GREAT DECISIONS

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European Union
Trade policy
South China Sea
Saudi Arabia
Geopolitics of energy
Latin America
Afghanistan/Pakistan
Nuclear security

The future of Europe: coping with crisis

by Andrew Moravcsik

British Prime Minister Theresa May (center left) kisses President of the European Commission Jean-Claude Juncker during a group photo at the Council of the European Union on the first day of a two day summit on October 20, 2016, in Brussels, Belgium. Theresa May is here attending her first EU Council meeting after becoming prime minister following the Brexit vote. (JACK TAYLOR/GETTY IMAGES)

Since 2008, the European Union (EU) has wrestled with a set of severe and overlapping crises. Jean-Claude Juncker, president of the European Commission, has coined a French technocratic neologism to describe this difficult situation: The EU faces a "polycrise." Many pessimists now openly assert that one or more of these crises may prove fatal for Europe, in that it could trigger a dissolution or collapse of the EU.

Yet the EU is far stronger and more stable than these doom and gloom scenarios would have us believe. It has been around so long and is so deeply embedded in the lives of contemporary Europeans that there is no chance it will disappear anytime soon. Integration has been underway for over 65 years, longer than most of the world's countries have been independent nations. Its major purpose is to institutionalize the management of regional interdependence in Europe, which is mostly economic in nature but extends also to political, legal and cultural matters. Today, roughly 10% of European national laws originate, at least in significant part, in Brussels. Most of what the EU does, such as assuring free trade

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and investment within a Single Market, establishing common regulations, permitting free movement of people, coordinating homeland security, and undertaking many types of collective foreign and defense action, remain essentially untouched by these crises. The EU remains the most ambitious and successful example of voluntary international political cooperation in human history.

Today's headlines do not record these quiet successes. They focus instead on four sensational crises that threaten the EU. The first is a conventional geopolitical crisis. Many view Europe as a continent in decline, a process that is sped up by internal fragmentation and disagreement. On its borders, from Russia to Turkey to Libya, the EU is surrounded by increasingly bold and authoritarian opponents, as well as violent terrorist groups—all of which appear to be exploiting Europe's military weakness. The second crisis is one of democratic governance. British Euroskeptics, the National Front in France and many other right-wing nationalist politicians and parties play an ever more important role in European politics. To these groups, the EU appears a suspiciously cosmopolitan and technocratic institution that lacks democratic legitimacy—and they vocally oppose it. The third crisis stems from millions of migrants who are landing on Europe's shores and crossing its borders. Many are from neighboring Mediterranean countries, but some come from other EU member states. This influx seems to be swamping the ability of individual governments and Europe as a whole to respond. The fourth and final crisis centers on the EU's single currency, the euro. Those countries that use the euro (the so-called "Eurozone" countries) have remained mired in low growth, unemployment, high debt and austerity for almost a decade. Modest reforms to the Euro system have treated the symptoms but not restored Europe to economic health.

Even if these crises are not potentially fatal for the EU, they are serious. This article seeks to assess just how worried we should be, and how each crisis is likely to unfold in the future. It concludes that the first three—the geopolitical, democratic and migrant crises—have been greatly exaggerated. There is no geopolitical crisis. Europe remains a superpower, not just in military terms, but in economic and cultural ones. It remains remarkably successful at projecting its geopolitical influence, not least in critical zones of conflict, such as Ukraine, Iran and Libya. The crisis of democratic legitimacy is real, but it is not specific to the EU, which actually enjoys more popular trust and support than national governments. The migration crisis has battered European society and politics over the past 18 months. Yet it can be, and to a surprising degree already has been, reduced to manageable proportions. This leaves the fourth crisis, that of the euro. In contrast to the three others, this crisis is real, persistent and troubling. External financial tensions continue to generate austerity and low growth a decade after the financial shock of 2008. It may also affect the other policies, because robust economic growth is the ultimate source of geopolitical influence, democratic legitimacy and an ability to cope with migration. ■

Geopolitical influence

The conventional wisdom is that Europe today is a weak geopolitical actor, overshadowed by the two dominant global hegemons of the 21st century: the U.S. and China. Europe's power—particularly its military power—remains underfinanced and fragmented. Slow economic and demographic growth are inexorably leading to decline, which is exacerbated by the EU's disunity. Europe was unable to agree on how to act in the former Yugoslavia in the 1990s or in Iraq in the 2000s, nor was it able to act alone in Libya in the 2010s. President Vladimir Putin's Russia acts as it wishes on Europe's eastern frontier, invading and annexing its neighbors and violating norms of the "post-Cold War" legal order.

These apparently anemic responses convince many observers that Europe is a geopolitical has-been. Yet nothing could be further from the truth. In assessing relative global influence, policy analysts conventionally distinguish three dimensions: military ("hard") power, economic power, and persuasive cultural and institutional ("soft") power. In each area, Europe remains one of the two most influential political actors in contemporary world politics, alongside the United States. In most respects, its global and regional reach far surpasses that of China and Russia—and even, in some areas, the U.S. On most issues, Europe remains as unified as it needs to be to project power. Overall, Europe is the world's

Ukrainians living in Italy attend a demonstration to mark the second anniversary of the annexation of Crimea by the Russian Federation, in Rome, February 28, 2016. (RICCARDO DE LUCA/ANADOLU AGENCY/GETTY IMAGES)

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"second superpower"—the only political entity able to project dominant military, economic and cultural influence trans-continentally. It will be decades, even generations, before Europe loses this status.

