



Ever growing crisis

The eurozone economic crisis and its impact on
the future of the European Union

Hjörtur Jónas Guðmundsson

Lokaverkefni til MA-gráðu í alþjóðasamskiptum

Félagsvísindasvið



HÁSKÓLI ÍSLANDS

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Lokaverkefni til MA-gráðu í alþjóðasamskiptum
Leiðbeinandi: Dr. Maximilian Conrad
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Úrdráttur

Viðfangsefni ritgerðarinnar er að fjalla um þau áhrif sem yfirstandandi efnahagserfiðleikar á evrusvæðinu kunna að hafa á framtíðarþróun Evrópusambandsins. Ritgerðin leggur megin áherslu á yfirstandandi og nýliðna aturði á þeim tíma sem hún er rituð en fjallar einnig um atburði sem leiddu til efnahagserfiðleikanna og fyrri umræður um mögulega framtíðarþróun sambandsins. Fyrir vikið er notast bæði við fræðilegar heimildir og heimildir úr fjölmiðlum í ritgerðinni. Viðfangsefnið er skoðað út frá tveimur kenningum í alþjóðasamskiptum, frjálslyndri milliríkjahyggju (e. liberal intergovernmentalism) og nývirknihyggju (e. neofunctionalism). Reynt er að leggja mat á það að hve miklu leyti þessar tvær stefnur varpa ljósi á atburðina í kringum áðurnefnda efnahagserfiðleika og viðbrögð leiðtoga Evrópusambandsins við þeim og enn fremur hvernig Evrópusamruninn er líklegur til þess að þróast til framtíðar. Niðurstöðurnar eru einkum þær að líklegast sé að meiri samruni muni eiga sér stað innan evrusvæðisins en að sama skapi sé sennilegt að einhver ríki muni yfirgefa það. Þá er komist að þeirri niðurstöðunað báðar áðurnefndar kenningar geti upp að vissu marki varpað ljósi á efnahagserfiðleikana á evrusvæðinu.

Abstract

The purpose of this thesis is to discuss how the current economic crisis in the eurozone may affect the future development of the European Union (EU). The thesis focuses primarily on current and recent events when it is written but also discusses events leading up to the crisis and earlier discussions on the future development of the EU. It therefore relies both on academic material as well as material from the international media. The topic is discussed in the light of two theories of international relations, liberal intergovernmentalism and neofunctionalism, and an attempt made to examine to what extent they manage to shed light on the economic crisis in the eurozone and how EU leaders have handled it. The conclusions are mainly that more integration within the eurozone will most likely happen but that it will on the other hand probably also loose some members. Regarding the two theories I conclude that both of them can up to a certain degree shed light on the eurozone crisis.

Preface

The European Union has caught my interest for over a decade. I first became interested in this subject in relations with the debate in Iceland whether the country should seek membership of the EU or not. Before an application was delivered in July 2009 after the financial collapse in the country the year before Iceland had never applied for membership. However, a debate whether it should had nevertheless surfaced on a regular basis for a number of years although it never actually got serious enough to result in an application.

The following thesis is for 30 ECTS and was written in the autumn and winter of 2011/2012. The decision to focus the essay on the economic crisis in the eurozone and its possible impact on the future of the EU was formed with the very constructive and helpful assistance of my instructor Dr. Maximilian Conrad. Previously I had thought of writing about the future development of the EU in a much wider context which obviously had to be narrowed down to fit a research for a master thesis.

The European integration obviously stands on crossroads at the moment as it has in fact a number of times before. However, it has been argued that the current crisis, which is far from over when this thesis is written, is the worst it has faced from the beginning. It is thus a highly relevant issue and the outcome of it will definitely have significant impact on the future of Europe and in fact the entire world to a certain point. The topic is as a consequence highly interesting from an academic point of view.

I would like to thank my instructor Dr. Conrad for his assistance while working on the thesis and also, and not the least, my lovely wife, Hildur Ýr Ísberg, for her invaluable support during the preparation and writing of the thesis.

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1. Introduction

1.1. Background

The development of the European Union up until this date stretches over 60 years. From the creation of the European Coal and Steel Community (ECSC), founded in 1951, to the European Union (EU) as it is known today. From a relatively simple institutional framework and limited cooperation to a complicated and vastly extended level of economic, political and social integration. However, there have always been mixed opinions of how far the European integration should develop. While some have argued for a simple trading bloc others have called for much more integration and even in some cases gone as far as to call for the creation of a European federal state.

1.2. Aim and research questions

The purpose of this thesis is to examine the possible future development of the EU in the light of the eurozone economic crisis mainly from the point of view of two theories in international relations, liberal intergovernmentalism and neofunctionalism, which have for a long time been regarded by many as the main theories which have been used to explain the development of the European integration but from a fundamentally different approach. As a result the purpose of the thesis is therefore to examine the political implications of the eurozone crisis but not its economic impacts although these two discussions inevitably cross somewhat. The thesis is primarily meant to answer two questions. First how the EU is likely to develop as a result of the eurozone economic crisis and second to what extent liberal intergovernmentalism and neofunctionalism manage to shed light on the crisis and how it has been handled by the leaders of the EU and the eurozone.

1.3. Method and material

Mainly due to fact that the topic of the thesis mainly handles very recent events and developments and somewhat limited strictly academic sources discussing the subject the thesis is based quite much on other sources such as newspaper

stories and articles written by various authors and not the least from various media which focuses primarily on European issues. As mentioned before the eurozone economic crisis is still ongoing when the thesis is written and as it seems still escalating. Recent information on the development of the crisis has therefore been seen as especially vital in order to write about the topic. The use of newspaper material has also been seen as vital for discussing various comments and statements made by political leaders and other influential people during and in the leading up to the economic crisis and also in order to discuss the current debate during the crisis about the future of the European integration as a consequence of it.

1.4. Source criticism

However, it must also be stressed that the use of such media sources can be somewhat problematic and not the least since they do not rely on academic methods. It should also be noted that while I emphasised using as many media sources as I could some media are more focused on EU related issues than others and offer more detailed material than others. It also should be kept in mind that most of the media used are from English speaking countries, mainly Britain which can in some cases matter.

2. Theories in international relations

2.1. Neofunctionalism

Neofunctionalism was originally coined by Ernst Haas and other scholars in the 50s and the 60s and is founded on the theory of functionalism which had been introduced earlier. Neofunctionalism was the first attempt to understand European and regional integration and explain how and why states voluntarily give up parts of their sovereignty in order to participate in international cooperation with other states while minimizing the possibilities of conflicts between them. Contrary to realism and other theories which focus more or less on the state as the primary actor neofunctionalism puts the emphasis rather on international institutions as the major players. As such the theory did neither consider the state a single unified actor nor that states were the exclusive actors on the international stage.¹

The main focus of neofunctionalism is the link between political and economic integration. That is how economic integration puts pressure on political integration due to the so-called spillover effects when governments realise that integration in one functional area affects their interdependent activities in other areas. The theory maintains that economic integration leads to increased trade and transactions across borders which in turn create problems which can only be solved by supranational institutions. Once they have been created social interest groups try to put pressure on those institutions which creates pressure for further integration.² Early proponents of neofunctionalism recognised two types of spillover as important, the functional and the political. The former argues that integration in one sector of the economy leads to integration in other related fields in order for both of them to function properly. The latter is meant to explain the building up of political pressure in favour of more integration. Once one sector of the economy was integrated groups of interest in that sector would focus part of their activities at the supranational

¹ Bache, Ian and Stephen George (2001). *Politics in the European Union*. Oxford: Oxford University Press. p. 9.

² Eilstrup-Sangiovanni, Metta (2006). „Neo-functionalism and its critics“. *Debates on European Integration*. New York: Palgrave MacMillan. p. 90.

level in charge of running it. They would then come to appreciate the benefits of that integration and at the same time realise the barriers preventing these benefits from being fully utilised. Since the main barrier was that integration in one sector would not function properly without integration in related fields they would become supporters of increased integration and lobby their governments to work towards it. At the same time these groups of interest would become barriers themselves against government that would want to retreat from the integration that had already been reached. Furthermore governments would come under increased pressure from other sectors which would like to enjoy the same benefits as the sectors already being integrated. The third type, cultivated spillover, was added by later writers to explain the role played by the European Commission in advancing further integration by both fostering EU-wide pressure groups and cultivating contacts behind the scenes with interest groups in individual countries and bureaucrats and the civil services of the member states to put pressure on governments.³

Neofunctionalism thus has certain things in common with the theory of functionalism which was coined earlier. Like functionalists neofunctionalists maintain that integration is a logical reaction to the complex modern economic reality. Increased economic interdependence puts pressure on the nation state to delegate certain powers to regional and international institutions. However, unlike functionalism neofunctionalism does not try to create a sort of a manual for integration and does not consider it an inescapable outcome.

