower pension rates she would subsequently receive violated Article 119. The Court of Justice agreed, affirming the principle of direct effect (see Chapter 8).

The introduction of direct elections to the European Parliament (EP) in 1979 raised women’s share of seats from 1 percent to 16 percent, providing a new staging ground for efforts to extend and implement gender equality across all member states. Several major directives followed over the next decade, expanding the equal pay cause to include equal access to training, promotion, pensions and other labor market benefits, working conditions (including maternity leave), and protection against sexual harassment. In 1996 the Commission mandated the balanced participation of women and men during all stages of the policy process as well as in regard to policy substance, also known as “gender mainstreaming.” The Treaty of Amsterdam elevated gender equality to a fundamental right of the EU, giving EU institutions new powers to monitor and fight discrimination on the basis of sex. Gender equality was also added to the EU’s list of “chief tasks,” along with securing high employment, sustainable economic development, and inclusive social protection.

Incorporated into the Charter of Fundamental Rights, the Treaty of Lisbon, and a host of recast directives over the last two decades, gender equality has become integral to the *acquis communautaire*, the body of EU laws, regulations, and jurisprudence that must be transposed into national law in all member states. However far nondiscrimination and full gender equality in the EU remain from full realization, it is nevertheless true that women have made enormous strides, a development symbolized by the selection of Ursula von der Leyen, former German defense minister and mother of seven, as the first female EU Commission President.⁴

Another set of changes to the treaties was agreed to by EU leaders at a summit meeting in Nice, France, in December 2000. Less radical and headline-making than either the Single European Act or Maastricht, the key goal of the Treaty of Nice was to make the institutional changes needed to prepare for eastward expansion of the EU, and to make the EU more democratic and transparent. It proved to be a disappointment, though, doing little more than tinkering with the structure of the institutions to anticipate future enlargement; hence the size of the Commission was to be increased, with no country having more than one commissioner, the distribution of votes in the Council of Ministers was to be changed, agreement was reached on a redistribution and capping of the number of seats in the EP, and changes were made to the Court of Justice and the Court of First Instance. Agreement was also reached on a Charter of Fundamental

Rights of the European Union (see Chapter 8, Box 8.1), including an early warning mechanism designed to prevent breaches of the rights of member states.

The Treaty of Nice was signed in February 2001, and like the earlier treaties was to come into force when ratified by all the member states. But a surprise landed in June 2001, when voters in Ireland – where the constitution requires a referendum on all new EU treaties – rejected the terms of Nice. Opponents argued that it required the surrender of too much national control, particularly concerning the implications for Irish neutrality. Part of the problem, however, was simply low voter turnout: just 33 percent of voters cast a ballot, and just 54 percent of those said no. A second vote took place in Ireland in October 2002, following assurances that Ireland's neutrality on security issues would be respected. This time turnout was a more respectable 48 percent, and the treaty sailed through with a 63 percent majority.

Nice came into force in February 2003, but it went largely unnoticed because there had already been broader discussions in the European Council in 2001 about the need to make the EU more democratic and to bring it closer to its citizens. At the Laeken European Council in December, a decision was made to establish a convention to debate the overall framework for the EU: to draw up a draft constitutional treaty designed to simplify and replace all the treaties, to determine how to divide powers between the EU and the member states, to make the EU more democratic and efficient, to determine the role of national parliaments within the EU, and to pave the way for more enlargement. With these aims in mind, a convention took place in 2002–2003 under the presidency of former French president Valéry Giscard d'Estaing. The result of its deliberations was a draft constitutional treaty,⁵ published in July 2003. By the time this constitutional treaty was sent to the member states for consideration in 2004, the membership of the EU was up to twenty-five, and it was agreed that all twenty-five had to approve before it could take effect. Generally speaking, bigger countries were happier with the draft than were smaller ones, due to concerns that their voices would not be heard. Some countries declared that government ratification would be enough, while others opted for national referendums. Eight countries endorsed the treaty in late 2004 and early 2005, including Germany, Italy, and Spain, but then negative public votes in France and the Netherlands in May and June 2005 generated shock waves. By February 2007 eighteen member states had endorsed the treaty,⁶ but in its existing form it was dead, and debates had already begun about where to go next. The end result was the Treaty of Lisbon.

