

POST-BREXIT, POST-POPULISM: WHAT SCENARIOS FOR EUROPE?

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Abstract

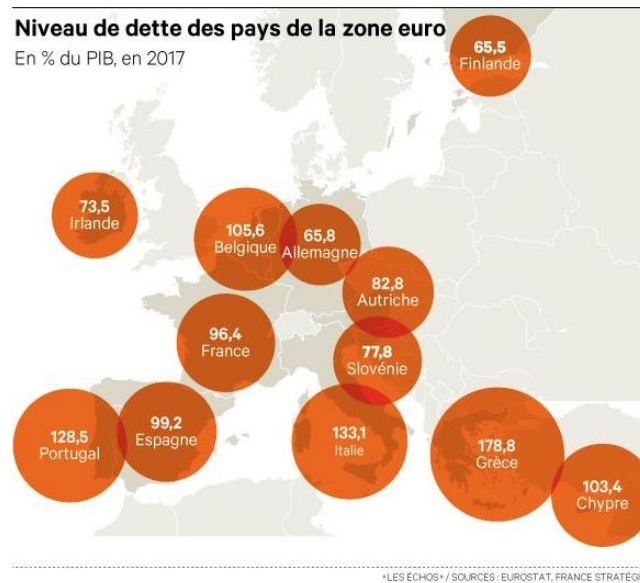
Three significant events have taken place in recent months of the year 2017. First, in Rome, the celebration of the 60th anniversary of the signing of the Treaty of Rome, where the President of the Commission presented the White Paper on the Future of Europe (European Commission, 2017), considering the continuation of the European construction in a differentiated way (multi-speed Europe). This event was followed, in May 2017, by the victory of Emmanuel Macron in the French presidential election on the basis, in particular, of a pro-European program claimed to promote enhanced cooperation with plans to create a ministry Eurozone finances, the creation of a fund for the financing of digital innovation, strengthen the EU defence and intelligence. Its pro-European commitment seems to have temporarily put an end to the EU bashing (Delaume & Cayla, 2017) that could be read in the press and heard in the speeches of many politicians in Europe. This commitment, announced during a speech at the Humboldt University in Berlin in January 2017 was confirmed, the third milestone event, by two speeches, one in Athens, the other at the Sorbonne in September 2017 which spell out the vision of the new President to engage Europe in a federal leap.

Key Word: Post-brexite, Brexit, European Union, Referendum of Great Britain, Economic and Monetary Union

The economic recovery in Europe heralds the end of the long stagnation that the EU has entered in the wake of the subprime crisis and gives some hope in terms of job creation and investment, even if the recovery remains fragile, many countries in the area are still heavily indebted (Figure 1).

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Figure 1: Debt level of euro area countries



Source: Les Echos

The failure of the "populist" candidates in the Netherlands and especially in France in recent national elections suggests the decline of sovereignist currents that have developed in recent years in several countries of the Union. But one swallow doesn't make a summer. Recent consultations in Austria and the Czech Republic show the prevalence of euroscepticism. The claim of an "illiberal" democracy advanced by the Hungarian and Polish leaders is also part of this current of distrust towards the EU. The result of the last German legislative elections suggests a weakening of the chancellor's power and leadership at the EU level.

European leaders bear a great deal of responsibility for this situation, which is due to the compromise between sovereignty and federalism that led to the creation of the EU. The attitude of the Commission and Council in the face of the crisis has revealed deep divisions among the different EU States. The crisis exposed the fragility of the construction on which the Euro was based, a non-sovereign common currency, limited by the absence of mechanisms for managing and pooling the debts of the various states.

European leaders will have to make choices and implement policies to boost growth, help address the causes of European citizens' disinterest in a Union that has failed to produce what they expect in terms of jobs, well-being, protection, to answer to asymmetric shocks.

In this contribution, after recalling the main factors behind the Euro crisis (section 1), we look at the future of the European Union by presenting several scenarios (section 2). These scenarios are contrasted with the proposals contained in the *White Paper on the future of Europe* presented by the President of the European Commission and the two speeches by President Macron in Athens and the Sorbonne (section 3).

