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Commentary

Diversified Economic Governance in a Multi-Speed Europe: a Buffer against Political Fragmentation?

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Abstract

As it turns 60, the European Union appears engulfed in a crisis. In response to this, political actors have recently advocated a multi-speed Europe. A metaphor for the central idea is the integration highway: since member states are already moving with different speeds, countries need to be separated into different lanes to avoid a major accident. Although the idea of a multi-speed Europe has been criticised as an abatement of the initial dream of simultaneous European integration, this commentary views it as a *realpolitik* that will allow for greater flexibility in decision-making at times when a fast response to financial, humanitarian and security challenges is imperative. To illustrate this, a scenario is presented on how a multi-speed Europe policy can be applied within the Eurozone to shape two parallel common currency zones. A meticulous application of the multi-speed Europe principle to the Eurozone could address the shortcomings of the initial monetary integration plan and protect the long-term interests of the continent and beyond.

Keywords

European Policies; Economic Governance; Multi-speed Europe; Integration; Eurozone; European debt crisis.

EUROPE IN TROUBLE

As it turns 60, the European Union is in trouble. First the Eurozone debt crisis and then the refugee crisis have tested the effectiveness of the EU's political institutions. Brexit is currently discussed as a symptom of the failure on behalf of European institutions to address these crises effectively (Matthijs 2017). These developments have created uncertainty about the collective future of the European Union. In January 2017, German Foreign Minister Sigmar Gabriel articulated this concern, stating: 'It is no longer unthinkable for [the EU] to break apart' (Peet 2017).

Often criticised for inaction, the European Commission was spurred by these recent events to undertake initiatives to contain further centrifugal forces (Camis o 2015). In March 2017, the Commission adopted a white paper that presented five scenarios for the future of the EU (European Commission, 2017). Two of these revolve around the idea of encouraging member states to do more in selected policy areas where 'coalitions of the willing' will emerge, while allowing other member states to do less in areas where they see no added value for their countries. Days after the publication of the white paper, the leaders of France, Germany, Italy and Spain met at Versailles and announced their backing to a multi-speed Europe that allows for different levels of integration (De La Baume and Herszenhorn 2017).

In many ways, the discourse on multi-speed Europe is an *a posteriori* acknowledgement of what already exists. In Europe, there are 28 EU member states, 31 in the European Economic Area, 19 in the Eurozone, 26 in Schengen. Supporters argue that if the multi-speed Europe policy is formally endorsed, willing member states can proceed towards a closer integration while more reluctant member states can opt for a slower pace of integration. Opponents warn that a multi-speed Europe policy will entail the disintegration of the EU common legal and institutional framework and may eventually reflect on the geographical integrity of the Union itself. The following dilemmatic questions emerge from the endorsement of multi-speed Europe as a formal EU policy:

1. Is the multi-speed Europe policy compatible with the current EU legal and institutional framework or are new legal and institutional arrangements required?
2. If new arrangements are required, what kind of institutional architecture can ensure effective and legitimate governance?
3. Finally, is it possible to implement a multi-speed Europe policy without jeopardising the political unity of the EU?

The quality of political responses to these questions will shape the future of the Union. This commentary aims to contribute to this timely discussion, starting from a review of the origins of the differentiated European integration debate. Then, it outlines a scenario to show how the multi-speed Europe principle can be applied to the Eurozone. This scenario aims to contribute to the debate on differentiated European integration by demonstrating the implications of the multi-speed Europe policy on the economic governance of the Union.

The idea of a multi-speed Europe has been on the table since at least 1976, when Belgian Prime Minister Leo Tindemans presented a report to his colleagues in the European Council. This stated that the differences between the (then) nine member states were so large that it was impossible to assume that all the intermediate goals of European integration could be reached by all countries at the same time (Tindemans 1976). From the publication of the Tindemans Report in 1976 until the early 1990s, the discussion on differentiated integration remained static (Stubb 1996).

