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Transcript

Chatham House Debate: Ever Closer Union? The Future of the European Project

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John Peet:

Welcome to Chatham House. My name is John Peet. I'm the Europe Editor of *The Economist*, and it's my pleasure to be moderating this debate, 'Ever Closer Union? The Future of the European Project'. The European project, as I know from my own workload, is very much in the news at the moment. Only today, we've heard that the Greeks have given up trying to form a government and they're going to – there will now be a new election in Greece. And then just before I came, I heard that François Hollande's plane was struck by lightning on his way to Berlin. He had to return to Paris. He is apparently trying to still go to Berlin, but – the Greeks are in charge of lightning, I believe. It must tell us something.

We're not going to talk actually about Greece or the euro crisis, although I think it is a backdrop to what we are discussing. We're talking about issues of democracy, legitimacy and accountability. Do citizens even in pro-European countries want a federal Europe? How long can technocratic governments that have been foisted on many European countries without a mandate be sustained? And are other member states comfortable with the dominance of Germany at Europe's centre? And I think democracy and political accountability are emerging as very big issues in the euro crisis, if the euro crisis ends up being resolved by the creation of a closer central union of some kind. The question of how accountable it is and whether it has voter support is going to become one of the biggest subjects.

We have John Jungclaussen, London correspondent of *Die Zeit*, who will no doubt tell us a lot about his own country. Kalypso Nicolaïdis, professor of international relations at the University of Oxford, who will tell us about Greece, but also about France, because she's Franco-Greek. That's right, isn't it? And Jo Johnson will talk a little bit about the implications for an out country in all this, his own, the United Kingdom. About five minutes each – we'll start with John Jungclaussen.

John Jungclaussen:

Thank you John. I'll try and be brief so we can get as many questions – take as many questions as possible. Do citizens even in pro-European countries really want a federal Europe, and do they share a common vision for what it would look like? Well, the answer to that is, I think, quite clearly no. And if we talk about the future we have to look at two different time frames here, I think, the immediate future, in which it will be about resolving the crisis and returning Europe to stability, and the long term future. And if you think back

over the last 18 months, since the crisis erupted, the Germans certainly stuck to Ms Merkel and to the idea of an increasing federal – a federalist Europe. Ideas came about for a finance ministry in Brussels. And there is a sense that that is inevitable.

I think, two brief sort of historical ideas to underpin that – it wasn't just the immediate experience of two world wars that made the European Union so inevitable after 1945. It was also the experience of generations over hundreds and hundreds of years of people who lived on the European continent and were ravaged by war every generation. There wasn't a generation over the last 600 years in Europe that was not, in one way or another, affected by war, where sons and daughters weren't drafted in to fight for one side or the other. So I think that has to be borne at the back of our minds when we talk about the failed project that Europe was, and in that sense it made the creation of the euro inevitable as well. So, short term, yes, I think there will be a drive towards more federalism.

In the long term, however, and I'm talking about 30 years perhaps, 40, I think Europe will be a very different creature. It will look – there will be a core Europe, that's my, that's my sort of image of it now – a core Europe that will include Germany, the Benelux countries, Poland, maybe the Scandinavian countries, possibly even Britain – but it will not include the Mediterranean countries, and I don't think it will include France because the Franco-German bond is not a natural one. If you look back at the last 60 years, that strong access between Berlin and, at first Bonn and Paris, and then Berlin and Paris, has not led to the two people coming closer together. The Germans would still instinctively try to travel to England and Scotland on holiday, and wave Union Jacks and celebrate the royals here than go to France.

And the reason for that failure of German – of the European project, is that as the question indicates, there is not a narrative anymore, there won't be a narrative in the future, that will bind these disparate parts of all corners of Europe together. And the – curiously, actually, the Brits are at the moment much more closely linked in a way to the original idea of Europe than all other nations because the idea that – the sort of obsession with the war, the fact that that war memorial in Green Park, a memorial to Bomber Command, is unveiled in June – harks back to the founding ideas of the European Union and the way that other peoples and other parts of Europe aren't so concerned with that part of their history anymore. But in the future that will go. The generation after mine will have one clear question towards Brussels and Europe, and that will be: what does it do for us? Not: what can we do for it? And then it will be about very clear and straightforward economic interests.

