

# The European Union and regional economic integration

## Creating collective public goods – Past, present and future

EPRS invites leading experts and commentators to share their thinking and insights on important features of the European Union as a political and economic system. In this paper, **Iain Begg**, Professorial Research Fellow at the London School of Economics (LSE), reflects on the distinctive characteristics of the EU as the world's leading exemplar of regional economic integration, and its unique experience since the 1950s in generating collective public goods for its Member States as a foundation for the continent's collective prosperity.

### Introduction

No-one can seriously question the success of European integration, whether in economic or political terms. Since the early steps taken shortly after World War Two to create the European Coal and Steel Community, the 'European integration project' has gone from a limited form of industrial cooperation to an economic and monetary union with no parallel elsewhere. It is, plainly, much more than a trading arrangement of the sort seen in other regional blocs – such as ASEAN in Asia, Mercosur in South America or the USMCA arrangement in North America – yet stops well short of being a federation.

Belonging to the European Union entails much more in commitments and expectations than membership of other international organisations. Nor is it static: through treaty changes, successive enlargements and major policy initiatives the EU has become, to borrow a phrase often used by Wolfgang Wessels (2016), both 'wider' and 'deeper'. Jacques Delors, one of the leading architects of what is now the European Union (EU), was renowned for referring to the Union as an 'unidentified political object'.

This paper looks back at why integration became attractive. It then tries to answer the question of what the EU is as an integration project and what public goods it generates. The subsequent sections assess in more detail two of the principal areas of EU public goods, the single market and the euro, and why there has been more limited integration in social policy domains. The prospects for political union are then discussed and concluding comments complete the paper.

### Rationale for integration

The meaning and thrust of integration have been extensively studied in the academic literature, usually with a sub-text of trying to optimise economic governance arrangements, and often with an underlying assumption that, since global free trade was unattainable, regional arrangements are a worthwhile second-best. Writing in 1954, when much of Europe was still recovering from the ravages of World War Two, Jan Tinbergen, the Nobel Prize-winning Dutch economist, argued that 'integration may be said to be the creation of the most desirable structure of international economy,

removing artificial hindrances to the optimal operation and introducing deliberately all desirable instruments of co-ordination or unification' (Tinbergen, 1954: 95). He also emphasised the need to assign policy competencies appropriately between the different levels of government.

Jacob Viner (1950) introduced the concepts of 'trade creation' and 'trade diversion', showing how countries agreeing to lower trade barriers among themselves would benefit if the new trade created exceeded the trade diverted away from countries outside the arrangement. Similarly, the case for combining currencies flowed from Robert Mundell's seminal article on the optimal currency area (Mundell, 1961). As the many editions of Paul De Grauwe's text have documented, monetary integration has been a staple of European integration for decades (De Grauwe, 2020).

The theory of integration put forward by Bela Balassa (1962) posited five forms of economic integration. These are:

- free trade areas, enabling unrestricted exports and imports among participants, but allowing them to have their own agreements with non-participants;
- customs unions, which also allow free trade internally, but impose a common external policy vis-à-vis non-participants;
- common markets, adding freedom of movements of factors of production and, depending on the nature of the more basic models, trade in services;
- economics unions in which there are common rules and more extensive coordination of national economic policies; and
- total integration, adding a single currency.

These stages capture much of the evolution of the EU, but need to be complemented by bringing in the notion of federalism. Many of the pioneers of European integration, such as Alcide de Gasperi (see Daniela Preda, 2004) Jean Monnet, Walter Hallstein and Robert Schuman – motivated by their recent memories of war – envisaged a federal Europe as the final stage. Winston Churchill, in his Zurich speech of 1946,<sup>1</sup> raised the prospect of a 'United States of Europe' and saw France and Germany as being in the driving seat. His rousing ending was a plea to 'let Europe arise!', although (perhaps presciently) he saw the UK as remaining outside, as the leader of the Commonwealth.