The study of differentiated integration was revitalised in 1994 when the German CDU/CSU party released its controversial *Reflections on European Policy* proposing the creation of a 'hard core' of EU members that would commit to a faster and deeper integration process (Jacquemin and Sapir 1996). Having to accommodate demands for flexibility in the process of European integration, the Amsterdam Treaty of 1997 introduced for the first time a fully-fledged legal device for variable integration geometry¹ within the EU (Philippart and Edwards 1999: 105). Even so, in the final text of the Amsterdam Treaty, the word 'flexibility' was removed, in favour of the term 'closer cooperation', showing a continuing commitment to unified political integration (Philippart and Edwards 1999: 89). The Lisbon Treaty of 2008 went a step further and initiated a number of modalities of differentiated integration. This established several policy opt-outs, including a protocol partially excepting the United Kingdom and Poland from the Charter of Fundamental Rights (Ondarza: 2013).

Until now, differentiated integration has only been used in exceptional cases, as a last resort solution to stalled negotiations or when new special conditions had to be negotiated after a failed ratification. However, while differentiation has long been a reality, it has not been the result of systematic strategic planning. For these reasons, the recent political endorsement of multi-speed Europe as an official EU policy at the highest political level constitutes a turning point for the Union, and its consequences ought to be contemplated.

PROS AND CONS OF A MULTI-SPEED EUROPE

Supporters argue that, with the endorsement of multi-speed Europe as a formal EU policy, willing member states will be allowed to proceed towards a closer integration while more reluctant member states can select a slower pace of integration. The central motto of this policy proposal is that 'one size does not fit all', and entails that countries like Greece, Ireland, Italy, Portugal and Spain will be able to opt out of the first speed if they find that the adoption of strict integration rules is harmful for their economies and populations. The ability of member states to avoid implementing policies to which they object has been a long-standing argument in support of multi-speed Europe (Jensen and Slapin 2012). Ultimately, the endorsement of a multi-speed Europe policy is an

indication that the political mainstream increasingly converges on the necessity to allow for a degree of flexibility and differentiation in order to accommodate intra-European diversity (Koenig 2015).

The policy of a multi-speed Europe encounters significant ideological resistance, especially from those poised to occupy the slower speed lanes (Chrysogelos 2017). Many critics see a risk of dividing the EU into privileged and non-privileged states, into first- and second-class members (Ondarza 2013). Moreover, the political class in several peripheral member states is wary that the implementation of a multi-speed Europe implies the exclusion of their countries from the *acquis communautaire*, i.e. the process of their legislative convergence with the EU core (Stubb 1996). For one thing, the political leadership of countries at the geographical and economic periphery of Europe have used their participation in the first speed of the EU as a token of achievement towards their constituents that they will not easily give away.

At the level of political theory, critics argue that differentiated integration entails an effective abolition of the principle of uniformity in the development of the body of law and institutions of the European Union (Walker 1998). Furthermore, jurists and legal analysts have treated any breaches in jurisdictional uniformity as a compromise of the common legal framework of the Union or *acquis communautaire* (Harmsen 1994) that eventually threatens to erode the legitimacy of EU governance (Shaw 1998). These arguments are countered by a pragmatic narrative by political commentators who claim that, in the long-term, the effects of differentiated arrangements could turn out to be beneficial for European unity. The divisions introduced by differentiation may not be permanent, since initial non-participants may participate at a later stage. In that case, the successful integration accomplished by a smaller core of countries would act as a centripetal force for other EU member states aspiring to join in (Kölliker 2006; Neve 2007).

At the present time, a variation of the differentiated integration theme, multi-speed Europe, is close to becoming a formal EU policy. However, scholars report an ‘astonishing’ lack of theoretical research and empirical knowledge on the phenomenon of differentiated integration (Holzinger and Schimmelfennig 2012). In an effort to enrich academic discussion on the matter, this commentary starts with a concise chronicle of the Eurozone crisis events that identifies the structural problems associated with the single currency zone. Then, it presents a hypothetical application of the multi-speed Europe policy to the Eurozone core and discusses its impact on the economic governance of the Union.

