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The EU after Brexit—Hard or Soft?

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Introduction

The future of the EU is in question, and not just because of Brexit, which is just one of the many crises that have hit the EU in recent years. The Eurozone crisis, the refugee crisis, and the ongoing security crisis are equally problematic. But how Brexit occurs, whether very hard or somewhat ‘soft’, may have a significant impact on future European integration. At the same time, future integration—its form and content—will also have an impact on how the UK engages with the EU going forward. This chapter discusses the various options for the UK’s future relations with the EU not so much to examine the details or the potential effects on the EU but rather as a way in to exploring how the EU may itself develop, and how this might impact the UK and its relations with the EU. The paper therefore considers the various proposals for the EU’s future, including a ‘hard core’ Europe, a Europe of concentric circles, and a differentiated Europe in a range of different forms. It argues that only by conceiving the future of the EU itself as flexibly differentiated—with a ‘soft’ rather than hard core constituted by different clusters of members in overlapping policy communities—is the UK likely to be able itself to negotiate a ‘soft’ Brexit that would enable it to continue to have productive interactions with the EU through some of its various policy communities.

The EU now has too many members with too many diverging interests and ideas to be able to reach optimal agreements on deeper integration, in particular given EU unanimity rules for treaties. Although many such divergences may have long existed, the problems have become more acute as a result of the concatenating crises in key areas, such as money (eurocrisis), borders (immigration and refugee crisis), security (terrorism and the neighborhood), and the continuing integrity of the EU itself (Brexit). In conjunction with these crises has come an overarching political crisis. It results in large part from the failure to resolve the EU’s multiple crises, along with the impact of the very existence of the EU on national democracies. This cross cutting political crisis manifests itself in the increasing politicization of the very idea of European integration, along with growing questions about European democracy and legitimacy, as national electorates turn increasingly to populist parties to protest perceived failures of EU and national policies, politics, and economics. All of this together challenges the gains of European integration, and could even threaten to bring disintegration.

This chapter begins with a discussion of Brexit and the UK's relationship to the EU, in order to briefly elucidate British reasons for Brexit and its long-term relationship in (and opting) out of Europe. The chapter then considers the range of crisis challenges to the EU, regarding money, borders, and security, in addition to Brexit. It follows with a discussion of the current state of differentiated integration, and ends with an exploration of the future possibilities of a soft core EU, suggesting that deeper integration in certain less developed areas (e.g., immigration and security) might be complemented by greater flexibility and decentralization in others, most notably the Eurozone.

The Challenges for EU Integration: Brexit and Beyond

British exit from the EU was an accident waiting to happen. This was a consequence not just of the politics of the moment but of the history of Britain's relationship with the EU and its actions within the EU. These include the UK's push for a particularly neo-liberal EU and its increasing demands for opt-outs of major areas of EU policy.

British Reasons for Exit

British disaffection from the EU has many proximate causes, but it is also the consequence of many long-standing internal political trends. Party politics and political leadership, media communication, and public (mis)perceptions about the impact of the EU have all contributed to the problems. Political leaders have historically failed to provide a positive pro-European discourse that went beyond the focus on economic interest to answer the anti-EU discourse on sovereignty and identity. The media has engaged in a slow-drip of Euro-skepticism over the years. On both sides of the political spectrum, political parties have long been internally split on Europe. The split started very early on in the Labour Party, reaching its pinnacle in 1983 with the call for withdrawal from the EU, then abated, only to reemerge with the referendum on British membership in the EU, and the subsequent party leadership of Jeremy Corbyn. Party divisions came later for the Tory party, with Margaret Thatcher, but only intensified over time. They came to a head in the referendum, with Conservative Prime Minister David Cameron's ill-fated gamble that a vote would enable him to counter challenges from the outside, in particular from UKIP's radical Euroskepticism, while healing the internal schism within the party with its increasingly strong Euroskeptic wing.¹ The rest is history, as the government of Prime Minister Theresa May struggles without much success to develop a 'have your cake and eat it' exit strategy that has failed to convince anyone—the EU or UK citizens.²

British citizens' vote against the EU was of course not just a matter of bad history and politics. It also was a response to their dissatisfaction with national affairs—economic and socio-cultural as

¹ Howorth and Schmidt 2016

² Howorth 2018

well as political. In the UK, the effects of neo-liberal policies imposed by one government after the next were a major contributor to support for the Brexit camp. But neo-liberalism as a theme was remarkable for its absence in the referendum debate. The anger of working and middle class people against the worsening of their life chances due to stagnant wages, growing inequality, and the increasing difficulty for the young to get a foot on the real estate ladder, or a steady well-paying job, much as the revolt against the political parties, the rejection of the experts, and the distrust of the elites more generally—all of this had to do with neo-liberalism. And yet it was never addressed in campaign discourse. Instead, the EU and immigration were blamed for all of Britain's ills. Better to blame the outsiders (i.e., immigrants and Eurocrats) than to recognize that the problems came from the inside, from the policies of British governments—on the center left as much as the center right.³