However, while there are many in positions of power in the EU who still carry the federalist torch, the prospect of a fully federal Europe has receded. It had already been challenged by the 'empty chair' crisis instigated by President Charles de Gaulle in the mid-1960s, leading to the Luxembourg Compromise, effectively enshrining the right of Member States to veto integrative steps they deemed contrary to their vital national interests. Jürgen Habermas (2012) has written of the EU as being a form of 'executive federalism', having been unable to agree on becoming a democracy in its own right.

What tends to limit European integration is the combination of resistance from Member States and concerns about how democratically legitimate it is. Extensive powers have been delegated to the EU, but the very word 'delegate' gives the game away. Much ink has been expended on whether a treaty is different from a constitution, but as a union of Member States, the centre in the EU has been limited in its political autonomy and constrained by the terms of the Treaty. The constitutional limits have been analysed by Joseph Weiler (2001: 57), who argues that the EU 'does not enjoy the same kind of authority as may be found in federal states where their federalism is rooted in a classical constitutional order. European federalism is constructed with a top-to-bottom hierarchy of norms, but with a bottom-to-top hierarchy of authority and real power.' Giandomenico Majone (2005: chapter 10) portrays the EU as more Montesquieu (confederal) than Madison (federal). A pithy way of expressing it is as a 'United Europe of States', rather than Churchill's formula.

## What is the EU?

The EU plainly has its roots in economic integration, but has consistently had wider ambitions. The Treaty on European Union (TEU), in its preamble, recalls 'the historic importance of the ending of

the division of the European continent', a motivation transcending purely economic agreements. It sets a clear economic objective for members: 'the strengthening and the convergence of their economies and to establish an economic and monetary union including, in accordance with the provisions of this Treaty and of the Treaty on the Functioning of the European Union (TFEU), a single and stable currency'. However, the preamble also expresses the Union's determination to promote economic and social progress for their peoples, taking into account the principle of sustainable development'.

Further ambitions include a common foreign and security policy, defence cooperation, free movement of persons and the establishment of 'an area of freedom, security and justice'. In addition, the preamble articulates the aim 'to continue the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity'. The first phrase of this statement was seen as provocative in the UK and much cited in the debates around Brexit (the second, however, only rarely), but elicits little attention elsewhere.

What is stated in the preamble to the TEU can reasonably be interpreted as the public goods the EU seeks to deliver and shows how distinct it is from other regional integration projects in the scope of what it does. In economic terms, the EU today is an economic and monetary union (EMU), albeit an incomplete one in a number of respects. Its area of free movement (Schengen) covers most Member States, and there are substantial common programmes, *inter alia*, for joint research, agriculture and promoting economic, social and territorial cohesion through EU public spending.

The EU is a community of law, with a mandate derived from the Treaties, but with the restriction that a law cannot be enacted if it concerns a policy area not cited in any of the relevant treaties. Values play a central role in defining what the EU is, with the three Copenhagen criteria<sup>2</sup> offering a succinct definition. Membership requires a country to have stable and democratic political institutions, to have a functioning market economy, and to accept the *acquis communautaire* of laws agreed since the 1950s.

In addition, the EU has institutions of governance which go well beyond those of other regional trading arrangements. Some of these emulate equivalent institutions in nation states, whether federal or unitary. Thus, there is a capacity for law-making consisting of the Council, representing the Member States, and the directly elected European Parliament, as the voice of citizens. Such a bi-cameral system is found in many polities. There is an executive, the European Commission, with one member (Commissioner) from each Member State, all appointed, rather than elected, but formally expected to act in the interest of the Union as a whole, rather than being a representative of their country.

However, a distinctive feature of the EU is that the executive, the Commission, has a powerful role not only in implementing EU policies, but also in acting as the guardian of the Treaties and having the sole right of initiative in proposing legislation. Other agencies have more specialist roles, notably the European Central Bank (ECB), which is responsible for the monetary policy of the members of the eurozone and for certain other tasks, including bank supervision and resolution. It has its own foreign policy apparatus in the European External Action Service, and has set out principles for a global strategy (EEAS, 2016).