Neofunctionalism rather puts emphasis on constructing a systematic predictive theory for international political integration and that once international institutions are in place they tend to promote integration.⁴

Neofunctionalism dominated studies of European integration in the 1950s and 1960s. However, it fell out of favour in the 1970s partly because the integration process in Europe seemed to have come to a halt but also since the

³ Bache, Ian and Stephen George (2001). *Politics in the European Union*. Oxford: Oxford University Press. p. 10-12.

⁴ Eilstrup-Sangiovanni, Metta (2006). „Neo-functionalism and its critics“. *Debates on European Integration*. New York: Palgrave MacMillan. p. 90.

spillover theory needed to be elaborated further.⁵ Haas even described the neofunctionalism at this point as obsolete.⁶ Joseph Nye gave neofunctionalism a boost when he wrote about looking at integrating experiences of countries outside the western hemisphere and thus taking it out of the European context.⁷ Neofunctionalism, however, had a come-back in the 1980s when the European integration process was re-launched. Haas later recognised in his writings that there was an error in the earlier version of the theory where it was assumed that the integration process would be smooth and automatic while it was erratic and reversible.⁸

2.2. Liberal intergovernmentalism

The theory of liberal intergovernmentalism was coined by the Andrew Moravcsik, professor of politics at Princeton University, and started as a critique of neofunctionalism.⁹ The theory emerged in the 1980s and 1990s combining the neofunctionalist view of the importance of domestic politics with the role of EU member states' governments in making major political decisions.¹⁰ Moravcsik assumes that states are rational actors in a similar way as realism does but nevertheless departs from traditional realism by not considering states as sort of billiard balls, that is total emphasis on them as actors. He claimed that domestic politics process determined how they defined their national interests which in turn determined the position states brought into international negotiations. His view of domestic politics was therefore essentially in line with that of neofunctionalists.¹¹

⁵ McCormick, John (2005). *Understanding the European Union. A Concise Introduction*. New York: Palgrave MacMillan. p. 16.

⁶ Cooper, Ian. „The euro crisis as the revenge of neo-functionalism“. Euobserver.com September 21, 2011. <http://euobserver.com/7/113682>

⁷ McCormick, John (2005). *Understanding the European Union. A Concise Introduction*. New York: Palgrave MacMillan. p. 16.

⁸ Cooper, Ian. „The euro crisis as the revenge of neo-functionalism“. Euobserver.com September 21, 2011. <http://euobserver.com/7/113682>

⁹ Bache, Ian and Stephen George (2001). *Politics in the European Union*. Oxford: Oxford University Press. p. 13.

¹⁰ McCormick, John (2005). *Understanding the European Union. A Concise Introduction*. New York: Palgrave MacMillan. p. 17.

¹¹ Bache, Ian and Stephen George (2001). *Politics in the European Union*. Oxford: Oxford University Press. p. 13-14.

However, in an opposing fashion to neofunctionalism the liberal intergovernmentalism centres on explaining the influence of national interests of individual states. According to the theory states are the ultimate policy makers and transfer only limited powers to supranational institutions in order to achieve certain policy aims. This means that such institutions are merely seen as tools for their member states to work on and maximise their national interests.¹²

According to Moravcsik the European integration is a consequence of the preferences of national governments but not that of supranational institutions. He claims that European integration can be explained with a liberal theory of national preferences and an intergovernmentalist account of strategic negotiations between member states. In addition to that proponents of liberal intergovernmentalism built a so-called State-Centric mode to examine the relationship between national interests and the priority of supranational organisations. Its basic assumption is that European integration does not challenge the autonomy of the nation states. It maintains that the sovereignty of states is guaranteed and even made stronger by being a member of the EU. The purpose of the existence of supranational actors is to help the member states which in turn devote limited powers to them in order to reach certain goals.¹³

¹² Wang, Rachel. „The Fate of the European Union“. Global politics (no date]. <http://www.global-politics.co.uk/Archive/The%20Fate%20of%20the%20EU.htm>

¹³ Wang, Rachel. „The Fate of the European Union“. Global politics (no date]. <http://www.global-politics.co.uk/Archive/The%20Fate%20of%20the%20EU.htm>

3. Leading up to the eurozone crisis

After the horrors of the Second World War there was a loud demand for making sure that there would not be another war in Europe and that a lasting peace would be guaranteed. The European integration process emerged out of that ground. The first step in that direction was the creation of the European Coal and Steel Community (ECSC) in 1951 (entry into force in 1952) which was supposed to ensure that the production of coal and steel in mainly Germany and France, seen as vital for waging a war, was governed by an supranational authority. Thus participating countries would not be able to decide unitarily to utilise their resources of coal and steel to endanger the peace on the continent. The ECSC was followed by the European Atomic Energy Community (EAEC) in 1957 along with the European Economic Community (EEC), established with the Treaty of Rome, which became the primary focus of the cooperation between the participating countries over the decades to come. The founding countries were six; West Germany, France, Italy, the Netherlands, Belgium and Luxemburg.¹⁴

After the initial launch of the European integration it gradually increased over the following decades. More powers were transferred from the member states to supranational institutions while the European Communities (EC), as the predecessor of the European Union as it is known today was called from 1967 and up until 1993 with the entry into force of the Maastricht Treaty, remained partly intergovernmental and partly supranational. Step by step the European integration, however, has become a larger part of the member states' politics and economies and the every day life of their citizens. The integration process has been stretched to more and more areas with increasing powers, mainly through its supranational institutions and legislation, to shape the member states' societies and influence them.

3.1. Speculations on the future of European integration

What has in fact primarily characterised the European integration process more or less since the beginning has been an increasingly deeper integration in an

¹⁴ Dinan, Desmond (2010). *Ever Closer Union. An introduction to European Integration*. Basingstroke: Palgrave MacMillan. p. 9-11.

increasing number of areas with one integration step generally leading to another. In other words very much in line with the theory of neofunctionalism and the spillover effect. There have nevertheless been different views of exactly how the European integration should develop and including how far. While some have argued for the European Union and its predecessors to remain primarily focused on limited economic cooperation between sovereign countries based on intergovernmentalism others have been in favour of much more integration. Ever since the beginning of the European integration there have for instance been repeated calls for the end result of a European federation, sometimes using the phrase „The United States of Europe“ with a quite obvious reference to the United States of America.¹⁵

Despite the fact that both the phrase and the idea of a European federation, not to mention the dream of the unification of Europe in one way or another, was certainly nothing new when the European integration was launched few years after the Second World War it has been somewhat popular in at least some quarters to refer to Sir Winston S. Churchill's speech at the University of Zürich in Switzerland on September 19, 1946 where he called for the creation of „a kind of United States of Europe“ so that hundreds of millions of toilers would be able „to regain the simple joys and hopes which make life worth living“¹⁶, as a certain starting point. Churchill was, however, not a proponent of a European federation in the sense of a federal state¹⁷ but his comments have nevertheless often been referred to by people who have called for the integration process to develop towards such state.

Churchill's primary motivation was quite obviously the world war which had ended just the year before and which had called horrible destruction and devastation over the peoples of Europe. There was a loud and popular demand for lasting peace after the war and that wars would never again be waged on

¹⁵ See for example the book *United States of Europe* by Guy Verhofstadt former Prime Minister of Belgium and current leader of the Group of the Alliance of Liberals and Democrats for Europe. Verhofstadt, Guy (2006). *United States of Europe*. London: The Federal Trust. Also: Pinder, John (1998). *The Building of the European Union*. Oxford: Oxford University Press. p. 253-261.

¹⁶ „Winston Churchill's speech [on a Council of Europe]. Zurich, 19 September 1946“. University of Pittsburg. <http://aei.pitt.edu/14362/>

¹⁷ Dinan, Desmond (2010). *Ever Closer Union. An introduction to European Integration*. Basingstroke: Palgrave MacMillan. p. 11.

European soil. The European integration was born out of that ground and since it can be argued that integration and expansion of the European project has in fact been greatly escalated by crisis.¹⁸ A number of European countries have for example joined the European Union or its predecessor in the wake of crisis of some kind, usually of economic nature, including Great Britain in 1973, and Sweden and Finland in 1995. Not to mention Iceland which applied to join the EU in July 2009 after the country's economic crash in the autumn the year before. Iceland's accession process is, however, still ongoing at the time of the writing of this thesis¹⁹ and uncertain whether it will eventually lead to an Icelandic EU membership. Various crisis have thus been a motor for more European integration and in many cases crisis have probably been deliberately utilised to advance integration and emphasise certain development in that direction preferred by certain people or parties of interest. That is again very much in line with neofunctionalism.

