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"What if the EU ...?":

An Exercise in Counterfactual Thinking to Address Current Dilemmas

Edited by Roderick Parkes and Almut Möller

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Summary

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Introduction

These nine essays cover a good cross section of the European Union's activity. They look at its internal functioning (national parliaments, political union and coalition-building between member states). They look at key policy fields, notably monetary union. They look at membership, from widening the EU (enlargement policy toward the Western Balkans and Ukraine) to shrinking it (the exit of the UK). And they look at the EU's broader transformative powers vis-à-vis Cyprus and the countries of the southern Mediterranean.

At the same time, none of the scenarios they examine are real – for this is a collection of counterfactual essays. Our authors are principally interested in imagining an alternative reality.

What does this kind of imaginative "what if …?" approach achieve that a traditional descriptive-analytical approach cannot? Is it more than just another excuse for the EU to gaze at its own navel? Well yes – and no. Depending on how the exercise is handled, counterfactual thinking can either be a means of generating new ideas via – yes – navel-gazing, or it can function as a means of shutting down wishful thinking and introducing much greater realism to a discussion. The authors collected here have done both.

On the imaginative side:

- Jan Techau points out that the EU should feel free to make big, imaginative over-commitments in its neighborhood; these are part of the EU methodology, challenging the Union to transform itself. Reimagining the EU's response to the Arab Spring, he says we should not underestimate the internal effect of external policies – nor overemphasize their immediate external effect.

- Josef Janning argues that when it comes to treaty change we need less "realism" in EU affairs and more policymakers asking "what if …" It's not big ideas that annoy voters, he argues, but rather politicians who lack confidence in their own systems. Reimagining the debate twenty years ago, he also points out that we rarely have the chance to correct past choices – especially those not taken.

- Cornelius Adebahr imagines what would have happened if Yugoslavia, instead of disintegrating, had instead joined the EU as part of its eastern and southeastern enlargement. This forces him to reimagine the enlargement process, the development of security and defense policy, and the phenomenon of eroding national sovereignty – as well as uprooting the sense of triumphalism and inevitability that accompanied the enlargement.

- Dariusz Kalan argues that if the Visegrad Group did not exist today it would need to be invented. But ten years after it achieved its core mission of ushering Poland, Slovakia, Hungary and the Czech Republic into the EU and NATO, the future of the format is by no means guaranteed. Kalan describes what the V4's new mandate should look like.

Meanwhile, on the corrective side:

- Tim Oliver clarifies the UK's choices regarding EU affairs at a time when it is discussing leaving the Union, exploring how events would have unfolded had the British voted to leave the European Economic Community back in 1975. He shows that the UK is currently indulging in a politics of false choices while squandering its real options.

- Nicolai von Ondarza worries that national parliaments are being treated as a panacea to the EU's democratic problems. He re-walks the course of the eurozone crisis, imagining how national parliaments would have behaved had they had the power to steer the EU's actions. The result is cause for skepticism about their potential.

- Paweł Tokarski confronts those arguing that the EU would have been better off without the Euro by pointing out that it was an almost inevitable reaction to the structure of the European economy. He explores what an alternative system of exchange-rate stabilization might have looked like, concluding that there would have been no winners in the Union in this scenario.

- Stefan Meister, in an essay written on the eve of this year's major changes in Ukraine, cautions against fantasizing about the reach and power of the EU. Even if the Union had offered Ukraine a membership perspective after the Orange Revolution in 2004, there is no guarantee that the country would have changed from within.

- Hugh Pope makes the point that "what ifs …" are an integral part of Turkish and Cypriot blame shifting and that their excuses need to be examined critically in order to force people to take responsibility for their own mistakes. He looks back to a time when the Cyprus issue really could have been solved, encouraging a new sense of responsibility.

Each of these essays reflects on current dilemmas by looking at past decisions. By extension, one might just as well reflect on the choices the EU and its members have yet to take. What if the EU were to create an unemployment insurance scheme as a pillar of monetary union? (This proposal was suggested by one outgoing EU Commissioner.) What if negotiations over the transatlantic trade and investment partnership (TTIP) succeed? What if they fail? How about handing agricultural policy over to the EU's member states? Heck, what if the EU found itself by 2030 to be the sole pole in a unipolar order? What would it take to get there?

With the May 2014 European Parliament elections behind them and a new president of the European Commission about to come in – not to mention a reform list branded a "strategic agenda for the Union in times of change" – EU leaders are trying hard to demonstrate that they understand the wake-up call. The European Union needs to change, and old certainties of direction, ways, means, and the substance of European integration have been questioned. Making the case for fundamental reform has become part of the mainstream EU debate. But if there is now a happy consensus over the need for change, then the question remains how and to what end?

A more imaginative way of discussing options for the future of the European Union will not make the EU look weaker but stronger. After all, it is politics that will ultimately determine which ideas persist, and which ones fail to inspire majorities of voters.

Concept: The Thinking behind the "What If …?" Project

European think tanks spend too little time pondering the way things could be, but rather analyze why things happen the way they do. In order to make room in the political science realm for more of the former, we present a series of creative thought exercises on current political dilemmas.

For the past five years, politics in Europe has been defined by a lack of options. The last German government has claimed "there is no alternative" to its policies on the eurozone. The British finance minister urged eurozone countries to cede to "the relentless logic of fiscal union." Populist parties across Europe argued that voters were being permitted to change governments but not policies (which are dictated by the EU and the markets). We have thus been practicing a kind of non-politics at a moment in Europe's history when the range of choices before us is in fact enormous.

So where are the think tanks – Denkfabriken ("idea factories" in German) – to point this out and present the options? We've been nowhere really. The reason is that most of us continental think-tankers consider ourselves researchers schooled in political science – we are more interested in describing and explaining realities than imagining alternatives. And the reason for that preference is also clear: not only is describing reality the easy option, the mantle of scientific neutrality also protects us from charges of political bias. By contrast, creative thinking would take us perilously close to advertising, lobbying and political bias –things the EU's policymakers are rather sensitive about.

The irony, of course, is not just that the usual descriptive-analytical thinking leads us to reproduce political realities and hierarchies. It is that every other branch of science besides political science is so creative. In the natural sciences, for instance, "invention" does not just mean a process of research and investigation, but conjuring up things that did not previously exist. No wonder the most famous natural scientists have made their reputations by overturning accepted wisdom and consensus. In the political arena, however, that kind of thinking is met at best with indifference – governance these days is about practical realities – at worst with outright suspicion.

With this collection of essays originally published[1] with the Polish Institute of International Affairs (PISM) and the IP Journal of the German Council on Foreign Relations (DGAP), the editors hope to take a small step in a different direction. Instead of asking "What is the EU…?" these counterfactual essays imagine "What if the EU…?" The point is to re-examine the dilemmas facing politicians and to highlight overlooked or discounted choices. We do this primarily by revisiting past decisions and imagining how alternative solutions would have played out. Ironically, this counterfactual thinking is already being used by governments in their own strategic foresight exercises.

The starting point for each of the nine essays is always a current object of European gridlock or a situation where the current range of choices is particularly narrow. Authors were free to choose which. And the aims are quite simply: to help decision-makers reconcile themselves to bold options or, where necessary, to the lack of choices available; to overcome the well-known psychological tendency to draw lessons only from the choices made rather than those rejected; and to reduce the uncertainties surrounding future choices by highlighting past parallels.

But the big question has been: Is that scientific? Political scientists make three common lines of critique against counterfactual histories. First, that these undermine the serious scientific laws of cause and effect (counterfactualists speculate on how things might have turned out different and cannot test their assumptions). Second, and just the opposite, these give undue weight to the scientific notion of cause and effect (counterfactualists strengthen the idea that there are crucial turning points in history). Third, there's just no point in counterfactuals (analysts should rather spend their time working out what did actually happen).

Happily, academics like Bradley MacKay provide an answer.[2] First, they reply, no serious cause-effect argument can exist without an implicit counterfactual exercise. Every time political scientists make a claim about why something has occurred, they are effectively arguing that the alternative explanations are weak and implausible. Counterfactual histories, by making their claims and assumptions explicit, actually improve the testability of cause-effect relationships.

This in turn shows how counterfactual exercises can be used to undermine weak cause-effect arguments and thus the idea of key turning points. For instance, the famous essay "What if Henry Ford had started his car factory in Birmingham, UK?" is structured so as to undermine the sense of American triumphalism that clouded accounts of the US's industrial power. It showed that Ford could have succeeded outside the supposedly special conditions of the US.

Finally, imagining alternate outcomes for past decisions actually increases history's usefulness: it allows analysts not just to seek out historical parallels but to actively create them. Counterfactual analysis relies on typical historical methods (identifying the causal factors for a certain outcome). The difference is that it playfully rearranges them to imagine alternative scenarios more relevant to the present. This is a victory of scientific method over serendipity.

But that's an academic defense. How about a think tank defense? Can think tanks use this kind of creative thinking without straying over the line into political dependence? The answer is that, for think tanks, there is no such thing as political independence. Or there shouldn't be if they wish to be effective. Political dependence arises not from a think tank's funding sources or need to please their backers, but from the imperative of making the public listen to them. This kind of political dependence, understood as relevance, is something to embrace. Think tank output needs to be interesting, and counterfactual thinking seems as good a means as any to achieve that.

Obviously, there are sections of the political arena that will be more receptive to such playfulness than others. Yet, whatever the skepticism, this kind of exercise can be fruitful. We see this as an active contribution to broaden the options for all those interested in critical engagement with the European Union and would like to thank our colleagues for joining in this exercise, and the Alfred Freiherr von Oppenheim-Stiftung for generously supporting this publication.

Roderick Parkes and Almut Möller
Warsaw and Berlin, September 2014

Completing the Mission: What If the Visegrad Group no Longer Existed?

Dariusz Kalan

Dariusz Kalan asks whether relations among the countries of Central Europe would be better or worse today without the Visegrad format.

Now entering its twentieth year of existence, the Visegrad Four (V4) format faces questions regarding its raison d'être that go beyond mere public relations problems. Central Europe experts fielding queries from journalists have had to learn to give a simple answer to the recurrent question: "What is the Visegrad Four for?" Or the cheekier alternative: "Can you list the V4's recent achievements?" The public remains largely unaware of the common objectives and initiatives of "the Four." Perhaps the main problem is that the V4's founding objective has in fact already been achieved. The V4 was initiated in 1991 to facilitate the Euro-Atlantic integration of three former Eastern Bloc countries: Hungary, Poland, and Czechoslovakia (which later split into the Czech Republic and Slovakia). Today, all four countries are members of both the EU and NATO.