The center-right was responsible for introducing neo-liberal ideas beginning with Thatcher in the 1980s, with the rallying cry of 'less state to free up the markets', and maintained a rhetoric of neo-liberalism ever since, even if the reality was more pragmatic. The center-left enhanced neo-liberal ideas with the cry of 'more state to make the markets work better' with Blair's New Labor in the 1990s. And during the campaign, despite the fact that the Labor party then had a more radical Labor leader at its head, Jeremy Corbyn offered relatively little critique the national sources of the problems resulting from neo-liberalism, at least in comparison to the EU, with his lukewarm support to vote Remain "in order to reform the EU."⁴ As for the EU, why not acknowledge that the UK's neo-liberalism had a big hand in how the EU developed. The UK from Thatcher on was a key promoter of the Single Market in order to push its own neo-liberal agenda, including free movement of goods, capital, services, and, yes, the free movement of peoples. Moreover, as an integral partner in EU decision-making, British governments regularly approved EU policies in the Council, including the austerity policies for all of the EU during the Eurozone crisis.

As for immigration policy, the blame should be placed not so much on the EU as on British governments. The UK was one of the countries that pushed most strongly for Eastern Enlargement. And it was Prime Minister Blair who decided to open the UK to the CEECs immediately upon their accession in 2004 rather than wait the agreed seven years. By grossly miscalculating the number, claiming that only 30,000 would come when it was over a million Poles alone, and then not managing the process adequately, the government's open door policy also fanned the flames of anti-immigration sentiment.

Immigration played into concerns not only about jobs and state control but also about English national identity. For decades after World War II, the English remained "proud to be British" and tended not to minimize that identity by embracing "Englishness." But with the 1990s

³ Schmidt 2017

⁴ https://www.democracynow.org/2016/6/21/jeremy_corbyn_why_i_am_voting

devolution of powers to the UK's three other nations (Scotland, Wales and Northern Ireland), Britishness versus Englishness became an issue. The question was of enough concern to Prime Minister Gordon Brown that he sought to reinforce citizen's sense of 'Britishness' with a series of measures, including a statement of British values akin to France's motto '*liberté, égalité, fraternité*.' This led to innumerable jokes, including a contest for the best motto by the Times of London (22 Nov. 2007)—with the winner 'No motto please, we're British,' and a runner-up "At least we're not French."⁵ There was a growing sense, arising out of the 2014 Scottish referendum on independence from the UK, that the English finally had to look after their own interests.⁶ The Brexiteers fuelled this emergence of a crusading English identity. The referendum results demonstrated that the more electors identified as English, the more in favour they were of Leave, as well as the reverse, the more electors identified as British, the more they voted Remain.⁷

Britain in (and opting) out of the EU

In the EU, the UK has always been known as the 'awkward partner.'⁸ In EU decision-making, where the culture of compromise and consensus is far removed from the adversarial culture of British politics, the UK has tended to engage in hard bargaining for its interests, and has been quick to declare its red lines. Such threats may have played well with the British public, as recounted in press conferences following European Council meetings and Summits. But as maneuvers in the meetings themselves, they often led to disastrous results. A case in point is Prime Minister David Cameron's veto at the December 2011 Council meeting of a proposed treaty reinforcing rules on government spending, with sanctions for those failing to follow the rules. His hard-bargaining strategy to ring-fence the City with special protections for UK finance backfired massively. The member-states went ahead without the UK (and the Czech Republic) to create a treaty outside the treaties, known as the Fiscal Compact.

The main legacies of the UK's 43-year membership of the Union were: active resistance to any quasi-federal ambitions; energetic pursuit of neo-liberal deregulation; faith in market forces; and enthusiastic support for enlargement to the East (advocated primarily as further market opportunities). To a significant degree, the UK succeeded in turning the EU into a force for supply-side economics and minimal political authority. In the 2005 referendum on the embryonic Constitutional Treaty, the French rejected the draft in part because it was perceived as too neo-liberal. At the same time, the British felt that the Treaty was too state-heavy and even protectionist. There was never anything approaching a meeting of minds about the nature of the European project. The British in general and the English in particular never really accepted that it *was* a project. For decades, a ferociously hostile media lampooned the Union for its alleged encroachments on the lives of ordinary Britons—including apocryphal stories, such as demands

⁵ Schmidt 2011, p. 20

⁶ Henderson et al., 2015

⁷ Kenny 2016

⁸ George 1998

for round gin bottles (in place of the British square bottles) and non-curved bananas.⁹ No UK leader ever tried to make the case for the EU – in large part because none (with the exception of Heath) espoused it. The very notion of “Ever Closer Union” was explicitly rejected by the UK. This is why, during the Brexit “debate” in 2016, the “Remain” camp did not even attempt to make a case *for staying* and structured their campaign exclusively around the (overwhelmingly economic) reasons *for not leaving*.¹⁰ The catchword of the Brexiteers was “Take Back Control.”¹¹ The ironic truth is that, through its opt-outs, London had never relinquished control over any significant aspect of sovereignty: money, borders, or defence.