MORE ENLARGEMENT: LOOKING EAST (1994–2013)

Perhaps nowhere was the new power and influence of the EU more obviously on show than in the attraction it held for its Eastern European neighbors, many of which were now anxious to join the club. Just as Community membership had helped bring stability to Greece, Portugal, and Spain, so there were hopes that extending membership to former Eastern bloc countries would promote their transition to capitalism and democracy, open up new investment opportunities, and pull Eastern Europe into a strategic relationship with the West that could be useful if problems in (or with) Russia worsened. But the challenge was substantial, and the hurdles to be jumped were high; *The Economist* argued that it was as though the US had agreed to welcome into the union several Mexican states, with a commitment to bring them up to American standards of infrastructure and social provision.⁷ The EU nonetheless signed agreements between 1994 and 1998 with several Eastern European countries that allowed for gradual movement toward free trade and were designed to prepare its co-signatories for eventual EU membership, including their commitment to democratic norms (see Box 4.2). In 1997 the EU launched Agenda 2000, a program that contained a list

of all the measures that the European Commission felt needed to be agreed to in order to bring ten Eastern European states into the EU.

Negotiations on membership began in 1998–2000 with Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia. Following the completion of negotiations in December 2002, all but Bulgaria and Romania were invited to join the EU. All accepted, and all but Cyprus held referendums that came down in favor of membership. In May 2004 ten new members joined the EU, pushing membership up to twenty-five and for the first time assimilating former Soviet republics (Estonia, Latvia, and Lithuania). The population of the EU swelled by nearly 20 percent, but – given the relative poverty of the new members – its economic wealth grew by just 5 percent. In a second phase of eastern enlargement, Bulgaria and Romania joined the EU in January 2007, while Croatia completed negotiations for accession in 2011 and joined the EU in July 2013 (See Table 4.1 and Map 4.1.)

Eastward expansion was symbolically important in three ways: it provided final and emphatic confirmation of the end of the Cold War division of Europe, was a decisive step in the transformation of former Soviet bloc states from communism to liberal democracy, and gave new meaning to the word *European*. Until 2004 the EU had been a Western European league, and the absence of eastern neighbors from membership reflected the political, economic, and social divisions of the continent. By 2007, almost all of Europe had finally been brought together under the umbrella of the EU.

Today, Albania, North Macedonia, Montenegro, Serbia, and Turkey have been accepted as candidate countries, meaning that membership has been agreed to in principle, while Kosovo, and Bosnia-Herzegovina have applied for membership and have signed “stabilization and association” agreements with the EU. But the prospects for further enlargement any time soon are slim, given the difficulties it has had absorbing Eastern European states and the fact that these candidates face significant political and economic problems. Moreover, the Ukraine crisis and tensions with Russia (see Chapter 16) have made further eastward expansion all but politically impossible in the near future.⁸

TABLE 4.1 Development of the EU

Year	Member States	Cumulative Population (Millions)
1952	Belgium, France, Italy, Luxembourg, Netherlands, West Germany	160
1973	UK, Denmark, Ireland	233
1981	Greece	249
1986	Portugal, Spain	322
1990	East Germany (via German reunification)	339
1995	Austria, Finland, Sweden	379
2004	Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia	
2007	Bulgaria, Romania	500
2013	Croatia	504 (2020 = 513)
2020	UK (withdrawal after Brexit)	447



MAP 4.1 Growth of the EU, 1990–2013.

A CONSTITUTION BY ANOTHER NAME: THE TREATY OF LISBON (2001–2008)

With the failure of the constitutional treaty in 2005, EU governments pondered how best to move forward, eventually deciding to revive much of the content of the treaty in the form of what was ultimately named the Treaty of Lisbon. After an intergovernmental conference in 2007 in Lisbon, where it was signed the following December, its key provisions were:

- The creation of the positions of President of the European Council and a High Representative of the Union for Foreign Affairs and Security Policy – an EU foreign minister in all but name

Box 4.2 Democracy and the Free Market: The Copenhagen Criteria

With the institutional and policy change emanating from Maastricht, the time was ripe for new consideration of enlargement. The territory of the EU had expanded in 1990 as a result of German reunification, but this was a domestic matter rather than a broader issue of enlargement. Nonetheless, it added a new dimension to discussions about the eventual possibility of EU membership for Eastern European states, which was given new meaning by the end of the Cold War and the drawing aside of the iron curtain. It was always informally understood that countries applying for membership in the European Community should be European, although there was doubt about exactly what this meant. There was little question of rejecting an application from Morocco in 1987, while the eight remaining non-EU Western European countries all had strong prospects for joining. But further east the lines became fuzzy. Assuming that Europe's eastern border is marked by the Ural Mountains (deep inside Russia), eighteen more countries theoretically qualified for membership in 1992: seven in Eastern Europe, six former Soviet republics, and five former Yugoslavian states.

