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**In which direction is Europe heading?**



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## **In which direction is Europe heading?**

**In 2008, the European Union entered an economic crisis that at first affected the financial system and then turned into a crisis of the Eurozone. This meant serious implications for the on-going processes of European integration. The purpose of this analysis is an attempt to assess how Europe has been overcoming economic crisis and in which direction the political system has been heading.**

### **Overcoming crisis in the Eurozone**

The events of the crisis mobilised the national and European elites (the latter defined as trans-national or super-national elites) to respond above all with respect to the economic situation. But in part, the changes concerned also the political dimension or precipitated consequences of a systemic character (related to the mechanisms of European integration in the system aspect). These reforms were undertaken after a serious delay and after lengthy debate<sup>1</sup>. Some ideas were only discussed and did not gain practical implementation due to differing opinions and interests among the leading political actors, above all the EU member states. As a result, the crisis was overcome to a partial or incomplete extent both in the economic and political respect. This resulted in an unnecessary prolongation of the crisis situation and generated serious economic, social and political costs. This led to a rising wave of social dissatisfaction with both national governments and the processes of integration, and of peaking popularity of extreme anti-systemic and anti-European groups. In certain cases these parties opposed the continuation of European integration in the current form and questioned the purpose of further participation in the currency union (this took place in France, Germany, Italy, Greece and the UK).

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<sup>1</sup> T. G. Grosse, *Kryzys jako zjawisko politologiczne*, J. M. Fiszer, M. J. Tomaszuk (ed.): *Zarządzanie procesem integracji i modernizacja Unii Europejskiej w dobie kryzysu oraz kształtowania się nowego ładu międzynarodowego*, ISP PAN, Warsaw 2013, p. 17-35.

In this analysis I would like to present the thesis that the basic systemic dysfunctions at the root of the crisis have not been overcome. Anti-crisis activities were to a great extent directed at restoring the pre-crisis *status quo*, not only in the sense of stabilising the economic situation but above all to maintain the earlier competitive advantages of the central states and minimisation of the redistributive costs borne by those states on behalf of the countries most hit by the crisis. The time of the crisis also served to strengthen the power of intergovernmental institutions in the Union, as well as the leadership of the largest and most wealthy member states, mainly Germany. It weakened the autonomy of certain European institutions, above all the Commission and Parliament, as well as reducing the cohesion of the European legal system, amongst other things as a result of the application of various forms of exceptions, activities almost beyond the remit of treaties in force or other informal anti-crisis policies<sup>2</sup>. A range of anti-crisis institutions were introduced by separate international treaties and therefore beyond the order of Union law. Furthermore, the tendency deepened for an EU divided into two tiers of integration (the two-speed Europe) with a more strongly integrated Eurozone and the remaining European Union states. All the above mentioned phenomena were effects of adjustment to the crisis situation and were systemic in nature (they concerned the fundamental features and way of functioning of the EU political system). However, they do not overcome in any basic manner the ongoing systemic political dysfunctions and deficits of the uniting Europe (for example, they did not improve the pace, nor the accuracy of decision-making nor did they even out the democratic legitimacy deficit). Nevertheless, it would seem that the earlier model of community integration (or community model) has been seriously weakened, leading to the danger of further problems and political costs in the future.

## **Overcoming the economic problems and dysfunctions of the common currency system**

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<sup>2</sup> K. Tuori, K. Tuori, *The Eurozone Crisis. A Constitutional Analysis*, Cambridge Studies in European Law and Policy, Cambridge – New York: Cambridge University Press 2014.

The fundamental source of the many tensions in Europe was the economic crisis (commencing in 2008) followed by the systemic problems of the Eurozone (after 2010). An element of the dysfunction of this zone is above all the low level of economic growth and employment in certain member countries, which might be described as an internal disequilibrium, and also the high level of differentiation in current account between currency union members, which I would describe as external disequilibrium. In both cases, the imbalances were cumulating before the outbreak of the crisis<sup>3</sup>.

The internal imbalance, or rather the excessive unemployment and low rate of economic growth, resulted from weakening competitiveness in the southern states of Europe. This was caused by an excessive rise in inflation and real exchange rate after the introduction of the euro. The unified monetary policy in the Eurozone prevented the effective limitation of inflationary impulses in the mentioned countries<sup>4</sup>. Another problem was also the incorrect economic policies in these countries, which preferred private and public consumption while neglecting structural investments to strengthen competitiveness. A clear factor in the described dysfunctions was the excessive liberalisation of financial markets, which greatly contributed to the rise in consumption in Southern Europe and stimulated inflation. Supervisory policy over these markets did not counteract the formation of speculative bubbles on certain assets.

The external imbalance was however characterised by an increasing rate of foreign debt. This was above all a result of excessive import and too low export from southern European countries. This tendency showed in the rising current account deficit of these countries. Like in the case of internal imbalance, this was due to a great extent to the weakening competitiveness of the economies of the southern part of Europe (and also of, for example, Ireland). Some experts note that export from this part

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<sup>3</sup> P. Temin, D. Vines, *The Leaderless Economy. Why the World Economic System Fell Apart and How to Fix It*, Princeton University Press, Princeton – Oxford 2013, s. 151-204.

