

ARE EUROPEAN INTEGRATION AND FEDERALIZATION COMPATIBLE?

Viljar Veebel¹, Ulrika Hurt², Raul Markus³

Estonian National Defence College, Associate Professor¹
Tallinn University of Technology, Research fellow^{2,3}

ABSTRACT

During the European debt crisis, the debates on European federalization have also intensified as federalization has been seen one possible solution to future financial crises and member states' growing debt problems. But which added value would federalization offer in terms of financial stability and economic sustainability? What will we do differently in federalization process this time to achieve more progress and results than in previous unsuccessful attempts? Will all the member states support the federalization and understand its main essence similarly? Can European federalization and deeper integration at all be achieved simultaneously? These are the central questions which need analyse and answers before Europe starts decisive reforms towards federalisation.

Keywords: *European integration, federalization, financial crisis*

INTRODUCTION

While having endured the European sovereign debt crisis for past four years, politicians, scientists and public in the European Union have started debating intensively the root causes of such long-lasting economic and financial crisis.

There has been an increasing number of analyses and articles that have been referring to the fact that the financial crisis is simply a manifestation of structural and institutional inconsistencies and imbalances of the EU rather than the initial cause of the problems that have been accumulating within the economic crisis.

The lack of transparency in budgetary and fiscal policies of the Member States; insufficient scrutiny of gross government debt and government budget deficit by supranational institutions; and the absence of universal norms and automatic sanctions, which has allowed the Member States indulge in widespread violations of the euro convergence criteria that have been set to grant financial stability; are perceived as the main substantive reasons for the latent agglomeration of the debts and government budget deficits of the Member States (Alesina, Ardagna, Galasso 2010, 2).

The initial causes of a financial crisis in the EU are essentially of political and administrative nature, therefore, to solve it some serious reforms are required first. The planned political reforms ought

to solve the financial difficulties of the peripheral states, prevent possible new debt crises, increasing integrity and solidarity in Europe. The political elite mostly in Germany and France has foreseen decisive political reform of the EU to a union, which acts in accordance with federalist principles (De Grauwe 2010). Therefore, after 60 years of evolutionary integration process, the Member States of the EU are once again facing a dilemma – whether to continue with the existing model of integration or to develop within a reform process into a federal state.

The objective of this article is to analyse the causal relationship between federalisation, integration process, Europeanisation and tackling the economic crisis; whether federalisation is feasible, keeping in mind current positions of the Member States, and which choices would reflect the interest of Estonia the best.

Following article will first analyse the historical lessons from previous attempts of European federalisation, theoretical options and dilemmas during the federalization, possible long-term advantages of federalization but also practical obstacles during this process.

HISTORICAL LESSONS AND THEORETICAL DEBATES ON THE CREATION OF FEDERAL EUROPE

The notion that the European integration leads seamlessly to a strong and harmonious political

union has been cast aside, while devising plans for federalisation and centralisation. Instead, politicians and think-tanks tend to lend support to the idea of taking a proactive stance to integration and work purposefully towards a European Federation (Mugge 2011, 186–187).

Federalisation entails a number of risks that need to be taken into account – setbacks to reforms may bring about a greater crisis of confidence between supranational institutions, the Member States and their citizens and ultimately result in the loss of credibility of the EU on international arena.

Federalisation can only be based on the common interest and consent of all Member States and on an open debate. Whether and how progress towards federalisation is complicated by previous historical experiences, different understanding of the nature of the existing EU and the relative inability of major integration theories (neo-functionalism, intergovernmentalism and transactionalism) to explain the development and crises that have taken place so far remain still subjects to debate.

Before reforming Europe politically and financially it is vital to answer the question, why a federal union has not been created so far during active integration process in last half century, if there is certainty that it will help solving major problems of Europe and what will we do differently this time to achieve better result.

Debates on the creation of federal Europe were held already 60 years ago, when the initial communities were founded (The European Coal and Steel Community, The European Atomic Energy Community and The European Economic Community), 20 years ago, when the Maastricht Treaty was being drafted (by which the European Union was founded) as well as at the dawn of a new Millennium at the Convention on the Future of Europe, when a draft Treaty on establishing a Constitution for Europe was proposed to replace previous founding and amending Treaties.