In the meantime, cooperation on EU-related issues has become the most important subject of debate within the V4. Discussions run the gamut from infrastructure to energy security. Although much less experienced than its western or northern counterparts (for example, the Benelux Union, established in 1944 and the Nordic Council launched in1952), the V4 managed to build "brand recognition" over the past two decades among EU policymakers. This is a holdover from the 1990s, however; the V4 still lacks a solid institutional structure. To date, no V4 achievement will be listed among the great triumphs of EU history. To make that list, it needs to deliver more concrete, more visible results.

So: what if the Visegrad Group had been disbanded in 2004, when all four states had officially joined the European Union and their membership in NATO was complete? Would relations among the countries of Central Europe be better or worse today?

Mission Accomplished or More Work to be Done?

The V4 was useful in the early 1990s when its target was to help Central European countries join Euro-Atlantic institutions. There were certainly clashes among "the Four" in the 1990s – the most eye-popping of which occurred when the Czech politician Václav Klaus practically refused to cooperate. And yet the resolution of these problems, and the proof of collective solidarity, was much appreciated by both NATO and the EU, which opened their doors in 1999 and 2004, respectively. Henceforth, the EU took over as guarantor of Central Europe's economic and societal development, while NATO extended its protective umbrella over the region. The V4 had lost its raison d'être and, with the establishment of the International Visegrad Fund in 2000, the format looked set to enter retirement, limiting its role to providing grants and scholarships.

Indeed, if the V4 really had in fact succeeded in resuscitating its political agenda after 2004, it might well have jeopardized the original mission: Western integration. In some readings, the format is the child of an internecine dispute among dissidents and intellectuals over the fate of Central Europe. Back in the 1970s and 1980s, the Eastern Blockers keenly wished to locate their identity in opposition to the Soviet Bloc. Figures like Czesław Miłosz, György Konrád and Václev Havel thus initiated a dialogue about the region's own history, heritage and experience. Thirty years on, however, in an era when politics is understood as pure pragmatism, a mere tool for engineering economic growth and high levels of consumption, this "idealist side" of the V4 looks like a relic of old times – especially if the V4 were to forge a new political identity in opposition to NATO, the EU or Western Europe.

And yet there could be a very strong rationale indeed for the Visegrad group's continued existence. The problem is only that the V4 has failed to locate it. To those analysts of Central Europe who take a long view, this is all too clear. They acknowledge a qualitative difference between what Central Europe has experienced in this century's first two decades and the turbulent interwar period of the last. Back then, neighborly relations were anything but trouble free. Hungarians sought revenge on Slovaks and Romanians for territorial losses brought about by the Treaty of Trianon (1920); the Poles were at loggerheads with the Czechs, Lithuanians, and Ukrainians. That interwar world is of course long gone, but it is worth noting that the post-1989 period is the first time in the region's history that relations in Central Europe have not been based on hegemony, domination or fear. By this logic, it would be foolish to assume that this positive juncture will persist without effort and great care.

Petty nationalism, historical resentments, and minority problems – all of these could resurface sooner or later, especially in times of economic turmoil, when the EU is exerting a strong normative influence on each of the Four, and when large EU member states are talking about repatriating EU competencies. This is precisely why the region needs an internal platform for dialogue and cooperation such as the Visegrad Group. This platform allows its members to discuss their common interests, voice them jointly within the EU, and thereby balance national egoisms. Bearing in mind the tortured experiences of the past, it seems sensible to strive for the closest possible collaboration among Central European countries. This cooperation should not only include the search for a common political voice in the EU but also contribute to strengthening ties in many non-political areas.

The platform is thus not just about squeezing money from the EU for large-scale projects. The real stimulus for cooperation, it is argued, can be joint projects leading to decent and shared infrastructure that will, in turn, create strong ties between cities and among peoples. Today, these ties are surprisingly weak. It is extraordinarily challenging to get from one Central European city to another, and we know astonishingly little about the history, past, and present of our respective neighbors. These gaps are potentially treacherous, ripe for easy exploitation by populists, who are always happy to use ignorance for their purposes. It is argued that leaving the V4 format to politicians would severely undermine its potential for developing social contacts and mutual understanding.

Looking for a new foundation

Nobody doubts the importance of deepening ties among the countries of Eastern and Central Europe. The question, rather, is whether the Visegrad format is the right umbrella for this work. We tend to forget that after the collapse of Communism a range of Central European formats were in fact established. All of them have lost their significance or experienced outright extinction over the last twenty years. (Among these, the Central European Initiative is the most telling example.) It is no feather in the V4's cap that nothing competes with Visegrad in the region today. Nevertheless, this does suggest that the V4 has the potential to become something much more important than a provider of grants or an initiative completely subordinated to the EU. There are at least four areas where the V4 could play a more proactive role:

A common V4 voice is still missing in relations with eastern and southern neighbors. Poland, Hungary, Slovakia and the Czech Republic all have a strong interest in developments in Ukraine; they either share a common border with it or support Ukrainian civil society. But the recent crisis in Kiev shows that even the V4 members tend to act separately and only with moderate success. The same is true as far as the Western Balkans are concerned; indeed, some of the Four are less involved in this region for historical or political reasons, which does not help bolster the Visegrad image as an effective promoter of its own transformation experience.

Energy security – and more specifically gas security – points to a potential success story. In many ways, the "formative experiences" for the region were the 2006 and 2009 cuts in [Russian] gas supply. These led to many substantial improvements within the so-called North-South Initiative, and today the readiness of the Four to deal with similar problems is higher than it was between 2005 and 2010. Still, this is only the starting point for more ambitious joint goals. The Four must resist once again falling prey to national egoisms, which would mean wasting the chance for both diversification and for creating a common market in the region.

Another challenge is how to manage the relationship with global powers: the US, China, and Russia. For economic and political reasons, these countries are still investing in their presence in Central Europe. To these large powers, a creature like Visegrad simply does not exist. They do not hear a common Visegrad voice. This is why it is so easy for global powers to play the game of "divide and rule" in the region, even while they court such "brand entities" as Scandinavia. For the V4, a stark choice will present itself: either take a greater and more united interest in global issues (also with the wider EU) or face isolation. This certainly may be a chance for the region to establish its own political identity.

Last but not least: this is also the right time to initiate a healthy dispute about the Visegrad group. No dialogue on "Central European policy" has yet been successfully implemented in any of the four countries. In Poland, for instance, the intellectual heritage of "Central European policy" is hardly of less importance than of the Eastern policy (the Giedroyc doctrine), yet it is the latter that still stirs public emotions, provokes arguments and remains consistently at the heart of media attention. Perhaps it is an effect of the process of joining the EU. In their own affairs, the Four have been "Europeanized" – trained by Brussels. When it comes to the east, however, they still feel they have something to teach Brussels.

In all of these areas, the Czech Republic, Hungary, Poland, and Slovakia must decide if they want to be real players – or just be four more tennis balls.

Transforming the EU from within: What If Europeans Had Made Truly Ambitious Commitments after the Arab Spring?

Jan Techau

Jan Techau argues that even if the EU had met its strategy for post-revolution Arab countries, it would still have fallen short. But it would at least have had a transformative effect on the Union itself.

What if? – Policy analysts ask it every day. They are scenario builders, operating under the assumption that their decisions will bring about a desired outcome. Sometimes they even break the taboo and look backward as well, turning their "what ifs?" into "if onlys." Should we have done that thing we were pondering but then dismissed? Could we have avoided the mess we are in now if we had done things differently?

Today, the EU's response to the Arab Spring of 2010–12 is deemed to have been one of the great missed opportunities in the Union's history. Analysts wonder whether these fledgling democratic movements could have avoided meltdown if only the EU had followed through on its rhetoric. But it misses the point to simply ask what would have happened if the EU had implemented its program of offering the "three Ms" to Arab countries (market access, mobility, and money) more vigorously. It is better to draw practical lessons than merely lament lost opportunities.

EU integration is typically driven by a technocratic "ratchet" mechanism. By this model, a successful initiative in one field has a positive impact (or "spillover") on action in another. In terms of EU external affairs, however, the ratchet mechanism is far more political. This is an aspirational policy where, through high-level international commitments and conditionality mechanisms, the EU forces itself to take a certain course. It is part of EU external policy for the Union to overshoot in terms of its rhetoric and then scramble to provide effective policy, since this would require internal reforms within the Union that are often difficult to reach, in particular under time pressure.

In this context, we must consider not only whether the support promised by the EU would have helped bring about a transformation in Arab countries but also whether the internal reforms the EU would have had to envisage for itself would have been helpful for the "transforming" neighbors – or even realistic.

The EU's Three Ms

In March 2011, in rather quick reaction to the revolutions in the Arab world, the EU Commission and the European External Action Service (EEAS) presented a substantially updated version of the European Neighborhood Policy (ENP). The central pillars of the new policy, far exceeding the classic EU approach to foreign aid, were designed to provide these societies in turmoil not just with material backing but also with politically tailored support.

In retrospect it is clear that the EU did not meet the expectations it created. The EU is today criticized for "having lost its southern neighborhood," for being a marginal player in the region, and for yet again missing a strategic opportunity to act as a forceful agent of change. So, what if the Union had opened its markets for competitive products from the southern Mediterranean, lifted its severe restrictions on refugees and immigrants from the region, and disbursed substantial amounts of money to influence the developments in those places?

Markets first

One of the key problems created by the uprisings in countries such as Egypt and Tunisia was that they led to a precipitous economic downswing. Production dipped, tourism collapsed, and capital was withdrawn on a large scale. The EU had only one really effective means of response: abolishing trade barriers in sectors where the "transforming" countries had a comparative advantage over the EU. Gaining access to the huge European market for agricultural products, textiles, and low-tech industrial products could have prodded entrepreneurs and investors into providing the cash-strapped economies with investments and liquidity. Moreover, the EU would finally have shaken off its reputation for protectionism and even "economic colonialism."

That, at least, was the theory. Yet, it is unclear whether these positive effects would have been achievable. Would providing stimulus to these emerging markets have made an immediate difference? Would weakened Arab economies have been able to adapt swiftly enough to grasp the new opportunities? Would governments in the region have reciprocated the EU's move toward economic openness, deregulating their own systems and unleashing market forces? Or would market exposure perhaps have had a detrimental effect?

While the effect of the first M – Money – on the Arab Spring is far from clear, the internal effects of such an expenditure on the EU would have been enormous. The EU would have been obliged to compensate European farmers and manufacturers with very large sums indeed. The impact on the budget negotiations for the Multiannual Financial Framework (the EU's budget for the period 2014–20) would have been profound. Similarly profound would have been the impact on the EU's Common Agricultural Policy (CAP), which would not have survived in its current form. Real CAP reform – an issue that has been on the EU agenda for the better part of an entire generation – would have been unavoidable. Fisheries, consumer protection, and health policies would also have been affected.