Focus sharpened in June 1993 when the European Council, meeting in Copenhagen, agreed on a set of terms for membership. The so-called Copenhagen criteria required that applicant states must:

- Be democratic, with respect for human rights and the rule of law
- Have a functioning free-market economy and the capacity to cope with the competitive pressures of capitalism
- Be able to take on the obligations of the *acquis communautaire* (the body of laws and regulations already adopted by the EU).

To ensure that it meets these commitments, each candidate for membership is monitored by the Commission, including its application of EU legislation. Throughout the process, the Commission is tasked with informing the European Council and the EP on a candidate's progress through regular reports and strategy papers. In addition, the EU has to decide (as stated on the EU website for "Enlargement") whether it has "the capacity to absorb new members." As will be discussed in Chapter 16, a number of countries are currently candidates – even if most all are highly unlikely to be admitted anytime in the near future.

- Formal establishment of the European Council as an institution in its own right
- Abolition of the pillar structure of Maastricht and of the European Community
- A new formula for qualified majority voting within the Council of Ministers
- New powers for the EP, including giving it and the Council of Ministers equal power over proposals for almost all EU legislation
- Recognition of the rights laid out in the Charter of Fundamental Rights (see Chapter 13 for more details)
- A single "legal personality" for the EU (rights and duties within a single legal framework)
- Rights of action, consultation, recognition, support, and the secession of member states (Article 50, a clause first invoked with Brexit).

While every other state in the EU took the position that Lisbon was simply an amendment to past treaties (and therefore ratified it through parliamentary means), Ireland once again put the issue to the voters in a referendum, where it was rejected in June 2008. Its defeat owed much to false information propagated by the treaty's opponents, who claimed that Lisbon would endanger Irish neutrality, would mean radical changes in tax policy, and would legalize abortion in Ireland. To placate the Irish, new protocols to the treaty were added which not only attempted to assuage any fears that these things might happen but also retracted some institutional changes, such as the proposal to reduce the number of commissioners. A new vote on the treaty was held in Ireland in October 2009, and this time the result was an overwhelming 67 percent in favor. The following month, Czech president Vaclav Klaus (a well-known Euroskeptic who had held up ratification pending the Irish referendum and his own satisfaction as to the treaty's provisions) signed on to ratification and the treaty came into force.

THE FINANCIAL AND DEBT CRISIS (2008–2015)

Whatever residual concerns had existed about the way the Treaty of Lisbon had been designed and approved were swept aside when an economic crisis broke out in the eurozone. The roadmap to these problems can be traced back to (1) flaws in the design and execution of the euro,⁹ (2) violation of the rules of membership in the euro by several states (above all, lax fiscal discipline), and (3) a global financial crisis that began in the US in 2007¹⁰ and then migrated across the Atlantic, severely impacting a number of countries who were already dealing with their own domestic economic problems.

Although some European countries, such as Germany, appeared to initially weather the economic storm, others were hit hard, for a variety of reasons. Ireland and Latvia's property bubbles burst, leading to tremendous stress on the banking industry as defaults on loans (largely tied to the property boom) rose dramatically. Economic meltdown loomed as the economy fell into recession, tax revenues plummeted, and unemployment increased sharply. A housing bubble burst and reverberated throughout the Spanish economy, threatening to engulf its banking sector. Unemployment soared to almost a quarter of the population (with over 50 percent of young Spaniards unemployed); Spanish government debt rose and its borrowing costs skyrocketed.¹¹ Portugal was another country especially vulnerable to the global financial crisis: anemic economic growth throughout the early 2000s combined with rising budget deficits led to repeated violations of the rules set down for the common currency and a precarious economic situation by 2008. Meanwhile Cyprus sank into a deep economic recession, and its own banking sector virtually collapsed due to risky loans and entanglement with the Greek economy.

No country was harder hit by the recession than Greece, and its difficulties had synergistic effects on the entire eurozone. Greece's main industries were especially susceptible to economic downturns. Moreover, as it sought financial help from the EU it was revealed that Greek leaders had for years mismanaged the economy while underreporting Greece's debt load, fudging its balance sheet even as it adopted the euro. In the spring of 2010 the country's sovereign rating was downgraded to "junk" status. This meant that investors worried that putting money in the Greek economy was extremely risky; consequently, they demanded a high interest rate (up to 22 percent) if they were going to invest in Greek treasury bonds. Greece began a slide toward financial insolvency, given that servicing the interest and debt on high-interest treasury bonds would bankrupt it (imagine, for example, the difference in trying to pay off a huge credit card bill when the interest on your debt is