## The single market

The economic core of the EU is the single market, characterised by the four freedoms of movement: of goods, services, labour and capital. Having evolved from a customs union, the single market – a wide-ranging 'project' initiated in the 1980s (European Commission 1985; Cockfield, 1994; Egan, 2001) – complemented the elimination of tariffs and quotas by curbing a plethora of non-tariff barriers. But it also transferred powers from the national to the supranational level; as Michelle Egan (2001: 5) puts it: 'to create a single market, the European Union has sought to limit the ability of its Member States to exercise regulatory sovereignty'. To realise these aims, a White Paper – a measure

common in UK governance, but novel in the European context – was published, listing three hundred measures (later reduced by eighteen) to be undertaken to break down barriers to free movement. Expanding the range of policy areas to be decided by majority voting rather than unanimity in the Council (the Single European Act of 1986) was crucial to the realisation of the single market programme.

As documented by Egan (2015: 21), the single market in the United States was constructed largely in the 19th Century, but she identifies many parallels with the initiatives launched in the EU. Differences abound, but despite these, she finds 'important shared features that shape their respective political developments and drive towards market integration'. The measures to diminish or eliminate non-tariff barriers in Europe were grouped under three headings. The first was 'physical', consisting mainly of administrative controls at borders, including customs formalities and checks on animal and plant health. The largest set was technical barriers, ranging from harmonising differing standards and regulatory obligations imposed by Member States on economic actors to rules on public procurement. Then there were fiscal barriers arising from disparities in the rates and coverage of indirect taxes such as value-added tax. An important novelty was to set a date, the end of 1992, for completing the process.

In the EU, the role of the European Court of Justice in facilitating the evolution of the single market was pivotal (Armstrong and Bulmer, 1998). Some important decisions preceded the launch of the White Paper, one in particular having a vital influence: the *Cassis de Dijon* ruling of 1979. It established that if a product was lawful in one Member State, it could not be prohibited because of a differing national law in another. This principle of mutual recognition was fundamental not just for specific products, but was also replicated in the notion of the 'passport' used to authorise cross-border activity in financial services.

The single market cannot be described as fully complete, because shortcomings in implementation frequently occur and there are always new areas for which liberalisation may be required. The energy market and many facets of the digital economy are examples (Pelkmans, 2016), and the freedom of movement of services has consistently faced resistance. Indeed, there are 'services of general interest' - mainly in the public sector - largely excluded from the freedoms of the single market, though still covered by EU rules.

Competition policy is an important feature of the EU single market. It is a competence shared between the EU level and the Member States in a federal-ish structure since the reforms introduced by Mario Monti in 2003. The three areas covered by competition policy are curbs on abuses of market power, restrictions on public subsidies for companies ('state aids') and controls on mergers, all aimed at ensuring a 'level playing-field'. Enforcement is shared between the EU and national authorities, but with the former able to over-ride the latter in disputed cases. Along with its exclusive competence for trade policy, competition policy is considered to be a defining feature of the EU.

The power of the EU stemming from the single market is principally as a regulator and it can be argued that the bulk of the public goods generated by the EU are regulatory. This led Majone (1994) to coin the expression 'regulatory state' to describe the distinctive nature of EU economic governance. The principal contrast here is that, while the EU level of government does have a budget for purposes more extensive than administration, it is more a special purpose fund than the much more extensive functions commonly assigned to federal governments, notably for macro-economic stabilisation and redistribution (Begg, 2009). Until recently, the EU budget has been capped at around one percentage point of EU GDP, contrasting with typical values of 20 per cent or more in federal budgets of advanced economies.

## Economic and Monetary Union

The creation of the euro was, by any reasonable standard, a bold extension of the European integration project. Plans for monetary integration in Europe were under consideration from the 1960s, but only came to fruition right at the end of the 20th Century (De Grauwe, 2020).

