A EUROPE APART?
THE EMU, THE NEW ECONOMIC GOVERNANCE AND THE FUTURE OF EUROPEAN INTEGRATION

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Abstract

This paper deals with the relationship between monetary integration and the rest of European integration. There are three questions to answer. The first is, "Did European integration cause monetary integration?" The second is, "Did European integration shape monetary integration, or it was monetary integration that shaped European integration, at least since Maastricht?" The third question is, "How did the crisis of the Economic and Monetary Union (EMU) impact European integration on the whole?" The key thesis of this paper is that monetary integration has its own logic, origins, and dynamics. All of them are different from those at work for other sectors under integration. Monetary, economic, and political integration are connected and influenced by each other. Nevertheless, they remain three separate pillars of a historical process that would be better to call "European integrations." The convergence of these integrations allowed completing monetary integration, which, at that point, oriented the whole integration process.

1. Dismissing the political prevalence approach

The thesis I propose implies that to understand the whole integration process, it is crucial to analyze the relationship between integrations, in particular monetary, economic, and political integration. This is not an original starting point [1], except the central assumption adopted; this means dismissing the political prevalence approach that dominated the theories of European integration for years. This approach suggests that political integration is the core of the whole process of European integration and that integration in other sectors had been induced and depended on political integration. We can resume this idea using the famous saying of De Gaulle: *L'intendance suivra*. Instead, I suggest that "*l'intendance*" was miles ahead in politics even in De Gaulle's time. In my view, many causes contributed to generating this misunderstanding. Probably, the most important one is dialectic. The word "integration" was only insistently used after the creation of the European Coal and Steel Community, legitimising this innovation politically, creating an idealistic framework in which sovereignty surrender and its costs could be justified with superior ideals. So, apparently, integration started when politicians began to speak about it in public. This means it was thirty years after the early attempts to solve the European monetary problem. One of the main innovations introduced by the founding fathers of Europe was a rhetorical framework capable of including almost every kind of cooperation among European countries. This frame was revealed as a powerful tool to legitimise further cooperation outflanking nationalisms with a superior ideal as the European one. Technical matters remained in the shadows. However, they determined the path of integration.

Another reason that explains the success of the political predominance approach is the scientific background of many scholars who studied European integration since the 1950s. They were mainly political scientists concentrated on institutional aspects or international relations. So, their focus was prevalently political, and their skills and interests for "technical" matters as currency affairs were weak or non-existent. Later on, the historians arrived, but they were mainly diplomacy and international relations historians who devoted their attention to European integration. This characteristic strengthened the political predominance approach because these historians traditionally neglect systemic approaches and prefer concentrating on leaders' relationships and diplomacy. In the meantime, many other scholars worked on monetary relationships and currency problems as well as on international trade without referring to European integration as a suitable solution. In fact, the reconstruction and consolidation of an International monetary system remained their primary concern and analytical perspective. It was only in the late 1970s and early 1980s that European integration became a useful model also for economists, economic historians, and scholars of other disciplines that usually concentrate on international matters. In fact, during that period, European integration became a politically attractive solution also for problems like currency instability and the obsolescence of European industrial production. So, European institutions became the ideal box where many integrative processes could converge. The attempt to create a European monetary system that failed in the early 1970s was re-launched, and the communitarian box became the working environment to pursue new aims of filling the competitive and technological gap between Europe and its competitors (mainly USA and Japan then). Then, political integration became instrumental to economic and monetary integration, even if the political discourse and the focus of many scholars remained on European political integration and unification. During the 1980s, the so-called gold decade of modern European integration, member states succeeded in the same tasks they failed during the previous 20 years. The European Monetary System became a working reality; new communitarian policies faced common problems, such as research, market fragmentation, and environment pollution. More generally, European integration became a one-fit-all solution for member states at least until the mid-2000s, when the political costs of sovereignty surrender became evident. However, since the early 1990s, the traditional "idealistic" view of academics, politicians, and citizens was challenged by the perception of the economic matters' predominance resulting from the convergence into the single communitarian container of many separate problems. Critics against "bankers' Europe," "neoliberal Europe," and "undemocratic Europe" arrived by both academics and politicians. In the meantime, constraints on national policies