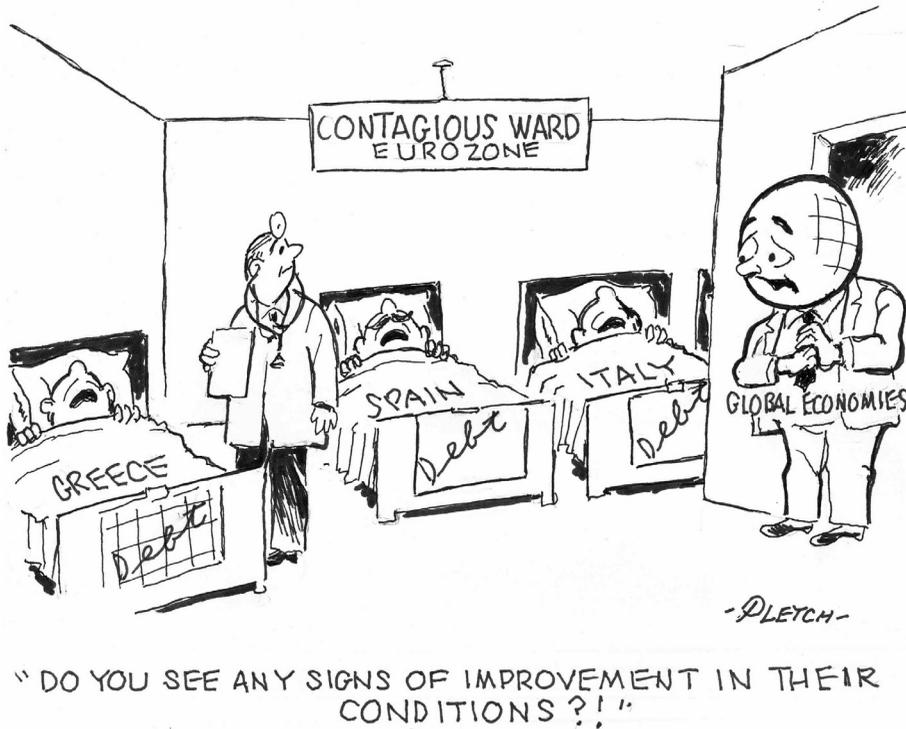


PHOTO 4.1 Contagious Ward of Eurozone.

Source: Cartoonist: Pletch-Eldon Pletcher; www.cartoonstock.com.

2 percent – a more normal bond interest rate – versus 22 percent!). Fears spread that without a massive bailout it would be forced to leave the eurozone and re-adopt the drachma (even while remaining a member of the EU), the so-called “Grexit.”

Supporters of Grexit argued that readopting the drachma would make Greek goods more competitive by making them cheaper on the world market, possibly sparking an economic revival (much like Argentina experienced after it severed its ties to the dollar in 2002). For opponents of Grexit, however, the cons were numerous. Reintroducing the drachma would take several months, and it was highly likely that without draconian measures Greeks would take their money out of the country, safeguarding their now more valuable euros. Goods from the eurozone would be much more expensive and the Greek government would find it hard to borrow from international markets. And Greece’s foreign debt, still denominated in euros, would grow tremendously in relation to the devalued drachma-based economy. Moreover, the EU itself might suffer, with hard-to-calculate psychological effects on investors and lenders, as the euro would no longer be seen as an iron-clad currency union.

Despite the urgency, the EU’s initial response to the crisis was slow and inadequate. Eventually, as the severity became clearer the EU responded more robustly: the European Central Bank stepped in to buy government bonds, thus lowering borrowing costs for countries at risk, and the EU agreed to bailouts for Ireland, Spain, Portugal, and Cyprus. However, as Greece’s problems were to some extent self-inflicted, Germany (supported especially by the Netherlands and Finland) took an especially hard line, arguing that any financial assistance should be contingent upon Greece slashing its budget, cutting government spending dramatically, and agreeing to strict oversight from the EU.¹² Something of a

north–south divide in the EU over Greece emerged, with northern, wealthier states arguing for stricter bailout terms while southern EU states urged more forgiving ones.