THE ONGOING EUROZONE DEBT CRISIS AND A PROPOSED SOLUTION

Although the first decade of the common currency was considered a success, when the Eurozone started to absorb the perturbations of the 2007–2008 global financial crisis, the effects were felt unevenly among its members (Cisotta 2013). When the weakest of the Eurozone economies fell into recession, their leaderships were deprived of the possibility to devalue their way out of the crisis. Bound to a currency union with more advanced economies at the central and north of the continent, their only option to stay competitive was through the painful (and largely tentative) process of internal devaluation (Stockhammer and Sotiropoulos 2014). At that point, the once aspiring monetary unification project started to resemble a political tinderbox.

This section moves beyond the frugal versus prodigal countries narrative, and attempts to explore the deeper causes of the Eurozone crisis. According to Joseph E. Stiglitz (2016), the institutional architecture of the Eurozone was flawed from the start. One of the shortcomings is that it did not provide the necessary fiscal tools to address the integration of economies that were moving with significantly different speeds. A solution for the rising budgetary imbalances within the Eurozone

would have been to proceed towards a common taxation system that would redistribute accumulated wealth from the European north to the European south (Bargain et al. 2013). This would also constitute a firm step towards a closer political integration between the Eurozone member states (Schwarzer 2012). However, a decision for unified taxation system would entail a high political cost for the administrations of the European North (Sciicluna 2014). Hence, the fiscal imbalance between North and South continues to deteriorate (see Figure 1).

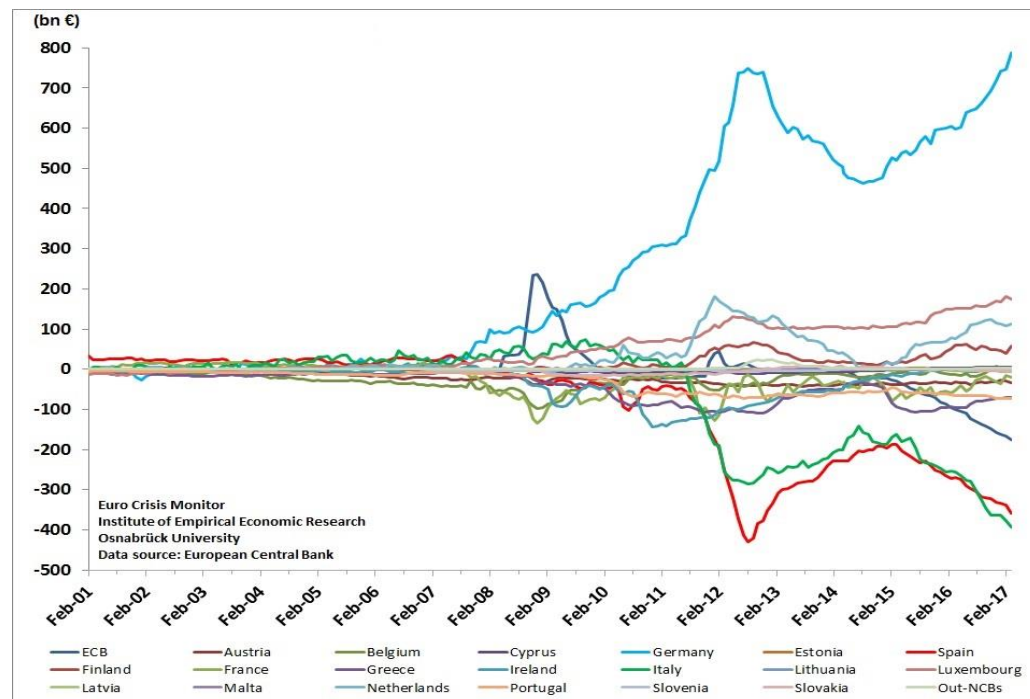


Figure 1: The haves and the have nots of the Eurozone. Balances of the trans-European automated real-time gross settlement express transfer system. Adapted by Steinkamp & Westermann, 2017. Data Source: European Central Bank

LIVING APART TOGETHER: BETTER THAN A BAD MARRIAGE

This commentary presents a scenario of two parallel common currency zones as a heuristic application of the multi-speed Europe policy that may provide a solution to the fiscal divergence discussed above. The scheme is predicated on the consent-based shaping of a two-speed Eurozone out of the current Eurozone of 19 member states. The first speed consists of the most robust economies of the Eurozone, those that are at the receiving end of the European Central Bank transfer system (Figure 1). The second speed consists of the weaker economies of the Eurozone, those that have suffered from the capital outflows and for whom the strong euro currency did not deliver. In this scenario, two different currencies would be introduced, a stronger currency for the European North and a more flexible currency for the European South, that can both act as a protective shield against exosystemic perturbations.