Before the war Churchill had, however, expressed somewhat different view towards Britain's relationship with Europe. In February 1930 he wrote in the American magazine *The Saturday Evening Post* that the British people saw „nothing but good and hope in a richer, freer, more contented European commonality. But we have our own dream and our own task. We are with Europe, but not of it. We are linked but not compromised. We are interested and associated but not absorbed.“²⁰ This quotation has on the other hand been quite popular among those who have been sceptical about the European integration process and especially in Britain.²¹

As previously discussed the European integration gradually increased during the decades following the establishment of the European Coal and Steel Community (ECSC) with an obvious struggle mainly between those who

¹⁸ „Joschka Fischer: United States of Europe is the only way to preserve EU influence“. Euobserver.com January 13, 2011. <http://euobserver.com/18/31634>

¹⁹ „Statement by the Commission on the decision of the Icelandic Parliament to apply for EU Membership“. The European Union. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1159&format=HTML>

²⁰ Ponting, Clive (1996). „Churchill and Europe: a revision“. *European integration and disintegration: East and west*. Editors: Robert Bideleux and Richard Taylor. London: Routledge. p. 37.

²¹ „Daniel Hannan MEP - "We have our own dream"". Brits at their best. <http://www.britsattheirbest.com/archives/000756.php>

preferred more limited intergovernmental cooperation and those who wanted to strengthen the supranational level and increase the powers of the shared supranational institutions and furthermore expand the range of issues they were able to influence. But with increased integration over the decades the cooperation has steadily developed towards a more supranational nature and at the same time calls for some kind of a European federation have increased as well.

Leading up to the signing of the Maastricht Treaty in 1992 there were some ideas circulating that the European integration should be developed towards a statehood of some kind. As a token of that Prime Minister Margaret Thatcher quoted a recent comment by the then President of the European Commission, Jacques Delors, in a speech to the British Parliament on December 15, 1990 that he wanted „the European Parliament to be the democratic body of the Community, that he wanted the Commission to be the executive and he wanted the Council of Ministers to be the Senate.“²² Ideas which Thatcher rejected entirely in the same speech. On an earlier occasion, in a speech delivered to the College of Europe, so-called Bruges Speech, on September 20, 1988 Thatcher expressed quite different views when she said: „We have not successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level, with a European super-state exercising a new dominance from Brussels.“²³

Although those of Delors' ideas did not materialise the European Economic Community (EEC) nevertheless took a number of significant steps towards more integration with the Maastricht Treaty as previously discussed. Not the least regarding the establishment of the future single currency although its proponents only managed to secure political support for establishing a monetary union but not a single economic policy for all the participating states alongside the single monetary policy. In fact the German government was originally not so keen to sacrifice the Deutsche Mark for the new common

²² Watts, Duncan and Colin Pilkington (2001). *Britain in the European Union Today*. Manchester: Manchester University Press. p. 47-48.

²³ „Speech to the College of Europe ("The Bruges Speech")“. The Margaret Thatcher Foundation. <http://www.margaretthatcher.org/document/107332>

currency but it has been claimed that the French under President François Mitterrand made this an absolute condition for giving a green light for the reunification of East and West Germany after the fall of the Berlin Wall in 1989.²⁴

In relations with the work on the proposed European Constitutional Treaty which began in 2001 speculations were aired that the EU should be renamed „The United States of Europe“ or „United Europe“.²⁵ Among those who favoured developing the EU towards a federal state was the then French Foreign Minister Pierre Moscovici who represented France on the Convention responsible for writing the new Treaty.²⁶ The chairman of the Convention, Valéry Giscard d'Estaing, also suggested that this could be the future of the EU.²⁷ The third Frenchman, Jacques Chirac who was at the time President of France, also favoured similar step although he rather wanted to see a federation of nation states than something similar to the United States of America.²⁸

In fact the original draft of the Constitutional Treaty included the term „federal“ to describe the nature of the European Union after it would be put into force, but Giscard d'Estaing decided to replace that term in order not to contribute to more opposition to the Treaty mainly in Britain. In an interview with the American newspaper *The Wall Street Journal* on July 7, 2003 he said that he knew „the word 'federal' was ill-perceived by the British and a few others. I thought that it wasn't worth creating a negative commotion, which could prevent them supporting something that otherwise they would have supported.“ In order to avoid that he said he had decided to rewrite the text „replacing intentionally the word 'federal' with the word communautaire, which means exactly the same thing.“²⁹ The Constitutional Treaty was the subject of

²⁴ „Was the Deutsche Mark Sacrificed for Reunification?“ *Der Spiegel* September 30, 2010.
<http://www.spiegel.de/international/germany/0,1518,719940,00.html>

²⁵ „'Federal' removed from Constitution draft“. *Euobserver.com* May 23, 2003.
<http://euobserver.com/18/11341>

²⁶ Drake, Helen (2004). „'Europe' in the 2002 French Elections“. *The French presidential and legislative elections of 2002*. Editor: John Gaffney. Hants: Ashgate Publishing. p. 275.

²⁷ „EU should be named United States of Europe“. *Euobserver.com* October 3, 2002.
<http://euobserver.com/18/7776>

²⁸ „Chirac wants EU president and federation of states“. *Euobserver.com* March 7, 2002.
<http://euobserver.com/9/5446>

²⁹ „Giscard's 'federal' ruse to protect Blair“. *The Telegraph* July 8, 2003.
<http://www.telegraph.co.uk/news/worldnews/europe/1435550/Giscards-federal-ruse-to-protect-Blair.html>

heated debates on where the EU would be heading and sceptics of the treaty claimed it would pave the way for a European super state among other things giving the EU a legal personality, a Foreign Minister and a common foreign policy.³⁰

The original draft of the Constitutional Treaty also included an article giving the EU control over national economies. According to it the member states' economic policies were to be co-ordinated by Brussels. However, the Convention led by Giscard d'Estaing decided to scrap that from the text since it did not enjoy the necessary support among the member states' capitals.³¹ This is quite interesting both in light of the previous idea in relations with the negotiation of the Maastricht Treaty of a common economic policy a decade or so earlier as mentioned before and also the recent and still ongoing economic crisis within the eurozone where such ideas have again been raised.

After the currently ongoing economic crisis in the eurozone began suggestions that the EU should evolve towards a federation of some kind have been aired again e.g. by the Spinelli Group composed of a number of influential former and current European politicians and thinkers such as the previously mentioned Jacques Delors and Joschka Fischer but also for example the economist and former member of the European Commission Mario Monti who currently serves as the Prime Minister of Italy. The group was founded at the initiative of Guy Verhofstadt, former Prime Minister of Belgium and current leader of the liberal parliamentary group in the European Parliament, to fight against intergovernmentalism in the governing of the EU and for an accelerated integration towards a federal state. At a meeting organised by the Spinelli Group in the European Parliament in January 2011 Fischer emphasised again an urgent need for a federal state claiming that transforming the EU into a political union was the only way to preserve its influence on the global stage.³²

³⁰ „What the EU constitution says“. BBC June 22, 2004.
<http://news.bbc.co.uk/2/hi/europe/2950276.stm>

³¹ „'Federal' removed from Constitution draft“. Euobserver.com May 23, 2003.
<http://euobserver.com/18/11341>

³² „Joschka Fischer: United States of Europe is the only way to preserve EU influence“. Euobserver.com January 13, 2011. <http://euobserver.com/18/31634>

Reaching in a similar direction in the summer of 2011 with an emphasis on the single currency the President of the European Council, Herman Van Rompuy, said in a speech to a think-tank in Brussels that being in a monetary union in fact meant that the countries involved were in one country urging people to use the term Euroland instead of eurozone. „Sharing a currency means we are in one country, at least monetarily speaking. That makes it much clearer why the decisions of one, affect all! We simply cannot have one currency and 17 divergent policies.“³³

3.2. The construction of the single currency

The euro has been along with the single market referred to by many European politicians and others as the European Union's greatest achievement. It is safe to say that huge political capital has been invested in the eurozone and its continued existence. Since the 1970s the member states of the EU and its predecessors have made efforts to increase monetary coordination between themselves not the least with the establishment of the European Monetary System (EMS) in 1979. In 1988 a committee was set up with the task of looking thoroughly into the possibility of establishing an Economic and Monetary Union (EMU). The committee was chaired by Jacques Delors, the then European Commission President, and his eventual report on the issue the year after was accepted by the leaders of all the member states except for Margaret Thatcher, the British Prime Minister. The EMU was then later established with the Maastricht Treaty when it came into force in 1993.³⁴