<sup>4</sup> It is recognized that monetary policy in the euro zone before the crisis was too restrictive (and therefore was primarily aimed at limiting inflation). However, due to very different macroeconomic situation in individual euro area countries such policy, proved to be still too weak in southern Europe, because it does not counteract excessive inflationary pressures. Por. B. J. Cohen, *Dollar Dominance, Euro Aspirations: Recipe for Discord?* "Journal of Common Market Studies" 2009, vol. 47, nr 4, s. 741-766.

of the Eurozone was replaced on the global markets by cheaper production from China<sup>5</sup>. This was also due to the gradual appreciation of the common currency in relation to other international currencies, whatever the internal conditions of the Eurozone. The growing foreign debt of the discussed countries was linked to rising private consumption, especially resulting from property purchasing. With the onset of the crisis, this first brought problems on the banking market, followed by difficulties with excessive public debt (some of the banks were rescued with the aid of public funding)<sup>6</sup>.

To sum up, the culmination of macroeconomic imbalances in the Eurozone was linked above all with the differing economic competitiveness between the weakest economies situated mainly in southern Europe and the wealthiest from the central part of the continent. It is worth pointing out that these differences were due both to the economic policies of the particular members and the mistaken policies of European institutions. Countries that were losing competitiveness did not undertake appropriate structural reforms in time to protect their economies from the negative effects of currency union. The situation of Germany was diametrically different as there the government implemented a range of internal reforms at the beginning of the century. However, much more important for the competitiveness of this country was the massive shifting of production to the new member states of central Europe (most often situated outside the Eurozone)<sup>7</sup>. In the case of European institutions, the problem was inappropriate monetary policy and excessive deregulation of financial markets, which greatly contributed to a deepening of the problems in the Eurozone.

It turned out that there was a lack of institutions in the currency union that could act to counter the deepening imbalances. No such instruments have yet been introduced in response to the crisis. Instead, an anti-crisis tactic was implemented that partially aggravated the problems. The weakest economies cannot rebuild their economic

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<sup>5</sup> R. Chen, G. M. Milesi-Ferretti, T. Tressel, *Eurozone external imbalances*, "Economic Policy" 2013, vol. 28, nr 73, January, s. 101-142.

<sup>6</sup> C. Allsopp, D. Vines, *Fiscal Policy, Inter Country Adjustment and the Real Exchange Rate*, [w:] M. Buti, S. Deroose, V. Gaspar, J. Nogueira Martins (eds.): *The Euro: The First Decade*, Cambridge University Press, Cambridge 2010, p. 552-556; P. Krugman, *End this Depression Now*, New York – London, W.W. Norton & Company 2012.

<sup>7</sup> P. Guerrieri, P. Esposito, *Intra-European imbalances, adjustment, and growth in the eurozone*, "Oxford Review of Economic Policy" 2012, vol. 28, no. 3, p. 532-550.

competitiveness in the short-term by applying currency policy (by inflating their currencies) as this is impossible from within the currency union. They cannot either stimulate their economies through investment (in the longer term) as they have been forced into fiscal consolidation. The difficult situation on the labour market is not improved by the relatively low labour mobility in Europe. At the same time, at the level of the currency union, there are no fiscal instruments as yet (for example in the scope of social policy) that would make possible the rebuilding of demand in the member countries in the midst of crisis, nor either such institutions that would allow essential structural investment to strengthen the competitiveness of these countries. The solution proposed by the European decision-makers was so-called internal devaluation, which was supposed to lower the costs of production in the weakest Eurozone countries. However, this policy created deflationary pressure and slowed down the pace of economic growth. It therefore led to a worsening of the internal imbalance (a rise in unemployment) with only slow rebuilding of external equilibrium (competitiveness of domestic export). According to the experts, basing anti-crisis policy solely on internal devaluation without an inflow of external investment could not lead to success<sup>8</sup>. Meanwhile, countries in the throes of the crisis were having to cope with the problem of private investment outflow, while at the same time not receiving enough support from European financial instruments.

Currency union “froze” currency and fiscal policy options - the two main adjustment mechanisms that ought to be available in an economic competitiveness crisis situation. Also, there was a lack of appropriate European fiscal policy instruments. In this situation, the main and relatively most effective anti-crisis mechanism became the European Central Bank’s (ECB) monetary policy. However, this policy concerned above all an economic recovery across the Eurozone and not the introduction of the expected structural reforms in individual states or the redressing of macroeconomic imbalances in the common currency system. At first, Bank policy was above all addressed to the stabilization of the banking system in Europe and the situation on the sovereign debt market in the currency union. Later,

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<sup>8</sup> P. Temin, D. Vines, p. 199 ; P. Guerrieri, P. Esposito, p. 548.

and to an ever-greater degree (amid great political controversy between individual member states), quantitative easing was introduced to increase the amount of money circulating in the economy. The abovementioned policies acted to stimulate the real economy in Europe only to a limited extent<sup>9</sup>. The stimulation of bank lending to companies was quite limited while the euro quite clearly lost in value, which contributed to increase in export and improved economic demand in 2015. The situation in the European banking system stabilised, treasury bond yields fell and the scale of financial speculation increased (on the stock exchange or other financial instruments). So the activity of the ECB served above all to stabilise financial markets and lower the cost of public debt servicing for individual governments. It was not until the eighth year of the crisis that the policies contributed to stimulating economic growth. Additionally, the majority of Bank activity had an ad hoc effect reminiscent of “buying time” for other reform policy in the Eurozone. Political decision-makers did not always correctly use this time, while ECB policies might yet cause further problems in the future. They are associated with, for example, a rise in public debt and the burdening of the banking sector with the bonds of the most risky economies. Furthermore, experts predict the possibility of continued low growth (or economic stagnation<sup>10</sup>) and the disconnection of financial sector activity from the real economy<sup>11</sup>.

