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THE NEW POLITICAL GEOGRAPHY OF EUROPE

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Contents

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Introduction

The euro crisis has revolutionised politics across Europe. Established political parties are fighting for their lives; countries that thought of themselves as part of the European core are finding themselves on the periphery; and a huge gulf has emerged in the core of Europe. What we are witnessing, as the euro crisis enters its third year, is the emergence of a new political geography for the European Union that is reshuffling the divisions within and between the nations of Europe. The crisis is not over, but it has evolved from a banking crisis and then an economic crisis into an acute political crisis.

So far the emergence of this new political geography has been obscured by a media focus on the politics of Brussels and Berlin. It is true that a visitor from Chile or China arriving at Place Schuman in Brussels may feel like they are visiting the capital of the "United States of Europe". Yet after a day or two they will realise that the EU is composed of 27 states that come to Brussels to bargain over their respective national interests with only occasional regard for the common European purpose. Although Berlin is emerging as a new decision-making centre, the politics of the EU mean that the future political shape of Europe can be advanced or hindered by decisions taken elsewhere – whether by a taxpayers' revolt in a creditor country such as Finland or a citizens' revolt in a debtor country such as Greece.

The 14 chapters of this collection try to identify the major points of contention and new political forces in different member states (between the rich and poor, realists and moralists, interventionists and anti-interventionists) and to reflect on some of the opportunities and obstacles to joint solutions for overcoming the crisis. In order to show how the politics changes over time we have ordered them around the years that each country joined the EU. Collectively, they invite us to rethink our perceptions of the current crisis and its possible implications for the integration project.

The essays show that the reshuffling of Europe's political geography is happening across at least four dimensions. First, at the level of elites: established political forces across the continent have been placed under enormous pressure by the crisis, and are being replaced by new political leaders within the established parties or populist movements that are increasingly defining themselves around the crisis. The second division is between the periphery and the core – where many countries that thought of themselves as being at the heart of Europe are finding themselves disenfranchised. As well as the (painful) division between creditor and debtor states, there is a multiplicity of membership arrangements. The division between "ins", "outs", and "pre-ins" of various cooperative frames that define the borders between Europe's centre and periphery is obviously anything but benign. The third dimension is the fracturing of the core. Although the new power centre has shifted from Brussels to Berlin, this has not necessarily resulted in a more coherent, let alone hierarchical, system of governance. A potentially unbridgeable gap has emerged between Paris and Berlin, and numerous actors across the continent are happy to veto proposals for getting Europe out of the crisis. As a result, even though Germany has now reaffirmed its identity as a pro-European nation, it still looks like a power without a purpose.

This leads to the final observation drawn from this collection: the lack of a common shared vision of European integration. Although the term "political union" has entered the European discourse, there is no consensus on its meaning or usefulness. Some fear a "weekly call" from Brussels or Frankfurt telling parliamentarians what to adopt in a given week. Others complain about a frail European centre unable to defend them from stronger states and financial speculators. Short-term solutions are being launched in particular sectors, but they fail to form a coherent whole and stimulate the enthusiasm of either citizens or markets.

What is particularly worrying is the emerging competition between different European projects. The idea of a multi-speed Europe was predicated on the idea that all member states are heading towards a common destination. But what is becoming clear is that this is no longer the case. It is not just that some countries seem set to stay outside the core; there is also a clash emerging between four different projects of European integration.

The first project is that of the euro, where leaders are rightly exploring how to create an integrated banking union, fiscal consolidation, and measures to legitimate pooled policy decisions. The second project is the single market, which, as Sebastian Dullien has argued, could be an unwitting casualty of efforts to save the eurozone. A full eurozone breakup would shatter the euro, while a great leap towards political union could see shrinkage of the single market, as countries such as the United Kingdom or Sweden withdraw from the heart of Europe. Even muddling through the crisis seems likely to diminish the depth of the single market, as banks in the eurozone withdraw from trans-border business, and spreads in borrowing rates force companies to focus on domestic markets. The third project, the quest to pacify Europe through enlargement and a neighbourhood policy based on the idea of transforming unstable neighbours through open markets and porous borders, is also a casualty of austerity and the inward-looking politics of the crisis. The fourth project is the idea of a global Europe, where European countries pool their collective economic, diplomatic, and military assets to take a place in the cockpit of global affairs rather than simply responding to decisions taken in Washington and Beijing. This would obviously be much more difficult to realise if the drive for deeper integration in the eurozone goes hand-in-hand with the myopic politics of self-marginalisation that is being pursued by the current British government.

What makes it particularly difficult to avoid a conflict between these differing European models is the way that the individual choices of member states are related to the collective choices for a continent. It is possible to mitigate and broker the conflict between the different models and between the intertwined interests of individual nations, but this is hard to do in a crisis management situation without the necessary honest debate.

Most governments hope that the crisis will end after some minor and inexpensive adjustments. In fact, it would be difficult to justify any major investment without a plausible project which explains why Europe needs to reinvent itself in the coming months and years. This reinvention ought to be a bottom-up process. By now most countries are chiefly focused on their own grievances and concerns with only occasional glances towards Berlin and Chancellor Angela Merkel. This needs to change if any pan-European project is to emerge. The EU has no fewer than 27 member states and none of them will allow themselves to be disenfranchised. This collection should contribute to mutual education across the continent, which is a prerequisite of any further common European endeavour.

The reshuffling of the elites

The impact of the euro crisis on domestic politics within member states has been profound and disruptive. It is a paradox of the crisis that the governing elites of Europe's nations are probably the most pro-European in history, but the least able to win support for the integration that they all believe Europe needs. Established political parties are fighting for their lives in many EU countries, faced with new parties and movements that question their policies in Europe. This largely explains why it is harder than ever to reach any meaningful consensus among 27 diverse member states. Of course, elites are able to shape public opinion, but in the long run they cannot pursue policies that are electorally unpopular. For years, Europe has largely enjoyed a "permissive public consensus", with the public either caring little about Europe or content with the status quo.

This is no longer the case even in such traditionally pro-European countries as Greece, Germany, or Finland. As George Pagoulatos's paper in this collection points out, by spring 2012 14 percent more Greeks considered the EU a "bad" thing than a "good" thing. This is a reversal of the situation over the previous two decades, when the gap between those with a positive view of the EU compared to a negative view reached highs of over 60 percent. No wonder traditional pro-European parties such as PASOK suffered heavy losses during elections in May 2012, while the radical left (Syriza) and the nationalist right also fared well. Syriza quadrupled its share of the vote in these elections and became the second-biggest party in Greece behind New Democracy.

However, Greece is not the only country where new parties have made political capital by campaigning against current EU policies. Most established parties have struggled to survive under the political assault from such "new kids on the block" as the Freedom Party in the Netherlands, the True Finns Party, the Danish People's Party, the UK Independence Party, or Italy's Five Star Movement. Their response has often been to progressively adopt their own anti-European positions and postures, and even to criticise their own coalition governments for being excessively pro-European. For instance, in Finland, after the Euro Area Summit meeting of June 2012, mainstream parties in parliament accused their own government of exceeding its mandate over the use of the European Stability Mechanism (ESM), and later over the seniority status of loans provided by the ESM (see **Teija Tiilikainen**'s paper). In the Netherlands, some mainstream parties in parliament adopted a declaration asking the government not to hand over any sovereignty to Brussels or move towards a political union (see the paper by **Adriaan Schout** and **Jan Marinus Wiersma**).

This Eurosceptic rhetoric may have helped the established parties to fend off competition from the new parties, but winning a battle is not the same as winning a war. The true test for the established parties will come in two or three years when the hardship of various segments of the electorate will be felt more profoundly. For instance, the anti-European Freedom Party of Geert Wilders lost parliamentary elections in September 2012 to two established parties on the centre-left (PvdA) and the centre-right (VVD), but since then has found itself topping recent public opinion polls.

In Germany and France the established parties have not yet been under a sustained assault from new anti-European parties, but it is evident that the public does not want them to embrace some of the key European policies and projects. The public opinion data suggests that 51 percent of Germans would prefer to leave the eurozone, while in one poll 77 percent were against "more integration" (measured in initiatives such as the direct election of a European president). In fact, the Pirate Party may soon become another "new kid on the block" in Germany, taking away votes from traditionally pro-European established parties.

Of course, the current public mood may change with a return to stability and growth. A critique of certain European policies should not be seen as opposition to European integration as such. The established political parties may well indulge in anti-European rhetoric, but so far they are sticking to the European framework for solving emerging problems. The success of new parties is not necessarily linked to their critique of the EU, but rather to the general malaise of established parties and their respective national political environments. As **Peter Kellner**'s paper shows, attitudes to the EU in the UK are chiefly shaped by Britons' views of their country itself, and how far they are at ease with the direction in which British society is heading. Yet it is hard to deny that the political space within EU member states has been transformed in the course of the euro crisis, prompting national politicians to argue their respective partisan caseswith less and less regard for other actors in Europe. The end result is national brinkmanship and the culture of the veto.

The shrinking core and the growing periphery

The EU has always been marked by its diversity, but the euro crisis has created new divisions between member states. European leaders have abandoned the fiction that all states are equal and there is a multiplication of cleavages that is driving many nations – even big countries and founder members – from the core to the periphery of decision-making. To be in or out of various cooperative frames seems no longer a matter of sovereign choice, but stems from various vulnerabilities and discriminatory policies. The term “periphery”, applied to fully-fledged member states of the EU, is now in frequent use in political discourse, generating fear and distrust. This obviously makes it extremely difficult to find a joint overall solution for getting out of the current crisis and moving the integration project back on track.

The EU’s Fiscal Compact has been designed by creditor states to discipline debtor states with little input from the latter. The creditor states called themselves proudly the “triple A” countries and they called the debtor countries the “PIGS” in a rather derogatory manner (an acronym that formally refers to the economies of Portugal, Italy, Greece, and Spain; the term “triple A” refers to the superior rating awarded by major credit-ratings agencies). The EU has de facto assumed a role of executioner of the creditor states’ blueprint, undermining the position of pro-European politicians in the debtor states.

The paper by **Marco de Andreis** and **Silvia Francescon** shows that even a founder member with one of the biggest economies in Europe has been placed into “political receivership”. They show how in Italy the euro crisis, compounded by domestic austerity and reform on the back of a decade of painfully low growth, has weakened any perceived link between Europe and prosperity, and larger Italian companies remain negative about the economic outlook. To make matters worse, Silvio Berlusconi has returned to the political stage with anti-German and anti-European rhetoric which risks detaching his country even further from the continental mainstream.

The paper by **José Ignacio Torreblanca** and **José M. de Areilza** shows that Spain – another large and wealthy country – finds itself squeezed by numerous powerful forces. The EU keeps on putting pressure on the country to enforce further austerity measures and meet the nominal deficit reduction targets. At the same time, the markets, seeing how austerity measures hinder growth, are demanding such high spreads on sovereign debt that the country is trapped in a deflationary spiral. In parallel, society is showing signs of unrest, pushing back on proposed cuts to healthcare, pensions, and education. And, to make matters worse, many in the Catalan political elite, resenting the loss of popularity associated with austerity, have joined the secessionist camp.

This is even truer of the smaller debtor countries. Portugal may well be a member of the eurozone, but as the paper of **Teresa de Sousa** and **Carlos Gaspar** clearly shows, the fear of marginalisation is also the major preoccupation of its political elite. Greek politicians increasingly fear that their eventual exit from the eurozone may leave them at the mercy of Russia and its ever more assertive economic lobbies.

There are equally major anxieties outside the eurozone. The Czech Republic and the UK were not offered an opt-out from the Fiscal Compact treaty, and so they have vetoed it. By the same token, a new layer of cooperation has been created within the EU. In fact, officials in both countries intend to pursue the "renegotiation" of their position within the EU by "bringing some powers back" from Brussels to their respective capitals. (As the paper of **Petr Drulák** in this collection points out, the Czech Republic has already asked the European Council for an opt-out from the Charter of Fundamental Rights, and the British government is also moving in this direction.)

Denmark, which is in a tricky position between the "ins" and "outs", has not followed the Czech and British examples because it fears being swept along by decisions made elsewhere in Europe without the chance to shape them. Yet, as the paper by **Lykke Friis** and **Jonas Parello-Plesner** argues, maintaining a "Swiss-cheese version of the EU" (long preferred by Denmark) is no longer a realistic option, with the economy integrating further thanks to its close ties to the eurozone, but with the public hostile to Denmark being part of this greater integration.

New member states such as Poland and Bulgaria are not constrained by Euroscepticism, but fear that the emerging Europe of two or more speeds will relegate it to a peripheral status (see **Konstanty Gebert**'s paper on Poland). They signed the Fiscal Compact treaty but, because they do not fulfil the original admission criteria for joining the euro, they feel more vulnerable outside the single currency. The fact that negotiations regarding the future of the eurozone are not particularly transparent enhances their feeling of suspicion and insecurity. As **Daniel Smilov**'s paper observes, the crisis has exposed Bulgaria's "inferiority complex". Bulgaria is caught in an "anxiety-inducing position of apparently incomplete membership, without the time to absorb the benefits of EU accession before the euro crisis hit".

Both countries view plans to create a separate eurozone budget as depriving them of access to EU resources. Likewise they consider eurozone plans to create separate meetings of their MEPs as depriving them of access to key decisions. There is no doubt that decisions regarding the future of the eurozone will affect Bulgaria's and Poland's well-being, because most of the banks and investors operating on their territory come from the eurozone. This is why they see further integration within the single currency area as a step towards creating new dividing lines in Europe. Originally, they strongly supported the integration project because it was about overcoming divisions in Europe. They now discover that further integration may in fact generate new divisions, by design or default.

A centre that cannot hold

Even more worrying for the future of Europe are the cracks emerging in the centre. The most crucial decisions over the past two years have been taken with little input from either the European Commission or the European Parliament. The European Council and its president have been more present in the corridors of power, but chiefly in the role of a postman delivering messages from one European capital to another. In fact, the European Central Bank and even the International Monetary Fund have been more influential than any of the institutions in Brussels.

Germany has been seen by many as the key player but, as **Ulrike Guérot**'s paper shows, it feels more like a victim of other states' misconduct than a leader imposing its will on the others. Although Angela Merkel's government has repeatedly called for far-reaching steps towards integration and political union, crucial details of these proposals are still unknown. This is not surprising, in view of the current public mood in Germany and the forthcoming parliamentary elections. A recent public poll cited in the paper reveals that 70 percent of those polled do not want a "United States of Europe", with a majority of them also preferring that Germany leave the eurozone. Other branches of the German state such as the Central Bank or the Constitutional Court also seem less enthusiastic about further integration than Merkel and her ministers in the current coalition government. German pro-European credentials are beyond any doubt, but even in Germany Europe and the EU are not synonyms. Berlin has relied on bilateral diplomacy rather than common European institutions to cope with the crisis. The European Council's role was chiefly to rubberstamp German-led proposals. Moreover, Germany's biggest concern is to create a sense of control to match the growing exposure to liabilities in other countries. Merkel talks about "political union" but in reality she wants to take economic policy out of national politics, and to enshrine the major decisions in fixed constitutions. As a result, her main proposals are more about strict rules, austerity, and sanctions than about flexibility and incentives (although more recently there has been talk about a fiscal capacity to support particular reforms).

The German position is buttressed by some smaller, but wealthy, states such as the Netherlands, Finland, and Austria. However, so far they have acted more as veto players than as constructive lead players able to offer a pan-European way out of the crisis. They also saw Germany as too soft towards the "corrupted" South. This could not but disappoint those European leaders who pressed for policies aimed at stimulating economic growth and pleading for a more generous financial contribution from wealthy European states such as Germany.

France has traditionally seen herself as a European leader, but as **Thomas Klau**'s paper points out, President François Hollande has yet to give a major speech on Europe projecting his vision of the continent's future political shape. In fact, Hollande seems convinced that no European treaty reform could currently be agreed that would pass the test of a referendum in France, and so has resisted German pressure towards it. Instead, the president is advocating what he calls *intégration solidaire*, arguing that the way forward for the eurozone and the EU must be a gradual process of deeper political, economic, and social integration where new forms of supranational solidarity – such as Eurobonds – are agreed first, followed by institutional changes. This is the exact opposite of the vision of Merkel, who insists on institutional changes before the introduction of new forms of supranational solidarity.

Italy and Spain have in the past been able to influence the course of European politics. However, today both states are weakened by the financial crisis and unable to argue their case effectively. Both states seem frustrated by the German insistence on austerity policies, but they cannot confront Germany through the balance of power politics (or "coalitions of losers") because they need German cooperation to get out of the crisis. As a result, the politics at the core of the eurozone is deadlocked with both sides waiting for the markets to force a crisis which will allow them to push for their respective cases.

In search of a plausible project

Helmut Schmidt was once quoted as saying that if you have visions you should consult a psychiatrist, and today's European leaders seem to be following his maxim. The papers in this collection show how each government is driven more by pragmatism than ideology. The problem is that even a policy of small incremental steps can only work if guided by a certain sense of direction. The picture emerging from individual papers suggests that Europe's leaders have lost the compass that guided their policies in past decades, and offer few coherent answers to their ever more confused and impatient publics. Proposed notions of "political union" are timid and vague. Individual solutions to address the crisis are seen as guided by partisan national concerns rather than any common European purpose. Current leaders seem to lack the confidence, courage, and imagination to steer the EU towards any plausible communal endeavour.

Unfortunately, Europe will not escape this crisis unless it reinvents itself. Growth in Europe requires not only sanctions, but also sizable incentives. The burden of adjustments cannot be shouldered only by debtor states; creditor states ought to contribute their fair share of adjustments too. Division lines within Europe can only be bridged if new cooperative schemes are open to all and not just the few. This obviously requires some respect for diversity and the autonomy of individual member states. This also requires some kind of new social contract between Europeans rather than just another intergovernmental treaty.

Our collection of essays does not look at Europe from the top of the European pyramid. It tells us how citizens across Europe think and vote, and how their elected representatives attempt to implement the received mandate when they go to bargain in Europe. It suggests that a reinvented European project will need to focus on the problems that are important for ordinary citizens rather than for the elites working within the Brussels bubble. And it also suggests that European leaders should attempt to design a structure for the whole of Europe rather than just the eurozone – showing how the necessary process of integration for the eurozone can be made compatible with the other European visions of a continent-sized single market, a pacified neighbourhood, and a European pole in the multipolar world. Such a conclusion may not amount to any grand historical vision, but it may guide successive steps towards a better European future.

Thomas Klau

1 Three French conundrums: the voters, the president, and the country

Three great paradoxes shape France's European policy today. The first arises from the policy preferences of the French people. The second derives from their Constitution. The third follows from the surprising perception that the French elite has of the nature of the country itself. Together, they make France a difficult read for fellow Europeans at a time when this nation of northern beer and southern wine, of democratic radicalism and monarchical splendour, of Jean Monnet and Charles de Gaulle, is the actor whose willingness to conclude a big bargain with Germany could again be a pivot of European history.

The first paradox results from the added preferences of 43 million French voters. The French, having very nearly junked the Maastricht Treaty launching monetary union in a referendum in 1992, stepped up their resistance and sunk the EU's Constitutional Treaty in 2005. Yet while public opposition to the Maastricht Treaty was led by British-style "souverainistes" rejecting further European integration as such, the heated debate in 2005 saw a far more differentiated opposition emerge.

"Souverainisme" continued to fuel the resistance of the far and hard right. But many left-wing, younger, and better educated voters responded to a different charge: they saw the 2005 treaty as enshrining a neoliberal policy rulebook favouring bad competition over sensible regulation, threatening the French way of life. What Europe needed was not the neoliberal quasi-constitution on offer but a better treaty with new rules on social and labour rights, essentially exporting the French welfare model to the continent.

