



Europe: Life After Amputation

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In the past years the series of economic crises in Europe have visibly turned into a political one. The consequence is actually not just one but a multiple political crisis, where not only the nature and origins are different but the scope as well. We are trying to handle simultaneously a global, a regional and a national crisis in Europe. And while the European Union is trying to cure the symptoms, the disease is spreading and due to the large number of metastasis, many analysts declared the patient incurable.

Brexit shocked Brussels, and created a negative example. The Hungarian quota referendum threatened the EU, and if successful, serving as a point of reference, a potential tsunami of referenda on European issues could even result in the collapse of the alliance. It was not accidental that even center-right politicians and media tried to highlight the results as a failure.

A few weeks after the referendum on refugee quotas, the Centre for Euro-Atlantic Integration and Democracy (CEID) organized a discussion with the Friedrich Ebert Stiftung (FES), hosting Ms. Birgit Sippel, Member of the European Parliament (S&D) and Professor Júlia Király, former vice-governor of the Hungarian National Bank. The present paper would like to elaborate on some of the main points of the discussion.

Parallelism between Brexit and the Hungarian Quota referendum

While media liked to draw parallelism between the two events, it is in fact extremely hard to compare the two cases.

The United Kingdom's integration to the Single Market remained one of the lowest in the EU, therefore there has always been a heated discussion, whether the economy of the United Kingdom would not be more competitive outside the EU. In the last decades, Britain's status as net contributor, the large number of intra-EU migrants, the non-Schengen status and opt-outs in numerous fields created a strong EU-sceptic camp. In general, the political crises and the mistrust towards EU-institutions strengthened voices in most of the member states, demanding the return of some powers to national governments. According to the Pew Research Centre, this demand is supported by far the highest in the United Kingdom and Greece.

The Hungarian government also stressed numerous times in the past years its goal to regain sovereignty from Brussels. Despite its serious efforts through public campaigns to deliver this message, Hungarians remained positive on integration, and the support of regaining power from Brussels is below

EU average. But there are other reasons, why distancing from the European Union would take much more effort and time in the case of Hungary. According to the latest Standard Eurobarometer survey from May 2016, the image of the EU in Hungary corresponds to the average level of the EU28, and is better than in many core countries. Although we don't know yet, if there are any negative effects of the referendum campaign, but GLOBSEC Policy Trends data from July 2016 suggests, that the government might be on the wrong track if it wished to question Hungary's membership in the EU. According to the survey, the Hungarian population is one of the most supportive of the integration: more than 54 % of the population believes, that the membership is good for the country, while only 8 % believes it is not.

But EU support is not purely based on perceptions. The majority of the Hungarian population is well aware of the fact, that the economic development of the country in the previous years had largely depended on EU transfers. Although the recipient status should not be the only argument for the membership, as long as cohesion funds are pouring into the country, it is highly unlikely that public opinion would change its positive approach to the membership. This pragmatic - or just opportunistic- approach applies to the government as well. According to Júlia Király, in the absence of natural resources, EU transfers are currently the most reliable source of income in the state budget. Moreover, foreign investors - providing another main source of income - would voice strong opposition towards any distancing from Brussels. In economic and trade terms, Hungary is currently the third most integrated country into the single market. The developments in the industrial and manufacturing sectors created an export driven model, where the intra-EU trade represents 80 % of the external trade.

So one should ask: if people are trusting EU institutions more than national ones, how is it possible that EU failed to communicate its position or influence campaigns in UK and in Hungary? Why are EU-institutions not capable of countering the propaganda questioning their operation?

Democracy deficit

The most widely used criticism from member states towards Brussels is focusing on the democratic deficit of the EU. However, one should note that this issue has at least two different perspectives.

The first one concerns the Eurozone countries and the decisions made within the Eurozone. The euro crises and reforms in Greece highlighted this issue. As Vivien A. Schmidt suggests in her study, the political crises was caused by economic reforms. EU actors have sought to fix the economics and calm the politics by progressively reinterpreting the rules without admitting it in the discourse. On an efficiency basis this worked out well, but on a democratic basis it introduced new risks generating further problems among citizens and legislative stakeholders.

According to Schmidt, Eurozone governance focused on stability-based policies mandating restrictive targets on deficits and debt, with strong surveillance for countries falling short of these targets. These

restrictive measures originated from Brussels and Frankfurt, and contributed to political discontent. The Commission introduced one-size-fits-all austerity measures, while Council decisions were dominated by Germany. This has created a North-South division and the political effects are visible now in the high mistrust in European institutions in Greece or in Spain. This institutional crisis brought the existing tensions and inequalities within the Eurozone to the surface and supported Joseph Stiglitz's statement on the political nature of the Eurozone project. According to Stiglitz, the euro prevents weaker economies from having the monetary flexibility they need in times of recession, and operates as a one-size-fit-all instrument. The Eurozone can become an optimal currency zone and fiscal integration could be achieved, but the expenses are extremely high. Although the Greek crisis supported that there is no point of return in the integration to the Eurozone, the Baltic examples proved that a real austerity program can pay off well. The question is if it is politically viable to run these reforms in the Southern member states.