The creation of the euro was first and foremost based on a political decision but not primarily on economics. It was thought of as a large step towards increased integration within the EU and not the least by those who wanted the European integration to develop into some kind of a federation. „Federalism might make eurosceptics laugh, but with the creation of the euro,

³³ „EU president issues 'plea for Euroland'“. Euobserver.com June 17, 2011.
<http://euobserver.com/9/32508>

³⁴ „The euro: Economic or political project?“ The Institute of Directors (no date).
<http://www.iod.com/MainWebsite/Resources/Document/EuroBriefingPaper5.pdf> See also:
Dinan, Desmond (2010). *Ever Closer Union. An introduction to European Integration*.
Basingstroke: Palgrave MacMillan. p. 59-61.

the halfway stage would be reached. Four key organisms would have a federal or quasi-federal status: the Central Bank, the Court of Justice, the Commission and the Parliament. Only one institution is missing: a federal government," Jacques Lang, foreign affairs spokesman for the French National Assembly, said to the British newspaper *The Guardian* in July 1997.³⁵

However, not everyone were in an agreement that a monetary union and a single currency should be pursued although the main debate was, as often before with integrating steps within the EU and its predecessors, how far reaching the cooperation should be. As mentioned earlier the Germans were reluctant to give up their Deutsche Mark, one of the most trusted currencies of the world, and melt it into a new common currency.³⁶ The British government under Prime Minister Thatcher was also not so keen on sacrificing the Pound Sterling for the new currency.³⁷ Others were, however, far more enthusiastic. As mentioned previously Commission President Delors e.g. wanted to see much more integration than was even being discussed at that time.

In an interview with the British newspaper *The Daily Telegraph* at the beginning of December 2011 Delors, who has often been referred to as the architect of the single currency, insisted that had the eurozone been constructed according to the plan he had originally proposed it would not have ran into the crisis it is currently facing. A monetary union should have been paired with common economic policies and there should have been a proper surveillance as well. But he said his ideas did not gain the necessary support.³⁸ But despite the failure to get an actual economic union in action alongside a monetary union the supporters of that step did not give up their ambition. Instead there was a belief that the establishment of a monetary union would in the long run make a fully

³⁵ „The euro is a political project“. The Institute of Directors (no date).

<http://www.iod.com/MainWebsite/Resources/Document/EMUpaper.pdf>

³⁶ „Was the Deutsche Mark Sacrificed for Reunification?“ Spiegel Online International September 30, 2010. <http://www.spiegel.de/international/germany/0,1518,719940,00.html>

³⁷ Dinan, Desmond (2010). *Ever Closer Union. An introduction to European Integration*. Basingstroke: Palgrave MacMillan. p. 92.

³⁸ „Jacques Delors interview: Euro would still be strong if it had been built to my plan“. The Telegraph December 2, 2011.

<http://www.telegraph.co.uk/finance/financialcrisis/8932640/Jacques-Delors-interview-Euro-would-still-be-strong-if-it-had-been-built-to-my-plan.html>

fledged economic integration inevitable.³⁹ Assumedly next time the EU would run into economic difficulties of some sort.

Various crisis has proven to be a motor for further European integration on number of occasions since its initial launch in fact beginning with the Second World War as has been previously noted. In an interview with the British financial newspaper *The Financial Times* Romano Prodi, in 1999 the Commission President at the time, said that he was certain that the single currency would „oblige us to introduce a new set of economic policy instruments. It is politically impossible to propose that now. But some day there will be a crisis and new instruments will be created.“⁴⁰ However, those who may have approached the issue in this way probably did not hope for an economic crisis on the scale the EU is facing today. But apart from that the current crisis has obviously been seen as a opportunity to escalate the European integration process. As an example of this the French philosopher Jean-Marc Ferry said at the Spinelli Group's meeting in the European Parliament in January 2011, while opposing a federal Europe or a United States of Europe, that the current economic crisis in the eurozone „offered an important opportunity“ to advance further integration.⁴¹

Instead of a powerful centralised authority to ensure that the EMU countries would not step out of line and endanger the interests of the whole eurozone an agreement was reached on creating a pact to secure that the member states would not collect excessive debt. This pact was called Stability and Growth Pact (SGP) and according to it the eurozone member states were not allowed to have an annual budget deficit higher than 3 percent of their gross domestic product (GDP) or a national debt exceeding 60 percent of their GDP. The SGP was originally proposed by then German Finance Minister Theo Waigel in the 1990s as the German government was especially concerned that other

³⁹ „Europe's problem is that no one knows who's in charge“. The Telegraph September 23, 2011. <http://www.telegraph.co.uk/news/worldnews/europe/eu/8784530/Europes-problem-is-that-no-one-knows-whos-in-charge.html>

⁴⁰ Rachman, Gideon. „Super-Sarko's plans for the world“. The Financial Times October 21, 2008. <http://www.ft.com/intl/cms/s/0/4b1c8810-9f09-11dd-98bd-000077b07658.html>

⁴¹ „Joschka Fischer: United States of Europe is the only way to preserve EU influence“. Euobserver.com January 13, 2011. <http://euobserver.com/18/31634>

euro members' economic policies could possibly otherwise harm the German economy.⁴²

As Martin Heipertz and Amy Verdun pointed out in 2005 the creation of the SGP and its subsequent implementation from the point of view of neofunctionalism and intergovernmentalism as well as domestic politics and ideational approach. According to them this can only be explained with a combination of these theories and approaches. They claim that while the SGP was a bargain between sovereign countries in the spirit of intergovernmentalism (not to be confused with liberal intergovernmentalism which is a subject of this thesis) where they tried to advance their own national interests as much as they were able to the German government's emphasis on the SGP for example was also influenced by the need e.g. to sell the idea of a monetary union to an increasingly sceptical public at home and to appease the German central bank, the Bundesbank. Furthermore the SGP was a logical continuation of the creation of the EMU in the spirit of neofunctionalism according to the article.⁴³

3.3. Early warnings on the eurozone

Well before the economic crisis in the eurozone the creation of the single currency was the subject of both political and economic debate whether that development was desirable and whether a European Economic and Monetary Union (EMU) would be sustainable and furthermore sensible in the proposed form or even altogether. A number of prominent people warned mainly from an economic perspective that it was not. In November 2011 Nigel Lawson, the former British Chancellor of the Exchequer, for instance wrote in the British magazine *The Spectator*:

„It was clear from the start that the project would end in tears unless it was accompanied by full fiscal union, which in a democracy requires full political union. I spelled this out publicly when I was still

⁴² Collignon, Stefan (2004). „The end of the Stability and Growth Pact?“ *International economics and economic policy*. 1:1, pp. 15-19.

⁴³ Heipertz, Martin and Amy Verdun (2005). „The Stability and Growth Pact – Theorizing a Case in European Integration“ *Journal of Common Market Studies*. 43:5, pp. 985-1008.

Chancellor, in January 1989 — the first prominent politician to do so, as it happens — and I repeated it on a number of occasions, in which I also argued that a full political union was neither desirable nor attainable. The eurozone project was doomed from the start.”⁴⁴

It is quite interesting to compare Lawson’s article with the interview with the former Commission President Jacques Delors in The Daily Telegraph mentioned earlier and published only a couple of weeks later where he aired similar views regarding the incomplete nature of the EMU and the need for a common economic policy alongside a common monetary union. However, the two men obviously are just as entirely at odds today as they were two decades ago about the desirable development of the European integration in this respect. But what is also interesting are Delors’ comments in the interview about the criticism of economists sceptical of the single currency during its construction and that they had in fact been right to his opinion.⁴⁵

One of such economists was the American Nobel Prize winner for economics Milton Friedman. In a newspaper interview in 2001, few months before euro coins and banknotes went into circulation, he said he thought the single currency was „a big mistake“ and that the euro would not create unity but rather „emphasise discrepancies and create monetary turbulence in the euro-zone.“⁴⁶ He took Italy and Ireland as examples of countries that were in need for radically different monetary policies. While Italy needed flexibility Ireland was in need for a tighter approach. However, Ireland was not able to because it was tied into the new single currency and a single monetary policy determined by the European Central Bank (ECB). He went on to say that it was ironic that the euro had been „adopted really for political purposes, not economic purposes, as a

⁴⁴ Lawson, Nigel. „Surviving the euro. We need an orderly end to the EU’s disastrous economic experiment“. Spectator.co.uk November 19, 2011.