A majority of the French clearly place far greater emphasis on social justice than do many of their neighbours (in the most recent Eurobarometer poll, France ranked second among EU citizens in their emphasis on social justice). Equally, the French radically disbelieve the market's ability to deliver it, as the dismal failure of all attempts to launch a Liberal Party in France makes clear.

The euro crisis has offered evidence that the French preference for a strong state role to counterbalance market forces now extends to collective state action at the eurozone level, even when this comes at a cost to the French treasury. Although it is the second-biggest guarantor of eurozone solidarity, France has eschewed the vicious argument that has raged in Germany and elsewhere over the legitimacy of helping less provident European partners. Many French were shocked by the tenor of the German debate, and help for Greece, Spain, or Portugal has been portrayed as a fair and necessary course of action in TV debates and opinion pages.

Despite bringing down the Constitutional Treaty in 2005 (a major blow to integration dynamics within the EU), the French today accept the principle of intra-European financial "solidarity" far more easily than, for instance, their German neighbours. With 46 percent of French voters still having endorsed the Constitutional Treaty in 2005, further European integration could conceivably once again win French majority backing if it better reflected French preferences regarding the relationship between the state and the market (a broad consensus across much of the continent that the 2008 crisis had its roots in neoliberal deregulatory excess is likely to make it easier for future French treaty negotiators to win the political argument in Europe).

A second great French paradox on Europe flows from the Constitution and, more specifically, from the written and unwritten powers wielded by the president. "This is a place where the raising of a presidential eyebrow has more significance than any ministerial speech", a German ambassador in Paris told the author. To an extent that never fails to astound foreign observers, the French president can run most European and foreign policy essentially as he (or she) pleases. The one major constitutional exception, the cohabitation scenario whereby the president has to govern with a hostile political majority in the Assemblée Nationale and where the prime minister doubles as his chief political adversary, has become much less likely to occur since the cutting of the presidential term from seven to five years. "Please understand that I am much less powerful than you", German Chancellor Angela Merkel once told the former president Nicolas Sarkozy, pointing to the numerous centres of executive, legislative, and judicial authority that constantly challenge and sometimes curtail her ability to act.

Yet this astounding executive power, unique and even extreme by the yardstick of Western democracies, starts haemorrhaging away as soon as the French president calls a referendum on Europe – a move that François Hollande, the

Socialist leader elected in 2012, would be forced to undertake the moment he agrees to major European treaty reform.

Many partners of France have failed to note that the times when a referendum on Europe was merely a political weapon of choice in the French presidential arsenal are gone – a major weakening of the presidential position. The change is relatively recent. In 2008, Sarkozy just about managed to ram the Lisbon Treaty through parliament without a popular vote, having secured barely enough legitimacy to do so by announcing during his presidential campaign that he would eschew a referendum about a new EU treaty amounting to less than a European Constitution. Sarkozy got away with it, but the ensuing protest was strong enough to redefine the unwritten boundaries of French presidential power.

Aided by the general shift in Europe towards seeing a referendum as a more powerful source of legitimacy than parliamentary assent, a consensus has solidified in France whereby any major EU treaty must be submitted to a popular vote. For a French president, losing a referendum on Europe would be a disaster precisely because the destruction of authority resulting from a defeat would be so very great (being solely in charge, he would be seen as fully responsible). His influence over his political majority would be greatly reduced; if defeat were to occur in his first mandate, his chances for re-election would be gravely compromised. His remarkably free hand over European issues enhances the French president's power and prestige at home and abroad. Yet Europe now also generates his greatest vulnerability. "We have spent our last cartridge on the Lisbon Treaty", one of Hollande's advisers told the author.

People, president, country: of these three major paradoxes the third is the most fundamental. It is a taboo topic for French policymakers and the hardest for foreigners to understand. On the face of it, hardly a country seems more cohesive than France; no other European democracy grants its state such imperial authority. While Madrid grapples with Catalonian separatism and London warily watches Scotland, no French border province shows signs of hankering for a future outside France.

Yet many in the small elite running France don't really trust it. This quasi-academic caste of men and women, their thinking shaped by rigorous training in the Grandes Écoles, has studied the slow genesis of France through military and matrimonial expansion, the preservation of the republic through bloody submission of rebellious regions, and the homogenisation of the country though the suppression of regional languages. Many suspect that deep down France remains a fractious nation, and that a strong state anchored in Paris is needed to keep it "*une et indivisible*", as the 1791 Constitution first proclaimed it to be. This astonishing national self-doubt shines through in the otherwise strange fact that France still has not ratified the Council of Europe's Charter for Regional or Minority Languages, 20 years after its adoption. Where Germany, a far more recent creation with a history of devastating instability, has no existential fear of sharing sovereignty with Brussels, there is anxiety in the French elite that European federalism is an alien force powerful enough to fracture the French state and gravely destabilise the country's cohesion.

Understanding these three great paradoxes should be the first task for Europeans keen to engage the French on EU reform. The second lies in a realistic appraisal of France's complex and fractured political landscape today. Again, three main facts stand out.

First, the Europhobic National Front is now a well-entrenched force, its able leader Marine Le Pen appealing to many impoverished or disaffected citizens. The National Front may also benefit from the bitter infighting that has engulfed the mainstream conservative UMP party following a recent leadership struggle.

Second, the disarray of the mainstream right has exacerbated a political situation where Hollande and his Socialist-led coalition government face a far more insidious and potentially destabilising opposition from the far left of the political spectrum.

Third, the refusal of a number of Socialist MPs to vote for the Fiscal Compact in October 2012, despite significant government pressure, shows the extent to which Europe is still a divisive topic for the Socialist Party, a problem burned into Hollande's political consciousness since his party tore itself apart under his leadership during the referendum of 2005. Revealingly, ministers in Hollande's government such as foreign minister Laurent Fabius or Europe minister Bernard Cazeneuve remain defined in the eyes of the public by the "No" vote they lobbied for in 2005.

Since his election in spring 2012, Hollande has charted a European policy course that closely reflects the parameters outlined above. Like all other French political actors, Hollande is convinced that no treaty reform could be agreed in Europe today that would survive a popular vote in France as long as the eurozone crisis continues and unemployment is on the rise. With defeat in a new referendum potentially disastrous for Europe and himself, the president for now has indefinitely postponed any EU reform capable of triggering it.

Instead, Hollande advocates a course of *intégration solidaire*, arguing for a gradual process of deeper political, economic, and social integration where new forms of supranational solidarity (such as Eurobonds) are agreed first, with institutional change following. Details remain hazy, but it is clear that in terms of method, the gradualist *intégration solidaire* clashes diametrically with the German consensus (precipitated by the constitutional Karlsruhe court) according to which major institutional reform must come first to create a sufficiently democratic framework for future new policy instruments.

Hollande's preference for an incremental approach to change has similarly informed his handling of the politically thorny issues of rewriting labour laws and the tax code to help French industrial competitiveness, and curtailing state spending to help lower the deficit. Such gradualism reduces the risk, ever present in France, of massive street protests triggering unrest within the presidential majority. But Hollande's prudence so far has certainly come at the cost of clarity, raising concerns inside France and out that a timid do-nothing president would yield to anti-business sentiment and eschew real reform altogether. Fears of this have begun to recede, thanks to Hollande's discarding of a hasty campaign promise by accepting the wisdom of shifting some non-wage labour costs onto VAT. Hollande will not want to apply the kind of reformist shock therapy to France that Germany undertook even before the eurozone crisis, and that is now being tested in a much harsher variant in Greece, Spain, and Portugal. The real test of Hollande's willingness to reform will come only in 2013 on issues such as labour laws.

For France and its president, the tension between the need for a better integrated Europe and the possible (or perhaps only perceived) threat to France's cohesion remains the most difficult fundamental challenge to manage. Hollande has yet to reveal his own view of the continent's possible future political shape, a reluctance for which he has been criticised. The president is known to be more open than most of his predecessors (including Sarkozy) to the strengthening of Europe's joint institutions. The question is how far he could and would choose to go. In a tantalising glimpse into his own thinking, during a TV debate in October 2011, Hollande said he could imagine a switch to majority voting in meetings of European heads of state and government, effectively discarding the national veto in the management of existing EU or eurozone policies. Hollande the candidate was not taken up on this radical proposal, and Hollande the president has not yet reiterated it. But his political biography speaks to the fact that Hollande, whose early thinking has been shaped by Jacques Delors and François Mitterrand and who names Helmut Kohl as a role model in the exercise of European power, will seek guidance from the European ideal of Jean Monnet rather than the vision of Charles de Gaulle.

Ulrike Guérot

2

Germany debates political union

Over the last couple of years the German debate over the euro crisis oversimplified by tending to blame Southern debtor countries for their plight. Berlin's political response was reactive and lacking in the necessary vision to end the crisis, but now there are clear signs that the debate is shifting focus. Angela Merkel's government is making an effort to be constructive and ambitious rather than nationalist and populist. She has called for far-reaching steps towards integration and political union, and has not excluded a new European Convention, and the implications of this shift in the German debate for the rest of Europe are huge.

Germany as euro victims

Tabloid headlines were the loudest expression of Germany's negative debate over the euro, but they were not alone. Even mainstream media focused on excessive debt in the periphery, reproaching Greece and the others from the position of apparent German economic success. Within Germany there was a very specific and introspective understanding of economics, with limited space for external voices or solutions that did not fit the model.[1] Despite this high-handedness, Germany was accused of repeatedly only just doing enough to prevent the euro from collapsing, failing to articulate a vision for Europe's future, and relying upon the ECB for temporary fixes rather than providing policy solutions. Germans felt themselves to be the victims, just as others increasingly blamed Germany for the worsening economic situation. (Germany has in fact benefitted from the crisis, for instance through lower bond rates worth an estimated €80 billion.)

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1 Sebastian Dullien and Ulrike Guérot, "The long shadow of ordoliberalism: Germany's approach to the euro crisis", European Council on Foreign Relations, February 2012, available at http://ecfr.eu/content/entry/the_long_shadow_of_ordoliberalism_germanys_approach_to_the_euro_crisis.

This marked a shift from Germany's decades-old pro-Europeanism, with benefits such as the single market and political cooperation insufficient to convince the broader public that they had much to lose by the reversal of aspects of integration (such as a euro breakup). The impact upon public opinion is confusing and conflicting. For instance, 84 percent fear the worst of the crisis is still to come, but 64 percent believe the euro will survive.

Although Germans are undoubtedly confused by the complexity of the intertwined crises in banking, public trust, markets, and democracy, there exist elements of an identifiable narrative of betrayal over Europe and victimhood that stands in contrast to perceptions of Germany as the biggest beneficiary of European integration.

First, there is a fundamental sense of betrayal over the loss of the deutschmark and the adoption of the euro in exchange for German reunification (the deutschmark, however, used to carry the burden of being the anchor currency of the European Monetary System).

Second, most Germans associate the euro with higher prices following its introduction in 2002 (extreme German unease with inflation has been at its most acute when the ECB, in the absence of policy solutions, has provided liquidity to save the euro system).

Third, in 2010, *Bild* began its campaign against the "lazy Greeks", building upon the perception that industrious and hard-working Germans are being cheated out of their money by feckless Greeks.

Fourth, there has been little differentiation between cash and credit. Most Germans believe that hundreds of billions have already been spent, and – based upon their experiences with the former East Germany – believe that fiscal transfers are largely wasted money anyway. But now with the "third Greek bailout" suggesting significant cash losses, and German officials alluding to a haircut for creditors, this discussion may worsen.

Fifth, there has been little public acknowledgement of the differences between the crises in Greece, Spain, Italy, and Ireland, with all portrayed as simple cases of overspending.

Finally, German political and industrial elites have failed to make the case for how Germany's mainly export-driven economy benefits from the single market.

These aspects have contributed to a distorted, anxious, and ideologically narrow economic debate with Germany self-cast as the victim rather than the beneficiary of European integration. Germany considers its own model the solution to the crisis, looking to its own recent experience of reform to reinforce the belief that any relief from interest rate pressure would allow troubled nations to wriggle out of overdue reform programmes.

Political union

Although this narrative has dominated the debate for two years, there are signs that things are changing, not least in the softening of *Bild*'s stance. The recent warning about euro breakup by German Foreign Minister Guido Westerwelle can be seen as part of a perceptible effort by policymakers to strengthen the importance of the EU in the German debate, and to move away from a narrow picture of Southern indebtedness.[2] The increasingly historical and political contextualising of the debate has also moved towards a discussion of the future of the EU and its democratic system, and what in Germany is termed "political union".

To Germans, "political union" suggests an element of fiscal federalism or debt mutualisation that would erode the sovereign budgetary control of the Bundestag. However, there are two possible solutions: a permanent form of Bundestag veto (de facto a reality already in the EU); or the development of a proper decision-making system at the European level that compensates for the loss of sovereignty at the national level. The German debate over such a system emphasises its essentially parliamentary character, with European democracy organised around the euro. Possibilities include extensive reforms to the European Parliament, or the addition of a eurozone component through either a "Eurobond parliament" or a second chamber composed of national parliaments.

As the euro crisis forces the eurozone closer to de facto debt mutualisation, the German debate is focusing on three thorny issues: such mutualisation is not covered by EU treaties in their existing state ("no bailout"); changes to these treaties would require a change of the *Grundgesetz* (Basic Law); and the lack of valid parliamentary legitimacy at the European level for any kind of fiscal

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2 "Westerwelle und Balten warnen vor Spaltung Europas", *Die Welt*, 23 August 2012, available at http://www.welt.de/politik/ausland/article108754857/Westerwelle-und-Balten-warnen-vor-Spaltung-Europas.html.

federalism. The debate is polarised. The vast majority of German politicians and the legal and economic establishment argue that pushing for more political integration would overstretch not only the political systems of member states, but also the (supranational) ambitions of the people of Europe. Others disagree, and call for the "completion" of the Maastricht Treaty through improved economic governance that leads to some form of fiscal federalism and banking union, embedded in a political union. The debate carries the risk of raising the political and constitutional bar so high as to effectively torpedo any euro rescue strategy along with concrete steps such as the launch of a banking union.

A minority now argues for more political and fiscal integration, and is called the "more Europe" camp or "euro-romanticists" by those who argue that true federalism is unwanted by the people of Germany and Europe. "Euro-pragmatists" are neither anti-EU nor anti-euro, but set their rejection of debt mutualisation and Eurobonds as the red line for the future fiscal and political development of the EU.

The German exit strategy for the euro crisis has so far tallied with this latter view, restricting responses to non-permanent and conditional financial aid for troubled eurozone countries. Durably binding, irreversible, and ultimately opaque fiscal federalism has been rejected, underpinned by the fear that agreeing to such would lead to the loss of pro-reform leverage, moral hazard, and the "cheating" of German taxpayers by the profligate. Temporary aid through the EFSF/ESM is (just) accepted by public opinion; irreversible fiscal federalism is not. This is best expressed by Merkel's statement before the June 2012 European Council that Eurobonds would not come in her lifetime.

The constitutional gatekeeper

The gatekeeper of this debate is the Federal Constitutional Court (Bundesverfassungsgericht) at Karlsruhe, which weighs up the legality of integration affecting German sovereignty. It is backed by the (historically motivated intention) that the law should always take precedence over the "undemocratic evolution of policy". For many, this is precisely what is happening in the euro crisis.

Since 2010 and the first bailout measures for Greece, the various measures to deal with the crisis (especially the EFSF/ESM) have been seen as an attack on the "no bailout" clause of the Maastricht Treaty, and thus on the independence of the ECB and its mission of price stability. Germany has then defended the treaties despite their inherent flaws (as monetary union requires some form of fiscal entity). Measures such as Eurobonds, promoted as economically necessary to save the euro, have been constitutionally unfeasible in Germany.

The decision by the June 2012 Council allowing the ESM to stabilise banks directly is widely considered "unconstitutional", as it erodes German budget sovereignty by giving money to banks of other countries beyond German control. Complaints were also lodged with the court arguing that the sums involved in total guarantees to the ESM were too large for only one Bundestag to vote on as they involved commitment by future generations too.

The ruling by Karlsruhe in September 2012 set constitutional boundaries for German involvement in these solutions to the euro crisis, for instance by capping involvement in the ESM and reinforcing the need for Bundestag approval for its actions. The need for the ruling and the length of time it took has reinforced the complicated constitutional questions that underpin the German debate. There seems to be no possible systemic shift towards "more Europe" without systemic or institutional breakdown first that would allow the German constitution to accept any relevant European treaty change.

Until the question of what is constitutionally allowed or politically desirable is ultimately answered by Karlsruhe or by politics (eventually by a referendum), the German debate is structurally stuck in a setting where (after exhausting legal grey areas and stretching public opinion to breaking point) the government de facto leaves rescue actions to the ECB, allowing the ECB to sneak towards monetisation of debt in the absence of a clear commitment and political solutions. In German eyes, the question of political union needs to be solved prior to debt mutualisation. Many believe that the lack of a European *demos* and the lack of political will to abandon sovereignty (especially budget sovereignty) means that it never can be, especially given the German emphasis on the parliamentary underpinning such a European political union would need to have.

Where next?

The central questions in the German euro discussion today are thus whether this vicious circle of a deficient European political system that does not allow further moves towards fiscal integration can be broken; whether enough political will can be gathered to do so; and whether German public opinion will be ready and able to follow bold legal and political solutions towards political union, should policymakers finally put them on offer (or which incremental steps can be found instead).

With the next elections scheduled for September 2013, recent polls suggest that German public opinion remains reluctant to go for "more Europe", with one suggesting that 51 percent would prefer Germany to leave the eurozone and that 70 percent do not want a "United States of Europe". This suggests limited room for manoeuvre towards further integration, despite far-reaching proposals from a working group on the future of political integration set up by Westerwelle.

The election campaign is likely to focus on the future of Europe and the German role in it and to become the first real "European election" in Germany. Whereas the liberal Free Democrats (FDP) and the Bavarian Christian Democrats (CSU) exclude fiscal federalism and tend to lean against political union, the Social Democrats (SPD) and the Greens are more receptive to both, and the Christian Democrats (CDU) are torn both ways. No party, however, is homogeneous, and within the liberals a new division seems to be opening between those who want to allow a banking union and a stronger role for the ECB and those who do not (important if the FDP become kingmakers after the elections).

It is uncertain whether a Eurosceptic party will form to take advantage of these sentiments. The Pirate Party has shown that there is space for a new force in German politics, and developments such as a possible Greek exit from the euro may provide the conditions for such a party to flourish (or Eurosceptic pressures within existing parties: within the CDU a new "Berlin Circle" of conservative MPs who lobby against debt mutualisation has already formed). The nature of the November 2012 agreement on further money for Greece suggests that some difficult decisions over the euro, including decisive steps on banking union, will not be faced before the elections.

Conclusion

The difficult German debate about Europe over the last two years has led to the paradox of Germany being simultaneously the country at the helm of the future of Europe and also the country seemingly very reluctant to engage in bold steps of euro rescue. Now, however, there are signs that a genuine debate over Europe is emerging in Germany for the first time, allowing the German government to play an active role in shaping the future of the euro and the EU. Merkel's evident willingness to accommodate British concerns ahead of the November 2012 "budget" summit suggests engagement with the issues related to how the EU of the future might be arranged. Many challenges remain, not least a sceptical public, the 2013 elections, and considerable constitutional and legal hurdles. But the recent evolution of the debate suggests that Germany may become a constructive and proactive leader in solving the euro crisis rather than a "reluctant hegemon".

Marco de Andreis and
Silvia Francescon

3

Italy: a country in receivership?

