

29

The Future of the EU

Brigid Laffan

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Reader's Guide

This chapter is structured around four scenarios on the future of the European Union (EU): 'Disintegration', 'Piecemeal Adjustment', 'Functional Federalism', and 'A European Sovereignty'. The political battle concerning the future of the Union is a battle that cuts across all four scenarios. The second decade of the twenty-first century will be a formative one for the EU because of the immense challenges of climate change, the accelerating digital transformation, Europe's unstable neighborhood and the impact on Europe's role in the world arising from the return of Great Power competition. After a decade of crises, the EU finds itself again in testing times against the backdrop of the COVID-19 pandemic and its consequences for European societies and economies. In 2021 it embarked on one of its periodic deliberations about its future with a Conference on the Future of Europe (CoFE), launched on 9 May 2021. The perennial questions about the EU remain—how does it collectively amass sufficient political authority to address Europe's challenges while maintaining its legitimacy? How can it be resilient as a Union while managing the deep diversity that characterizes Europe? European integration has to manage the ties and tensions between the Union and its component parts, between its character as a Union of states and peoples. The four scenarios are a heuristic device to explore the future of the Union at a time of extraordinary uncertainty and structural change. Disintegrative fissures should not be ignored. The United Kingdom (UK), a significant member state, departed the EU on 31 January 2020 and left the Single Market at the end of the transition period on 31 December 2020. Piecemeal Adjustment, the dominant response to the EU crisis and to events on Europe's borders, continues to have resonance, as does Functional Federalism, defined as further integration but in specific fields. The fourth scenario, 'A European Sovereignty', sometimes defined as 'strategic autonomy', emerged on the political agenda with the election of French President Macron in May 2017.

29.1 Introduction

Debate and discussion on the future of the European Union (EU) never abates because the EU is not a stable polity and the political project to build an 'ever closer union' continues. The EU, which is tangible and visible in daily life, remains indeterminate and ambiguous, as captured by the idea that European integration is *A Journey to an Unknown Destination* (Schonfeld, 1973). The Lisbon Treaty supplies the Union's overarching constitutional framework in the second decade of the twenty-first century; it specifies the decision rules and institutional roles that govern how policies are made and administered and it establishes the competences of the Union in different spheres. In addition, it encapsulates the values and goals that underpin the EU (see Chapter 3).

The Union is in a period of transition, a **critical juncture**, and is subject to multiple, and not necessarily convergent, trends and pressures. Europe's Union was tested and contested during the troubled times it faced since 2009. Two exogenous shocks, the eurozone crisis and the migration crisis, generated internal economic, political, and social turbulence in the Union (Laffan, 2018). Ursula von der Leyen, Commission President nominee when she outlined her key political priorities at the European Parliament (EP) in July 2019 prior to her election, aimed to take the Union beyond crisis politics to a focus on key strategic goals. The von der Leyen agenda was bold; it included four transformative projects—a European Green Deal, Digital, strengthening Europe's role in the world, and a European economy that works for the people (von der Leyen, 2019). These priorities converged with the European Council's Strategic Agenda. Within three months of assuming office, Europe was again in crisis mode as the COVID-19 pandemic swept across the continent. Crises are 'open moments' or 'moments of truth' that impact on rulers and ruled (Laffan, 2018: 2). They generate uncertainty and threat and may act as a focal point for major change (Gourevitch, 1992). Once again Europe has to prove its resilience.

Four important developments are likely to have a major impact on the Union by 2030. The first is the continuing legacy of the eurozone crisis, a crisis that tested the Union's legal, institutional, economic, and political fabric, and although the acute phase of the crisis has ended, the single currency regime is neither fully stable nor complete. The divergence of economic performance between the core eurozone

countries and those on the periphery create deep tensions at the heart of the currency union that resurfaced during the pandemic. An incomplete Banking Union remains a source of potential stress (see Chapter 25). Second, Europe's borderlands and neighbourhood continue to be unstable, and the consequences of this may be seen in the continuous migratory flows across the Mediterranean, conflict, and the failed or failing states in the MENA (Middle East and North Africa) region. Relations between Turkey and the EU have deteriorated as President Erdogan adopted an increasingly hostile posture in the Eastern Mediterranean. To the Union's east, member states are faced with major threats given Russia's growing assertiveness in territories that once formed part of the Soviet Union. Not content with its disruptive role in the neighbourhood, Russia has actively engaged in hostile cyberattacks against the member states and seeks to foster opposition to European integration (see Chapter 19). Instability on the EU's borders is not just a matter of foreign policy, because war and dislocation lead to strong migratory pressures that confront the Union and particularly the Mediterranean member states with major political and security dilemmas (see Chapter 26). The combined effects of the economic crisis and instability in the neighbourhood have further weakened the prospect of enlargement beyond the Balkans (see Chapter 18).