Disagreements about how to construct a monetary union were legion and compromises hard to find (Dyson and Featherstone, 1999). More fundamentally, two widely recognised defining attributes of a state have long been security and the currency; forgoing the latter, especially for the likes of Germany, where a strong and stable deutschemark had so much symbolic value, was always going to be politically challenging.

Limited monetary cooperation in the early 1970s – sometimes referred to as the 'snake-in-the-tunnel', capturing the objective of limiting exchange rate fluctuations among EU members, while providing flexibility for movements vis-à-vis third countries – rapidly fell apart when oil prices soared in the wake of the Yom Kippur war. The more comprehensive European Monetary System, introduced in 1979, did succeed in stabilising exchange rates, but had a variety of in-built tensions and was always seen as a step towards monetary union, not an end in itself. The Maastricht Treaty then paved the way for the creation of the single currency.

Having been established twenty years ago, the euro is now used by 19 of the 27 Member States of the EU. With the sole exception of Denmark (granted an 'opt-out' in the Maastricht Treaty, as was the UK), the remaining members of the EU are formally committed to join the single currency, subject to fulfilling the entry criteria. Their non-participation is considered a 'derogation' from their obligations and is supposed to be temporary. However, in practice, they are able to stall indefinitely and, while Bulgaria and Croatia are now on a track to membership, there is little that can be done to coerce the others.

From the outset, the euro was bedevilled by differences about what its conceptual and, indeed, ideological basis was or should be. These differences arose from distinct approaches to economic management, rooted in decades of post-war experience, not least, as Pisani-Ferry (2014) explains, the incompatible views of France and Germany. Two rather oddly named camps had formed in the debates around the Maastricht Treaty: the 'economists' and the 'monetarists'. They had divergent views on how to engineer the transition to the single currency, with the former arguing for a gradualist approach while the latter wanted a form of big bang. In the end it was something of a compromise between the two.

At the heart of the euro is the ECB, a powerful agency with, arguably, more independence than any national central bank. This stems, in part, from its hierarchical mandate, as given by the Treaty: it is charged with assuring price stability and with pursuing other economic goals only if they do not compromise price stability. In practice, the operational interpretation has been to aim for an inflation rate (as measured by consumer prices), of close to, but below, two per cent, while the means of achieving its goals are fully delegated to it. A second influence on the ECB's independence is the assignment in the EMU architecture of fiscal policy to the national level. Because there is no supranational fiscal body comparable with the federal or central government in a nation state, the ECB stands above the national level in determining macroeconomic policy, and has, moreover, to act in the interests of the eurozone as a whole, rather than favouring individual members.

The euro has, in Jean Pisani-Ferry's words, been through '10 quiet years followed by 10 tumultuous ones' (Pisani-Ferry, 2018: 1). However, the incomplete nature of monetary union has proved to be problematic because of the need to reconcile the interest of participants and non-participants in the euro. An early example was when new funds had to be established at short notice over a weekend in May 2010 for a bailout of Greece. The answer was one fund (the European Financial Stabilisation Mechanism) backed by the EU budget and thus, if reluctantly by some, all (then) 27 members, and a second and larger fund (the European Financial Stability Facility - EFSF) implicating only eurozone countries. As explained by Olli Rehn (2020: chapter 4), the negotiations were not only tough, but also frantic, because, to forestall financial chaos, they had to be completed before the Asian markets opened at 02:00 Brussels time.

A further illustration of the eurozone–EU tensions was the Fiscal Compact, a proposal to adopt more intrusive fiscal governance. It was blocked in the European Council by the UK (with the Czech Republic also demurring), leading to a very public castigation of UK Prime Minister David Cameron

by Nicolas Sarkozy, the French President. Yet, in the end, a separate *Treaty on Stability, Coordination and Governance* was quite rapidly concluded by the 25 consenting Member States, outside the main EU Treaties, with the Czechs subsequently acceding to it.