1. WHAT REVEALED THE SUBPRIME CRISIS.

The EU was a collateral victim of the subprime crisis which was triggered in the United States in 2007/2008. The effects of this crisis quickly spread to the financial sector of the European Union, revealing the weaknesses in the construction and operation of the Euro, the mechanisms for allocating capital, revealing the strong asymmetries on the Eurobonds market. For the initiators of the single currency, the Euro crisis could not happen thanks to the Stability Pact (Maastricht criteria for debt and budget deficit) and convergence policies. Nevertheless, it has revealed significant interest rate differentials on the Eurobond market, putting some countries on the brink of bankruptcy. The reputation effect of Germany has allowed some states to borrow at low rates to finance risky, low-profit projects. The crisis has led the European authorities to put in place resource mobilization mechanisms to support and refinance the most affected economies by creating, after tough negotiations, specific mechanisms (European Stability Mechanism). At the same time, they imposed draconian debt consolidation plans on Greece in return for its continuation in the euro zone. Absence of mutualisation of debts, strict respect of the Maastricht criteria, adjustments at the margin: European leaders after many meetings did not solve the causes that led to this crisis.

The crisis has revealed several dysfunctions. The weakness of the Union's own resources (1% of the GDP of the member countries) limits the financing capacities in

the face of asymmetric shocks, they do not make it possible to finance stimulus programs (in particular the Juncker plan). Moreover, tax disparities between Member States lead to major distortions and fuel the tax dumping policies practiced by some countries both in the West (Ireland) and in the East (Bulgaria, Cyprus, Malta).

2. AFTER BREXIT: WHAT SCENARIOS?

The results of the referendum on the exit of Great Britain from the European Union (Brexit) caused a shock in all the countries of the Union. The fear is that some countries are tempted to follow this example. The difficulty of leaving the EU, the high cost that it would entail, quickly put an end to any inclinations displayed by certain political parties, both in western (France) and eastern (Poland, Slovakia). The UK government and the European Commission, over the next two years, must come to an agreement on the modalities of separation. Difficult negotiations have begun because, concentrating on important issues such as assessing differences in the valuation of the financial amounts to be paid by Great Britain (20 or 60 billion €?) before discussing the commercial status to grant to Britain after the separation? Achieving Brexit is proving difficult to implement, it may not happen in 2019 but later, or never even as the British press suggests. We are far from the "hard Brexit". The buoyant wind that was to lead Britain to the open sea has weakened, we entered a contravened globalization with the American retreat. Is there a future for an isolated country outside the major regional groups formed by the EU, the United States and China?

It is in this post-Brexit, post-populism, federalist push that we envisage the possible futures of Europe around four scenarios.

Scenario 1: The status quo or "The improvement of the existing system".

Here is a well-known formula of (non) Soviet and East European reformers at the time of socialism. The system is fundamentally good, we just have to make a few reforms, better control the Commission, make it more transparent, reduce the regulations, review the principles of subsidiarity, show the European people that the EU is defending their interests and acting for their benefit. The relaxation of the austerity plans, of the Maastricht criteria would give more oxygen to national economies,

especially today mired in the crisis. The launch of large-scale actions (Juncker plan) could be expected to boost employment in many sectors with a visible transboundary effect. This was the most likely scenario before the French election because, fundamentally, it maintained the status quo, preserving the balance between federalism and sovereignty. He left aside the questions that anger (taxation, budget, policy of the European Central Bank (ECB), the issue of posted workers, that of emigration). In this context, the most important problems are dealt with piecemeal measures. Nonetheless, the creation of a European Stability Mechanism, the implementation of banking reform that has been initiated, and important innovations have been introduced in this context.

Scenario 2: The Federalist Jump: "Concentricity and Variable Geometry".

We find here an old idea that returns to the front of the scene like a sea snake but with a lot of insistence since the election of the new French president. It advocates the refocusing of integration around a small circle of member countries ready to engage in a federal process: increased budgets, deep financial integration, strategic investments, increased research and development spending. This strategy seeks to create strong positive externalities that can spread to other circles, in return leaving the Member States with actions that produce little (Artus & Virard, 2017).

The EU would thus be divided into two parts: those of the Euro zone, on one side, those of the different circles, on the other. Four levels could thus be envisaged (The Economist, 2017): At the center would be the 19 Eurozone member countries that would deepen their political and economic integration. Then there would be other EU members including countries outside the Eurozone, possibly defectors from the first circle who cannot or will not bear the constraints arising from belonging to the Eurozone (Greece, for example?) without damaging the functioning of the single currency. A third would consist of countries not wishing to join the EU but wishing to participate fully in the single market by complying with all the obligations related to this association including legal (European Court of Justice): the countries of the European Economic Area (Iceland, Norway, Liechtenstein) and Switzerland. Finally, a final circle would bring together countries seeking a comprehensive and deep free trade agreement with, possibly for some of them, membership in specific programs (defense,

security). There would be Great Britain, some countries of the Western Balkans, later, other countries like Moldova, Ukraine could join.

