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Quo Vadis, Europa? Four paths and their plausibility

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Abstract

Purpose – The purpose of this paper is to assess the plausibility of four different mid-term paths of development of the European Union (EU): first, a political union or a European state; second, a differentiated and flexible integration of the polity; third, a covert and deepening integration of the polity outside of the political arenas; fourth, the disintegration and/or dissolution of the EU through the exit of individual members or a joint decision to terminate the union.

Design/methodology/approach – The paper uses strategic interaction analysis to identify the plausibility of each of these four possible outcomes. By systematically varying the relevant actors', i.e. European Council's and member states', the European Parliament's, the Commission's, preferences over outcomes while holding constant institutional rules of decision making on the one hand, and systematically varying institutional rules on the other while holdings actors' preferences constant, the paper comes to the conclusion that differentiated and flexible integration and covert integration are the most plausible mid-term paths of development.

Findings – The paper finds that neither a European state or deep political union nor a disintegration or even dissolution of the EU is the most plausible path of development. Rather, it concludes that flexible and differentiated integration as well as covert integration outside the political arenas are the most likely developments. However, it also draws attention to the political costs of flexible and differentiated integration which does not allow for an overall view of political and policy issues negotiated at one political table, limiting the scope of compromise formation and even leading to a fragmented polity. Covert integration consisting of mechanisms of hidden integration "invisible" to the wider public may lead to a democratic backlash, once citizens realize that integration has considerably deepened without their being aware of it.

Originality/value – Most publications regarding the future development of the EU are normatively driven, either conjuring an imminent disintegration, or invoking the necessity of a deepening integration leading to a political union. This paper, by contrast, seeks to assess the likely further development based on empirically identified factors and a logical argument.

Keywords European Union, Brexit, Eurozone crisis, Strategic interaction analysis

Paper type Research paper

Introduction

Due to important shocks such as the Eurozone crisis, the migration crisis and Brexit, the European Union (EU) is faced with the challenge to reconsider its institutional architecture in order to better deal with such shocks. Should it follow the path of an ever closer union or United States of Europe; of a two-tier or more differentiated union; continue to muddle through with incremental changes on a path of "covert integration"; or engage on a path of disintegration or dissolution? In the following I will ask which of the four possible paths in the immediate and mid-term future of the EU are most likely to unfold.

In order to answer this question I will use strategic interaction analysis, as developed by Lake and Powell (1999). Strategic interaction analysis distinguishes between two elements of strategic interaction: actors and their environments. On the actor side, strategic choice analysis distinguishes between two attributes, first, actors are assumed to have preferences, defined simply as how they rank the possible outcomes defined by the environment



International Trade, Politics and Development Vol. 3 No. 1, 2019 pp. 2-10 Emerald Publishing Limited 2586-3932 DOI 10.1108/TPD-02-2019-001 © Adrienne Héritier. Published in *International Trade, Politics and Development*. Published by Emerald Publishing Limited. This article is published under the Creative Commons Attribution (CC BY 4.0) licence. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this licence may be seen at http://creativecommons.org/licences/by/4.0/legalcode

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(Lake and Powell, 1999, p. 9). Actors' basic preferences are desires that remain the same across a wide variety of situations. Actors' situational preferences (Frieden, 1999) consist of the ranking of preferred outcomes in more specific situations and depend upon the particular problem constellation and constellation of actors and their preferences over outcomes they negotiate with. The second attribute of an actor are its prior beliefs about the preferences of other actors. In particular, when actors are uncertain, these beliefs are crucial for the decision about which strategy to choose, and, in consequence, for the outcome of interaction (Lake and Powell, 1999, p. 11).

The strategic environment is composed, first, of the actions which are available for the actors. They are summarized according to what could be the outcome of interactions of actors, or the outcome of how decisions and events can unfold (Lake and Powell, 1999, pp. 8-9), i.e. striving for one of the possible outcomes mentioned above a European state, a differentiated and flexible EU, covert integration and disintegration and/or dissolution. Second the environment is composed of an information structure that defines what the actors can know for sure and what they have to infer from the behavior of others. Institutional rules play an eminent role here. Keohane (1984) argued that one way in which institutions facilitate co-operation among states is by providing more information to state actors, especially, by providing better possibilities of monitoring each other's behavior (Lake and Powell, 1999, p. 9).

