

# Guy Verhofstadt and the 'United States of Europe': The Eurozone as a new core Europe?

Europe is in crisis. The sighs of relief after the rescue of the European budget at the Council meeting in December 2005 could not belie the fact that much political energy was needed to strike a comparatively small bargain, which eventually did not lead to much change. Europe seems to be gripped by a lack of political determination where key issues such as agricultural reform, a common security policy or the fate of the constitution that will be crucial for the European Union's future, are being dropped from the agenda. In parallel to this stalemate in European decision-making, the Union is experiencing a crisis of confidence, expressed in the French and Dutch no-votes, which sent the Constitutional Treaty into a moribund 'reflection period'. Difficult times for people who would like to see more European integration, one might think.

The current crisis of decision-making incapacity and lack of public support is the starting point of Guy Verhofstadt's manifesto 'The United States of Europe' that has been circulated recently among high-level policy-makers and commentators'. How can the European Union be made more attractive especially to the younger population? Where should it go from here if it is not to unravel or atrophy into a mere free-trade area? How can Europe become a more decisive global player? To the Belgian Prime Minister, the answer to all this lies in a politically strengthened Eurozone – equipped with a comprehensive socio-economic strategy – which lies at the core of a 'new Europe'.

## The 'United States of Europe': a club within the club

The essence of Mr Verhofstadt's suggestions is that some EU Member States should take the next step towards further integration together and co-operate more closely on a range of issues. This vision is based on the conviction that there is within the European Union an unfulfilled public demand for closer co-operation, exemplified in recent Eurobarometer polls. These suggest that citizens in the majority of the EU's countries (except Denmark, Greece, Sweden, Malta and the United Kingdom) would like to see more European co-ordination in a variety of policy areas, notably foreign affairs, security and defence.

For Mr Verhofstadt, the negative votes on the European Constitutional Treaty reflected and partly arose from a diminishing public sense of European identity, in which the apparently endless enlargement of the European Union plays a central role. Hand in hand with the weakened sense of European identity goes, in Mr Verhofstadt's view, on the part of European voters an increased fear of economic insecurity and social pressure arising from globalisation. In recent years, the European Union has been unable to address these fears, because its policies are too uncoordinated, ineffective and marginal to be able to present any meaningful response. The Belgian Prime Minister's conclusion from his analysis of the French and Dutch referendums is that the European Constitutional Treaty was not rejected because it was too ambitious, but because it was not ambitious enough.

Mr Verhofstadt's answer to these identified problems is that the concerns of the European voters can be best alleviated by a unified European approach to problems: one must give the European Union the means and measures it needs to render its policies more

CONTINUED OVERLEAF

### EDITOR'S NOTE

This is the twenty-second in a series of regular *European Policy Briefs* produced by the Federal Trust. The aim of the series is to describe and analyse major controversies in the current British debate about the European Union.

This Policy Brief forms part of the Trust's ongoing project on the governance of the euro.

Brendan Donnelly (Director, Federal Trust)

efficient and to make the Union more attractive by being capable to respond to its citizens' demands. Like many before him, Mr Verhofstadt draws inspiration from the experience of the United States of America. The birth of a federal structure with a common budget and a constitution proved difficult and slow at the beginning, but gained pace as problems mounted that could only be dealt with properly at the federal level.

However, the Prime Minister realises at the same time that a substantially more integrated European Union might not be accepted by all and that it would make little sense to wait until each and every Member State was ready to join this more ambitious project. The difficulty in achieving consensus is even greater now in a Union of 25, 27 or even more Member States. Mr Verhofstadt's prescription therefore is for a double future structure in the European Union, consisting of a 'United States of Europe' and an 'Organisation of European States'. The first would be a highly-integrated federal entity based on the present Eurozone. The second would be a more intergovernmental confederation, essentially a sophisticated free trade area, for which in particular geographically peripheral countries of the present Union would be obvious candidates.

## **A Socio-Economic Strategy for the Eurozone**

Mr Verhofstadt's vision of a recreated European Union breaks new ground, in that it is based on a club that already exists. For him, the Eurozone is by a long way the most plausible template for a more integrated 'core Europe', based on already-existing and indeed deepening forms of co-operation between a sub-group of EU Member States. The Eurozone's members have already shown a high level of shared political commitment and, by pooling their monetary sovereignty, they have taken a large step towards the 'common destiny' of which the European Treaties speak. The Verhofstadt analysis stresses that the Eurozone should not be a closed club, and that transparent criteria should be laid down for accession by all Member States of the Union who wish to join. But in the short term it is on the twelve members of the current Eurozone that Mr Verhofstadt pins his hopes for a 'United States of Europe'.