In November 2011 Mario Monti took over as prime minister of a technocratic Italian government in the absence of an obvious political solution capable of dealing effectively with Italy's pressing problems. Monti's immediate challenges were a mounting national debt crisis and the need to lay foundations for reforms that would allow Italy to play a credible role within a changing EU. But Monti's technocratic government was only intended to be a temporary solution for Italy (as his resignation in December 2012 illustrates), and his other challenge has been to make his achievements sustainable in a country facing tough choices, continuing political dysfunctionality, and less clear-cut support for the EU. This has been hard in a country that has shied away from serious debate about Italy's place in Europe, and where political turmoil is never far away.

Being run by an unelected technocrat is not unique to Italy, as recent Greek experience shows. What is unique to Italy, however, is that this happened for the third time in the last 20 years. Before Monti there was Carlo Azeglio Ciampi (1993–4) and Lamberto Dini (1995–6). Both accomplished their respective short-term missions (pulling Italy back from the brink of financial default and keeping it within the grand scheme of Economic and Monetary Union (EMU)) but failed to make their achievements sustainable. Will Monti's term be judged a success?

In receivership (again)

Italy's main economic problem is its huge debt (in 2010 it was 118.4 percent of GDP), rooted in deficit spending from the 1980s. Throughout the 1990s, Europe was the beacon that helped Italy navigate the storm in its public finances. Italians saw monetary union as the way to break the cycle by limiting the profligacy of their political system (seeing Europe as a corrective to domestic problems has been a strong component of Italian pro-European sentiment). Efforts to reduce public debt after joining the euro were disappointing, hindered by both the global economic crisis (from 2008) and a marked slowdown in domestic growth. Slow growth has compounded the problems of Italy's public finances, making markets suspicious about the country's long-term solvency and vulnerability to contagion, and overshadowing strengths (such as low levels of private debt and relatively strong merchandise exports). As Italy's economic problems can be traced directly to its political dysfunctionality, it can be argued that the roots of the challenges of modern Italy are more political than economic in nature.

Italy has a febrile political system, with new parties appearing and disappearing, merging, fusing, changing names, and shifting their allegiances. Silvio Berlusconi's leadership of the right (and often the country) has been the only element of political continuity over the last two decades. This turmoil has been accepted during fair economic weather, but when storms have blown in, the political system has soon reached crisis point: hence Ciampi, Dini, and then Monti.

At Monti's first press conference, in November 2011, he said that "Italy must become an element of strength and not weakness of the European Union". By March 2012, the *Economist*'s Charlemagne columnist noted that "Italy's impressive prime minister has changed domestic and European politics".[3] This improvement, however relative and unsteady, was also greatly helped by the parliamentary approval of credible measures to arrive at a budget close to balance in 2013, a sustained effort to have the legislature pass several structural reforms, and two waves of quantitative easing *à la* ECB (cheap three-year loans to banks). The rebuilding of Italy's credibility contributed to a substantial narrowing of the yield gap between Italian ten-year bonds and those of Germany (although the spread then rose once more – a sign of the persistence of market concerns). In September 2012 an OECD report estimated that Monti's reforms (if continued) would add 0.4 percent growth each year to the Italian economy over the coming decade.

Monti has also emphasised that growth cannot simply be achieved through fiscal expansion. In January 2012 he told the Senate that "only die-hard

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3 Charlemagne, "Mario, put on your toga", the Economist, 10 March 2012, available at http://www.economist.com/node/21549963.

believers in discredited policies can think growth can be pursued on the demand side through fiscal deficits or lax monetary policies". However, in Italy both the left and right not only *do* identify growth with public spending, but also show a strong aversion towards the market-opening reforms that Monti has struggled to get parliamentary approval for as a complement to fiscal consolidation. This resistance within the wider political community is an important factor in gauging the longer-term impact of Monti's reforms.

Looking abroad

Monti, a fiscally prudent and market-friendly economist who aimed to restore Italy's economic credibility, has had an impact on his country's foreign policy and in balancing the Franco-German axis with Britain (and the United States). This also reflects the political need to rely upon support from the left (more diplomatically inclined towards Paris and Berlin), and a right that Berlusconi's years in power have made more attuned to London and Washington. In February 2012 Monti co-signed a "plan for growth" with 11 other EU leaders, indicating a willingness to mend fences with the UK and co-signatory Prime Minister David Cameron (following the latter's stand against the new treaty on the Fiscal Compact). The letter includes further steps to make the internal market in services finally work, an official EU goal never truly shared by France and Germany, whose leaders did not sign the letter. Monti has also resisted aspects of further integration, for instance by stating in an interview in *Die Welt* his clear conviction that "we will never have a United States of Europe".[4]

Despite attempts by the Italian government to distance itself from Germany, if it has been successful in consolidating lasting economic reform then this will also be Angela Merkel's success. By resisting an early Italian rescue (for instance, involving Eurobonds or allowing open-ended buying of eurozone sovereign debt by the ECB), she contributed to Berlusconi's eventual resignation and Monti's coming to power. As such, Monti's government can be seen as the result of an informal fiscal compact in action, forcing a eurozone country guilty of fiscal irresponsibility into receivership.

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4 Thomas Schmid, "Mario Monti: Warum Italien mehr wie Deutschland sein sollte", *Die Welt*, 11 January 2012, available at http://www.welt.de/politik/ausland/article13808298/Warum-Italien-mehr-wie-Deutschland-sein-sollte.html.

What next?

Despite its apparent early successes there is still a chance that Monti's government may have failed in its ultimate aim of both tackling the immediate financial crisis and laying the foundations for meaningful reform for Italy as a sustainable member of a more resilient eurozone (and EU). The challenges to these aims have had both domestic and European dimensions.

In the introduction to the *Programma Nazionale di Riforma* from the Ministry of Economy and Finance, Monti made it clear that he aimed to stimulate debate about the medium-to-long-term future of both Italy and Europe. This represented an important attempt by Monti to position his programme as more than a short-term fix for an immediate problem, but rather as building foundations robust enough to survive the period of receivership and the return of the politicians. In November 2012 he said the new government appointed after elections in 2013 would have to keep up the reform agenda to retain the confidence of investors.

Monti's own position in 2013 was thrown into even deeper uncertainty by Berlusconi's People of Freedom party (PdL) withdrawing its support in December 2012. In September 2012 Monti had said he would not run in elections, and called for Italian politics to resume with a "higher degree of responsibility and maturity". However, at the time of writing, he is lending his name to an ad hoc coalition of centrist parties. Polls suggest that Monti retains the trust of almost half the population (although this figure has fallen only slightly over Monti's period in office, overall support for his government has gone down by more than 20 percent (to 32 percent) in the same period). But they also indicate that the front runner in the election is Pier Luigi Bersani of the centre left. His economic agenda has been broadly supportive of Monti's reforms, although he criticised the government when he considered that its actions were not compatible with a "social agenda". The PdL itself, which has signed an electoral pact with the Northern League, is polling at a lower level, although it clearly harbours ambitions to hold the balance of power in the Senate and has roundly attacked the policies of Monti's government. The spoils of the post-receivership era are clearly also there to be fought over by new political entrepreneurs. The recent success of (the comedian) Beppe Grillo's "MoVimento 5 Stelle" (the Five Star Movement) in local elections suggests strong latent support for "anti-politics" populists. Some observers suggest that Grillo's success also reflects disenchantment with the presumed post-Monti return of traditional parties.

Inter-party competition may also directly involve Europe. Monti himself has placed EU-related matters at the front of his own campaign, with the "Agenda Monti" noting that "Italy, a founding member, must be an active and influential protagonist", and must fight for "a more supranational and less intergovernmental Europe, more united and not multi-speed, more democratic and far less distant from citizens".[5] Bersani has spoken of Europe as a "destiny, not a medicine", and his meetings with other centre-left leaders such as French President François Hollande suggest that he will seek to emphasise growth rather than austerity. Meanwhile, Berlusconi has wasted little time attacking Germany's "hegemony" in the EU.

As noted above, Italians tend to view Europe positively, not least because of its association with rising prosperity and its role as a "corrective" to problems within Italy itself. Both are now under threat. The wider euro crisis, compounded by domestic austerity and reform on the back of a decade of painfully low growth, has weakened any perceived link between Europe and prosperity, and larger Italian companies remain negative about the economic outlook.

This situation has partially undermined Italian faith in the EU. Confidence in the EU has fallen gradually: a Demos poll in September 2012 measured it at 36.6 percent (part of a steady decline from 56.6 percent in 2000). Impositions from Brussels may no longer be viewed as being for the greater good, but as being dictated by the interests of individual nations (in particular, Germany).

Although this describes the ground over which future political fights may take place, it does not suggest concrete trends, as the environment is extremely fluid. However, the most telling observation about the political debate over Europe over the period of Monti's government is that it was largely absent. Politicians from across the spectrum seemed unwilling to discuss Italy's place in Europe to avoid either being seen to upset Monti's programme of reform or being associated with unpopular reforms that harm sectional interests that in turn may hurt them in future elections. As noted above, this may now be changing as elections approach.

Externally, there is the danger of market mistrust over Italian sovereign debt reigniting, or a marked slowdown of the global economy. This would make the

5 Agenda Monti", available at http://www.agenda-monti.it/wp-content/uploads/2012/12/UnAgenda-per-un-impegno-comune-di-Mario-Monti.pdf.

pain of simultaneous fiscal consolidation and structural reforms, the raison d'être of the present government, unbearable. However, the accepted view among most stakeholders is that such a failure would be a catastrophe, and worth strenuous efforts to avoid. (The initial market reaction to the PdL's actions and Monti's response was noticeably negative.)

The avoidance of immediate catastrophe would not represent a true success for Monti's receivership of Italy, given the more comprehensive reforming nature of his stated aims and the dangers that the return of the politicians may pose for Italy's future trajectory at home and within Europe. There are grounds for optimism, however, over the survival of Italy's traditionally pro-European stance. The faith Italians have in all things European is largely rooted in a longstanding distrust of their own politicians. They are therefore likely – even well after the Monti government – to see Europe and European integration as the broader solution to the problems that they and their politicians are liable to create for themselves. As a result, there remains significant support for a move towards a federal Europe with more powers ceded to Brussels. Despite some signs of increasing scepticism towards Europe, this will be limited by the absence of serious debate over Europe and this role as a corrective to domestic shortcomings.

Monti also faces formidable technical challenges to success, despite his achievements. He made major adjustments to pension reforms made by Giuliano Amato and Lamberto Dini; took steps to tackle corruption and tax evasion; and won a vote of confidence on further spending cuts of €4.5 billion on top of existing austerity measures. The election to return power to politicians will be held in February 2013. Whoever wins power will then confront the same tough economic agenda of fiscal consolidation and structural reforms – no matter how successful Monti's government was. The coming year in Europe is likely to be tumultuous and there is time for the debate to change as the country's much-maligned politicians once again jostle for power. However, this is unlikely to upset Italy's usual trajectory as a committed, if troubled, EU member.

Adriaan Schout and
Jan Marinus Wiersma

4 The Dutch paradox

The minority Dutch government that fell in April 2012 will probably be remembered for the support Prime Minister Mark Rutte needed (and received) from the Freedom Party of Geert Wilders. During that government's life the Netherlands acquired a reputation for being anti-European and introspective (the *Financial Times* called it arguably the "most obstructionist" country in the EU).[6] But the subsequent elections, in September, suggest that the current crisis has reaffirmed traditional Dutch pragmatism on European issues, rather than precipitated a lurch towards populist Euroscepticism.

The parties towards the centre of Dutch politics have traditionally been pro-EU. The Labour Party has had to find a painful balance over the past few crisis years between austerity and the distribution of social costs, while also paying attention to the pro-economic reform bias of the Dutch public (around four-fifths are in favour, according to a Eurobarometer poll, irrespective of whether they were imposed by Brussels). The Greens and the Liberals (D66) are also pro-EU, and even the hard-line Socialist Party in not anti-EU per se, arguing instead for a different type of EU. As a result of the broadly pro-European stance consensus within Dutch politics, the Rutte government was kept in power by the Labour Party (the largest opposition party) when it faced tough EU decisions such as support programmes for Greece and Ireland. A large majority of the Dutch parliament approved all steps towards further integration on budgetary and economic matters taken by the eurozone and the EU (even when an intergovernmental approach superseded the preferred European Commission approach), acknowledging pressure from financial markets and a consensus on the need to save the euro. However, since the beginning of the euro crisis, this generally pro-EU attitude has been undermined by growing disquiet over the direction Europe was going in.

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6 Peter Spiegel, "European integration is unravelling", *Financial Times*, 30 May 2011, available at http://www.ft.com/cms/s/0/82033480-8aea-11e0-b2f1-00144feab49a.html#axzz2Ek7VeUxu.

Pragmatism and interests

It is ironic that Rutte's government fell after failing to achieve a compromise on its 2013 budget and the eurozone rule requiring its budget deficit to be below 3 percent. In the subsequent election campaign Wilders tried his hardest to focus attention on European issues, calling for a Dutch exit from both the EU and the euro. The Socialist Party also used anti-EU rhetoric (talking of the neoliberal "gripping jaws" of Brussels).

This reflected growing public criticism of the EU and a more transactional approach to Brussels from politicians: Rutte had framed European integration in terms of Dutch economic interests, and a majority in parliament even supported a declaration asking the government not to hand over any sovereignty to Brussels or move towards a political union. Whereas the Netherlands had been at the forefront of Europeanising justice and home-affairs issues in the 1990s, it now sought to increase the room for member states to manoeuvre on sensitive immigration-related issues such as family-reunion rules and the rights of workers from elsewhere in the EU. Romanian and Bulgarian hopes of joining the Schengen area were met with a Dutch veto.

The Netherlands also displayed intransigence over the euro crisis. The finance minister, Jan Kees de Jager, followed up initial reticence over participation in EU support funds with demands concerning International Monetary Fund (IMF) involvement, the imposition of tough austerity measures, and an insistence on PSI (private sector involvement) that resulted in a drastic haircut for investors in Greek banks. De Jager defended outspoken comments about Greek elections from spring 2012 by remarking: "I am Dutch, so I may be blunt."

The roots of this outspokenness over the EU go back to the 1990s, when the broad political consensus about European integration began to fall apart and successive governments began to argue that the Netherlands was contributing too much to the EU budget. Brussels became a scapegoat whenever things went wrong. Populists such as Pim Fortuyn folded EU issues into attacks on the political elite, building on a sense of unease among many about the direction that society had taken, alienation from traditional political parties, and alarm over the impact of immigration on large cities. In 2005 the Dutch vetoed the Constitutional Treaty. Until that point a large majority of the Dutch parliament had been strongly in favour of European integration, but had underestimated changes in the popular mood.

These outspoken Dutch positions, however, need not be seen as Eurosceptic. The "permissive consensus" towards European integration has been replaced by a more pragmatic attitude with a long history. Post-war Dutch support for integration was partly based on fears that France and Germany might mutually lower trade barriers or agree on trade relations with the United States while ignoring Dutch interests. The benefit to the open Dutch economy from access to Europe's markets (approximately 80 percent of Dutch exports go to the EU) was also widely understood.

This pragmatism has not necessarily extended to the principle of a federal union. The Dutch fear of large countries dominating the European Commission lay behind the creation of the European Council (and its requirement for unanimity) in the 1950s. This equivocal attitude to major EU projects is shown by Eurobarometer figures from 1992, when almost 80 percent supported the EU, but less than 50 percent supported the (newly agreed) Maastricht Treaty.

Dutch pragmatism extends to a desire for the EU to ensure a level economic and political playing field. Although its parliament voted against shifting additional powers to Brussels, both the cabinet and parliament warmly supported the stronger fiscal rules for the eurozone as defined by the "Six-Pack" and stronger Commission supervision. This is combined with a keen awareness of Dutch interests: the Eurobarometer poll of December 2011 suggests that support for the EU on individual issues varies depending on a pragmatic assessment of whether EU involvement adds value (62 percent on defence and foreign affairs; 80 percent on environmental policy; 89 percent on combating terrorism) or not (21 percent on social welfare; 30 percent on unemployment; 22 percent on taxation).

The Dutch also have a long tradition of supporting the European Commission with Rutte underlining the protection it provides for smaller member states, in comparison to the increasingly prevalent intergovernmental European Council approach.

A third preference in Dutch EU policy is for what can be called the "100 percent union", where the rules (of, for instance, the EU, the eurozone, or Schengen) are fully respected and enforced. The haircut for banks that had invested in Greece was related to this (as a rule, private sector investments involve risks that should not lead to a burden for taxpayers). Such a rules-based approach appeals to the Dutch Calvinist mentality, and also helps to combat scepticism about the EU and the euro. It could also be seen as the result of a lack of vision concerning the architecture of the EU or the inability of political parties to formulate one.

The "reasonable" election of September 2012

Despite the campaigning of Wilders, the results of the election showed that the Netherlands was not developing into the extremist anti-EU country that some had feared. The outcome was a landslide for at least one of the main parties of the centre, the Labour Party. The more extreme Socialists and Freedom Party received around half the support that polls had suggested.

The message chimed with Dutch pragmatism: when put on the spot, both politicians and voters preferred to continue with the status quo (including support for Greece) rather than experiment with the possibility of breaking up the eurozone or the EU. Despite the presence of Euroscepticism in the campaign, the elections forced politicians to formulate clear and realistic positions (even Emile Roemer of the Socialists defended the EU in an attempt to build an image as a reliable statesman). Eurosceptic populism had developed into a sign of irresponsibility.

Although the EU remained an issue, it was not something that split the main parties. Although Rutte's resistance to further integration and spending on Greece was contrasted with a more pro-EU line from the Labour Party, neither party was punished for it. Voters paid more attention to traditional cleavages such as the budget, health care, and housing, and repaid Wilders's European focus with a fall from 24 to 15 seats. One explanation is that few Dutch voters believe they have much of a voice at the EU level (only 11 percent in a Clingendael Institute poll thought the Netherlands had much influence).

Limits to pragmatic Dutch support

The most crucial question over whether pragmatic Dutch support for the EU continues, or the country falls into another bout of prickly Euroscepticism, is which direction the EU goes in next. The pragmatic Dutch position is based upon a keen awareness of its own interests, a desire for rules and a level playing field, and wariness about leaving the status quo. There are limits to Dutch support.

If deeper integration results in a growing gap between the euro "outs" (including traditional Dutch allies such as the UK, Denmark, and Sweden) and a eurozone that includes many troubled Southern states, many Dutch might prefer to line up with the former rather than the latter. If the latter, the most viable option would be to line up firmly with Germany rather than risk the eurozone slipping away from the preferred Dutch position of a "100 percent union" that is converging on a Northern European economic model. There is little support for the idea of the EU as a transfer union. Pragmatism also dictates against the creation of a smaller eurozone, with most parties concerned about the financial risks involved and the damage this might cause to the internal market. So far the Dutch have accepted the EU's search for incremental solutions without drastic treaty change by relying on the European Council. The creation of a "eurocore" appears not to be in the interest of the Netherlands since it would weaken the role of the communitarian institutions, might damage the internal market, and would limit the possibilities to check German and French power.

These trends will play into shaping the future role of the Netherlands within the EU, with Dutch ambitions limited and priority given to safeguarding the economic benefits of integration. The former reliance of Rutte upon Wilders and the potential for a resurgence of populist Euroscepticism suggest that the Netherlands might be prepared to kick the can of the euro crisis down the road for some time to come.