British opting out of the Euro in particular served as a defining moment not just for the UK’s engagement in the EU but also for the EU itself, since it was the first major step toward a more flexible, differentiated Europe. British resistance—and threat of veto—to the Treaty of Maastricht with regard to both monetary union and social policy served to constitutionalize differentiated integration in the Euro by allowing some member-states to participate in limited ways or not at all in EMU and to opt out of the Social Chapter, although the opt-outs were assumed to be temporary, with opt-ins expected at a later time—as was true for the Social Chapter, into which Blair opted in 1997. Had the Maastricht Treaty not done this, it would never have gotten through. But in so doing, it established the legal machinery for the future, with structural differentiation occurring both at the time of law-making and at the time of its application, with the institutions of the EU made available to the selected group of Member-States going forward with deepening integration.¹²

Once its opt-outs agreed, the UK (joined soon thereafter by Denmark) took on an outsider status in the EU. Membership in the euro, as Rebecca Adler-Nissen argues, relegated both the UK and Denmark to the margins, in a process of stigmatization intended in part to ensure the symbolic stability of co-operation among existing euro members (despite their many disagreements). But whereas British representatives accepted the stigma as an emblem of their difference, remaining happy as outsiders with the pound, Danish representatives felt frustrated and sought to compensate for their outsider status. This helps account for the fact that while Cameron vetoed the December 2011 treaty amendment that was to become the Fiscal Treaty, the Danish government sought to be included in the treaty.¹³ But it does not explain the earlier history, in which British representatives were mostly seeking to compensate for their outsidership by appearing to be model states, for example, by being very active on the Lisbon strategy, or, between 1997 and 2010, by signaling their openness to joining EMU at the right time, once they

⁹ For more examples, see: <https://vip.politicsmeanspolitics.com/2017/12/06/see-20-years-of-fake-news-about-eu-by-uk-press/>

¹⁰ See Howorth and Schmidt 2016

¹¹ Macer Hall, “Boris Johnson urges Brits to vote Brexit to ‘take back control’”, *Sunday Express*, 19 June 2016

¹² De Witte 2017, pp. 154-5

¹³ Adler-Nissen 2014, p. 75

met the ‘five economic tests.’¹⁴

In terms of borders, moreover, with regard to the Amsterdam revision treaty that ‘repatriated’ the Schengen common border policy community by bringing it under EU law, the British once again negotiated an opt-out (joined by Ireland, forced to join to preserve its Common Travel area with the UK).¹⁵ But here, British opt-out from the common border policy did not stop it from selectively opting in with regard to police and judicial cooperation, along with the Schengen Information system. With asylum policy, moreover, the UK has done much to try both to influence and imitate EU measures. It has opted-in to most civil law measures, all asylum measures, and most measures regarding illegal migration while opting out of protective measures on legal migration, visas, and border control.¹⁶ The main issue in the Brexit campaign was migration from the EU under free movement, with a particular focus on Polish workers. Although EU migration became mixed up with the question of refugees as a result of the UKIP poster depicting thousands of Syrians lined up at the borders in Eastern Europe, the UK in fact managed its refugee policies through the EU without any difficulty—and has taken in very few.

Finally, as for security and defense policy, the UK since 1999 has been no better, nor much worse, than any of the other ‘serious players’ in the area. Slow and hesitating forward movement has been the *modus vivendi*. In the decade following the Franco-British summit in Saint Malo in 1998, the UK was active in its engagement in setting up a rapid reaction force based on the battle-groups; rethinking the finances of CSDP; agreeing to implementation of permanent structured cooperation; inauguration of a European “semester” on defence; pooling and sharing in capacity procurement; and tightening CSDP-NATO cooperation.¹⁷ Its main negative ‘talking point’ was resistance to the very idea of a ‘European army,’ but this in any case was a Euroskeptic invention, since the UK would not have been alone in resisting any such notion.

The Crisis Challenges to EU Integration

There are those who argue that now that the UK is moving out of the EU, the EU can quickly move to integrate more deeply. But this would be a mistaken assumption, given the existing differences among member-states across a number of areas. Moreover, it fails to deal with the on-going problems of the EU, in particular its inability to resolve some of the major crises it has been facing in recent years.¹⁸

In some areas, such as the Eurozone, integration has gone very far indeed. In response to the

¹⁴ Adler-Nissen 2014, pp. 102-103

¹⁵ De Witte 2017, p. 155

¹⁶ Adler-Nissen 2014, p. 127

¹⁷ Howorth 2014; Howorth and Schmidt 2017

¹⁸ Börzel and Risse 2018

sovereign debt crisis, integration deepened with the reinforcement of macroeconomic rules mandating low inflation, low deficits, and low debt along with greater oversight over member-state governments' budgets.¹⁹ This was to ensure greater convergence. Instead, Eurozone policies of 'governing by rules and ruling by numbers' have only increased the divergence between national political economies.²⁰ The differences have been particularly pronounced between the export-oriented creditor countries in the North that have continued to flourish during the crisis and the more consumption-oriented debtor countries in the South which have languished as a result of the stability-based regime.²¹ The Eurozone crisis has also fueled anti-euro and even anti-EU feeling, swelling the ranks of the populists both in the South—opposed to austerity—and in the North—angry about what they think of as a 'transfer union.'