The Eurozone political elite adopted an anti-crisis tactic that, instead of stimulating growth and the improvement of the weakest member countries' economic competitiveness, instructed fiscal discipline and led to internal devaluation. Of fundamental importance in this respect was the strengthening of the current Stability and Growth Pact regime, which meant forcing member states to seek budget savings and reduce public borrowing. Another instrument of anti-crisis policy was strengthening the coordination of economy management, the main mechanism of which became

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<sup>9</sup> Ch. Martin, C. Milas, *Quantitative easing: a skeptical survey*, “Oxford Review of Economic Policy” 2012, vol. 28, no. 4, p. 750-764; Ch. A. E. Goodhart, J. P. Ashworth, *QE: a successful start may be running into diminishing returns*, “Oxford Review of Economic Policy” 2012, vol. 28, no. 4, p. 640-670.

<sup>10</sup> Por. L. Summers, *Why stagnation might prove to be the new normal*, “Financial Times”, December 15 2013, p. 7.

<sup>11</sup> Ch. A. E. Goodhart, J. P. Ashworth, p. 668.

the European Semester procedure<sup>12</sup>. This is supposed to increase the tempo of structural reform implemented by member states and limit macroeconomic imbalances in the EU. The fundamental problem of both the abovementioned mechanisms is that the costs and political weight of any eventual reforms falls exclusively on the member states. In the event of a serious economic crisis situation, these kinds of policy are exceptionally difficult to undertake for political reasons, and what is more may turn out to be insufficient or counter-productive (for example budget spending cuts may hamper recovery from recession and may cause economic stagnation). The practical application of both of the above mentioned anti-crisis mechanisms shows that states in crisis have many ways of avoiding the implementation of change. An example was that of the situation of France, which gained successive deferrals of fiscal adjustment from the European Commission (in 2015, the deadline for budget deficit reduction was deferred for the third time to 2017, with the first being gained in 2009). Also Greece, despite the draconian regime of conditioning and supervision from international officials (European Commission, ECB and the International Monetary Fund), delayed the introduction of a range of reforms throughout the years in which European support programmes were in force.

An important anti-crisis instrument was the successive versions of support funds (The European Financial Stability Instrument, the European Financial Stability Mechanism and the European Stabilisation Mechanism). These were above all instruments supposed to secure financial liquidity (and so are not the kind of funds effective in preventing solvency crises, especially of a number of states in the currency union at the same time). Apart from that, they were supposed to serve the execution of structural changes and budget savings introduced in crisis-hit member economies. The effectiveness of these policies turned out to be far below expectations, at least in relation to certain countries (especially Greece). The banking union became a separate anti-crisis instrument, addressed above all to the EU financial sector. This is a preventative mechanism supposed to secure the Union against another great

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<sup>12</sup> T. G. Grosse, *Semestr Europejski: poprawa zarządzania czy zmiana ustrojowa?* „Analiza natolińska” 2013, no. 7 (65), [www.natolin.edu.pl](http://www.natolin.edu.pl) [access: 27.10.2013].

banking crisis. However, experts are of the opinion that it is incomplete and as such can only fulfil expectations in a serious financial sector systemic crisis to a limited extent<sup>13</sup>.

To sum up, it is worth emphasising that EU policies had hitherto fundamentally strengthened the Stability and Growth Pact and so were directed at austerity policy. Certain institutions essential to overcome macroeconomic differences or the improvement of peripheral economies' competitiveness were not implemented at all. Others were only partially introduced (this was the case with the banking union). The selected anti-crisis tactic resulted in economic difficulties being spread over time and becoming ever more painful for certain nations. This is born out by the high unemployment in the whole EU and Eurozone, which in certain countries came close to or exceeded 27% in 2013 (Greece and Spain)<sup>14</sup>.

The basic aim of anti-crisis policy - the reduction of public debt - has not been achieved. In the course of the crisis, this level rose in the whole of the Eurozone (it is estimated at over 94% in 2015)<sup>15</sup>. It increased in the most indebted countries (including Greece<sup>16</sup>, Spain, Ireland, Italy, Portugal and Cyprus, but also in France). The situation was a little better as far as the budget deficit was concerned, which fell in the majority of countries<sup>17</sup>. What is less good is that the so-called structural deficit grew in some countries<sup>18</sup>. Since the coming in force of the Fiscal Pact in 2012, this had become a significant macroeconomic criteria, and the indicator increased throughout the Eurozone but to the greatest extent in Spain, Italy and France. Furthermore, it was not possible to overcome in any significant way the macroeconomic imbalances in the Eurozone, especially in terms of differences in competitiveness

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<sup>13</sup> T. G. Grosse, *Dylematy unii bankowej*, „Analiza natolińska” 2013, 2 (60), Centrum Europejskie Natolin, [www.natolin.edu.pl](http://www.natolin.edu.pl), [access: 29.03.2013].