Eventually a series of loans to Greece from the so-called “troika” – the European Commission, the European Central Bank, and the International Monetary Fund – ensued. However, the troika’s policy of forced austerity proved deeply unpopular in Greece. Several governments collapsed and political turmoil followed, with the radical-left party Syriza taking power in January, 2015. Syriza began a series of negotiations to soften the conditions of its bailout. Yet confronted with the very real possibility of a Grexit, it stepped back from the brink and surprisingly agreed to an even stricter bailout agreement.¹³ Since that time, the Greek crisis has receded although it would be naive to suggest that all is well. Its debt load and fiscal balances have improved significantly, modest economic growth has returned, and unemployment is down from its peak in 2013 (albeit, still high at 18 percent). Still, it has been estimated that even with 2 percent annual growth, the Greek economy will not return to its pre-crisis size until the early 2030s. Moreover, Greeks are poorer now: while Greek GDP per capita was about 80 percent that of Germany before the crisis, in 2019 it stood at 55 percent.¹⁴ Meanwhile, Syriza was ousted from power in the general election of July 2019. The new government led by the party “New Democracy” wants to lighten Greece’s austerity burden. It does not, however, advocate any radical change in its relationship to the EU.

Measures taken by the EU since 2010 to address the economic crisis have stabilized the rest of the countries of the eurozone. These include a modest economic growth initiative, some steps toward a future banking union and bank oversight, a tightening of the criteria governing membership in the euro (known informally as the “Fiscal Compact”), and a new organization and procedure for administering EU bailout funds (the European Stability Mechanism) (see more discussion of all of these in Chapters 9 and 12). This has been especially true in Ireland, Latvia, Portugal, and Spain, where despite unemployment remaining uncomfortably high, borrowing costs/interest rates on government bonds have come down and economic growth has returned. Still, it remains to be seen whether measures taken by the EU will prove to be decisive enough in the long run to return the eurozone to robust growth and to ward off any future crisis. Indeed, a harsh critic of the Euro, Nobel prize-winning economist Joseph Stiglitz, has pronounced that the Euro was “flawed from birth” and that the EU should either abandon it as a common currency for the nineteen member states, or undertake significantly more far-reaching reforms than it has hitherto been willing to do.¹⁵

THE MIGRATION CRISIS (2015–2018)

On the heels of the financial and debt crisis came the largest refugee influx into Europe since World War II. For some observers, the migration crisis illustrated the perils of the Schengen accords and a “borderless Europe,” misjudgments on the part of EU leaders (chief among them Germany’s Angela Merkel), and a woefully underfunded border control system. For others, the crisis was less a matter of EU failures (although there were certainly plenty of these) than a perfect storm of conditions in the wake of a civil war in Syria, the collapse of stable government in Libya (and very weak governments in other countries), and a rising level of antagonism between the EU and Turkey (a major smuggling route for migrants).¹⁶ The increase in migration was sudden and dramatic: according to Europol, there were some 1.8 million irregular border crossings into the EU in 2015, an increase of 546 percent compared to 2014.¹⁷ The human tragedy of the migration crisis was driven home by high-profile fatal incidents that claimed thousands of migrant deaths.¹⁸ Although the number of border crossings into Europe declined slightly in 2016, Greece and Italy (and later, Spain¹⁹) saw

sharp increases during that year. Because the vast majority of these migrants were not classic “economic migrants” (i.e., those simply seeking work, which the EU had dealt with for decades) but rather refugees seeking political asylum, the EU was required by international law to take them in and have their cases legally adjudicated. From 2015 onward such requests were overwhelming. In this respect, the EU’s migration crisis paralleled later developments in the US from 2017 onward, where the sharp increase in illegal immigration could almost solely be traced to asylum seekers fleeing violence in Central America.

Initially the EU struggled with how to handle the scope and complexity of the migration crisis. Even though most migrants’ ultimate destination was the wealthier, northern EU states (primarily Germany and Sweden), the southern, frontline EU states disproportionately bore the brunt of refugees, with Italy registering over 180,000 migrants in 2016.²⁰ Not surprisingly, with the collective temperature rising due to the strain of the crisis, sharp disagreements erupted among EU states, most often manifested in an east–west divide. Poland, the Czech Republic, Slovakia, and Hungary – the latter of which erected a fence along its borders to keep refugees out – fiercely resisted attempts to take in migrants, arguing that they were both economically unprepared and culturally unsuited to receive them. Xenophobic attitudes surfaced as well, with dark warnings of “Muslim invaders” or the dangers of migrants spreading disease. In contrast, Angela Merkel of Germany decided to unilaterally welcome hundreds of thousands of migrants, breaking agreed-upon EU rules (the “Dublin Regulation,” discussed in Chapter 13) which mandated that migrants register and go through the asylum process in the state where they first entered the EU and remain in that country until a determination was made.