Mobility next

Again, it is hard to access the impact that such a policy would have had on the countries in question. Could a country like Egypt have "exported" a significant number of its unemployed young people and thereby relieve some of the pressures on its own labor market? Would it not have resulted in a brain drain, depriving Egypt of the educated experts it so desperately needs to build a modern state and economy? Would these immigrants have subsequently returned to their home countries, bringing with them a reverse knowledge transfer? Or would migratory flows from sub-Saharan Africa have increased, creating veritable "refugee tourism" to Europe? If none of these scenarios sounds implausible, none of them were certain either.

Once again, the impact of the second M – mobility – on Europe itself is much easier to gauge. We would have immediately seen a bust-up over the actual numbers of people allowed in, to say nothing of squabbling over national quotas. (How many from each country? How many to which European country?). At present, the EU's only real area of competency relates to issuing short-term visas. Discussions over free movement, work permits, access to welfare, and the recognition of diplomas would have been extensive and heated, intensified by the pressure to get quick results. Populist right-wing movements across Europe would have used the increased debate for their own purposes, trying to cash in on a heightened sense of fear in an already charged atmosphere.

Under these tense circumstances, European leaders would have been forced not only to create improvised immigration programs but also to push through quick fixes in immigration policies. Under the best of circumstances, this could have produced the kernel of a truly Europe-wide immigration policy. In the worst case, existing problems in this field could have been strongly aggravated, especially in countries with sizable North African communities, such as France, Spain, and the Netherlands; for these would be the places toward which the majority of new immigrants would likely gravitate.

Finally, money

The impact that large-scale EU spending would have had in the recipient countries is unclear. It seems highly likely that the political elites, regardless of their affiliation, would have spent the cash primarily on consolidating their power base (that is, by keeping the small, informal power coalitions that keep them in office contented). As for the EU, if it had actually intended to follow through on its spending agenda, the following questions would have been absolutely unavoidable: What do we actually want to buy? How much money is required? Who is in charge of spending it? Under intense political pressure to get value for money, a profound strategic debate would have ensued in Europe on the short- and long-term goals of strategic investment– for the first time ever and under very trying circumstances.

A large spending program would also have required deep coordination between the EU's institutions and its member states. None of the mechanisms in the EU Commission or, say, the European Investment Bank (EIB) would have been sufficient in dealing with strategic amounts of money and highly political ends. Channeling the funds to recipient countries would ultimately have required an entirely new mechanism. At a political and technical level, the Commission and the EEAS would have been forced to work together very closely – a welcome side effect of the emergency but one that would not have been free of friction. Likewise, member states would have been forced to enable the institutions to execute a grand-scale investment of this kind. This could have worked wonders in terms of persuading EU countries to "buy in" to a more unified European foreign policy.

Would the geopolitical nature of such an exercise have made it necessary to forgo the high principles of conditionality and values-based foreign policy? This is a major question. Conditionality has sometimes been blamed for turning grand strategic action into mere bookkeeping. Much would have depended on whether the goal of the spending spree was simply to create stability or, more ambitiously, to create something lasting, long-term, and sustainable. In any case, the ready flow of EU cash would have carried with it a strong risk of merely encouraging corruption on a grand scale in the recipient countries – as is so often the case when spending takes place in a rushed, heavy-handed way.

Unclear Political Impact

On balance, it is highly unlikely that a more robust implementation of the EU's three Ms policy in the region would have done much to change the domestic dynamics in the Arab world that prevailed in the past three years. Political and social fault lines are too deeply embedded in these societies, and outside players like the EU could not have affected – and indeed, cannot affect – them easily. With or without EU money, the Muslim Brotherhood would have still dominated the political scene in Egypt, and the suppression of that organization by the military would have been merely slowed but not prevented. Furthermore, protesters of all political stripes had made it clear from the outset that this revolution was "theirs," and that outside players, especially from the West, should for once stay out. It is moreover possible that many of the new players in the region would have rejected Western help and Western money for fear of being called collaborators and traitors.

In geopolitical terms, very heavy EU investment would have made close coordination with the United States indispensable. This stands in stark – and ostensibly positive – contrast to the reality: unsynchronized European and American reactions to the Arab Spring. At the same time, a visibly coordinated effort between the EU and the US could have intensified the feeling in the Arab World that, once again, the region was destined to become a playing field for external players. Europe's intensified engagement, moreover, could also have triggered a response by other heavily invested players in the region, namely Iran, Saudi Arabia, and the Arab states of the Persian Gulf. Perhaps it would have even led to intensified engagement by China and Russia, the former being heavily dependent on the region's oil, the latter with a strong interest in keeping oil prices high and maintaining its (albeit limited) strategic influence in the region.

Ironically, the three Ms would probably have had the strongest impact in Europe itself. Their implementation would have massively influenced the way EU foreign policy is planned and conducted, would have shaped EU development and neighborhood policies, and would have had an important impact both on the relationship between the member states and EU institutions and on many policy developments at the national level. They could have led to a disproportionate EU focus on the Southern neighborhood at the expense of the Eastern neighborhood, leading to internal friction in the EU. They might have also even given the question of the EU Common Security and Defense Policy (CSDP) a very different dynamic. There is something part tragic, part comical in the idea that a massive foreign policy engagement would change the subject of that policy more profoundly than its object. In a backhanded way, this is proof that the transformative power of EU foreign policy must never be underestimated.

Living Awkwardly Ever After: What If the British Had Voted to leave the European Economic Community in 1975?

Tim Oliver

Tim Oliver examines what the United Kingdom and the European Union might look like today had the UK's referendum on Europe failed nearly forty years ago.

On June 5, 1975 a Labour government put a choice to the British people: they could either leave the European Economic Community (EEC) or vote to stay, according to the terms that Prime Minister Harold Wilson and his government had negotiated. The result seemed a solid commitment: a 67 percent vote in favor, with voter turnout of 65 percent. European integration has nevertheless remained one of the most divisive issues in British politics, splitting parties and helping topple prime ministers. Relations between the UK and the rest of Europe have been difficult too, typified by opt-outs and vetoes.

It is therefore easy to surmise that both British politics and European integration would have been better off had the British voted to leave in 1975. However, the present "What if…" analysis suggests that both the UK and the EEC would have remained tightly bound to each other, drawn together by the UK's need for some form of close economic and political relationship and the EEC's desire to manage its role as Europe's central economic and political organization. The fact that both would have found this setup difficult offers pointers to what may lie ahead should Britain ever vote to leave.

The Alternative EEC: Decentralized and Liberal

Imagine, if you will, a completely different scenario: The morning of June 6, 1975 was a somber one for the European Commission. It had been counting on a successful enlargement, wherein the inclusion of the UK would provide a useful counterbalance to French power and thus a means of asserting its own political predominance. Instead, Britain voted for exit, triggering member governments to invest more thoroughly in bilateral relations and consequently keeping the EEC's central institutions quite weak. As it scrambled to find means of pushing integration forward, the Commission's proposed Single European Act thus reflected a careful compromise between north and south.

The Single European Act would have reduced the common market's remaining economic barriers but also put in place strong common social rights. In negotiations between governments, however, it was the Anglo-Saxon neoliberal economic agenda then sweeping the US that shaped the result, with West Germany supported by the Netherlands promoting market liberalization. Unsurprisingly, there was resistance, with each of the eight member states taking turns being labelled "the awkward partner." France's willingness in particular to object and threaten vetoes was the source of much debate and led to its growing sense of semi-detachment.

And yet, soon enough there were grounds for political deepening, this time in the form of another ambitious enlargement project. Despite "losing the UK," renewed enlargement was driven powerfully by changes in the Mediterranean. Even the British government, sitting now in the European Free Trade Area and wary of the EEC's growing market size, supported EU membership for Greece, Portugal, and Spain, recognizing that economic links alone would be insufficient to support political changes in these countries. This gave the EEC a significant opportunity to build its position as the predominant organization of European politics.

Nevertheless, enlargement triggered bitter budgetary arguments – again mainly involving France – as European funds flowed southward. These tensions came to a head just as the Cold War reached its denouement. The reunification of Germany and the applications for EEC membership from Eastern Europe (strongly backed by the US, which was of course keen to see the EEC compliment NATO expansion) shifted Europe's center eastward. In an ironic twist, France now became the member state most eager to bring Britain back into the EEC fold. For Paris was suddenly eager to counterbalance the new Germany and the eastward shift of power.

The Alternative Britain: Fragmented and Interventionist

For British politics, the morning of June 6, 1975 was equally somber. For the government, this policy U-turn imposed by the public was a humiliation on par with the Suez Canal debacle of 1956. Harold Wilson's subsequent resignation weakened the Labour party, already governing on a slim majority. But it was probably the leadership of the center-right Conservative party –the more pro-European of the two main parties at the time– that was most damaged by the outcome. Even though they were not in power, many Tories saw the "no" vote as a personal defeat on an issue they considered central to Britain's future.

The "no" added to a sense that Britain lacked direction, wracked as it was by high inflation, declining competitiveness, growing unemployment, increased strike activity and growing union militancy, constitutional uncertainty, and political fragmentation – not to mention social changes that many saw as evidence of general moral decline. A spending crisis in 1976 forced the British government to seek a £2.3 billion loan from the IMF. This in turn led some pro-Europeans to point to how, even outside the EEC, Britain's sovereignty was as compromised as many of the "out" campaigners had argued in the 1975 referendum.

In 1976 the UK reverted to membership in the European Free Trade Association. As an organization that had already failed to live up to its promise (real liberalization without the strictures of political integration), it had lost Denmark and now consisted of Austria, Iceland, Liechtenstein, Norway, Portugal, Sweden, and Switzerland. Britain continued to face the economic challenges of the end of empire and a shift of trade toward Europe, albeit investing in new efforts to expand trade with non-European markets.

Just as such attempts had flatlined earlier, so too these ran into trouble. Britain's non-European trading partners always seemed more interested in the EEC than EFTA. Similarly, Britain – along with the rest of EFTA – still had to think about European markets more than any other. As a result, the issue of Europe remained unsettled. Pro-Europeanism and Euroskepticism became increasingly powerful forces, both alert to the way developments in the rest of Europe were shaping Britain. For pro-Europeans, Britain's inability to secure its interests was a continual source of concern.

For Euroskeptics buoyed by the vote to withdraw, the growing power of the EEC, its expanding economic reach, and the pressure on Britain to "kowtow" to it were a continual source of excitement. This Euroskepticism was matched by a strong strain of anti-Americanism, reflecting uncertainty about Britain's position in the world, its political economy, and its political and constitutional development. Imagining British apartness from Europe became increasingly difficult, as economics, travel, sport, immigration, politics, and its unique position between Ireland and France meant otherwise.