And that question Europe will not be able to answer in a sort of straightforward way and in a way that will please everybody.

Are the other member states comfortable with the dominance of Germany at Europe's centre? Well, whatever she does, she's not going to get it right in the view of most people. Either she's not responsible enough, given the economic might and the geographical position, or it's the Germans who want to dominate, it's, you know, 'Gauleiter' Merkel and those kind of things. So I think there will be a common thread that will unite that smaller core Europe, that eurozone – Benelux, Poland, and the Scandinavian countries – something that would actually resemble more closely the Hanseatic League, which was hugely success and lasted for many centuries. And then it won't so much be about Germany being dominant, being domineering, but Germany sharing the same ideas, which are basically about balancing books, than Germany completely dominating.

John Peet:

Well, thank you very much. Provocative. Kalypso.

Kalypso Nicolaidis:

Right, well, I think it's nice because I think we won't quite agree. And I would say, first of all, not so much predicting the long term but looking at the landscape in Europe today, you asked the question – well, very British questions, because it's about the f-word, so we can't say it, but we always have to have a question about federalism, and what are these Europeans going to do?

And I would say, you know, there are two minority camps in Europe and one dominant one on federalism. But the British are obsessed with the first, which sometimes call themselves 'federasts' just to, you know, provoke you. And indeed, they're part of what I would call a messianic elite on the continent that has always thought that it had its mission and the ends justified the means. And, you know, just as Brecht said, 'if you don't like the people, re-elect the people', that's what they kind of do regularly. You know, they ask the people what you think, but the people don't love it, and so we're not going to ask the people. And these are true federal lovers. And you hear them a lot in the press here, but they are not dominant in Europe, even among the elites. If you speak to national elites, at the end of the day they want their autonomy and their sovereignty. And then there is, for instance in the French socialist

party and yes, among public opinion, some who think, well, we want a federal Europe if it means solidarity. But if it means losing control, they retract.

So then you have a second camp which is quite important. And these are the ones who have seen the lightning and they say, I told you so. And here, I'm sorry, I can't – I thought we would be in a smaller room, but I've got this great drawing of – just to describe it, this is the lighting of the Olympic torch from Greece, and it kind of sets on fire the whole rest of Europe. The north is not quite touched there. So you see, you're right John, in that the Greeks have it – thunder, and on Hollande, and fire to the whole of Europe. And basically the camp that was always there, 'no to federalism' autonomists, at the extreme, sovereignists, we have a lot of this in Britain. They're strong, and it's not just about xenophobia and refusing – it's about whether, you know, our democracy will be hostage to some other little dysfunctional democracy at the other end of Europe. Do we want to create not just economic interdependence, which is kind of okay for everyone, but democratic interdependence? And people have a really hard time with that.

But my camp is the third camp, and I think it's a dominant camp. And it's a camp which kind of has – to hell with the word federal, what we want – you can call it federal union, and not federal state, but – although I've written on federalism, I'm giving up on the word. It's too full of connotation, except in Germany, where it's all about, okay, if it reproduces the German model of federalism. That's the one federalism with the, the one that looks like us is okay. So my camp is to say: hey – we have a Europe. I call it a 'demoicracy', not – demoi, plural of demos – you know, it's pluralism disciplines. That's what Europe is about. My vision is very British, but I actually think it's dominant on the continent too, it's a silent majority – and if you think about it, I actually think the EU is very resilient more or less as it is, although it needs some improvements, obviously, and that the glue, John, is common interests. Common interests in a big world, here it is, lots of challenges, we need to face them together. That's the glue and it will remain the glue. So in that sense I'm optimistic.

But I would say that today, yes, it might be a kind of – it needs some improvement. And because, yeah, we're not becoming a federation. You know a federation would be supranational autonomy, things at the centre happen – no. Member states are keeping control of what's going on. There is a problem, though, when Britain is not – member states are supposed to be the masters of the treaty, and you know there are issues there. But what remains to the case is that if there is going to be solidarity, there is going to be some transfer, euro bonds, whatever, we can talk about it. It will continue

to be by choice, as opposed to the federation where you have, as in the United States, automatic transfers, all of that – you're not asked, the system as such is that you have solidarity by necessity and obligations.