In the fall of 2015, the EU pushed through a plan to voluntarily redistribute some 160,000 refugees among all the EU states (see Chapter 13). Yet resistance was fierce, with qualified majority voting, rather than consensus, ultimately used to reach the agreement. So far the voluntary resettlement plan has been, in the words of EU scholar Laurie Buonanno, an “enormous flop,”²¹ with only 272 refugees having been relocated by 2017. Indeed, in that same year the Commission sued the Czech Republic, Hungary, and Poland over their failure to accept the required quotas of refugees. As of this writing, the EU has been unable to force these three states to fulfill their obligations, which they argue was voluntary, not mandatory. Similarly, the EU has been unable to agree to rules harmonizing asylum procedures across the bloc²² and new resistance to resettling migrants is now being echoed by right-wing populists in Italy.²³ Still, stepped-up border patrols under Frontex (discussed in Chapter 14) and the closing of migration routes, (much criticized) agreements struck with Turkey and Libya²⁴ to keep migrants in those countries, and the waning of political violence in Syria has led to a drop in irregular migrants coming into the EU. While almost 1.3 million applications for EU asylum protection were filed in 2016, this figure declined to 728,000 in 2017 and 634,000 in 2018.²⁵

ANOTHER BLOW TO THE EU: BREXIT (2016–2020)

The ripple effects of the financial and refugee crises in the last decade sparked another consequence: the growth of EU-skeptic or EU-phobic parties, which managed to secure about one-third of the seats in European elections in the spring of 2014. However, EU skepticism was not limited to extreme right, anti-EU parties. Partly as a consequence of the financial crisis, partly as a result of backlash from immigration into the UK from other EU states, and partly, as we have seen in previous chapters, as a consequence of longstanding EU-skeptical attitudes among the UK public and within his own Conservative party, in 2013 Prime Minister David Cameron promised an “in-out” referendum on continued UK membership in

the EU. Cameron wagered that he could secure a better deal for the UK (or as he called it, a “new settlement”) vis-à-vis the EU while placating his Tory opponents with a referendum that, in light of this new deal, he thought could win.²⁶ Consequently, he would strengthen his position as prime minister – a woeful miscalculation as it turned out.

Despite an agreement reached between Cameron and EU leaders on the “new settlement,” the Conservatives remained deeply split (as was the Labour Party), with prominent voices, such as former mayor of London Boris Johnson, supporting the “leave” campaign. While those in favor of “remain” argued that the UK benefitted enormously from the single market, Brexit supporters suggested that the UK could secure better trade deals on its own, that UK democracy was threatened by a European superstate, and that the country was being flooded by foreigners, refugees as well as legal migrants from other EU states. On June 23, 2016, the results of the “in-out” referendum surprised most observers, with almost 52 percent of voters opting to leave the EU. Cameron resigned shortly thereafter and the Conservatives voted in Theresa May as the new prime minister.

Though a supporter of “remain,” May immediately assured Brexit hardliners that she would respect voters’ wishes and set about trying to find ways to negotiate a divorce deal acceptable to Brexiters and to the EU. Yet a compromise solution seemed impossible to find: EU leaders were in no mood to agree to the UK cherry picking a favorable trade agreement while rebuffing EU rules on the free movement of people. After several deals she reached in negotiation with other EU leaders failed to pass the House of Commons, May announced her resignation in May of 2019 and Boris Johnson took over as prime minister. Although Johnson initially faced the very same problems as May – a House of Commons that simply could not agree on the terms of Brexit – he was able to cut the Gordian Knot by calling for an early election in December 2019. The Conservatives’ overwhelming victory finally ended speculation that Brexit would be reversed while at the same time quieting (for the time being, anyway) Johnson’s opponents in the Conservative Party who had been calling for a “no-deal” Brexit. The possibility of a no-deal Brexit was feared by both the EU and even most Tories. In the event of a “no deal,” the UK and EU would not only, presumably, slap tariffs on one another’s goods, but goods from either side would also be subject to customs inspections. The result could very well be gigantic traffic jams at the borders, as food rots (about one-third of the food consumed in the UK comes from the EU), medicines are not easily admitted, and manufacturing grinds to a halt.²⁷