Third, there is far more contention in and about the EU and more pronounced fragmentation and volatility in domestic politics than in the past. The Union is no longer just a system of multilevel governance but has become a multilevel political system characterized by vertical and horizontal political dynamics (see Chapter 7). The rise of radical right-wing parties in the member states, motivated by deep **Euroscepticism**, has politicized the Union and this is unlikely to abate. Left-wing radicalism is also Eurosceptic but seeks a different more socially oriented and interventionist EU. Populism is stronger in Europe than it has been at any stage in the post-war period. The interaction of populism and European integration is multi-faceted. The EU is political arena for populists and a target of populists. Moreover, EU supported policies of austerity during the financial crisis exacerbated political tensions in the member states (see Chapter 15). The 2019 EP elections resulted in gains for the radical right and left and also the Greens and Liberals who are generally supportive of the EU. Although populist parties won 29 per cent of the seats in the EP elections, their

political impact is circumscribed because they are split across party groupings. The most significant outcome of the elections was that the European People's Party (EPP) and the Social and Democratic Party (S&D) could no longer command a majority and needed support from the Liberals or Greens to fashion majorities (Youngs, 2019). Significantly, Brexit appears to have led to a revival in support for the EU in the remaining states as the shock of the UK's departure galvanized pro-EU forces across the continent; Emmanuel Macron campaigned in 2017 on a strong pro-EU platform and, in the 2021 Dutch election, the pro-European **Democrats 66 (D66)** performed strongly. Eurosceptic parties on the continent toned down their opposition to the EU and no longer advocate leaving the Union or the euro.

Fourth, the international system is in a period of profound structural transformation. The election of Donald Trump as US President on an 'America First' ticket in November 2016 undermined the post-war liberal international settlement, founded by the USA, when he privileged unilateralism over multilateralism. Moreover, President Trump was the first post-war US President who was openly hostile to European Integration. The Trump administration saw the rise of a more assertive China under the leadership of President Xi Jinping. The election of Joe Biden in November 2020, when he defeated Donald Trump in both the popular vote and electoral college, offers an opportunity to re-set global politics. President Biden brought the USA back into the **Paris Agreement** and is significantly more multilateralist than his predecessor. Unlike President Trump, the Biden Administration seeks a close cooperative relationship with the EU underlined by his virtual participation in a European Council meeting in March 2021, just months after taking office, and his presence at the June 2021 European Council in Brussels. Forging the Transatlantic relationship for the future is not without challenges even under a Biden administration. President Biden and his Secretary of State Antony Blinken have adopted a strong assertive stance vis-à-vis China, signalling an era of Great Power competition. The EU does not want to have to take sides between the USA and China although the Union has classified China as both a co-operation partner, competitor, and a systemic rival. The Transatlantic Alliance remains the cornerstone of European security policy. Growing authoritarianism in China and the repression of the **Uighurs** may leave the EU with little choice but to support the USA.

How Europe positions itself in a multipolar, although not necessarily multilateral, world will have a major bearing on its future.

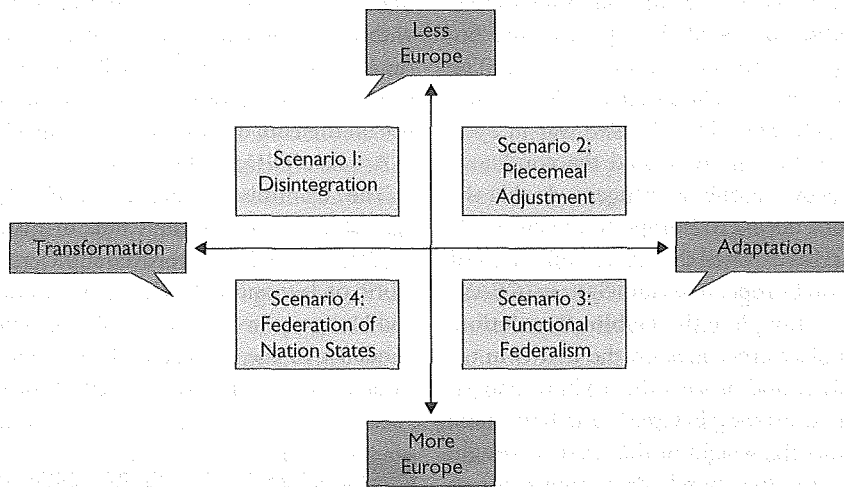
29.2 Four scenarios on the future of the EU

Given the impossibility of predicting with any accuracy the future of the Union, and given the conflicts and struggles identified above, this chapter presents a number of scenarios in order to underline the different considerations and pressures that have a bearing on the future of the EU. Scenarios enable us to think about the future in a structured manner by providing a framework for addressing uncertainty and contingency. Four scenarios on the future of the EU are presented: (1) Disintegration (Section 29.2.1); (2) Piecemeal Adjustment (Section 29.2.2); (3) Functional Federalism (Section 29.2.3); and (4) a European Sovereignty (Section 29.2.4). The scenarios are presented as a two-by-two matrix with the vertical line representing 'more' or 'less' Europe and the horizontal line representing 'transformation' and 'adaptation' (see Figure 29.1). We argue that although systemic disintegration is unlikely, partial disintegration is occurring because of the exit of the UK, and the battle about European values in a number of member states. In analysing the pressures and tensions characteristic of European integration, it is possible to trace elements of all scenarios in the likely future trajectory of the Union. The political battle revolves around those forces that are committed to more Europe, those that want to return power to the member states, and those that are content with muddling through or incremental change. As we will see in this chapter, Europe's future will not be determined in Europe alone but by wider forces in global geopolitics and geo-economics.