Europe's military might

First consider the projection of military force. While the U.S. is clearly the world's preeminent military power, responsible for 36% of global military spending, the EU (at 12.2%) is in second place, spending 20% more than China and over three times more than Russia. Europe's arsenals of military aircraft, ships and nuclear weapons are larger and more sophisticated than China's. Moreover, this current military spending underestimates Europe's relative clout greatly. Since military materiel, technology and experience are acquired over decades or even generations, trends in overall military capability lag many decades behind trends in annual spending. Thus, even if it eventually starts outspending Europe on an annual basis, China will require an additional 25–50 years to come close to Europe's role.

Among observers in Washington, Beijing, and Moscow, as well as many EU officials, the conventional wisdom states that while its overall military spending may be large, fragmentation condemns Europe to impotence. The existence of 28 separate and "compartmentalized national defense markets," rather than one centralized EU institution, is said to create "needless multiplication in the cost of...maintaining and operating military forces," to dampen competition among defense firms, to shrink operative economies of scale for the procurement of military equipment, and to generate the "lack of a common strategic view" and "a clear vision for the future."

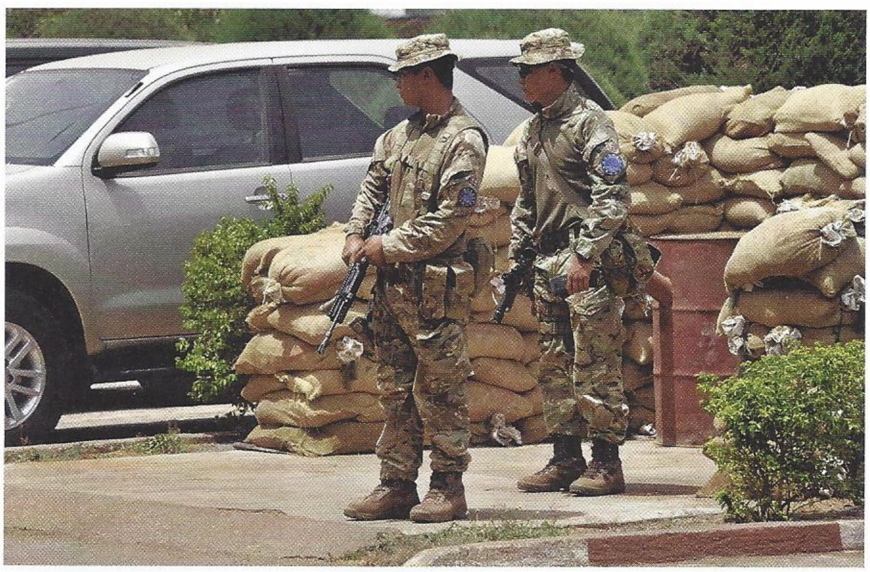
Yet we need only track real military activity across the globe to see that this conventional wisdom is misleading. Europe in fact behaves much like a unified superpower. Besides the U.S., only Europeans consistently project military force transcontinentally: They have deployed 25–50,000 combat troops into conflict areas nearly every year since the end of the Cold War. They lead operations in Africa, the Red Sea, sectors of Afghanistan, and the Middle East—and they maintain military bases in dozens of countries.

No other single country, save the U.S., can match Europe's record of action. China and Russia, for example, hardly project any effective military force outside their immediate backyards, and almost never against organized opposition. Russia's military activity outside the former Soviet Union is limited to Syria, its sole remaining Middle East ally, plus a base in Vietnam. Setting aside small, contested atolls in the South China Sea, a few hundred miles off its shoreline, China is only now constructing its very first foreign base in Djibouti, a country that makes a profitable business of renting space, and already hosts a much larger presence of U.S., French, Japanese, Italian and other Western forces. China's modest world posture is unsurprising, since it has one formal ally (North Korea) and enjoys close political-military relations with only a few other countries. The last time China waged war was in 1979, when it fought Vietnam and lost.

Why can Europe project military force globally and regionally as if it were a powerful single unit? First, EU member states face no significant internal threats, so they can direct all of their military potential toward external missions. Unlike China or Russia, they are stable democracies, maintain no internal border controls, pose no military challenge to one another, have no outstanding border disputes, and are all NATO or EU members.

Second, even though the EU is not a unitary state, its member states tend to agree in principle on military deployments, rather than blocking and limiting one another. While coalitions of the willing are the norm—rather than universal participation in missions—fundamental intra-European disagreements are rare. Since the end of the Cold War, there have been only two: one 25 years ago concerning the former Yugoslavia, which was quickly overcome; and the second war in Iraq, which involved only half of European countries. In all the rest of the dozens of Western military interventions since the end of the Cold War, European countries have agreed and sent adequate troops to support missions.

Third, while fragmentation does create operational and procurement inefficiencies, the best estimate is that this wastage totals only about 13–14% of European military spending. This is not notably worse than estimated wastage in U.S. or Russian procurement policy.



Soldiers belonging to the EU's military training mission in Mali stand guard outside the mission's headquarters in Bamako during the visit of the Malian president after an attack by gunmen on March 21, 2016. (HABIBOU KOUYATE/AFP/GETTY IMAGES)

Finally, while in some cases European militaries still can conduct operations only with U.S. support, as they did in Libya, this hardly imposes any real-world limitation, because the U.S. and Europe have been on the same side of all but one major Western military operation of the last quarter century. The only exception is the U.S. war in Iraq—and even that was supported by most European states.

Europe's military power is globally significant, yet projecting coercive force is not its strong suit. European countries prefer to avoid and solve regional and global problems by non-military means. They have therefore specialized in the second and third dimensions of global power: economic and cultural/institutional influence. Most contemporary global problems—from postwar reconstruction to climate change—are better addressed through such instruments.