At the time of this writing, it remains to be seen exactly what kind of future economic relationship the UK will have with the EU. Boris Johnson hopes to conclude a new trade deal with the EU by the end of December, 2020 – although most observers think anything more than a “bare bones” trade agreement is highly unlikely by that time.²⁸ The most significant issue yet to be resolved in the wake of Brexit concerns the territorial integrity of the UK itself. Unlike the English, Scots voted overwhelmingly against Brexit, as did the Northern Irish. While Scotland has threatened to hold another referendum on Scottish independence in the wake of the Conservatives’ election victory, Northern Ireland fears a renewed outbreak of sectarian violence – a return of “the troubles” – as a hard border returns between it and Ireland, the latter of which remains in the EU. As the *New York Times* notes, “to reimpose the border is like putting up the Berlin Wall again, after you’ve taken it down.”²⁹ Theresa May’s final negotiated deal with the EU addressed this issue through an “Irish backstop” which provided for a period in which the border would continue to be open while Northern Ireland (and the UK, in turn) remained aligned to many EU rules. Brexit supporters wanted none of this band-aid bartering and thus the deal collapsed. Johnson, in an attempt to avoid both redrawing the hard border as well as leaving the UK tied to EU rules, has proposed having Northern Ireland sit inside the EU’s custom union, drawing the economic border (i.e., border checks) in the Irish Sea between it and the rest of the UK, at least for the time being.

In the immediate aftermath of Brexit, some feared (while others, of course, welcomed) a potential imminent collapse of the EU: it was thought that Brexit would have a “contagion” or domino effect, emboldening anti-EU populists across Europe to push for their own “Frexit” (France), “Nexit” (Netherlands), or even “Italeave.” Yet this contagion has thus far failed to materialize. To be sure, right-wing populist parties have gained strength in many countries, are in power in Hungary and Poland, and have even governed, until recently, in coalitions in Italy and Austria, where they have pushed governments further to the right. Still, expected huge gains for anti-EU parties in the EP elections of 2019 largely failed to come to pass (see discussion in Chapter 7). EU-supportive parties performed well, even if some establishment parties did not. Public support for the EU across member states has risen by roughly 10 percent since the 2016 Brexit referendum, and right-wing populist parties no longer speak of leaving the EU (although their criticisms of it continue unabated).³⁰ Moreover, rather than contagion, EU member states appear more unified than ever on the question of the benefits of EU membership, while many countries outside the union continue to press for entrance into the club.

QUESTIONS TO CONSIDER

- 1 What effects has eastern enlargement had on the development of the EU in terms of its cohesion and identity?
- 2 In light of the EU’s problems in dealing with recent economic crises, can the euro be considered a success or were early critics of the euro right after all?
- 3 Were the three crises the EU experienced over the last decade unavoidable or could they have been averted?

NOTES

- 1 For details, see Amy Verdun, “The Euro and the European Central Bank,” in *Developments in the European Union 2*, 2nd ed., edited by Maria Green Cowles and Desmond Dinan (New York: Palgrave Macmillan, 2004).
- 2 See Anthony Wallace, “Completing the Single Market: The Lisbon Strategy,” in *Developments in the European Union 2*, edited by Cowles and Dinan.
- 3 For an analysis of the origins, negotiation, and conclusion of the Treaty of Amsterdam, see Desmond Dinan, “Treaty Change in the European Union: The Amsterdam Experience,” in *Developments in the European Union*, edited by Laura Cram, Desmond Dinan, and Neill Nugent (Basingstoke, UK: Macmillan, 1999).
- 4 See Birgit Locher, “Gendering the EU Policy Process and Constructing the *Gender Acquis*,” in *Gendering the European Union: New Approaches to Old Democratic Deficits*, edited by Gabriele Abels and Joyce Marie Mushaben, 63–84 (New York and London: Palgrave Macmillan, 2015).
- 5 For details, see Desmond Dinan, “Reconstituting Europe,” in *Developments in the European Union 2*, edited by Cowles and Dinan.
- 6 Those countries which had postponed or cancelled making a decision were the Czech Republic, Denmark, Ireland, Poland, Portugal, Sweden, and the UK.
- 7 “Europe’s Mexico Option,” *The Economist*, October 5, 2002, 36.
- 8 Alex Barker, “EU Offers Stronger Ties to Eastern Nations – But Cautiously,” *Financial Times*, May 22, 2015, at www.ft.com/intl/cms.
- 9 Caroline De La Porte and Elke Heins, “The Aftermath of the Eurozone Crisis: Towards Fiscal Federalism?” in *The European Union in Crisis*, edited by Desmond Dinan, Neill Nugent and William E. Paterson, 149–166 (London and New York: Palgrave, 2017).

