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The Divisiveness of Mobility: Fuelling Populism in the Euro and Schengen Areas

Roderick Parkes and Daniela Schwarzer

For years, politicians placed individuals' mobility at the heart of the EU's popularity. Projects such as the Schengen and Euro areas reduced obstacles to free movement, thereby creating greater employment chances as well as more choice and means of exchange for citizens. But not all citizens can or want to move. An immobile subsection of the population has long worried that it bears the brunt of low-paid immigrant labour. Now, it increasingly worries too that more mobile elites will emigrate and abandon it to face national economic decline and debt liabilities alone. If governments are to convince their publics of the need for painful reforms to shore up the Euro and Schengen areas, they must ensure that all sections of society feel the benefits of mobility.

Flagship European projects such as the Eurozone and the Schengen passport-free travel area have the aim of increasing the free movement of persons, goods, capital and services in order to fuel economic growth and employment. This is one basis for the EU's popular legitimacy. Yet, it has proved easier for the EU member states to create these liberal areas than to sustain them. They were called into life largely by "negative integration". The member states merely had to remove national obstacles – for example border controls – in order to increase intra-European mobility. Agreeing on common flanking measures – positive integration – has been rather neglected, and where attempted, much more difficult. In the Schengen space, the member states

may have removed the border controls between them, but there is still no real common policy on guarding their shared external borders or on dealing with immigrants from outside the bloc, let alone asylum-seekers or cross-border criminal networks. In the Eurozone, while market integration was promoted, the first Barroso Commission neglected supervision and regulation, leaving the bloc vulnerable to the repercussions of the US-subprime crisis of 2007/2008.

International developments over the past three years have revealed the structural weaknesses in both the Eurozone and the Schengen area. In the case of the Eurozone, the economic crisis uncovered the absence of effective governance and surveillance

mechanisms that would have been able to prevent the current crisis and to cushion the impact of the shock. Governance mechanisms for banking, budgetary and economic policies have to be improved in an acceptable way in order to regain the ability to implement effective economic policy choices and to deliver public goods such as growth, employment and monetary stability. In case of competence transfers, the democratic quality of EU decision-making needs to be improved.

In the current crisis, however, these long-term structural reforms are taking place alongside short-term crisis management. The most pressing problem has been to implement a solution for debt-laden Greece that combines further debt restructuring with a growth perspective, which requires channelling financial support and investment to the economy. Further rescue packages and a possible debt restructuring may be needed for other member states. Recently, pressing problems in the banking sectors, in particular in Spain and Cyprus, have highlighted the possibly detrimental bank/sovereign nexus. The resolution of either the banking or sovereign debt crisis is impossible without progress in the other.

In the case of Schengen, the arrival of 30,000 immigrants from North Africa last year highlighted the weakness not only of the bloc's common border policy, but its immigration, immigrant-integration, asylum and refugee-resettlement measures too. Where common home affairs standards do exist, supervision mechanisms need to be improved EU-wide in order to prevent implementation failures. These must be backed with greater operational and financial support for weak and overstretched peripheral states in areas such as asylum and the control of the shared external border. And, as in the Eurozone, these long-term structural reforms must somehow be calibrated with short-term measures related to the leaky Greek-Turkish border, the Syria crisis as well as Romania's and Bulgaria's accession to the Schengen area, which

would create a land bridge to the south-east for the first time.

If the past year has thus been a rude wake-up call for member governments, throughout 2012 they must race to remedy these structural lacunae since similar challenges are sure to arise.

Three major tasks for the northerners

In the Schengen and Euro areas, much attention has focussed on the painful reforms demanded of peripheral southern states. But northern European governments, such as the one in Berlin, also face a tough task when it comes to selling measures to their citizens: first, these countries have to agree to European "flanking measures" to shore up the two projects, even though this means losing discretion over sensitive issues such as budgetary affairs and asylum and subjecting themselves to stronger European oversight structures, for instance in the field of financial market supervision. Second, northerners must recognise that past successes in exporting their own domestic standards to the European level are part of the problem, with weak peripheral states signing up to common undertakings that are quite beyond them. Third, northerners need to defend the liberal core of these projects, although the prospect of future crises will tempt them to re-regulate and re-nationalise their activities. In three ways, then, they must give up power, in the narrow sense.

1. Deepening European integration

In the Euro area, debates about a decisive intensification of integration are ongoing. The Van Rompuy Report of June 2012 has sketched the path towards a banking and fiscal union as well as measures tackling problems of legitimacy. The European Council of June 28/29 has committed its President to elaborate "a time-bound road map for the achievement of a genuine Economic and Monetary Union" in close co-

operation with the member governments until mid-October 2012.