The application of this scenario would face many difficulties: politically how to make accept and impose a demotion in the second and third circles? How to make coherent and articulate policies towards these different circles? How to ensure that the benefits of the federal effect within the first circle spread cascading to others?

Scenario 3: "One euro for all, one national euro for each country".

The prolongation of the crisis, the inability to reduce budget deficits in the euro area, the fragility of the banking system in several member countries would lead to the questioning of the Economic and Monetary Union (EMU). It would be a question of transforming the euro into a common currency by abandoning its character of single currency. It is a return to monetary independence that would allow the application of national economic policies to promote employment, exports with the risk of fueling inflation and increasing public deficits, to return repeatedly to competitive devaluations. At the European level, this monetary easing would lead to strong tensions, it would bring out a hybrid, Neuro to the north, Seuro to the south. Finally, it would be both a regression compared to what was created, resulting in a loss of value for the "national €" of the south and the announcement of the beginning of the end: unraveling the single currency, reintroduction of the monetary snake, a compromise between fixed exchange and floating exchange that preceded the creation of the ECU and the Euro. Many scholars have analyzed the limits of the European Monetary System and proposed alternative models and exit strategies for the Euro. The gradual dismantling of the Euro would herald return to the national currencies, as states thought they could regain room for maneuver by using the monetary variable to promote stimulus policies. Meanwhile, the change of currency would have a strong negative impact with a sudden loss of value of savings what French voters (« citizens-savers ») have understood, leading the leaders of left and right sovereignist parties to place their inclinations to get out of the Euro under the bushel. In Italy, former Prime Minister Berlusconi has revived the idea of a dual currency, national to boost domestic demand, investment, common vis-à-vis the rest of the world. Bad money chases the good, certainly economic agents would hoard

their Euro, further weakening the "national" currency contributing to further weaken the Italian economy.

Scenario 4: "Fragmentation of the EU and new regional polarity".

The failure of European leaders to revive growth, to reform the governance of institutions, to allocate sufficient resources to finance sectoral and integration programs, particularly in the direction of accession countries (Western Balkans), the permanence of disagreements and conflicts with some new member states (Poland, Hungary), growing income, employment and debt gaps between member states can fuel strong anti-European sentiments among the 28-1 population. The success of new Brexit-type consultations could lead, in the medium term, to the fragmentation of the EU leading, ultimately, to its disappearance.

After an Atlantic pole (Great Britain) one would thus witness a configuration that would see the emergence of a Germanic pole associating the countries of Northern Europe and the German hinterland (the "dependent capitalisms"(Hungary, Poland, Czech Republic, Slovakia) whose industrial revival comes from the massive investments made by Germany, Austria and other EU countries (Richet 2016).

A southern Europe cluster around France, Spain and Italy would benefit from its proximity and links with southern Mediterranean countries, even though these countries offer mixed growth prospects in an economic area. segmented (frozen economic relations between Morocco and Algeria, failure of the UMA single Maghreb market) and uncertain (Algerian succession, Tunisian political instability, fragility of the social balance in Morocco), without forgetting Libya in the grip of deep divisions. Some southern countries (Morocco) see the value of such cooperation: the association with the northern Mediterranean countries would better penetrate the markets of sub-Saharan Africa. For Algeria, this would be an opportunity to ensure the structural adjustment of its economy that the various governments have been unable to provide for decades by mooring it to the northern Mediterranean countries.

Finally, in the south-east of Europe, we would find the countries left behind, Bulgaria, Romania and the Western Balkans, which from the periphery would return to the periphery (Berend 1996). The big bang, (the simultaneous entry into the EU) of the

countries currently in accession desired by some (Balkans in Europe Policy Advisory Group 2014) will not take place. The countries of the Western Balkans, under pressure from the EU, have for years been applying "stability" policies in order to fulfill the conditions for future membership as the prospects for integration move away (The Balkans in Europe Policy Advisory Group (2017): Their horizon today, following the Trieste Summit in July 2017, is to enter a *Western Balkans Regional Economic Area*, a discounted common market that can be considered as an airlock. waiting for better days.