Lykke Friis and Jonas Parello-Plesner

5 Denmark: caught between "ins" and "outs"

Forty years ago, in October 1972, the Danish people voted to join the European Community (joining a few months later, in 1973, along with the UK and Ireland). But four decades on opinion polls suggest that Danish support for European integration is now at its lowest level since then. Denmark is in a tricky position between the "ins" and the "outs": there is insufficient public support for joining the eurozone countries as they make an integrationist jump towards banking and political union; however, the path that its traditional ally, the UK, seems to have chosen – that of wanting to renegotiate a looser form of membership – is regarded as a dead-end by governing elites. Instead, the Danish government has hoped that discussions about a new treaty would simply go away, leaving the EU frozen as it is with Denmark able to continue its Swiss cheese version of EU membership, including opt-outs on the euro, defence, and legal affairs. This situation is unsustainable, and leaves Denmark vulnerable to being swept up by decisions made elsewhere in Europe without the chance to shape them.

A model pupil that avoids the F-words

Denmark's stance on EU affairs is paradoxical. In many ways it is a model pupil, and its EU presidencies have driven the EU forward, for instance on enlargement in both 1993 and 2002. It is often top of the class for following EU rules and applying them to national legislation. Denmark has actively shaped the agenda on issues such as climate change and the environment (a Danish commissioner, Connie Hedegaard, runs the EU's climate change negotiations). As a small state, Denmark has also backed the EU's role as a vehicle for foreign-policy influence. It is also scrupulous on budgetary issues, and is the only EU country that currently fulfils the original admission criteria for joining the euro (its peg to the euro makes Denmark a de facto euro country with national coins).

However, many Danes have always remained sceptical about the EU's founding vision of an "ever closer political union". Danish politicians steer clear of "F"-words such as Federation, Foreign Minister (like the UK, Danes prefer to call Catherine Ashton the "High Representative for Foreign Affairs"), and Flag (the EU flag rarely flies except on Schuman day). There were also years of resistance before car number plates bore the EU stars around the letters "DK".

Some suggest that this recalcitrance dates back to the 1970s, when European Community accession was packaged with selling Danish agricultural produce. Integration was pragmatic, based around the single market and strong support for enlargement.

Multi-speed Europe started with Denmark

The most discernible split in attitudes to the EU is not so much between political parties but between political elites and the population. Most parties in parliament favour further integration, despite the euro crisis curbing their enthusiasm, with the Danish people more prone to step on the brake when consulted.

Unlike the majority of EU member states, Denmark has a tradition of putting EU questions to a popular vote. Although the present score is 4-2 to the "Ja" side, the government has lost two important referendums. The first time the public said "Nej" was with the Maastricht Treaty, in 1992. This lead to a "Ja" in a second referendum in which several Danish opt-outs were included (on defence, justice and home affairs, and monetary union). These Danish opt-outs were the legal foundation of a "two-speed" Europe. In a separate referendum on the euro in 2000, voters opted to keep Denmark's national currency, the krone.

Due to its opt-outs Denmark is now outside the euro (and the all-important eurozone group), and cannot participate in military operations under an EU flag. (The Danish soldiers who took part in NATO missions in Macedonia and Bosnia had to be withdrawn when the missions were handed over to the EU.) Arguably the opt-out on justice and home affairs has the largest impact on Denmark. For instance, Denmark is unable to participate in the EU's fight against human trafficking, and once Europol cooperation is upgraded Denmark will have to opt out. Unlike the UK, Denmark is obliged to opt out of all supranational legal cooperation and is not able to decide on a case-by-case basis whether it wants to opt-in.

A standing commitment among the main parties to put the opt-outs to a popular vote has not led to any new referendums (despite a manifesto commitment by Anders Fogh Rasmussen's government (2001–2009)). The current coalition government of Helle Thorning-Schmidt (a Social Democrat) also planned a referendum on the defence and justice and home affairs opt-outs, but this was suspended after the Danish EU presidency ended in July. The official reason was uncertainty in the EU; the lack of popular support for the government and the EU in general probably contributed to the decision.

The nominal drive by elites for further Danish integration is therefore off the table for the foreseeable future, and there is also rising Euroscepticism within traditionally pro-EU parties. In the past, centre-right parties (Conservatives, Liberals, Social/Liberals) tended to be more in favour of the EU, with those towards the left more sceptical. The populist (and largely Eurosceptic) Danish People's Party (led until August by Pia Kjærsgaard) is the only party that has suggested following the UK in renegotiating Danish membership of the EU. Today, however, Eurosceptic winds also blow among the centre-right parties, often coupled with demands for deregulation. At a recent party conference, the leadership of the Conservatives was voted down by the grassroots over the abolition of the EU opt-outs. Søren Pape Poulsen, the Conservative mayor of Viborg, noted that "many Conservatives don't think that the EU should tinker with everything". Similarly, a small Danish liberal party (Liberal Alliance) that was founded in 2008 has a staunch policy against ever joining the euro, seeing European monetary union as a flawed economic experiment.

The EU will move on; will Denmark too?

The Danish debate has been somewhat decoupled from mainstream Europe. When the Lisbon Treaty came into force, the Danish government and most politicians told the population that this was the final cornerstone of European integration. Although that seemed a reasonable assumption in 2008, the euro crisis has fundamentally changed the landscape and breathed new life into a push for further integration. European Commission President José Manuel Barroso now speaks of a "federation of nation states", while German Chancellor Angela Merkel suggests that political union and treaty changes are the next steps.

This leaves Denmark in a difficult position. It cannot be placed in the current categories of “ins”, “outs”, and “pre-ins.” Unlike the other two “outs”, the UK and Sweden, Denmark has signed up to both the Euro Plus Pact and the Fiscal Compact. But unlike the “pre-ins” (such as Poland), Denmark has not shown much sign of pushing for future membership of the euro (where it looks more like an “out”). Indeed the current three-party coalition is so divided on the issue that the word “euro” does not appear in its government manifesto. Denmark’s rejection of the need to re-examine the treaties is also markedly different from the UK’s push for eurozone countries to save the euro by moving ahead with further integration (just without the UK). The new mantra of Danish politics concerning the EU is “let’s just use the mechanisms that we have already agreed upon” (Six-Pack, Two-Pack, Fiscal Compact), or – in short – “let’s wait and see”.

A perfect illustration of Denmark’s slightly schizophrenic position was given when the German foreign minister invited the Danish foreign minister, Villy Søvndal, to contribute to the writing of a blueprint for a future Europe. Søvndal participated in this group and signed up to the “federalist” paper before debunking its content in the Danish press as pipe dreams (particularly regarding a European army and the need for another treaty).

Denmark’s wishful thinking that EU integration will stand still is impractical but understandable. With opinion polls indicating that less than a quarter of Danes would vote for membership of the euro, the government is acutely aware that a referendum is unwinnable. This means that further EU integration threatens to push Denmark even further to the margins, jeopardising an export-driven economy that is heavily dependent upon being at the heart of decision making and reassuring financial markets that the government will not pursue a less stringent economic policy than eurozone members. Measures such as a banking union that is restricted to the eurozone and a special “eurobudget” are therefore particularly scary for Danish finance ministers. But as Denmark is the founding father of a “two-speed” Europe it has no credibility in appealing to the eurozone to keep the EU–27 together. (A high-level German official told one of the authors of this paper that “you started all this, when you requested your opt-outs”.)

In the run-up to the European Council of 17 October 2012, a speech by Thorning-Schmidt indicated that the government was departing from the “wait and see” attitude. Speaking at the College of Europe, Thorning-Schmidt acknowledged for the first time that the eurozone countries would press ahead, leading to a multi-speed Europe as the price to pay for saving the euro. At the subsequent Council she attempted to position Denmark with Sweden rather than its old ally, the UK. This signalled an ultimate intention to participate in core elements of the banking union, and a resisting of the temptation of a British renegotiation of membership.

Denmark's political elites are well aware of the possible pitfalls of such a renegotiation. The Norwegian (or Swiss) model may seem attractive to some British Conservatives, but it has no traction within Denmark beyond the Danish People's Party. There is an acknowledgement that such a model reduces national influence to cutting and pasting EU legislation without a say at the table (it has been described as a weekly phone call from Brussels about what your parliament should adopt this week).

The desire to highlight the difference between London and Copenhagen was strengthened when the president of the European Parliament, Martin Schulz, and the German finance minister, Wolfgang Schäuble, suggested that "outs" should not be allowed to participate in meetings on the euro in the European Parliament. The immediate Danish reaction was to loudly proclaim that they were not "outs".

The central dilemma for Denmark is that its default position of wishing to freeze the EU in its current configuration denies it an active role in shaping a future EU. Yet change is happening, thanks to the imperative to deal with the euro crisis. This in turn is threatening the European achievements that the Danes wish to safeguard, such as the single market.[7] The carefree years of the early 2000s are well and truly over.

Both in her speech at the College of Europe and at the European Council, the prime minister refrained from clarifying where Denmark should position itself in the future of Europe. The government (and other broadly pro-EU parties) still has to face up to the uncomfortable choices that lie ahead. Will it use the new dynamic in the eurozone to abandon the current "half-in, half-out" status, and begin making a popular case for an eventual referendum on joining the euro? Or will it, through events in the UK and in the eurozone, be pushed to the outer layer of EU membership and accept a dilution of its influence?

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7 Sebastian Dullien, "Why the euro crisis threatens the EU single market", European Council on Foreign Relations, October 2012, available at http://ecfr.eu/content/entry/why_the_euro_crisis_threatens_the_eu_single_market.

The only certainty is that the dream scenario – the maintenance of the status quo – is an illusion. But with the Danish political system currently out of sync with both the population and rapid developments in the EU, the Danes may end up in a place in Europe that they neither looked for nor aspired to.

Brigid Laffan

6 Ireland: from interdependence to dependence

Since the fatal decision to bail out Irish banks in September 2008 and thus socialise bank debt, Ireland has found itself in the throes of multiple crises: banking, public finance, economic, and reputational. Although the Irish government began a programme of fiscal consolidation in 2008, the state was so overwhelmed by the gravity of its banking and public finance problems by November 2010 that it had to reluctantly accept a rescue package from the EU and IMF. Ireland, having exchanged dependence on the UK for interdependence within the EU, now found itself dependent for funding on an EU/IMF Programme of Financial Support. The troika became an integral part of the governance of the state with periodic visits to check on the performance of Ireland as a programme country. This is deeply traumatic in a country that, since its foundation in 1922, has been able to meet external obligations to financial markets even when poor. As Ireland strives to return to the bond markets, it does so in the context of a eurozone in crisis, a significant shift in the attitude of its nearest neighbour towards the EU, and the prospect of a step change in integration as the euro member states complete the single currency. Although this brings the F-word (federalism) onto the agenda, in Ireland the real F-word is simply “fix” it. Ireland is far more preoccupied with the immediate crisis than with longer-term developments in the eurozone, notwithstanding their significance.

From being a model small EU member (and Europe’s “shining light”, according to the *Economist*), Ireland’s state and society went from boom to bust in a very short time frame. Almost overnight, Ireland became a debtor country, unable to fund itself on bond markets. The causes were both domestic and external. The Irish boom had mutated into a bubble driven by over-reliance upon the construction industry, negligent financial regulation, an expansion of public expenditure, wage inflation with a consequent loss of competitiveness, and the emergence of a current-account imbalance. The crisis, however, was not all home grown. The expansion in credit flows, both global and within the eurozone, fuelled pro-cyclical policies and gave the state, Irish banks, and citizens access to too much cheap credit. When the fissures in the Irish banking system were exposed, in September 2008, the absence of a eurozone bank resolution mechanism made it a very dangerous club to be part of. The decision to guarantee the vast bulk of the banks' liabilities, without knowing what those liabilities were, proved catastrophic. The cost of the bank bailout (approximately €64 billion) makes it one of the most expensive bailouts in history. The ECB's post-Lehman Brothers determination that no bank would be allowed fail in the eurozone meant that Ireland's taxpayers and society now carry the full burden of the reckless lending of Irish and non-Irish banks in the 2000s. The 1.6 million Irish households now carry a far higher bank-related debt burden relative to other euro and non-euro states. But by guaranteeing the liabilities of the banks, the Irish state rescued not only its own financial system but also the euro-wide financial system at a time of extreme vulnerability.

Responses

The cost of the bank bailout and the fiscal gap that opened up following the collapse of construction led to the €85 billion November 2010 rescue package (representing 54 percent of Ireland's 2010 GDP). This came with a high level of conditionality, including a commitment to fiscal consolidation of €15 billion between 2011 and 2014.

With the politics of austerity scheduled to continue well into the second decade of the twenty-first century, the response from the Irish electorate has been swift and devastating. In the February 2011 election, the incumbent Fianna Fáil (which has dominated Irish politics since the 1930s) lost 24 percent of its vote and 57 parliamentary seats (taking it down to 20 seats in the 166 seat Dáil Éireann). Its junior coalition partner, the Green Party, failed to win a seat. The FF/Green government was replaced by a coalition of Fine Gael (76 seats) and Labour (37 seats), labelled a "Government of National Recovery". A new central bank governor and financial regulator were appointed, and both a fiscal council of independent experts and a new ministry for public expenditure and public sector reform were established. To give voters a say in political reform a constitutional convention began its deliberations on 1 December 2012.

Irish society responded to the crisis with a mixture of anger, resilience, passivity, and humour. Unlike in other peripheral countries, there have not been sustained mass demonstrations or strikes. There were two large demonstrations (in November 2010, when the troika arrived; and in November 2012, with the sixth successive austerity budget), and opposition has mobilised against specific measures such as the €100 household charge.

Experiences of the crisis have varied. Young people have been badly hit by unemployment (in the third quarter of 2012 the overall rate was 14.8 percent), and many have emigrated (76,300 left in 2011). Unlike in most other crisis countries, retirees have not faced significant cuts. The new government entered office with a threefold pledge not to increase income tax, reduce welfare rates, or renege on commitments to public sector unions (the "Croke Park Agreement", which trades extensive reforms for a guarantee of no further pay cuts beyond the 5–15 percent reductions in the 2010 budget). Notwithstanding four years of austerity and six austerity budgets, the Irish government continues to command majority support (although opposition to austerity is growing). In May 2012 the Fiscal Treaty referendum was passed with 60.3 percent of the vote. The government's ability to persuade the electorate to vote for a European treaty at a time of crisis underlines the firm majority conviction that Ireland is better off anchored in the EU, although the preoccupation so far has been with dealing with considerable domestic challenges rather than fully engaging with how Europe might integrate further in the future.

Performance and interpretation

In keeping with the pragmatic Irish focus on "fixing" the country, there is a heated and highly politicised debate taking place in Ireland about how well they are coping with fiscal adjustment and austerity, and the assistance given by other eurozone members. In October 2012 the troika described Ireland's reforms as a "well-performing adjustment programme" characterised by "steadfast" implementation.[8] Ireland has consistently met its fiscal targets, leading in turn to Ireland being viewed as the model of how to implement an adjustment programme. Seen from outside, Ireland is a country that has managed to meet its adjustment commitments, returned to modest growth, regained some competitiveness, and increased its exports. This image is promoted by the government as it attempts to rebuild Ireland's reputation in

8 "Statement by the EC, ECB, and IMF on the Review Mission to Ireland", International Monetary Fund, press release, 25 October 2012, available at http://www.imf.org/external/np/sec/pr/2012/pr12398.htm.

the EU and beyond, and to engage the support of the Irish diaspora. Efforts to bring their expertise, resources, and experience to assist in Ireland's recovery have led to an intensive global outreach effort, seeking investment and export opportunities well beyond Europe as part of the recovery strategy. In July 2012, Ireland began to re-enter the bond markets for the first time since the bailout programme began in 2010. The official line is that Ireland is on the mend and, although still vulnerable, has the institutional and cultural capital to make it through the crisis.

There is an important eurozone dimension to Ireland's crisis management, with successive governments trying to put the question of burden-sharing on the EU agenda. The present government has struggled to get its eurozone partners to acknowledge the scale and burden of the bank bailout. The June 2012 Euro Area Summit Statement which concluded that "we affirm that it is imperative to break the vicious cycle between banks and sovereigns" was regarded as a major breakthrough by the government.[9] This statement also noted that "the Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme".[10] The Irish government interpreted this as meaning that there would be some burden sharing on the bank bailout. But these hopes were dashed when it became clear that the "triple A" countries (Germany, the Netherlands, and Finland) would not countenance using the ESM to deal with legacy debt.

The focus of government attention now appears to be on what are called the promissory notes, a mechanism worked out with the ECB to fund the winding down of a toxic bank and a toxic building society, Anglo Irish and Irish Nationwide, in a vehicle called the Irish Bank Resolution Corporation. The government is seeking to restructure the €30 billion associated with the promissory notes to make Ireland's overall debt position more sustainable.

The IMF is clearly of the view that the eurozone must live up to its June 2012 commitments on burden sharing, and is regarded in Dublin as more sympathetic than the EU elements of the troika. Referring to these commitments, the IMF argued that they "represent key stepping stones towards the mutually beneficial goals of ensuring Ireland's economic recovery and its durable return

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9 Euro Area Summit Statement, Brussels, 29 June 2012, available at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131359.pdf (hereafter, Euro Area Summit Statement).

10 Euro Area Summit Statement.

to the bond market, thereby avoiding continuing dependence on official financing".[11] However, it is proving very difficult for the government to make a breakthrough on burden sharing. The long-term sustainability of Ireland's debt requires it to, as does the need to maintain political acceptance of the burden that has been placed on a small country with only 1.6 million households. As a consequence, debt write-offs for Greece play badly in Ireland and add greatly to the pressure on the government as it strives to stick to the programme of fiscal consolidation.

Conclusion

Because of the nature and depth of the crisis facing Ireland, there is little official time and energy to focus on the broader impact of the crisis on the euro area and on the future shape of EU governance. There is a general welcome for the tentative beginnings of a banking union, although without a bank resolution mechanism such a union would be regarded as a "banking union lite". Further economic and fiscal integration is regarded as inevitable, but the nature and extent of integration in these highly sensitive fields has yet to emerge. All Irish governments are attentive to the need to legitimise deeper integration because any major development in European integration will require the consent of the people in a referendum.

There is also a concern about developments in the UK and the possibility that it may weaken its connections to the EU. Any Irish government would favour the UK's fullest possible engagement with the union, but if a dynamic develops that leads the UK to the margins of the union or even beyond, Ireland will not follow. This reflects Ireland's national interest; in 2011 only 17 percent of Irish exports went to the UK; 41 percent to the rest of the EU; 16 percent to the US; and 24 percent to the rest of the world. Thanks to the EU, Ireland has broken free of its historic dependence on the UK, and if the choice were between being associated with the UK at the margins of the union or being a part of an increasingly hard core, both the Irish state elite and electorate would opt for engagement with the core. That said, a disconnected UK would pose serious problems for Ireland given the shared border, and the Irish will strongly encourage the UK to remain a full member of the union.

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11 "2012 Article IV Consultation with Ireland – Concluding Statement of the IMF mission", International Monetary Fund, 18 July 2012, available at http://www.imf.org/external/np/ms/2012/071812.htm.

As for Ireland, although it is experiencing its most difficult days in the EU since accession 40 years ago, the majority of Irish people still see EU membership as central to how this small state engages with the world. But this does not mean that the Irish electorate is blind to the problems of integration and the challenges facing the union as it struggles to retrofit the single currency regime.

Peter Kellner

7 Britain's pragmatic Eurosceptics

In a democracy, public opinion always matters; but British attitudes to Europe matter more than most. This is partly because a referendum on Britain and the EU in the next few years is a distinct possibility; partly because Europe is an especially divisive issue on the political right, with the UK Independence Party (UKIP) threatening to overtake the Conservatives at the European Parliament elections in 2014; and partly because any major change in the way the EU works requires the consent of all EU members, so Britain has a veto – and all the main parties have promised that they will wield the veto unless they have public consent.

Europe is getting used to a more intransigent Britain, as it focuses on fixing the euro and contemplates further political and economic integration. Prime Minister David Cameron's summit "veto" in December 2011 and uncompromising negotiating stance over the EU budget (thanks to a parliamentary defeat involving Conservative rebels and the opposition Labour Party) are signs that the crisis has made Europe an active issue in British politics.