<http://www.spectator.co.uk/spectator/thisweek/7396763/surviving-the-euro.shtml>

⁴⁵ „Euro doomed from start, says Jacques Delors“. The Telegraph December 2, 2011.

<http://www.telegraph.co.uk/finance/financialcrisis/8932647/Euro-doomed-from-start-says-Jacques-Delors.html>

⁴⁶ „Nobel Prize winner says euro is a big mistake“. Euobserver.com August 29, 2001.
<http://euobserver.com/9/3263>

step toward the myth of the United States of Europe. In fact, I believe its effect will be exactly the opposite.“⁴⁷

In another interview in 2004 with the news website The EU Observer Friedman claimed there was a strong possibility that the eurozone could collapse in the next few years „because differences are accumulating between countries“⁴⁸ adding that he nevertheless actually thought the euro had „been doing quite well so far“. There were, however, problems facing it and not the least with the enlargement of ten new EU member states few weeks earlier. Friedman then suggested that the euro should be replaced with the former national currencies of the member states of the eurozone.⁴⁹

Delors' criticism was in a similar fashion as briefly mentioned before although with a fundamentally different approach. According to him the euro was flawed from the very start due to inadequate construction. Today's economic difficulties in the eurozone he argues are the consequences of failure by the political leaders who oversaw the creation of the euro and who turned a blind eye to the fundamental weaknesses and imbalances of member states' economies. He claims that there was a denial to see anything disagreeable which the leaders would be forced to address. As a result the euro was launched without strong central authority capable of preventing EMU members from collecting unsustainable debt which was the core element leading to the ongoing crisis in the eurozone.⁵⁰

However, there were not only economists sceptical of the European integration who criticised the construction of the single currency and aired pessimism over its future. That was the case also for some of those who favoured the euro but saw possible dangers in its future including the Belgian economist Paul De Grauwe who argued in 2006 that unless the EU would

⁴⁷ „Nobel Prize winner says euro is a big mistake“. Euobserver.com August 29, 2001.
<http://euobserver.com/9/3263>

⁴⁸ „Friedman: 'Strong possibility' of euro zone collapse“. Euobserver.com May 17, 2004.
<http://euobserver.com/19/16030>

⁴⁹ „Friedman: 'Strong possibility' of euro zone collapse“. Euobserver.com May 17, 2004.
<http://euobserver.com/19/16030>

⁵⁰ „Euro doomed from start, says Jacques Delors“. The Telegraph December 2, 2011.
<http://www.telegraph.co.uk/finance/financialcrisis/8932647/Euro-doomed-from-start-says-Jacques-Delors.html>

develop into a political union then the euro would eventually collapse. According to him this would not be the fate of the EMU right away but rather in the time frame of 10 to 20 years. He furthermore claimed that a political union was a logical continuation of a monetary union stressing no monetary union in history had survived without such connection.⁵¹

The same year as De Grauwe expressed these views the think-tank Centre for European Reform (CER) warned in a report that the eurozone could break up in the near future due to lack of economic reforms. The CER singled Italy especially out from the larger economies claiming that if the country would not improve its competitiveness, e.g. in the light of high debt levels and too little productivity, it would eventually be forced to leave the eurozone. If that would happen countries such as Spain and Portugal would probably follow suit. According to the report instead of leading to necessary progress reforms the introduction of the single currency resulted in national governments becoming too complacent and no longer feeling that they needed to push through unpopular economic reforms. The think-tank emphasised that it was not too late to introduce the necessary reforms but time was, however, running out.⁵²

There were also people, who had held top positions in the European Commission, worried about the future of the EMU before the current economic crisis began in the eurozone. In a speech delivered in London in January 2006 the former Dutch European Commissioner Frits Bolkestein questioned the survival chances of the euro in the long run and predicted it would face a huge challenge in around a decade when a jump in pension claims was likely to hit Europe with eurozone countries such as Italy unprepared. He pointed out that Italy's pension system expected the current workforce to pay for those who have retired. This system all over Europe would be put under pressure with increasing numbers of retired people compared to those with jobs. This would force the countries to

⁵¹ „Economists call for political union to prevent euro collapse“. Euobserver.com April 24, 2006. <http://euobserver.com/843/21414>

⁵² „Eurozone could fall apart due to slow economic reforms, says report“. Euobserver.com September 19, 2006. <http://euobserver.com/19/22448> See also: Tilford, Simon. „Will the eurozone crack?“ Centre for European Reform September 1, 2006. <http://www.cer.org.uk/publications/archive/report/2006/will-eurozone-crack>

increase their borrowing which would have consequences for interest rates and inflation. This would in turn be difficult to control.⁵³

In some cases national governments in the eurozone also aired some worries over the economic situation in the eurozone. In May 2008 the Dutch Finance Minister Wouter Bos said in a speech in Brussels public debt should be monitored more strictly in the euro member states since countries with high debt could undermine the stability of the whole eurozone. He also aired warnings on the survival of the euro because of increasing numbers of pensioners in the future as his countryman Bolkestein has done two years earlier. Bos said furthermore that large debt needed to be purged and sustainability needed to be ensured. Otherwise the eurozone might suffer as cost of capital would increase resulting from doubts that sustainability could be guaranteed.⁵⁴

Yet another issue which was a source of worries for several people were breeches of the Stability and Growth Pact (SGP). The pact was as previously mentioned in the thesis supposed to be a certain guarantee that the eurozone member states would run a sensible economic policy but almost from the beginning it was undermined by repeated breeches of its rules by mainly Germany and France. The sanctions that were supposed to be used according to the SGP to punish member states which did not honour the rules were not used but on limited occasions.⁵⁵ Soon the pact was therefore not providing the guarantee that it was supposed whether or not it was ever capable of doing so in the first place.

⁵³ „Ex-commissioner questions survival of euro“. Euobserver.com January 26, 2006. <http://euobserver.com/19/20775>

⁵⁴ „Highly indebted countries harming euro, warns Dutch minister“. Euobserver.com May 15, 2008. <http://euobserver.com/19/26146>

⁵⁵ Meyer, Christoph O. and Gaby Umbach (2007). „Europeanisation of National Governance Through Policy Co-ordination? Gains and Pains of a New Policy Instrument“. *Economic Government of the EU. A Balance Sheet of New Modes of Policy Coordination*. Editors: Ingo Linsenmann, Christoph O Meyer and Wolfgang T. Wessels. London: Palgrave Macmillan. p. 97.

4. The eurozone crisis emerges and escalates

The economic crisis in the eurozone started in the autumn of 2008 after the fall of the American investment bank Lehman Brothers. The crisis seemed to come as quite a surprise to the EU member states despite previous warnings in the years leading up to it. Their first responses were rather fumbling which eventually led to the government of Ireland, which was facing growing difficulties, deciding to act on its own and issue a state guarantee for all of the operations of its domestic banks fearing that otherwise there would be a massive run on them. The EU's first response was to criticise the Irish authorities heavily primarily since it feared that their initiative would undermine joint action to the crisis by the member states and sideline itself.

What has since been characterizing for the economic crisis in the eurozone has generally been two things. First the crisis has steadily become more serious with more and more eurozone countries either needing a bail-out or in danger of needing one and second repeated attempts to solve it have not managed to do so. The crisis has in fact turned out to be quite revealing as it has brought to the surface various underlying tensions within the eurozone and the EU as a whole. Some of them have been quite obvious while some have not as much. There are for example serious tensions between roughly the core states of the eurozone led by Germany and the periphery states mainly in Southern Europe mainly due to different economic realities and needs. While Germany e.g. has traditionally emphasised on an economic policy based on keeping inflation down at the expense of economic growth the countries of southern Europe have usually emphasised increasing growth while risking inflation.

There have also been tensions between the largest EU member states and the smaller ones with the latter complaining that during its course the leaders of Germany and France have taken most or all of the major decisions while other member states seem to have more or less had to stay on the sideline. Not to mention some tensions between various member states, mainly Germany and France, and certain EU institutions. The crisis has also highlighted tensions between the euro countries and the non-euro countries to some extent

led by Britain over which countries should be involved in decision making in issues mainly concerning the eurozone but also the EU as a whole.

During the crisis there has been a huge and growing pressure on the EU member states, mainly the euro countries, to engage in greater integration and even much greater integration than ever before. Talks of fiscal union, eurobonds which all the euro countries would be responsible for, and even a European federation of some kind have become increasingly louder as the eurozone economic crisis has become more serious and step by step leading states within the eurozone have moved closer to accepting such development even without always being too much in favour of it.