On the other hand, the second perspective of democratic deficit is originated in the non-Eurozone countries, where we can find a more top-down approach. According to Ms. Sippel, European top decision making operates as a two-chamber system, where the lower chamber is the European Parliament, elected in a democratic process, while the upper chamber, the Council consists of democratically elected governments. In this model we should interpret the role of the Commission as an executive power. Those who would like to regain national sovereignty, would like to concentrate both legislative and executive power in this upper chamber (the Council), and for them questioning the democratic nature of European institutions is a low-hanging fruit.

The problem of referenda is that they are essentially not democratic responses to these issues. As Ms. Sippel pointed out, both Brexit and the Hungarian quota referendum was initiated by the respective governments, and both aimed at demanding more power for themselves by blackmailing European institutions. In both cases governments had the money and power for organizing these referenda. According to Ms. Sippel: 'The EU was a hostage of different interests. Pure lies have been told, emotions were raised.' Seemingly Ms. Sippel's points suggests that EU institutions have neither the power nor the authority to counter critical voices coming from Member States. This also suggests, that this might not be exactly a well-functioning two-chamber system, but something else.

EU's weak immune system: the crises of institutionalism?

Why are institutions incapable of responding to the current challenges? The operation of the European Union can be best described by the state cartel theory, a relatively new concept within institutionalism and international relations theory. According to state cartel theory, the development of the EU was based on the recognition that war and protectionism should not be used any more as tools against other states to assure the survival of the free western world. In this model, relationships between cooperation-seeking capitalist states should be analyzed and described based on their interests, and

the difficult balance of dependency and rivalry. In Europe the starting point of this model was the Franco-German relationship.

However, this theory recognizes and analyses the different strength of the stakeholders as well. Similar to business cartels, larger stakeholders can punch above their weight according to the state cartel model, through persuasion or force, but they are also dependent on weaker players. Germany's current position in the Eurozone best describes this situation.

According to this model, the European Union is a complex web of symmetric and asymmetric relations. The really interesting aspect is that while the model recognizes the Council as an organic institution, according to the theory, the European Parliament is only a symbolic institution to keep democratic pretensions of political parties and the citizens. Stronger parliament would overwrite the cartel logic and it would threaten the positions of the stronger member states. Although with its one-dimensional focus NATO is not a real state cartel, but this model can be best described through its operation.

What are the merits of state cartels? First of all, similar to business cartels, state cartels can create the market rules, set the prices and control the production. The EU does this on multiple fields such as telecommunication, agriculture or through taxes and tariffs.

But if being member of the cartel is beneficial for everybody, why is the EU in crisis?

First of all, because that is the nature of cartels. Operation of cartels are the best examples of a prisoner's dilemma: as its members would like to maximize political profit, they are instable. By breaking the agreement members are able to make more profit, however, if all members break the agreement, everybody will be in a worse situation. In the EU, the perfect example is the Hungarian position on quotas. If all member states refused to relocate asylum seekers, the whole system of the EU would collapse.

Second, based on this method of operation state cartels are in permanent crisis. With the constantly changing strength of its members, the complex web of asymmetric and symmetric dependencies is challenged as well. The system can't reach the moment of quiescence, but grievances are deepening into crises and ultimately only federalization processes can prevent state cartels from collapsing.

Let's take the current economic crisis of the EU as an example: it hit a number of nations and strong stakeholders. The system couldn't find its balance and nation states challenged the integration by breaking the rules of the prisoner's game. These challengers included the Visegrad States, Greece or the United Kingdom among others. Meanwhile, power dynamics has changed and the balance of the Northern countries with the weakening of Southern (old) member states and France, was totally gone.



From the logic of the model, the Commission and the European Parliament could not give meaningful answers, as their operational capability lies in the hand of member states. These institutions have no instruments against internal challengers, as they were speechless in the Brexit and Hungarian quota referendum campaign, nor are they capable of responding to external threats, such as Russian propaganda, as long as member states are not willing to provide the tools for that.

There is only one way out from the spin of the crises according to the model: a step towards federalization which historically pushed forward European integration. But every federalization requires the support of the strongest states, which are the main beneficiaries of the cartel. In this case, it has to be supported by Germany and the strongest Eurozone members.

And this is where the problem lies concerning the demands of the United Kingdom and Hungary. The state cartel model recognizes the supremacy of the member states, but doesn't recognize any point of return for the renationalization of the agenda in the federalization process. Second, none of them can come up with the necessary strength and secure the necessary support within the EU, to change the rules of the cartel. The model only recognizes Germany and the Eurozone countries as the rule makers.

As Birgit Sippel and Júlia Király stated, we don't have to analyze a potential Hungarian exit scenario. The right questions are however, who will fill the UK's role and who will take the leadership of integration. There are signs that Germany can find its allies in the Baltics, Slovakia or in Spain according to Sippel. The question is how social tensions emerging due to the necessary structural reforms will reshape the political map and alter power dynamics in Europe, and if EU as we know it, or only the Eurozone will reach its federal moments?

Meanwhile amputation - or Brexit - may be the first step towards healing.