Europe's economic power

Without a doubt, Europe is the world's preeminent non-military power, surpassing even the U.S. This influence begins with the economy. Even in bad times, Europe's nominal gross domestic product (GDP) remains nearly 50% larger than that of China and nearly 13 times larger than that of Russia. Often overlooked, but just as important, Europe's per capita nominal GDP remains four to five times higher than China's or Russia's, which frees a larger surplus for international activity. Furthermore, the EU is the world's largest trading bloc and investor. This trade is far less vulnerable to disruption than that of other countries because Europe lies at the center of stable high value-added networks of economic activity, many of them intra-European. By contrast, China remains highly dependent on exports and foreign investment, in particular low value-added processing of goods and components designed, produced and consumed outside of the country. Russia remains highly and asymmetrically dependent on exports to and investment from Europe.

Europe leverages its economic clout in many ways. Three examples illustrate the range of its influence. First is the offer of membership in and association with the EU. Over the past 20 years, Europe has expanded from 12 to 28 members—and this enlargement remains the most cost-effective means to spread democracy, free markets and rule of law pursued by any post-Cold War Western government. EU enlargement has placed new democracies on a more stable track, despite some recent slippage in countries like Hungary and Poland. European influence on neighborhood states such as Morocco, Serbia, Tunisia and others has been appreciable. The second example is foreign assistance. Europe supplies more than 50% of all (public and private) foreign aid to developing countries—about three times more than the U.S. or China. Third is sanctions. Europe is the critical link in recent Western restrictions. It is the largest economic partner of nearly every Middle Eastern country, with more than ten times more regional trade and investment than the U.S. enjoys. After 30 years of ineffective U.S. sanctions, Europe's decision in 2012 to join the U.S. in boycotting Iran halved Iranian exports and swiftly brought about a nuclear deal.

German Chancellor Angela Merkel (right) meets with Russian President Vladimir Putin for a "Normandy Four" meeting that also included France and Ukraine, October 19, 2016, at the Chancellery in Berlin, Germany. Under discussion were the conflicts in Ukraine and Syria. (MAURIZIO GAMBARINI/ANADOLU AGENCY/GETTY IMAGES)

A recent example of the effectiveness of Europe's civilian power is its decisive response to Russian aggression in Ukraine. From the start of the crisis, Western governments unanimously ruled out any direct military engagement in favor of economic and diplomatic responses. Europe has led these efforts, which rely almost entirely on Europe's role as a predominant civilian power. In most areas it is about ten times more influential than the U.S.

The principal policy response has been the provision of economic assistance to Ukraine—without which the country would have collapsed long ago. Europe gives about $9 billion in annual aid, and the U.S. about $1 billion. Europe backed its aid with trade liberalization: European trade with Ukraine is 13 times larger than that of the U.S., which renders U.S. sanctions largely meaningless. Europe has also borne almost all the cost of imposing sanctions on Russia because European trade and investment with Russia are also more than ten times greater than those of the U.S. Given Europe's decisive influence vis-à-vis Russia, it is hardly surprising that Western diplomatic discussions with Moscow have been led by German Chancellor Angela Merkel and other Europeans, who have met over ten times more often with Kremlin officials than their American counterparts. While of course it would be unrealistic to expect ideal outcomes, the major result three years on is that Ukraine, a large country of great geographical, cultural, economic and military importance to Russia, has turned irreversibly toward to the West.

Europe's soft power

Europe wields a powerful persuasive and cultural influence on its region and the globe. The ideal of Europe has spread far beyond the EU: It is not by chance that the protesters in Maidan Square, the center of the 2014 Ukrainian revolution, waved EU flags. Europe's support for international law, organization and civil society is unmatched anywhere on the globe. When democratic countries draft new constitutions, they draw on European constitutional values of parliamentary government, global human rights and social democracy more often than corresponding U.S. or Chinese political values. Europe wins more Olympic medals than any other political unit, and more than all others combined in the winter games. It enjoys a preeminent position in the top ten global spectator sports, including soccer, tennis, cricket and volleyball. Europe hosts more foreign university students (not including intra-EU exchanges) than any region or country. Its languages are more widely spoken than any others. Neither Russia, nor China, nor in many respects the U.S., can match Europe's cultural clout. ■

Right-wing radicalism and Brexit

Over the last two decades, the EU and its policies have faced various types of political criticism and opposition. Trust in the EU, as measured by polls, has declined since 2008. Euroskeptic parties have prospered in direct elections to the European Parliament and on the extreme right of the political spectrum in some countries. A politician of one such party recently came close to winning the (ceremonial) post of president of Austria, and some fear that the National Front's Marine Le Pen might soon win the (powerful) presidency of France. If she succeeds, she has threatened to call a referendum on French membership in the EU. Referenda on European issues have failed in France, Ireland, Denmark, Greece, and the Netherlands—culminating in the "Brexit" referendum of June 23, 2016, in which the British voted narrowly to leave the EU.

Many attribute these problems to the EU's so-called "democratic deficit." In this view, widely held on the extremes of the European political spectrum, as well as among many who comment on Brussels politics, the EU is democratically illegitimate because it lacks a directly elected executive, parliamentary sovereignty, transnational public deliberation and other institutions to assure the electoral accountability characteristic of most advanced industrial democracies. As a result, some critics insist, unelected EU technocrats run rampant over individual rights and interests, while citizens across European countries respond with rising mistrust and antipathy toward the EU. This, in turn, fosters nationalism, xenophobia, and higher vote totals for extremist and Euroskeptic parties. The only solution, critics maintain, is to "democratize" EU institutions by establishing direct elections for the European Commission, granting greater formal oversight for national parliaments, and fostering pan-European deliberation and debate. Giving individuals an incentive to participate might involve expanding EU powers to include new issues: Migration, social welfare and generational equality are sometimes mentioned.