EFTA and the EEC: Toward a Two-tier Europe

On June 7, 1975 Sir Michael Palliser, the first and soon to be last British permanent representative to the EEC, met with European Commission officials to begin negotiations for a UK withdrawal. It soon became clear that both sides held potentially irreconcilable positions. Britain hoped to open up discussion about EFTA – with the UK in the lead – entering into relations with the EEC on more or less equal footing. The EEC could not, however, allow any new relationship to compromise its own political integration. If Britain or the EFTA wanted a relationship with the EEC, they would have to accept that this entailed political rather than merely economic relations, something British voters had clearly rejected.

Both sides faced a further dilemma. There was no denying that the UK played a central role in European politics, especially its security and transatlantic relations. Moreover, despite its label as the "sick man of Europe," Britain's economy remained one of the world's largest. Other members of EFTA and the EEC also made clear their hopes for some new arrangement, an agenda that Ireland pushed for especially keenly. The British withdrawal had also raised questions in Brussels. If the British could not feel at home in the political EEC, politicians asked, did this bode well for future instances of enlargement?

By the mid-1980s, the European Commission proposed the creation of a joint European Economic Area (EEA) as a means of upgrading relations between the two blocs. Following resistance from the European Court of Justice over shared decision making, which it argued would have compromised the EEC's autonomy, the 1992 Maastricht Treaty paved the way for a formalized two-tier Europe. The outer ring was designed to balance a reunited Germany, with the inner core taking this role further through currency union. Despite the promise of greater political autonomy in the outer ring, Central European and most other EFTA states opted to join the inner circle instead. The UK remained in a dwindling group that eventually also included Turkey and Ukraine.

Referendum 2017: Déjà Vu for the EU

With this little counterfactual excursion behind us, it is time to draw lessons for future. The parallels between today and 1975 have not passed unnoticed. The basic question remains: can the UK shape its destiny more effectively by engaging in the European Union or by seeking a new relationship from the outside? In some respects the UK's potential to renegotiate the terms of its membership today is even smaller than it was in 1975. For the EU today comprises 28 states as opposed to nine in 1975. Where the British once made up 21.7 percent of the bloc's population, today they are only 12.5 percent.

In 1975 other European leaders also better appreciated the political pressures under which the British prime minister found himself. Less so today, where the British context is hardly unusual. Moreover, the EU can offer less. Various ideas were put forward in the 1970s: renegotiation, the idea of regional funds helping the UK's poorest regions (a policy that proved important in later enlargements). Today's budgetary constraints make such initiatives much less likely. And for the British, the EU no longer seems the attractive partner it was in the 1970s, especially as emerging markets increasingly draw their attention.

It remains to be seen whether the EU and UK can bridge their differences. This "What if …?" analysis should nevertheless remind us that, just as in the wake of the 1975 vote, either result of a British in-out referendum poses potentially difficult outcomes, both to the UK and to the EU. If Britain again votes to stay in, it will nevertheless likely remain a Euroskeptic and awkward partner, creating tensions both within Britain and in the rest of the EU. If Britain votes to leave, however, it will still remain closely bound to the EU – a partner that the rest of the EU will have to struggle to ignore.

Facing up to Democratic Deficiencies: What If National Parliaments had Robust Euro Governance Powers at Their Disposal?

Nicolai von Ondarza

Nicolai von Ondarza examines which parliamentary body best represents national interests on eurozone issues at the European level.

The European debt crisis has shone an unforgiving light on the EU's democratic deficit. The conditions attached to the financial assistance programs for Greece, Ireland, Portugal, Cyprus, and Spain have intruded deeply into the core of national sovereignty, notably in issues like social protection. Even outside the crisis countries, the European Commission has been empowered to demand budgetary reforms from eurozone member states under fiscal surveillance mechanisms. On the other side, creditor countries like Germany have had to grant substantial resources to bailout funds such as the European Stability Mechanism (ESM). With such deep intrusions into citizens' lives, the need for democratic legitimacy is clear, and it is national parliaments that are increasingly presented as key to solving this problem. With their claim of representing EU citizens directly, they are the new go-to solution for all the EU's democratic woes. One therefore cannot help but ask the burning question: what if national parliaments had had a stronger role in eurozone decision making? Would EU crisis management have been substantially more legitimate?

After years boosting the European Parliament (EP), most suggestions for increasing the EU's democratic legitimacy now mention the need for strengthening national parliaments institutionally. Three ideas have been discussed most intensely. First, as a logical counterbalance to the increasingly intergovernmental modes of coordinating economic governance, MPs in Germany called for the creation of a new assembly of national parliamentarians to exchange views and jointly scrutinize eurozone governments. Second, as voiced for instance in the report of the president of the European Council on the deepening of economic monetary union (EMU), an interparliamentary assembly composed both of national and European Parliament deputies is being proposed. Finally, national parliaments are supposed to gain a more direct say in decision making, gaining a joint veto over EU legislation ("red card"). The UK government in particular has called for this third idea.

Rarely if ever have the proponents of these ideas asked whether they would have solved the problems of the past. In most cases, the answer is no.

This is clear from a retrospective analysis of the EU's financial assistance programs. For instance, the intervention in Cyprus in early 2013 was particularly sensitive due to the high costs involved for bank customers on the island. Although the Cyprus program had its political and economic peculiarities, it shared basic decision-making flaws with the previous programs for Greece, Ireland, Portugal, and Spain. In principle, all of these programs were supposed to be decided upon by the eurozone heads of state and government (Euro Summit), worked out by the Eurogroup, and implemented by the so-called Troika (the IMF, the European Commission, and the ECB), on the legal basis of a request by the government of the respective member state. The political reality was, however, different. Due to pressures on financial markets as well as the need for immediate and decisive action, national governments like that of Cyprus were more or less forced into accepting financial assistance.

In these dramatic circumstances, political and financial pressures trumped domestic institutional checks, so that an upgrade of the national parliament, let alone interparliamentary cooperation, would not have had a decisive democratic impact. The Cypriot parliament, like other national parliaments, did have a veto over ESM support for the Mediterranean island, indeed making use of it to protest the involvement of small bank account holders and turning down an initial package offer. However, as financial pressure intensified and a new package was forged, the Cypriot parliament had little real scope for questioning this second, and in some ways even worse, deal for an ESM program. The same lack of choice, moreover, applies to parliaments of creditor countries whose parliaments, like the supposedly powerful German Bundestag, legally retained sovereignty over their country's participation in the Cyprus program. Faced with the same supposed choice of either accepting the intergovernmental deal or risking the financial stability of the eurozone, all of them gave their formal consent.

Now, what if an interparliamentary assembly for economic and monetary union – the EMU Assembly – had been established at the start of the European debt crisis? What if an assembly of MPs and MEPs of the kind envisaged in Article 13 of the Fiscal Compact were in place? Taking into account the experience with COSAC (the network of national EU committees) and the new interparliamentary assembly for common security and defense policy, it is hardly likely that the EMU assembly would have convened on time to affect the assistance programs. Nor does this look set to change anytime soon. In October 2013 the first meeting of a new interparliamentary assembly for economic and social affairs failed even to agree on its composition and tasks, let alone political recommendations. If this was the case during a relatively peaceful period, there is a scant chance of its agreeing on substantial conclusions under crisis conditions. Apart from anything else, its focus would likely be on ensuring the exchange of information between parliaments trying to control their own governments rather than forming joint positions.

A different picture emerges from the measures implemented under the EU's "ordinary legislative procedure" which involves the full consent of the European Parliament. The "two pack" legislation, for instance, greatly strengthened budgetary surveillance, trespassing very clearly on the primary right of national parliaments: their power of the purse. Here a veto for national parliaments would have strengthened their position in the establishment of these mechanisms. This would not only have complicated an already very difficult legislative procedure but would also in effect have been undemocratic; a minority of MPs in a single EU national parliament could have held the whole Union hostage, thus undermining the very tenet of (qualified) majority decision making and the role of the European Parliament. National parliaments understand this and explicitly chose not even to make use of their collective right to express their dislike of "the two pack" under subsidiarity procedures ("yellow card").

In short, an EMU Assembly might provide a useful forum for national parliamentarians to inform and consult each other about budgetary developments in their home countries, but it would lack the cohesion to decisively engage with the Council and the Commission in detailed negotiations on EU legislation. This should come as no surprise. Interparliamentary assemblies are by their very nature consultative with little impact on actual policy making. An interparliamentary assembly with greater powers would thus raise popular expectations, draw power away from the European Parliament as the body best able to counter the Council and control the Commission, and potentially increase political tensions. An EMU Assembly comprised only of parliamentarians from eurozone countries would probably deepen the rift in the EU between eurozone and non-eurozone member states. This is particularly important, as many issues of economic governance – such as the European Semester, the two pack, and banking union – also affect non-eurozone states such as Poland and Sweden.

If strengthening national parliaments (as currently discussed at the EU level) would not have solved the democratic issues raised during the debt crisis, is the Union therefore doomed to its democratic deficit? No, but it is also clear that European and domestic actors – parliaments, governments, the Commission – should look beyond legalistic institutional solutions to resolve the issue of democratic legitimacy. The first important insight from this hypothetical perspective is that purely formal paths for democratic legitimacy will not suffice at crunch times when politics and markets triumph over structures. On the contrary: a successful economic resurgence is the sine qua non condition for regaining the most important aspect of democratic legitimacy: trust in the political system. The most important factor in regaining public trust and support therefore lies in its output legitimacy, in particular a convincing strengthening of the eurozone's economies without further social upheaval.

The second insight from the analysis is that, while national parliaments can provide an additional source of legitimacy, they are constantly outplayed politically by national leaders and their closed-door deals in the European Council and the new Euro Summits. An effective democratic element within decision making on the European level will prove possible only if parliamentarians organize themselves on the same level as the intergovernmental Euro Summits and the Eurogroup – that is, the European level. MPs might achieve this by improving the flow of information between them and thus improving national scrutiny mechanisms. But it is the European Parliament which, with all its flaws, remains the only parliamentary player with the ability and track record to confront member states directly in the Council. Instead of empowering national parliaments to take on a role they cannot fulfill, the European Parliament should therefore be given a stronger position in the areas that currently matter most to European politics: economic governance and eurozone management.

Coyly Courting Ukraine: What If the EU Had Offered its Neighbor a Membership Perspective in 2004?

Stefan Meister

Stefan Meister examines the “lost-opportunities” argument and presents a three-pronged strategy for drawing Ukraine closer to the EU. The manuscript was completed in January 2014.

A decade ago in Ukraine, protests triggered elections and a change of leadership. Led by Viktor Yushchenko and Yulia Tymoshenko, pro-European forces took over key political positions, fuelling interest in integration with the EU among Ukrainian elites and within society as a whole. Russian influence and the Russian model waned, and support for EU-inspired reforms was high, despite widespread awareness of the painful trade-offs in the short- to medium-term. There was even talk of a potential ripple effect across the whole post-Soviet region.