While his pamphlet touches on other policies for driving integration further (such as R&D, security and defence), Mr Verhofstadt sees the most important task

for a core Europe as being the socio-economic policies to lift the Union out of its current crisis. The Member States agreeing to take the next step of integration must show the willingness to develop a common economic policy in support of the euro 'that is capable of rising to the challenges'. Like the British Prime Minister, Mr Verhofstadt believes that one of the main reasons for current public disenchantment with the European Union is the poor economic performance of many Member States. His suggested cure, however, is different to Mr Blair's. The Belgian Prime Minister criticises the disparity and narrowness of existing European economic policy. The Lisbon strategy, in his view, has not led to genuine progress because the open method of co-ordination used for decision-making is too casual and does not bind the parties. Mr Verhofstadt contrasts this with the Stability and Growth Pact, a more formal approach to economic co-ordination. He praises the underlying philosophy of the Pact, although he finds it too limited in scope and insufficiently embedded into corresponding and supporting European economic policies. The recurrent theme of his pamphlet is that only by taking a unified stance can the European economy become a global player and fight common problems such as slack economic growth and high unemployment.

A defining element of Mr Verhofstadt's comprehensive strategy consists of a strong and concerted social policy to alleviate the fears and insecurities of European citizens. He is eager to avoid any impression that social protection should be sacrificed on the altar of globalisation and economic imperatives. One of the goals he sees for a more integrated Eurozone is the prevention of what he regards as intra-EU social dumping, a phenomenon that has become even more pressing through the recent round of EU enlargement to cheaper and socially less protected Eastern European economies. Mr Verhofstadt therefore calls for an agreement within the Eurozone on minimal social and tax standards (with bands to allow fluctuations among Member States) for factors of labour market flexibility such as levels of workers' protection, pension and other company-related legislation.

## **New Europe: new financing and institutions**

A new financing scheme and new institutions accompany the Verhofstadt strategy. Interestingly, he accepts that in

many European countries unemployment is exacerbated by the excessive financing of social policy through taxes levied on labour. This has the effect both of making European labour internationally uncompetitive and of discouraging employers from taking on new staff. The Prime Minister would therefore like to see public revenue, for social and other policies, derived more and more from indirect taxes, of which a European VAT would be one. This latter tax would in its turn form the basis of an autonomous European budget, not at the mercy of direct national contributions and avoiding the need for the cumbersome budgetary negotiations which regularly disfigure the proceedings of the European Council. Lastly, Mr Verhofstadt proposes new and stronger European institutions that by virtue of their transparency and recognisability would acquire greater democratic legitimacy. These new institutions would include a European economic cabinet – similar to a government with executive powers. For the Prime Minister, his suggestions or something like them are 'the only option' Europe has in the present state of crisis if it wants to play a role at the global level and to modernise its economy.

## **The Eurozone as template?**

The idea of a core Europe is not new: it has regularly surfaced over the past decade as an expression of the frustration of those who wish to move European integration further or faster than could be done by consensus in the Union. Mr Verhofstadt's ideas stand in the tradition of the Schäuble-Lamers paper in 1994, Joschka Fischer's speech at Berlin's Humboldt University in 2000, and the provisions on 'enhanced co-operation' contained in the Amsterdam and Nice Treaties and in the unratified Constitutional Treaty. It cannot be surprising that the concept has re-emerged in a European Union now enlarged to 25 Member States. Mr Verhofstadt's proposals represent, at least theoretically, a number of hitherto separate elements in the debate about Europe's economic and political future. Many commentators, especially in Britain, have concluded from the failure of the European Constitutional Treaty that a long, perhaps indefinite period now needs to pass before any further substantial steps towards greater European integration can be envisaged. Mr Verhofstadt draws precisely the opposite conclusion. He sees the limited and uninspiring nature of the Constitutional Treaty as being the reason why it was so unattractive to the French

and Dutch electorates. The integrative development of the Eurozone is in his view the only now plausible route for fostering a sense of shared political identity within 'core Europe', an identity which in Mr Verhofstadt's view many Europeans crave, but did not see reflected in the cautious and ambiguous formulae of the Constitutional Treaty. Nor do they see this identity reflected in the present workings of the single European currency, which is regarded by many Europeans as simply magnifying the problems of globalisation rather than providing a coherent response to them.

Particularly noteworthy in Mr Verhofstadt's pamphlet is the outspokenness with which he combines the traditional federalist agenda of closer European integration and the recourse to economic imperatives. This is a new strategic turn for those who would like to see the European Union develop into much more than a simple free-trade area, however structured. Mr Verhofstadt fully accepts that the European Union will be more attractive and indeed more legitimate in the eyes of its citizens if it can demonstrate its contribution to solving their economic problems. For him, economic success and European integration are two sides of the same coin, and it is a major part of his argument that a more integrated Eurozone would be a more prosperous Eurozone. He seeks to create a virtuous circle in which the economic successes of European integration act as a politically legitimising factor for that integration. The present, embryonic governance structures of the Eurozone are the foundations on which progress towards this goal can be made, progress facilitated in the immediate future by the relatively restricted membership of the Eurozone group. Like many political visionaries before, Mr Verhofstadt sees in contemporary problems the opportunity for long-term solutions consonant with his own underlying political goals.