The myth of Europe's democratic deficit

Yet the EU's crisis of democratic legitimacy is largely a myth. In a formal sense, there is no democratic deficit. The EU is actually quite accountable to national voters. The two dominant EU decision-making institutions, the

Members of the European Parliament take part in a voting session at headquarters in Strasbourg, November 22, 2016. (FREDERICK FLORIN/AFP/GETTY IMAGES)

(Left) Leader of the United Kingdom Independence Party (UKIP), Nigel Farage (center), speaks during a press conference near the Houses of Parliament in central London on June 24, 2016, after Britain voted to leave the EU. (GLYN KIRK/AFP/GETTY IMAGES) *(Right) David Cameron, then-UK prime minister and leader of the Conservative Party, delivers his resignation speech in Downing Street following the Brexit vote, London, UK, June 24, 2016.* (CHRIS RATCLIFFE/BLOOMBERG/GETTY IMAGES)

European Parliament and the European Council, are entirely comprised of directly elected parliamentarians, national ministers and chief executives. (The European Central Bank, even more than most central banks, is an exception, to which we shall return below.) When asked, absolute majorities of the public in every European country except Cyprus and Greece believe the EU can be described as "democratic"—more than believe it can be described as "technocratic." Over the past 40 years, the EU's trust and popularity among the public has changed relatively little. The percentage of Europeans expressing the opinion that "my country's membership in the EU is a bad thing" has fluctuated between 10% and 18%, and is now 17%. By contrast, over half of Europeans report the belief that "my country's membership in the EU is a good thing"—a percentage that has recently risen sharply in the wake of the Brexit vote. Indeed, for 40 years public trust in the EU's political institutions has been continuously higher than trust in national ones—and it remains so today, even in Britain, where more people trust the EU Commission than the British Parliament. A slight decline in recent years is not specific to the EU: Trust and confidence in national governments have declined in parallel.

At heart, the belief that Europeans are alienated by a distant and undemocratic EU rests on the false intuition that rendering institutions more directly democratic—political scientists call this "input legitimacy"—usually generates greater public trust and popularity. In fact, the citizens of almost all modern democracies have greater trust in more distant and insulated political institutions—the army, police, courts, bureaucracies, and international institutions like the EU and the UN—than they do in their own nationally elected politicians and parliaments. Thus, the European countries where publics are most pessimistic about the future of the EU are not those in which citizens feel most disenfranchised, but those in which citizens most believe that "voice" counts in EU policymaking.

Pessimists about Europe point to the British vote for Brexit, arguing that it may serve as a model for many similar efforts to dismantle the EU. Yet this is unlikely. In some other European countries, referenda are not permitted, and in many others it would require a consensus among ruling politicians to authorize it. This seems unlikely, since Continental politicians would be hesitant to follow the British lead. They can see clearly that the government in London is delaying the beginning of the negotiations over Brexit because it is unsure of what to do. As part of the world's most economically interdependent continent, it is simply not viable for Britain to withdraw entirely from long-standing arrangements with Europe that guarantee open trade, investment, free movement of people, common regulations, homeland security coordination, collaborative research and university exchanges, and foreign and defense policy coordination. Insofar as the British government has formulated a position, it is to attempt to negotiate something very similar to current EU policies—with the exception of inward immigration—outside the EU. Simply negotiating new trade and investment arrangements is estimated to require 30,000 new government officials that Britain does not have. Few, if any, governments are likely to wish this situation on themselves. This is what the historical record shows us: All previous negative national referendum results on EU issues—in Greece, the Netherlands, France, Denmark and Ireland—were quickly reversed.

If criticisms of the EU do not actually stem from dissatisfaction with its democratic procedures, perhaps they stem from dissatisfaction with Europe's concrete policies. When polled, Europeans report economic growth and immigration (along with terrorism) to be their most salient political concern. Europe faces crises in both areas, to which we now turn. ■

Policing Europe's borders

The migration crisis hit Europe hard in 2015. Over one million migrants entered the EU, compared with just 280,000 the year before. About 80% came from three war-torn countries—Syria, Afghanistan and Iraq—mostly by crossing the Mediterranean Sea and Southern Europe. Of these, most were men, but 25% were children, and 17% women. The great majority arrived by sea, a process in which almost 4,000 lost their lives. Nearly 1.3 million individuals applied for asylum, double the number during the preceding year. Germany, with almost a half-million asylum applications, was the leading destination. Chancellor Merkel spoke inspiringly about Europe's humanitarian duty, while many Germans shared their time, money and homes to help refugees. Yet less enthusiastic countries—Hungary (with 177,130 migrants), Sweden, Austria, Norway, Finland—received more asylum-seekers per capita. Together with Germany, these countries accounted for well over two thirds of Europe's asylum applications.

The migration crisis of 2015 posed two major challenges to Europe. The first was a political threat to ruling governments. National electorates in every country have a limited tolerance for inward migration. This opposition, research suggests, does not arise primarily from immigration's direct economic effects on individual wages or tax burdens, but from native prejudice against immigrants and a desire to defend national cultures. One result is that opposition is often strongest not in big cities like London or Paris, with many migrants, but in regions where immigrants are less numerous. Over the longer-term, the level of migration Europe experienced in 2015 is politically unacceptable in every EU member state, including Germany. Today, most large Western countries hovered around the world average of about 13% foreign-born residents, and the trend since 2008 has been toward lower levels of net immigration. Those who arrive face stricter legal barriers, labor market discrimination, violence and other hostile actions, as well as declining economic opportunities—often encouraged or condoned by European politicians, particularly on the right. In this context, sudden increases in migration flows into Europe, and even across Europe, simply serve to fuel political extremism.