But EU members resisted offering Ukraine an explicit membership perspective. Brussels was focused on Ukraine’s technical compliance, and the then EU-25 had little interest in integrating yet another “problem country.” Soon enough, the Orange Revolution forfeited its reputation as an expression of an active civil society, as its leaders showed themselves to be typical Ukrainian politicians in pursuit of their own interests. Change stalled, and frustration about the EU and politics in general increased across Ukrainian society. The governments of EU member states felt vindicated.

Today, however, commentators increasingly rue the fact that the EU missed its opportunity in 2004 to reinforce the new dynamic in Ukrainian politics and achieve a breakthrough in the reform process. Had the EU offered a membership candidacy coupled with immediate benefits (like easing visa restrictions for the required reforms), Ukraine’s civil society would have been strengthened. This would in turn have strengthened the EU, keeping up the momentum for change. This argument is often heard in the current debate, especially in the aftermath of the failure in November 2013 to conclude a trade deal with the country. But does it hold?

A Membership Perspective for the Orange Revolutionaries: The EU’s Missed Opportunity?

2004 was indeed the first time in Ukraine’s post-Soviet history that both its elites and society as a whole shared a serious interest in EU integration and were willing to accept the attendant conditions, to bear the stick of fundamental reform in exchange for the carrot of membership perspective. But Ukraine’s new leaders were too weak to implement such reforms and the EU’s membership perspective would have been simply too demanding. Today the narrative is very appealing: a membership perspective provides the incentive needed for reform. However in the case of Ukraine it would have resulted in broken promises on both sides. What the EU needed back then was instead to establish for Ukraine a strong mechanism of incentives and engagement that nonetheless fell below the level of membership.

In the absence of such a mechanism, the reformist agenda lost momentum. The once-united Orange front split into rival camps. Finally, in 2010, Viktor Yanukovych, who had lost the 2004 election, exacted his revenge by winning the presidential election. This was a failure not just of the Ukrainian elites but of the EU itself. While the leaders of the Orange Revolution had certainly stumbled over their own egoism, the EU had misunderstood the role that was being demanded of it and had ignored the reality of post-Soviet politics. After all, it was not the ruling elite that would bring change but Ukrainian society itself, and this civil society needed finally to grasp its power. As it turned out, Ukraine’s political elites have no interest in fundamental economic and political reform, as it would challenge their privileges.

Since 2010, of course, the EU has tried to beef up its engagement, while remaining below the level of offering Ukraine a membership perspective. It has done so within the framework of the negotiations on a deep and comprehensive free trade agreement (DCFTA), which was put on the in 1999. Yet the discussion in the EU quickly became stuck in a rut, increasingly focused on questions of conditionality – in particular, the condition of Tymoshenko's release from prison. And while the EU formulated with Kiev the most ambitious free-trade agreement in the EU's history, it failed to provide a way to actually implement it with Ukraine's reform-resistant elites. Certainly for Yanukovych, an opaque political and legal environment was more lucrative than a normative framework dictated by the EU, and Tymoshenko's release would have posed a challenge to his reelection in 2015.

Indeed, Yanukovych's interest in the DCFTA was motivated above all by his desire to balance two opposing pressures – on the one hand, a section of the Ukrainian elite and general society agitating for further integration with the EU, and on the other a section militating for Russia. The DCFTA seemed the perfect tool for squeezing credits from Russia in a tight economic situation. And such manoeuvers by Ukrainian elites in turn reinforced the presumption on the EU side that failure to "win Ukraine" would push the country into the Russian sphere of influence. In reality, Ukraine's elites have no interest in ceding sovereignty to Russia, preferring to play the EU and Russia against each other. And it is the renewed Russian pressure that has become the main force driving Ukrainians into the pro-EU camp today.

As recent events have shown, the EU has no cause for complacency. In other geopolitical contexts, the EU's lack of preparation and clarity might have been unproblematic, but for a country wedged between the EU and Russia, its policy left plenty of leeway for the Kremlin to destabilize Ukraine. Today, the EU can only build its leverage over the Ukrainian elites if it puts an offer on the table that dispels the understandable doubts about the Union's seriousness and makes clear that Ukrainian politicians are responsible for their society's lack of fulfillment.

Breaking the Circle: Form Follows Function

In January 2014 the EU found itself dealing with a Ukrainian president with his back to the wall and a Ukrainian society frustrated by indecisive European engagement and the lack of a political alternative at home. To many Ukrainians, European priorities appear to be skewed and even hypocritical, focused on freeing an opposition politician, Tymoshenko, who is seen as neither a democrat nor a reliable politician. The approach seemed to confirm that the EU has no interest in integrating Ukraine. Brussels, moreover, became bogged down in a struggle with Russia for which it was not prepared. True, Russia has no roadmap to modernize the region and offers no real model for Ukraine or its other Eastern neighbors. But the struggle between the two actors sends unfortunate signals to elites across the Eastern neighborhood.

In all this, the debate in EU capitals at the start of this tumultuous year for Ukraine was more about form than function. Commentators rued the "missed opportunity" of 2004 and presented the membership perspective as a panacea. Instead, they have asked – and should continue to ask –what functions and demands the EU approach should fulfill, and only then whether a membership perspective would be suitable. With this in mind, the EU should apply the following three-pronged strategy:

First, offer a clear "integration perspective" to Ukraine. The EU must make up its mind about what kind of relationship it wants with Ukraine. The basic rationale should be obvious. Even if the EU is still struggling with a messy internal debate about the emergence of a euro-core and with the aftermath of previous rounds of enlargement, it must see that the promotion of security, stability, and democracy in the Eastern neighborhood is a vital interest. Moreover, the EU's internal debate about different speeds and circles of integration actually broadens the scope for Ukraine's integration. The current reforms of EU internal and foreign policy should therefore also include new integration frameworks for all Eastern neighbors. Still, this potentially complex new arrangement should be driven by clarity about the EU's vision for itself and the region or it will become the basis for compromises with elites that undermine the Union's credibility.

Second, stop posing unwitting conditions on Ukraine. As the debate about the signing of the DCFTA and Association Agreement shows, the release of Yulia Tymoshenko should never have been the main condition. The EU should rather focus on the "hidden conditionality" of whether the agreement actually has a chance to be implemented. Signature of the DCFTA can only be the beginning of a difficult process. In order to change the situation in Ukraine sustainably, clear criteria and benchmarks need to be defined and a monitoring mechanism put in place so that success can be rewarded and failure be punished. The EU's closest modernization partner in this is Ukrainian civil society. Its actors have real interest in better living conditions and in a functional public sphere that does not serve the interests of a small group but rather of the broader public. Change will not come from outside. Ukrainians understand that only they have the power to change the country.

Third, focus on economic support before liberalization. The EU needs to help Ukraine resolve its economic crisis. Until the end of 2014, Ukraine will have to pay back foreign debts of $10.8 billion, while predictions of zero-percent growth have caused its foreign reserves to fall to around $19.7 billion. The EU is unprepared, even unable, to fulfill these expectations. There is, however, scope for a greater role for the EU in modernizing the Ukrainian economy if the EU develops technical instruments and a clear communication strategy. This would make both the conditions for financial support as well as the failure of the government to fulfill them more transparent.

Seizing the Moment: What If the EU Had Bridged the Cypriot Divide?

Hugh Pope

Hugh Pope imagines what Cyprus could look like today if the EU had taken a stand to promote trade with the north after the failed reunification vote and the south's subsequent one-sided accession in to the EU in 2005.

With the Cyprus question still in apparent gridlock, it is a patch of recent history that has been strangely forgotten. On April 24, 2004, the clear majority of Turkish Cypriots (65 percent) voted to reunify with the Greek Cypriot majority and to create a new Republic of Cyprus in order to join the EU. This vote took place under the United Nations' Annan Plan and was backed by the EU, the US, Turkey, and even the government of Greece. Against everyone's expectations, however, the Greek Cypriots voted overwhelmingly (76 percent) against the settlement.

In principle the EU should have suspended the accession process until the island was reunited. This would have been in keeping with the Union's own rules about unresolved border problems. But, partly due to Greece's support for Cyprus and partly due to past intransigence on the part of the Turkish side, the EU had already allowed Cyprus to sign a Treaty of Accession a year before. There was no legal way out without stopping the whole ten-country eastern expansion that was set to take place the following week. Instead, the EU offered Turkish Cypriots small compensation for the great blow dealt to them: the right to export tax-free to EU markets. This effort ultimately failed.

Greek Cypriots used their new EU membership to block this "direct trade" gesture. Despite this, Turkey remained determined to continue its own EU accession process. In part because of Turkey's positive contribution to the efforts to resolve the Cyprus issue, the EU accepted a starting date of October 2005 for negotiations on Turkish entry. And yet, Ankara did block the expansion of the Turkish-EU customs union to Greek Cypriots, in response to the way the EU had bowed to Greek Cypriot pressure and backed down from implementing direct trade with Turkish Cypriots. By 2009, half of Turkey's EU negotiating chapters were stuck behind this roadblock. That situation persists today.

The Alternative Cyprus Dynamic: Trade First

So, what if – as some hoped at the time – the EU, and particularly the Nordic states, had stood its ground in 2005 on behalf of the Turkish Cypriots? One can imagine that their determined stance might have attracted supporters, including the UK and southern member states keen to have more of a voice in an EU dominated by Germany and France. Together they could well have managed to force through the direct-trade measure for Turkish Cypriots.

Such action to preserve the integrity of the EU's enlargement policy would have looked minor and rear-guard at the time, given the prize already won by Cyprus and Greece. But implementation of direct trade for Turkish Cypriots would in fact have made all the difference. Turkey's willingness to trade with Greek Cypriots would have increased. And after some nervous hiccups, trade, air traffic, and trust would have begun to expand between Turkey and the Republic of Cyprus.

The island's low-cost package-tour hotels, long out of fashion for most Europeans, could well have attracted a new generation of Turkish tourists (just as the Aegean Sea islands have been wowing upmarket Turkish visitors since Turkish-Greek relations were normalized in 1999). Greek Cypriots would have quickly oriented themselves to Istanbul, not least thanks to poles of attraction like the ecumenical Greek Orthodox patriarch of Constantinople. (This, by the way, is not pure science fiction: the signs are actually there today in Cyprus. Despite bitter official condemnation of the "illegal" Turkish Cypriot airport, each week thousands of Greek Cypriots use it and even fly on Turkish air carriers for less expensive travel through Istanbul to the rest of the world. A handful of Greek-Cypriot pilots even work for Turkish Airlines.)