This resort to a separate inter-governmental treaty to overcome obstacles to creating new public goods was emulated when the (temporary) EFSF evolved to become the European Stability Mechanism (ESM), a permanent fund – in its own words – 'set up as an international financial institution by the euro area Member States to help euro area countries in severe financial distress'.<sup>3</sup> The ESM website also observes that it 'is the only official institution of the euro area'. Even the Eurogroup, comprising the finance ministers of the participating countries, is regarded as informal, despite exercising considerable power.

These two episodes illustrate the capacity of the EU, at times, to resolve seemingly intractable problems when there is an imperative to create new public goods, although critics bemoan the need to resort to more ad hoc inter-governmental arrangements, rather than the Community method of advancing integration through the EU Treaties. What Christopher Bickerton, Dermot Hodson and Uwe Puetter (2015) refer to as 'new intergovernmentalism' can, nevertheless, deepen integration. They point to an integration paradox arising from not delegating competences to supranational bodies, yet seeing the EU acquire more powers. The exercise of some of these powers, such as restricting the autonomy of national fiscal policy (the Fiscal Compact) or the imposition of conditions (ESM support) can lead to tensions around the legitimacy of integration (Schmidt, 2020).

## Negative and positive integration - Limits to 'Social Europe'

Both the elimination of trade barriers by the EU and the various measures to advance the single market are forms of market liberalisation – what scholars starting from Jan Tinbergen (1954) and elaborated in the European context by John Pinder (1968) in relation to the economics, and by Fritz Scharpf (1999) for a wider array of policies, refer to as 'negative' integration. European integration has also been about both correcting and regulating the market: 'positive' integration. Harmonisation of regulation can break down barriers and is, therefore, not necessarily 'negative' integration even though it facilitates the making of the market.

It can be tempting to view the process of integration in Europe as dominated by negative integration, and it is often the case that positive integration is constrained by the need for consensus. Although the European Parliament tends to be more in favour of positive integration, achieving it also 'relies on high levels of agreement among member governments' (Scharpf, 1999: 82). Because of differing policy preferences, he adds: 'it follows that certain types of policy problems, for which solutions would be politically feasible within each of the Member States, are unlikely to be dealt with effectively at the European level'. Drawing on Scharpf's reasoning, the EU will struggle to arrive at common welfare policies. This is not only for budgetary reasons (although they loom large), but also because of very distinct approaches at national level (Esping-Andersen, 1990; Begg, Mushövel and Niblett, 2015).

The need to remain competitive in a common market shorn of protective barriers can reduce the ability of nations to devise their own solutions. Although, the risks differ across policy areas, Fritz Scharpf (1999: 83) identifies a risk of 'a general loss of problem-solving capacity in the multi-level European polity and, hence, a loss of output-oriented democratic legitimacy'. Majone (2005: 161) finds it unsurprising that in many 'policy areas, market integration has been sacrificed to social concerns or to political expediency. As a result, laws on minimum wages, collective bargaining, hiring and firing, duration of the working week, flexible labor contracts, qualifications, and a host of other factors continue to differ among the member states'. In short, differing values at national level limit social integration in the EU.

Even so, 'Social Europe' as a dimension of European integration has been much discussed over the years. In relation to the single market, some measures covering health and safety at work were enacted because they could be defended as consistent with levelling the playing-field. Strategies

on employment and social exclusion have been elaborated. More recently, the 'European Pillar of Social Rights' has set out a range of aspirations for common policy approaches. For the most part, the social dimension of European integration has relied on coordination of national policies, rather than regulatory intervention, let alone public spending. Alongside regulation and the limited EU budget, this constituted a third mode of governance.

Although the EU has remained cautious about engagement in distributive policies, its actions in two areas, agriculture and cohesion, are considered by many to be distributive. Since the mid-1970s, regional economic development policies, introduced at the time of the first enlargement of the EU, bringing in Denmark, Ireland and the UK, have grown in importance. Some three-quarters of EU public spending since 1988, when the budget underwent extensive reform, has gone on support for agriculture and for regional economic development.