A second challenge is that mass migration threatens the EU's "Schengen zone" of passport-free movement. Europeans value free movement across internal frontiers more than any other everyday achievement of the EU. Migrants place strain on this system of open borders because they move in response to employment opportunities, family links, and ethnic or cultural ties. This can place uneven burdens on countries, and those most concerned about internal security, economic welfare or political stability are tempted to re-impose border controls. Over the past year, the European Council has authorized temporary checks at Germany's land border with Austria, Austria's land border with Slovenia and Hungary, some French border crossings, and a few Scandinavian ferry terminals and bridges. These controls are largely directed at non-EU nationals with Schengen visas, some of whom who are now subject to identity checks within the zone. Former French President Nicolas Sarkozy has argued for such internal border controls on non-Europeans to be generalized. EU citizens will soon have their identity checked against police databases at the EU's external borders, as has always been the case for non-EU citizens.

National quotas for distributing migrants: a political sideshow

In assessing the EU's response, commentators and journalists have paid most attention to proposals for distributing a high proportion of asylum applicants to different governments through centralized national quotas set in Brussels. The inability to do so is often seen as a major EU policy failure. Yet quo-

Volunteers and rescuers help refugees disembark safely from the inflatable boats they used to cross from Turkey. More than 300 refugees landed on the shores of Lesbos, Greece, March 13, 2016. (NIKOLAS GEORGIOU/ZUMA WIRE/ALAMY LIVE NEWS)

Pro-refugee demonstrators stand in front of riot police as they shout against French far-right National Front supporters in Marseille, southern France, on November 5, 2016.
(BERTRAND LANGLOIS/AFP/GETTY IMAGES)

tas are neither mandated by European law, nor are they a realistic objective, because they do not take account of domestic political pressure and the interests of migrants themselves. There is no overriding technocratic reason why migrants should be evenly distributed across Europe. Instead, the whole issue of quotas is a political sideshow that national politicians exploit to help manage domestic pressures resulting from migration.

Only slightly more realistic is the EU's current formal migration regime—called the "Dublin Regulation." It seeks to prevent multiple asylum applications ("asylum shopping") and situations where no member state takes responsibility at all ("asylum orbiting"). The Dublin system, which dates back from agreements imposed on new and peripheral member states immediately after the end of the Cold War, stipulates that the first member state an asylum seeker enters remains legally responsible for them. Yet it is unrealistic for border countries like Greece, Italy or Hungary to bear the brunt of nearly 2 million migrants—and, in practice, they do not. Instead, most migrants move on to Germany, Austria and the Nordic countries, where there is more employment and a high tolerance of immigration.

In this context, the German government proposed last year that the EU manage migrant flows through quotas, and the European Commission backed the idea. Yet no plan is ever likely to be accepted if, as European Commissioner for Migration Dimitris Avramopoulos stated, it invites national politicians to ignore "the political cost" and stop worrying about reelection. Accordingly, national interior ministers offered no more than symbolic support for a token quota system that applies to only 66,000 migrants (under 5% of more than a million new refugees who crossed into Europe in 2015) and contains no enforcement provisions. For example, the plan obliges Hungary to take 1,294 asylum seekers—a meaningless dictate for a country that is already hosting over 175,000 refugees. The European Council also established ad hoc measures to assist the governments of Italy, Hungary and Greece, which received financial aid and the option for the EU to organize relocation of about a quarter of their current refugee population elsewhere in Europe. Four governments, including Hungary, voted against even this modest proposal, and currently refuse to implement it. Even among those governments that supported it, opposition from the public, politicians and refugees themselves means that only 7,000 refugees have actually been relocated.

Quotas do not, in fact, serve as practical instruments of refugee management. Instead, they are tools that national leaders manipulate to deflect domestic political pressure. Leaders do so in diverse, and even contradictory, ways, thereby increasing the chaos for migrants. In ideologically pro-European countries that are relatively open to asylum-seekers, such as Germany, centrist politicians support EU schemes because they may help muster domestic public support for a generous asylum policy. In pro-European countries with more migrants than they can handle, such as Italy, quotas are a potential means to share the burden. In countries with low tolerance for migration and right-wing nationalist governments, politicians exploit the EU to deflect blame onto Brussels and Berlin for domestic refugee management policy they would have to adopt anyway. For example, Hungarian Prime Minister Viktor Orbán bolstered his popularity by calling a referendum against EU quotas, even though formal quotas were insignificant and informal ones would have reduced the number

EU Commissioner for Migration Dimitris Avramopoulos gives a press conference in Brussels on April 6, 2016, after launching a drive to overhaul the EU's asylum rules.
(JOHN THYS/AFP/GETTY IMAGES)

of migrants in Hungary by one third. He won a 98% majority—even though a boycott meant that participation fell below the 50% formally required for passage—and a boost in public support.

European governments are now discussing more modest and practical intergovernmental proposals to distribute migrants. According to these, the Dublin Regulation would remain in force during normal times. If flows increase, governments could engage in "effective solidarity," whereby each EU state would "pick and choose" how to comply, whether by making financial contributions, relocating refugees elsewhere, or accommodating asylum seekers themselves. In "extraordinary circumstances," governments would simply bypass the EU Commission and Parliament, and strike intergovernmental deals in the European Council. This deal is far more likely to work, because it is more sensitive to domestic political pressures.