And decisions will continue to be more or less made, as they're made today, with, you know, consensus and compromise and muddling through, and all of that. Why would that change? But indeed, we need to ask, and really, even in the US, Krugman is wrong, let's remember that when you really have true macroeconomic differences between countries, between states – Michigan – well even the convergence, there is no convergence, the state goes down the drain. And you can help it as much as you want, it won't deal with it. What you really need is mobility. We don't really have it in Europe. So we're not going to move to a federal state where you have these kinds of adjustments.

And so the real question for us becomes the second question, really. So, what happens to national democracies in that funny animal which has these muddlings through, and that's your second question. How long can the technocrats kind of be in power, say in Italy – well, I would say Mario is here to stay for a while. Papademos could have stayed if it hadn't been for the craziness of the mainstream parties, who – Samaras, New Democracy, your parties – wanted to kind of go for it. So EU – the European Union is based on the principle of national self-determination. You know, we each manage our little democracies and have some interactions with the others. And what is changing today is that we realize that the stability of Europe really depends on the health of these democracies. And when they have really big pathologies, like Greece, a dysfunctional state, clientalism and all the rest, they can destabilize the rest of Europe.

And so what – so the question is, once you have this democratic interdependence, what is to be done? And these technocrats, well, they can help. It depends, I would say, can they stay, it depends on the alternative. The alternative is a bankrupt political system, as with Greece. Yes, they are perceived, and they were perceived in Greece, Papademos was, as having a capacity to mediate with Brussels, to make these disciplines more Greek, more Italian for Mario. And that might be okay. People understand that you have to negotiate with Brussels and maybe technocrats can do it better, and then the normal political class.

The other alternative would be a German takeover, as we've heard. Well, no thank you, say the Greeks, and for understandable reasons, although maybe I think Greece might be run better, you know, by Germany, but that's – it was once, well, pros and cons – but the real question becomes, can they deliver?

Even these technocrats – can anyone deliver today? And that doesn't depend on Greek democracy or French democracy. It depends on our collective European capacity to deal with a financial world run amok, to deal with financial oligarchies who have not really gotten the message yet. And that's true for everyone around Europe. So – and it's true for Germany.

And so the last question – are we comfortable with dominance? Of course we're not, nobody is comfortable with dominance. That's a funny question. Do we like German dominance? No. But on the other hand, it's like an overbearing parent, yes to the intrusion – we don't like your intrusion, don't come into our room, but if you stop caring about us, you know, we're up in arms. So the rest of Europe understands that. We ask you for more money, we accept that there are disciplines. But the question is whether these disciplines really make sense – whether the purpose makes sense. Europe is all about seriousness of purpose. If those disciplines start not making sense, then we have a problem.

Europeans have to deal with a Germany which has always wanted to be in this system with an overvalued interest rate, my competitiveness, whatever it does to yours – the Europeans are asking the Germans, well okay, you want to discipline us, but you do some of the work, you do some of the adjustment. So – and is it that hard? We're just asking you to have slightly higher salaries, to, you know, be a bit less competitive, to go to Greece and spend that salary on your vacation, have longer vacations. You know, come on! It's not that painful, Germany. And that's kind of what Hollande is going to ask Germany today, if the plane gets there. And indeed, there will be a lot of theatre – 'we've won', and all of this, because Hollande has to deliver to his public opinion – but at the end of the day isn't it true that Germany is going to slightly move in this direction, because it does make sense to share adjustment, to have a country which is owed one trillion by the rest of Europeans start, you know, doing things about it.

But it is also a serious question – and I want to end on this, John – because, you know, domination, non-domination, the principle of non-domination, non-subordination, I would say is at the very heart of the creation of the EU 55 years ago when we'd always had 400 years of one country trying to dominate the other. Britain – this is in the British DNA. We were always – the policy of non-domination is always in the British DNA. But it's also in the DNA of small member states who understood this EU as mitigating the power of the big states, you know, so it's Germany and France who have a problem understanding that kind of ethos of Europe. And of course non-domination doesn't mean that if you're bigger or richer, wiser, Calvinist, northerner, all of