Trade would also have boomed as Greek Cypriots took advantage of low supermarket prices in the north of the island, thanks to imports from Turkey. The large Cyprus-registered tanker fleet would have taken its share of activity at the Turkish oil pipeline terminal at Ceyhan. At the same time, the Greek Cypriot neighborhood of Nicosia would have experienced a rapid inflow of representative offices of international companies doing business in the Turkish market and elsewhere in the region. They would have been attracted to Cyprus's low-tax, low-cost business base with a wide pool of well-educated Turkish and English speakers and quick local air connections.

Politics Follows

After five years of such trade, the change of political atmosphere would have been remarkable. As trust on the part of Greek Cypriots rose, their media would have shown more openness to the idea of a reaching compromise settlement. Greek Cypriot and Turkish officials would have stopped scoring points against each other – no longer setting out unilateral, maximalist dreams or frittering away the years in UN talks of full federation that polls show neither side really wants. They would have begun talking about what they were actually ready to accept.

Indeed it would not have been surprising if all sides had finally shown a little flexibility, entering into talks without already having committed to a particular outcome. After all, the negotiators have long known that any settlement will look pretty much like today's status quo, coming somewhere between a light federation and a two-state solution.

At the very least, Greek Cypriots, no longer so fearful of Turkey, might have made a key concession. They might have more easily accepted the idea that, if the two sides really were to try a federal arrangement, the Turkish Cypriots could have the right to a "prenuptial agreement." Such an arrangement (specifying that the Turkish Cypriots would have sovereign rights if the federal system broke down) would have given the Turkish Cypriots a safety net, allaying their fears of being trapped in an abusive relationship or of any new federation breaking down in bloodshed (as it did in the 1960s). In today's real world, Greek Cypriots fear that a "prenup" would see them sleepwalk into a separate state. But Turkish Cypriots have a de facto state already, and a Greek Cypriot concession on such an agreement would encourage them to negotiate more sincerely on a federal package.

Pursuing the scenario further: Turkish leaders, newly able to communicate openly with and gain some trust from the Greek Cypriot side, might have pointed out that if Nicosia would go a step further and agree to a two-state settlement, Ankara would withdraw all troops and drop its demand for guaranteed oversight of the Greek Cypriot zone. They might perhaps even have offered to give up more territory than that gained by the traditional offer to shrink the Turkish Cypriot zone from 37 percent to 29 percent of the island. Going further, it is likely they would also have accepted that the natural gas-rich territorial waters off the southern part of the island would be placed fully under Greek Cypriot ownership, a gesture that would have constituted valuable compensation for Greek Cypriots' sense of grievance about losing the north of the island.

The Turkish Cypriots' own condition for this two-state settlement would likely have been a guarantee that the 300,000 people now living legally in the Turkish Cypriot zone – whatever their origin – would have the right to citizenship in an independent state and that this new state would have the right to start negotiating for EU membership. In this two-state case, Turkish Cypriots might in fact have had fewer reservations about Greek Cypriots' right to buy new property in the north than they would under a federal arrangement. A two-state settlement would also have marked a clean break with the past, allowing for clear rules about compensation for lost property. (Greek Cypriots have title to three-quarters of the land in the north, while Turkish Cypriots have title to a tenth of the land in the south.)

Picture a northern Cypriot state under the EU umbrella. A greater sense of Turkish Cypriot confidence would have allowed for a more imaginative future for the ghost resort of Varosha, which would likely have been handed back to the Greek Cypriot side in any version of a settlement. A public company – much like Lebanon's Solidere, which rebuilt the war-wrecked heart of Beirut – could have proposed to take over the whole area, demolishing the many unusable structures and rebuilding the beach resort so that it could take its place once again as Cyprus's premier tourist destination. Existing owners would have been issued shares in the overall enterprise, as would those who financed the rebuilding. Turkish international contracting companies would have been natural bidders for much of the work.

With a better atmosphere on the island of Cyprus, the group of smaller EU states that saved the day in 2005 might also have been able to take a lead in ensuring that the EU-Turkey relationship stayed on course, staging interventions in both Ankara and Brussels to build communication and trust. Even more importantly, it could have created a sense of common purpose to block the trend of suborning EU policies like enlargement to narrow national interests. Choosing their battles carefully, the group might have been able to mobilize a critical mass of member states on issues of common moral interest, especially when crises threatened stability in the Middle East and North Africa. Indeed some might have come to believe that this 2005 Cyprus moment marked the point where the EU at last learned to fill the supranational role that its founding fathers had hoped and planned for.

Thinking Big: What If EU Leaders Had Been Bold Enough to Create European Political Union at Maastricht?

Josef Janning

Josef Janning rues the chance to complete political union squandered by the EU-12 in the wake of German reunification.

The widespread assumption that the EU is now somehow entering terra incognita begs a comparison with 1990, because in many ways history is repeating itself: European leaders are once again confronted with profound political changes – then the fall of the Berlin Wall and German unification, today the sovereign debt crisis and Germany's seeming dominance in crisis management. And once again, their supposedly far-reaching solutions are in fact simply catching missed opportunities: the Maastricht Treaty claimed to prepare the EU for its future in an undivided Europe, while actually dealing with issues that had been on the table for a decade, including monetary union; today's crisis management for its part simply fixes long-familiar weaknesses in implementation of that union.

One key thing has changed however: the role of Germany. At both times, of course, Germany has been pivotal. The Maastricht Treaty was driven by a need to reconfirm Germany's commitment to European integration. Today's stronger eurozone governance is a precondition for Berlin's commitment to crisis management. However, the tables have turned. Back in 1990 Germany needed the approval and consent of its EU partners in the process of unification. Now, by contrast, the EU needs Germany's approval and consent to move forward. This shift is also key to the debate about political union. Whereas in 1990, the parallel intergovernmental conference (IGC) held on political union was geared toward binding Germany into Europe, today political union has become one of a series of sequenced conditions posed by Germany for its further engagement.

Berlin seems skeptical about the scope that a "big-bang" type of shift would have, pointing to popular intolerance of grandiose European ideas. Pursuing a "what if" scenario points to different lessons, however. If political union had been achieved at Maastricht in a big bang twenty years ago we would have seen very different results. The EU would not have been shielded from today's profound crisis, nor would it necessarily have been better prepared in institutional terms. But the integrationist momentum, once achieved, would have made it easier for member states today to accept the implications of crisis response. Today they would be less constrained by the successive renegotiations of Maastricht's "loose ends," more confident in their strength, and more demanding of countries seeking to join. In short, it is not big bangs that alienate the public. Rather, it is the piecemeal efforts to make up for lost opportunities.

Revisiting the Last Debate on Political Union

Almost thirty years ago, the European Community waved goodbye to a decade of stagnation. The 1970s had wrought profound changes on the EU, both in economic and political terms. Europe had been made to look weak in the wake of the world's first major energy crisis, rising structural unemployment, exchange-rate turbulence, and shrinking competitiveness vis-à-vis the United States and East Asia. Moreover, it had lost influence in international affairs due to the incoherence of its foreign policy action and a litany of flimsy declarations. Against this backdrop, several attempts had been made to define a reform of politics and institutions, many of them ambitious, like the 1970 Werner Plan for monetary policy or the1975 Tindemans Report on institutions.

Alas, none of them gained traction. Divisions among member states, reluctance to make a leap forward, and some rather sobering tactics pursued by member states and the US stood in the way of change. The turnaround only came when three actors moved into key positions: François

Mitterrand was elected French president in 1981; Helmut Kohl became German chancellor in 1982; and Jacques Delors took over as president of the European Commission in 1985. The Solemn Declaration on European Union of 1983 (leading three years later to the Single European Act) marked the first step, followed in 1985 by the white paper on the single market and the establishment of a committee in 1988 headed by Delors to develop the scheme of an economic and monetary union.

All of this was underway when a power-sharing agreement between the Polish Communist Party and the Solidarity trade union was negotiated in Warsaw and when leading politicians of both countries cut the barbed wire on the Austro-Hungarian border the following summer. The Berlin Wall fell on November 9, 1989.

Under the new circumstances, economic and monetary union (EMU) – which was already scheduled for an IGC by the end of 1990 – assumed an entirely new relevance as the most visible means of binding Germany to the EU. Although it is widely held that Mitterrand's primary goal with EMU was to break the dominance of the German Bundesbank, he ended up accepting its status and operating philosophy as the model for the European Central Bank. And while Kohl's successful attempt to open a parallel IGC on political union was read as a sly move to delay or dilute progress on EMU, the chancellor ended up putting a range of issues on the table to strengthen community institutions and enhance democratic legitimacy that were also relevant for other founding member states.

The targets for political union, as defined in two messages by Helmut Kohl and François Mitterrand of April and of December 1990, were ambitious:

- Beyond the fiscal dimension of EMU, the creation of new powers on the European level for environmental protection, social and health policies, energy, research and technology; the extension of the community method to matters of internal security, immigration, asylum, and organized crime
- A genuine foreign and security policy, focused on neighboring regions to the east and south; inclusion of developmental aid and assistance; integration of the Western EU into political union; the gradual replacement of consensus rule by majority voting on matters of foreign and security policy
- More efficient decision making through the introduction of qualified majority voting as the standard procedure in the Council of Ministers, with exceptions listed explicitly in the treaties
- A strengthening of democratic legitimacy through the introduction of co-decision with the European Parliament as the rule; confirmation of the president of the European Commission by the European Parliament; establishment of European citizenship; and the definition of a role for national parliaments

An Alternative Maastricht

If all of the above had been achieved at Maastricht (rather than via three more wearisome treaty revisions, which still left a mound of unfinished business), the EU would now have twenty years of practical experience with political union under its belt. European political leaders would also have converged around the conclusions Mitterrand drew up after the fall of the Berlin Wall, namely that a united Germany's new ambition and power required a serious deepening of European integration. This mind set was evidently lacking in Italy and Spain, not to mention in the United Kingdom. Political leaders of the BENELUX countries acknowledged the need for convergence, but only reluctantly.

Achieving political union at Maastricht would have sped up the development of climate policies, brought about a common internal and external energy policy, prepared the EU to respond better to the social implications of the single market and EMU, spared Europe its lost decade in the so-called three pillar structure, and educated the European Parliament on how to scrutinize government effectively under the co-decision rules. Neighborhood policy would have been practiced by the EU many years ahead of the 2004 eastern enlargement, when it was finally conceived in the real world. Security and defense matters would have become EU dossiers much earlier. And, of course, the UK would have had to face its Hamlet question – whether to be or not to be in the EU – much sooner.