In others areas, EU integration has barely developed at all, such as immigration or defense. In the refugee crisis, the EU response has, in contrast with the Eurozone, involved a lack of coordination accompanied by increasing fragmentation. Member-States have divided over what to do and how, retreating even from the integration already in place, both in terms of Schengen's borderless Europe and the rules governing asylum seekers. In the security crisis, moreover, the failure to move toward any significant integration continues to plague the EU's Common Security and Defense Policy (CSDP)—and this despite the rising risks of terrorism coming from the Middle East and the continued threat from Russia linked to the frozen conflict in the Ukraine—not to mention the complications coming from volatile US foreign policy with regard to, for example, Iran or North Korea.

Brexit represents its own special challenge. Here, the uncertainty of how and what the UK will negotiate in terms of its future relationship with the EU opens up a whole range of questions not only about the future of the UK but also of the EU. The negotiation process itself risks splitting the member-states with regard to the terms of Brexit, in particular given all the other crises that have made EU governance increasingly gridlocked. Moreover, the loss of the UK—if it comes to that—while perhaps facilitating agreements among the remaining 27, at the same time weakens the EU economically as well militarily, unless some form of positively differentiated integration is negotiated. But even more importantly, and regardless of the outcome, British exit from the EU in any form challenges the very idea of European integration, and raises the specter of EU disintegration.

These crises not only pose major policy challenges for the EU, whether with regard to promoting economic prosperity, guaranteeing the borders, ensuring security, or negotiating Brexit. They also represent significant political challenges, with spillover effects on national democracy and legitimacy.

¹⁹ Blyth 2013

²⁰ Schmidt 2015, 2016

²¹ Baccaro and Pontusson 2017; Brazys and Regan 2017

Together, the policy crises embody a cross cutting political crisis concerning the EU's democratic legitimacy. As authority and control have moved up to the EU level in order to solve common problems, national democracy has been increasingly emptied of substance in EU dominated policy areas, in particular as EU level technocratic decisions are perceived to have substituted for the national level politics of left and right.²² All member-states as a result struggle with an upsurge of populism, as the political extremes have made the EU a prime target because of concerns about national identity and sovereignty focused on the impact of the euro and fears of immigration mingled with worries about terrorists. The simple fact of Brexit only further intensified the populist pressures by energizing European extremist parties with calls for withdrawal from the EU, or at least the euro, as well as an end to open borders (Schengen) and restrictions on immigration and citizenship. Finally, even though most populist parties moderated their rhetoric with regard to exit from the euro subsequent to Macron's election defeat of Marine Le Pen, this constituted only a momentary reprieve from the rise of populism, as attested by the new Austrian conservative-far right government and the Italian far right (Lega) and radical center (5 star) government. The only way out of this political crisis is for the EU to respond effectively to its crisis challenges with new, more successful policies as well as new politics. But none of this will be easy, given how the increasing politicization related to rising Euroskepticism on the political extremes along with growing citizen dissatisfaction negatively affect EU member-state leaders' ability to reach agreements in the Council of Ministers.

The Current State of EU Differentiation

The complicated political dynamics of current EU governance helps explain why the EU is already in a state of differentiated integration. That differentiation can be seen not only in the member-states' differential participation in the EU's many policy communities but also in the increasing differentiation within and across the member-states. As Stefano Bartolini has argued, European integration has led to a 'process of nation state boundary transcendence, resulting in a process of de-differentiation of European polities' after a history of five centuries of progressive differentiation into nation states.²³ This goes all the way from competition policy and state aid to the very boundaries of the welfare state, as Maurizio Ferrera has shown, despite the clear lack of EU jurisdiction in this area.²⁴

The fruits of nation-state boundary transcendence could arguably also be seen lately in the rise of sub-national regional movements for independence, encouraged to go it alone in the European Union by their state's loss of control over many state-defining areas in the belief that they would

²² Schmidt 2006

²³ Bartolini 2005

²⁴ Ferrera 2005

do better apart—as a ‘nation’ as well as a state. This has been most notable in the cases of Scotland—where Brexit represents a major challenge for a ‘nation’ that voted in favour of staying in the EU—and Catalonia—in particular with the Catalan referendum on independence representing yet another unresolved crisis for the EU. But even without such movements, a process of ‘re-scaling’ has been in progress in which the regions have become spaces for the further differentiation of the nation-state ‘from below,’ by constituting a new meso-level of policymaking, political activity, and cultural expression that makes for increasing diversity within as well as between the member-states.²⁵ Across the member-states, then, de-differentiation results from pressures from above, at the EU level, and from below, at the regional.