Here, concerns about competence transfers and a loss of sovereignty will determine the scope of possible progress. The new rules for budgetary policy and macro-economic surveillance and coordination are being applied for the first time this year while the Fiscal Compact and the European Stability Mechanism (ESM) – a permanent rescue fund for Euro-area members – are likely to enter into force soon. Conflicts between national spending and European discipline are likely to occur. The key question is how the EU system handles this challenge without undermining its own rules or provoking a polarization between national constituencies and the EU system.

The potential for polarization between national imperatives and European rationales is highlighted by the recent opposition to an EU approach perceived to emphasise austerity at the cost of economic growth. Voiced mainly by southern European leaders and a few social democrat and socialist policy-makers in northern Europe, this critique shows very clearly that the chosen European strategy to cope with the sovereign debt crisis is by no way unanimously accepted. The European debate has finally become a domestic one, with an EU-wide growth strategy and investment-enhancing measures being demanded by national opposition parties. In many states, such measures have become the quid-pro-quo for the ratification of a Fiscal Compact that privileges budgetary austerity over growth, cohesion and social objectives.

Meanwhile, there is growing criticism of the European Central Bank's (ECB) rather lonely role as firefighter in the battle against the sovereign debt and banking crisis. The ECB's crucial support measures have reached such intensity that the Bank's role has become a matter for overt national debate. If the crisis progresses, northern governments will be obliged to either accept a discretionary role for the ECB that transgresses its narrow treaty-based mandate or to set up credible alternatives with

extensive domestic implications (e.g. some sort of joint liability for public debt or an ESM with a banking licence that can actually borrow money from the ECB).

In the Schengen area, the EU has been seeking to deepen integration already since 2009, aiming to improve the implementation of the Schengen acquis. The lack of progress was revealed last year in the wake of the Arab Spring, when northerners called for greater scope to reintroduce domestic border controls as the only means of protecting themselves from faulty standards in other member states. For a moment, it looked as though governments would begin rolling back the principles of free movement, but the European Commission quickly revised its proposals. It suggested ending the gentle system of peer-to-peer review amongst member governments, and replacing it with unannounced spot checks of its own. This put northerners in a dilemma. Whilst they are keen to improve supervision of the peripheral members, they remain hesitant to subject themselves to the same intensity of oversight or to hand over powers to the Commission. Under the Danish presidency in the first half of 2012, this became a matter of inter-institutional deadlock, with a sovereignty-conscious Council finally deciding to sideline the Commission and Parliament.

And this is not the only sensitive area where European integration is being deepened. With concerns about a further influx of refugees to the Schengen area, member states will also have to reform the EU's common minimum standards on asylum if they are to meet the challenge together. EU members have already committed to create by the end of 2012 a common asylum system based upon uniform standards. After years of deadlock, there are signs of movement. Yet, each proposal in the package hangs together with another, and progress in one (for example the reception of asylum-seekers or the so-called Dublin regulation laying down the member state responsible for an asylum claim made in the EU) can be undermined

by deadlock in another (asylum procedures or the fingerprinting of asylum-seekers). Moreover, the member states are trying to avoid thorny issues such as a robust system for the relocation of asylum-seekers from one member state to another, although this option was set out already back in 2001 during an earlier wave of regulation and was heavily discussed in a Commission communication in December 2011.

2. Stepping up solidarity

Northern member governments are thus being asked to draw up robust European rules and invent joint instruments in order to ensure a rise in standards in the south and east. In the face of domestic political hostility to this pooling of sovereignty, northerners have tried to show that these new rules are essentially about norm transfer: through conditionality and sanctioning mechanisms, they are ensuring that any formal loss of sovereignty is offset by the imposition of their domestic standards and interests upon other states.

This tendency is clear not just in the conditions attached to financial support offered to Eurozone members. In order to ensure that the onus of border control remains in the peripheral south and the east of the Schengen area, for example, northerners have pushed for greater scope to suspend weak states from the free-movement provisions as well as for maintaining the veto on hopefuls' accession to the Schengen area. Yet, this marks a failure to recognise one important root of the crisis present in both projects: both the Schengen and Euro regimes reflect northern standards, putting a high adaptation burden on southern and eastern states with fewer resources, less experience and divergent political and administrative cultures. A sustainable solution will instead require special measures *in favour* of peripheral countries. Northerners must offer operational, technical and financial support to those member states that still need to implement all rules – but in exchange for

credible commitments and tough but imaginative measures to avoid moral hazard.