4.1. Latest attempts to solve the crisis

Over the last couple of years or so a number of attempts have been made by EU leaders to find a lasting solution to the eurozone crisis but so far every one of them has merely managed to calm the markets temporarily, in some cases only for few days, but then soon proved to be more or less inadequate. So far three eurozone countries have had to be bailed out by the EU and the International Monetary Fund (IMF); Greece, Ireland and Portugal. At the same time the ECB has had to buy up large number of bonds from eurozone member states in trouble and China has done the same. It seems that the last attempt to secure a solution to the crisis at the European Council's summit on December 8-9, 2011 has not done much more than previous attempts to calm the markets and stabilise the situation. It seems to have done little more than just buying some more time which has also mainly been the achievement of the previous attempts.

The summit's stated goal was to get an unanimous consent among the EU member states to amend its treaties as required according to them with the aim of increased economic integration and stability within it. However, since an agreement involving all the member states was not reached, as the British Prime Minister David Cameron decided to veto the proposed changes since he did not get safeguards for the City of London accepted, the new treaty is supposed to be a treaty only between the EU countries that will eventually agree to it. So far all

the other member states have given a positive reaction to the new treaty but some of them have, however, said they will have to consult their parliaments before they can absolutely give a green light to it. Whether they eventually will remain to be seen when this thesis is written and also what exactly will be in the new treaty.

The first reaction to the outcome of the European Council's summit was rather positive. There was at first for example a swing upwards in the markets which, however, did not last very long. The failure to secure an agreement at the summit involving all the member states of the EU also certainly undermined the outcome. Naturally it would have sent a much stronger message to the markets and to the entire world if a unanimous decision would have been reached. It would also not have led to speculations and uncertainty over issues such as whether it will actually be possible to execute the new treaty using the existing EU institutions or whether it is legal to create a new treaty even though not all the member states agree to it. Unfortunately there seem to have been growing doubts about the conclusion of the summit with for example the international rating agencies not quite convinced that it will be enough to contribute to a solution to the eurozone crisis.⁵⁶

Leading up to the situation as it is after the European Council's summit in December the German Chancellor Angela Merkel and French President Nicolas Sarkozy have been more or less leading the search for solutions to the crisis in the eurozone. The approach, mainly in the case of Merkel, for most of the time has been a cautious one and she has as it seems been trying to solve the crisis without it leading to more integration than absolutely necessary. She has for example fought hard against the idea of eurobonds which would be issued by individual eurozone member states but at the responsibility of the whole eurozone. She was also for a long time reluctant to accept a development towards a fiscal union but has now accepted that idea as a necessity to solve the

⁵⁶ „EU treaty: Moody's will review EU credit ratings again despite crisis plan“. The Telegraph December 12, 2011. <http://www.telegraph.co.uk/finance/financialcrisis/8950714/EU-treaty-Moodys-will-review-EU-credit-ratings-again-despite-crisis-plan.html>

eurozone crisis.⁵⁷ Merkel has also been reluctant towards Germany shouldering more responsibility for the bailout of especially Greece which has probably had much to do with negative attitude of German voters towards that according to public opinion polls.⁵⁸ All of which is very much in line with liberal intergovernmentalism's view of the importance of domestic politics when states form their positions for international negotiations.

Merkel's position on more issues concerning the eurozone economic crisis than a development towards a fiscal union have changed more or less. For example towards the possibility of a eurozone member state being forced to leave the club due to its economic situation and inadequate actions to do what is deemed necessary to solve its difficulties. In March 2010 Merkel stated in a speech to the German parliament that the eurozone had to have the option in the future to expel member states that repeatedly broke the club's fiscal rules although such tool would only be used as a last resort.⁵⁹ A stand which was later in May the same year attacked for example by Jean-Claude Juncker, the Prime Minister of Luxemburg and president of the so-called Euro group of eurozone finance ministers.⁶⁰ In the same month the European Commission issued a statement denying that there were any ongoing talks that Greece would possibly have to leave the eurozone after the Greek Commissioner Maria Damanaki had previously mentioned that as a possibility if her countrymen would fail to implement the reforms in Greece which the EU thought were vital. A spokesperson for the European Commission said that Damanaki statement was simply meant as an attempt to convince her people that the reforms were necessary.⁶¹

Several months later, however, in September 2011 Merkel reportedly said to her officials that she had ruled out the idea of expelling eurozone

⁵⁷ „Merkel urges euro fiscal union to tackle debt crisis“. BBC December 2, 2011.
<http://www.bbc.co.uk/news/world-europe-15997784>

⁵⁸ „Merkel says errant states should be kicked out of eurozone“. Euobserver.com March 17, 2011.
<http://euobserver.com/19/29706>

⁵⁹ „Merkel says errant states should be kicked out of eurozone“. Euobserver.com March 17, 2010.
<http://euobserver.com/19/29706>

⁶⁰ „Juncker rejects German call for eurozone expulsion“. Euobserver.com May 6, 2010.
<http://euobserver.com/1016/110901>

⁶¹ „Brussels denies talk of Greek euro exit“. Euobserver.com May 26, 2010.
<http://euobserver.com/19/32404>

countries that failed to introduce the necessary economic reforms in order to stabilise their economy. She was quoted saying that she was „not even considering the possibility because I think we would start a domino effect that would be extremely dangerous for our currency system.“⁶² Later that same month Merkel along with President Sarkozy and Greek Prime Minister George Papandreou issued a joint statement affirming their commitment that Greece would remain in the eurozone in the future in an attempt to calm the markets due to growing anxiety over possible Greek default.⁶³ Few days earlier the Dutch government had, however, had approached the issue in somewhat differently proposing that highly indebted euro members should be put under guardianship with decisions regarding public spending seized from their elected governments and put under direct control of the European Commission through a specially appointed commissioner. If a euro country faced with this situation would not be willing to accept these measures then it should be forced to leave the eurozone.⁶⁴ In October Merkel then actually aired similar views in a speech to German MPs as the situation in the eurozone had become worse suggesting a permanent economic supervision of Greece.⁶⁵

When Prime Minister Papandreou decided to call for a national referendum in Greece on the latest bail-out package for the country from the EU and the International Monetary Fund (IMF) it received very negative reaction from both the EU and Chancellor Merkel. The message was quite simply that either Greece would accept the bail-out or it would have to leave the eurozone.⁶⁶ Later that month Merkel's political party, the German Christian Democrats, issued a resolution stating among other things that euro member states which did not follow the rules of the single currency should be allowed to leave the

⁶² „Merkel: Countries will not be kicked out of eurozone“. Euobserver.com September 6, 2011. <http://euobserver.com/19/113535>

⁶³ „Merkel, Sarkozy: 'Future of Greece is in euro'“. Euobserver.com September 15, 2011. <http://euobserver.com/19/113630>

⁶⁴ „Netherlands: Indebted states must be made 'wards' of the commission or leave euro“. Euobserver.com September 7, 2011. <http://euobserver.com/19/113552>

⁶⁵ „Merkel wants 'permanent' supervision of Greece, warns of war“. Euobserver.com October 26, 2011. <http://euobserver.com/19/114075>

⁶⁶ „Euro stability more important than Greece, says Angela Merkel“. The Guardian November 3, 2011. <http://www.guardian.co.uk/business/2011/nov/03/euro-stability-more-important-greece>

eurozone.⁶⁷ Eventually Papandreou decided to scrap the referendum and in the wake of that he was forced to resign and was then replaced with an unelected „technocratic“ Prime Minister. Soon after the same happened in Italy due to growing worries over the Italian economy.

What has obviously played an important role in the handling of the eurozone crisis has been an effort to keep the situation under control and preventing it from getting out of hand. What Chancellor Merkel reportedly said to her officials in September 2011 and is mentioned earlier. Admitting that Greece could be made to leave the eurozone at some point was for example in fact a certain taboo as it was obviously feared that it could lead to a chain of events that the leaders of the eurozone member states would not be able to control and have serious consequences for other eurozone countries and the eurozone as a whole. At the same time some leading people within the EU, as for example Commissioner Damanaki, have seen the possibility of an expulsion from the eurozone as a tool to encourage the reformative actions they have seen as necessary.

Furthermore the same has probably been the case with various strong worded statements from eurozone leading people during the economic crisis which seem to have been getting more serious as the crisis has steadily become worse. Such as that if certain integration step would not be reached or some measures taken it would have serious consequences for the eurozone and even lead to its collapse. Partly such statements have probably been due to genuine concerns but partly with the aim of advancing certain goals and not the least increased integration. For instance when the Italian, German and French premiers declared in late November 2011 that if the necessary economic reforms were not undertaken in Italy and the country would default as a result it would spell the end of the euro⁶⁸ although that must be considered as a plausible consequence.

