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Post-Election Blues

The project of European Integration is under siege. It didn't need European elections to come up with such a statement, and yet the outcome of the elections adds relevance to the observation. The Eurozone crises and much more so the crises responses on the side of European actors, from national governments to the Commission and the Council as well as the ECB, were the genuine trigger for the impasse. To some degree the elections only highlight what has been in the making since quite a while. We know very well, and a lot has been said and written to this part of the election outcome, that voting behavior may not so much be guided by EU affairs but comes with many domestic motifs. This caveat is well covered by voting research. It should not distract from the fact that the most recent elections came at a time where overall EU-fatigue as well as anti-EU sentiments were at a high. Anti-EU parties have become stronger, and so did all those actors who argue since long that the EU is overstretched, too bureaucratic, too regulative, too Germany-oriented, too austere, too business-oriented, too market-liberal, too elitist, too free movement-biased, and the like. Already this - incomplete - list shows that voting decisions may have not been very consistent. It is also a well-known truism that those concerns are not firmly distributed across the political camps. One need only listen to the leader of the Front National to see that anti-elite and anti-globalization views are no longer sole traits of the political left. Xenophobia may be the uniting element for the Right, and even here one needs to be cautious because right-wing parties seem to struggle about the 'right dose' of xenophobia.

There is no doubt that that the EU has to ask itself serious questions, and so do the leading parties and core governments. And yet it would be a surprise if we will see more than cheap lip-service. Rather we can expect a strong dose of business-as-usual policies covered by sensitive rhetoric, not least because the EU on all levels is dominated by a strong sense of political tunnel vision that does not allow for deep inspection.

It is important to accept that the relation between anti-EU and economic performance is not at all one-directional. Take Italy, where the centre-left Democrats won 40% with a pro-EU and anti-austerity program. Grillo's Five Star Movement on the other side still got more than 25% with a anti-EU and anti-austerity stance that comes without any constructive vision about a path beyond European Integration. Take Ireland where the centre-left Sinn Fein is anti-austerity but not anti-EU. Take Greece where Syriza is anti-austerity but not totally anti-EU. Take Germany where the Alternative fuer Deutschland is anti-

Eurozone but could not make the large inroad that was expected. Germany may be seen as an exemption in the trend as the elections not only saw an increase in voter turnout but also a clear victory of pro-EU parties. Still, the fact that the *Alternative fuer Deutschland* successfully made it to Brussels promises some political headache for Merkel as her party needs to integrate this kind of political skepticism if it wants to stay at top. Take Spain and Portugal where the neo-cons in government lost. In both cases we can't see a strong anti-EU movement, though. Take the UK where anti-EU forces are topping the political agenda and moved the Tories into quite serious dilemma, not least caused by the way domestic policy preferences play out.

All differences apart, those national constellations have in common that the project of European integration is no longer uncontested by the electorate. Business as usual still is option, though, but no viable one. Compared to the past the battlefronts have changed. The European Parliament is eager to capitalize on the election outcome and to gain for once and ever the right to decide about the President of the Commission. National governments fight to keep their political prerogative and to continue treating the Commission as a useful institution. The Council itself is getting split in debtor and creditors, where a few outliers like the UK move between the camps. This new axis is not stress-tested yet but was so far successful in setting the economic and political agenda.

Despite all the new power distribution provisions given by the Lisbon Treaty that were supposed to strengthen Parliament and to a limited degree also the Commission it is fair to say that over the last few years the EU has moved even stronger towards a intergovernmental institution where some big players decide about the music. In this regard it would be no big surprise if the 'selected few' under the leadership of Merkel would decide about the next President of the Commission. Such action would only further underline that the Council not only plays the European music but also provides the notes. The Parliament cleverly sensed early on that this game may start again after the election, and surprised the Council with its quick statement that the voters had spoken and thus the 'Spitzenkandidat' of the winning parliamentary group more or less automatically should become President of the Commission. This was the start of the institutional power struggle that may go on for quite a while. At the end of the power struggle the winner may look to be the Parliament as they may eventually get their candidate to the helmet of the Commission. The price for such a 'victory' would be high because the Council under the leadership of Chancellor Merkel will have made sure that the new President will have a very narrow political mandate. This may further upset the Parliament that has the potential to become a skittish player in the game. On the other side one can argue that the Council and in particular German Chancellor Merkel is much more experienced in playing the game of the chicken, and eventually will outmaneuver the Parliament.

In the light of recent history I can't see an outcome where the Council will lose out substantially. On the contrary, the acceptance of Juncker as President of the

Commission may open the door for a further liberalization project that has the potential to shape the future design of the EU. 'More Europe' in the sense of even more sovereignty transfer would be a logical way to go in order to successfully deal with the challenges ahead for the project of European integration. And yet this path seems to me a non-existing political option. Rather, the European Council may be willing to go the opposite route and follow Cameron's initiative to retransfer autonomy to the nation-states. This would ultimately change the character of the EU, as it would result in weakening European integration in favor of strengthening the nation-state. Making the EU to a solely business-oriented trade block is high on the political wish list not only of Cameron's Tories but may actually become a common denominator for political forces that do not share many other values and targets of the project of European integration. The contours of such a program are already laid out. It includes abolishing 'red tape', another expression for regulations that is seen as restricting market forces; a further liberalization of the service sector, and active trade and investment policies as a tool to liberalize markets.

The Eurozone crisis was the period of crisis management that became then the period of post-crisis. Latter is a concept that takes into consideration the ongoing economic and political problems within the Eurozone. At this moment it seems that the Eurozone is on a winning streak. The Euro is appreciating against top currencies and financial markets are eager to purchase government bonds across the southern periphery. The crisis, so the saying, is now a matter of the past. Indeed, rather than shrinking the Eurozone is actually increasing in terms of members. Financial markets no longer shorten the Euro in anticipation of a implosion of the common currency. Yet, it would be misleading to neglect the weak state of the Eurozone. Low growth, high unemployment, staggering high public debt-ratios, low inflation and instable social relations characterize the common currency area. Given the legal commitment for surpluses in the primary balance, many EU-economies will continue to generate social despair that further feeds distrust against the EU.

The Eurozone is a highly fragile institution where already small shocks can be sufficient to generate a next crisis. If you are once in a low growth—low inflation - high unemployment situation it is difficult to move out. In case of the Eurozone any active fiscal policy option is closed due the fiscal pact and the fiscal conservatism that has been put in place due to the political pressure of creditor countries. A lot depends from the ECB, and it is clear that Draghi and his colleagues in Frankfurt are willing to deal with the challenges, but we also know that unconventional monetary policies are under assault, mainly from the German side where the Bundesverfassungsgericht already signaled that it sees a violation of the Basic Law, and passed the decision along to the European Court of Justice for further expertise. Outright Monetary Transactions (OMT) activities have not happened yet, and can no longer happen at all due to the simple fact that the ECB only can buy bonds if the country in question is in a Troika program. Now that Spain, Portugal and Ireland left this umbrella, the base for this program

has gone. The 'Second Big Bertha' has been announced but may be much less efficient as the first one, and if it is only for the fact that the program is limited in size. Deflation is a reality already in some member economies, and this makes debt service more cumbersome and also dampens the relative improvements of price competitiveness. More pressure on wages can be expected.

The current institutional in-fight is not at all a struggle about the proper way to deal with this complex situation, at least not directly. A minority of member states' governments wishes to depart from the established crisis policy mode but the creditor countries and their political allies seem to be determined to continue high. The current wave of optimism on the side of financial markets makes sailing for this camp easy - but even tailwinds needs to be mastered properly.