Cameron has made it clear that Europe's priority should be to fix the euro through further integration in the eurozone, although he has also made it clear that the UK has no intention of being part of such an inner core. The strategy is based upon the assumption that the EU can function on several levels, and that Britain should be part of the level that includes membership of the single market (Cameron puts heavy emphasis on being able to "renegotiate" Britain's position within the EU). Some have suggested that this level of involvement might not involve formal EU membership, although examination of the "Norwegian model" does not suggest that this is a viable option.[12]

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12 Fredrik Sejersted and Ulf Sverdrup, "Why the Norwegian EU option is best left to Norway", European Council on Foreign Relations, 9 October 2012, available at http://ecfr.eu/content/entry/commentary_why_the_norwegian_eu_option_is_best_left_to_norway.

A new referendum on the EU is a live issue in public and political debate, possibly following on from a "renegotiation". Although this debate carries a predictable undertone of themes such as Britain's historical suspicion of Europe, the real focus of any future campaign over the UK's position in the EU (however the question is phrased) is more likely to revolve around practical and tangible issues. Original research for the European Council on Foreign Relations (ECFR) by YouGov suggests that the attitudes towards Europe of millions of British voters are intimately linked to their views of Britain itself, how society is evolving, and the extent to which they want Britain to engage with the rest of the world, and that the key to the outcome of such a referendum would be how Britons see the European relationship affecting their lives and those of their children.

The nature of British Euroscepticism

Britons are consistently more Eurosceptic than the people of any other major EU country. In 2012, the Eurobarometer survey found that only 27 percent of Britons were very or fairly attached to the EU, the lowest by a significant margin (the EU average was 46 percent). A connected trend is that Britons tend to think that Europe matters a lot to Britain, but not to them or their families. In a YouGov poll in August 2012, Britons said Europe was the fourth most important issue facing the country out of 12 listed (behind the economy, immigration and asylum, and health), but only the tenth most important for them and their families.

These two points raise important practical questions about the way that public opinion might evolve in a referendum on Europe. History provides one direct comparison: the 1975 referendum on whether Britain should stay in the Common Market (as it then was). Then, as now, the prime minister (Labour's Harold Wilson) had a problem managing party divisions; most voters wanted to leave; and polling suggested that if the terms of membership were renegotiated with the prime minister recommending the new deal, opinion would swing in favour of British membership. Wilson did talk to his European partners, claimed a great victory (though dispassionate observers could find very little change in Britain's membership terms), and won a 2-1 majority for staying "in Europe".

Polling (from YouGov in July 2012) suggests a similar outcome, should a referendum be held after the euro crisis fades, with Cameron able to say that he has negotiated a deal to protect British interests: 42 percent said they would vote to stay in the EU, with 34 percent voting to leave. Conservative supporters would be particularly likely to change their vote from "out" to "in".

This suggests that, as in 1975, public opinion is volatile, especially when looking forward to a possible set of circumstances two or three years in the future. However, by exploring the sources of public attitudes to Europe, the polling that YouGov has carried out for ECFR aims to find a better predictor of voting patterns in a potential British referendum on Europe.

Unpicking the roots of British attitudes

The new research is based upon eight pairs of statements: two pairs explored attitudes to Britain; another two, recent and future trends about life in Britain; two looked at attitudes to the world as a whole; and the final two specifically considered Britain and Europe. Respondents were asked to say which of each pair they agreed with. This allowed connections between attitudes to be explored: for instance, whether attitudes to the EU flow from views about the state of Britain itself, optimism or pessimism towards the future, or a wider sense about whether Britain should engage with the world.[13]

The strongest correlations with attitudes to the EU concern Britain's general place in the world. Supporters of overseas aid tend to be pro-EU; opponents of overseas aid are overwhelmingly anti-EU. The correlation coefficient between the two is high, at 0.5. It is a similar story, with almost exactly the same coefficient, when we compare attitudes to the EU with those to Britain's place in the world generally. The more strongly people agree with the view that Britain must work closely with global organisations such as the United Nations, the more likely they are to be pro-EU.

There is also a clear, though lesser, correlation between how we view the EU and whether we think Britain has grown better or worse in the past 30 to 40 years. By three-to-one, pro-EU respondents think Britain has improved, while by five-to-three, those who regard the EU as a failure think Britain has

13 Peter Kellner, "Who might win a British referendum on Europe?", European Council on Foreign Relations, 5 October 2012, see Appendix; also available at http://ecfr.eu/content/entry/commentary_who_might_win_a_british_referendum_on_europe.

got worse. The correlation is 0.3. A similar figure applies when we compare expectations for the future, and whether or not our children's generation will be better off than ours: those who are pro-EU divide evenly between optimists and pessimists, while those who are anti-EU are overwhelmingly pessimistic.

A cluster analysis of the polling adds another layer of understanding to the data, and finds that most Britons can be placed into one of three groups (of course, these groups are not homogeneous, and a tenth of Britons don't fit in with any of them):

Worried Nationalists (WN): 42 percent. WNs tend to have a traditional view of Britain, and are pessimistic and insular. They tend to dislike overseas aid; think Britain should not bother too much with global bodies such as the UN; and broadly feel that the EU has been a failure. WNs divide evenly between Labour and the Conservatives, with 15 percent supporting UKIP (twice the national average) and only five percent the Liberal Democrats (half the national average). They are slightly more likely to be female, and less likely to have a university degree.

Pragmatic Nationalists (PN): 23 percent. Like WNs, PNs tend to have a traditional view of Britain, but tend to be less pessimistic about where Britain is heading. They are divided about overseas aid, but tend to think Britain does need to cooperate with global institutions. Were Britain a castle, they would lower the drawbridge more often than the WNs, to allow more contact with the outside world. They are divided on whether the EU has been successful, but tend not to have strong feelings either way. PNs also divide evenly between Labour and the Conservatives, but only three percent would vote for UKIP. Otherwise, their demographic profile is similar to that of Britain as a whole.

Progressive Internationalists (PI): 25 percent. Here "progressive" is used not so much as a left-of-centre label, but in the sense of holding a view that history tends towards greater prosperity and enlightenment. PIs' view of Britain tends to be rooted in values more than tradition; they generally think Britain is a better place today than it was a generation ago but are less certain about the future. Overwhelmingly, PIs think Britain must play a full role in global institutions, most support the UK's international aid programme and, by three-to-one, they think the EU is a success story. They are happy for the drawbridge linking Britain to the rest of the world to stay down. Two-thirds of PIs would vote for Labour (52 percent) or the Liberal Democrats (14 percent); just 23 percent would vote for the Conservatives. They are more likely than the national average to be men, to have a university degree, and to read the "broadsheet" newspapers.

A pragmatic appeal

The broader lesson is that those who seek to persuade Britons either to love or to hate Brussels by stressing the precise wording of EU treaties or the details of the Common Agricultural Policy are wasting their time. Few think about the EU in these terms, and the few who do are probably already committed enthusiasts or implacably hostile to the whole project. For most people, attitudes to the EU are shaped by two broad things: their view of Britain itself, and how far they are at ease with the direction in which its society is heading. As with so much else in politics, fear is a vital driver of public attitudes. At the moment, the fear factor is working hard for the EU's opponents.

Worried Nationalists, who are motivated largely by fear, comprise by far the biggest single group. In a referendum, WNs give the anti-EU lobby a head start. Although they could be outvoted by all Pragmatic Nationalists plus Progressive Internationalists, in practice such a voting bloc would probably only win if some "Worried" Nationalists could be lured into the "Pragmatic" column instead. This is probably what happened in 1975, when many voters who started out both disliking the Common Market and fearful of Britain's future ended up fearing that Britain would be worse off out in the cold. They decided on pragmatic grounds to swallow their dislike of "Europe" and voted to stay in it.

However, if the WN column can be reduced to around 35 percent or less in a referendum campaign, then the PNs will become the swing group that decides whether Britain leaves the EU or stays in it. These pragmatists are concerned more with practical and often short-term outcomes, rather than big visions and long-term dreams (they are unlikely to be swayed by those who summon the spirits of Shakespeare and Churchill or abstract notions of European peace and shared cultural heritage). Instead they will consider the impact of leaving or staying in the EU on jobs, prosperity, and their children's future.

This is important for understanding how Britain relates to Europe. Scepticism about Europe need not be Euroscepticism, but as much depends upon the rest of Europe as it does upon the politicians of Britain. As German Chancellor Angela Merkel's recent apparent sympathy towards British concerns over the EU budget suggests, there is a large body of opinion within Europe that believes the EU is better with British involvement than without it. A Europe that presents itself to Britain as preoccupied with saving the euro above all else, while complaining about the UK's lack of Euro-enthusiasm and talking of European visions, is less likely to convince the British people to be part of the EU than one that considers the practical benefit of EU membership on the lives of European citizens.

George Pagoulatos

8

Desperately hanging on in Greece

The current Greek debate over Europe is inescapably related to its traumatic experience at the epicentre of the crisis. Since 2010 the country has had to deal with sky-high interest rates, severe recession, harsh austerity, structural reform, and the indignity of emergency injections of cash to keep it solvent. Many Greeks, who had seen membership of the EU as a factor in socioeconomic progress, now blame elements of Europe for much of what they face. New political movements such as Syriza have capitalised on this discontent. However, the most negative – even catastrophic – scenarios involving Greece remain unlikely, provided conditions allow the fundamentally pro-European sentiments of the majority of Greeks to reassert themselves. Despite disquiet about their current predicament, Greeks believe that the current crisis cannot only be solved in Greece alone. And their continued faith in a solution to both their own crisis and the systemic crisis of the eurozone itself is crucial for the continuation of the entire project of European integration.

Greek trauma

The bare figures show the extent of the trauma that Greece is undergoing. Its GDP shrunk by around seven percent in 2011 with a similar decline expected in 2012; after five years of recession it has lost nearly one quarter of its 2008 GDP; unemployment sits at 24 percent (55 percent for young people); vital social services have been hit by massive spending cuts; and poverty, homelessness, and suicide rates are galloping.

This trauma has fed into a collapse in trust in government, parties, and institutions. New Democracy and PASOK, the two parties that have dominated Greek politics since 1974, fell from a total vote share of 77 percent in 2009 to just 32 percent and 42 percent in the twin elections of 2012. Both parties are heavily blamed for the crisis. But the finger of blame is also pointed towards Europe.

The spring 2012 Eurobarometer poll suggested that 14 percent more Greeks considered the EU a "bad" thing than a "good" thing. This was a reversal of the situation over the previous two decades, when the gap reached highs of over 60 percent in the other direction. Greece's eurozone partners (especially Germany) are blamed for subjecting the country to excessive and unjustified punitive austerity, and these sentiments have been seized upon by extremists and populists.

Europeanists versus nationalists

The crisis is intensifying a deep-running cleavage in Greek society between (simplistically) Europeanists and nationalists. Nationalism (and anti-globalisation) is found on both extremes of the political spectrum, appealing in particular to the young (who tended to vote for the radical left (Syriza) or the nationalist right in the 2012 elections). Alternative geopolitical visions from the fringes are based upon the argument that the benefits of EU membership are dwindling, and that the eurozone is a vehicle for German hegemony (and endless austerity). A small but growing number believe that Greece must assert its sovereignty and defend national interests with a "realist" policy that exploits a new geopolitical standing in the regional security and energy map, or seek strategic alliances with actors like Russia.

Despite this, Greece has remained anchored to the EU project after three decades of benefitting from membership. Pro-Europeanism was hegemonic in the 1990s and 2000s, particularly among the elite and middle class, with Europe "enlisted" to help Greece move towards the model provided by advanced EU members. These Europeanists championed then-prime minister Lucas Papademos's November 2011 coalition and continue to back the efforts of the current government to implement the reform programme agreed with Greece's partners and creditors. Membership is only opposed by the Communist Party (KKE) and the fascist Chryssi Avgi (Golden Dawn). Notably, Syriza has avoided anti-European rhetoric and cultural nationalism, despite its virulent opposition to "Merkel's policies".

Euro versus drachma

Broad pro-Europeanism is echoed in strong support for the euro (around 70 percent say they want to remain in the single currency), buttressed by memories of high inflation and low growth with the drachma. There is also a widely held understanding of the catastrophic implications of leaving: uncontrolled inflation would offset competitiveness gains; the small (20 percent of GDP) export sector is itself heavily reliant upon imported energy and materials; bank deposits would be wiped out; mass bankruptcies would add to unemployment; and legal, political, and financial chaos would accompany socioeconomic breakdown. As frequently noted in the international media, Greeks across the political spectrum have little appetite to ditch the euro and return to the drachma.

Pro- versus anti-Memorandum

The Memorandum (first and second), signed between the Greek government and the troika, has been the focal point of public debate since the 2010 bailout. Given the general pro-EU and pro-euro consensus, the Memorandum has served as the new dividing line for Greek politics and society.

The current coalition government of New Democracy (ND), PASOK, and the Democratic Left was made possible because in the June 2012 elections the fear of euro-exit prevailed over opposition to austerity policies, and the 50-seat bonus for the leading party helped ensure a parliamentary majority. However, there is a strengthening belief that the austerity mix is too strong and risks “killing the patient” (a January 2012 opinion poll found that 72 percent of respondents were anti-Memorandum, with only 16 percent in support).

This pro-euro, anti-Memorandum section of the electorate is becoming the new middle ground in Greek politics, and meshes with the belief that the threat of a Greek exit is exaggerated because of its impact upon the rest of the eurozone. Syriza’s dynamic appeal to many erstwhile PASOK voters is based upon this triptych: euro good; Memorandum bad; Grexit impossible.

A moment of self-awareness: the reformist narrative

By the beginning of 2010, Greece was already the weakest link in the eurozone as a result of a chronic loss of fiscal control, a bloated and corrupt public sector, a narrow tax revenue base, an unsustainable current-account deficit, a huge public debt, and a large net foreign debt of 90 percent of GDP (from single digit levels in the mid-1990s). Reforms are required in areas such as labour markets, the health system, pensions, and services, yet many Greeks believe their implementation under current adverse circumstances may be exacerbating the recession.

The pro-European, reformist coalition sees the crisis and adjustment policy conditionality as a last chance to reform the Greek state and economy to make it viable within the euro. But the terms of the bailout finally agreed in November 2012 reflect their insistence that the harshness of earlier conditionality was counter-productive (the deal also reflected the unspoken acknowledgement that earlier debt targets were unrealistic). The coalition also sees the crisis as involving a systemic crisis of monetary union that cannot simply be solved in the Greek finances, but requires far-reaching amendments to EMU architecture.

Despite the challenges faced by the Greek economy, the country is – arduously and painfully, and under the tight monitoring of the troika – changing. Greece earned first place in the OECD's March 2012 "Going for growth" report for its responsiveness to OECD growth recommendations, and its credit rating was upgraded to B- with a stable outlook by the credit-ratings agency Standard & Poor's in December 2012. Three years after the gaping fiscal deficit of 15.6 percent of GDP was revealed for 2009, Greece is a breath away from primary budget balance. The much-maligned internal devaluation strategy seems to be delivering in terms of unit labour costs, although substantial problems remain, for instance in the severe lack of finance available in the real economy. This too requires considerable assistance from the eurozone in ending speculation about a Greek exit and convincingly defending the irreversibility of the euro project (including Greece).

Given the importance of eurozone assistance, Greece's strategic effort through the crisis has been to adjust, persevere, and remain at the table until it can be part of a collective solution for the systemic crisis. This strategy may fail, and there are broadly three negative scenarios (with low but not negligible probability):

1. Greece ploughs on with austerity and reforms, but the eurozone fails to provide a viable collective solution by moving to deeper integration. Intra-eurozone imbalances grow out of control, political divisions intensify, and the eurozone eventually breaks up. European integration regresses, threatening the single market and shattering Greek confidence in Europe.

2. The eurozone reaches a collective solution but Greece is unable to follow. Greece is cut off or falls behind as a result of economic collapse, party political implosion, social explosion, an anti-euro government, or a government unable to hold on. Should Greece exit, the breakup dynamic would be uncontainable for the rest of the eurozone.

3. Greece stays in the euro but is unable to bounce back to recovery. It sinks deeper into recession, with depression evolving into a humanitarian crisis. Greece becomes a critical fragile state, further destabilising an already unstable neighbourhood.

All three scenarios are potentially catastrophic, in different ways. If Greece is cut off from the euro or if austerity continues to hurt for a generation, Greece's European (or for that matter Western) commitment could come into question. A lost generation would identify the EU with joblessness, misery, and impoverishment. The influence of anti-EU and anti-systemic forces would multiply, with social tensions spreading from Greece to the rest of the eurozone South. A country which since 1974 has been positively transformed under the benign forces of Europeanisation would now be a flagrant failure of Europe.

A more positive, and indeed more plausible, scenario that keeps Greece firmly within the euro and the European project requires significant moves towards banking, fiscal, economic, and political union. Greeks are demonstrating that sacrifices can be made and endured as the price for a new grand bargain that secures the wider viability of the euro as well as their own economic viability within it. But if Greece fails to contain the internal forces generated by the crisis and the response to it, the impact will be felt across Europe; if Europe fails to find an effective way to deal with the euro crisis, the impact on Greece will be catastrophic. Forging a sustainable euro in the longer term will rely heavily upon Greece's continuing commitment to being a meaningful part of the project of European integration, despite its current pain. The entire European project relies heavily upon the continued pro-European sentiments of its most embattled member state.

Teresa de Sousa and Carlos Gaspar

9

Portugal: integrate or be marginalised

It is quite impossible to underestimate the importance for Portugal of its integration in Europe. Portuguese democracy and European integration are considered the inseparable outcomes of the post-authoritarian transition by the three main parties: the Socialist Party (PS); the Social Democratic Party (PSD); and the Social Democratic Centre (CDS). This consensus has been shaken by the euro crisis, and the initial Portuguese response of a firm demonstration of European credentials has only recently faltered thanks to a troubled economy and doubts about the effectiveness of the prescribed treatment. However, Portuguese pro-European sentiment remains strong in the political mainstream, despite increasing public protests, and any retreat from keeping pace with Europe and Portugal's EU partners would only be done with the utmost reluctance.

Integrate or be marginalised

The first decade of Portugal's integration in Europe was marked by change. Portugal's economy and society were modernising rapidly against a backdrop of political stability and access to European structural funds. This sustained the credibility of a "strategy of convergence" with other EU members. The stabilisation of Portugal's international status as a member of the EU and NATO allowed a new cycle in bilateral relations to begin with Spain, Brazil, and the former African colonies. Spain was no longer regarded as a threat to national independence and became Portugal's chief economic partner; Portugal became one of the main international investors in Brazil, playing a key role in institutionalising relations between it and the EU; and the normalisation of relations with former colonies led to the creation of the Community of Portuguese Language Speaking Countries.

Portugal's European policies also evolved, with officials acknowledging the need to be at the "core" of European integration and "as Europeanist as Spain". Portugal has defended the principles of solidarity and equality between member states against the perceived threat of domination by larger countries. Portugal has also stood firmly behind enlargement, despite being more negatively affected by recent expansions than any other member state.

Indeed, there has been a tension between Portugal's push for inclusion in further integration while becoming more marginalised within the union. The EU's westernmost state was in danger of becoming a periphery within a periphery, which in turn pushed it towards the strategy of risking joining the single currency, despite stark disadvantages in productivity and competitiveness: the idea of remaining isolated at the margins of the economic and monetary unification was unthinkable. Yet the euro's first decade represented a period of stagnation, which further deepened Portugal's economic crisis.