What is now known as Cohesion Policy was reinforced because of concerns that the single market would accentuate regional disparities (Padoa-Schioppa, 1987). Further impetus came from the accession of Spain and Portugal in 1986 and, more so, from the accession of the countries of central and eastern Europe from 2004. As trailed in the Delors Report (1989), setting out the roadmap to EMU, and enacted in the Maastricht Treaty, the advent of the single currency was likely to accentuate regional disparities, and a consequence was to add to the demands on Cohesion Policy. Yet there has been ambiguity about what sort of public good the policy provides. The EU institutions tend to regard it as a policy instrument aimed at boosting public investment and thus, in the terminology of fiscal federalism, as having 'allocative' purposes, but many academic commentators conceptualise it as 'redistributive'. Efforts to link the policy to EU priorities in boosting international competitiveness have led to concerns about weakening its role in reducing regional divergence in the Union (Begg, 2010). Mixed messages from evaluations of the effectiveness of the policy have compounded these difficulties (Bachtler et al., 2016).

## The elusive concept of political union

An expression often raised in discussing how far European integration might go is the notion of *finalité politique*. Like the pot of gold at the end of the rainbow, it is often seen as mythical or unattainable. Indeed, many would argue that, in contrast to federal entities with robust constitutions as underpinnings, the unidentifiable nature of the EU can be a source of strength. It can change shape, create new institutions or decide to produce collective public goods in response to changed circumstances, without the baggage of formal federalism. Nevertheless, there was an attempt in the early 2000s to establish a formal constitution for Europe. After being rejected in referenda in France and the Netherlands, a somewhat watered-down version was agreed in what is now referred to as the Lisbon Treaty.

Certainly, European integration has had its struggles and traumas, many of them prompted by the uneasy relationship between the nation states constituting its membership and the supranational institutions established to enable it to function. Certainly, too, the EU has endured a difficult decade, starting with the acute sovereign debt crisis, through the inability to arrive at a coherent response to the influx of refugees and asylum-seekers (especially from the civil war in Syria) and the secession of the United Kingdom, and ending with the severe pandemic. There have also been persistent concerns about the propensity of the EU to procrastinate and the inability to agree on reforms in key policy areas.

At times, the EU is able to move rapidly to generate collective public goods and to overcome entrenched resistance. In its responses to Covid-19, for example, the EU proved to be decisive and creative, notably in agreeing on a substantial economic recovery package at the supranational level, complementing the actions of individual countries. Yet even in this instance, political tensions have, in some respects, intensified. Net contributors to the EU's finances resisted paying more, Member States due to benefit most objected to having tough conditions imposed on them, while those benefitting most from existing EU spending programmes opposed having them cut.

The EU does not, however, always succeed in finding answers, and there have been (too) many instances in the tortuous debate about completing EMU of 'kicking the can down the road'. Proposals for a Banking Union – one of the areas identified as needed to improve the resilience of the euro – provide an illustration (Angeloni, 2020). They were grouped under three headings: common bank supervision, a common approach to dealing with failing banks and a common deposit insurance system. While the first two were adopted relatively rapidly, deposit insurance is in abeyance as Member States continue to wrangle over how best to reconcile risk sharing with risk reduction.

Where the EU goes next is a question always on the table, given added salience by Brexit, the unprecedented secession of a Member State, albeit one frequently considered to be awkward and unenthusiastic. Even without the UK, decision-making has undeniably become more unwieldy in a Union with (for now) 27 members of greater diversity than in earlier decades and several candidates likely to increase its diversity. When the recently-departed UK achieved a rapid roll-out of Covid-19 vaccines in early 2021, the slower pace in the EU drew attention to some shortcomings in collective policy-making and caused friction between the Member States and the European Commission, especially in a policy area (like health) where public expectations of action were high but the Union's capacity to act was limited by the provisions of the Treaties.

There are also differing perspectives, some mutually exclusive, on what further steps to integrate should be countenanced, and when or how they might be taken. One reason for this is the intrusion of EU competence into areas sensitive in the domestic politics of its members. Positive integration has its place, but can clash with legitimation in unpredictable ways. Even in a core EU project like monetary union, the tensions identified by Vivien Schmidt (2020) are visible in some of the populist movements in countries hitherto strongly in favour of European integration.