⁶⁷ „Merkel's party calls for eurozone exit clause“. Euobserver.com November 15, 2011. <http://euobserver.com/18/114285>

⁶⁸ „Monti Says Merkel, Sarkozy Agree Italy Default Would Lead to End of Euro“. Bloomberg November 25, 2011. <http://www.bloomberg.com/news/2011-11-25/monti-says-merkel-sarkozy-agree-italy-default-would-lead-to-end-of-euro.html>

4.2. Who has been in charge?

During the crisis in the eurozone the issue of who is and should be in charge in the European Union has been highlighted. The crisis has definitely brought more attention to the eurozone than at most other times and the fast phase of events has required a fast decision making and possibly faster than ever before in the history of the European integration process. During the crisis the German and French leaders, Chancellor Merkel and President Sarkozy, seem to have been mostly taking the necessary and important decisions, sometimes in close cooperation with EU institutions, but other national leaders in the EU seem to have been more or less on the sideline. This has in fact called on some criticism from governments of smaller member states.

Speaking to students at the European College of Bruges in November 2011 the Finnish Europe Minister, Alexander Stubb, for example expressed his annoyance at decision making in backrooms and the emergence of self-anointed leadership of certain EU member states during the eurozone crisis mentioning especially Germany and France along with the European Central Bank. Stubbs furthermore suggested in his speech that the President of the European Council, the President of European Commission and the leading role of the eurozone summits would be combined in one single office as a solution to incoherence and multi-layered decision making which had to his opinion proved to be an obstacle to the EU's response to the eurozone economic crisis.⁶⁹

In an article in the British newspaper *The Daily Telegraph* in September 2011 Charles Moore, the newspaper's former editor, also criticised the EU's decision making during the eurozone crisis but from a somewhat different approach. He said that the question of who is in charge in the EU was the prior question regarding the financial crisis within it. He claimed that at the same time everyone was calling for political leadership to tackle the crisis it could not be provided. The reason was that the EU leaders were lacking „the necessary

⁶⁹ „EU needs fewer presidents and a new budget 'tsar', say Finns“. Euobserver.com November 17, 2011. <http://euobserver.com/19/114310>

authority. The eurozone is suffering from a sovereign debt crisis, because no one is sure who is sovereign.”⁷⁰

Germany and France have been leading the decision making regarding the crisis in the eurozone, along with EU institutions such as the European Commission and the European Central Bank (ECB), mainly due to the fact that the countries are the two strongest economies within it with Germany the far strongest. However, another reason for this has probably also been to speed up decision making in the face of the economic crisis at hand. As things have developed, especially after the European Council’s summit in December 2011, Germany has steadily gained stronger position than France.⁷¹ Growing doubts about the strength of the French economy as the eurozone crisis has escalated have probably contributed significantly to this development. It can also be speculated whether the involvement of the Sarkozy in the decision making along with Merkel has had something to do with the fact that the European integration has in many ways been constructed historically around those two countries due to their history of bloody conflicts. It would also probably not have looked good in the eyes of many people if Germany had been taking all the major decisions more or less alone in the light of its history.

The German leadership in solving the eurozone crisis has in fact been questioned publicly during the eurozone crisis by a number of people. It has among other things been suggested that Germany was utilising the crisis to gain control over the European continent. Others have, however, insisted this was an absurd suggestion. The Germans had no such ambitions. Among them the British conservative MEP Daniel Hannan.⁷² This discussion has also prompted some Germans to respond to such allegations such as Thomas Kielinger, the UK

⁷⁰ Moore, Charles: „Europe’s problem is that no one knows who’s in charge“. The Telegraph September 23, 2011. <http://www.telegraph.co.uk/news/worldnews/europe/eu/8784530/Europes-problem-is-that-no-one-knows-whos-in-charge.html>

⁷¹ „EU crisis: Germany the 'unquestioned' master of Europe, says analysts“. The Economic Times December 8, 2011. <http://economictimes.indiatimes.com/news/international-business/eu-crisis-germany-the-unquestioned-master-of-europe-says-analysts/articleshow/11034079.cms>

⁷² Hannan, Daniel. „The EU is not a German conspiracy, for Heaven's sake“. The Telegraph November 16, 2011. <http://blogs.telegraph.co.uk/news/danielhannan/100118115/the-eu-is-not-a-german-conspiracy-for-heavens-sake/>

correspondent of the German daily *Der Spiegel* who wrote in an article in November 2011 in the British daily newspaper *The Daily Telegraph*:

„If Germany finds herself in a leading position economically, that has happened by default, not because of an inbred attempt to dominate. Did England set about to dominate the world of the theatre by producing a genius such as Shakespeare? No more did the Germans desire to lord it over anybody by simply doing what they do best, namely attaching themselves libidinally to the quality of manufactured goods and building a protective culture of fiscal discipline around it.“⁷³

Just as Germany mainly has been in a leading position within the EU during the eurozone crisis primarily due to its strong economic position within it those eurozone countries which have faced serious difficulties in their economy during the crisis have been in a weak position which has probably undermined their possibilities to influence the decision making. They have primarily been in the position of asking other eurozone countries, and the EU as such, for help and not the least Germany because of the strength of its economy. This has definitely put these countries in a very difficult and unpleasant position, especially Greece which has been in the worst situation. As a consequence the Greek leaders have during the eurozone crisis found themselves in the position of more or less having no other choice but to accept the demands put forward by the EU, and not the least Germany, for austerity measures in order to get financial assistance. But occasionally they have tried to fire back so to speak.

Perhaps the clearest example of Greek leaders' attempt to fire back is Prime Minister Papandreou's announcement at the beginning of November 2011 that there would be a national referendum in Greece on the latest bail-out package for the country. A step which received very negative reaction from EU leaders sending Athens the message that if the referendum would be held

⁷³ Kielinger, Thomas. „We don't want to colonise Europe“. The Telegraph November 13, 2011. <http://www.telegraph.co.uk/comment/8886574/We-dont-want-to-colonise-Europe.html>

Greece was faced with the choice of either accept the package or simply leave the eurozone.⁷⁴ Eventually the referendum was called off and in the wake of that Prime Minister Papandreou resigned. Previously the Greek government had on another occasion also e.g. expressed its frustration towards the German government by claiming that Germany had failed to pay Greece compensation after the German occupation during the Second World War. A claim Germany has rejected.⁷⁵

But Greece is, however, not the only eurozone country facing difficulties to have tried to use the threat of referendums in their dealings with the EU during the crisis. In November 2011 Ireland's Finance Minister Michael Noonan said that unless Brussels would give the Irish government more money to relieve massive bank debts Irish voters would probably reject changes to the EU treaties, meant to solve the eurozone crisis, in a referendum.⁷⁶ More politicians in eurozone countries have also called for referendums in relations with the crisis in the eurozone on whether their countries should continue having the euro as their currency as for example Geert Wilders, the leader of the Dutch Freedom Party which the current center-right minority government of the Netherlands relies on for support.⁷⁷ There have also been at times serious opposition by individual eurozone member states to either bailing out of certain euro country in trouble or increasing the bail-out fund meant to be used for that purpose for example in Finland and Slovakia.⁷⁸

However, there have not only been tensions within the eurozone about the issue who should be in a leading role within it or the EU as such as mentioned before in this thesis. There have also been serious tensions between

⁷⁴ „EU tells Greece: Choose the euro or go“. Euobserver.com November 3, 2011.
<http://euobserver.com/19/114155>

⁷⁵ „Germany failed to pay WWII compensation, Greece says“. Euobserver.com February 25, 2011.
<http://euobserver.com/19/29551>

⁷⁶ „Ireland: More money for banks or No in referendum“. Euobserver.com November 25, 2011.
<http://euobserver.com/1016/114401>

⁷⁷ „PVV investigates return of guilder, may call for referendum“. DutchNews.nl November 11, 2011. http://www.dutchnews.nl/news/archives/2011/11/pvv_investigates_return_of_gld.php

⁷⁸ „Eurozone taken hostage by Slovak politics“. EurActiv.com October 12, 2011.
<http://www.euractiv.com/euro-finance/eurozone-taken-hostage-slovak-politics-news-508290>
See also: „Finland Opposes Bailout-Fund Expansion“. The Wall Street Journal March 15, 2011.
<http://online.wsj.com/article/SB10001424052748704662604576202080757173902.html>

the euro countries and those EU countries that have not adopted the euro as their currency for one reason or another, especially in the case of Britain but also other EU member states in a similar situation. There have even been some speculations that the none-euro EU member states should create a special bloc within the union. The non-euro countries have feared that decisions were being taken in the eurozone which would affect them while they would not have the possibility to directly influence them.⁷⁹ Britain has had a bit different approach since the current coalition government has according to Prime Minister David Cameron no intention to ever join the single currency. As a result the Britain under Cameron has mainly sought to prevent decisions taken in order to solve the crisis in the eurozone from having negative effects on Britain including its financial centre in London.⁸⁰

