

Shrinking and Deepening. A New Pathway for the EU

Very much pressured by Tory backbenchers as well as by the rise in the polls of the strict anti-EU 'UK Independence Party', Britain's PM David Cameron eventually presented his long announced and often postponed speech on the future relations of the UK with the EU. No surprise in regards to the content of his speech. Cameron wants an à la carte Europe where each member can chose what she likes, and thus opt out from items she is not willing to digest. In best neoliberal manner, Cameron pledged for a Europe that comes with low-level regulations of *all* markets, a free trade orientation, national self- control of a widely defined range of core policies that follows the principle of subsidiarity, and a small state approach. In brief, Washington Consensus policies across the board.

Obviously, this is no the path the project of European integration currently is moving to. Like it or not, and Cameron rightly can point to the grumbling of vast social sectors in many member states, the majority of political and economic elites of the EU favors further steps of deeper integration in order to deal with the institutional flaws of the common currency. These are not full-hearted steps but moves out of desperation. Far advanced in the game, so the hidden assumption of the policy drivers, it is seen safer to move forward than backwards. Whether we are talking about the shapes of a banking union, the already established centralization of fiscal policy control, the financial transaction tax, rescue funds, competitiveness policies, and more the like, it goes without doubt that those projects run counter Tory instincts, and mostly against the interests of the City. It is not of any help that the UK is outside the Eurozone as those steps have unavoidable implications for the overall shape and the working mechanisms of the EU.

For a minimum, all those projects transfer sovereignty and power from the national to the supranational level. They may even have the potential to weaken the nation-states. The Tories seem to think that they never signed up to such a transfer of control and power. Cameron's strategy to advertise the re- negotiation of already generous opts out-rules for the UK is in stark contrast to the functional reform needs of a endangered project. To be clear: institutional reforms that are currently under way or are already accomplished are guided by the wish to stabilize the existing regime by 'normalizing' an austerity and competitiveness approach across the board. This approach means more and not less Europe.

The EU is a permanent process of negotiations that ask for compromises from all sides. Even in the current situation it would be wrong to argue that the changing shape of the EU is dictated by Germany. Compromises reign - not to the best of an optimal crisis management, but such is life in the EU. In such a light it is not very convincing to argue , as Cameron did, that member states would have signed up to a different EU. Sure, the EU from the Treaty of Rome differs in many respects from the EU of the Lisbon Treaty. This is the nature of the beast, though, and not an aberration from the original. No doubt, however, that member states can decide to walk away from such a negotiated institution. Much of the current debate has to do

with the simple fact that none of the members has ever decided to do so. So far, the EU is a growing and not a shrinking project. It may be time to rethink this trait.

Let us assume the Tories will again head the government in 2015 and the planned in-out referendum would result in a majority favoring to leave the EU. What then? From a purely economic perspective the whole Tory plan seems pretty absurd. Currently, Britain is on its way into a triple-recession, this time not caused by an out-of-control financial sector but due to a misleading economic policy that is based on exactly the neoliberal project Cameron and his team want to impose on the rest of the EU. Why should anybody, besides out of purely ideological reasons, favor a project that failed on so many levels? For quite a long time the UK's economic growth was framed by a big and growing financial service sector that made the UK to a strongly financialized economy. Its lack in overall productivity and a weak industrial sector in combination with an overvalued currency contributed to a meager level of international competitiveness and thus to the deficits in its trade balance. When the crisis hit, public debt got a hit, too. The change in government and its implied change in economic policy added to the wounds. Rather than making advantage of the fact that England is in control of its currency, the incoming coalition acted as being under the pressure of the IMF of the early 1980s. Ironically, Washington Consensus policies were introduced at a time when on the global scale those policies were on its way out. It is part of this irony that it was the IMF that sent a number of alerts to the British government to rethink its crude austerity project, without avail. Learning seems not to be the strength of ideological-driven projects. Today, the UK is in a severe crisis situation, and its emphasis on bringing down public debt is pro-cyclical in the best-known way.

With the UK gone the EU would fall back into the situation pre-UK membership of 1973. It would be a less balanced EU where neoliberal market orthodoxies still would prevail but be no longer as strong as today. This is probably the main reason why Chancellor Merkel would like to see the British stay around. Rather than having to do the heavy liberalization lifting itself, she could always rely on the Tories to do the job. Leaving the EU would not mean that the UK would get cut off from EU markets. Negotiations would find a way to keep the relations open. However, England would be no longer as attractive for outside-EU companies as the low tax jumping board to the European mainland. In time, the UK may also lose some of its financial center privileges, and if only due to ongoing EU efforts to domesticate the financial industry and to make it harder for financial actors to move business and operations to the City of London. Having said that it needs to be stressed that quite some water will run down the Thames until all this may materialize. First, it is no done job yet that the Tories will return to government at all. Second, even if this happens it is not clear in a few years from now whether a referendum will succeed. Still, it would be silly not to anticipate a withdrawal of the UK.

Cameron's speech made clear that the time is ripe to re-evaluate the project of European integration. Continuing with widening and deepening in a kind of

business-as usual-manner will not work, nor does Cameron's approach. Offering more and more choices for member states sounds flexible and maybe in the interest of Britain but would only contribute to weaken the EU as a major global player, and it would undermine its internal coherence. To be clear: It would weaken the EU in favor of the nation-state. There is no doubt that this is an option. However, it is an option for a even weaker and even more irrelevant EU. The strength of any integration project lies in harmonization as the source of efficiencies. Moving away from this strength is not the way to go in multipolar world. Rather, it may be time to restart the whole project. The first step would be to cut the 'acquis' into slices and to define an *essential core* no member can opt-out from. Such a core has to comprise more than the common market. It needs to include the common currency and its attached institutional architecture. Rethinking of this architecture would be one key task, not least for gearing up to the best practices of other world centers. More so, the core needs to be embedded into a framework that is guided by principles of de-marketization. Recall, the current mess has been generated by unfettered liberalization. Some of this misaligned liberalization needs to be back into the bottle.

Would such a EU be attractive for the UK? Not at all, and the same is probably true for some other current members. Disintegration as a process of deepening and shrinking is the future. Thanks to Cameron we now have to truly make up our minds what the European project of the 21st century is supposed to look like. Actually, I think a redesigned project that draws the lessons of the recent disasters is highly attractive.