<sup>14</sup> *Flash estimate for the first quarter of 2014*, Eurostat – News release, 76/2014 - 15 May 2014.

<sup>15</sup> *European Economic Forecast, Winter 2015*, European Commission, Brussels 2015, p. 170.

<sup>16</sup> In 2015 the national debt in this country was estimated at almost 180% of GNP despite being already once reduced in 2012.

<sup>17</sup> However, in certain Eurozone countries this indicator rose during the crisis despite drastic budget savings, for example in Spain and Cyprus.

<sup>18</sup> The *structural deficit* is the budget deficit corrected by cyclical swings in demand and so takes into account falls in income and growth in spending resulting from the economic crisis.

between central and peripheral economies, an expression of which is above all the persistent current account deficit of Greece, Portugal, Spain and Cyprus<sup>19</sup>. There are also big discrepancies in prices and salaries (interestingly, prices are lower in the central countries with a higher level of pay)<sup>20</sup>. All this indicates a very doubtful level of anti-crisis policy effectiveness. It also suggests that economic difficulties may be prolonged, with all the negative effects that this implies for European integration. This is exactly why many economists declare the anti-crisis tactic realised in Europe and economically irrational and even counter-productive<sup>21</sup>.

The prolonged crisis caused growing social, economic and financial costs. These were in the main shifted onto the countries that were directly hit by the crisis. However, in financial terms, the richest nations also had to cover the costs to a certain extent (they were in a better fiscal and economic condition to do so), as did the financial investors from those countries. All this taken together lead to a range of political tensions in the heart of the Eurozone<sup>22</sup>. For example, the states of southern Europe most affected by the crisis tried to water down the policy of spending cuts and internal devaluation. They resented the central members of the Eurozone, especially Germany, for the excessively restrictive policies imposed on them in the midst of the crisis. Also, the more well off countries (including Germany, Holland and Finland) resisted further transfers of funds designed to help members in crisis. There was ever-greater political tension between France and Germany as to the direction of anti-crisis policy – all the more so as the French economy was getting weaker all the time. This was perceived in Paris as proof that the German tactic for emerging from the crisis

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<sup>19</sup> *European Economic Forecast, Winter 2015*, European Commission, Brussels 2015, p. 174.

<sup>20</sup> W. Münchau, *The real eurozone problems are hidden under the bonnet*, Financial Times, Monday, 30 March 2015, p. 7.

<sup>21</sup> Por. M. Blyth, *Austerity: The History of Dangerous Idea*, Oxford – New York: Oxford University Press 2013; P. Krugman, *How the Case for Austerity Has Crumbled*, "The New York Review of Books" 2013, June 6, vol. LX, no. 10, p. 67-73; R. Kutner, *Debtors' Prison. The Politics of Austerity versus Possibility*, Alfred A. Knopf, New York 2013, p. 105-135. I discussed the discrepancies between economic rationality and the politics of the Eurozone: T. G. Grosse, *O dwóch logikach integracji walutowej w Europie*, „Polski Przegląd Dyplomatyczny” 2012, no. 1 (63), p. 53-76.

<sup>22</sup> J. D. Medrano, *The Limits of European Integration*, "Journal of European Integration" 2012, vol. 34, no. 2, p. 191-204; A. Moravcsik, *Europe After the Crisis. How to Sustain a Common Currency*, "Foreign Affairs" 2012, vol. 91, no. 3, p. 54-68; C. Offe, *Europe Entrapped. Does the EU have the political capacity to overcome its current crisis?* "European Law Journal" 2013, Vol. 19, no. 5, p. 595–611.

was also hitting France ever more. All this indicates that the capacity of the EU to overcome the economic crisis was relatively limited, which translated into political difficulties.

### **Overcoming the dysfunctions of the political system in Europe**

An economic crisis is the greatest of challenges both for the government in power and for the current political order. As Seymour Lipset put it<sup>23</sup>, every democratic system must provide economic growth or lose legitimacy. The crisis in the European Union above all hit this “utilitarian legitimacy” – the concept basing the legitimacy of the political order in Europe on its greater effectiveness than individual nation states. However, it turned out that the system of managing the EU is dysfunctional, an expression of which were the difficulties in overcoming the crisis in the Eurozone<sup>24</sup>.

The functioning European political system is one of two tiers – it operates at two levels at the same time: the national and the European<sup>25</sup>. Both affect each other, which is associated with informal and formalised “channels” of mutual relations. Democracy exists in the various member states for either longer or shorter periods and it may be suffering erosion because of, amongst other things, membership of the European Union. This is linked to the system that limits, by the processes of integration<sup>26</sup>, the decisions of political institutions at national level. This kind of event takes place exactly during economic crises, when countries plunged in difficulties found themselves under strong external pressure (European institutions and other member

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<sup>23</sup> S. M. Lipset, *Some Social Requisites of Democracy: Economic Development and Political Legitimacy*, “*The American Political Science Review*” 1959, vol. 53, no. 1, p. 69-105.