29.2.1 Scenario I: Disintegration

In the past, scholars of European integration focused attention on how and why the EU and European integration developed. Little consideration was given in the theoretical literature to processes of disintegration. Following the collapse of communism and the end of the Cold War, the realist scholar, John Mearsheimer, predicted a return to the dark forces of nationalism in Europe and to heightened distrust among states. His portrayal of Europe was a

Figure 29.1 Four scenarios on the future of Europe



Europe of hyper-nationalism, insecurity, and conflict (Mearsheimer, 1990). Although an extreme version of Mearsheimer's vision did not materialize, nationalism and identity politics have gained traction in Europe. Moreover, the return of authoritarianism in Russia under Putin is a stark reminder that democratic transition is demanding and remains uncertain in many states on the Union's borders. In the post-Cold War era, the EU became a powerful source of stability as it prepared to become continental in size. The success of the Big Bang enlargement in May 2004 was, and remains, a major achievement for the Union (see Chapter 18). From autumn 2009 onwards, however, the EU has been subject to a series of interrelated crises—eurozone, migration crisis, Brexit, and the rise of authoritarian governments and leaders such as Viktor Orbán in Hungary and the **Law and Justice Party (PiS)** in Poland that have generated deep fissures in the Union (see Chapters 25, 26, and 27). How seriously should the prospect of disintegration be taken? In addressing this question, it is helpful to distinguish between disintegration as 'fragmentation' and disintegration as 'system collapse'. The argument here is that further fragmentation is likely but that the EU appears sufficiently robust to resist system collapse.

The eurozone crisis engendered a sustained discussion about the prospect of disintegration in the euro area and the EU more generally. The crisis, in its early phase, was labelled *The Euro's Existential Crisis* by

Barry Eichengreen (2010), a view shared by numerous political actors in Europe. Speaking in May 2010, following the first Greek bailout, German Chancellor Angela Merkel claimed that 'The current crisis facing the euro is the biggest test Europe has faced in decades. It is an existential test and it must be overcome . . . if the euro fails, then Europe fails' (Merkel, 2010). The then European Council President, Herman Van Rompuy, agreed that Europe was 'in the middle of a crisis which affects the material and symbolic heart of the European Union—the euro. An existential crisis and we mean to overcome it' (Van Rompuy, 2011). Scholars too began to ask what were the prospects of an EU collapse, and disintegration was identified as 'a clear and present danger' (Krastev, 2012; Wright, 2012). There is no doubt that there have been times since 2010 when the exit of a eurozone member state was highly plausible and the collapse of the euro itself was not inconceivable. At each critical juncture, however, the eurozone states and the **European Central Bank (ECB)** found the capacity and the instruments to stabilize the crisis (see Chapters 22 and 25). Europe's political actors and institutions have shown a determination to ensure that the euro survives. The then President of the ECB, Mario Draghi, speaking at Lancaster House in the heart of the City of London in July 2012, boldly stated that 'Within our mandate, the ECB is ready to do whatever it takes to preserve the euro' and, pausing for effect, he went on to say 'And believe me, it will

be enough' (Draghi, 2012). The eurozone crisis highlighted both EU resilience and vulnerability.

The presence of the ECB as the eurozone's indispensable institution provided the EU with the fire power to bring the euro crisis under control. The migration crisis, which reached its height in summer 2015, proved much more difficult. The war in Syria and instability in the region created the conditions for the arrival of over a million refugees, double the previous numbers, fleeing to Europe across the Mediterranean. The crisis exposed the severe limitations of the EU's Common European Asylum System (CEAS), which has as its centrepiece the **Dublin Regulation**. This regulation places the onus on the first country of entry to register and process the asylum request. Given the numbers arriving in Greece and Italy, these two countries bore the weight of the crisis. Throughout the summer of 2015, hundreds of thousands of refugees were attempting to get to Germany and beyond through the Balkan route. The Union, in an attempt to foster burden sharing, agreed measures on the distribution of migrants throughout the member states. The countries of Central Europe vehemently opposed this and began building walls to cut off the Balkan route. Under the pressure of events, Chancellor Merkel waived the Dublin Regulation, leading to a significant influx of refugees into Germany. The number of refugees entering Europe was significantly reduced when Germany took the lead in an EU-brokered deal with Turkey in March 2016. The arrangement with Turkey was a deliberate EU strategy to externalize the migration challenge given the deep and unresolved cleavages within the Union. The migration crisis and the Union's struggle to manage it had an impact on politics in Europe (see Chapter 26). It fuelled anti-migrant sentiment and support for the far right, as the far-right **Die Alternative Für Deutschland (AfD)** entered parliament following the September 2017 German election.

The cleavage between the eastern and western half of the continent worsened because of the migration crisis but the East–West divide had additional ingredients. The rise of illiberal democracies in the Eastern half of the continent poses a major challenge to the Union. Hungarian Prime Minister Orbán and his **Fidesz** party, in power since 2010, gradually morphed from a centre right conservative party into an authoritarian party that is undermining the rule of law and the values of the EU. The election of the Law and Justice Party (PiS) in Poland in 2015 further

challenged the rule of law and European values with direct attacks on Polish judicial institutions and media freedoms. Developments in these countries, together with other member states in the region, pose acute functional and normative challenges to the EU which it struggles to address. The EU is built on law and relies on the **rule of law** to cement the Union as stated in Article 2 TEU (see Box 29.1).

The Commission began Article 7 proceedings against both states in the Court of Justice of the EU (CJEU) but this has not proved sufficient to protect the fabric of law and independent institutions in Poland and Hungary (see Box 29.2). The assault on the independence of the media and the judiciary is relentless. In addition to triggering Article 7 proceedings, the



BOX 29.1 BACKGROUND: ARTICLE 2 TEU

The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law, and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity, and equality between women and men prevail.