The analytic distinction of actors' attributes and the attributes of the environment implies the possibility of broad kinds of conceptual experiments (Lake and Powell, 1999). The first conceptual experiment varies the properties of the actors, i.e. their preferences and beliefs, while it holds the environment in which they interact constant, and derives conclusions or hypotheses about the likely outcome of the interaction. The second conceptual experiment varies attributes of the environment while the actors' attributes are held constant, and derives conclusions or hypotheses about the likely outcome of the interaction. Using this analytic scheme I will ask: how plausible are the four different developments described above?

The four developments, an ever closer union, differentiation, covert integration and disintegration/dissolution constitute different features of the explanandum. I will argue that the likeliness of the respective paths happening depends on the following factors. The relevant factors are the most important actors', i.e. member states and European institutions and their preferences over outcomes, i.e. a specific path of development; important macro factors of the environment, such as the financial and economic crisis or a high/low influx of refugees; and the decision-making rules applied when deciding over outcomes such as unanimity, QMV and the use of referenda in member states and court rulings.

Using this analytic scheme, I will first ask: what is the likeliness that a federal state or United States of Europe will materialize in a short and mid-term period?

Path 1: a European federal state or "an ever closer political union"

A political union defined as a federal state is characterized by a concentration of decision competences for all policies and budgetary issues with institutions at the supranational level. Even more, the competence to allocate competences, the "Kompetenz-Kompetenz" rests with supranational institutions. Member states would be left with implementing powers of the legislative decisions taken at the central level. A European federal state would have a federal parliament which elects a government accountable to the parliament. In a two chamber form, the second chamber consisting of representatives of member states, would also engage in legislation at the supranational level.

Using the analytic scheme described above, in view of actors' preferences over outcomes and given specific macro conditions, as well as in view of the institutional rules relevant for

the decision-making process, what is the plausibility that a European state will come about in the near future?

Which are the main actors', i.e. large member states' and institutions', preferences over the outcome of a political union which would mean moving from a federation of states to a federal state? The large member states' governments' preferences, with the exception of France under the Presidency of the Republic of Macron, i.e. Germany, Italy, Spain and Poland, for a political union at the cost of national sovereignty, are assumed to be against such a political union that would imply a substantial additional uploading of national competences. France with its plan for a fiscal union and a European finance minister may come closest to a step in direction of a political union. However, in the outline of its view, the powers of a finance minister (of raising a European tax and at which level for a European budget) remain unspecified. But none of the other governments have proposed such a plan or supported Macron's plan until most recently in a very modest form. The German Government's chancellor's response has arrived hesitantly and offered some support for a very restricted form of fiscal union. In all member states, in view of the increasing weight of right- and left-wing anti-European and antiimmigration parties, mainstream parties see themselves under pressure from populist parties using voters' discontent and anti-elite sentiments to build their strengths, to adjust their agendas against an ever closer union (if ever they favored one)[1]. Thus, except for a few small member states such as Belgium and Luxemburg which tend to favor a closer union, there is very little support for a political union from most national governments. In view of particularly strong sovereignist tendencies in the Visegrad countries, the preferences clearly are very diverse. Moreover, the so-called Hanse 2.0, with the Netherlands, the Scandinavian member states and the Baltic states, exert pressure in the direction of repatriating competences or at least strengthening the subsidiarity principle.

In contrast, the supranational institutions, i.e. the Commission and the European Parliament (EP), as to judge from the Four and Five Presidents Reports, as well as the Juncker proposal of 2017 for a transformation of the European Stability Mechanism (ESM) into a European Monetary Fund (EMF) under the Commission's direction, point to preferences for a political union, at least for the Eurozone countries. The EP in its majority supports these plans of the Commission which would constitute steps in the direction of parliamentary democracy in the EU in which the EP elects the (Commission) government. The European Council, by contrast, reflecting the member states' positions, is assumed to predominantly oppose a political union. In sum, actors' preferences over outcomes are very diverse.