<sup>24</sup> Other researchers have also noticed this dysfunction, though in their opinion the crisis in the functioning of the EU and European institutions did not lead to a crisis of integration itself. M. Nadolski, „Kryzysy” w procesie integracji europejskiej z perspektywy historycznej, typescript 2015

<sup>25</sup> T. G. Grosse, *Dwupoziomowy system polityczny w Europie*, „Przegląd Europejski” 2012, no. 2 (25), p. 7-26.

<sup>26</sup> More on this subject: V. A. Schmidt (2006): *Democracy in Europe: The EU and National Politics*. New York, NY: Oxford University Press; V. A. Schmidt (2004): *The European Union: Democratic Legitimacy in a Regional State?*, „*Journal of Common Market Studies*”, vol. 42, no. 5, p. 975-997; P. Mair, *Political Opposition and the European Union*, “*Government and Opposition*” 2007, vol. 42, no. 1, pp. 1-17 [13-15]; T. G. Grosse, *Changes in Western democracy: a systemic crisis, or a chance to overcome it?* “*Politeja*” 2012, no. (3) 21, p. 133-154.

states), and their governments sometimes were forced to pursue policies at odds with the expectations of national electorates.

Pressure from the Europeanisation side (that is, the conditions presented by the European institutions or those deriving from EU legislation) concerned above all the periphery states that were most hit by the crisis. Of significance is that the implementation of these conditions took place despite the opposition of voters or sometimes even democratic institutions of these countries. For example, the Cypriot parliament at first rejected the draconian conditions of support presented by the Euro group and the IMF (in 2013). Even so, a few days later the costs of the crisis were to a great extent shifted onto the residents of Cyprus and its economy. A similar practice also met certain countries central to the currency union. For example, the French government, in accordance with the expectations of the European Commission, had to introduce politically difficult reforms liberalising the economy by resorting to decrees out of concern about resistance to that kind of change in parliament (and within the framework of the routine legislative path).

Even greater problems of democratic legitimisation occur at the European level. EU institutions (especially the technocratic) do not have the appropriate electoral authorisation though they systematically increase the scope of their authority over European societies<sup>27</sup>. According to other opinions<sup>28</sup>, there is no democracy at the European level as there is no organised opposition or alternative programme to decisions taken nor any accountability to voters. The de-politicisation of the system is deepening at this level, which is related to the small significance of electoral politics, including the deliberation of the program among the parties representing on the one hand the government, and on the other the opposition. At the European level, EU technocrats and politicians who originate from the member nations but who have, to an ever greater extent, been breaking away from their national electorates. To a certain extent, this resembles the working of a “political cartel” as the political divisions on the left and right have been eroded in the name of common

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<sup>27</sup> D. Beetham, C. Lord, *Legitimacy and the European Union*, Longman, Harlow 1998.

<sup>28</sup> P. Mair, p. 7-8, 14.

interests of the whole political class and a consensus for pro-European political correctness<sup>29</sup>. In a situation of prolonged economic problems, a lack of an organised opposition and European political alternative created very strong political tensions. These however could not be diffused from within the existing political system. So opposition grew towards the whole system itself, in this case directed at the elitist and undemocratic formula for European integration.

This is how the democratic deficit became the source of serious dysfunction in the two-tier European system. It was also a serious obstacle hampering the overcoming of the economic crisis as it blocked the undertaking of essential reforms. Social opposition at the national level hampered both the introduction of political change in Europe (including those leading to the increase in democracy or federalisation of the EU), and also the essential economic reforms in the member states. It inhibited the prospect of increasing fiscal redistribution between individual members of the currency union, leading to a vicious circle in which the deficit of democratic legitimacy effectively prevented the real overcoming of the crisis while the unsolved problems additionally increased social dissatisfaction.

Since the beginning of the crisis in 2008, trust in public authorities, both European and national, has been systematically falling. It has however dropped more strongly for EU institutions (26% between 2007 and 2014 with 16% for national authorities over the same period<sup>30</sup>). While trust in the European Union remained stable up to the autumn of 2009, that later fell rapidly<sup>31</sup>. This was a symptom of rising Euroscepticism as the crisis continued and European institutions applied their crisis therapies. Visible also was the worsening relations between particular European national societies. When asked whether the crisis had brought the citizens of various European countries together, more than half of the respondents expressed a negative opinion<sup>32</sup>. In these

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<sup>29</sup> R. S. Katz, P. Mair, *The Cartel Party Thesis: A Restatement*, "Perspectives on Politics" 2009, vol. 7, no. 4, p. 753-766; P. Mair, p. 14.

<sup>30</sup> *Standard Eurobarometer 81, Public Opinion in the European Union, Spring 2014*, European Commission, p. 9.

<sup>31</sup> *Ibidem*, p. 6.

<sup>32</sup> *Standard Eurobarometer 78, Public Opinion in the European Union, Autumn 2012*, European Commission, p. 20.

conditions it is difficult to demonstrate fiscal solidarity between different currency member countries.

Most interesting of all is that the political ferment occurred in many EU countries simultaneously (and not only those most hit by the crisis). This was a spontaneous bottom-up example of political activity directed against the current elites and the dysfunctional integration processes in Europe<sup>33</sup>. It was anti-systemic in character in relation to the political system functioning in European Union, though it was not directed against the democratic order. Instead it sought to rebuild democracy at the national level (and challenged the limitations at this level resulting from European integration)<sup>34</sup>. To recap, the lack of organised opposition at the European level turned the Eurosceptic movements into an anti-systemic opposition that, with the deepening economic problems and the dysfunctional governance in the EMU (the Economic and Monetary Union), threatened integration itself.