All of this makes for a EU that is itself highly differentiated internally, in particular in terms of participation in different policy areas. While all member-states are part of the Single Market, membership in other policy areas is highly variable. Such variable geometry includes Schengen borders (minus the UK and Ireland but with Norway, Iceland, and Switzerland), Common Security and Defense Policy (without Denmark but with the participation of Norway in the Nordic Battlegroup and with all members being able to opt in or out), the Charter of Fundamental Rights (with opt-outs for the UK and Poland), even freedom of movement of workers, which excluded Romania and Bulgaria until 2014 (and for which the UK demanded an extension). And of course there is the Single Currency, which includes 19 out of 27 member-states, the rest of which have either permanent opt-outs (UK and DK), are resistant but without opt-out (Sweden), or are eager but not yet ready to opt in (the other CEECs). But even the UK has agreed to participate in various instruments of Eurozone governance, including the Stability and Growth Pact, the European Semester, and the Six Pack. Moreover, Brexit will add yet another level of complexity to the EU, depending upon how and in which areas its involvement with the EU is renegotiated.

Even in the Single Market, integration is differentiated through negotiated opt-outs for individual countries, by providing for special exemptions to commonly agreed rules. ‘Informal governance,’ as Marieke Kleine explains, has been normal part of a process of negotiated agreement in the Single Market since the very beginning. Its purpose has been to reinforce the legitimacy of the formal governance processes in cases where the political fallout from domestic groups’ objections could jeopardize consensual EU level politics or national political stability.²⁶

The Lisbon Treaty agreement for ‘permanent structured cooperation,’ moreover, permits the greatest of variability in the defense and security policy arena and ‘enhanced cooperation’ in all others. ‘Permanent structured cooperation’ enables any number of EU member-states to agree to deeper integration of their military capabilities and engage in joint military operations subject, of

²⁵ Keating 2013

²⁶ Kleine 2013

course, to their obligations under the various EU and NATO Treaties. It was also intended to enable member-states to create coalitions of any size under the umbrella of Common Security and Defense Policy (CSDP).²⁷ But beyond this is a proliferation of differentiation, with the recent initiative focused on security and defense cooperation (PESCO) coming alongside other initiatives, including the ‘Framework Nation Concept’ and the ‘European Intervention Initiative.’

‘Enhanced cooperation’ has also begun to work, despite the fact that it requires at least nine participant member-states, with authorization by the Council to be ‘a last resort’ decision when the Union as a whole cannot attain those same objectives within a reasonable period (Treaty of Lisbon, 2007/C 306/22/2). It has already been deployed in the areas of divorce of cross-border couples and patents as well as in process with regard to the harmonization of one kind of fiscal policy—the financial transaction tax. The fact that enhanced cooperation was even agreed in the Lisbon Treaty also signals member-states’ acknowledgement that a high degree of differentiation without integration—even fragmentation—remains the norm in a wide range of policy areas. Although monetary policy and the rules of fiscal discipline represent areas of increased convergence, defense and security is not the only area characterized by continued divergence. Transport, communications, and infrastructure have also seen minimal integration or forward movement. Worse yet, however, are areas such as energy and the environment as well as migration, mobility, and asylum, which are subject to fragmentation and the risk of disintegration.²⁸ The problem here is that continued differentiation without integration also undermines EU capacity to deal with challenges that the member-states themselves cannot solve on their own.

Differentiated integration is not only an issue with regard to member-states’ differential participation in the various policy areas. It is also increased by the presence in the EU of ‘outside insiders’ like Norway, Iceland, and Switzerland that participate in the Single Market as well as in a range of other EU policy communities such as Schengen and CSDP but don’t have a vote. It is complicated by initiatives like the Bologna process for higher education harmonization, which was set up outside the EU by EU member states, includes most member states (but again not the UK) as well as many non-EU states across Europe, and was aided financially and administratively by the Commission.²⁹ Differentiated integration was only further extended by the Eastern Partnerships and other ‘Neighborhood’ policies which by now involve deep and comprehensive free trade agreements, gradual integration into the EU economy, ‘mobility and security pacts,’ and the promotion of democracy and good governance. Moreover, the EU’s *finalité* remains to be decided. It now looks as if enlargement will stop at the Balkans, but no final decisions have been made with regard to the Ukraine and Georgia, despite the geopolitical issues related to Russia, let alone Turkey, with its drift to authoritarianism.