The present crisis

The request for external financial assistance from the EU and the IMF had devastating consequences for Portugal. The associated austerity measures have put both the country's democratic institutions and its economy to the test. The "European convergence" strategy, which assured political consensus among the largest national parties and, in a sense, defined the social contract of the Portuguese democracy, has been challenged in its very essence. Portugal's standing in the EU has slipped from being a "middle power" to one of the "PIGS", repeatedly downgraded by rating agencies.

The Portuguese political mainstream was initially united in its response to the crisis, avoiding the need for a technocratic government (as seen in Italy and Greece). There was consensus between the PS, PSD, and CDS, who shared strong public support in their implementation of the Memorandum negotiated with the troika. A minority Socialist government was replaced in 2011 with a majority centre-right coalition (PSD and CDS), with the three mainstream parties picking up almost 80 percent of the vote while subscribing to the Economic Adjustment Programme. Although the government was then able to meet targets established in the Memorandum and face down a peaceful general strike, over recent months the situation has deteriorated.

Portugal had prided itself on a record of stoicism and relative peace, in contrast to others such as Spain and Greece. But although recent protests have been led by only a small minority, they also suggest deepening disquiet within the population. This is partly fired by the economy underperforming in comparison to estimates, causing some to lose faith that the "recipe" of reform and austerity is working. The protests have also been fired by questions over the government's determination to "go further than the troika" (to demonstrate European commitment and credibility, and to differentiate itself from Greece), with unpopular cuts in sensitive areas such as health, pensions, and education. The immediate cause of countrywide protests in mid-September 2012, also involving the middle classes, was a controversial tax reform.

The government remains convinced that it can pass reforms that in the long run allow it to converge with other eurozone economies. In November 2012 it passed an austerity budget, and although the PS is no longer "in partnership" with the coalition, it will abstain rather than vote against austerity measures.

There is, however, increasing room for criticism of the current trajectory. Although they are far from mainstream, some credible voices have called for leaving the euro to be considered (especially on the left). Non-mainstream parties, such as the communist PCP and the BE (Left Bloc), have voiced concerns about membership of the single currency.

The broader picture is that Portugal is still trying to demonstrate its desire and ability to take part in further European integration projects, for fear of being marginalised if it fails, against a backdrop of discussions about those projects being the probable solution to the crisis. For Portugal, meeting the requirements of the reform programme serves to buy time until the necessary political conditions exist in the EU for a joint response to the European crisis that will also ameliorate the situation at home.

The European future

The crisis has changed the course of the strategic debate in Portugal, where, in effect, political actors had avoided public controversy over foreign-policy priorities, including European integration policy. There is a nostalgic element to the debate. The nationalist right wants Portuguese interests to be at the forefront of foreign policy, while the radical left has campaigned for an alliance of the "debtor countries" against the "creditor countries" as a new version of the international class struggle. More moderate voices have openly criticised the current generation of European leaders for their failure to live up to their predecessors and deal decisively with the crisis.

The centre-right government's foreign policy shows a renewed interest in bilateral relations beyond the EU, for instance with Brazil, Angola, and China. The importance of the Lusophone world and the Portuguese diaspora has also been emphasised. These tendencies fit in with the general "renationalisation" of foreign policy evident in many EU member states.

However, the European consensus among the Portuguese elites continues to prevail, and the positions in favour of Portugal's withdrawal from the single currency remain isolated and marginal. All recognise that returning to the *status quo ante* may be impractical, with the EU transforming itself in response to its own internal crisis and the wider transition in the international system.

Portuguese interests would be well served by some kind of partial mutualisation of sovereign debt, and Portugal is committed to strengthening the position of the European Commission in the emerging balance between the European institutions. It is also committed to safeguarding the rules of areas of integration such as the Schengen Agreement and the gradual convergence of immigration policies, as well as Permanent Structured Cooperation in the framework of the Common Security and Defence Policy (CSDP). There is wariness about Germany's leadership position and its obsession with monetary stability, but also about the tendencies of other leading members (for instance, the French passion for the state and the lack of British interest in integration). Portugal therefore sees a valuable continuing European role for "middle" powers that are engaging in European affairs and able to contribute to effective compromises on key issues within the EU.

Portugal, whose geographic centrality in the transatlantic community can compensate for its relative marginality in Europe, has a vital interest not only in the continuity of the alliance between the Atlantic democracies, but also in ensuring the natural complementarity between NATO and the EU in regional and international security, and in strengthening Europe's strategic autonomy in common defence and security.

Despite its current crisis, Portugal therefore sees a constructive and engaged role for itself in the EU as it readjusts to deal with its own crisis and the wider global picture. Its transatlantic orientation and global links should prove useful to an EU in this changing world. The importance of retaining such a role within a European core that is further integrated is also widely recognised within Portugal. It is, after all, a small country that faces considerable long-term challenges if it is to converge economically with the stronger members of the eurozone. Although it has experienced protests over recent months and an increase in debate over Portugal's position within the European project, the country's pro-Europeanism is as resilient as it tries to overcome the challenges of the euro crisis as it was when it tried to overcome the legacy of authoritarianism.

José Ignacio Torreblanca and
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10

Spain's salvation in the euro

Spain has spent the past year in the eye of the euro crisis storm, as the most vulnerable country that is supposedly "too big to fail". So far it has signally failed to escape, and with its economy in severe trouble and discontent mounting, Spain remains at the focus of the euro crisis. The current government of Mariano Rajoy gained power with a commitment to austerity and reform, and there is a widespread feeling that, for all the pain Spain is going through, the rest of Europe is failing to deliver on its side of the bargain that is necessary to deal with the crisis. This is leading to further problems, such as the secessionist mood in regions such as Catalonia, but the sense of abandonment may also provide the impetus for the Spanish government to get domestic reforms right, which would be a vital step towards the salvation of the eurozone as a whole.

The country faces four probable scenarios in its relations with Europe: "exit"; "intervention"; "muddling through"; and "economic federation". Although these scenarios are dynamic and interact with each other, full political "intervention" seems the most likely. However, it is unlikely that this would improve Spain's prospects for either growth or stability, and would run the risk of undermining the political system and giving rise to popular Euroscepticism. If the crisis in Spain is to be overcome without causing further severe damage to the country's commitment to Europe, real action will also need to be taken regarding trust, growth, and effective and legitimate institutions at the European level. Only by bridging the trust, economic, and institutional deficits can Spain walk away from intervention, and Europe from disintegration.

One euro; two diagnoses

There is a broad European consensus that EMU cannot continue in its current form, and that its institutions and working rules are incapable of resolving the crisis. Discrepancies lie in the question of how it should be fixed, rather than whether or not to do it, and these questions have a great impact on the situation in Spain.

On one reading, the key question is over-compliance with a set of essentially correct rules, let down by a fair-weather construction that lacked both sufficiently strong institutions to make its principles a reality, and the rules and mechanisms to deal with any problems. This has been the dominant diagnosis in Berlin, and creditor countries such as Austria, Finland, and the Netherlands, and the conclusion is that EMU can be fixed from within – hence the series of measures designed to strengthen areas such as supervision, deficit limitation, and banking. In Spain this diagnosis and the associated cure is seen as an affirmation of current policy at both the national and European level (the equation would be *structural reforms + public spending austerity = increased foreign public and private confidence*). According to this reading, behind a decade of growth, job creation, and sound public finances, Spain was sleepwalking into disaster by allowing a series of structural disequilibria to pile up in its economy. For a decade, low interest favoured a credit boom while pushing prices up and competitiveness down. When the music stopped, Spain was left with a massive debt overhang in its regional banks, an uncompetitive economy, and an astonishing 25 percent unemployment rate. What then should follow, in line with the troika recommendations for other countries under intervention, is massive structural reforms, severe austerity in public expenditure, and a tough debt reduction programme so as to gain the financial markets' confidence. Since, according to this reading, this would be a crisis generated at home due to the laxity of the euro rules, the way out of the crisis would necessarily require a strengthening of both the preventive and corrective arms of the eurozone governance structures.

The second diagnosis is that this is a crisis of the euro itself: a diagnosis that dominates in the English-speaking world, as well as in debtor countries, and – increasingly – in the European institutions (especially by the president of the European Commission, José Manuel Barroso). This analysis argues that the euro is a failed construction that requires greater centralisation (fiscal and political) not only to survive, but also to avoid greater tensions and grievances between member states: if monetary union does not urgently reinvent itself, it will disappear. EMU's design error lies not in crisis-management mechanisms for adverse weather conditions, but rather in a structure which seemed to be generating economic convergence (in the case of Spain, its best decade in terms of growth and employment) but which in practice was undermining real convergence due to loss of competitiveness, the rise of real wages, and the creation of an enormous trade deficit.

The Spanish situation supports this second analysis, with EMU introducing a series of perverse incentives and disincentives into the system, for instance through cheap money and the reduction of member-state sovereign debt risk differentials. All of Spain's governments in the first decade of the new millennium benefited from tax returns generated by easy growth based on a property bubble and near full employment, while neglecting productivity, labour relations, wage policies, competitiveness, and investment in research, innovation, and development. Instead of pressing on with a profound reform agenda, governments succumbed to the temptation of complacency, and a false sense of security took over. The upshot was a property crisis, trade deficit, a dual labour market, and a lack of competitiveness between companies. Autonomous, regional, and local government spending spiralled out of fiscal and budgetary control, savings banks became politicised, and the financial sector was overly exposed to the property sector. The apparent successes of Spain's wonder decade (1998–2008) were therefore little more than skin-deep precursors of a more self-destructive period.

This analysis suggests that it was the euro itself that detonated the crisis, and saving EMU would therefore mean fitting it out with institutions that would radically alter its political and economic configuration. Such a move towards a federal EU would, however, be difficult, particularly as Europe lacks a common identity that would allow institutionalisation towards the centre. Without this, EMU would be unable to survive in its current configuration, presenting Spain with several different scenarios for the future.

Scenario 1: exit

Although unlikely, a Spanish euro exit could take place if outside intervention were to fail, politically or economically (the Greek path), or in the event of the euro breaking up and reconfiguring itself with a limited number of (predominantly northern European) members. A voluntary exit, however unlikely, might occur if the two main parties reached a consensus on the impossibility of remaining in the euro, believing the political, economic, and social costs of austerity measures at home were insupportable taken together with scant and insufficient aid from European institutions. If the two main parties collapsed, probably after widespread rejection of austerity and reform policies, the political system may fail to offer the stability necessary to keep pace with adjustment policies required for continued euro membership. Indefinite, unqualified support for European policies cannot be taken for granted from the Spanish people. In the most recent polls, almost 35 percent of respondents thought that Spain's membership of the euro made it more difficult to escape the crisis (20 percent thought it facilitated it). 57.5 percent said that belonging to the euro has been negative for Spain, and 33.5 percent said Spain would be better off outside the eurozone.

Scenario 2: full intervention

In this scenario, the Spanish government would go beyond the "light" bailout package it received on 9 June, when it requested a European loan to maintain the lifeline for its banking sector. The government, given negative unemployment, debt, and deficit figures, would then show itself to be incapable of restoring confidence in the markets, submitting Spanish debt to prohibitive interest rates and forcing an intervention (the Portuguese variant). Likewise, intervention could take place if contagion from a Greek exit spread to the weaker eurozone countries (the Greek variant).

This scenario was kicked down the road in September after market-calming decisions by the ECB over bond buying and the entering into force of the ESM. However, it still seems likely, due to German, Austrian, and Finnish hesitation over implementing agreements over direct recapitalisation of Spanish banks (reached at the European Council meeting in June 2012) and backpedalling by German Chancellor Angela Merkel over the creation of a banking union.

Such a scenario would involve additional cuts and reforms to sensitive areas such as pensions, education, and health, impacting public opinion, political stability, and the governability of the country (possibly moving Spain closer to a euro exit). Personal pressure would intensify on Prime Minister Mariano Rajoy, possibly leading to the opposition Socialists (PSOE) forming a coalition with Rajoy's People's Party (PP) to generate public support, or a technocratic government. There would also be an erosion of public support for the EU.

Scenario 3: muddling through

A "muddling through" scenario is not unlikely. For Spain, this would mean a continued confidence problem abroad, a financial sector in critical condition, public debt approaching 90 percent of GDP, and reforms (with the unstable, complex Spanish autonomous regional state system as an added difficulty) having no noticeable effect on growth and employment during Rajoy's term of office. In this scenario, the crises would have a knock-on effect, for instance due to a possible Greek exit after the 2013 German elections; high differentials in Portugal; political instability in Italy as Prime Minister Mario Monti's term of office or political steam runs its course; or another bank rescue in Spain. In general, Spanish government policy would be reactive and survival-driven, lacking the capacity to contribute to the design of common institutions, and with no prospects or plans in the medium term. Again, there would be a serious erosion of political support for the government, and a possible opening of the ground for parties able to capitalise on the failure of PP and PSOE to get Spain out of the crisis.

Scenario 4: towards economic federation

A dramatic shift towards centralisation in the eurozone is problematic and unlikely, but might come about as the result of the fall-out from the problems faced by Spain (or circumstances such as sustained and compelling pressure on Merkel from leaders of other big countries in difficulty, or a crisis in Italy or France), with the resulting threat to stability across the entire eurozone. In Spain (and elsewhere) this would involve significant constitutional reforms that may involve an uncertain referendum.

The conclusion from Spain: an urgent debate

As it moves into year five after the crisis started, Spain finds itself squeezed by four sets of forces. First, the EU keeps putting pressure on the country to enforce further austerity measures and meet the nominal deficit-reduction targets. At the same time, the markets, seeing austerity measures failing to grow and create jobs, are keeping sovereign-debt yields at too-high levels. In parallel, society is showing signs of being increasingly fatigued, and is pushing back on the severe health, pensions, and education cuts imposed by the government. And, to make matters worse, a good proportion of the Catalonian political elites, resenting the loss of popularity associated with austerity, have switched sides and joined the secessionist front.

The resulting frustration is easy to understand. In a depressed economy such as Spain's, tax hikes and slashes in expenditure have failed to produce the promised improvements, leading the government both to miss its targets and lose credibility with its European peers, markets, and citizens. Meanwhile, the EU continues its exasperating pattern of doing too little too late. The brief glimmer of hope raised by the successful European Council of June 2012, where the combined action of France, Spain, and Italy led Germany to accept a whole new framework of crisis management, with a new and more active role of both the ECB and the ESM, disappeared as soon as Merkel got back home. The subsequent cooling-off from the two proposals which would have really meant a new beginning for Spain – the direct recapitalisation of Spanish banks by the ESM and the setting-up of full banking union by the end of 2013 – have left Spain much where it was. So, as 2012 comes to an end, Spain muddles through on the short and thin lifeline enshrined by the bond-buying OMT programme approved by ECB President Mario Draghi in September. Thus, a government that started out the year having gained office on a pro-German reading of the crisis and a deep belief in austerity, finds itself utterly frustrated with Merkel, and moving closer and closer to French President François Hollande and Monti. The "Prussians of the South", as Spaniards sometimes liked to think of themselves, have had enough of it for now, it seems. Paradoxically, however, this sense of abandonment might provide the necessary impetus for both government and society to get its reforms right and save Spain, and, in doing so, also save the euro.

Teija Tiilikainen

Finland: from model pupil to troublemaker?

11

The 2011 general election was a watershed in Finnish politics. The vote was largely concerned with Finland's European responsibilities, being held just as the EU constructed its stability policy with the Portuguese loan package and the details of the ESM on the table. Although the agenda was technical and narrow, revolving around bailout packages and Finnish liabilities, this was the first time that EU issues had dominated the national electoral agenda. This also led to the emergence of the populist True Finns as a significant electoral force, upsetting the consensual atmosphere of Finnish politics and introducing a strong Eurosceptic voice into a more polarised national debate. Since then, the True Finns have continued to enjoy electoral success at a local level. However, it now seems that the 2011 election was above all a warning to the other main parties that the turmoil in the eurozone was now able to interrupt the European consensus in Finnish politics under specific conditions, and turn a model pupil into a temporary troublemaker.

The roots of Finland's European policy lie in its situation before accession in 1995.[14] For decades it had performed a difficult balancing act between the two Cold War blocs, and saw the EU as the provider of a new security paradigm as well as the route to economic advance. A firm consensus emerged over a constructive European policy that involved participation in the core groups on issues such as the single currency and a possible deepening of the CSDP. This was backed by the strong performance of Finland's export-led economy, exemplified by companies with global markets such as Nokia and Kone.

14 Peter Kellner, "Who might win a British referendum on Europe?", European Council on Foreign Relations, 5 October 2012, see Appendix; also available at http://ecfr.eu/content/entry/commentary_who_might_win_a_british_referendum_on_europe.

This was the consensus that was upset first by the euro crisis and then by the election of 2011. Under a strong challenge from the True Finns, both the Social Democrats and the Centre Party became less Europhile. Among the leading parties, only the National Coalition Party of Prime Minister Jyrki Katainen remains openly enthusiastic about the EU, although the governing coalition has adopted a more cautious approach, at least on economic issues. Finland's position in Europe continues to be strongly debated: some argue that the government's more Eurosceptic stance carries negative side effects for Finland within the EU; others note that the continuation of the sovereign debt crisis is even beginning to exhaust the patience of Katainen's National Coalition Party (although it has, case by case, been able to mobilise the necessary parliamentary support for elements of the EU's stability policies).

Polarisation

In 2011 the True Finns won 39 parliamentary seats, becoming the third-largest party: an electoral breakthrough that put it in the frame to join a government coalition. This was a remarkable turnaround for a party that had previously gained less than five percent of the vote in previous elections, winning at most five out of 200 parliamentary seats. This time the party's powerful message against the EU's bailout policy and the Finnish contributions to it attracted voters across party lines. However, the party is ideologically heterogeneous and inexperienced, and its leader, Timo Soini, was seen to have his hands full keeping it together and disciplining it in effective parliamentary practices. After several failed rounds of talks with the other parties, the True Finns decided to stay in opposition, with Europe the chief area of disagreement.

The Centre Party, which had the largest parliamentary representation between 2003 and 2011, also stayed out of government. It had been reduced to the fourth-largest party in the elections, largely due to voters defecting to the True Finns. To counter the True Finns, it too became a firm critic of the EU's stability policies, despite its former role in contributing to this construction.

A new governing coalition was formed between the National Coalition Party, the Social Democrats, the Greens, the Left Alliance, and two smaller parties, under Katainen as prime minister. The new Euro-critical mood in Finnish politics affected this new government's policies: the coalition agreed that Finland would not allow the use of the EFSM without getting bilateral collateral from the target country; and the ESM was only accepted on the condition that the loans it will provide have seniority status with respect to private sector loans, and that the mechanism does not imply collective liability.[15]

A similar situation emerged after the Euro Area Summit meeting of June 2012, when the Finnish parliament accused the government of exceeding its mandate over the use of the ESM to recapitalise banks directly, and later over the seniority status of loans provided by the ESM.

In seeking special conditions for its involvement, the formerly model pupil of Finland thrust itself into the European limelight as a troublemaker. This was fuelled by strongly polarised opinion in the electorate. The traditional parties began to wonder whether the only way to fight the populists was to copy their Euroscepticism.[16]

Although this turn in Finnish European policy was widely noted in Brussels, and led to some speculation in the European media about the country's willingness to leave the euro, opinion polls in Finland have suggested that the concerns of the mainstream parties were largely overblown. Despite strong feelings over European issues, opinion polls in spring 2012 suggested that public opinion remained highly supportive on the core questions of both EU and euro membership (one poll suggested that the level of support for Finnish membership of the EU actually increased from 37 to 55 percent in the 12 months up to then).[17] Both candidates that made it through to the second round of presidential elections in early 2012 were pro-European. This suggests that the True Finns have been adept at mobilising latent dissatisfaction with specific elements of the response to the euro crisis, rather than in changing the broader level of support for the EU as a whole.