BOX 29.2 CASE STUDY: ARTICLE 7 PROCEEDINGS AGAINST POLAND AND HUNGARY

Article 7 TEU is the main Treaty mechanism to deal with member states that breach the values outlined in Article 2 TEU. It ultimately allows for the suspension of certain Treaty rights, including voting rights in the Council. The EU's rule of law problem has been primarily concerned with the challenge to the independence of the judiciary in Poland and Hungary.

The European Commission has been reluctant to invoke Article 7 TEU because the threshold to trigger the article is very high, both in terms of its activation in case of 'clear risk of a serious breach' and in terms of the sanctioning mechanisms: to be used only in cases of 'serious and persistent breach by a Member State'. Thus the European Commission has favoured other mechanisms such as the 2014 EU Rule of Law Framework. The framework involves a three-stage process: assessment, recommendation, and follow up. In the case of no satisfactory follow up of the recommendations by the member state, the Commission can decide to trigger Article 7.

Commission has taken four cases to the CJEU on aspects of Polish law governing the judiciary and in all completed cases the CJEU found against Poland (EU, 2021). Neither country would have achieved membership of the EU whilst following these policies and practices. Freedom House concluded in its 2020 report that 'Hungary today can no longer be regarded as a democracy but belongs to the growing group of hybrid regimes, sitting in the "grey zone" between democracies and pure autocracies' (Freedom House, 2020). It took the European People's Party (EPP) until 2021 to finally push Fidesz out of the political grouping. The assault on democratic institutions in some member states undermines the values of the Union and brings the Union's vulnerability sharply into focus.

The UK's exit from the EU on the 31 January 2020 transformed it from member state to third country, the first state ever to leave the Union. There was deep shock and emotion in Brussels on 24 June 2016 as the outcome of the referendum sank in, but shock quickly turned to determination. Within one week, the EU had framed its response to Brexit and made a commitment to unity of purpose when negotiating with a departing state. The reflex was to aim for an orderly exit by using Article 50 as the shaper of process. Added to this the EU informed London that there would be no negotiation without notification and signalled that there would be no special deals for a former member state. The UK was left in no doubt that the integrity of the Single Market and the indivisibility of the four freedoms were EU red lines. EU leaders were acutely conscious that the EU27, acting in a unified manner, was far more powerful than a state acting on its own. That said, the EU sought as 'close a relationship as possible' with the UK although how close would be determined by the UK's trade-off between market access and freedom to diverge. The UK declared its intention to leave the Single Market, customs union, and the jurisdiction of the CJEU and when Boris Johnson took office in July 2019, he was determined to pursue a sovereignty first Brexit. The outcome of this preference was a very hard Brexit encapsulated both in the Withdrawal Agreement (agreed on 17 October 2019) and in the Trade and Cooperation Agreement (TCA) agreed just six days before the end of the UK's transition period on 31 December 2020 (see Chapter 27). The EU demonstrated its resolve to protect the Union and its major geopolitical asset, the Single Market. Speaking in March 2021, Michel Barnier, the Union's chief negotiator, reflected that Brexit has not triggered the

demise of the EU but its reawakening and had highlighted that it was Europe's unity, Single Market, and common policies that gave it clout on the world stage (Barnier, 2021). Moreover, he emphasized the strength that flows from the pooling of sovereignty (Barnier, 2021). In essence Brexit was a clash not about sovereignty but its practice. The UK sought a return to a more absolutist practice of sovereignty but as Mario Draghi said in an address to the Italian Senate 'there is no sovereignty in solitude' (Draghi, 2021).

The disintegration scenario points to fissures that characterize the EU as it struggles to address a range of challenging issues. There is little evidence of systemic disintegration. The rule of law challenges undermine the EU from the inside but do not represent system collapse. The departure of the UK, which appeared existential at the outset, saw the EU consciously build its political and institutional capacity to minimize the dangers of geographic disintegration. During a decade of crises, the EU proved resilient because it offers European states the scale and anchor to deal with deep interdependence.

29.2.2 Scenario 2: Piecemeal Adjustment

Piecemeal Adjustment implies small steps rather than transformative change. The response to Europe's multiple crises was described as 'muddling through', an approach to decision-making that was developed by Charles Lindblom as an antidote to dominant rationalist approaches (Lindblom, 1959). Muddling through is characterized by incrementalism and satisficing rather than the search for comprehensive solutions. As the euro crisis gathered pace in the first half of 2010, the eurozone lacked the instruments and tool kit to address the multiplicity and severity of the problems that were emerging (see Chapter 25). Nor was there a convergence of preferences across the member states on the nature of the problem and what should be done. In fact, there was a deep cleavage between the creditor and debtor states, with the latter finding themselves in a very vulnerable position. Led by Germany, crisis management and resolution was driven by the creditor countries, on the one hand, and the ECB, on the other. The debtor countries were seeking salvation and support whereas the creditor countries wanted to do the minimum necessary to sustain the euro. Public opinion in the creditor states did not want to bail out the troubled countries and in turn the wave

of austerity that swept across the southern countries and Ireland meant that incumbent governments paid a high price in crisis elections (see Chapter 15). An incremental response that bought time was the most palatable political approach to the crisis but one that was not designed to engender confidence in the markets or provide the optimal support to the debtor countries. Every time the crisis became acute for sovereigns or banks, the leading politicians of the eurozone and the ECB acted. Crisis management was characterized by rescue programmes for specific vulnerable countries, the development of a set of crisis management instruments and a ratcheting up of regulations on economic governance (see Chapter 25).