The EU's external policies and its role in global economic governance are also under scrutiny. On the one hand, the EU continues to portray itself as the champion of multilateralism, a defender of institutions such as the WTO or the IMF, and an opponent of the more aggressive, mercantilist policies of the US and China. On the other, the EU's recent record testifies to a more robust approach. Free-trade agreements with Japan and Korea, and many more in the pipeline, represent a shift away from (or, perhaps, a recognition that their time has passed) the preference for multi-lateral deals. The ambiguous expression 'open strategic autonomy' has recently crept into the EU lexicon.

These orientations stem partly from concerns about vulnerabilities exposed during the pandemic to supply chains dominated by third countries, especially China. But it also reflects a desire to be more hard-nosed vis-à-vis global competitors. Thus, a European Commission (2020: 4) White Paper 'on levelling the playing field as regards foreign subsidies' explains that, to 'reap the full benefits of global trade, Europe will pursue a model of open strategic autonomy. This will mean shaping the new system of global economic governance and developing mutually beneficial bilateral relations, while protecting ourselves from unfair and abusive practices'.

At issue is how subsidies or differing regulatory standards lead (unfairly) to competitive advantage for global rivals. There is nothing especially new in this concern, but what can also be discerned is a form of infant industry/strategic trade policy reasoning. Europe, as has been said many times, has been unable to nurture the dominant companies of the 21st century – such as Apple, Google, Facebook, Alibaba, Samsung or Tencent – and risks entrenching a dependence on these global giants.

The strategic autonomy concept and an associated notion of 'principled pragmatism' also imbued the reset of the EU's foreign policy (Tocci, 2017). In parallel, there has been a debate on how the EU should evolve, implicitly posing the question of how far to move towards political union. In a White Paper on the Future of Europe, the Juncker Commission presented five scenarios (European Commission, 2017), albeit without expressing a preference for which should be adopted. The five scenarios presented ranged from narrowing the scope of the EU to a substantial deepening of its role. Strikingly, given the tradition of aiming for a single model of integration, they include two



under which participation in key policy areas would be optional, and only one which would constitute markedly 'more Europe'. Moreover, the paper was careful not to convey a preference, although its main contribution may have been to push the EU to consider how Union would evolve without the UK.

In doing so, it will have to revisit not only the range of public goods it provides, but to decide on whether the underlying philosophy of integration should be to provide the same public goods for all. Prominent leaders, notably Emmanuel Macron, in his 'Sorbonne' lecture in 2017,<sup>4</sup> have become increasingly keen on forms of 'variable geometry', in which only certain members take part, as a means of easing gridlock in integration. As scholars of differentiated integration are quick to point out, the EU has long had opt-outs, derogations and other means of non-participation in aspects of integration, but there are new dynamics shaping the form of integration. While acknowledging that, 'in a trivial sense', differentiation undermines the legal unity of the EU, Frank Schimmelfennig and Thomas Winzen (2020: 178) believe the more interesting question is 'whether any loss in legal uniformity may be compensated by gains in overall integration'. They conclude that, while differentiated integration will make it easier to integrate more in contested areas, citing security cooperation, it may not be the solution to some of the political challenges facing the eurozone or the Schengen area.

The EU's collective response to the economic damage from Covid-19 illustrates both the EU's ability to innovate in providing new public goods and the difficulties it encounters. In May 2020, France and Germany called for a €500 billion fund to provide grants to regions and sectors most severely affected by the crisis. The Commission built on this to propose an even larger fund – Next Generation EU (NGEU) – by adding a €250 billion loan facility. After a long and difficult European Council meeting in mid-July 2020, the EU's leaders agreed on the headline total of €750 billion for NGEU, but intense pressure from the so-called 'frugal four' net contributors, especially the Dutch, saw the balance between grants and loans change to €390 billion and €360 billion respectively.