Linking these preferences to the given macro conditions, I argue that the main conditions influencing actors' preferences over outcomes and therefore the decision-making outcomes are the handling of the Eurozone crisis and the refugee crisis, both on-going processes. This is because both conflicts imply redistributive issues. In the course of the crises the unwillingness to redistribute financial capacity and refugees across the members of the Union emerged very quickly. Thus, the interventions to solve the Euro, the sovereign debt and banking crisis led to a cleavage between creditor and debtor states. Both crises have not reinforced solidarity among member states, quite the opposite, they led to a North-South divide in economic and financial governance as well as a to a West-East divide as regards the willingness to accept refugees. Overall these distributive issues strengthened centrifugal tendencies and weakened the political will of member states to support a deeper political union.

Adding the factor, decision-making rule, i.e. the fact that incisive decisions as regards a reform of the institutional architecture of the EU and the Eurozone have to be taken under unanimity rule, it follows from this majority of a actors disinclination to form a European federal state, that a comprehensive treaty change in favor of a deepening union is unlikely to happen.

What is more, even if governments had the same preferences for a political union, the institution of referenda to be held at the national level in several member states in case of a

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treaty reform introduces an element of uncertainty. In the light of populist anti-European public opinion in an increasing number of member states would render the adoption of such a treaty change highly unlikely. A further institutional restriction to be taken into account is the national institutional rule that national parliaments have to confirm a treaty change. Some national constitutional courts, such as the German Constitutional Court, request that the national parliament has to confirm an uploading of national competences to the European level.

In conclusion, given actors' diverse preferences over outcomes, the negative influence of redistributive crisis hanging over Europe with its centrifugal impact and the requirement to adopt a treaty change by unanimity and submit it to national parliaments' confirmation and/or to referenda in some member states, render this first path of development unlikely.

Path 2: differentiation/two-speed Europe

Differentiation or two-speed/two-tier Europe is defined as a differentiation as to individual member states participating in joint policy making in specific areas, i.e. being offered opt-ins and opt-outs; a second feature is the designed co-operation of some member states in joint policy making and joint institutions across various policy areas (core Europe), while others locate themselves around this core participating only in a free trade area, or a common market area with specific freedoms.

As assumed under Scenario 1, it is assumed that actors' preferences about how to shape the institutional architecture of the European polity are diverse, ranging from a few small member states favoring a political union, over a sizable number of large and small member states favoring a more differentiated, two-tier development path of development. The Commission and the Parliament are assumed to favor a deepening of a political union and to be skeptical *vis-à-vis* a differentiated union whereas the European Council, given diverse preferences of member governments, are assumed to favor a differentiated or flexible integration course.

The macro conditions, as under Scenario 1, are assumed to be a persisting impact of the financial/Eurozone crisis and resulting economic recession in a few member states and the persisting refugee/migration crisis. Both, given the diverse preferences over outcomes tend to deepen the conflicts and increase the difficulties of finding common solutions to redistributive problems.

Since – as under Scenario 1 – unanimity is required to adopt a treaty reform and such reforms would need to be corroborated by national parliaments or in national referenda, in the light of diverse preferences over outcomes, only incremental changes or a decisionmaking deadlock can be expected. As regards policy measures in which co-decision and qualified majority vote are required, nonetheless consensual decision making is still very frequent. Hence, pressure to accommodate diverse interests more than ever lead to incremental changes and compromises in the form of opt outs and increased voluntary cooperation. Thus, in reaction to the Eurozone crisis, we did not experience a big leap toward a political union. Rather the Six Pack and Two Pack, the Fiscal Compact, the ESM, and Banking Union and Open Monetary Transactions, reflect a mixed picture of deepening cooperation or centralization on the one hand and a strengthening of intergovernmental governance on the other. While the Eurozone group strengthened its own power of crisis management, Germany and other northern creditor states, resisted further centralization in the form of common bond issuance or other measures to mutualize sovereign debt (Barber, 2016). By contrast, when Germany, and more recently, Italy, tried to lead in a redistributive solution of the refugee crisis, they failed. What emerged is the notion of "flexible solidarity," where a solution of a redistributive problem offers different options in which to contribute. Instead of taking in refugees some member states may to contribute to border control capacity or provide financial resources to the refugee problem. Or, in the case of external trade the threatened rejection of the CETA agreement with Canada by Belgium gave rise to a proposed new solution that Belgium could be excluded from the parts of the agreement which go beyond common competences while keeping it as a member under common competences (Bubrowski, 2016).