The results of the European parliamentary elections in May 2014 are a good example of the abovementioned phenomena. They prove the growing wave of social dissatisfaction resulting from, above all, the difficult economic situation in certain EU countries. In some cases this strengthened political forces hitherto considered extreme or populist. This was so in the case of the success of the National Front in France, UKIP in the UK and the very good results of radical groups in Greece, Denmark, Austria and so on<sup>35</sup>. The vast majority were formations that demonstrated Eurosceptic views. They also influenced the position of hitherto mainstream parties<sup>36</sup>. It is very characteristic that the problems of the Eurozone mobilised the parties in opposition to European integration<sup>37</sup>. Voters had become aware of the ineffectiveness

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<sup>33</sup> K. Armingeon, B. Ceka, *The loss of trust in the European Union during the great recession since 2007: The role of heuristics from the national political system*, "European Union Politics" 2014, vol. 15 (1), p. 81-107 [99].

<sup>34</sup> A consideration of the rise of populist movements in Europe as an effect of European integration: C. Mudde, *The Populist Zeitgeist*, „Government and Opposition" 2004, 39 (4), pp. 542-563 [562].

<sup>35</sup> Por. <http://www.results-elections2014.eu/en/election-results-2014.html> [access: 24.06.2014].

<sup>36</sup> C. Mudde, *Three decades of populist radical right parties in Western Europe: So what?* "European Journal of Political Research" 2013, vol. 52, p. 1-19.

<sup>37</sup> On the subject of the growing importance of the Eurozone crisis and the European context for national electorates: P. Statham, H.-J. Trezz, *The Politicization of Europe: Contesting the Constitution in the Mass Media*, New York – London: Routledge 2012.

of European institutions in the face of the crisis, or what is worse, the negative influence of anti-crisis policies undertaken at the initiative of European institutions on the economic and social situation in their countries. Thus the common currency, instead of uniting and building European identity, became the symbol of problems and the “fuel” for Eurosceptics. What is more, Europe was also criticised for limiting the effective policy of national states as regards the burning issue of excessive immigration. This is why voters increasingly demanded the limitation of European institutions authority and a restoration of the competences of national governments. The abovementioned postulates also addressed the rebuilding of full democracy in the member nations, which had been narrowed as a result of the processes of integration. This is highlighted in the statements of Marie Le Pen, leader of the winning National Front in France, who did not conceal that she sought the fall of the European Union. She described it as the “Soviet European Union”, which had “stolen the sovereignty” and means of “self-determination of national authorities” and is also a “anti-democratic monster”<sup>38</sup>.

The crisis also brought into focus the “differing quality of democracy” in Europe. The point is that not all member states are democratically equal in the course of European integration and the crisis seems to be strengthening procedures and institutions of democracy in some and weakening those same institutions in others. Researchers had noted that European integration affected democracy in different ways in each individual member nation<sup>39</sup> already before the crisis. For example, in the countries in the south of Europe, the controlling functions of national parliaments over the actions of governments in European policy were reduced. Meanwhile, in the countries of central and northern Europe, parliaments mobilised themselves to additional control of executive power and the monitoring of EU regulatory policy. The mentioned effect is related to the growing asymmetry of political influence on the course of European events between the largest states and the smaller or peripheral ones. This tendency strengthened together with the spread of majority

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<sup>38</sup> *Achtung, Frau Merkel*, Der Spiegel no. 23, 2.06.2014, p. 82-85.

<sup>39</sup> T. Winzen, *National Parliamentary Control of European Union Affairs: A Cross-national and Longitudinal Comparison*, “West European Politics” 2012, vol. 35, no. 3, p. 657-672.

voting in EU organs, and was additionally amplified during the crisis by, amongst other things, the conditional granting of financial support from European institutions. The states that donated the most support funds increased the scope of their relative power, while those that received funding were forced to accept a range of difficult political conditions.

Thus differing degrees of decision-making influence translated into an unequal scope of sovereignty of specific countries, and at the same time the stronger or weaker influence of national electorates on European policy. Governments and other elected institutions (defined as *majoritarian institutions*) had in some countries greater opportunities to respect the will of their electorates than others. The political role of the German parliament clearly grew in the time of the crisis, to the extent that it could block a plan meticulously negotiated at the European level. At the same time, the will of voters or democratic institutions in the weaker countries of the currency union, like Greece or Cyprus, could be treated lightly by EU decision-makers. This weakened democracy in these countries. The phenomenon of *differing quality of democracy* in specific countries is also defined as “reduced symmetry of political pluralism” in Europe and has even been recognised as a threat to the stable functioning of the Community<sup>40</sup>.