The crisis exposed dangerous design faults in the euro; centralized monetary policy, accompanied by decentralized fiscal and financial supervisory regimes, left the system vulnerable to imprudent fiscal policy in one or more countries and to an unsustainable rise of private debt in others (see Chapter 22). As the EU attempted to come to terms with the onset of a eurozone crisis in spring 2010, the question of economic governance became central to the agenda. The focus was on the collective co-responsibility of the member states within the euro area. Beginning with the Van Rompuy Task Force on Economic Governance in 2010, the euro area states agreed to a new regulatory regime for domestic budgetary and economic policy consisting of a 'six pack', 'two pack', and a **Fiscal Compact**. The clear policy direction is towards more stringent surveillance, reinforced penalties, and constraint (see Chapter 25). EU intrusion and surveillance was designed to ensure that euro states put their public finances in order and once order has been restored, maintain them within the rules. This, however, was considered insufficient for the future sustainability of the euro. A more ambitious road-map was crafted that led the euro area towards a higher level of functional federalism.

Muddling through also characterized the approach to the migration crisis as the Union adopted piecemeal measures in their response. The Commission drafted a burden-sharing agreement to ease the burden on those states experiencing the largest flows but was unable to achieve member states' compliance or reform the regulatory framework. When it became apparent that European publics were concerned about the apparent un-governability of the refugee flows, the EU moved to stop the flows via a strategy of externalization; the 2016 Turkey Agreement, training of Libyan

coast guards, actions in the Niger Sahel region, and the creation of a European Border and Coast Guard Agency in 2016. The objective was to stem the flow of irregular migration and all measures point to a progressive strengthening of the Union's external borders. Attempts by the Union to adopt a long-term strategic approach to migration have faltered because of deep divisions across the member states and the sensitivity of the issue (see Chapter 26).

29.2.3 Scenario 3: Functional Federalism

Functional Federalism implies centralization but on a sectoral rather than on a polity basis. A focus on the long-term architecture of EMU going beyond economic governance began to surface on the agenda of the European Council in 2012. The European Council president at the time, Herman Van Rompuy, was mandated by the Council to prepare a time-bound road-map for the creation of what has been termed a genuine economic and monetary union (GEMU), a euro mark 2. The Van Rompuy report, which was drafted in cooperation with the Presidents of the Commission, the ECB, and the **Eurogroup**, was submitted to the European Council in draft form in June 2012 and in final form in December 2012. The report was designed to set the agenda and frame the issues for the European Council, which had the power to agree a programme of work and timeframe for action. In other words, the presidents of the supranational institutions laid out what they considered desirable and the heads of state and government decided what they would agree to over what timeframe.

The use of the term 'genuine' in the title of the report was to underline the incompleteness of the original euro design. The Van Rompuy report identified four pillars or building blocks of a future EMU, namely:

- an integrated financial framework (Banking Union);
- an integrated budgetary framework (Fiscal Integration);
- an integrated economic policy framework (Economic Policy Coordination); and
- ensuring the necessary democratic legitimacy and accountability of decision-making within EMU, based on the joint exercise of sovereignty for common policies and solidarity (Van Rompuy report, 5 December 2012)

The immediate task was ensuring fiscal sustainability and breaking the link between sovereigns and banks, to be achieved in 2012–13. This placed Banking Union as the key priority agenda item in the redesign of the eurozone. Following intensive and difficult negotiations on bank supervision and resolution, the ECB took over responsibility for the supervision of Europe's banking system in November 2014. This represented a further strengthening of the power of the ECB and its place in the Union's institutional landscape because Banking Union was the most significant centralization of power since the establishment of the single currency. Going beyond Banking Union to further fiscal integration remained a major challenge for the member states as it would bring the Union even further into core state functions.

It took the COVID-19 crisis in 2020 to open up a window of opportunity on EU public finances. As the economic consequences of the pandemic became evident and the need for massive public expenditure to maintain health systems and the flow of funding to business, workers, and families, demands grew for a collective EU response. The context for negotiating the Multi-Annual Financial Framework (MFF, 2021–27) was transformed. The EU leveraged its financial capacity for both short- and long-term measures. For the short term, the Commission proposed and got agreement to a €100 billion loan fund known as SURE (the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency) to support employment related expenditure in the member states. When political attention turned to the recovery, there were calls from the hardest hit member states for sizeable financial support given the scale of the problem and their limited fiscal space given the overall stock of debt. The April European Council mandated the Commission to prepare a proposal in the context of the EU budget and the MFF. By mid-May the German Government signalled a major shift in policy when Chancellor Merkel and President Macron called for a €500 billion recovery fund, some of which would be issued to member states as grants not loans. The taboo on common debt issuance began to weaken although a group of states known as the 'frugals'—the Netherlands, Denmark, Sweden, Austria with some support from Finland—continued their opposition. This will be a key political battle in the decade ahead. Moreover, common debt may help build a European Capital Union and create a safe asset for the euro. This points towards a deepening of functional integration over the next decade (see Box 29.3).