Had there been consensus over the two unions, economic and monetary union and political union, "reinforced cooperation" might never have been invented. Indeed the whole notion of a differentiated integration might have appeared only with eastern enlargement and been associated more with staggered integration than with a two-tier EU. That said, enlargement to incorporate EFTA countries (Austria, Sweden, and Finland) might have been delayed because of the EU's enhanced role in its members' internal and external affairs, and enlargement to the east would have been more divisive in the newly-independent countries because of the sovereignty implications. The EFTA states would have struggled to reconcile EU security and defense policy with their neutral or non-aligned status, and the easterners would have had to explain the EU's Franco-German core (with its echoes of Soviet domination) to their citizens. And yet, it would not have blocked enlargement: the case for membership was just too strong.

Would timely political union alongside economic and monetary union have prevented the current crisis in the eurozone? And, if not, would it at least have equipped the EU with better means to respond? The answer to both questions is probably no. Although the specter of asymmetric shocks was taken into account during the IGCs, none of the relevant scenarios imagined a profound crisis of globalized financial markets, nor the massive expansion of public debt across the EU that was needed in order to prevent a major depression. The inherent contradictions between a no-bail-out clause in EMU and the solidarity argument implicit in political union would not have been understood or anticipated.

Still, European integration is just as subject to path dependency as other political systems are, and this can have positive as well as negative effects. Success on both projects at Maastricht, swift ratification of the treaty, and two decades of practice would have constrained the bazaar mentality that shaped the negotiations at Nice, could well have curtailed the rise of today's intergovernmentalism, and thus might have better prepared member states to conceive assistance schemes for eurozone countries in need. Thus, if political union had succeeded at Maastricht, the emergence of a cost/benefit approach to European integration might have been hindered, delayed, or conceived in a different, more collective way.

To be sure, a thorough success in union building at Maastricht would not have spelled the end of treaty change or IGCs. Take foreign and security policy. The ideas then for political union, while ambitious in scope (particularly on the integration of defense), were sketchy on process and institutions. Current structures may be far from satisfactory to many member states, but they are quite some way ahead of the avant-garde thinking of 1990. And yet, the problem with today's structures lies largely in a lack of political will and a surfeit of gradualism – this would not have been the case with a big-bang approach. With the peace dividend now thoroughly consumed, it is all the more difficult to invest in common structures, institutions, and capabilities. After Maastricht, EU security and defense policies have rather followed NATO's renationalization track than counterbalancing it.

Had political union succeeded at Maastricht, the EU would be a different beast today, not least because it would have been capable of changing the course of international events. Maastricht was a parting of ways, the significance of which was not seen or understood at the time. The treaty contained elements of what political union should have been, but the Union it created was limping badly. Monetary union became the major point of controversy in many public debates after Maastricht. At that point, European policy makers developed the fatal habit of overselling the results of their horse trading. Maastricht essentially dealt with the reform agenda of the 1980s and did not finish it in spite of the momentum generated by the fall of the Berlin Wall. For another decade, reform ambitions centered around the "loose ends" of Maastricht, as public support for a leap forward gradually fell apart.

Conclusions: Too Little Sovereignty to Pool?

The history of political union provides two lessons for today's politicians. The first is about trajectory. Integration is a track, and its course is not easily changed. It rarely gives an opportunity to correct past choices, especially those not taken. In the current setting, a comprehensive deepening of integration across major policy issues seems much harder than in 1990. The baggage of past choices, developments, and trends is weighing down governments. The second lesson is about seizing the moment. Shifts in the geopolitical environment open up opportunities for deeper integration that are out of reach under less charged circumstances. If the Maastricht Treaty had followed through on Mitterrand's impulses, it would have helped the EU and its member states avoid the integration fatigue that arose from ten subsequent years of tying up loose ends.

A closing thought: it seems ironic that deeper political integration was sought in 1990 at a moment when national sovereignty reemerged from the constraints of Cold War confrontation. And it seems odder still that it is not pursued in today's situation, where the de facto loss of sovereignty has become so obvious. Maybe in 1990 there was too much sovereignty around to achieve full political union. In 2014 there's not enough sovereignty to try.

Considering a new normal: What if Yugoslavia had joined the EU?

Cornelius Adebahr

Cornelius Adebahr speculates on the impact hypothetical Yugoslavian unity would have had on the European Union, and in doing so sheds light on both the strengths and weaknesses of today's EU.

It is an intriguing thought: imagine what Europe would look like had the Federal Republic of Yugoslavia not disintegrated but instead merely shed its "Socialist" prefix. It would have spared the societies of what are today Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, and Slovenia hundreds of thousands of dead. The European Union would not have looked so divided and impotent in the face of the slaughter on its doorstep. And the US would not have had to send soldiers to fight on European soil for the first time since World War II. In short, the region could have been a "better place" – an assertion with which many citizens of the now-independent successor states would concur.

Of course, the entry of this hypothetically united Yugoslavia into the EU would have meant a number of challenges. The country was something of a multi-ethnic "mini-Europe" in itself and had, until the fall of the Iron Curtain, been held together by a now-alien ideology and authoritarian system. But let us assume that the European Commission successfully offered economic and financial aid to dampen the nationalist tendencies in the various Yugoslav republics and to maintain the country's unity. Granted, the centrifugal forces that did tear Yugoslavia apart were by no means merely economic. However, in our scenario, the EU's offer was substantial enough to provide incentives for citizens to stick with a Yugoslav Federation capable of accommodating their concerns and to jointly become part of the bigger Union next door.

Such a scenario allows for speculation about three EU policies that are all currently facing a combination of gridlock and rudderless flux: enlargement, common foreign and security policy (CFSP), and the process of attaining EU membership. While this exercise is probably too hypothetical to draw practical lessons for today's policy from it, imagining an alternate path challenges our picture of what is normal and accepted today. After all, these are policy areas in which distinctions between insiders and outsiders are key and in which the EU is seeking to promote its norms. Imagining the western Balkans after 1989 not as a messy counterpoint to the EU but rather as a full member of the Union challenges our real-world perceptions.

Alternative Enlargement: Yugoslav Scenario

In our scenario, Yugoslavia applied for membership in 1991 and started entry negotiations two years later alongside Austria, Finland, and Sweden. The relative economic health of its three co-applicants, all of whom had been developing in close relation with the European Community through their membership in the European Free Trade Association (EFTA), served to highlight Yugoslavia's own fundamental challenges: high unemployment, high public debt and inflation, and moribund socially-owned companies that were no longer competitive. A privatization effort initiated in 1989 as quid pro quo for much-needed IMF loans was pushing the country toward disintegration. In turn, the emphasis on Yugoslav convergence highlighted problems with corruption and the rule of law, which also cropped up throughout the EU's eastern expansion. In short, Yugoslavia did not make it in on its first try.

As a result of this false start, the EU ditched its leitmotif of a "reunification of Europe" early on, and the process became less geopolitical and more merit-based as a result. The fifth enlargement was thus split into different phases. Yugoslavia became a member at the turn of the twenty-first century, together with the more advanced states of Central and Eastern Europe (CEE) – Hungary and Estonia – and Malta in the Mediterranean. The early onset of its economic transition made it possible for Yugoslavia to adopt the euro as a second-round member alongside Greece shortly thereafter. The simple fact of having a transition country like Yugoslavia apply for membership in the eurozone led the original members to insist on stricter controls for all aspirants. A second, larger group of countries entered the EU in the mid-2000s, including a unified Cyprus. (Greece's leverage was smaller due to the new emphasis in the enlargement process on technical convergence, while Yugoslavia's fragility in terms of internal borders had prompted the EU to make acceptance of the Annan Plan for Cyprus a precondition for accession. Thus the Cyprus dispute was resolved.) A third group centered around Romania and Bulgaria joined the EU after 2010.

A Different Foreign Policy

By successfully defusing the specter of war in Yugoslavia by means of enlargement policy, the EU avoided the piecemeal and reactive development of its own foreign policy capabilities. It had time to devise a new foreign policy system based on its 1992 Maastricht Treaty (which would probably never have seen the light of day without outside pressure to put it into practice). Overall distaste for violence, combined with a focus on peaceful transition in Eastern Europe, meant that the EU did not intervene in bloody conflicts in the heart of Africa – Somalia, Rwanda, or Congo – avoiding military integration. Instead, NATO developed as the alliance of choice for many EU member states, enlarging eastward itself and at the same time engaging in peacekeeping and peacemaking missions, most of them beyond Europe's borders.

As member of the EU, Yugoslavia, alongside formerly neutral member states such as Austria, Finland, and Sweden, not only pushed for a clearly civilian approach to EU crisis management. It also allowed the EU to establish relations with important emerging powers such as India, South Africa, Indonesia, and Malaysia as a founding member of the Non-Aligned Movement (NAM). While Belgrade did have to drop its NAM membership upon entering the European club (alongside Cyprus and Malta), it built on its preferential contacts – both personal and institutionalized – to capitals of the southern hemisphere. This became an important asset for the EU, given that its "special relations" with many world regions otherwise suffer from the colonial histories of individual member states.

Shifting Membership

With nearly 24 million inhabitants, Yugoslavia became the EU's fifth largest member state, dropping to sixth place only when Poland (population 38 million) joined. Until the reforms of 2001, it carried six votes in the Council of Ministers, more than the Netherlands, Portugal, and Belgium respectively. And until more recently, it wielded 17 votes, equivalent to Sweden and Finland combined, or the votes of Austria plus those of Denmark. Relatively powerful on paper, Yugoslavia, however, remained fragile. The country has sometimes described as a big Belgium – organized in a highly federal, dysfunctional way. Each of Yugoslavia's six "republics" used the EU to strengthen its hand vis-à-vis the federal government, not least via the Committee of the Regions in Brussels. In particular, the republics of Slovenia and Croatia teamed up with such regions as Bavaria, Catalonia, and Scotland to fight for their share of European influence and money. The Serbian Republic, in contrast, was held back by a complicated power-sharing deal with its autonomous Kosovar minority.

As a result, there has been a new power distribution within the EU, with a shift of competences away from the member governments in favor of both the European and regional levels. Economic and social policies, including issues such as employment, migration, and social security systems, are largely set in Brussels, whereas policies for infrastructure and transport, education, and culture have gone to the regions. This leaves the member states with fewer competencies. Yet, the force of Yugoslav decentralization has become so strong – despite, or even because of, the economic and financial benefits of belonging to the EU – that the EU very recently had to facilitate the breakaway of one republic. This "velvet divorce" sets a precedent for independence movements in old member states, with the EU now facing a regrouping of its membership toward a greater number of small- to mid-sized states.

Tempting as it is to speculate about what would have happened had Yugoslavia avoided both war and break-up, it is hard for those who know the region well to imagine that the transition from the Yugoslav slogan of "brotherhood and unity" to the EU's motto "unity in diversity" would have been without friction. Still, speculation about an alternative state of "normality" has some merit – for looking through the hypothetical lens allows us to see the weaknesses of the current EU more clearly.