Each zone consists of countries with similar economic performances and fiscal mentalities, which will facilitate their governance and help restart the process of their political and economic unification. At present, several countries in the pipeline to join the Eurozone appear reluctant due to the ongoing political and financial dispute (Zimmermann 2016). A meticulous application of the multi-speed Europe principle starting from the consent based separation of the Eurozone into two influential, populous and peaceful economic zones could act as a carrot for prospective member states. This

draft presents the hypothetical expansion of these parallel economic zones to each include one extra member from the historical boundaries of the Euro-Mediterranean world (Figure 2).

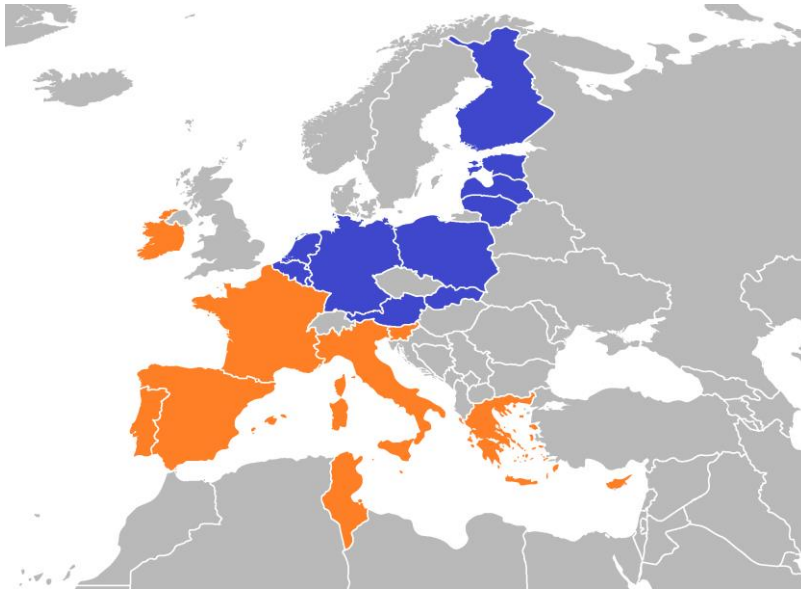


Figure 2: Political map presenting the hypothetical divergence and expansion of the Eurozone as comprised of two parallel common currency zones.

Several advantages could be accrued for participating member states in this scenario. Northern countries will be able to preserve their prosperity and proceed towards true economic integration based on shared social and economic values; the latter could include stringent fiscal policies. In this draft, Poland was added to the Northern parallel economic zone as a geographical bridge between the Baltic countries and Germany. The prospect of participation in a currency union of prosperous countries with robust economic prospects could entice a future Polish government. If that happens, a realistic expectation would be that Poland will be offered to host part of the institutions undertaking the task of monetary integration in an effort to stabilise the unification project and help dissolve historical animosities.

Likewise, the southern parallel economic zone will be able to proceed uninhibited towards monetary and social integration and to address common challenges such as external immigration. The projection of a peaceful vision of prosperity and democracy could keep societies in North Africa away from populist radicalism and help forge a working relationship with Europe. Moreover, the prospect of participating in the European common currency zones could act as an economic and political incentive for struggling countries to complete their democratic transition. Tunisia of 11 million, the only country that is considered a successful example of democratic transition after the so-called Arab Spring, is included in the southern economic zone to illustrate this. This daring political expansion on behalf of the Union serves two purposes: on one hand, it serves as a political and economic incentive for homologous countries to move towards democratisation, and on the other it can assist in addressing other policy challenges facing the EU, such as controlling human trafficking across the Mediterranean Sea.ⁱⁱ This would be an elegant way for Europe to demonstrate its friendly intentions towards North Africa at the political level and protect the continent from the dangers of a ‘clash of civilizations’ ideology. The formal use of a European currency by a non-EU member state could be legally solved after the example of other sovereign territories that use continental or shared currencies (Rose and Engel 2000).