BOX 29.3 KEY DEBATE: SOLUTIONS TO THE ECONOMIC EFFECTS OF THE COVID-19 PANDEMIC

Following the April 2020 European Council, the Commission proposals consisted of two elements, the MFF 2021–27 amounting to €1.1 trillion over seven years, and the *Next Generation EU* instrument of €750 billion funded completely by borrowing from the capital markets (European Commission 2020a and 2020b). The key elements of the *Next Generation EU* proposals were: a Recovery and Resilience Facility (RRF) of €560 billion to be dispersed as both grants and loans; a further €55 billion for cohesion policy; and a Just Transition Fund of up to €40 billion to support the green agenda (European Commission, 2020). This was a remarkable proposal in the budgetary politics of the Union. It took a four-day European Council marathon in July 2020 to reach political agreement. The opposition of the frugals had to be overcome and there were also tense negotiations on the demand for 'rule of law' conditionality in EU funding. The latter was trenchantly opposed by Poland and Hungary. The RRF requires ratification by national parliaments. The July 2020 financial package represented a major breakthrough, although to call it the EU's 'Hamiltonian' moment exaggerates. Its salience lies not just in the breaking of the common debt taboo but also in its potential longer-term impact. The RRF has to be repaid from the EU budget, which inevitably raises the question of resources and the prospect of EU level taxation.

29.2.4 Scenario 4: A European Sovereignty

From the outset there have always been political actors who favoured a federal outcome to the process of European integration. Jacques Delors, then Commission President, was the first European politician to use the term Federation of Nation States in the 1990s. It was deliberately ambiguous and an attempt to square the circle by emphasizing the collective, the Federation, but also the Nation States. In other words, a European Federation could be reconciled with the member states as nation states. The term **federation** would not necessarily imply a federal state. Rather it could be a **polity**, a compound political system without declaring itself a state. Whenever political actors invoke the 'federal' word and advocate further centralization of power and competence in the EU, they grapple with the challenge of reconciling the embedded nature of Europe's nation states with their advocacy of further integration. This leads them towards ideas of

federalism as a method and labels that fall short of a United States of Europe, a federal state. Joschka Fischer, in his Humboldt speech of 12 May 2000 entitled 'From confederacy to federation—thoughts on the finality of European integration', launched an intense debate among Europe's political leaders on the future of the European Union. The debate led to the Convention on the Future of Europe but died with the failed ratification of the **Constitutional Treaty** (see Chapter 3). The acute nature of the crises facing the EU since the late 2000s left little political room for grand visions on the future of the Union. The election of Emmanuel Macron in 2017 altered the context and dynamic of debate. In September 2017, President Macron delivered a major speech to students at the Sorbonne, a speech he began with the words, 'I have come to talk to you about Europe' (Macron, 2017). The speech was lengthy and full of prescriptions on all areas of EU policy and institutions. Rather than deploying terms such as 'federal' or 'federation', President Macron used the term 'European sovereignty' and argued that it must be constructed in areas such as security and defence, border control and preserving Europe's values, the ecological transition, digital technology, Europe's social model, and taxation (Macron, 2017). The Macron speech demonstrated that those supporting deeper integration were fighting back against the constraints of crisis and **Euroscepticism**. President Macron said that those supporting deeper integration should not be held back by those unable or unwilling to participate. Paradoxically, Brexit followed closely by the election of President Trump in the USA helped make the case for Europe in an uncertain and unsettled world.

Two of von der Leyen's policy priorities are transformational in nature: the Green Deal and addressing the digital transformation. Although the pandemic influenced the rollout of EU policies in these areas, they remain core to the agenda and are projects for the future. Both require agency not just in Europe but intensive engagement with international players. Macron's concept of 'European Sovereignty' has morphed into 'strategic autonomy', which is usually accompanied with the words 'open' and 'effective'. Sabine Weyand, Director General of DG Trade and former senior member of the Brexit negotiating team, defines open strategic autonomy as an analytical prism or aspirational goal for the EU as it seeks to 'chart our own course in world affairs, the world economy, and the world trade in line with our interests and values' (Weyand, 2020). The addition of 'open' is to dispel fears of a protectionist EU.

The ambition to chart the EU's own course is leading to the emergence of new approaches to trade, industrial policy, competition, supply chains, and the prospect of a carbon levy. It points to the deployment of the collective capacity of the Union and represents the EU's strategy for dealing with the challenges of the twenty-first century. There are strong pressures on Europe to be more united and integrated in an increasingly competitive world characterized by deep structural change.

Given the politicization of integration since the 1990s and the impact of the crisis on democratic politics in Europe, Europe's elites will not be able to achieve a federation even of nation states without the active engagement and consent of their citizen electorates (see Chapter 15). The challenge is not so much about building a federation with the member states but building one with their citizens. That said, the EU did not collapse under the weight of its multiple crises over the last ten years and the shifts and shocks of global and European politics highlight the role of the EU as a protective holding space for its member states and their peoples.

KEY POINTS

- Understanding the EU's future challenges requires a systematic approach around four possible scenarios.
- As a future scenario, Disintegration is useful in highlighting the possibility of fragmentation of the Union rather than the complete collapse of the system.
- The Piecemeal Adjustment scenario reflects the EU's incremental response to the crisis.
- The Functional Federalism scenario focuses on the creation of centralized institutions and policy capacity in limited functional areas to address the financial crisis.
- In the European Sovereignty scenario, the EU would need to bridge the gap between the grand plans of political actors and citizens in the member states.

29.3 Intervening factors shaping the future of the EU

The scenarios presented in this chapter are developed as if the Union had complete control over its destiny and was not subject to immense pressures from the international system. The contemporary world is

characterized by an intensification of linkages and connections across regions, countries, and societies driven by technology, the ICT (Information and Communications Technology) revolution, trade, international business, security threats, aid, mobility of people, and ideas. This section assesses the impact of these two factors in the EU's immediate future.