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15 Peter Kellner, "Who might win a British referendum on Europe?", European Council on Foreign Relations, 5 October 2012, see Appendix; also available at http://ecfr.eu/content/entry/commentary_who_might_win_a_british_referendum_on_europe.

16 Mark Leonard and Jan Zielonka, "A Europe of incentives: how to regain the trust of citizens and markets", European Council on Foreign Relations, June 2012, p.4, available at http://ecfr.eu/page/-/ECFR58_EUROPE_INCENTIVES_REPORT_AW.pdf.

17 Ilkka Haavisto, "Eva Attitude and Value survey – Finns' Opinions on the EU in the Midst of European Debt Crisis", Finnish Business and Policy Forum, 28 March 2012, available at http://www.eva.fi/wp-content/uploads/2012/03/EVA_EU_attitudes_summary2.pdf.

The contours of the Finnish EU debate

Since the economic and sovereign debt crisis hit Europe, the Finnish EU debate has almost exclusively focused on the crisis and the response to it (including Finland's involvement). This issue has underpinned the polarisation of Finnish politics and the rise of an explicitly Eurosceptic party for two main reasons. First, the start of the crisis coincided with a major leadership crisis within two of the three largest parties that left the National Coalition Party the only one able to face the attack on the traditional consensus on the EU by the True Finns. Second, Eurosceptic voices were able to subvert the standard lines of the debate by arguing that they were defending established EU law against acts that apparently went against the current interpretation of EU treaties.

These arguments are built upon the two main dimensions of the Finnish debate over the eurozone crisis. The first dimension concerns the widely shared argument that the economies of eurozone countries have not been converging as expected within the single currency. In response, the Finnish governmental elites have signalled their trust in tighter rules and better supervision of compliance with them. The Finnish government's views have been largely in line with German policies, and Finland has felt itself to be a natural member of the group of "triple A" countries that are in favour of deepening political union (within limits) to allow these tighter rules and better supervision. Katainen has supported a strengthening of the EU's powers in economic policy and has been in favour of a strong mandate for the European Commission in this field. He has, however, strongly opposed an increase of the EU budget or debt mutualisation among the eurozone countries. Although Katainen has enjoyed the full support of his National Coalition Party, the main coalition partner (the Social Democratic Party) has adopted a lower profile on EU policy, and cabinet members have been unwilling to formulate comprehensive Finnish positions on the wider debate about the euro that was launched by the European Council.

The second dimension follows on from this. Traditionally, Finland has been uneasy with any potential split in the EU's institutional or treaty framework. But if such a deepening of economic and fiscal cooperation within the eurozone requires a split, the government would clearly strive to keep Finland in the "inner core".

The Eurosceptic opposition takes a more negative view of the potential for rescuing the situation. The True Finns argue that EMU and the common currency were a mistake from the beginning, as they were based on an impossible convergence between very different types of economies. They say the euro can only survive through major transfers of income and debt mutualisation, and will probably collapse through its own internal contradictions. The Centre Party is less pessimistic, but also uses blunt language when analysing the fundamental economic problems that lie behind the crisis in the eurozone periphery.

The position of the True Finns was clarified when they attacked Katainen over the conditions of the Spanish rescue package, in June 2012. Katainen forced the True Finns' leader, Timo Soini, to state his own attitude towards Finland's membership of the euro. Although Soini had previously refused to say whether he wanted Finland to leave the eurozone, the exchange made it clear that he did not advocate that. This suggests that despite specific Finnish concerns and the political capital made by the True Finns through their more Eurosceptic outlook, even they recognised that Finland's broadly pro-EU consensus remained intact. The incident also highlighted the limits to the True Finns' populist appeal on a limited Eurosceptic platform.

Conclusion

A key conclusion from examining the Finnish debate about the European economic crisis is simply that Finland does not have any viable or attractive alternatives to its participation in the single currency. This truth, despite disquiet over the trajectory of the crisis and unease over responses to it, forms the main framework for Finland's debate over Europe, which is likely to return to its more usual consensual tones when the crisis finally eases.

The contention that Finland's established pro-European sentiment has not been significantly eroded by the euro crisis poses a challenge for the Eurosceptic True Finns. Their ability to retain their current level of support would then depend upon two things: first, the party will need to broaden its message beyond narrow criticism of the EU and immigration; second, it will have to safeguard the credibility of its leadership, with Soini currently largely responsible for the party's profile at the head of a largely inexperienced party. The signs are already troubling for the True Finns: local elections in October 2012 saw a substantial fall in their support from the 19 percent achieved in the general election to 12 percent.

The debate in Finland would be complicated if the European crisis leads to a division within the European project, for instance through a significant deepening of the eurozone or a more formal split between “core” and “periphery” eurozone members. Such a situation would test the European identity of the Finns. So far it has not been difficult for the Finns to take decisions on the EU (such as membership of the common currency) that have marked them out from the other Nordic EU partners. But should these divisions within the eurozone or the EU itself grow larger, concerns within Finland over Europe would increase and create more fertile political ground for Eurosceptic voices, once again allowing an otherwise model EU pupil to become a temporary troublemaker.

Petr Drulák

12 The Czech conundrum: post-communist, Central European, and small

Recently, the Czech Republic has gained a reputation as a reluctant European. It waited until the last moment before ratifying the Lisbon Treaty in 2009, did not join the Euro Plus Pact, and stayed away from the Fiscal Compact. This seems puzzling: European foot-dragging is unusual for relatively poor new members who view the EU as a guarantor of democracy and prosperity. In Prague, material reasons for joining projects such as the single currency are often overruled by other factors, with three categories particularly useful for explaining Czech calculations: being post-communist, Central European, and small.

One reluctant "yes" and two "no's"

The Czech Republic was the last EU member to ratify the Lisbon Treaty. Its then government, including both moderate Eurosceptics and supporters of the EU, was more or less happy with it and (unlike the UK or Poland) did not demand any opt-outs. Public opinion was either indifferent or mildly supportive. The greatest ratification challenge was not from a referendum, the Czech parliament (it gave the treaty solid backing), or the Constitutional Court (it found no fault). Instead, the greatest challenge came from President Václav Klaus.

Klaus campaigned against the earlier Constitutional Treaty (describing it as a blueprint for a European "super state" that would usurp national sovereignty), then against the Lisbon Treaty. Although isolated by this position, he won significant popularity in late 2009 by arguing (without the support of any legal authority) that the EU's Charter of Fundamental Rights could entitle Germans expelled from Czechoslovakia in 1945 to reclaim property. The Czech government was forced to ask the European Council for an opt-out from the charter as a condition for ratifying the treaty.

While Czech ratification was necessary for the legal validity of the Lisbon Treaty, Czech participation is not decisive for the future of the Euro Plus Pact or the Fiscal Compact. The neoliberal Czech government approves of much in both (including fiscal austerity), but it also emphasises that the Czech Republic does not want to join the eurozone (the primary target of these measures) any time soon (it suggests a referendum on joining, despite the Czech Republic committing to it in the EU accession treaty). It claims that the Euro Plus Pact could transfer taxation competency to the EU level (although this would be resisted by several other signatories), and the prime minister says the Fiscal Compact's provisions on state debt are too soft (and that the president would not ratify it anyway). Paradoxically, the neoliberal government's decision not to join the neoliberal compact was criticised by both the Social Democratic opposition and members of a junior coalition partner. The government may reconsider its abstention, especially as Klaus's presidential term ends in 2013.

Being post-communist

Very few Czech officials would agree with labelling the country as post-communist, as most believe they have overcome any communist legacy. However, this is only partly true. For example, the ideologies of the main political parties come from various post-communist peculiarities. Three of these are especially important for Czech perceptions of the EU.

First, faith in free markets and the ideology of neoliberalism have taken deep roots in the Czech Republic, filling the ideological vacuum which arose after communism was discredited. In politics, it was represented most strongly by the Civic Democratic Party of Klaus, still the strongest party on the Czech right (it has close links to Britain's Conservatives and sits with them in the same European Parliament faction after splitting from the European People's Party). The Czech neoliberal perspective on the EU is ambiguous: the current government defines its goals as keeping and deepening the single market, but the EU also has a tradition of regulation, market interference, and some redistribution. Moreover, the EU has developed important political competencies. Czech right-wingers compare European integration with central planning and warn against Brussels encroaching on national and individual liberty. The current financial and economic crisis is blamed on flaws in the institutional design of the common currency, and state interference in markets.

Second, Czech politics has a dissident tradition, portraying politics as a clash between good and evil, following the well-established discursive model of the clash between dissidents and the communist regime. In this dissident perspective, the EU is seen as too pragmatic, materially oriented, and without a moral spine. The pro-European President Václav Havel saw more common ground with President George W. Bush than with anyone in Brussels.

Finally, the communist experience still instils distrust towards left-wing policies, and any political force that defends solidarity, equality, trade unions, and political control over markets runs the risk of being attacked as neo-communist: an important challenge to social democrats. In response, the Czech Social Democratic Party has not based its identity on any particularly leftist positions, instead deriving legitimacy from being unambiguously pro-European while cultivating contacts with Western European centre-left parties. This European component differentiates it from neoliberals who see the EU as too socialist, and unreformed communists who see it as too capitalist. This unambiguous pro-EU stance was important during the country's accession to the union, but prevented the Czech Social Democrats from developing a more critical vision of European integration. In consequence, the EU-friendly left wing of Czech politics has found it difficult intellectually to engage with the arguments of the more Eurosceptic neoliberals.

Being in Central Europe

The "Central Europe" label is much less contested than "post-communist", but not uncontroversial. In the 1990s it was warmly welcomed by Czechs keen to distinguish themselves from (allegedly less developed) Eastern Europeans. However, it also distinguished them from being from Western Europe, which represented what they aspired to. EU accession ameliorated most of these fears, and the current Central European condition suggests a geopolitics whose principal components are Russia, Germany, and the US.

The Czech image of Russia is tainted by both the present and the Soviet past, ranging from undemocratic practices to meddling in neighbours' domestic affairs and great power interests in Central Europe. Although rarely considered a direct threat, a significant part of right-leaning public opinion is afraid of Russia's possible future westward expansion. The EU is often seen as a geopolitical shelter against this, and then-prime minister Mirek Topolánek argued in 2009 that "no to Lisbon means yes to Moscow". The same argument has been implicitly used by civil activists who organised a petition in favour of the Fiscal Compact. However, doubts remain that the EU is a credible shelter from Russian expansionism, thanks to weak institutions and attempts by larger members to establish cordial relations with Moscow (especially the perceived friendship between Germany and Russia).

Germany itself is generally seen as a benevolent economic hegemon. Its market is vital for Czech exports; German investment has been essential for economic modernisation; and German politics has usually supported Czech ambitions in the EU (for example, EU accession and the Czech presidency). The successful development of Czech-German relations has been generally acknowledged and appreciated across political boundaries.

On the other hand, the memory of German abuses of Czechoslovakia remains as an undercurrent, often surfacing over Czech fears of property claims by Germans expelled in 1945 (hence the wide resonance of Klaus's arguments over the Lisbon Treaty). This ambiguity over Czech perceptions of Germany leads to an ambiguity over perceptions of an EU in which Germany holds such power.

The concerns over Russia and ambiguity over Germany form the backdrop to Czech attitudes to the US. For Czech Atlanticists, the US embodies the virtues that the EU lacks: the moral spine to fight for liberal values and contain hostile expansionism, backed up by the capabilities to do so. Moreover, unlike Russia or Germany, the US has never been a threat to Czechs or other Central Europeans, and is not expected to be one in the future. Atlanticists see the US as the Czech Republic's main partner in high politics (including security and political values), whereas EU membership is purely about economic matters. The only perceived threat to Central Europe would be through a lack of American interest (Havel and other Czech politicians were signatories to a letter to President Barack Obama in 2009 bemoaning a decline in this).

Being small

The idea that the Czech Republic is small is contested. Although Czech officials prefer to see their country as medium-sized, in practical EU-related terms the Czech Republic lines up alongside Portugal and Greece, along with others that are even smaller.

Being small in the EU brings about two opposing tendencies. First, small countries are more heavily exposed to the European and international environment, with larger portions of their GDP dependent upon international trade and investment, and their security dependent upon larger allies. In short, they depend on others more than others depend on them. European and international institutions can mitigate this asymmetrical interdependence, helping to explain enthusiasm for EU accession even among Czech Eurosceptics. Second, small countries have limited resources and fewer options for influencing others. Positions on international issues have limited impact (for instance, the Czech abstention from the Fiscal Compact).

The first of these tendencies makes small countries highly interested in international and European issues, keen to punch above their weight and look for niches to shape. The second, however, deprives them of any real interest in those issues, leaving them to flow with the mainstream or use the pretence of deviation to score domestic points. Which one prevails depends upon several factors, including the weight of the external threats the country believes itself to be facing, the political traditions involved, and the ideas which circulate in political discourse. Perhaps it is the absence of immediate threats that makes the second tendency so powerful in the Czech Republic. Few Czech political actors take the EU and foreign policy seriously, using the EU largely to score domestic political points. For example, abstaining from the Fiscal Compact is the price paid by the Czech government for good relations with the president. The parties do not need to take the EU preferences of voters seriously, as the voters do not take them seriously themselves.

Finally, there is another essential tendency to consider. In small countries the market for political ideas is small and uncompetitive, but once ideas are established their longevity is considerable. The arguments levelled against further European integration are basically the same as those levelled against the Maastricht Treaty, with little consideration of changes in Europe or the world. Similarly, supporters of integration continue with arguments similar to those used in favour of accession. Such a limited market is more easily shaped by a clever political entrepreneur, such as Klaus. He sees the fight against European political integration as his mission, and has defined the terms of the Czech debate about the EU through consistent application of his political skills.

Conclusion

Czech reluctance over EU integration stands out among both the newer and the poorer member states. It comes from an idiosyncratic combination of factors related to the Czech Republic being post-communist, Central European, and small. Czech post-communism gave rise to a domestic politics in which prominent actors criticise the EU for not being free-market enough and for failing to defend liberal values abroad. Meanwhile, pro-EU forces have not developed their own vision of the EU which they could promote and defend in public debate. The resulting ambiguity about the EU is deepened by the Czech Republic's specific interpretation of the Central European condition, involving anxiety over Russia, support for the US, and uncertainty about Germany. Finally, the country's small size and the absence of immediate threats explain its lack of interest in anything beyond the Czech borders, the intellectual paucity of the political debate, and the disproportional influence of such political entrepreneurs as Václav Klaus.

Konstanty Gebert

Poland: A place at the top table?

13

If you aspire to dine at the EU's top table you must be able to count on powerful friends to find you a chair. With an economy only a quarter the size of Germany's and a population half its size, Poland cannot and does not aspire to have a permanent seat at the EU's top table. But with a population accounting for half of all the 2004 enlargement states, and an economy among the most resilient in these difficult times, it does not content itself merely with a seat at the lower table. This is the challenge facing Poland, at a time when the EU's most powerful countries – notably Germany, France, and the UK – are pulling in very different directions.

Poland's position is further complicated by its straddling of dividing lines: although not a eurozone member, it recognises that it must join the club to avoid being an observer of important decisions that affect its own position; economically and demographically it ranks sixth in the EU, and on both counts it is neither a very large nor a small country.

So far Poland seems to have had a relatively good crisis. It is the only one of the EU–27 not to have been in recession over the last two years, with healthy – if declining – growth rates (4.4 percent in 2011; but not more than 1.8 percent expected in 2013). Although much is due to EU cohesion fund transfers, private consumption is growing, and the Warsaw Stock Exchange attracted more new listings than China over the summer. Yet the economy has also shown signs of vulnerability thanks to the euro crisis, with growth slowing and signs of bubbles in sectors such as property. And although it was able to show leadership at the head of the Friends of Cohesion grouping during the November 2012 summit, the game was evidently being decided between Berlin, London, and Paris.

Warsaw's ambitions for a more influential voice begin with membership of the euro, as it is increasingly integrated with the eurozone (which account for half of its exports – and half of those go to Germany) but without being able to influence developments there. It also argues that, with a relatively depreciating złoty, this is also beneficial to the eurozone countries themselves.

Otherwise the strategy has been to concentrate on relations with Berlin, London, and Paris, in that order, playing a predictable, yet quite sophisticated game between the conflicting interests of the three. This in itself is a radically new development in Polish foreign policy, which, over the last two decades, was – for fundamental security reasons – concerned with Washington and Moscow almost as much as with European capitals. Prime Minister Donald Tusk's PO (Civic Platform) put this policy to bed in 2007, with Russia less threatening, the US more distracted, and the EU ever more fundamentally indispensable.

Much of Poland's foreign policy, however, remains focused on regional and neighbourhood issues, and its pre-eminent position in Central Europe allows it to organise some member states around particular issues (such as over CO2 emissions) – although it is wary of courting regional resentment. Through co-sponsoring the Eastern Partnership policy with Sweden it has been able to convert concerns over the situation to its east into a legitimate concern, although with patchy success (Poland was classified as a "leader" in five areas of ECFR's European Foreign Policy Scorecard 2012 that dealt with either Russia or Wider Europe).[18] This Eastern focus makes Warsaw an attractive partner, particularly in Berlin.

Big Sister

Berlin can be seen as Warsaw's main ally within the EU, and both capitals coordinate their major policies closely because of both historical reasons and a shared appreciation of current and future challenges. The German vision of deeper integration and enlargement tallied with Poland's expectations of a European future. Even if the two did not see eye to eye on issues such as the role of NATO (although Poland did second Germany's abstention from action in Libya) or energy (atomic energy and the Nord Stream pipeline), on key issues such as Russia there is fundamental agreement: the common letter their foreign ministers published in November 2011, advocating normalisation with Moscow, has become the EU's common line.

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18 European Foreign Policy Scorecard 2012, European Council on Foreign Relations, January 2012, available at http://www.ecfr.eu/scorecard/2012.

Both countries also want to see the current crisis resolved within existing European institutions, not outside them (Germany in the hope of using these institutions to punish profligate members, and Poland out of concern about the impact on poorer and smaller states). But while Berlin would like to see treaty changes (it is critical of their lack of transparency and of democratic legitimacy), Warsaw is concerned that such ambitious goals might get the whole undertaking bogged down in German constitutional issues. At the same time, Poland wanted Germany to ease its position on Eurobonds and/or the ECB as lender of last resort, while fully understanding German reasons for refusing to do so. "Regarding Germany, the danger is that they will dump the child with the bathwater and destroy the euro," said a top Polish diplomat in late 2011. "The markets still need a clear signal that Germany will do what it takes to save the euro." Since then, some of those fears have been put to rest, but Poland is still painfully aware that it remains an object, not a subject, of Berlin's grand economic policy. Poland needs Germany much more than Germany needs Poland; Merkel is "Big Sister" to Tusk's "Little Brother", not the other way around.

This alliance around common strategic goals has put Warsaw on a collision course with the other two crucial EU capitals, London and Paris. Poland's relationship with Britain is based on a number of shared policy goals, including staunch support for market liberalism and sound fiscal policy, along with a stress on the importance of defence spending (even if London is not in favour of developing a common European defence capability). Both are keen on EU enlargement, although the UK also sees enlargement as instrumental in preventing deeper European integration while Poland believes they can be combined.

The intensifying euro crisis has increasingly put Poland and Britain at loggerheads, although Warsaw has tried to keep Britain in the EU mainstream. In the words of Jakub Wiśniewski, head of strategic planning at Poland's foreign ministry: "Poland should not join the anti-UK chorus. We hope the Brits will recognise that it is better to defend one's interests while being present at the table." Wiśniewski also notes that "the German-French engine always ran smoothly only when the UK is on board". Even if this has not always been the case, the statement clearly reflects Warsaw's political preferences and their belief that this is in the interests of the EU as a whole.