that, you have all these qualities of disciplines, we won't recognize also that you have responsibilities and the capacity to lead. Other Europeans understand this. But I think the dilemma today vis-à-vis Germany is that there is a fine line, you know, between dealing with moral hazard, being a good parent, and saying, I don't want to give you incentives to misbehave – although of course, you know, I recognize that I created this addiction on debt – I, Germany, lent you money so you could buy my goods, I created this addiction – but now we all have to work together so you can overcome your addiction, and there is moral hazard if I give you too much money to buy more drugs, you know – so, understanding that, but at the same time, this fine line is between that, between moral hazard management and moralizing. And when other Europeans hear Germans moralize about the better north and all of this, including the implicit message that the EU will become this northern thing, they start having a problem because they feel, well, you know, maybe that's not so warranted, and we can discuss that.

So let me end, John, by telling you – do you know what the favourite story in Athens these days is? It's about Merkel arriving, if some plane takes her there, in the Venizelos Airport of Athens, and the customs guy looks at her and says, nationality? German. Occupation? Oh no, no, I'm just passing through for a few days.

John Peet:

Where does Britain stand in all of this?

Jo Johnson MP:

Great, thank you John. My role is to provide a view from the backbenches. I'm afraid I'm on the Tory side, for those of you who don't know. I'm the MP for Orpington. And a view from the backbenches about the aftermath of the 9 December Council meeting and the lessons that we can draw from that: basically, I think, if Britain's relations with its European partners were ever in equilibrium, they are certainly not now. David Cameron crossed the Rubicon when he vetoed the proposed amendments to the EU Treaties after other member states did not agree to include the safeguards that he had requested. Far from being the leader of a group of sort of liberal-minded 'Euro outs', as some in Westminster had imagined might be the case, Britain found itself unexpectedly isolated around the Council table at that Council meeting.

Domestically, as you all know, the veto was wildly popular. The Conservative party overtook Labour in the polls in the weeks that followed, put on a five point lead by mid-January – it's a shame that didn't last. But nonetheless, it was a hugely popular move domestically. And I think that perhaps the euphoria indicates the extent to which the country as a whole felt that it was making a profound choice about its relations with Europe. We were going to stay in the European Union, yes, but try to construct at the same time a more controlled relationship, and perhaps a more – as Peter Mandelson put it in a lecture in Oxford last week – a more semi-detached, or detached relationship that I think restored what Kalypso referred to as the principle of non-domination. I think there had been building up across the country a feeling that too much legislation was coming from Brussels, there was too little democratic accountability for it, and I think there was a feeling that balance needed to be redressed. And I think the public response, at least as expressed in those opinion polls in the immediate aftermath, did reflect that desire for non-domination, as Kalypso put it.

Nonetheless, I think in celebrating that, I'm not quite sure we've absorbed the potential for long term repercussions for the UK because either way, if the eurozone is to survive, and it may not survive in its current shape, but I think most people would assume it's going to survive in some shape, albeit down to a reduced northern core – that will require greater fiscal and economic coordination. That's something which the Conservative-led coalition government has always said must be part of any solution to the eurozone crisis. And I think in Britain we need to have a proper debate about what form that coordination will take, and what – well, not that we can necessarily influence that – but more personally, what form our response to that coordination will take. Because if we find that there is a gravitational pull towards the inner eurozone core, Britain will need to guard very closely against the risk that that coordination spills over into areas that are very properly the preserve of the 27 member states and particularly, of course, the single market.

There is a risk that eurozone integration deepens to such an extent that Britain finds itself effectively an associate member of a two-tier club with a very limited ability to shape decisions before they are taken compared to the ability it has to shape decisions at present. Under the present terms of membership, Britain does play a strong and active role in influencing developments within the EU, and I think that has to be contrasted with the sort of price-taker position that countries that are members of the EEA or

EFTA find themselves in, in relation to legislation coming out of the single market at the moment.

I think another lesson we need to draw from this aftermath of December is there has been extensive diplomatic love-bombing of Britain by many countries within the EU that are very concerned that any EU without Britain would be a considerably less attractive place for them. It would change the EU's character for the worse in the minds of several member states. It would first of all weaken the EU's commitment to the single market, and the single market is, without doubt, the European Union's single greatest economic achievement, leaving aside its political achievement of preserving peace and stability on the continent – it is without doubt its greatest economic achievement, and the single market's creation and survival and health owes a massive amount to the support of the UK in particular.