In conclusion, given actors' diverse preferences over the desirability of the four paths of development, the influence of redistributive crises with their centrifugal impact, and given the need to adopt a treaty change by unanimity and submit it to national parliaments' consent and to referenda in some member states makes it more likely that compromises are found in small steps. These small steps result in differentiated integration, such as opt-out clauses, a re-definition of solidarity, voluntary co-operation in some areas, in short, a more flexible union with diverse degrees of association which are not irreversible (Schmid, 2016).

Path 3: covert integration

Covert integration is defined as a deepening of integration in terms of the uploading of policy-making competences and a definition of more stringent common policy solutions which take place outside of the main formal democratic political decision-making arenas, Council, European Council and EP.

As under paths 1 and 2, actors preferences as regards the future design on the European institutional architecture, a deepening, a differentiated integration or a disintegration of the EU are assumed to diverge.

Similarly, the macro conditions, pressure of the financial crisis and the resulting economic recession in some member states, as well as the on-going refugee/migration crisis, are assumed to persist. Both, given the diverse preferences over outcomes tend to deepen the conflicts and increase the difficulties of finding common solutions to redistributive problems. However, as opposed to paths 2 under which differentiated solutions of integration are chosen in a process of designed and negotiated treaty revisions and policy changes in the central political arenas, under path 3, these macro conditions are expected to lead to a process of covert integration, i.e. incremental policy and institutional changes invisible to the wider public.

This hidden process of deepening integration is a consequence of the existing formal decision-making rules, i.e. unanimity or consensus rules. Decision making under these conditions increases the likeliness of vague formulations. Even under QMV given diverse preferences and the prevalent consensus practice, decision outcomes often are compromises containing vague formulations. This in turn allows for a re-bargaining of the specifics of a policy or an institutional rule in the course of their implementation. If actors in favor of deepening integration prevail in renegotiations, covert integration takes place outside of the public attention of the open arenas (Héritier, 1999, 2016). Another typical route of specification of vague framework decisions is through executive or judicial actors with preferences for deepening integration; further routes are formulating policy changes in highly technical details, or cutting big salient controversial issues into small, technical, low salience issues which are not in the eye of public attention; the use of soft modes of integration based on voluntariness and/or including private actors in public policy making is vet another one, using soft power like benchmarking with naming and shaming as a means of deepening policy integration; or the introduction of parallel options of regulation, European and national, may lead to a crowding out of national regulations by European regulations because private actors comply with European regulations to save transaction costs; moreover, a delegation of decisions to independent regulatory authorities acting outside the political arena[2] is another important mode of deepening integration outside of the political arenas. A further mode of invisible integration of EU policies happens through transversal policies, such as competition policy. State aids, for instance, under the control of the Commission has been a powerful instrument of making an inroad into national policy

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shaping competences. By conditioning the acceptance of state aid on soft Commission policy criteria, member states see themselves induced to follow these criteria (Blauberger, 2009).

In the past decades, a considerable part of deepening European policy integration evolved through these multiple, covert paths. Covert integration "through the back door," raises obvious problems of democratic legitimation of European policy making once citizens realize that the extent of integration has progressed without their being aware of it.

In conclusion, given actors' diversity of preferences of outcomes of future shape of Union, and given demanding decision-making rules of unanimity or consensus, covert integration is a likely path to be chosen and in fact has been used frequently in the past decades. The status quo of policy making is changed invisibly and without explicit democratic confirmation in the central political arenas, a circumstance which may trigger an anti-European backlash (Hobolt and Tilley, 2014).

Path 4: disintegration/dissolution

Features of disintegration are defined first, as a repatriation of specific policy-making competences to the national level or the opting out of member states of specific joint policy areas; second, it may take the shape of the exit of individual member states of the Monetary Union or/and the EU entirely, such as decided in the Brexit vote of June 2016; third, the dissolution of the entire Union is a planned step of designed institutional change of abolishing the Union altogether.