Despite all the efforts every time the conclusion in terms of federalization was, that a federal model, while affording certain progress in supranational governance and decision-making process, does not reflect the common interest of the Member States and has no perspective within the integration process for being too static. As a result neither the founding Treaties, the Treaty on European Union nor the Lisbon Treaty that came to force in year 2009 contain any reference to the concept of federation with regard to the Union, but only when describing the Federal Republic of Germany. None of the aforementioned Treaties state the creation of

a federal union as an objective – instead the Treaties emphasise enhanced cooperation (so called “ever closer union”), supranationalism and deeper integration (Veebel 2002, 20–21).

Therefore it may be stated that the idea and model of federalisation is not causally linked to the logic of European integration by the Treaties or even in essence. In legal terms it means, that the European citizens as electorate have not given a mandate at any referenda to the policy-makers to create a federal union and also the Member States' accession treaties to the EU have not foreseen the possibility of the union evolving to a federation.

Theoreticians of European integration, such as Ben Rosamond (2000), Manuel Porto (2004), Joseph Weiler (1991) and Simon Hix (1999) have been sceptical towards feasibility and expediency of federalisation based on historical experience. The main hurdle for successful federalisation so far that may also prevent it in the future is that a smooth transition from current constellation of Member States to a full-fledged federation is inconceivable – it is not prudent, as there are several Member States that in principle oppose the federal model altogether.

For example, Joseph Weiler claims that so called partial integration i.e. the community model (in the Treaties of Paris and Rome) is qualitatively better than the idea of a federal state in the current federalist vision. In the first case something fundamentally new is introduced – supranationality –, in the second case previous experience of empires and federal states is simply replicated (Weiler 1991). In his book of 2006 Jan Zielonka has also referred to a possible neo-imperialist threat that may accompany federalisation (Zielonka 2006), recommending that the EU continues as a confederation with a decreasing level of integration towards the periphery in which the core of the Union is formed by closely integrated states and the countries that position themselves further away from the core may choose not to integrate some policies (as it is enabled for the joint currency and the Schengen area).

Representatives of the intergovernmentalist school, such as Andrew Moravcsik, are even more critical towards federalisation process, saying that governments steer and decide upon the content and pace of European integration – the Member States would not be interested in participating in the Union, if they didn't have such control (Moravcsik 1998, 35–38). According to (neo) realist intergovernmentalist model the logic of the functioning of the EU originates from the interests of the governments of the Member States – they

cooperate as long as it adds to the implementation of the states' interests or in other words, integration is welcome if it serves the interests of the state.

One of the founding fathers of European integration Jean Monnet, on the other hand, thought it necessary to support the federal idea, when conceiving the Communities, and to consider the possibility of binding the Member States contractually and institutionally to a closer and more stable federal union.

ANALYSIS: DIFFERENCES BETWEEN INTEGRATING EUROPE AND FEDERALIZING EUROPE

In which aspects would the European federalisation differ from the current distribution of power and competences between the Member States and the Union institutions? How would this change be implemented?

The goal of federalisation is a clear, uniform, fixed, contractually binding stable political and institutional distribution of power between the EU institutions and the Member States with mechanisms in place for scrutiny and coercion. In other words, it must be defined plainly and unambiguously, which competences are entrusted to the EU institutions and which to the Member States; and it must also be agreed, which sanctions follow, if the Member States do not fulfil the obligations that they have accepted with the Treaties. Such change would deprive the Member States of the opportunity to swiftly adjust the distribution of competences and the level of accountability according to current need as well as to avoid taking responsibility for not meeting their obligations. In practice it would imply concluding a more thorough and extensive federal treaty between the Member States and amending the accession treaties substantially.

The federal relationship that would be forged between the Member States and supranational central institutions would mean fixing the European integration process to a certain level and locking the chosen option for all parties. For example, in case of a financial crisis it would not be operatively any more possible to redistribute competences as it was done in in 2012. It would retain the part of integration concerning result (delegating competences to supranational level), but it would halt the part concerning the process and its dynamics (constant increase and acceleration of delegating competences).