The fund breaks new ground in European integration by allowing the EU to borrow directly from the markets to finance both the grants and the loans, with repayment unlikely to start until 2028 and not be completed until 2058. An important economic benefit is to relieve pressure on already heavily indebted countries, because the new debt does not appear in their accounts. It also provides for a sizeable proportion of the money to be spent on key priorities of the von der Leyen Commission.

NGEU is a crossing of the Rubicon in European integration because it has overcome opposition to borrowing by the EU and, though formally temporary, is widely expected to pave the way for a new approach to EU public goods. However, Jean Pisani-Ferry (2020) calls it 'a high-risk gamble. If the plan succeeds, it will surely pave the way to further initiatives, and perhaps ultimately to a fiscal union alongside the monetary union'. But he goes on to warn that 'if the plan fails to deliver on stated goals, if political interests prevail over economic necessity, federal aspirations will be dashed for a generation'.

## Conclusion

After enduring a decade of crises, the EU is keen to move in new directions, notably by putting the European Green Deal and digitalisation not only at the centre of its economic development strategy, but also of its NGEU recovery package. With the Brexit saga having at last been largely concluded following the enactment of the Trade and Cooperation Agreement – albeit with a number of loose ends still to be dealt with – and light at the end of the Covid-19 tunnel, as vaccines are rolled out, the EU has the opportunity to reset its model of integration. Familiar problems and challenges will, however, still need to be confronted, not least the further development of eurozone governance.

It remains to be seen how the new Biden Administration will engage with the rest of the world after the turbulence of the Trump years, but there is a growing recognition that Europe must do more to boost its own position, opening up new demands for public goods. Asian competitors are also

evolving. The agreement at the November 2020 ASEAN meeting to establish the Regional Comprehensive Economic Partnership (RCEP), comprising fifteen countries in the Asia-Pacific region, could be seen as setting up a rival to the EU. By including China, alongside Japan and Korea, as well as the other emerging economies of south-east Asia, Australia and New Zealand, it has obvious economic muscle. While it breaks new ground by linking the three most powerful countries in the region, they remain suspicious of one another and the recent tensions between China and Australia illustrate the political hurdles RCEP faces. Moreover, although it has provisions for some 'single market' features, in addition to more conventional trade liberalisation, it will be a slow process and is unlikely to see the depth of integration of the EU.

The expression *sui generis* – one of a kind – has often been used to describe the EU, which can, perhaps, best be described as bringing together confederal and federal characteristics, if in an often messy manner. It has undeniably succeeded in producing public goods across a wider spectrum than all other regional integration initiatives and has largely sustained its momentum, despite crises and setbacks. Brexit is an evident reversal, while the current dispute over the rule of law, pitting Hungary and Poland (with some support elsewhere) against the central EU institutions could presage more disunity. Yet the Union has repeatedly demonstrated its ability to step back from the brink to find compromise solutions.

It is important to remember that, as Danuta Hübner MEP has remarked, post-war integration in Europe has been 'the most successful example of peaceful political change mankind has ever witnessed'.<sup>5</sup>

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## ENDNOTES

- <sup>1</sup> [rede\\_winston\\_churchill\\_englisch.pdf \(churchill-in-zurich.ch\)](#)
- <sup>2</sup> These criteria were set out in 1993 to signal what would be expected of candidates for membership – for an overview, see <https://www.oxfordreference.com/view/10.1093/oi/authority.20110803095637775>
- <sup>3</sup> [About us | European Stability Mechanism \(europa.eu\)](#)
- <sup>4</sup> [Initiative pour l'Europe - Discours d'Emmanuel Macron pour une Europe souveraine, unie, démocratique. | Élysée \(elysee.fr\)](#)
- <sup>5</sup> Quoted in the *New York Times*, 24.02.2007: <https://archive.nytimes.com/www.nytimes.com/iht/2007/02/24/world/IHT-24globalist.html?pagewanted=print>

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