Blocking migration: Europe's wall

In responding to the migration crisis, the most important medium-term policy issue facing national politicians is not how to allocate existing refugees, but how to reduce the overall number who enter in the first place. Europe's, and particularly Germany's, willingness to accept over a million migrants has been an impressive display of humanitarian solidarity. Yet right-wing politicians like Nicolas Sarkozy are not wrong to point out that continued open migration at 2015 levels would be politically unsustainable, no matter how migrants were allocated. Thus European borders are likely to remain closed in the future. Critics will complain that Europe is neglecting its humanitarian and international legal obligations, and substantial numbers of desperate migrants will continue to perish in the Mediterranean Sea, yet restricting immigration is now an unavoidable political necessity.

For a decade, the EU has quietly been raising the barriers to inward migration. These policies render it harder for migrants to reach Europe and less pleasant once they arrive. Beginning in 2007, the EU's border protection agency (FRONTEX) began upgrading land border controls with Turkey, culminating in the construction of a fence along the border. Bulgaria followed suit in 2015. Europe developed and strengthened rules placing financial responsibility for repatriation on commercial carriers that transport refugees. Most importantly, Europe has established repatriation arrangements with external states. In 2008, Italian Prime Minister Silvio Berlusconi signed a treaty with Libya providing for cooperation against immigration and the forcible repatriation of some in Italy—though this agreement has lapsed due to the Libyan Civil War. In March 2016, on the basis of unilateral efforts led by German Chancellor Merkel, Europe signed a similar agreement with Turkey. Now the only migrants who can enter from Turkey are those placed on a list and processed there. Migrants that seek to circumvent this procedure by traveling directly to Greece are returned and replaced with those on the list—up to a total of 72,000 per year. Finally, humanitarian concerns have led the EU to strengthen support for search and rescue missions in the Mediterranean, which have become too expensive for countries like Italy to conduct alone.

While many commentators assume that migration into Europe is uncontrollable (or undesirable), in fact, recent efforts to limit it have been strikingly successful. In the summer and fall of 2015, over 200,000 refugees per month entered Europe through Greece. A year later, that number had been reduced 40-fold to less than 5,000 per month.

To be sure, this policy is not without political difficulties. The Turkish government has demanded major quid pro quos, including visa-free travel to the EU, an acceleration of membership negotiations and large cash transfers. The European Parliament is now raising objections, and Turkey is threatening retaliation if the EU abrogates the agreement. On top of that, the problem of migration from Libya toward Italy remains. Although it may heat up in the future, these flows from Libya are ten times smaller than previous flows through Greece. Still, Europe has succeeded for the moment in reducing the pressure of migration to a tolerable level. ■

A Hungarian soldier looks down on migrants queueing for food being distributed from a doorway in the border fence close to the E75 Horgas border crossing between Serbia and Hungary on July 16, 2016 in Horgos, Serbia. (MATT CARDY/GETTY IMAGES)

Slow growth and inequality

The fourth and most serious crisis facing Europe centers on its single currency, the euro. More than 15 years ago, when the EU agreed to establish the euro, European leaders promised higher growth, greater equality, enhanced domestic political legitimacy and a triumphant capstone for federalism. Yet for nearly a decade now, the results have included anemic economic growth, rising inequality, simmering political radicalism, and raging Euroskepticism.

Even in economic good times, growth under the euro was unexceptional, but in 2008 the global financial crisis revealed the system's true costs and underlying weaknesses. Since then, inflation-adjusted GDP in the Eurozone has shrunk by 8%, compared to a 5% expansion in European countries that remain outside. Neither Greece nor Italy has seen economic growth in ten years—and the Italian financial system may be the next to collapse. This loss of output totals trillions of euros. While losses from short recessions are often offset by higher-than-average growth thereafter, losses from prolonged depressions such as this are not.

The euro has also exacerbated inequality within and among nations. Since 2007, Germany has grown by about 5%, while France, the Netherlands and Belgium have remained stagnant, and Greece, Spain, Italy, Ireland, Finland and Portugal have all suffered contractions greater than what they experienced during the Great Depression. Inequality has also sharpened within countries—stunningly in countries like Greece, but also in Germany—and it is reflected in the shattered lives of unemployed youth, bankrupt business-owners and vulnerable citizens who may never regain their previous standard of living. In many European countries, a lost decade is becoming a lost generation.

Prolonged depression has spawned right-wing nationalists and Euroskeptics. In Austria, France, the Netherlands, Italy, Greece, Finland, Germany and elsewhere, radical right-wing parties are enjoying more electoral success than at any time since the 1930s. In Spain and Italy, left-wing anti-system parties are prospering. Support for and trust in EU institutions, traditionally higher than the popularity of national political institutions (even in Britain), fell through the floor. Anti-European radicalism is spreading. A catastrophic collapse of the system may yet lie ahead.

Greek pensioners try to pass a police blockade to go toward the prime minister's office during an anti-austerity demonstration in Athens on October 3, 2016.
(LOUISA GOULIAMAKI/AFP/GETTY IMAGES)

Causes of the crisis

How did Europe fall into this trap of low growth, high inequality and political discontent? The German-led euro single currency arrangement has played an important role, because it eliminated independent national monetary and exchange rate policies. Absent currency appreciation, German productivity, wage restraint and technical excellence reduced the real price of exports. Meanwhile, many of Germany's Southern neighbors, absent currency depreciation, experienced easy credit and increasing demand for German goods. Rising German exports of goods and services were balanced by rising credit to the state or private actors, or through financing of construction booms, as in Spain and Ireland. Some countries, such as Greece, fell into this trap in part due to their own unwise and profligate fiscal policy, but others, such as Spain, fell into it despite model fiscal policies. External imbalances and low growth in response to fixed exchange-rate systems are hardly unique to the EU: Similar problems arose under the 19th and early 20th century gold standard system; in the U.S. during the 1970s, leading to the collapse of the Bretton Woods system; and more recently in Argentina, which experimented with a currency peg in the 1990s.