²⁷ Howorth 2014

²⁸ Tocci 2014

²⁹ Ravinet 2008

The Future of Differentiated Integration in the EU

So the question becomes whether, for the sake of further European integration as much as for the future of the relationship with the UK, the EU will move forward through more differentiated integration. EU leaders themselves have acknowledged as much in recent declarations and positions papers, not to mention the growing numbers of think-tanks reports and scholarly articles. In the ‘Rome declaration’ of March 25, 2017, EU leaders stated that: “We will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later.”³⁰ And the European Commission, in the White Paper on the Future of Europe published earlier that same month, on March 1, 2017, elaborated a scenario made up of ‘coalitions of the willing’ that would carry forward new cooperation projects in areas such as defense and security, justice, taxation and social policy, with other Member States able to join those projects at a later stage, once ready or willing.³¹

Many possible differentiated futures have been evoked over the years, including a multi-speed Europe, a hard-core Europe around the Eurozone, a Europe of variable geometry, and more, all raising questions about the EU’s *finalité*, that is, where it is going. The EU was never going to become the federal *superstate* that the British in particular have feared or the United States of Europe that European federalists have long envisioned. But is it going to become a *two-speed* Europe?³² A Europe of concentric circles surrounding a compact core?³³ A Europe with a *hard core* centered around the Eurozone? Or, failing these, a Europe completely *à la carte*?

I prefer to think about the EU’s future organization not in terms of a *hard core* around the Eurozone but, rather, as a *soft core* Europe, made up of overlapping clusters of European countries participating in the EU’s many different policy communities, all administered by a single set of EU institutions, and in which most member-states will be involved in most areas (beyond the Single Market, to which all belong by definition), even if some, like the UK, will have more limited involvement. As for the EU’s many policy areas, while some, such as security and defense policy, immigration and refugee policy arguably require more differentiated integration, the Eurozone demands greater deconcentration and decentralization, to give back to the member-states control over their economic policies, so as to reinvigorate national politics while dampening populism.

³⁰ ‘The Rome Declaration: Declaration of the leaders of 27 member states and of the European Council, the European Parliament and the European Commission’, <http://www.consilium.europa.eu/en/press/press-releases/2017/03/25-romedeclaration/>.

³¹ Commission White Paper on the Future of Europe – Reflections and Scenarios for the EU27 by 2025, COM(2017)

³² Piris 2012

³³ Pushed by, e.g., the Glenicker group (2013), the Eiffel group (2014), and the Future of Europe initiative (2012)

Toward a *Soft Core* Europe

The problem with visions of a future EU at multiple speeds with concentric circles is that it doesn't reflect the realities of what is already a highly differentiated Europe, with different member-states participating in different policy communities. While all member-states are part of the Single Market, membership in other policy areas is variable, with many countries in and others out of the Eurozone, Schengen, Common Security and Defense Policy, and so on. For the UK, if we continue to think about the EU as at multiple speeds, the question is whether the UK would be at the outer limits of the second speed, in a third speed all its own, with many more opt-outs—or outside with occasional opt-ins.

The problem with a *hard core* Europe, especially one in which the Eurozone sits at the core, is that it assumes that France and Germany agree on policy. They do not, in particular in the Eurozone, where Germany stands for restrictive budgetary policy to maintain stability, France for more expansionary policy to promote growth.³⁴ Were such a hard core to be established, it would most likely be dominated by Germany. Moreover, there is little certainty that a smaller hard core around Germany and France would be able to come to agreement more readily than the larger EU membership, in particular if the unanimity rule were maintained. Furthermore, why assume that a cluster of member-states that takes the lead in one policy area (i.e., the Eurozone) would have the ability, let alone the will or imagination, to lead in the others (e.g., in security or immigration)? In fact, deeper integration in one area could instead produce an even higher degree of differentiation without integration in other policy areas.³⁵ What is more, it would fully alienate the post-Brexit UK, and most likely preclude British engagement with the EU beyond a minimal involvement with the Single Market. The British might very well ask, 'why deal with the EU at all?' if the Eurozone were to become the central focus of EU integration as a whole, with a hard core of member-states led by Germany and France, where insiders with dedicated institutions then set the trajectory for the remaining outsiders.

However, the EU could retain its appeal—for the UK as well as other member-states resisting membership in the Euro, such as Sweden, or on the outside looking in, such as Norway and Switzerland—if the Eurozone were to be seen as just one of the EU's many policy 'communities', and the EU itself seen as consisting of a *soft* core of overlapping clusters of member-states in which any duo or trio of member-states would take leadership. With this in mind, while the UK may continue to stand aside with regard to the Eurozone, it could decide that it should reclaim a leadership role in Common Security and Defense Policy, as one of two European nuclear powers. As for immigration policy, given the problems of reaching a common policy in the context of the refugee crisis and mounting disagreements over immigration more

³⁴ See for example a recent study on the diverging views of French and German MPs on Eurozone governance by Blesse et al. 2016

³⁵ Tocci 2014

generally, this might be an area where deeper integration involving EU wide agreement on principles of treatment could be accompanied by more differentiated integration regarding the modalities of implementation. As for the Single market and concerns about the impact of further deregulation on the welfare state, what about the creation of ‘pools’ for health care provision among countries sharing borders, with similar health care systems?³⁶

Seeing the future of EU integration as a differentiated process of member-state participation in different policy communities beyond the Single Market would also allow for each such community to further deepen by constituting its own special system of governance. In two of the three crisis policy areas, immigration and security, the EU has so far done very little of the institution building and law-making required for deeper integration. So the question for these areas is how they can move forward to deepen integration either differentially, most likely the case for security, or all together, as must be the case for refugee policy (as a human rights issue), while allowing for solutions adapted to the differences among country hosts.