(1) The concept of interaction between sectors appeared since the start of European integration, in particular in the neo-functionalist literature. Later, interaction has been connected with side payments in the intergovernmental approach. Also, monetary integration has been explained as the price Germany paid for reunification and European political integration.

and politics, risks for welfare and patronage, and the vanishing of the idealistic view of Europe proposed since the 1950s revealed the real nature of the "converging integrations of Europe." Over the last 25 years, historians and political scientists have dismantled the idealistic view of European integration as a pleasant walk of peers animated by superior ideals and universal values. A fiercely competitive environment has emerged in which member states fight to impose their national priorities on the others, encapsulating their goals in the communitarian framework. So the communitarian arena appears as a real arena in which governments fight for their interests and prosperity, trying to keep themselves free from those external constraints that endanger their ability to manage domestic politics and policies. Their main aim is to safeguard the power at home; it means the network of clientele relations and arrangements between elites and sectors of the society that grants consensus and keeps governments in charge. Paradoxically, with monetary integration, the EMU member states accepted strict communitarian constraints to avoid the international constraints they could not manage or influence. The case of France is more evident (Helleiner 1994, 140-145; Howarth 2000).

However, their choice was based on the estimated balance between international and European constraints to domestic politics that changed dramatically with the global crisis of the late 2000s and the introduction of a more strict set of rules we call New European Economic Governance (NEEG). So, monetary Europe and its troubles reorganized the EU governance, creating a pervasive supranational power that challenged most of the remaining prerogatives of national governments in domestic politics.

2. The multiple crises of Europe

Today, the word "crisis" is widely used in the debate on European integration. In the newspapers and academic literature, there are many references to the economic crisis, sovereign debt crisis, euro crisis, and many other crises that touch European democracy and the welfare state, EU political institutions, and, more generally, the support for European integration and the fundamental values of uniting Europe itself. All of them are core topics in the political and academic debate about European integration as parts of a general crisis of Europe. The general crisis that has affected European integration since the late 2000s may appear as a result of the prevalence of monetary Europe on the other "Europes." In fact, the EMU was the most ambitious and challenging step in European integration and its crisis became the crisis of the whole European construction.

There are many reasons to consider the relationship between different "integrations," a pivotal question in every debate about European integration. Today, the most prominent of these reasons deals with the impact of monetary integration on member states' economy and politics. Completing monetary Europe made EMU the core of European integration and attracted to its orbit all the other issues that now must be coherent with how the EMU works. So the EMU problems became the biggest challenges for EU and influenced both national European policy and citizens' attitudes toward EU institutions and further integration.

There were three kinds of problems: economic, political and identity problems. On the economic side, the problems that affected the Euro area just before the crisis were not those suggested by the opponents of the EMU in the 1990s. The main problem was the flow of cheap money from northern Europe to southern member states and Ireland (the so-called P.I.I.G.S., meaning Portugal, Ireland, Italy, Greece and Spain) where interest rates were slightly higher. This flow created the conditions for something similar to a balance of payments crisis that put the entire EMU in danger. The cheap money inflow in P.I.I.G.S. resulted in wage increases that exceeded productivity growth. Also, speculation and governmental debts augmented it. Cheap money boosted inflation rates, and the competitiveness of southern economies declined. In the meantime, private debt rose, mainly in those countries where the real estate bubble pushed speculation and the government poorly respected the Stability and Growth Pact (SGP) prescriptions or did not respect them at all. So, when the international crisis rose, distortions in the euro area made the crisis deeper and harder to face than the American one. The picture I draw above makes the reform of economic governance in the EMU the key policy for saving and relaunching the EMU and integration in Europe. Unfortunately, damages caused by the governance shortage in the 2000s made it more difficult to reform the EMU. When the sovereign debt crisis became dramatic with Greece close to the collapse, member states took note of the impossibility for EU institutions to face the crisis and decided to outflank the EU stalemate by intergovernmental action. This strategy allowed the introduction of new rules both as intergovernmental agreements or Communitarian rules as well as new instruments to manage the euro area. These innovations were not enough for facing such a severe crisis. It was only the fierce action of the European Central Bank (ECB) that allowed them to stop the sovereign debt crises and to prevent the imminent collapse of the southern EMU. However, the solution adopted by the ECB to end the crisis made it a political actor with powers and tools it was not entitled to exercise. In fact, the ECB drew its power and built its weapons on a debatable juridical interpretation of the treaties and their mandates as well as on the blackmail power stemming from the broad discretion it enjoys as an emergency lender. So, the ECB gained the enormous power to manage "informal economic governance" in the EMU.