29.3.1 The Union's external environment

Originally classified as 'complex interdependence', the growth of transnational relationships and dynamics are best subsumed under the label of globalization, one of the strongest forces in twenty-first-century international politics. Accompanying globalization, international power distributions have dramatically shifted since the end of the Cold War with its strategic bipolarity. The period of contested American unipolarity, defined by US economic, political, and military preponderance has ended. Multi-polarity now seems an increasingly pronounced feature of the international system, underlined by the transcendence of the G8 of Western powers by the G20. The growing weight of China and others, notably India, Brazil, and Russia, points to a relative decline in the power of the USA and Europe, especially within the international political economy.

China is no longer an emergent power but an increasingly assertive global power in its own right. This is evident in its deployment of its economic power, the ambition of the Silk Road, its growing presence in international regulatory bodies, and the growth of its military power and reach. USA–China rivalry is the major driver of twenty-first century global politics. Unlike the Cold War when the advantages of the Western capitalist model and democracy were evident, an 'undemocratic capitalist' China is much better placed to rival the USA than the former USSR, which remained technologically inferior. The Biden Administration sees China as its top geopolitical rival and concludes that 'It is the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system' (USA, 2021). The USA will seek to contain China and will make demands on the EU in this regard.

Europe's capacity to shape global forces and the emerging systems of global governance will be influenced by its power resources, the manner in which it deploys that power, and its coherence on international

issues. The fragmented nature of the Union and the diversity of member state preferences on major international issues make it extremely difficult for the Union to act consistently with one voice in a strategic manner. Europe's role in global governance and as a player in the contemporary international system may be viewed through the lens of 'Europe as Model' and 'Europe as Actor'. The first lens points to the EU as a testing ground for governance beyond national borders, to its role as an exemplar of peaceful reconciliation among warring states, and to its successful advancement of a highly developed form of transnational integration. If it can successfully drive the European Green deal and carbon transformation, the Union will gain considerable 'soft power' and validate the EU model. That said, it is Europe as international actor, a player in global politics, that is under considerable pressure. Across a wide range of foreign policy fields such as international trade, investment, development cooperation, international services and the promotion of human rights, and democratization, and, increasingly, security and defence, there are pressures on Europe to strengthen its collective capacity. The debate on strategic autonomy is a response to these pressures. The future of the EU will be greatly influenced by its ability to act in concert, to be strategic, to influence its neighbourhood, and to shape the pattern and substance of global governance—in brief, by Europe's ability to find its role and place in the world of twenty-first-century global politics. It must seize the 'multilateral moment' that the Biden administration offers to strengthen the rule bound institutionalized international order that is best suited to its model. It must find a way to navigate USA–China rivalry without having to side always with the USA but it must also protect itself and the Single Market from unfair Chinese subsidies and stand up to China's human rights record. It must defend itself against an authoritarian Russia intent on sowing division within its borders. If the EU fails to act and to influence, non-decisions come with consequences for Europe's place in the world and its ability to shape its future (see Chapters 17 and 19).

29.3.2 The challenge of heterogeneity and leadership

The European Union is characterized by deep diversity in levels of wealth, geography, state tradition and capacity, language, and culture. Managing diversity is a perennial challenge to the EU. Added to this are the varying preferences of the member states about the

European project; what the EU should be and what it should do. In response to growing heterogeneity, the EU evolved as a system of **differentiated integration (DI)** whereby not all member states participate in all EU policy regimes. The eurozone, **Banking Union**, **Schengen**, aspects of Justice and Home Affairs, and **Permanent Structured Cooperation (PESCO)** represent different forms of DI. The treaties provide for a form of **enhanced cooperation** whereby member states may act as an *avant garde* and go ahead without all member states within specified institutional rules. These treaty provisions have been used sparingly as a last resort. However, every time there is a discussion about the Future of Europe, differentiated integration is on the agenda as a strategy for those member states that want to forge ahead. Yet it rarely gains traction beyond the existing areas of differentiated integration. The EU will remain a system characterized by DI and DI may expand to some additional areas but the big EU issues such as, the COVID-19 recovery, Green Deal, and the digital agenda, are important to all 27 member states and unlikely to be candidates for further DI.

All political systems need leadership and given the nature of the EU as a multilevel policy, leadership is distributed across the Brussels institutions and the member states (see Chapter 7). The reconciliation of France and Germany was at the core of the EU project from the outset and the Franco-German tandem has played a central role in the development of Union as the 'motor of integration' (see Chapters 2 and 3). German power, highlighted by Chancellor Merkel's omniscient presence, was to come to the fore during the eurozone crisis. Effectively, Germany had a veto over the management of the crisis and the design of policy instruments to address it. The concept of Germany as a hegemon, albeit a reluctant one, gained traction in political and scholarly discourse. However reluctantly, Germany gave leadership during the crisis, even if it tended to act at the last minute and within a very narrow policy frame. The forthcoming departure of Chancellor Merkel, a longstanding member of the European Council, ushers in a new era in German and EU politics. The next German chancellor faces

difficult choices arising from the instability on Europe's borders to the East, especially German policy on Russia and more generally its approach to European security and foreign policy. Germany is unlikely to escape the fact that it is a regional power and that regional powers carry particular responsibilities.