## The macro-economic and social mix of Mr Verhofstadt

Mr Verhofstadt's analysis will undoubtedly be politically controversial. The very concept of a 'United States of Europe' is one profoundly disquieting to many politicians, commentators and electors throughout Europe. Mr Verhofstadt may recall that in the 1990s the German Chancellor, Helmut Kohl, demonstratively abandoned any use of the term, explaining that he saw it as

provocative and misleading. It is bold indeed for the Belgian Prime Minister to tread ten years later a path prudently abandoned by the German Chancellor. But it may be that the most disputed aspect of his proposals is their economic element. Both elements of his economic blueprint will arouse contradiction.

The first pillar of the Verhofstadt socio-economic strategy is the thorough-going co-ordination of national economies, underpinned by an economic cabinet of all the Commissioners dealing with economic issues and a central budget more substantial than that at present. Whether the EU's Member States would be willing to accept the sovereignty-pooling implicit in such a radical suggestion must be at least questionable. It is not at all clear that the European Commission has the technical capacity, let alone the political legitimacy, to take on such a co-ordinating (directing) role in even the long term. There are undoubtedly problems of economic management associated with the present unsatisfactory governance structure of the Eurozone. Opinions differ, however, as to whether centralised co-ordination represents a move in the right direction. In particular, it is a matter of controversy whether an enhanced role for the European Commission in this context would be beneficial. Some economists at least would fear that the political and economic culture of the European Commission is likely to be an excessively interventionist one, overoptimistic as to the appropriate role of central political institutions in the workings of the economy, whether at the national or European level. It may be that the European Commission can steer a more balanced course in these difficult matters of judgement and theory than can the German, the Finnish or the Irish government. The case is not one which is self-evident.

The second component of Mr Verhofstadt's comprehensive strategy is the safeguarding of the European Social Model. He argues (rightly) that the rejection of the European Constitutional Treaty, particularly in France, was substantially attributable to a fear on the part of voters that the European Union is today only concerned with the continuous opening up of markets. From this fear, he draws the conclusion that the 'core Europe' based on the Eurozone must be one that prevents either its members or its European partners in the 'Confederation of European States' from engaging in the social dumping which comes from low levels of social protection and tax. These low levels of social protection and tax, particularly in the new Member States of the Union, represent

to Mr Verhofstadt a distortion of the European single market, which the 'United States of Europe' would need to counteract by setting agreed minimum social and tax levels among its members.

The second leg of Mr Verhofstadt's economic model for the Eurozone will arouse at least as much political and economic controversy as the first. Analytically, many economists regard the very conception of social dumping as simply disguised protectionism, and this view is well entrenched in a number of governments within the European Union, not just in the new Member States. It is moreover difficult to see how the 'United States of Europe' could legally protect itself against social dumping without renouncing the current European single market of 25 states. Agreements along these lines by the members of the Eurozone would certainly be possible between themselves, but could not in the current state of European law be used as a weapon to exclude goods or services from other EU Member States not party to such agreements. In constructing his model of Eurozone governance on the basis of Commission-run economic co-ordination and the protection of the European Social Model (anyway a more elusive concept than he seems to allow) Mr Verhofstadt has ensured that his prescriptions will be the subject of much polemical debate.

## National positions

The intention of a manifesto is to spark debate and to publicise a vision. Mr Verhofstadt clearly hopes that his ideas will gain currency precisely as a result of the uncertainty and soul-searching in which the European Union is now engaged. His radical proposals constitute his contribution to the 'period of reflection' which has succeeded the French and Dutch referendums. They are a call to arms, rather than a fully worked out blueprint for every aspect of the 'United States of Europe' which he espouses. Nevertheless, the outlines of the Verhofstadt analysis are clear and have already provoked some reactions. It would be surprising if at least some of his fellow members of the European Council did not attempt a serious critique of his proposals. Their considered reactions will dictate whether the Belgian Prime Minister's ideas shape the European debate over the coming months.

First reactions to the manifesto have been mixed. It has sold well in Belgium, but the present Austrian Presidency of the Union has said that it wants to 'bring Member States together' rather than to separate them. Although the British government has

not commented formally on the manifesto, British rejection of its proposals can be confidently expected. The combination of enhanced sovereignty-sharing and the pursuit of a particular European Social Model in the integrated Eurozone area would not be acceptable to any foreseeable British government. While Ireland might well be initially less hostile to Mr Verhofstadt's ideas than the United Kingdom, it has been as resolute as the United Kingdom in rejecting any tax harmonisation within the European Union that might undermine its competitiveness. The Republic would be one country from the existing Eurozone which would be on the face of it a very uncertain candidate for the 'United States of Europe'. The Verhofstadt model for these 'United States of Europe' demands acceptance both of economic co-ordination and a particular model of Social Europe. Ireland might well find it difficult to accept the entirety of this package.