This was not the end of the Euro crisis, just a turning point. After, the problem became how to manage the EMU and who had to do it. The run to find temporary and acceptable solutions to the sovereign debt crisis redesigned the roles of three kinds of actors: the traditional EU institutions (Commission and Parliament), the member states, and the Euro system (the ECB plus national central banks). While the main EU institutions seemingly gained power thanks to the New EU economic governance, member states (in particular Germany and France) and intergovernmental forums appeared as the key players in defining the future of the EMU and the common currency. However, the only player that proves to be as powerful and efficient as needed by the crisis was the ECB.

On the political side, the external constraints imposed by the adoption of the euro and the introduction of the new economic governance fed anti-Europeanism and the opposition to further integration and surrender of sovereignty. So the euro became the preferred target for anti-EU parties and the fulcrum of the new anti-Europeanism. Unlike traditional anti-Europeanism based on the rejection of European values and surrender of sovereignty, new anti-Europeanism draws a solid background for its arguments from the problems charged to monetary integration. On the other hand, the euro crisis restarted the debate about the sustainability of a single currency without a single state; it showed the need for a European state with a government to manage the single currency. The problem of the EMU induced both opponents and supporters of European integration to depict monetary and political integration as two faces of the same problem. However, it remains unclear what the problem is. Was creating or joining EMU the wrong choice for some member states or, instead, was setting up the euro without creating Europe the wrong decision? What is the better solution to this problem? Dismantling EMU or building Europe? This dilemma inspired a new cleavage in the European party system that added a new dimension to the traditional right-left axis: the pro-anti European axis. This new dimension superimposed the traditional cleavages that divided the European party families and reshaped or redefined their political programmes and their electoral priorities. In this way, the new cleavage dramatically changed the votes' distribution both in European and national elections.

The most worrying face of Europe's crisis is the crisis of the "European ideal," that set of values and ambitions forming the core of European integration. The crisis of European ideals is dramatically different from the previous crisis faced by the EEC during the 1960s and 1970s. In those cases, political tensions and poor coordination caused an institutional crisis that affected the political and economic cohesion of the ECC. Today, it is monetary integration, its impact, and its crisis to influence the political side and the citizens' feelings toward Europe. So, the U-turn in the sectors' relationship is completed, and today, monetary Europe leads the fate of political Europe. As a result, it is not surprising that anti-European parties concentrate their critics against the single currency and the pervasiveness of EU economic governance in internal politics. Many elements feed this crisis. Among them, the perception of the EU as a neoliberal construction was magnified by the introduction of the New European Economic Governance and the austerity policies. The Greek crisis had an impact on the image of the EU as a community of solidarity, another value perceived as crucial to legitimising European integration. The imposition of heavy burdens and constraints for financial assistance as well as the rejection of proposals and requests democratically decided in Greece created a picture of Europe as a German-led leviathan and an undemocratic instrument of domination. This picture poses questions about the legitimacy of the EU and the real meaning of integration. Also, the inefficiency shown on many occasions as the sovereign debt crisis and the recent immigration crisis made doubtful the utility of the EU as a problem-solving arena. So all of these doubts about the nature, fundamental values, and usefulness of European integration created a “crisis of the idea of united Europe,” hich means an identity crisis that risks driving the EU to collapse.

3. Conclusion: is “EU à la carte” the solution?

The evolution described above made *EU à la carte* a poorly effective strategy for European integration, at least for those countries involved in EMU and constrained by the New European Economic Governance. In fact, the new and more constrictive contest requires uniformity in rules application and rigorous supervision. These needs made opting-out and open methods of coordination unable to granting the effectiveness of EMU governance and risks to fragment further the EU making integration unattractive for countries marginalised by opting-outs. The case of the United Kingdom and the Brexit supports this conclusion.

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