

## SHOCK THERAPY

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- **The “no” votes in the French and Dutch constitutional referendums were emblematic of a frustration with the European Union felt throughout much of Europe. Four particular issues or perceptions drive the dissatisfaction: concern over Europe’s economic health, negative economic and social consequences of enlargement, the threat of Brussels undermining national sovereignty, and skepticism about national leadership.**
- **Some elements of the constitution, including the creation of an EU diplomatic corps, may be hived off and established through normal EU procedures. But, more elaborate developments, such as the double majority voting system, are, at least for the time being, off the table.**
- **The defeat of the constitution in France and the Netherlands may ultimately bring about the much-needed debate about Europe’s future that the constitutional convention was intended, but failed, to engender.**

With their decisive back-to-back rejections of the EU Constitutional Treaty, French and Dutch voters have scuppered EU leaders’ plans to bring the document into force by the end of 2006. These referendum results are more illuminating and meaningful than the several parliamentary approvals of the treaty that preceded them. They point to a broad popular frustration across the EU with the process of European integration, a sentiment that will carry long-term consequences but that defies simple analysis.

It is noticeable, in this context, that “pro-Atlanticist, free-market” Holland has rejected the treaty as decisively as “old Europe, statist” France. It is also noticeable that opposition to the treaty came from diverse parts of the political spectrum in both countries, with each group focused on its own shibboleths – French Trotskyites fighting for the rights of the worker and French right-wing nationalists decrying the loss of French sovereignty; Dutch libertarians afraid that a more united Europe would stifle their unique individual rights and conservative Dutch voters opposed to the growing tide of Muslim immigration. On the surface, the constitutional treaty appears to have become the vehicle for popular venting of any number of discreet grievances, most unconnected with the actual contents

of the treaty. Beneath the surface, four common threads appear to have given special potency to the “no” vote and to have drawn many traditionally pro-European voters into the opposition camp. Dealing with these common threads will be a priority for EU leaders over the coming months.

### *It’s the economy, stupid*

First, citizens in a majority of countries across the European Union are deeply concerned about their economic prospects. In France, unemployment has expanded over the past two years, from 9% to 10.2%, while growth has slowed from 2.1% to 1.9%. In Holland the picture is equally worrying, with unemployment in April hitting its highest point in nine years while growth has slowed in the last two years from 1.4% to 1%.

Voters have every right to use the referendum on the constitutional treaty to express their anger at the government’s handling of the economy. Governments of the right and left regularly argue that deeper European integration will benefit European economic growth. In launching the so-called Lisbon Agenda in 2000, they implied that coordinated initiatives can help turn the EU into the most competitive knowledge-based economy in the

world by 2010. Reality is not living up to the rhetoric. French and Dutch voters have sent a message that they do not believe that “more Europe” is the solution to Europe’s economic malaise. Answers must be found closer to home.

### *Waking up to EU enlargement*

Second, one of the EU’s primary geopolitical goals – enlargement to the East – has exacerbated French, Dutch, and other EU citizens’ sense of economic anxiety. In the mid to late 1980s, creating a Single Market in Europe was seen as the answer to Western Europe’s declining competitiveness vis-à-vis the United States and a dynamic Japan. By opening their markets to the goods, services, capital, and people of one another, EU members saw a chance to keep the threats of globalization at bay.

The dramatic EU enlargement of May 2004, which added ten new members, has brought the pressures of globalization inside the EU. Cheap and well-educated Central European workers are drawing investment capital away from their expensive West European counterparts. And Central European service-providers threaten to undercut those in the West. In essence, a Single Market initially designed for a fairly homogenous Western Europe is now letting the chill winds of competition flow across an open and enlarged post-Cold War EU. As a result, many French, German, and other European workers now see European economic integration as a direct threat to their vision of a “social” Europe.

In addition, both they and the more pro-market Dutch voters sense that the EU’s fourth “freedom” – the free movement of people – could bring added pressures and insecurities. Levels of immigration throughout Western Europe have increased dramatically in the last four years. Although most EU member states have negotiated derogations that bar economic immigration from the new EU member states for at least the next seven years, growing pockets of radicalism within existing Muslim immigrant communities, porous borders, plus continuing high levels of unemployment are deepening popular perceptions that European integration is adding to social strains rather than alleviating them. It is in this context that the prospect of the EU’s enlargement to Turkey had such a negative effect on voters in France and Holland.