In the Schengen area, member states are putting the finishing touches to the reform of the Dublin regulation, under which asylum-seekers may be returned to the EU state by which they gained entry to the bloc. This measure has long been felt to put undue pressure on the border states, which are the first port-of-call for many asylum-seekers who would otherwise have aimed for northern members. This feeling that northerners are shifting the burden to peripheral states has undermined the latter's appetite for cooperation and implementation. The matter has come to a head. A series of court cases has obliged northerners to suspend the measure's application to Greece, with the European Court of Justice ruling that "an asylum seeker may not be transferred to a member state where he risks being subjected to inhuman treatment." The pressure is now on to agree a formal suspension-mechanism as well as to provide technical and financial support to struggling peripheral states.

In the form of the European Asylum Support Office and the Frontex agency for cooperation at the external border, mechanisms have been established for the provision of operational and technical assistance to the periphery. This year, however, it is financial assistance that will be on the agenda. Under the EU's proposed multi-annual budget, states will have broad leeway to manage their own share of EU funds for migration and security issues ("shared management"). Northerners will therefore be keen to make full use of the budget's wording to carefully detail the use that can be made of the money. But they must be careful that restrictive terms and conditions do not prejudice progress towards ownership and capacity-building in the periphery. They will also have to resist the temptation – offered by the Commission proposal – to shift too much funding to northern priorities, such as the expulsion of illegal immigrants, at the expense of longer-term projects in "softer" areas,

where peripheral states have traditionally been weak, such as immigrant integration.

In the Eurozone, meanwhile, the debate on financial solidarity is likely to gain pace. Member states will face the costs of bringing the crisis countries on track, digesting possible losses from a debt restructuring and setting up a credible growth strategy for this and other southern European countries suffering from high debt levels and low growth prospects. The debate on fiscal transfers is currently focussed on the question of how to channel public investment from the EU level to support the long-term development of member states in need. If the situation in the crisis countries becomes more acute, however, this focus may shift – namely to help the recipient states to maintain the basic functions of the welfare state in order to prevent a societal decline, which could create a breeding ground for populism, extremism and political instability. Should the political will among the northerners be insufficient to bear these short-termist measures, the only real alternative is to cast out troublesome states, with all the unpredictable contagion effects this would entail (see *SWP-Aktuell* 54/2011).

The fact that countries with a comparatively low per-capita GDP find themselves on the donor side of the rescue mechanisms further complicates the relationship between the northern core and its weaker partners. Ireland and Greece have respectively a GDP per capita (in purchasing power standard, PPS) of 127 per cent and 82 per cent of the EU average. Slovakia and Estonia, two countries on the donor side of the mechanisms, only have a GDP per capita in PPS of 73 per cent and 67 per cent of the EU average. Should a country like Ireland, moreover, base its recovery upon what many other member governments perceive as anti-social tax competition with strikingly low corporate tax rates? The issue of fairness will gain new salience as soon as further rescue packages are needed – or worse, as soon as donor countries actually lose their money in the case of recipient states.

3. Protecting liberalism

The current shift from “negative integration” – the removal of national barriers to the free movement of goods, persons, services and capital – to “positive integration” – the creation of flanking measures in areas such as borders or fiscal policy – brings with it the temptation of re-regulation. In the face of increasing populist and protectionist pressures at home, the northerners’ commitment to liberalism will be tested. Some governments – like the one in Paris – may look at national and European interventionism as the best means of protecting themselves and the bloc from outside pressures, even at the expense of the original mission to encourage internal mobility and exchange. This kind of re-regulation could, of course, undermine the very aims of the Schengen and Euro areas as well as disrupt moves by the EU to open these internal goods to the outside world.

If Eurozone policy-makers pursue this course, they will likely fail in their quest for more efficient financial-market regulation. For one thing, EU decision-making processes are slow, with some member states blocking legislative acts in the Economic and Financial Affairs Council as they seek to secure competitive advantages for their financial centres. The financial supervisory structures – and in particular the European Banking Authority – are scratching at the limits of their competencies. For another, efficient regulation would require a wider geographic scope than the Euro area or the EU-27 only. Progress in the G20, however, is slow to non-existent.