Currency pegs often suppress growth because, in order for every country and region to benefit equally, their underlying macroeconomic fundamentals—wage and price inflation, public and private deficits, external shocks, and relative competitiveness—must converge. This convergence is essential to sustained macroeconomic growth because a currency peg eliminates the national policies that deficit governments normally employ to adjust to external disequilibria and adapt their economy to a diverse international system. For example, when a country is beset by economic recession, a negative external shock or eroding competitiveness, its government normally loosens domestic monetary policy (thereby lowering interest rates and stimulating investment), lets the currency depreciate (thereby boosting exports, reducing imports and transferring income to the tradeable sector of the economy), and increases spending (which stimulates consumption and investment). None of these are possible under the euro. Those who created the euro expected convergence among diverse domestic institutions and international market positions to follow European monetary union, yet it has not.

This leaves deficit countries in southern Europe with only one tool to restore external balance. It is "internal devaluation," the politically-correct term in Europe for a semi-permanent state of austerity: cutting wages, government spending, consumer demand, corporate investment, imports and, ultimately, growth. This may eventually restore external balance, but as Joseph Stiglitz, Paul Krugman and other Nobel-Prize winning economists have argued, it exacts an enormous cost in lost growth. Deficit countries and their creditors, like individuals and firms in the domestic economy, would be better off in the long term if they could adjust, but they cannot.

Even for a surplus country like Germany, the costs of a flawed monetary system may eventually boomerang back to lower exports, induce financial instability and create political tensions. Depression also undermines the political legitimacy of domestic governments and the international organization responsible for the rules—in this case the EU. Low or negative growth and rising inequality within a system that seems to deny them any control leads national publics to grasp at radical alternatives. In the interim, deficit countries are to a greater or lesser degree in receivership, being managed by the EU. Decisions are increasingly driven by capital markets, European rules, and dictates from Paris and Berlin.

What can Europe do about it?

The fact that deficit and surplus countries in Europe both ultimately suffer from macroeconomic disequilibria induced by the Euro system suggests that perhaps they could cooperate to reform or change that system. Yet nearly a decade into the financial crisis, little has been done. Three alternatives exist, of which two—structural reform to render the system more symmetrical or permitting some countries to leave the system—offer the hope of fundamental long-term improvement. Yet Europe has chosen the remaining option—the worst of the three, from a long-term perspective—namely, to "muddle through" by imposing general austerity on deficit countries and managing the symptoms. Let's review these options.

One option for Europe would be to enact fundamental structural reforms to make the euro system more symmetrical—that is, to generate more growth and distribute it more equally. This would require encouraging not just convergence to lower wage and price inflation, different education systems, tax reform, investment targeted at exports, and similar corporate governance on deficit countries, but also to encourage opposite trends in Germany and other surplus countries. Stiglitz and others have detailed how the EU might rewrite tax laws, loosen monetary policy, change corporate governance rules, and boost wage growth, consumer spending and investment. The EU could discourage trade surpluses, for example by taxing countries that run them. The German government could unilaterally engineer an increase in domestic wages (for example, through stronger union bargaining rights) or expand deficit spending. Countries should be permitted to declare bankruptcy and start over, just as most countries permit firms to do. Over time, all this might help deficit countries stimulate growth and restore export competitiveness, both vis-à-vis Germany (by increasing German demand and raising the relative price of German goods) and also vis-à-vis the rest of the world (by lowering the real exchange rate of the Euro).

Another part of this structural reform agenda could be to encourage

The euro sign sculpture stands illuminated outside the former European Central Bank headquarters at dusk in Frankfurt, Germany, October 20, 2016. (KRISZTIAN BOCSI/BLOOMBERG VIA GETTY IMAGES)

Leader of France's far-right National Front party, Marine Le Pen, delivers a speech during a political rally on September 3, 2016 in Brachay, France. Marine Le Pen has vowed to hold a referendum on whether France stays in or leaves the European Union if she wins the 2017 presidential election. (CHESNOT/GETTY IMAGES)

large fiscal transfers, migration and other factor movements that can offset Euro-induced distortions and inequities. Such policies might replicate the compensating factor flows that make single currencies viable within large sovereign states, such as the U.S. American federal government programs like unemployment insurance, welfare payments, infrastructure spending, progressive taxation and industry bailouts add up to sizable fiscal transfers from richer and more economically vibrant regions to poorer and depressed ones. The EU might establish a similar system of fiscal transfers from creditor countries like Germany to deficit countries like Greece and Italy. Former Greek Minister of Finance Yanis Varoufakis proposes massive European investment and anti-poverty programs. An even more significant compensating inter-regional factor flow in the U.S. is internal migration. When some states suffer long-term sectoral decline—as have farms in the Midwest or industries in the Rust Belt—people move out to economically more buoyant states. Europe, Germany and other surplus countries might accept continuous migration flows from deficit countries. Germany might benefit from such policies, since its growth has slowed as well, in large part due to its dependence on exports to other countries in Europe that are suffering under austerity.

In theory, deep structural reform seems an optimal choice. For this reason, the phrase "monetary union requires fiscal union" has become commonplace among European federalists. Yet such reforms stand little chance of adoption. Germans are unlikely to renounce the export-led growth that has stemmed from its 60-year tradition of high savings, low inflation, modest wage settlements and export promotion through an undervalued exchange rate. They are even less likely to accept massive fiscal transfers to other countries. Varoufakis estimates that EU fiscal capacity, now about 1% of GDP and 2% of European public spending, would have to increase at least ten-fold to have an impact resembling that of a national government. Germans also protest, with some justification, that this could simply encourage irresponsible behavior by debtors—a so-called "moral hazard" problem. Even if the German government were inclined to support such policies, its own electorate and business elites would surely block them. Even less likely are large increases in northward migration. To be sure, a few percent of the Greek labor force has already fled, mostly to locations outside the Eurozone. Yet for migration to have a significant macroeconomic effect, many millions of Italians, Spanish, Greeks and Portuguese would have to move to Germany. In the current political climate, this is impossible.