To sum up, the economic crisis emphasised the problems resulting from the deficit of democracy and inflamed the dysfunctions of the two-level political system in Europe. There are basically two ways of overcoming these problems. The first, in accordance with the hitherto tradition of the elitist integration process that concentrates power in the mainstream of the political spectrum among the national and international elite (or defined as transnational), which acts according to the specifics of a political cartel. The second, alternative way of overcoming the dysfunctions described above could be the seeking of fundamental systemic change in the direction

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<sup>40</sup> E. B. Haas, P. C. Schmitter, *Economics and Differential Patterns of Political Integration: Projections about Unity in Latin America*, “International Organization” 1964, vol. 18, no. 4, p. 705-737; T. G. Grosse, *Cztery obszary analizy kryzysu w ekonomii politycznej*, [w:] T. G. Grosse (red.): *Między polityką a rynkiem. Kryzys Unii Europejskiej w analizie ekonomistów i politologów*, Uczelnia Łazarskiego, Warsaw 2013, p. 195-218.

of increasing the role of democratic mechanisms in European politics. This approach would also imply attempting a bottom-up (non-elitist) way of defining the priorities of European policy, in particular taking into consideration the preferences of voters – even those who support the groupings considered as populist.

The period of economic crisis did not bring with it change in the political system in the EU especially in the form of bold treaty reform in the direction of the implementation of democratic federal institutions<sup>41</sup>. It is true that these kinds of proposals were discussed, but they met with sharp protests from the majority of member states. The rise of Eurosceptic sentiments in European society did not favour this kind of reform initiative. The elites of the political mainstream only to a small extent took up the arguments of more extreme groups or those seen as populist during the crisis. This was the case as far as the reaction against immigration was concerned, at first signalled by radical parties but later a similar rhetoric spread to the mainstream. This bore fruit in the introduction of restrictions to Schengen in 2011<sup>42</sup> and the discussion between the main EU politicians on the need to introduce change in European legislation in terms of the free movement of people (especially about the reduction of opportunities to take advantage of social support in immigration host countries<sup>43</sup>).

The dominant approach to overcoming political problems were the earlier applied methods of the pro-European establishment. The aim was to maintain the mainstream's hold on power, above all in the member states but also at the European level (for example in the European Parliament). These are parties and elites favouring the integration process and the way Europeanisation has functioned up to now. The circulation of power within these elites as a result of successive elections has not changed European policy in any fundamental way. This was accompanied

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<sup>41</sup> T. G. Grosse, *Bez „przełomu instytucjonalnego” w Europie*, w: L. Wojnicz, D. Rdzanek, M. Potkańska (red.): *W poszukiwaniu finalité politique Unii Europejskiej. Aspekty teoretyczne i praktyczne*, Instytut Politologii i Europeistyki Uniwersytetu Szczecińskiego, Szczecin – Warszawa 2015, s. 81-100.

<sup>42</sup> P. Bocquillon, M. Dobbels, *An elephant on the 13th floor of the Berlaymont? European Council and Commission relations in legislative agenda setting*, “Journal of European Public Policy” 2014, 21:1, p. 20-38.

<sup>43</sup> *UK and Germany dislike EU 'welfare tourism' plan*, EUobserver, Brussels, 6. December 2013, <https://euobserver.com/justice/122370> [access: 30.03.2015].

by numerous activity designed to discredit the politicians outside the main circle of political parties, especially those declaring radical ideas for EU reform. An example was the activity of the two traditionally largest French parties (the Socialists and the Union for a Popular Movement) directed against the National Front and its leader Marine Le Pen. As a result, despite the high level of popular support for Le Pen party in the local government elections of 2015 (25% in the first round, which was the second largest result), power in all French departments remained in the hands of the establishment parties.

Also, the politicians of radical parties that gained power were ostracised, as were all other politicians that questioned the main direction of anti-crisis policy and the way Europeanisation functioned. An example is above all the leaders of Syriza, the radical left-wing party that won the elections in Greece in 2015 under the standard of ending the EU support programme and the loosening of the savings policy imposed by European institutions. The activity of the European side could have been directed towards the discrediting of these politicians in the eyes of voters. They were presented in the media as inexperienced in the meanders of European politics and lacking the appropriate diplomatic good manners, whose irresponsible activity undermined the trust of financial markets and foreign partners that could have many negative results for Greek society. There were also rumours of ideas suggested by European diplomats to influence changes in the Greek government and exclude the most radical Syriza politicians<sup>44</sup>. Earlier pressure from certain European states lead to the resignation of the government of George Papandreou when it attempted to hold a referendum on the conditions of the European support programme (2011). Similar pressure resulted in the crisis and resignation of Silvio Berlusconi as Prime Minister (autumn 2011), who was clearly hostile to the recommendation of EU institutions in terms of conducting reform and frequently criticised the policy of budgetary cuts promoted by German decision-makers<sup>45</sup>.

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<sup>44</sup> *Frustrated officials want Greek premier to ditch Syriza far left*, Financial Times, 5 April, 2015, p. 2.

<sup>45</sup> An American journalists investigation proved that the German Chancellor A. Merkel personally appealed to the President of Italy to dismiss Prime Minister Berlusconi from his post. *Deepening Crisis over Euro Pits Leader Against Leader*, The Wall Street Journal, December 30, 2011.

The overcoming of the signs of the crisis in the two-level political system took place therefore without the introduction of formal systemic change and also by the application of earlier methods promoting Europeanisation, maintaining the pro-European political elite in power and the ostracism of radical politicians or those considered to be Eurosceptic. It is true that the earlier dysfunctions of the political system and the democratic deficit in Europe were brought into relief, but this did not fundamentally change the main approach of the mainstream elite to European integration. This will be the breeding-ground for further problems and disintegration phenomena as long as the weight of the economic crisis does not lessen in the currency union.