Three lessons stand out, and the EU today has in fact started to address two of them. First, the EU should have adapted its rules for enlargement earlier in the process, and would have done so if it had gained better knowledge of the difficulties of a continued transition in its new member states. Yugoslavia's hypothetical economic and social pains of adapting to join the euro throughout the 1990s would have provided the EU with a valuable lesson about how to address the current crises in Greece and Spain today. In reality, the EU has only recently started to address the question of conditionality, especially with regard to its Neighborhood Policy (and will likely see its magnetism fade vis-à-vis Ukraine).

Second, the Union would have a much less developed security and defense policy, and its global foreign policy would have even fewer military teeth than it has today. In its global foreign policy the EU did make some progress by carefully involving various partners and regional groupings around the world. However, this is an area where it could still become much stronger.

The third and final lesson of Yugoslavia's hypothetical entry to the EU, however, remains an open one. It is, in fact, a question: whether the Nation State is still the determining framework for meeting Europe's twenty-first century challenges. The inclusion of Yugoslavia, a multiethnic member state with a weak federal structure, would have hastened a number of today's debates and complaints: the discussion of eroding national sovereignty in the aftermath of the financial crisis; recurring complaints about a "democratic disconnect" throughout Europe; independence movements, such as those to be found in Catalonia and Scotland. The EU needs urgently to tackle the fundamental question of the Nation State. Far from providing useful answers in itself, at least a member state called Yugoslavia would have forced the EU to address it much earlier.

Better Off Without: What If the EU Had Never Created the Euro?

By Paweł Tokarski

Paweł Tokarski asks how the EU would have fared without the euro, finding that monetary union has had a comparatively moderating effect on its economics and politics and that it could hardly have been avoided.

The euro currency union, memorably described by one European government as a burning house without doors or windows, is being blamed for problems in fact triggered by the global financial crisis. Would Europe really have been better off without the euro, as many commentators claim? The answer, perhaps surprisingly, is an almost unequivocal "no." Although the euro is commonly viewed as the result of unfortunate political ideology and horse trading between France and Germany, this interpretation ignores its hard economic rationale. Currency union provides the exchange-rate stability that Europe's open, trade-oriented economies need. A Europe without this stability would have lurched far deeper into crisis than it has today.

The Economic Rationale for Currency Union

Contrary to general wisdom, Europe's winding journey toward currency union has been driven less by political factors than economic imperatives. Exchange-rate risks have always been a barrier to international trade. For Europe's competitive, open economies, the task of decreasing or eliminating currency fluctuations has therefore been particularly pressing. During the Great Depression of the 1930s, for instance, European "beggar thy neighbor" policies (increasing competitiveness through devaluations) led to competitive devaluations and the complete collapse of the international financial system, heralding a long and deep recession.

Happily, Europe can look back on a long tradition of learning from its mistakes. A prohibition against such beggar practices was articulated repeatedly by the founding fathers of the European project. After the collapse of the Bretton Woods system in 1971, European states began a long quest for monetary stability, which led to the establishment of the European Monetary System (EMS), with an Exchange Rate Mechanism (ERM) as its key component. They recognized that the stabilization of the exchange rate was crucial for market integration; common and single markets would never have functioned on the basis of full-floating exchange-rate regimes.

The creation of a common market for agricultural products (a cornerstone of all subsequent political and economic integration) required action against currency risk, as volatility would have invited market distortions. And with plans for an internal market based on four freedoms (goods, workers, capital, and services), the rationale for creating a currency union only became stronger, despite the political and economic tumult of 1992–93, when ERM underwent an existential crisis. Thus if the road map for the euro had not been created, the ambitious plans for a single market would have demanded the establishment of another stabilization mechanism.

Would the Alternative Have Been Any Better?

By 1989, therefore, a basic truth had become clear: the economic rationale for exchange-rate stability was so strong in Europe that if governments had failed to agree to introduce a common currency, the pressure for a different system of exchange-rate stabilization would have remained. Yet, it is a matter of political choice how and whether to bend to this economic rationale, and it was indeed political factors just as much as economic that led to the actual compromise on the euro. The real-world outcome reflected the strength of the newly reunited Germany, with Bonn agreeing to French pressure to give up the deutsche mark and Europeanize itself in return for a German-looking currency union. But let us imagine that that did not happen. The failure of this Franco-German compromise would have led to a very different response to the problems of exchange-rate volatility.

Had the heads of state and government not agreed with the conclusions of the 1989 Delors report or had they cancelled the currency union plans due to the economic slowdown of 1993–94, we can assume that they would have created a Genuine European Monetary System (GEMS) designed for the "sustainable growth and well-being of EU citizens" (written into the conclusions under pressure from the French delegation and several states from the southern flank). A European Stability and Welfare Institute would have been tasked with managing the loans maintaining exchange-rate stability. The basic bands would have reflected ample ERM margins (+/-15 percent) but with a possibility for more disciplined member states to considerably lower the bands, an option that a group of northerners (Germany, Denmark, Finland, Austria, Benelux, and Sweden) would have taken.

In the real world, the existence of the common currency put an end to speculative attacks. In our alternative history, these would have persisted under a system like GEMS; its simple mechanism of exchange-rate stabilization would not have given this comfort. The financial markets would have been inherently skeptical of the sustainability of GEMS, since its creation would have opened the bloc to speculative attacks, leading to continuous exchange-rate volatility, pushing states into costly interventions, and most likely forcing various economies to leave the system temporarily or permanently. The probability is that GEMS would not have seen the new millennium, let alone global financial meltdown.

But not all GEMS states would have profited from the lower borrowing costs associated with a deeper system of integration like a currency union. As a result, GEMS would have boasted certain comparative strengths over the euro. The yields of government bonds would not have narrowed to the degree apparent today, and the governments in Italy and Greece would feel constant pressure to limit their current account deficits and implement responsible fiscal policies. That said, it is also probable that the sovereign-debt crisis would have started ten years earlier if EU states had not enjoyed the credibility conferred by a currency union and its governance rules. Already in the mid-1990s, Italy had exceeded 120 percent debt to GDP (and not merely because the perspective of joining the euro had slashed its borrowing costs). Moreover, housing bubbles and weaknesses in the banking sectors would have emerged even without the euro.

The Alternative Financial and Economic Crisis

Still, let us imagine that we were lucky enough to keep GEMS alive until the outbreak of the global financial crisis in 2007, or even until the last quarter of 2009, when Greece's real problems began. The onset of the global financial crisis and the news of "creative" accounting in Athens (not checked by Brussels – even superficially) would have put pressure on the drachma and increased Greece's sovereign-debt costs. The central bank of Greece would not have been able to maintain the exchange rate. Moreover, the temptation to boost competitiveness through devaluation would have been difficult to resist, not just in Greece but also in Spain, Portugal, and Italy. The immediate effect of this toxic therapy would have been a considerable increase in inflation, investors fleeing the markets, a liquidity crunch in the financial sector, a steep decrease of trade within the EU, and a long and deep economic recession in Europe.

With the crisis escalating, the south would have had to take further measures. After all, when the real global financial crisis reached the real economy in 2008, voices in France advocated channeling support to domestic business from the budget. Fortunately for all, these plans were quickly and broadly slapped down by EU leaders able to block them thanks to the governance mechanisms of the internal market. In the absence of the common currency, this avalanche of protective actions would have been hard to contain.

All this would have led to a vicious north-south standoff within the EU, with even stronger negative implications for intra-EU trade. The German-led north would have robustly counteracted the south's competitive devaluations and protective measures in order to defend its own competitiveness and trade prospects. Due to historical constraints imposed by the country's painful experience of hyperinflation in the 1920s and the high level of household savings, it would have been politically and legally difficult to weaken the deutsche mark. So the only way to go would have been the introduction of compensatory protectionist measures detrimental to the very existence of the internal market in several key areas, with all the obvious implications for EU sustainability in its current form. The single market would have been geographically reduced, causing some headache for lawyers (in the rosiest scenario).

The north-south conflict would also have been transmitted to the EU institutions, resulting in decision-making paralysis – the fragmentation or disintegration of the single market having already led to a significant decrease in the role of the European Commission, increasing the role of deals between clusters of member states. In circumstances of constant intergovernmental tension, it would be hard to imagine the negotiations over the Multiannual Financial Framework 2014–20 (the EU's budgetary framework) reaching a successful conclusion. Nobody would have been willing to make any commitments concerning future payments into the EU's purse not knowing what would happen tomorrow.

The End of Europe as We Nearly Knew It

There would have been no winners in this alternative scenario. If the EU did survive the fragmentation of the internal market, it would have probably split into a kind of customs union governed principally by the leaders and ministers, with a hard core internal market of more deeply integrated strong economies like Germany, France, Austria, Denmark, the Benelux, Sweden, plus the Baltics, Poland, and Slovakia. The UK, given the choice between deep integration with a core market or looser cooperation on its peripheries, would have been politically paralyzed. But as if that were not enough, now add to this picture a new east-west tension: the lack of agreement for cohesion funding within any new budgetary framework would have seriously damaged support for the EU in the new member states, slowing down their catch-up process.

The general dip in economic performance would have applied to Germany, too, heralding a prolonged period in power for the SPD and Chancellor Gerhard Schröder. German democracy would have survived unscathed, but several southern members would have experienced major economic and political problems. With the devaluation tool still available, moreover, there would have been no incentive for structural reforms. Economic stagnation would have clouded out prospects for a better future. High-level inflation and economic crisis would have wiped out middle class savings, leading to a decrease of the role of southern EU members, making the countries prone to populism – a good environment for extremist forces to grow, not entirely unlike 1930s Europe.

In short, far from being a costly ideological error, the common currency has actually helped Europe avoid the risk of repeating the economic mistakes of the past. The single currency has spawned a robust regional economic policy regime that has prevented EU states from resorting to populist and selfish options. The alternative scenario would have created new barriers in Europe and considerably decreased the continent's significance in international economic relations, making it a good playground for other assertive economic players such as China and Russia. Despite the huge costs of financial assistance and austerity as well as persistent problems and uncertainties, the euro has helped the EU keep its construction relatively intact and even reinforced it internally and externally.

The most important task now is therefore for governments to acknowledge that the origins of Europe's structural problems do not lie in some supranational project – a common currency, for example – but in the capital cities of Europe. Such problems will not be solved without recognizing the serious flaws that persist at the national level.

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Notes

1 The essays in this compilation were published between December 2013 and February 2014 and thus reflect the state of affairs prevailing around January 2014. Since they met with considerable interest in the policy community we decided to publish them jointly in this collection.

2 Bradley MacKay (2008) "What if?: Synthesizing Debates and Advancing the Prospects of Using Virtual History in Management and Organizational Theory," in Management & Organizational History 2, no. 4, pp. 295–314.

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