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### *A loss of strategic order*

The third underlying fear about European integration in both France and Holland is that it is now perceived as a tangible threat to their national sovereignty. While the dilution of national sovereignty is more widely remarked upon, there have been some balancing elements of accretion. Take France and monetary union, for example. Throughout the 1980s, the value of the French franc was governed in effect by interest rate and currency decisions taken at the powerful German Bundesbank. With monetary union, the government gave up the franc, but regained a measure of control over monetary policy by securing a seat on the European Central Bank, taking part in decision-making for the whole Eurozone.

For the French, therefore, the EU had always been seen as a means to maximize France’s national economic and diplomatic clout, inside and outside Europe. Today,

however, France finds its voice drowned out in an EU whose new entrants (both those of 1995 and 2004) neither respect the primacy of the Franco-German relationship nor share their historical goal of uniting Europe around a Franco-German core. From the recent emergence of a free market European Commission to the prevalence of English as the de facto EU working language, the sense that “this Europe” is working against French national interests has grown noticeably.

For its part, the Dutch vote reflects the insecurity of Europe’s small countries. As in Luxembourg and Ireland, who are also scheduled to put the treaty to a referendum, many Dutch fear their scope for exerting national influence is being gradually diluted in an ever-expanding EU that also plans, under the constitutional treaty, to give greater weight to the votes of more populous member states.

Voters see few strategic pay-offs for this loss of relative sovereign influence. Most noticeably, the EU has had difficulty in projecting a more unified or forceful voice in the dangerous world that has unfolded since the terrorist attacks of September 11, 2001. EU diplomacy toward Iran remains a work in progress. The more persistent image in the popular mind is of a Europe that split over whether to support or oppose the U.S. decision to overthrow Saddam Hussein and that is now vulnerable to an influx of terrorists and radicalism from a turbulent and violent Middle East.

## *An end to elite-driven integration*

There is no doubt that many French and Dutch citizens who voted “no” did so in order to send a message of dissatisfaction to their leaders, Jacques Chirac and Jan Peter Balkenende. But here too lies a deeper lesson for all European politicians. Voters across the EU, whether pro-integration or Euro-skeptical, have learned that they cannot trust their leaders to level with them on the ultimate implications of seemingly technocratic integrationist decisions taken in Brussels. The knock-on effects of past intergovernmental decisions (particularly the Single European Act and the Maastricht Treaty) are only being fully felt today as the increasingly unfettered flow of goods, capital, people, and services in a single currency zone and across an enlarged Europe challenges the sustainability of 60-year old European welfare states. The “no” vote in France and Holland tapped into a widespread desire to stop the bicycle of European integration and take a “time-out” to absorb these existing challenges before opening themselves to the expected onslaught of new challenges from the proposed constitutional treaty.

### *Next Steps*

The view of many European and EU leaders is that the process of national ratifications should continue, irrespective of the French and Dutch votes. After all, the treaty foresaw that securing unanimous approval might prove difficult. Article IV-7 states that, providing four fifths (20) of the countries ratify the Treaty, yet “one or more Member States are encountering difficulties in proceeding with ratification, the matter shall be referred to the European Council.”

Setting aside for one moment what the European Council might then choose to do, it is already apparent, however, that those seven governments which have promised, but not yet held, referenda on the treaty (the Czech Republic, Denmark, Ireland, Luxembourg, Great Britain, Poland and Portugal) would prefer to abandon the process as soon as possible. Why expend valuable political capital and risk humiliation after the French and Dutch “no’s” when the treaty can only come into force with the unanimous assent of all member states?

Governments will have a first opportunity to start considering their options at the European Council meeting on June 16-17. One issue is becoming clear: it will be very difficult to ask the French and Dutch to consider holding a second referendum when the vote was as

decisive the first time, not only in terms of the margin of victory, but also in terms of the turn-out. Instead, those who have not yet held referenda appear to be hoping that the French and Dutch will discount such a possibility and, thus, give the former the excuse to postpone their own referenda indefinitely.

Assuming that the Treaty will not come into force in its current form, we can nevertheless expect EU leaders to try to salvage some elements of this hard-fought agreement. Relatively uncontroversial decisions, such as that to create an EU diplomatic service, and some more sensitive proposals such as creating an EU foreign minister, may be able to be hived off and passed through normal EU procedures. Urgent matters that command widespread support, such as extending majority voting to aspects of justice and home affairs touching upon domestic security, may also find a way through. As we consider some of the Treaty’s more significant architectural revisions, however, we should not forget the opposition that many of the proposals engendered and the complex package of trade-offs that had to be negotiated to secure their collective passage. In the end, some governments will be pleased to see the treaty fail as a whole, while others will oppose attempts to remove significant parts and pass them on a piece-meal approach.