According to several principal authors of integration theories (Mitrany 1975; Haas 1964) an institutional integration cannot function without constant dynamism, as it should be described rather as a process than a phenomenon. There are some approaches treating the phases of interruption and stagnation in European integration that explain such periods in the history of European integration, when new initiatives could not be implemented, but the existing European Communities endured and did not disintegrate (Deutsch 1968).

The level of supranationality within different policies as well as the competences of supranational institutions in general ought to level off in the course of federalisation. For example, the competences of the European Commission in customs policy surpass its competences in education policy – a federal union would aim to decrease such discrepancies. At least in the first phase of federalisation supranationality will obviously not be completely unified, because it lacks the support of the Member States neither will it be in essence rational.

In comparison with the current model of European integration, would federalisation be bringing along some negative impact or is it a solution that primarily offers added value?

By creating a federation the customary steady and constant transition of competences to the EU institutions, which has been the key component to the success story of integration, would halt (Nelsen, Stubb 2003, 108–109). The loyalty, expectations and the mandate that the electorate links to supranational institutions (e. G. European Commission or the European Central Bank) would be replaced with distinctly separate mandates that are given either to national or central institutions.

As integration would not progress any further, the theoretical options that remain are safe standstill or a possible dissolution of the federation. In other words, inherently static federalism (as a phenomenon) and dynamic integration (as a process) are mutually exclusive: one offers stable peace and stagnation, the other gradual development with periodic crises. Regretfully, the two cannot be pursued at once. While opting for federalisation, it also means choosing to stop further integration.

Would a stable, in some sense stagnant solution guarantee the development and sustainability of Europe in global competition and enhancement of common European values? Apparently not – this choice would only be rational if we believe that the

best years of integration are behind us, that this model has exhausted itself for the time being and that in current situation the focus should be on safeguarding previous achievements.

Unfortunately, the aforementioned problematic aspects find rarely their way to the statements and articles of top-politicians. Federalisation is presented as an added value, which would preserve the strong-points of neo-functional model of integration (mostly its ability to evolve and its flexibility), but it would be topped-up clearer distribution of competences and scrutiny to prevent possible violations.

ADVANTAGES OF A FEDERAL EUROPE

The necessity of federalisation has often been linked to the financial and economic crisis that has shaken the Eurozone in recent years. Hints have been made that in situation at hand there is no alternative to reforms and that federalisation would be the next logical step in the development of economic integration to prevent future crises.

Although several academic thinkers and politicians find that the EU is already federalised, there are more characteristics of statehood rather than federation. Components of a federal state manifest themselves to a varying degree depending on the policy: they are prevalent in Common Agricultural Policy, but almost absent in defence policy. Even in the two policy areas that epitomise European integration – joint currency and visa area – the Member States are on different positions on the current status as well as future development. Therefore, with its institutional system and the logic behind distribution of competences between the Member States and the Union, the current EU meets the criteria for the model of confederation, not federation.

Is it possible to note a causal relationship between federal principles of governance and economic sustainability, which hopes to be achieved primarily with reforms?

Unfortunately the statements and articles of the proponents of federalisation are void of reasoned explanation, in which scientifically proven and logical manner federalisation as an institutional process would help overcome economic and debt crisis. It has been claimed that more europeanisation, cooperation and centralised scrutiny adds to efficiency (Ilves 2013; Rumm 2013). It is not explained in those articles by using causal relationship, how federalisation brings more

money to the common budget, increases export or improves competitiveness.

In a wider perspective a federal fiscal and monetary policy would bring additional restrictions, scrutiny and unification in order to prevent excessive spending, hidden expenses and increasing budget deficit of the governments of the Member States. In practice a federal relationship ought to create situation in which problematic Member States of the eurozone would not be able to abuse joint currency and solidarity to solve their debt issues, by transferring the responsibility and the cost on the shoulders of other Member States. Of course there are analysts, who perceive the effect of a federal Europe being better able to cover the debts and solve the problems of monetary policy centrally, similarly to the USA. (De Grauwe 2010, 4–5).

The budgetary priorities of the Member States would from then on also be better aligned with the interest of the EU as an entity. Yet, as a negative aspect of unification the overcapitalised Germany and Luxembourg on one hand, and the insolvent Greece and Portugal on the other would, figuratively speaking, have to step into the same size and model budgetary pair of trousers, which would hinder the progress of both group of states (Lane 2010, 2). For example, the needs deriving from the economic cycles (the economies of some Member States need to be stimulated, while the economies of others need to be cooled down) or local circumstances would be overlooked in order to secure pan-European stability.