Rethinking Eurozone Governance from the bottom up

The Eurozone is different, since it has already deepened its integration, with dedicated oversight processes such as the European Semester, with dedicated institutions such as the European Stability Mechanism (ESM) and Banking Union, and even more envisioned, such as a European Treasury, a Finance Minister, and more. Such deepening, when viewed not as at the center of a hard-core Europe but the first of the developing policy communities of a soft core Europe, could be seen as a template for the future of EU governance.

But there is one caveat. What the Eurozone needs is something other than the centralized governance by restrictive rules and sanction-triggering numbers, which have not worked—as evidenced by the rise of anti-euro political sentiment along with the poor Eurozone results (as compared to EU members outside the Euro as well as to the US).³⁷ The EU would do better to have a looser coordination of macroeconomic governance while decentralizing microeconomic governance to the benefit of national capitals. Because the Eurozone already has an amazing architecture of economic coordination, why not use that coordination to ensure that countries consult while themselves determining what works for their very specific economic growth models and varieties of capitalism? Moreover, why not use the Maastricht criteria as general guidelines for variable yearly targets, depending upon the Eurozone’s employment as well as inflation prospects? And rather than demanding that all member-states meet the same yearly targets (e.g., of deficit and debt), why not set differential country-specific targets (depending upon where the member-states are in their economic cycle, and whether they are over-heating and therefore need to contract, or are contracting and need to expand)? Such decisions on the yearly budgetary cycle could be debated with the other member-states in the Euro-group as well

³⁶ Schmidt 2009

³⁷ e.g., Blyth 2013; Sandbu 2015

as the Commission, the EP, and the Council to enhance legitimacy. All of this together would make Eurozone governance more democratically legitimate, especially if national parliaments were brought in both nationally and at the EU level, via consultation with the EP. So doing might in turn help counter the populist drift in many countries, as political parties of the mainstream right and left could begin again to differentiate their policies from one another, with proposals for different pathways to economic health and the public good.

None of this will work, however, if member-states continue to have to contend with excessive debt loads that weigh on their economies (e.g., Greece and Italy), if they are left without significant investment funds provided by banks or the state (e.g., Portugal, Spain, Italy, and even France), as well as if some countries continue to have massive surpluses while failing to invest sufficiently (i.e., Germany and other smaller Northern European countries). Some extra form of solidarity is necessary, beyond the European Stability Mechanism, such as Eurobonds, Europe-wide unemployment insurance, EU investment resources that dwarf the Juncker Plan, or other mechanisms. Failing this, at the very least member-states should be allowed to invest their own resources in things like infrastructure, education and training, incurring long-term debt at low interest rates, even if this does not fit the current deficit and debt rules.

More Solidarity Mechanisms Across Crisis Areas and More Resources

The other crisis areas need more, rather than less, integration, and they also require solidarity mechanisms. For the Eurozone crisis, many have already proposed some sort of unemployment fund, for all countries to pay into, to use when their unemployment goes above a certain threshold. But there also should be an intra-European ‘EU mobility adjustment fund’ to support the extra costs for social services and the retraining needs of workers in countries with greater than usual EU migrant worker inflows which may constitute an excessive burden to the welfare state. This could have worked for the UK, with a mobility fund addressing the Brexiteers’ fears about the impact of EU freedom of movement on the National Health Service (especially because the government, in trying to access the funds, would most likely have to admit that there was little or no excess cost). But even more significantly, it could benefit other member-states with other kinds of out-migration as opposed to in-migration concerns, such as Greece for the costs of educating the 2000 medical doctors who have gone to practice in Germany.

More integration through new solidarity mechanisms has great advantages, especially if a EU mobility adjustment fund were accompanied not only by the oft-proposed EU unemployment fund but also by a European fund for refugee support. Different countries would benefit at different times from the funds, which could be triggered when any one country finds itself overburdened by the extra costs it incurs because of the asymmetric functioning of the Single Market and the Single Currency, or because of its openness to refugees. Different funding mechanisms are possible, including from member-state contributions, but the best would be from the EU’s own resources, based on monetary gains of the Single Market and Single Currency,

such as VAT collected in trans-border transactions? And what of an EU ‘solidarity tax’ levied on all citizens and residents of the EU, which would have the added advantage to build a sense of citizen-to-citizen solidarity. This, plus the financial and cross border transaction generated taxes, might ensure that no one could claim any longer that the EU was a ‘transfer union’ in which one or more member-states paid for the rest.