This bias toward inertia could block the near-term adoption of some of the Treaty’s more ambitious proposals, such as the shift toward the double majority system for taking qualified majority votes within the EU, which gave greater weight to the more populous states; the creation of an EU President for a term of two and a half years (renewable once) to replace the six-month rotating national presidencies; the enhanced role for national parliaments and greater legislative review powers for the European Parliament. The Treaty’s more “constitutional” aspects, such as the Charter of Fundamental Rights, will be shelved for the time being.

This being said, and as most commentators have observed, the failure to ratify this Constitutional Treaty does not presage the break-up of the EU. The EU will continue to operate in its cumbersome way under the provisions of the 2000 Nice Treaty, which foresaw the EU’s enlargement to twenty-five member states. It is worth noting, moreover, that rotating presidencies were going to remain a feature at the level of sectoral EU decision-making even under the Treaty.

It is also possible that groups of member states may seek to partner with each other in discreet policy areas (much as the monetary union first started out) and serve as

pioneers for deeper integration in new policy areas that do not yet command the support of all member states. Already, in this context, a small group of the EU's strongest military powers have been making a concerted effort over the past two years to pool their defense resources more effectively, a process separate from the Treaty.

On the other hand, it would not pay to be too sanguine about the recent referenda debacles. This is not 1954, after the French rejected the establishment of a European Defense Community, but then launched the Treaty of Rome establishing the European Economic Community within three years. In the past, any set-back to the process of European integration generally elicited within a short period a new élan by the two motor countries of the original European Community, France and Germany. Today, the situation has changed. In the near-term, Germany's ability to come to France's assistance will be complicated by Gerhard Schröder's surprise announcement to call a general election this September – a year early. More fundamentally, the enlargement of the EU has diluted the role of the Franco-German relationship and has given new prominence to alternative poles within the EU with competing views, most notably a group coalescing around the United Kingdom and many of the new entrant states that want to break open the cozy political economic deals that the original members had struck in the EU's earlier days.

A single core Europe group (or “dirétoire”) is unlikely to emerge from this process. More likely are semi-permanent or shifting alliances on targeted issues, each of which includes at least one major EU member state.

The most interesting question in this context is whether the shock of these referenda results and the deep common undercurrents of popular anxiety and frustration that they reveal will challenge European politicians to engage in a genuine debate about the future political economy of the European Union. On the one hand, the rejection would appear to strengthen the hand of those who want to bury Europe's head even more firmly in the sand, go slow on domestic and EU-wide economic reform, and ignore the realities of global economic competition.

On the other hand, one cannot lump all those who have voted or may yet vote “no” into the ranks of workers and managers concerned about the risks of economic globalization. British Prime Minister Tony Blair, new

French Prime Minister Dominique de Villepin and his competitor Nicolas Sarkozy, and the potential new Prime Minister of Germany, Angela Merkel, are already using the referenda results to argue the case for the EU actually accelerating its economic reform program, precisely to challenge the view that Europe can only succeed by trying to protect its position as opposed to daring to compete at home and abroad. The next six months may witness a new struggle within and between member states and within EU institutions over the need for deeper economic and social welfare reform. Central to this debate will be the realization that governments must work on economic reform first at the domestic level. Only then can they leverage the benefits of this reform at the EU level.

During this period, political attitudes to further enlargement will inevitably become more cautious. In the near-term, EU enlargement to Romania and Bulgaria should go ahead on schedule. Negotiations with Turkey are also most likely to start on time, on October 3, providing the loose ends of the Cyprus question can be resolved. The tenor and pace of those negotiations, however, will undoubtedly be affected by recent events and, if the CDU were to win the German elections this fall, the idea of Turkey arriving at the end of the negotiations with a place short of full EU membership is bound to resurface.

Perhaps more worrying in the near term will be the EU's ability to maintain focus on Ukraine and some of the other European former Soviet states that remain under Russia's shadow. Hopes that a membership perspective or timetable might be forthcoming soon are no longer feasible.

All in all, there may be a silver lining to this political crisis. Notwithstanding the EU's current creaky decision-making machinery, what Europe needs today is less construction and more debate of the sort that this referendum has engendered over the past few months. After all, this public debate was meant to take place during the constitutional convention and the drafting of the Treaty, but never did.

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