The election of Emmanuel Macron as President of France in 2017 posed a challenge to Germany's newly found leadership of the EU. President Macron, as discussed earlier in this chapter, is willing to lead on Europe and wants to do so with Germany. There was recognition in Germany that the election of a pro-European President in France offered a window of opportunity that was important for the sustainability of the Union. It took until the COVID-19 pandemic for the Macron vision of the EU to make progress and arguably the Recovery and Resilience Fund (RRF), especially the EU's issuance of common debt, could not have happened without strong pressure from President Macron and a change of core preferences in Berlin. President Macron faces a testing re-election battle in 2022. The severity of the COVID-19 crisis given the legacy of the eurozone crisis prompted Italy and Spain to play a very active role in ensuring that the EU would respond in a bolder and speedier manner to the pandemic. The installation of Mario Draghi (February 2021) as Italian Prime Minister points to stronger Italian presence in EU leadership for however long his technocratic government lasts.

KEY POINTS

- The EU's external environment will influence its future development.
- The future of the EU will be determined by its ability to become an influential actor in the new global environment.
- Germany, together with France, has been traditionally regarded as one of the engines of European integration. The election of President Macron offers an opportunity for the renewal of the Franco-German relationship.

29.4 Conclusion

Although it is impossible to predict the shape of the European Union in all of its complexity in the coming years, the Union is undoubtedly undergoing a

period of change and transition as it grapples with the legacies of the eurozone crisis, the departure of the UK, and the shifting power balances and

turbulence of global politics. The Union proved that it had considerable resilience and decision-making capacity during the various crises, but at a high political cost. Politics in Europe is displaying heightened levels of volatility, which make it more difficult for governments to govern when faced with challenger parties and public disenchantment with politics and the European Union. Euroscepticism and opposition to migration have proved a potent electoral platform for the radical right in many, although not all, member states. Brexit was a wake-up call for pro-EU forces across the continent and both traditional parties and progressive forces such as the Greens have taken the argument to the radical right. How the tensions and conflicts evident within and across the member states will play out will depend on post-pandemic recovery, particularly in Europe's vulnerable economies, on the EU's ability to address the authoritarian governments at the table in Poland and Hungary, and make progress on the transformative projects in climate and digital.

All of the four scenarios presented in this chapter offer a lens on how the Union might evolve. Scenario one, if defined as systemic failure, appears unlikely at this stage. The EU managed Brexit in a way that protected its core preferences and the UK was not able to pick and choose the bits of integration it wanted to maintain. The challenge to Europe's values from within has the potential to fragment the Union as it has struggled to prevent the deterioration of democratic norms and standards in some member states. What can certainly be said is that differentiated integration, which as argued above is not the solution to internal EU policies, is likely to become an even more

pronounced feature of EU relations to its neighbourhood in future. Muddling through with incremental piecemeal change (Section 29.2.2) was the predominant approach during Europe's multiple crises, until Brexit and the COVID-19 pandemic. The establishment of Banking Union and a strengthening of European capacity in defence and security pointed to Scenario 3 (Section 29.2.3). This scenario was strengthened by the response to the COVID-19 pandemic and the evidence of learning from the eurozone crisis. The July 2020 financial agreement is historic in the politics of EU public finance and contains further transformative capacity.

The fourth scenario, a European Sovereignty or what might be described as 'collective power Europe', was evident in the management of the Brexit negotiations, during which the EU acted in a seamless and unified manner from the beginning of the negotiations to the end, and deployed its collective capacity to protect the Union given the disintegrative potential of the UK's departure. The EU's strategic agenda-climate, digital, and Europe's role in the world requires the deployment of collective capacity and there are strong global pressures on the EU to do so. The climate crisis in particular will exert pressure for public power and resources at national, EU, and global levels. Europe has a window of opportunity to forge the next phase of European integration and to build on the Union's robustness. The transformative agenda compels the EU to build collective capacity and commit to a strategic turn. Developments in domestic politics in the member states will have a major bearing on this, as will wider international developments.



QUESTIONS

1. Why did the eurozone crisis prove so divisive and challenging to the EU and its member states?
2. Which of the scenarios outlined in this chapter are the most plausible?
3. Has Germany become a hegemon in the EU or will the Franco-German tandem reassert itself?
4. What are the implications for the EU of the UK's withdrawal from the Union?
5. How can the EU deploy its power more effectively in its neighbourhood?
6. What kind of actor is the EU in the international system?
7. Why have the Union and its future become more politicized over time?
8. Can the EU achieve further integration without a federation?



GUIDE TO FURTHER READING

Krastev, I. (2012) 'European disintegration? A fraying Union', *Journal of Democracy*, 23/4: 23–30. This reading reviews the pressures on the EU system and asks if the reversal and rupture of the integration process is possible. Given the depth of the crisis in the EU since 2010, it is important to consider disintegration and not just integration.

Laffan, B. (2018) *Europe's Union in Crisis: Tested and Contested* (London: Routledge), 1–208. This volume, which first appeared as a Special Issue of *West European Politics*, offers a wide ranging analysis of how the EU responded to multiple crises over the past decade.

Paterson, W.E. (2011) 'The reluctant hegemon? Germany moves centre stage in the European Union', *Journal of Common Market Studies*, 49/1: 57–75. This article highlights the growing role of Germany in the Union and the dilemmas it faces as a reluctant hegemon.

Schimmelfennig, F. (2014) 'European integration in the euro crisis: the limits of postfunctionalism', *Journal of European Integration*, 36/3: 321–37. This article explores and offers an explanation of why, despite the turmoil of the crisis and growing opposition to the EU, the Union managed to deepen economic governance.

Sjursen, H. (2006) 'The EU as a "normative" power: how can this be?', *Journal of European Public Policy*, 13/2: 235–51. The idea that the EU is a normative power in world politics is one of the main claims in the literature on the international role of the Union. This article explores this claim.



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