France deserves a special note as it is the southern zone’s most economically advanced member. For the French political and business class, the country’s participation in a parallel Eurozone of the South

may enable it to reclaim its role in the Euro-Mediterranean region as a 'natural leader' (Šabič and Bojinović 2007). The leading role that France is expected to play in this proposed economic union (largely comparable with Germany's role in the initial Eurozone) will make up for any grievances within the electorate for the country's 'downgrade' to the second speed. Moreover, France will have more manoeuvring space to pursue its linguistic policy in an economic union where close to 85 per cent of the population would be speaking a Romance language as their mother tongue (World Bank 2017).

In the parallel common currency zones scenario, it is crucial that the lessons learned from the financial crisis are applied to render the new scheme sustainable. Three criteria emerge for the viability of a two-speed Eurozone: a) an internal taxation system for each zone that will help member states proceed toward economic integration; b) an open market negotiation of the exchange rates between the parallel currencies, that will preclude fixed currency ratios; and c) the preservation of existing EU institutional infrastructure (currently based in Brussels) that will exert regulatory control and guarantee the unity between the parallel economic zones.

The creation of two parallel economic zones in the presented scenario will not require the duplication of EU institutions, but rather the creation of two separate economic governance frameworks responsible for the implementation of independent fiscal and monetary integration policies. This revised economic governance framework can capitalise on accumulated institutional experience and avoid repeating the blueprint of the Eurogroup, the informal executive body currently in charge of the single currency zone.

CONCLUDING REMARKS

Out of a plethora of scenarios for the future of a multi-speed Europe, this commentary has presented one based on the creation of two parallel common currency zones consisting of economically homologous countries. The central argument is that this scenario can induce a centripetal effect with the potential to renew the project of European integration. In the history of the EU, a group of countries moving ahead on a policy area has typically had an exemplary effect on other countries wishing to join in (Neve 2007; Stubb 2002). However, in its present state, the single currency zone has lost its appeal for prospective member states. A meticulous application of the multi-speed Europe principle starting from the consent based separation of the Eurozone into two influential, populous and peaceful economic zones could introduce a renewed, realistic integration vision for European populations and beyond.

The caveat by legal analysts concerning the threat to the integrity of the common European legal framework (or *acquis communautaire*) from differentiated integration policies is not to be taken lightly (Shaw 1998; Harmsen 1994). However, differentiated integration is already a de facto reality, and increasingly recognised by key EU member states as an option for the future of European integration. Moreover, regarding the Eurozone, it is questionable whether the single currency zone's institutional architecture is worth preserving in its present form. The Eurozone regulatory framework has received criticism for dramatically lacking both institutional clarity and democratic control mechanisms (Enderlein and Haas 2015).

The compromise between social, economic and strategic interests necessary for this scenario to be implemented is not easy. There are risks of political divergence associated with the creation of tailor-made institutions (or institutional sub-entities) responsible for the implementation of selected policy areas within the EU. Moreover, a multi-speed Europe policy is certainly an abatement of the initial vision of concurrent European integration. However, since this vision does not currently seem attainable, the next best solution to protect the political unity of the EU may be to allow for the

institutional expression of diverging economic trends already present. There is always time to complete the integration process when conditions will be favourable. However, if the European integration project fails, the alternative may be a vicious strain of nationalism that will revive age-old conflicts and usher the continent into geopolitical obscurity.

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ENDNOTES

¹ The overlapping terms variable integration, variable geometry, two-tier, concentric circles, structural variability have been used in parallel to differentiated integration to describe the strategic implications related with multi-speed Europe policies.

² See for example Murphy and Malin (2017) for the democratic transition in Tunisia and Dandashly (2016) for the integration of Tunisia as part of the EU security community.

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