The aim of federalisation is to achieve stability by uniformity of all Member States (of different geographic locations and local peculiarities as well as levels of economic development), which would improve the financial health of the weaker states at the expense of slowing down the development of the stronger. At the same time both groups and the EU as a whole would be less able to use the advantages of their peculiarities and also to invest in them.

Budgetary stability would improve with federalism in short term perspective, as the scrutiny over the use of funds would be enhanced. The latter does not however cancel out the fact that there will be no increase in the lump sum of resources – the investments, innovation and productivity will not improve, competitiveness and exports will not increase. Improved scrutiny and austerity will more likely lead to tightening the budgets (that were much based on loans) of peripheral states and decrease their government budget deficits, the side effect of which is a decrease in the profits and budgets of Member States that were successfully

supplying them with goods and services on credit. The Member States and the EU will consequently have in total fewer budgetary resources in use during the following economic years (Kregel 2011, 6–8).

Those aspects of federation that we have experienced within the financial assistance programmes of the EU unfortunately confirm the latter: by distributing funds centrally and “in the interest of European stability” from productive regions that observe budgetary balance (the Nordic countries, Germany and the Netherlands) to importing and spending countries (Portugal, Greece) the general productivity and added value will not increase, but decrease.

FEASIBILITY OF FEDERALIZATION IN PRACTICE

In the light of possible reforms to the institutional system it must be analysed, whether federalisation is feasible, keeping in mind the political stances of Member States (both in the elite and in wider public).

The idea of a federation has the most support within the political elites of the six founding members (Belgium, France, Germany, Italy, Luxembourg, the Netherlands) of the EU. Germany and Belgium stand out of the six for having broad experiences with federal model of governance. Therefore it's only natural that the best known top-politicians, who have openly advocated for a federation – in the early years of the EC Altiero Spinelli, René Pleven and Paul-Henri Spaak, in 2000 Joschka Fischer and now Guy Verhofstadt, Daniel Cohn-Bendit and Herman Van Rompuy – all come from six founding Member States of the EU.

The President of the European Commission José Manuel Barroso has also been an outspoken protagonist of federal Europe, who emphasised in his speech in the European Parliament in December 2012 a need for a new founding treaty that would create a political and economic union as a federation of states (Barroso 2012).

Of the heads of state and government both Chancellor Angela Merkel of Germany as well as President François Hollande of France expressed readiness and support to the next federal step at the G7 Summit and the meeting of the European Council at the end of 2012. The openness of German elite to supranational institutions has been according to some analysts quite remarkable

already earlier (Bulmer, Lequesne 2005) and the society in general has also been open to integration. Forceful consolidation has been supported especially in the central domains of integration (Schengen area, monetary union), while taking heed of practical considerations.

The political elite in France has also been in favour of increasing supranationality and deepening integration, while stressing the importance of their rights, interests and sovereignty (Bulmer, Lequesne 2005).

The positions of the political elite of a third core state and founding member – Italy – have been discussed in recent years mostly in the context of the EU aid packages, but in the context of integration Italy has often put simple gains of the country first. The EU politics has been somewhat secondary to the Italian political elite and that is why domestic interests are reflected upon their infrequent calls for possible federalisation. As a result of the elections to the Chamber of Deputies and to the Senate of the Republic in January 2013 both Beppe Grillo, critical towards federalisation, as well as Silvio Berlusconi, favouring the intergovernmental model of flexible integration (in which states form a confederation, not federation), increased their support.

When drawing up scenarios for federalisation, it must be kept in mind that next to Belgium, France, Germany, Italy, Luxembourg and the Netherlands, which are supportive of a federation, there are the United Kingdom, Finland, Sweden, Austria, Denmark, and of the new members Poland, the Czech Republic and some other Member States of the EU that are sceptical towards the euro and/or the idea of a federation. In recent years those countries have neither shown much interest in participating in the joint currency or the federation, nor have they voiced their unwavering support. Political leaders of the aforementioned countries (e.g. David Cameron and Václav Klaus) have justified their opposition mostly by saying that they don't believe that federalism will bring about uniform standards or that additional centralisation, regulation and scrutiny would improve the well-being of the citizens of the EU or its competitiveness.