### **The direction of change in the European integration**

As I have already mentioned, there have been no formal changes attempted in the political system in Europe. Nevertheless, a number of informal adaptations inside that system have been introduced that have significantly modified its way of functioning<sup>46</sup>. As a result, the processes of European integration are ever less based on the community model. This was based on the relative equality between different European institutions as well as the gradually increasing autonomy of community institutions (like the European Commission and the European Parliament) from the intergovernmental bodies. Within the community model the balance of power was also maintained between the greatest member states and the smaller, more peripheral members. Community institutions were guarantors of this balance as well as the cohesion of the EU regulatory system. A basic principle of this model was solidarity with the weaker members of integration.

The community model suffered erosion during the crisis of the Eurozone. However, a new integration model emerged in which the strongest member states gained growing political influence. An asymmetry of power between intergovernmental

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<sup>46</sup> T. G. Grosse, *Zmiana modelu integracji w dobie kryzysu strefy euro*, „Rocznik Europeistyczny” 2015, no. 1, in print.

institutions and the remaining European institutions emerged, as did a hierarchy of the strongest countries over the smaller, politically weaker or peripheral members. An additional process was the rising political segmentation into various integration circles in the EU in accordance with the mechanism of the “two-speed Europe”. The basis of this process was the strengthening of the political role and growing institutionalisation of the Eurozone, as was also the territorial and political division into central and peripheral states.

The changes taking place as a result of the crisis were partially in the direction of fiscal federation, as proven by the transfer of certain fiscal competences from the national to the European level. This however took place without the appropriate strengthening of EU political institutions and so was to the detriment of democracy in Europe. At the same time, it is difficult to call the described systemic tendency as strengthening of “technocratic federation”. It is true that there was a rise in the executive competences of technocracy (including the Commission and European Central Bank), but this was under stronger intergovernmental supervision and exactly in accordance with the will of the largest (and the richest) member states. This served to discipline the weaker states or those most hit by budget difficulties in the name of the strongest, with the agency (or use) of European instruments. This created an asymmetry of power of the central countries over the weaker politically or peripheral European states with the aid of European tools.

So I propose describing the discussed systemic tendencies as “asymmetric confederation”, the characteristic of which is the uneven distribution of political power between central and peripheral states but also an asymmetrical level of political legitimation – higher in the largest member nations and lower in the weaker or more geographically peripheral. This could lead to the fulfilment of Ulrich Beck’s prognosis that as long as the Union does not reform itself in the time of crisis in the direction of a full (democratic) federation, it will move in the direction of a neo-colonial system<sup>47</sup>.

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<sup>47</sup> U. Beck, *German Europe*, Polity Press, Cambridge 2013, p. 44.

Over the years of the crisis in Europe, it was not possible to fully overcome economic problems and especially eliminate macroeconomic differences and certain institutional shortcomings in the currency union. The improvement of economic activity in the Eurozone in 2015 may therefore turn out to be short-lasting. In the long run, there is also no guarantee that it will be possible to maintain Eurozone integrity and that there will be no process of disintegration or secession. The methods for overcoming political problems remained largely the same as before. They were designed to keep the groups supporting integration in power, those accepting the realities of Europeanisation and which originated from the political mainstream. The main threat to the political system was radical and Eurosceptic groupings. In this situation, also democracy at the national level also turned out to be risky for the stability of the political situation in a two-tier European system, especially given the possibility of groupings described as populist coming to power. This was actually solidly blocked by the elite of the mainstream both in the member states and at the European level.

Overcoming the crisis was to a great extent directed at restoring the pre-crisis *status quo*, not only in the sense of stabilising the economic situation but above all to maintain the earlier competitive advantages of the central states and minimisation of the redistributive costs borne by those states on behalf of the countries most hit by the crisis. A sign of the tendency to rebuild the *status quo* was basing anti-crisis policy on the already existing Stability and Growth Pact and the coordination of economic policy between member states. Another sign of this tendency was the abstaining from any fundamental changes in the EU political system in the direction of a democratic federation. Also, the tactic of the pro-European establishment tended largely towards maintaining the *status quo* in the scope of hitherto practice of the functioning two-tier European system.

During the crisis there however were informal adaptations in the political system that result in Europe departing from, in my opinion, the earlier community model in the direction of “asymmetrical confederation”. In this model the role of intergovernmental institutions grows as does the hard rivalry between member states and the dictate of countries of greater economic and geopolitical potential over

the weaker, peripheral or those hit by economic problems. The political autonomy of community institutions like the Commission, Parliament and also the ECB dwindles. They were strongly under the influence of the greatest states or became the arena of their rivalry over the direction of anti-crisis policy. The community model weakens also as a result of other factors. The authority and cohesion of European law is reduced under the influence of the introduction of institutions and treaties outside the community legal order, but also due to the application of exceptions or exclusions from Union regulations in the course of the crisis that had the character of political intervention. Another factor is the progressive segmentation into two circles of integration, which additionally weakens the EU's cohesion and that of the hitherto community order.

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