Meanwhile, the EU is desperately searching for “new sources of growth”, and in this context the single-market programme has been rediscovered. With 2010’s draft Single Market Act, the European Commission has tabled an encompassing programme of liberalisation. But it seems more and more obvious that, in some member states, these objectives can only be pursued if they are complemented by measures that can be sold as helping to maintain the key fundamentals of European welfare states, for

example more regulation in social policy, some degree of tax harmonisation or more transfers. These proposals are not shared by, for instance, the United Kingdom or some central and eastern European member states. Much progress is hence unlikely. Or if there is joint progress on single-market issues, “regulatory compensation”, namely in the field of social and taxation policies, will either be confined to the Euro area or even be implemented only in an *à la carte* fashion.

Meanwhile, in the Schengen area, the spectre of the reintroduction of national border checks and the unnecessary creation of other forms of surveillance and control are not the only threats to the liberal principles of free movement. The bloc has long made up for its own failures to cooperate on asylum, immigration and crime by “externalising” their immigration and crime controls – they have exported illiberal controls to their neighbours in order to shore up their liberal internal project. Countries neighbouring the Schengen area have been conceived of as a “*cordon sanitaire*”, preventing unwanted migrants from entering the Union.

Rather than undertake the painful and laborious task of deepening the EU’s policy on borders, asylum and immigration, the temptation will again be to shift the onus for controlling migration to the EU’s neighbours. That would end badly. The approach of co-opting third countries into carrying out controls for the Union worked well enough when the EU’s neighbours were autocratic governments wary of letting their nationals travel to the EU or keen for western approval, but the wave of democratisation at the bloc’s periphery makes such an approach normatively and practicably impossible. With negotiations underway to conclude a “mobility partnership” with Tunisia and Morocco, the EU needs to reach a liberal settlement with its neighbours.

The divisiveness of mobility

The challenge facing northern member governments in making the case for these policies is not to be underestimated. The citizens of these highly-regulated states are angry at the way liberal European projects have exposed them to international pressures, and they felt more secure when their governments enjoyed greater domestic discretion over issues such as immigration control or fiscal and economic policy. These governments will therefore struggle to convince their voters that the way to increase resilience to international pressures is to give up further national competencies. This is particularly difficult as populist movements find the perfect breeding ground in situations of economic and social insecurity, of “unfair” burden-sharing and of international or legal constraints on governments’ capacity to act. They offer seemingly straightforward and cheaper “national solutions” – in this case a break-up of the Euro area or a repatriation of competencies in home affairs.

There is nevertheless a means of making the case for these policies: the creation of European flanking measures based on solidarity is necessary to maintain intra-EU mobility. Policy-makers have identified mobility and freedom of movement as the bedrock of the EU’s popularity. On an abstract level, this is because increased contact and exchange has seen European citizens grow closer, perhaps even transferring some of their loyalty from national governments to the EU. In more practical terms, mobility is a prerequisite for economic growth and a means of correcting economic and financial disparities within the internal market, whilst cross-border labour mobility is an important adjustment mechanism in the Economic and Monetary Union in the case of shocks.

Most significantly, mobility is associated with the poorest and the unemployed – those social strata where populism and protectionism are usually most strongly anchored. By opening the scope for greater travel and migration, the EU has given

those otherwise most hostile to European integration greater opportunities to seek work in other member states.

Unsurprisingly then, the goal of increasing personal mobility has become an overriding aim of the Schengen cooperation, an initiative originally aimed merely at reducing waiting times for lorries at national customs points. It was also important for the establishment of the single currency area, which aimed at giving citizens scope to spend cash in other member states without encountering exchange charges or even restrictions on exporting currency.

The strategy seems to have paid off. The “freedom to study, work and travel anywhere in the EU” is typically mentioned by around 45 per cent of interviewees in Eurobarometer surveys as an element they associate closely with European integration. The sense of association is particularly strong in the north (66 per cent in Sweden, and 58 per cent in Denmark, Eurobarometer 75/2011). Meanwhile, EU-wide, only a small number of respondents associate their country’s membership of the EU with an increase in crime (13 per cent) or a deficit in border controls (18 per cent).

Yet, it is notable that, in making the case for the reform of the Schengen and Euro areas, northern states have not played the mobility card. The enthusiasm for mobility is not, it seems, as deeply anchored in society as they believed, nor is the support for free movement shared to the same degree by all social strata. This reflects something that academics have been warning of for some time: the opportunities and costs of mobility are not evenly spread throughout society, and this is reflected in patterns of euroscepticism and hostility to integration. The unemployed poor are, for example, often the least mobile strata of society. Mobility is not, as so often assumed, an important lifeline to the poorest in society but rather a successful adaptation strategy dominated by those with economic and social capital seeking economic gain and new skills. Individuals who do not have the capital or language skills to settle else-

where, or who have simply invested heavily in a particular location, cannot take advantage of the opportunities of mobility.