- 10 In the words of the historian Ian Kershaw, the economic crisis “was made in the United States, though with willing European accomplices.” Ian Kershaw, *The Global Age: Europe 1950–2017*, 489 (London and New York: Viking, 2018).
- 11 “Going to Extra Time,” *The Economist*, June 16, 2012, 26–28.
- 12 Regarding Germany’s position on the euro crisis see for example Hans-Werner Sinn, “Why Berlin Is Balking on a Bailout,” *New York Times*, June 13, 2012, A23; see also Nicholas Kulish, “Germany Is Open to Pooling Debt, with Conditions,” *New York Times*, June 5, 2012, A1.
- 13 Peter Spiegel, “EU Frustration over Greece Hits Boiling Point at Eurogroup Meeting,” *Financial Times*, April 24, 2015, at www.ft.com/content/962eac8a-ea83-11e4-a701-00144feab7de, accessed April 25, 2015.
- 14 Martin Wolf, “Greek Economy Shows Promising Signs of Growth,” *Financial Times*, May 19, 2019, at www.ft.com/content/b42ee1ac-4a27-11e9-bde6-79eaea5acb64, accessed June 28, 2019.
- 15 See Joseph E. Stiglitz, *The Euro: How a Common Currency Threatens the Future of Europe* (New York and London: W.W. Norton & Company, 2016).
- 16 Laurie Buonanno, “The European Migration Crisis,” in *The European Union in Crisis*, edited by Dinan, Nugent and Paterson, 100–130.
- 17 Europol, *Migrant Smuggling in the EU*, at www.europol.europa.eu/publications-documents/migrant-smuggling-in-eu, accessed July 1, 2019.
- 18 “EU Ministers Urged to Act after Hundreds of Migrants Feared Dead,” *Financial Times*, April 20, 2015, at www.ft.com/content/716931fe-e673-11e4-afb7-00144feab7de, accessed April 27, 2015.
- 19 In 2018, 56,000 migrants crossed into Spain, about as much as in Italy and Greece combined. See Jon Henley, “What is the Current State of the Migration Crisis in Europe?” *Guardian*, November 21, 2018, at www.theguardian.com/world/2018/jun/15/what-current-scale-migration-crisis-europe-future-outlook, accessed July 1, 2019.
- 20 “Fewer Migrants at EU Borders in 2016,” *Frontex News Release* at <https://frontex.europa.eu/media-centre/news-release/fewer-migrants-at-eu-borders-in-2016-HWnCIJ>, accessed July 1, 2019.
- 21 *Ibid.*, 116.
- 22 Jennifer Rankin, “EU Declares Migration Crisis Over as it Hits out at ‘Fake News,’” *Guardian*, March 6, 2019, at www.theguardian.com/world/2019/mar/06/eu-declares-migration-crisis-over-hits-out-fake-news-european-commission, accessed on July 1, 2019.
- 23 Stephen Castle, “Brexit Plans Raise Fears of Food Shortages and Jammed Ports,” *New York Times*, at www.nytimes.com/2018/07/30/world/europe/uk-brexit-shortages.html, accessed on August 1, 2018.
- 24 For a harsh assessment of the deals the EU struck with Turkey and Libya to curb migration, see Bret Stephens, “An Immigration Policy Worse than Trump’s,” *New York Times*, July 5, 2019, at www.nytimes.com/2019/07/05/opinion/immigration-trump-southern-border.html, accessed July 6, 2019.
- 25 “Asylum and Migration in the EU: Facts and Figures,” *European Parliament News*, at www.europarl.europa.eu/news/en/headlines/society/20170629STO78630/asylum-and-migration-in-the-eu-facts-and-figures, accessed June 30, 2019.
- 26 Lee McGowan and David Phinnemore, “The UK: Membership in Crisis,” in *The European Union in Crisis*, edited by Dinan, Nugent and Paterson, 77–99.
- 27 Amie Tsang, “What Would a No-Deal Brexit Look Like?” *New York Times*, April 2, 2019, at www.nytimes.com/2019/04/02/world/europe/brexit-no-deal-outcomes.html, accessed April 3, 2019.
- 28 See Mark Landler and Stephen Castle, “And You Thought Brexit Was Tough,” *New York Times*, January 8, 2020, at www.nytimes.com/2020/01/08/world/europe/brexit-united-kingdom.html, accessed January 10, 2020.
- 29 Sarah Lyall, “On Irish Border, Worries that ‘Brexit’ Will Undo a Hard-Won Peace,” *New York Times*, August 5, 2017, at www.nytimes.com/2017/08/05/world/europe/brexit-northern-ireland-ireland.html, accessed August 5, 2017.
- 30 Frank Langfitt, “Here’s Why Brexit Wasn’t Followed by Frexit, Swexit or Nexit,” NPR, at www.npr.org/2019/04/26/715926169/heres-why-brexit-wasnt-followed-by-frexit-swexit-or-nexit, accessed July 11, 2019.

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