Reforming the Institutional Rules

For such differentiated integration to work, however, with all member-states feeling part of this *soft core* EU, whatever their level of involvement, they need to be full members of the EU institutions. This means that all members should be able to exercise voice in all areas, but vote (in the Council and the EP) only in those areas in which they participate. Since all are members in the most significant policy community, the Single Market, this ensures that they will be voting a lot. But for the Eurozone or Schengen, for example, only active members should be able to vote. For the Eurozone, this would mean envisioning that where some members in the future, say, pledge their own resources to a EU budget, their representatives would be the only ones to vote on the budget and its use, although everyone could discuss it (no separate Eurozone Parliament, then, but separate voting for members of a deeper budgetary union). For Schengen, this could mean that current Schengen participants that are not EU members, like Norway or Switzerland, would have voice and vote. For these two countries, it could also mean that they could vote in the Single Market. For the moment, they experience a major loss in democratic engagement, since they have to follow Single Market rules and regulations, as well as contribute to the EU budget, without the ability to exercise voice, let alone vote. For the UK in particular, which has been negotiating Brexit in order to ‘take back control,’ what is the value-added of continuing engagement with the EU (say, via a customs union) if they do not have a voice and a vote in the areas in which they participate?

But to make EU governance truly workable, the institutional decision-making rules also require revision. Among these, the unanimity rule for intergovernmental decision-making needs to be abandoned. The most sensible replacement would be one setting up ‘constitutional’ treaties amendable by 2/3 or 4/5 majorities. At the same time, many of the current treaty-based laws should become ordinary legislation, amendable by simple majority through the Community Method—as detailed by Dieter Grimm.³⁸ Thus, for example, while the Lisbon Treaty would remain a constitutional treaty, amendable however by 2/3 or 4/5 majorities, the various treaties involving the Eurozone, such as the Stability and Growth Pact or the Fiscal Compact, should become ordinary legislation—much like the Six-Pack and the Two-Pack. This means that they would be open to amendment through political debates and compromise, and subject to the Community Method of co-decision.

³⁸ See Grimm 2015

In the case of new legislation, moreover, whether ordinary or constitutional, opt-outs for individual Member States should be allowed for exceptional reasons, such as where a member-state's government, citizens, and/or parliament reject the initiative (e.g., the UK and Denmark on the Single Currency). But as Fritz Scharpf has argued, any such opt-out could be subject to denial by qualified majorities, in cases where the opt-out would unfairly advantage the member-state and/or threaten the viability of the policy itself.³⁹ Alternative accommodations would then need to be made for the member-state in question.

The knotty problem remains the question of politics and democracy. Representative institutions need to be reinforced. At the moment, the EU serves the purpose of the populists, by hollowing out national representative institutions, allowing the populists to claim that they are the true representatives of the people. To change this, the EU needs to do more to reinforce citizen representation and participation. For the Eurozone in particular, this at the very least demands more involvement of the European Parliament in decision-making through a return to the Community Method. Turning Eurozone treaties into ordinary legislation, moreover, would help break the stalemate that makes it impossible to change such legislation (given the unanimity rule), and make them subject to political debate. But the EP would also need to find more ways to bring national parliaments into EU level decision-making. And the EU as a whole must devise new means of encouraging citizen participation, from the ground up.

Conclusion

In sum, the future of EU governance is very open. It is best conceived not as a hard core Europe centered around the Eurozone, let alone a future 'superstate', but as a region-state made up of a soft core of overlapping clusters of member-states in the EU's many policy communities. In this context, increasing flexibility in the EU's legislative and policy processes, along with decentralization to the benefit of the member-states, would enhance policy effectiveness as well as democratic legitimacy.

In short, re-envisioning the future of the EU in terms of a future *soft core* Europe makes the most sense. To extend a metaphor I have previously evoked, the future cannot be a hard core Europe, with one set menu (*prix fixe, pas de substitutions*) for the chosen few. This is not to suggest, however, that the EU is now to be '*Europe à la carte*,' where everyone orders different things. Rather, this is an elaborate gourmet 'menu Europe,' with a shared main dish (the Single Market), all member-states sitting around the table and engaging in the conversation, and only some choosing to sit out one course or another.⁴⁰ If we add graduated membership to this, we could imagine additional guests joining the diners at the table for particular courses and, slowly

³⁹ Scharpf 2014

⁴⁰ Schmidt 2009

over time, partaking of more and more dishes even as they learn the manners of the table and the rules of the conversation.

For the UK to flourish in such a EU, it would need not just to internalize such a soft-core vision of the EU's future but also to engage with it through softer consensus-seeking deliberation rather than to remain isolated through interest-focused hard bargaining. That said, British policymakers may very well still want to maintain their special status with regard to money and borders—at least until the crises subside. As for the security and other challenges facing the EU, such as energy and the environment, the UK cannot in any case exist in isolation. The EU needs effective leadership across its many policy communities. And it needs the UK to sit at the table and join in the conversation, even if it chooses to sit out many of the courses.

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