They also feel that they disproportionately bear the costs. One reason for this feeling lies in a classic fear of immigration: the immobile are concerned they will bear the brunt for an influx of competitive forces from abroad, seeing their wage rates sink and societal integration falter. Yet, there is a second reason for their concerns. As the popular reaction in Greece and Spain to the recent “exodus” of university graduates from southern and eastern Europe suggests, EU citizens are worried about emigration too. Europe’s immobile, it seems, worry about being left behind to deal with daunting national challenges. Economic decline, national debt liabilities, demographic aging and environmental change are, after all, essentially territorial in nature, and the mobile can avoid their effects simply by shifting regions. The immobile do not have this luxury.

Concerns about “brain drain” and the emigration of the well-qualified have been a constant refrain in poorer EU member states. Yet, this fear of “being left behind” by a more mobile elite has recently become a feature of politics in northern Europe as well. In 2005/2006, when Germany experienced net emigration for the first time in 40 years, there was widespread disquiet that the “brightest and the best” were leaving the country – statistical analysis of those leaving Germany confirming that the emigrants were indeed better qualified than the compatriots they were leaving behind. Meanwhile, figures on the intra-EU migration of scientists and managers give many northern governments cause for concern, with France, Denmark and the Netherlands frequently suffering net deficits, even if analysis suggested the vast majority of emigrants return home.

Recognising trapped populations

There are three quite serious implications for northern governments that follow from

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this suggestion that well-qualified elites, rather than the low-skilled and unemployed, are the most mobile.

Firstly, it means governments have misread the character of the people who immigrate to northern Europe. A mass influx of poor and needy immigrants from North Africa or the eastern neighbourhood is unlikely, even in the wake of Arab Spring-style uprisings. Recent projections of south-north migration point instead to the existence in poor countries of sizeable “trapped populations” that simply do not have the resources to move (UK Government Office for Science). Rather than concentrating on the threat of mass immigration, the EU needs to concentrate on the implications of the development of large and potentially disgruntled immobile populations just beyond its periphery.

Secondly, the incidence of trapped populations pertains also to EU citizens, and to the patterns of migration from the southern and eastern periphery to the north: those making the move to northern Europe following the eastern enlargement were, for example, often the skilled and ambitious rather than the unemployed “welfare tourists” feared by some governments. Yet, without more concerted policies to teach immigrants language skills or to officially recognise their work qualifications, northern governments succeeded in pushing these newcomers into the low-skilled sector, potentially creating a self-fulfilling prophecy and causing tensions with less mobile sections of the local population.

Thirdly, northern governments have misread the character of those of their citizens who will take advantage of the enhanced rights to move away. Increased opportunities for mobility are unlikely to be welcomed across all strata of their societies. Northern Europe likely has “trapped populations” of its own, and these populations will be concerned about giving their mobile compatriots greater opportunities to abandon them to domestic problems.

Ending unwelcome mobility offers

Without a concerted effort to change this, the EU's decision to base its legitimacy on the highly divisive issue of mobility could backfire badly. The current efforts to shore up the Schengen and Euro areas must therefore be complemented by measures to ensure that all citizens can make use of their freedoms. This entails not only an improvement of classic mobility measures, such as better access to information about job opportunities through, say, the EURES portal, or final improvements to the portability of pensions, to the recognition of qualifications and to the facilitation of family reunification. It also means an active effort on the part of the EU to tailor its existing mobility schemes to the demographic profile and aspirations of those citizens who need them most – the young, the poor, and the badly qualified.

Organisations working with these programmes complain that their bureaucratic nature is out of touch with the needs and sensitivities of the immobile. Those European programmes aimed at school leavers, for instance, seldom take account of the fact that youngsters may initially be nervous about going abroad but will probably want to extend their stay once they get there, or that pupils may leave school before the age of 18 when EU schemes start, or indeed that mobility policies must begin even earlier through an active language policy.

A concerted effort to improve mobility rates amongst the young, the poor, and the badly qualified seems a necessary prerequisite if the EU is to sustain its flagship achievements. Yet, for northern European governments – already faced with popular concerns about “welfare tourism” and an influx of low-skilled labour – investing in the mobility of this disadvantaged demographic may be the tallest order of all.