Recent disagreements over the budget have also placed the two countries in opposition to each other, with Prime Minister David Cameron's push for cuts seen to bite deep into cohesion funds that Poland wants for continued economic growth. Although Warsaw appreciates British positions on trade and defence, and what it considers its "common sense" approach, it does not want these to jeopardise its efforts to catch up economically with Western Europe. However, the degree to which Merkel has been willing to accommodate the British over the budget has opened eyes in Warsaw (even if the official line was that this was no surprise). In the medium run, Berlin's warming up to London will not cool Warsaw's relations with the Germans, but it will make Poland more open to France.

Great expectations

Paris had taken a dim view of Poland's positions on Germany and especially the UK, while Poland – while officially only "expressing concern" over some French positions – seemed to view France under former president Nicolas Sarkozy as its main adversary in the EU. This was the culmination of a long process of mutual disappointment, from France's reluctance to support Poland's NATO and EU membership to President Jacques Chirac's infamous "ils ont perdu une bonne occasion de se taire". Although the French veto over Poland's aspiration (as EU President) to participate in eurozone summits was directed more at London than Warsaw, the French promotion of intergovernmental summits over EU institutions and the eurozone over the EU is seen by Warsaw as "a noose around our necks". Poland appreciates EU institutions for giving a voice to smaller and weaker EU members and, as it is not (yet) in the single currency, it is vitally interested in avoiding a "two-speed" Europe. But while French policies seem to constitute an existential threat to Polish interests, Poland is little more than a secondary irritant to a France that wants to keep the Brits out and the Germans in.

For Poland, the ideal solution to the current crisis would be deeper European integration, with Germany (economically) and France (politically) invested in the future of European institutions and exercising joint leadership, and an engaged UK maintaining common sense. Foreign Minister Radek Sikorski gave a powerful and elegant speech in favour of that vision in Berlin in November 2011. He defended EU enlargement against attacks by the French, arguing that the current crisis was due to legitimate doubts about EU credibility derived from incomplete integration. Sikorski endorsed deeper integration, involving mandatory debt and deficit ceilings enabling the ECB to become lender of last resort; treaty changes to strengthen and streamline the European Commission; and more powers for the European Parliament. This was tempered with the proviso that "everything to do with national identity, culture, religion, lifestyle, public morals, and rates of income, corporate, and VAT taxes, should forever remain in the purview of states".

Sikorski cited the role of Poland's "allies, the United States, UK, France, and – above all – Germany" in maintaining a stable democracy and developing a flourishing economy, and noting that Poland would be ready for the euro by 2015. In a speech from which France was spectacularly absent, he called on the British not to hinder the development of European integration: "We would prefer you in, but if you can't join, please allow us to forge ahead." Finally, he called on Germany to implement that integration, concluding by saying: "*I will probably be first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity.*"

The speech was only retroactively endorsed by the prime minister and president (with some grumbling). Poland's European goals (as set out in Tusk's EU presidency speeches to the European and Polish parliaments) are less ambitious than Sikorski's vision, if consistent with it. Its radical federalism has not been endorsed by Tusk and he has put no specific date on euro membership. The government's attitude to it remains ambiguous, but Wiśniewski says the speech was a success: he argues that it emphasises the importance of Poland to a European solution, defends enlargement, and puts a forceful case for British EU engagement to London. However, although it was widely applauded in Germany and noted in Britain, it was all but ignored in France.

Since then, Sarkozy has been replaced by François Hollande, who is more open to Polish concerns and was received by President Bronisław Komorowski during the election campaign and ahead of budget negotiations. A deal on EU budget positions has also been struck, with France no longer defending the Common Agricultural Policy at the expense of cohesion funds, which Poland agrees can be used in Europe's troubled South.

Reality check in Brussels

Despite Sikorski's grand rhetoric, Poland gained little at the December 2011 European Council. The deepening of the eurozone at the expense of EU institutions was a French success and a setback for Poland. The UK's opt-out meant the loss of a potential ally, while the German position on Eurobonds and the ECB was seen by Warsaw as undermining the European project's long-term viability. However, it could have been worse: a "triple A" group was not set up, and the maintenance of EU unity stressed.

The January 2012 summit also saw a clash over Sarkozy's vision of intergovernmental mechanisms running Europe. With some German support, Tusk secured a compromise, with some eurozone summits open to non-euro members who had signed on for the Fiscal Compact (making Poland an effective champion of non-eurozone members who want to be at the table). But, if all the hard decisions are to be made at summits of the 17 eurozone members, this compromise will be mere window-dressing. In turn, Poland's precarious position would not change until and unless it adopts the euro, which is something that Finance Minister Jacek Rostowski is clearly unenthusiastic about.

Given the odds, Poland is playing its European hand surprisingly well. The "special relationship" with Germany endures, and France seems to see Poland as a serious new partner. Poland's relationship with the UK has clearly suffered, not because of bilateral issues, but because of London's growing estrangement with the EU as a whole. Here, Poland only has bad options: either suffer the economic price of meeting London's demands, or the impact (especially in defence and trade) of British disengagement. Poland's implicitly recognised leadership of the Friends of Cohesion group is in itself a major accomplishment, and an indicator of Warsaw's deeply desired more important role within the EU. Economic difficulties, however, would imperil these successes.

Regardless of future developments, Warsaw's great contribution is to prove that enlargement works to the benefit of existing EU members. The EU now benefits from Poland's market, its political contribution, and its aspirations. While the future of the European project is by no means certain, Poland's role in shaping it seems assured.

Daniel Smilov

14
Bulgaria and the anxieties of incomplete membership

The financial crisis in Europe has exposed a certain inferiority complex regarding Bulgaria's position within the EU. As its poorest member, Bulgaria sees the EU as the surest way to improve its economic position (and its people see Brussels as a corrective to the inadequacies of domestic politics). But it is also aware that its links to Greece, the fall-out from the euro crisis more generally, and a reputational problem over the efficiency of the country's government and corruption might deny it the full benefits enjoyed by previous joiners of the EU. Bulgaria has striven to demonstrate that it justifies its membership, for instance through financial discipline. Despite this, it is caught in an anxiety-inducing position of apparently incomplete membership, without the time to absorb the benefits of EU accession before the euro crisis hit.

Greece's central role in the euro crisis is a considerable problem. Bulgaria's links to Greece are very apparent in its banking sector, with around a quarter of its banking system owned by Greek banks. Although the local bank affiliates are registered in Bulgaria and operate under the supervision of the Bulgarian National Bank, there is considerable anxiety about the consequences of any Greek financial meltdown. However, its relative financial discipline underlines the differences with Athens: its debt-to-GDP ratio is around 16 percent and it has small annual budget deficits (preceded before 2009 by almost a decade of surpluses).

Bulgarian governments are faced with the difficult task of convincing the rest of the EU that: first, that Bulgaria is not Greece despite all the geographical, cultural, and historical similarities; second, that the periphery can grow and catch up under current EU arrangements for solidarity and modest redistribution (benefitting from direct subsidies, increased foreign investment, and low borrowing costs); and third, that this model is sustainable into the future (even if we assume that the country is not Greece at the moment, it has to demonstrate that it will not become Greece after a period of EU-wide growth).

The strategy of the governing centre-right GERB party is to demonstrate that the Bulgarian economy is robust enough to survive any austerity measures required by the EU.[19] This explains why Bulgaria has committed itself to the Fiscal Compact, and has promised to follow its financial discipline rules even before becoming a member of the eurozone. Thanks to a relatively mild economic slowdown the government's adoption of measures such as freezing salaries and pensions for several years (with a small indexation of pensions over the last year) has been voluntary.

The opposition Bulgarian Socialist Party (BSP) is not opposed to this strategy in principle (its 2005–2009 government had economic policies largely in tune with the fiscal discipline rules, and introduced the flat income tax of 10 percent). However, since 2011, the party has been more critical for two main reasons. First, party chairman Sergey Stanishev has become the acting chair of the European Socialist Party (with ambitions to make this arrangement permanent), and has aligned his views with those of other European socialists who oppose the Fiscal Compact and austerity (the party now says it will repeal the flat tax). Second, the Bulgarian economy is showing signs of a serious slowdown and a tendency towards stagnation. Long-term fiscal stability is highly dependent on continued growth.

The Bulgarian political landscape is thus shaped largely by the positions of the two main eurozone countries: Germany (in the case of GERB) and France (in the case of the BSP). However, as Bulgaria's main interest is in a stable, growing, and politically coherent eurozone, it has a strong interest in being cooperative and open to compromise, and following whatever the main eurozone position is on any given issue.

An exception to this might be any EU-wide tax harmonisation, which the government vehemently opposes. The BSP's position is more ambiguous: although they would replace the flat tax with a progressive one, they are wary of any changes that would deprive Bulgaria of one of its few comparative economic advantages.

Overall, Bulgaria will support measures intended to strengthen the eurozone, and try not to rock the boat through initiatives of its own. While struggling to limit any fallout from the Greek crisis, Bulgaria understands that its

19 Citizens for European Development of Bulgaria, formed largely as a protest party around its charismatic leader Boyko Borisov.

hopes of escaping economic slowdown are directly linked to the survival and reinvigoration of the eurozone.

EU debates in Bulgaria

There is limited debate about the EU in Bulgaria, partly due to most Bulgarians being firmly pro-European. Despite a small slip since accession, according to the December 2011 Eurobarometer poll, Bulgarians currently trust the EU significantly more than anyone else (59 percent, with Estonia second on 51 percent). This is not due to ignorance, as more Bulgarians have heard about EU institutions compared to citizens of many other member states.[20]

Other factors contribute to Bulgarian support for the EU, beginning with the country's history. Bulgarians love their history so much they can be accused of constantly trying to improve its length and quality. Bulgarians tend to see their history (since the seventh century) in terms of fighting for worthwhile causes and being the victims of historical injustice. EU accession – along with liberation from the "Turkish (Ottoman) yoke" in 1878 – is seen as a major exception, following a slow post-1989 transition from loyal Soviet satellite, with little anti-communist or anti-Russian sentiment. Serious reform only began in 1997 following hyperinflation, the widespread loss of savings, and a governmental crisis. Despite accession in 2007, these contributed to continuing problems over living standards, the welfare state, and inequality.

This transition is therefore seen as both the biggest historical achievement of modern Bulgaria, entrenching its status as a developed European nation, and also as a source of anxiety: it did not go smoothly and was marked by lagging behind, additional conditions, probationary periods, and monitoring, creating a feeling of insecurity that its incomplete membership could unravel. Bulgarians enjoy lower living standards, incomes, and public services provision than the rest of the EU. As a consequence, Bulgarians feel obliged to demonstrate exceptional loyalty to the union. Finally, Bulgarians are not concerned about sovereignty, as their history shows that sovereignty is usually not lost in negotiations where you are treated as equal (whatever dangers the EU poses, it does not resemble previous polities such as the Ottoman Empire).

20 Bulgarians score close to the EU average (67 percent against 69 percent) when answering basic questions about the EU.

As elsewhere in the former communist accession countries, Bulgaria has experienced a rise in populism. Although much of this is nationalist, it has had little (if any) impact upon perceptions of the EU and EU membership. Charismatic populists signed the accession treaty in 2004, and currently represent Bulgaria within the EU. Despite the occasional use of nationalist rhetoric, the current (GERB) prime minister, Boyko Borisov, has publicly acknowledged that whatever German Chancellor Angela Merkel says, he "listens and obeys". Counter-intuitively, such remarks seem to be conscious efforts to gain credibility with domestic audiences.

The rise in populism has coincided with an increase in super-constitutionalisation, with legal or quasi-legal constraints imposed on elected and democratically accountable bodies. This has affected Bulgarian domestic politics as well as its relationship with multinational organisations such as the EU and NATO. Specific EU conditionality measures affect Bulgaria in areas such as judicial reform and the fight against corruption and organised crime, and economic decision-making has been subject to similar impositions. The national currency is pegged to the euro and the Copenhagen (accession) criteria contained a requirement for a "functioning market economy… capable of withstanding competitive pressures". The rise of populist politics has not decreased enthusiasm for the progressive constitutionalisation of economic and (especially) fiscal rules, under the umbrella of the EU and its Fiscal Compact. The Bulgarian government has shown itself to have an appetite for such constraints: for instance, the finance minister, Simeon Djankov, not only proposed entrenching the EU-wide fiscal rules but also the requirement for a two-thirds parliamentary majority for changes in taxation levels.

These developments are further evidence of the exceptionally low trust that Bulgarians have in their democratically elected political elites. Polling data suggests that only 14 percent of Bulgarians trust political parties (according to the December 2011 Eurobarometer poll), and that only 16 percent believe Bulgaria is governed in the interest of all.[21] The EU is seen as an instrument that helps the people to monitor and constrain their (distrusted) elected representatives. This "populism of fear" (rephrasing Judith Shklar) is motivated by a general distrust in the capacity of democratically elected officials, and democratic politics more generally.

19 Pew Global Attitudes Survey 2009.

Such super-constitutionalism also demonstrates commitment to the EU. The fear is that a core of EU countries, grouped around the single currency, move away from the rest (including Bulgaria). Bulgaria needs a substantial amount of time before it could be part of any such inner core, and this demonstration that it can abide by externally imposed constraints and conditions shows commitment to economic convergence and further integration, and marks a difference between Bulgaria and more troublesome countries (such as Greece) in the periphery.

Conclusion

Bulgarian people's trust in the EU is connected to their mistrust in their own elected political elites. The EU is a handy monitoring device, helping them to control the elites and expose their mistakes and misdemeanours. EU membership is also a mark of status for the Bulgarian state and its democracy (although some within the EU question whether this is deserved). The Bulgarian public sees neither the EU as endangering sovereignty or identity, nor its constitutionalising of politics as endangering Bulgarian democracy. Indeed, a specific variant of populism has emerged that trains Bulgarian representatives to live with significant constraints on their own powers, and even to introduce new ones.

These developments explain the exceptional level of trust in the EU in Bulgaria, and its absence from heated domestic political debates. Dissatisfaction and distrust in the EU might come at a later stage, when the inferiority complex of incomplete membership starts to be overcome. Alternatively, the development of a "two-speed" Europe, with a central core grouped around the euro, will also concern Bulgarians fearful of being trapped in the "incomplete" grouping. It is of prime importance within Bulgaria that it both underlines the differences between it and neighbours such as Greece, and shows that it is willing to adopt external constraints and conditions to help it eventually join any inner core. Until that date, however, the fears of Bulgarians are different: as a popular joke notes, all empires of which Bulgaria has been a part have come to a crushing end. The hope is that, in terms of longevity, the EU will be more like the Byzantine and Ottoman empires, rather than the Soviet Union.

Abbreviations

CSDP	Common Security and Defence Policy
ECB	European Central Bank
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
IMF	International Monetary Fund
OMT	Outright Monetary Transactions

Appendix

Fieldwork from YouGov/Peter Kellner on the roots of British attitudes to Europe

Source: YouGov; sample: 1,743; fieldwork: August 20–21, 2012

The roots of British attitudes to Europe

Here are some pairs of statements. For each pair, please indicate whether you agree more with Statement A or Statement B.	%

Traditions v values

Statement A 'The best things about Britain are to do with its history, geography and traditions – things like the monarchy, the countryside, warm beer and cricket on the village green, and our history of standing alone against Hitler in the Second World War.'	44
I agree with both statements to the same degree	25
Statement B 'The best things about Britain are to do with its values of tolerance, democracy and fair play – things like free speech, the right to protest, and the way we have welcomed people from all over the world who wish to settle here.'	21
Neither / Don't know	10

Has Britain been going to the dogs?

Statement A 'Taking everything into account – especially modern technology (such as the Internet and mobile phones), rising life expectancy, more interesting jobs, the huge choice of food, clothes, culture and leisure opportunities that previous generations could only dream of – life in Britain today is generally better than it was 30 or 40 years ago.'	40
I agree with both statements to the same degree	16
Statement B 'Taking everything into account – especially large-scale immigration, high unemployment, unruly schools, drug pushing, drunken hooligans, lax moral standards and gang wars in many cities – life in Britain today is generally worse than it was 30 or 40 years ago.'	37
Neither / Don't know	7

Optimism v pessimism

Statement A 'Despite Britain's current economic problems, I am basically confident about the long-term future. Our children's generation is likely to end up enjoying a better standard of living than our generation, just as our generation has broadly been better off in material terms than our parents' generation.'	**23**
I agree with both statements to the same degree	**9**
Statement B 'I am not at all confident that the pattern will continue, of each generation being better off than its parents' generation. I fear that our children's generation will find it harder throughout their lives than ours to enjoy a reasonable standard of living.'	**59**
Neither / Don't know	**9**

British exceptionalism?

Statement A 'It's understandable that people throughout the world are patriots who are proud of their own country. But Britain's history and character make our country special. We really do have more reason to be proud of our country than people in most other countries have reason to be proud of theirs.'	**25**
I agree with both statements to the same degree	**15**
Statement B 'It's natural to be proud of one's own country, but if we are honest we should recognise that no country is fundamentally superior to any other. People in much of the world have just as much reason to be proud of their country as we have to be proud of ours.'	**52**
Neither / Don't know	**8**

Can Britain go it alone?

Statement A 'In today's world, with global trade and global companies, there are severe limits to what Britain can achieve on its own. We must work closely with other countries and with global institutions such as the United Nations, the Commonwealth and the World Trade Organisation if we are to maximise our influence and prosperity'	**40**
I agree with both statements to the same degree	**13**
Statement B 'The case for global rules and institutions is often overstated, and their so-called benefits an illusion. Britain is perfectly able to decide for itself how best to run its affairs and relate to other countries. Britain should seek to control its destiny without worrying about the rest of the world.'	**35**
Neither / Don't know	**12**

For or against overseas aid?

Statement A 'It is in Britain's interests to help the world's poorer countries to become better off. This would be good for British exports and British jobs – and reduce the danger of conflict and terrorism. For these reasons there is a strong practical as well as moral argument for maintaining our spending on international development.'	**32**
I agree with both statements to the same degree	**11**
Statement B 'Money spent on international aid is largely wasted. It supports corrupt regimes and ends up doing little or nothing to support development or reduce conflict or terrorism. There is neither a moral nor a practical case for such spending. Britain should look after itself, and leave poorer countries to sort themselves out.'	**48**
Neither / Don't know	**9**

A special relationship with Europe?

Statement A 'Whether we like it or not, Britain must work especially closely with the rest of Europe if it is to prosper in the 21st century. That does not necessarily mean accepting the European Union as it is. Nor does it mean that Britain must work for a 'United States of Europe'. It does mean that, inside or outside the EU, we must recognise that we are a European nation.'	**38**
I agree with both statements to the same degree	**14**
Statement B 'As an island with a long history of connections with the rest of the world, a major role in the Commonwealth and a 'special relationship' with the USA, Britain has no need to give extra weight to its links with the rest of Europe. Britain is most likely to prosper if it treats the rest of Europe as no more important to us than any other part of the world.'	**35**
Neither / Don't know	**13**

Pro-EU v anti-EU

Statement A 'For all its faults, the European Union is a pioneering example of the way different countries can work together for mutual benefit. Over the past half century, the EU has helped Europe to become more peaceful, democratic and prosperous than at any time in the continent's history.'	**25**
I agree with both statements to the same degree	**8**
Statement B 'The EU has failed. It is expensive, inefficient and overbearing. It stops the governments of member states from doing the things they need to do to improve the lives of their citizens. The EU has had nothing to do with Europe being more peaceful, democratic and prosperous than it used to be.'	**52**
Neither / Don't know	**14**

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