Actors' preferences are assumed not to favor a dissolution of the union, the third option. This holds for all member states and for the Commission and the EP. Preferences for the second option, i.e. referenda over an exit of the EU, as in Britain, are unlikely to be launched in other member states. Nor have explicit governmental positions of member states been put forward calling for a referendum over an exit from the monetary union. With increasing pressure of anti-European radical parties, however, and their possible electoral victories, such referenda cannot be excluded. The preferences of member states as regards the first option, i.e. repatriation of competences, are diverse. With the strengthening of the Visegrad formation of Poland, Hungary, Czech Republic and Slovakia, as well as the Hanse 2.0 formation of the Netherlands, the Baltic states and Scandinavian states such preferences have become more pronounced with respect to migration policy (Visegrad) and fiscal policy (Hanse 2.0).

The macro conditions, as under paths 1, 2 and 3 are assumed to be a persistent impact of the financial/Eurozone crisis and resulting economic recession in some member states and the on-going refugee/migration crisis. Both, given the diverse preferences over outcomes tend to deepen the conflicts and increase the difficulties of finding common solutions to redistributive problems.

The decision-making rule to bring about a treaty change with the intention of abolishing of the Union requires member states' unanimous decision. Given diverse preferences, and the lack of unanimity, it is unlikely to materialize. Individual national referenda over an exit from the union as individual steps of disintegration are more easily organized. Incentives to resort to such referenda would depend not only on the relative gain a country would draw economically from an exit, on geopolitical factors, on the handling of distributional economic and migration issues, the contentedness with the own national policies and institutions (De Vries, 2016), but also the specific trade deal negotiated with Britain in the next years.

Conclusion: Fluctuat nec mergitur

From the analysis of the political dynamics resulting from actors preferences, macro conditions and given institutional rules, it is concluded that of the four possible paths, path 2 of differentiated integration, multi-tier Europe and path 3 of a continuing covert incremental integration, rather than the path 1 of a political union or path 4

disintegration/dissolution, are the most likely to happen. It appears plausible to expect that the EU will continue "to be tossed, but will not sink" (*fluctuat nec mergitur*) and will continue to be a "half-way house between intergovernmental co-operation and supranational powers" (Barber, 2016). Yet, floating along and reacting incrementally in the face of important changes in the economic and social environment may not be enough, and in the case of path 3, risky, since covert integration "through the back door," raises obvious problems of democratic legitimation of European policy making. When citizens at one point realize that integration has considerably deepened through hidden channels, without their being aware of it, this may trigger a backlash, manifesting itself, for instance, in the negative outcome of national referenda on European issues.

Going beyond the analysis of what might plausibly happen, a normative view would also argue that piecemeal interventions as a reaction to multiple crises tend to reinforce executive and non-majoritarian actors because they incur less coordination costs as compared to legislative action and treaty revisions. It also means that overall considerations of "reinventing the union" are not tackled.

Notwithstanding, more recently, proposals for institutional reforms have been put forward from various quarters. Some relate to the overall structure of the EU, others to specific institutional elements of the Eurozone governance. The most far-reaching plan was proposed by Martin Schulz, the then leader of the Social Democratic Party for a "United States of Europe end of 2017". It was met with "deafening silence" (Muenchau, 2017). The outcome of this advance reflects the analysis made under path 1: the failure of a plan to establish a federal state.

As regards Eurozone governance, far-reaching proposals were introduced by the French President, Emmanuel Macron, as well as the President of the Commission, Jean-Claude Juncker. While Macron aims at a reform of the Eurozone architecture, proposing a Eurozone budget, a Eurozone finance minister and a Eurozone parliament, the Commission's proposals in particular aim at bringing the intergovernmental elements of economic governance created during the financial crisis, in particular the ESM, an intergovernmental agreement, into the institutional framework of the EU (Muenchau, 2017). It also provides for the introduction of a single minister of finance, a Eurozone budget and supports the proposal of transforming the EMS into a EMF[3] (Khan, 2017), as originally proposed by Germany in December 2017. Supported by the EP, the Commission moreover proposes that the EMF, which would develop new financial capacity, be subject to the normal legislative procedure. It would be able to build up a fund to give short-term loans to countries in economic difficulties and serve as a backstop for the funds that the EU's banking resolution authority uses in rescuing banks. According to the Commission, the EMF would be accountable to the EP. The latter would be able to hold hearings with the agency's head and would receive full yearly reports from the EMF on its activities (Smith-Meyer, 2018).