It is this pessimistic scenario that could emerge in the case of the disintegration of the EU authorities. The end of the integration perspectives could pave the way for cooperation between the old components, it would allow strong interference with third countries, especially with Russia, Turkey and even China present in the 16 + 1 Association. (Richet 2017). It could also fuel new conflicts in the region, including the break-up of Bosnia and Herzegovina, tensions in Kosovo, two states whose construction and viability are ensured by the Western powers. Further north, it would weaken the Baltic States, or even Poland, against Russia. Finally, beyond the Union, it would leave the way open to Russia in its territorial dismemberment and reconquest (Ukraine).

3. SEVERAL NUANCES OF FEDERALISM? FROM THE WHITE PAPER OF THE EUROPEAN COMMISSION TO THE PROPOSALS OF EMMANUEL MACRON

Commission proposals

The proposals put forward by the President of the European Commission Jean-Claude Juncker in March 2017 in the White Paper on the future of Europe (Box 1) and in September 2017 (State of the Union address to the European Parliament) break with the wait-and-see attitude that prevailed in recent years, perhaps anticipating future changes on the French and German side, but also because of more favorable winds (economic recovery in the EU).

Box 1: The five scenarios on what could be the state of the Union by 2025

- Scenario 1: Making a Difference - The EU-27 is committed to implementing its program of positive reforms, in the spirit of the 2014 Commission Communication "A new impetus for Europe And the Bratislava Declaration adopted in 2016 by all 27 Member States.

- Scenario 2: Nothing but the single market - The EU-27 is gradually refocusing on the single market as the 27 Member States are unable to find common ground in a growing number of policy areas.

- Scenario 3: Those who want more do more - The EU-27 continues as it does today but allows member states that wish to do more together in specific areas such as defense, internal security or social affairs. One or more "coalitions of volunteer countries" emerge.

- Scenario 4: Do less but more effectively - The EU-27 focuses its efforts on selected areas of action where it delivers more results more quickly, and reduces its interventions in areas where its action is perceived as n having no added value. She focuses her attention and limited resources on the areas she chooses.

- Scenario 5: Doing much more together - Member States decide to pool more powers, resources and decision-making across all sectors. Decisions are adopted in shorter time at European level and are quickly implemented.

Source: European Commission (2017)

The White Paper envisages five scenarios and lays the foundations for a European integration with variable geometry, even *à la carte* in a more coherent framework (departure of the UK, accession of the other countries to the Eurozone, reduction of the possibilities of getting away from certain obligations (opt out) of which the UK was beneficiary.

The integration at several speeds a priori scares the New Member States, the countries waiting (Western Balkans), but it is not a novelty since there is already a

Europe "à la carte": Euro zone and non Euro, Shenghen area. The fear, for those who are not among the "leaders of rope", is to feel relegated to another category and to see the waiting time to reach the first circle.

The proposals in the White Paper focus on both Europe's governance, priority areas for action, and subsidiarity issues. However, they reaffirm the obligations of member countries (27) to move towards a Euro zone (after the departure of Great Britain, there is more opt out than for Denmark).

In his State of the Union Address (Juncker 2017), the President of the Commission presents his vision of integration, particularly with regard to the reinforcement of the Euro zone, the creation of a budget for the area, the establishment of a Ministry of Economy and Finance of the zone, finally the transformation of the European Stability Mechanism (which was created during the crisis of the Euro) in the European Monetary Fund.

The proposals of the French president

Bold, these proposals constitute a break with previous practices including the coordination of a vague set that has fueled disappointments on the European project. In his proposals, the President takes up the idea of a multi-speed Europe, which already exists in several areas. The idea, compared to the White Paper, is to give more impulses, to release a vanguard of countries (in fact Germany and France) with the idea to lead others around several proposals concerning governance, the strongest integration, various sectoral actions (innovation, defense, sustainable development). The focus is on strengthening the euro area, common taxation, and at the same time on future enlargements. On the other hand, it circumvents the problematic issue with Germany: macroeconomic stability and debt reduction vs. Mutualization of the debt.

While the project has been well received in several capitals, it remains to be seen how these proposals, as well as those contained in the White Paper, will be set to music by gathering the support of the 27 member countries.

CONCLUSION

After the (temporary?) failure of populism, the proposals of the European Commission and then the election of the new French president and his *pro domo* plea for the construction of a more federalist Europe, take us away from scenarios 3 and 4. It is therefore around scenarios 1 and 2 that the reflection of European decision-makers will initially focus and that new compromises and solutions will emerge to revitalize a growth and well-being project. The blockages and various oppositions to engage in a federalist trajectory can bring us back to scenario 1 or closer to scenario 3. It remains to be seen whether European leaders will want to impose a new course on integration and strengthening of the European Union.

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