As you will all know, in the great game of Brussels fixing, the UK has historically played the role of the champion of the single market. It has provided inspirational commissioners in its briefs, such as Lord Cockfield and Leon Brittan. It was Lord Cockfield who, back in 1985, authored the 1985 white paper that led to the Single European Act which set in place the deadline for the 1992 completion of the single market. All member states, even those who have a penchant for dirigisme and for economic interventionism of one form or other understand that the single market is basically good for them, even if they don't like it all of the time. It's the single market that makes Europe a global player alongside the US and China. It's the single market of 500 million consumers with a GDP of \$12 trillion a year that makes Europe the world's largest marketplace.

The second reason why it would make the EU a worse place is that it would weaken the EU's commitment to structural reform. Britain has, over the years, over the decades even, been the country that has been most vociferous in calling for structural reform and liberalization of various kinds.

The third reason is that British absence would compound our original sin of 1957 of leaving the field open to France to shape Europe in its own image. Inevitably, in Britain's absence, France's institutional heft, ideological weight of argument, would be more preponderant than it would be when Britain is around the table making the case for a liberal agenda and also providing high-quality civil servants able to counter-balance French institutional and ideological dominance.

And the fourth reason why Europe would arguably be worse off is that it would lose Britain's commitment to full implementation of EU law. Britain has,

over the years, effectively been the lawyer of Europe. It has led the way in terms of implementing EU law and done more than any other country to guarantee a level playing field guaranteed by law. So that's why I think on the other side of this equation we've seen a strong appetite from a number of countries beyond the usual suspects of Germany and the Nordics, to include Poland, Hungary, and several Eastern European and Central European countries, for mending fences with the UK and basically doing as much as they could to make sure that Britain doesn't move on a slipstream towards marginalization or, in the worst case scenario, full exit. And paradoxically, I think the arrival in power in the Elysée of François Hollande will only underline to those liberal-minded countries the importance of preserving a UK voice around the table. Perhaps that's wishful thinking, but it's what I think.

I think just – a final set of points about lessons from the December summit: I think to be seen as not constructive, as we were in the immediate aftermath, at a moment of existential crisis, is very different as being seen as defending from the national interest on a single policy issue in a very hum-drum intergovernmental negotiation at a period of relative calm. And I think we could have perhaps displayed better sensitivity to how we handled ourselves, bearing in mind the context of what was going on. Second broad point: I think we must be realistic that whilst we do bring a lot to the European table, we in Britain must be conscious of the fact that the idea, the possibility of an EU without Britain is now being discussed, not just here, but all over Europe in a manner that was simply unthinkable 5, 10, 15 years ago.

Last point is that whereas in the past, in difficult negotiations, there would always have been an attempt by Germany and others to keep the UK inside the tent in a negotiation, perhaps by offering some sort of mechanism such as an opt-out or a compromise, of which diplomats in Brussels are past masters, I think one of the most surprising things for me about the December summit was the sheer speed with which the conversation started and ended. At the Brussels summit, the decision to exclude the UK was taken unbelievably quickly. And for me, I was worried at what this suggested about a change in the German attitude. What it seemed to me was effectively being said was, if you're not helping us solve this crisis, then we don't want you around the table right now. And Angela Merkel, if I'm right, simply did not want to take on the political risk of domestic UK politics at a time when she herself was gradually warming up German domestic opinion and her own, politicians in her own coalition, for the steps that Germany would ultimately need to take to help resolve the crisis. She did not want, at a later date, to have Britain throw a spanner in the works by raising the possibility of a referendum that could see

any eventual treaty or fiscal compact or whatever was to be agreed caught up in the UK courts.

So in conclusion, I would say there is a willingness on the part of the European partners to keep Britain inside the European Union. We bring a lot to the table. But clearly, I don't think we should be under any illusion here in Britain that that is a completely unconditional desire, that Britain must be kept in at any price. I don't – I think the days are gone, if they ever existed, when other members states would be prepared to make unlimited concessions and special arrangements to placate the UK. And I think it's important for Britain to realize that pretty rapidly.