Several politicians (such as Václav Klaus) of the countries that are sceptical towards a federation have drawn attention to the fact that according to their accession treaties they have the right to continue their membership in a non-federal union and other Member States have no right to alter this agreement without their consent.

It is worth recalling that the idea of an “ever closer union” and the Treaty establishing a Constitution for Europe was not vetoed in 2005 by the Eurosceptic British or Danish voters, but by the negative result of the referenda on France and the Netherlands that had previously been supporting further integration.

When the dismissive attitude towards federalisation of the more critical countries has mostly been passive, then the politicians of the United Kingdom have been the source of active and vocal criticism, which reverberates in the speeches of the Prime Minister David Cameron and the leader of the UK Independence Party Nigel Farage, MEP. Despite critical and often brusque tone (e.g. David Cameron's “Europe speech”), their talks have provided essential substance to fuel the debate. The blaring critique by the UK politicians is nothing rare in historical perspective – British politicians have expressed scepticism towards deepening the European integration and towards federal ideas of any kind (Margaret Thatcher in 1980s).

As long as we see those countries, somewhat sceptical to a federation, as our companions in the EU, the birth of a European Federation is delayed, since changing the founding treaties must be supported consensually by all Member States as well as the European Parliament. There is the choice, whether to go on as a loosely bound confederative union or to create a federation, but with significantly fewer members that in turn have more common interests. (Zielonka 2006, 35). Another quite feasible solution would be to start a process of hidden federalisation within the framework of current treaties, but it would lack legitimacy in the eyes of the European citizens.

FEDERALISATION FROM THE PERSPECTIVE OF SMALL STATE (ESTONIA)

The idea of federalisation has many protagonists among the Estonian political elite, because it is perceived as an alternative to a two- or multiple-speed of Europe, both of which would put Estonia in peril of being classified as periphery with all the security threats and decline of economic advantages. Some of the arguments in favour of federalisation have been the opportunity to be a member of the core group sustaining active development of the EU and the belief that small and peripheral states are better able to defend their interests in a federal union. Based on those arguments the EU policy of the Estonian government has been supportive of the federalisation of the EU.

Federalization is also seen as possible best alternative to counter-balance the big member states' dominance in terms of Council votings and their financial impact in European Stability Mechanism.

From the legal aspect changing the EU founding treaties towards a federation presumes receiving an additional mandate from the Estonian citizens at a referendum. The additional mandate is necessary to ensure the long-term legitimacy of the federation that is being created, as the competences of the Estonian parliament and the government would change significantly in the process of federalisation with regard to the EU. A referendum would also allow and facilitate a wider and more active public debate on the developments and problems in Europe.

So far federalisation has not been properly debated in the Estonian media. There have been many articles advocating for federalisation, but there is lack of comprehensive and reasoned criticism as well as a sound dialogue between the protagonists and antagonists. More attention should be drawn to possible drawbacks and negative aspects of the reform, while avoiding labelling the critics of federalisation and identifying them as anti-Europeans.

CONCLUSIONS

Federalisation may only take place with the consent of all Member States. Changes to the Treaties must be supported by all Member States as well as the European Parliament. When discussing the necessity and expedience of federalisation, it is essential to understand that federalisation is only one of the options on the path of Europe that has its pros and its cons: greater scrutiny, rigidity and decreasing government budget deficits comes unfortunately at the expense of local interests, flexibility, diversity of the Member States and the development of the current model of gradual European integration.

Although several academics and politicians find that the EU is already now federalised, the characteristics of statehood prevail over the characteristics of a federation, while several theorists have stated that integration is not linked to either of them. Integration without the features of a federalisation has previously found support in the Estonian EU policy.

Before we present federalism as a solution to the main problems of the European economy, we need a principled convincing analysis and

comprehension of how it would work out in practice. Such analysis would also allow to accumulate arguments that could win over the Member States and the citizens who are sceptical towards federalisation – that is the support that has been lacking for the reforms so far.

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