In other Member States, there is more potential sympathy for Mr Verhofstadt's analysis. While there is as yet no official backing for the suggestions presented in his manifesto, this does not necessarily imply that there is no possibility of such plans to be supported in the medium to long term. In France, for instance, on both the left and right of the political spectrum, there are the beginnings of a debate on the governance of the euro, and what France's role (perhaps linked to that of Germany) should be in an enlarged European Union. Mr Verhofstadt's vision of a 'core Europe' geared around the euro and the European Social Model dovetails neatly with a number of recent French concerns about French loss of influence in a larger Union and the supposedly liberalising tendencies of this enlarged Union. The Italian view of 'core Europe' clearly depends in the medium term on the outcome of the Italian General Elections in April, where a government of Mr Prodi could be confidently expected to take an altogether more favourable view of Mr Verhofstadt's ideas than another administration of Mr Berlusconi would. Given its enthusiasm at the time of its election to be seen (in contrast to its predecessor) as ardently pro-European, Mr Zapatero's Socialist government in Spain could well be a potential ally for the Verhofstadt theses if they came to generate support elsewhere within the Eurozone.

The long-term key, however, to the political salience of Mr Verhofstadt's proposals will be the new German Chancellor, Mrs Merkel. She has been widely described as having only limited knowledge of or interest in the

affairs of the European Union. She surprised, however, many observers by the central and constructive role she played in the resolution of the European budgetary negotiations in December 2005. If she concludes that there is merit in Mr Verhofstadt's argument that better economic co-ordination within the Eurozone will make the euro work better, then her lack of any long-standing commitment to the overall goal of European integration, which is so powerful in Mr Verhofstadt's thinking, need not be a barrier to her taking up the European mantle of her political patron, Helmut Kohl. Ironically, a central reason why the euro was set up under the Maastricht Treaty with such a limited infrastructure of governance was the desire to reassure the Bundesbank that the monetary discipline provided by the European Central Bank would not be undermined by irresponsible political interference. It will be a very interesting subject for political commentary over the coming months whether Mrs Merkel reflects the intellectual legacy of the Bundesbank or tends more towards the model of Mr Verhofstadt. The difficulty of predicting her final reaction to the Belgian Prime Minister's proposals is symbolic of the uncertain terrain over which Mr Verhofstadt has chosen to fight his new campaign.

### **Public political acceptance and the politics of reforms: concluding remarks**

Mr Verhofstadt is convinced that an 'overwhelming majority' of citizens would accept his proposals in a European referendum. This conviction is largely based on his belief that a more sophisticated governance structure for the euro would lead to more efficient and effective economic policies in the Eurozone, which would in turn make the Union more attractive to the wider public. In this connection, an obvious problem of timing presents itself. A referendum to endorse Mr Verhofstadt's proposed new structures for the Eurozone would not, by definition, have been able already to benefit from these structures. The European electorate would need to be convinced by arguments rather than facts that a more tightly integrated 'core Europe' could deliver the economic advantages promised by its proponents.

It may seem strange to some of Mr Verhofstadt's critics that he should be putting forward his ambitious proposals so soon after the rejection in the French and Dutch referendums of the European Constitutional Treaty, of which he was an

enthusiastic advocate. One line of analysis explicitly calls now for a period not merely of reflection, but rejection of any European integrative initiatives for many years to come. This in essence is the view of the British government, although this approach is by no means confined to the United Kingdom. Nevertheless, it would be wrong for the British government and those who share its relief that the European Constitutional Treaty has apparently died by French and Dutch hands to assume that the discussion about the European Union's constitutional future has disappeared entirely. Mr Verhofstadt's ideas may find no echo in the current Eurozone, or they may act as the catalyst for a major new debate on the Union's future. He is entirely right to sense the paradox which led to the Treaty's being rejected in France because of its supposed excessive economic liberalism and might well have led to its rejection in Britain because of its supposed excessive corporatism. Paradoxes are always capable of two resolutions and Mr Verhofstadt has put forward his own resolution, in a way that tries to make the future development of the Union more attractive to most French voters. Freed of the need to accept the compromises of the European Constitutional Treaty, Mr Verhofstadt has set out a vision which is at the same time more compelling and more controversial than what has been rejected. He will be awaiting the results of the hand grenade he has thrown into the debate with great interest.

Katharina Gnath

### **Notes**

<sup>1</sup> Guy Verhofstadt, *The United States of Europe. Manifesto for a new Europe*, December 2005. To be published in English by The Federal Trust in February 2006.