This leads us to a second alternative, which is to break up the euro as we know it. Stiglitz believes that such a "friendly separation" could be achieved at a reasonable cost—preferably by separating the Eurozone into macro-economically compatible subgroups, each with its own currency. Electronic banking, credit auctions, capital controls, a system of trade chits for exports and new management of debt make such changes feasible without speculators gaming the system, short-circuiting any change or triggering catastrophic bank runs. Rendering European integration more compatible with prosperity and a measure of national autonomy would not weaken the EU; it would strengthen it.

Yet, even though it would likely be to their long-term advantage, almost all European politicians publicly reject this option. So do publics within Eurozone countries, which support the maintenance of the euro. To be sure, throughout the crisis, eliminating the euro as we know it has been closer to the surface than many are aware. We know that the Greek, Spanish and Italian governments all thought seriously about this option. Yet they backed away because surplus governments like Germany threatened to withdraw support, the short-term costs could be extremely high and public opinion firmly supports the euro. This leaves European governments in an ironic situation. The euro was initially sold to governments as being difficult and costly in the short-term, but good for European economies in the long term. Now, most analysts concede that it is a costly and inappropriate policy in the long term, but concede that large short-term costs preclude countries from leaving.

If fundamentally reforming the euro and eliminating the euro as we know it are both unlikely, the only remaining option is to "muddle through" with current policies, as Europe has done for nearly a decade now. This is not to say the EU has done nothing. It has enacted policies that strengthen the EU's short-term crisis management capability and address some of the symptoms and risks of the current euro system. Eurozone member states created various funds and processes—the European Financial Stability Fund and European Stability Mechanism, for example—to help stabilize debt crisis. They have encouraged the International Monetary Fund to join the effort. They have quietly approved monetary easing by the European Central Bank (ECB) and its aggressive rhetorical defense of the euro—for example, President Mario Draghi's celebrated promise that "the ECB is ready to do whatever it takes to preserve the euro." In addition, first steps toward "banking union"—central oversight, regulation and insurance of European banks—have been put in place. Banking reform could continue by offering EU financial guarantees that decouple banks from national governments. It would be necessary to restructure or mutualize debt, perhaps using GNP-indexed bonds that reward investors if the country grows, or creating Eurobonds that make all European governments responsible for national debts.

These steps are insufficient to make the euro system work fairly and efficiently. The underlying macroeconomic divergences based on persistent differences in national systems of wage-setting, corporate governance and financial intermediation remain. Eliminating austerity and low growth, and the disproportionate costs of the current system on deficit countries, which will ultimately cycle back to Germany, requires far more serious reform. In the absence of convergence, Germany and other European creditor governments resist more intensive means of muddling through, because these involve accepting financial responsibility for the future consequences of policies adopted in debtor countries. To avoid risk, and even moral hazard, such policies would also require a large increase in the EU's oversight, control and intervention in national financial systems, which are rejected by every EU member state—Germany no less than Italy or Greece, where governments have developed unique relationships with banks. ■

The virtues of muddling through

We have seen that the conventional wisdom about the EU's weakness and fragility exaggerates the severity of crises and problems Europe faces. The geopolitical, democratic legitimacy and migration crises are modest and manageable. That leaves the euro crisis, which remains untreated. Modest reforms to the euro system have addressed the symptoms, but have failed to restore Europe to economic health. Ultimately robust economic growth is what underlies Europe's geopolitical influence, democratic support and ability to manage migration. Europe is not out of the woods.

Why do commentators tend to exaggerate the EU's failures? There are many reasons, but one important one is simple and banal: Most of what occurs in the EU is deadly dull and thus of little interest to the public. EU decision-making processes are slow, technocratic and legalistic. It rarely handles issues that are of primary importance to voters. One consequence is to induce a bias among journalists, policy analysts and even scholars toward sensationalist reporting of crises. Excitement attracts readers, which leads these commentators to report European challenges, difficulties, and failures. By contrast, success, stability and incremental change managed by technocrats are rarely acknowledged. 250,000 refugees a month arrive in Europe and it is front-page news. That number falls to 5,000, and only specialists are aware.

The EU's intrinsic banality also leads, ironically, to ideological polarization. Because the EU's pragmatic issues are of little inherent interest to anyone, even elites, those who do pay close attention to Europe tend to be highly ideological. They are either Euroskeptics and Euro-enthusiasts. Both have an incentive to highlight crises and failures in the EU—though for opposite reasons. Euroskeptics seek to show that the integration is misguided and must be reversed at once, whereas Euro-enthusiasts seek to show that we need more centralized and powerful EU institutions.

Yet Euroskeptics and Euro-federalists both miss the true source of the EU's success. Europe does not specialize in highly centralized institutions devoted to grand institutional schemes. When it embarks on such efforts, as with the euro, it runs the greatest risks. Instead, it is at its best when it simply "muddles through," creating decentralized solutions to common problems. As Brexiteers are learning to their surprise, if the EU did not exist, it would have to be invented, because the pragmatic tasks it carries out are essential to maintaining peace and prosperity on the world's most interdependent continent. An optimistic future depends in large part on finding solutions to the euro crisis that are consistent with the EU's successful political tradition. ■