By contrast, the Council is seeking to set up the EMF without resorting to the legislative process, but to maintain intergovernmental control over the EMF, as is presently the case under the ESM. For this purpose it has set up an informal task force reporting to the Economic and Financial Committee[4]. During the height of the financial crisis it had established the "task force on coordinated action" (Smith-Meyer, 2018) to facilitate cooperation among finance ministers. Subsequently it made preparing work for the ESM, which is run by Eurozone finance ministers. It is the Economic and Financial Committee's task force that the Council now charged to deal with the Commission's EMF proposal to transform the ESM into an EMF. It is unlikely that it will follow the recommendation to subject the EMF to be accountable to the EP (Smith-Meyer, 2018). Eurozone heads of state will decide in March 2018 on the EMF initiative (Muenchau, 2017). This attempt of the Council to circumvent the Commission proposal by using existing, largely unknown, bodies to bring an important change of economic governance about reflects the path 3 of covert integration.

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Closely linked to the described plans of how to reform financial and economic governance institutions in the Eurozone, there is another on-going important debate centering on whether to go for a full fiscal union or, more modestly, to complete the Banking Union by adding to the Single Supervision Mechanism and to the Single Resolution Mechanism a Eurozone-wide deposit insurance scheme. It appears that in the face of a stiff opposition primarily from northern member states the plan of a fiscal union is unlikely to materialize and the steps are at present directed to a completion of the Banking Union. However, this process has at present run into a deadlock over the question of whether banks should first engage in risk reduction (northern member states) before going for a risk-sharing mechanism as favored by a France-led coalition of southern member states (Brunsden et al., 2018). Both fiscal union and the deposit insurance fund under Banking Union are redistributive questions, albeit of a different scale. In December 2018 finance ministers at least agreed to further discuss a possible future Eurozone budget and to provide more financial means for the European Stability Mechanism (Brunsden and khan. 2018). The deposit insurance fund raises the redistributive questions, as well, but – given that the two first important components SSM and SRM already exist – may be introduced in a differentiated[5] an incremental way or allow for some differentiation and flexibility. This would reflect path 2.

Finally, an option of a transformed EU architecture has to be mentioned where the overall objective is to re-build the EU in the sense of both selective deeper integration and at the same time devolution or repatriation of competences. According to this view, where there is an urgent need of joint action, such as in foreign and security policy as well as migration and asylum policy, competences should be pooled. By contrast, other tasks with no trans-border effects such as some areas in environmental law, health, consumer policy, as well as labor law could be repatriated (Papier, 2016)[6]. The principle of an ever closer union would be reversed to a need for a compelling legitimation of further communitarization. Such a recomposition of the EU with a simultaneous partial devolution of competences and partial additional communitarization would allow consensus building based on a compensation mechanism.

Notes

- In Finland the right-wing populists are part of the governing coalition. In Denmark they supported
 the governing coalition for 10 years, as was the case in the Netherlands although over a shorter
 period; in Poland and Hungary they dominate the governments (Hutter et al., 2016). In Sweden, the
 Sweden Democrats have gained considerable ground in the election of 2018.
- Or what Bickerton et al. under their notion of new intergovernmentalism call "de novo bodies" (Bickerton et al., 2015).
- 3. The German proposal provides for restructuring requests to countries receiving funds from the EMF.
- 4. Created in 1999 to review the economic and financial situation of member states.
- 5. Such as by allowing for access to a deposit insurance fund under differentiated economic conditions.
- Such options were discussed at the Bratislava Summit emphasizing that policy delivery was the order of the day, focusing on the economy/employment, security, i.e. fighting terrorism; protecting outside borders, digitalization (Herszenkron, 2016).

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