At the European Council's summit in December Cameron decided not to accept the new treaty proposed by Chancellor Merkel and President Sarkozy mainly as he considered it a threat to the City of London as mentioned earlier in the thesis. It can be said that tensions between the eurozone countries and those EU member states not using the euro has reached the highest point when that happened. At least as far as Britain is concerned. Cameron's decision to veto the new treaty was a part of a power struggle where he used the tools he had to defend – at least to his opinion – the interests of his country. Previously he had threatened to demand the repatriation of certain powers which have over the years been transferred from Britain to Brussels, something which has enjoyed significant support in the Conservative Party, but at the summit he obviously decided to make less demands.⁸¹

There have also been certain tensions between Chancellor Merkel and President Sarkozy on one hand and certain EU institutions on the other. The

⁷⁹ „New EU members to break free from euro duty“. EurActiv.com September 13, 2011. <http://www.euractiv.com/euro-finance/new-eu-members-break-free-euro-duty-news-507564>
See also: „Outs and ins. How the euro-zone outs are fighting to retain influence in the European Union“. The Economist March 10, 2011. <http://www.economist.com/node/18333103>

⁸⁰ „Non-euro finance ministers discuss approach to crisis“. Euobserver.com November 8, 2011. <http://euobserver.com/19/114202>

⁸¹ „Cameron seizes euro crisis to 'defend British national interest'“. EurActiv.com September 8, 2011. <http://www.euractiv.com/future-eu/cameron-seizes-euro-crisis-defend-british-national-interest-news-507363>

President of the European Commission, José Manuel Barroso, has for example put an emphasis on the introduction of Eurobonds and even announced plans to introduce such bonds, an idea that Merkel has repeatedly rejected. Likewise Sarkozy has repeatedly called for the ECB to take up the role of a lender of last resort for the eurozone member states but the bank has firmly rejected doing that.⁸²

4.3. The question of democracy

The development within the European Union, especially in the last couple of decades, has involved an increasing need for politicians and officials at the European level to take into account the public attitude in the EU member states. Especially in relations with referendums in individual member states on various integration steps such as the single currency and treaty changes. It is safe to say that such referendums have caused difficulties for the EU on a number of cases. In fact such referendums are as one of the reasons there is a possibility that the EU may end being split up in one way or another.

Traditionally the people of the countries that have participated in the European integration process leading to the EU as we know it today have had a rather limited direct involvement in the decision making at European level. On several occasions there have, however, been held referendums on some integration steps in various countries. Mainly on accession to the EU or its predecessor, new treaties or participation in the single currency. Also it must be mentioned that since 1979 there have been elections where the people of the member states have been given the opportunity to directly elect the members of the European Parliament (EP) for a term of five years.

However, as time has passed and the integration has grown deeper it seems to have become more difficult to get people to accept more development in that direction when they have got the chance of a direct say in referendums. That is to say in Western Europe as the only referendum which have been held so far on European integrational issues in the Eastern part of the continent are

⁸² „Barroso to table eurobond blueprint“. EurActiv.com November 17, 2011.
<http://www.euractiv.com/euro-finance/barroso-table-eurobond-blueprint-news-509014>

on accession to the EU which have so far in all cases resulted in membership being accepted. In fact as a consequence EU leaders seem to have had a certain tendency to consider referendums as something to avoid. The latest example perhaps being the EU reaction when former Greek Prime Minister Papandreou announced a national referendum on the latest bail-out package for Greece at the beginning of November 2011. The EU has also been criticised for circumventing referendum results it has not been satisfied with. For example when the Danes rejected the Maastricht Treaty in a referendum in 1992 and the Irish rejected the Lisbon Treaty in 2008. In turn the EU has claimed that it has tried to address the concerns of the people with opt-outs and also that the reasons for which many people have rejected EU treaties in referendums has often been something else than the treaties themselves or even further European integration as such.

As mentioned earlier referendums have in fact played a major role in making the EU up to some extent a multi-speed project. When the Danes rejected the Maastricht Treaty in 1992 they were offered certain opt-outs from the treaty to increase the possibility that it would be accepted in a repeated referendum which was held then the year after. One of them was to stay out of the EMU and thus not being obliged to adopt the euro. The treaty was accepted and the Danes as a result followed another path than the other EU member states except for Britain which decided in September 1992 not to participate in the EMU either after failing to keep the currency within the lower level of the agreed fixed exchange rate.⁸³ This meant that two EU countries would not be involved in the single currency. At least for the time being although it was hoped by many that at some point Britain and Denmark would join the EMU and still is. That hope, however, probably diminished somewhat in 2000 when the Danes rejected the euro again in a special referendum on that issue.

Three years later, in 2003, the number of EU countries staying out of the euro was then again increased when Sweden held a referendum on joining the

⁸³ „September 17 1992: Pound drops out of ERM“. The Guardian September 17, 1992. <http://www.guardian.co.uk/business/1992/sep/17/emu.theeuro> See also: Dinan, Desmond (2010). *Ever Closer Union. An introduction to European Integration*. Basingstroke: Palgrave MacMillan. p. 110.

euro. The country's social democratic government under Prime Minister Göran Persson favoured adopting the euro instead of the Swedish krona and probably thought it would win the referendum. However, the result was that the euro was rejected and as a result Sweden has since kept its national currency.⁸⁴ Unlike Denmark and Britain Sweden is nevertheless still obliged to adopt the euro but it is hard to imagine that can happen unless it will be accepted in a new referendum due to the example made by holding the previous one.

Apart from Britain, Sweden and Denmark there are currently seven more EU member states which have not yet formally adopted the euro as their currency but all of them are obliged to according to their accession treaties. These are Poland, Latvia, Lithuania, Hungary, Bulgaria, Romania, and the Czech Republic which joined the EU either in 2004 or 2007. All of which seem to be in no rush to adopt the single currency mainly as a result of the ongoing economic crisis in the eurozone as mentioned earlier in this thesis. The governments of these countries even indicated, at least in some cases, that they have been looking towards the example set by Sweden by holding a referendum on whether join the euro or not claiming the nature of the eurozone has changed fundamentally since their voters accepted to join the EU. By doing that they could possibly put some thresholds between them and their obligation to eventually adopt the euro.⁸⁵ But if they will eventually formally accept the new treaty which Merkel and Sarkozy proposed at the European Council's summit in December that will probably make the use of the argument that the eurozone has changed since 2004 and 2007 less effective and less convincing.

But whether the countries which have not yet adopted the euro will eventually do so or not is, however, probably not the EU's biggest headache at the moment when it comes to referendums. The new treaty may have to be put to a referendum in at least one country, Ireland, due to a requirement in the Irish constitution which triggered both e.g. previous referendums on the Nice Treaty and the Lisbon Treaty. There have been some mixed messages from Irish

⁸⁴ „Sweden says No to euro“. BBC September 15, 2011.
<http://news.bbc.co.uk/2/hi/europe/3108292.stm>

⁸⁵ „New EU members to break free from euro duty“. EurActiv.com September 13, 2011.
<http://www.euractiv.com/euro-finance/new-eu-members-break-free-euro-duty-news-507564>

government ministers whether a referendum will be necessary this time. The Prime Minister Enda Kenny had previously admitted there might have to be a referendum⁸⁶ but after the European Council's summit he has at the time of the writing of this thesis denied to give any concrete comment on the issue before it has been looked into by legal experts. However, Ireland's Europe Minister Lucinda Creighton has given it 50/50 chance there will have to be a referendum.⁸⁷ But whether there will be a fresh Irish referendum on an EU issue or not the Irish voters do not seem to be too supportive of changes to the EU treaties according to polls. One such published in the Irish daily *The Irish Times* in October 2011 suggested 47 percent would say no to treaty changes while 28 percent would vote yes.⁸⁸

There could also be necessary to hold a referendum in Denmark and Britain. There are also calls by politicians in various other EU member states for referendums on the new treaty due to be signed in March 2012.⁸⁹ Whether that will be the outcome remains to be seen. But the EU leaders will probably try to avoid as many referendums on the treaty as possible as was the case with the Lisbon Treaty. Apart from other things holding referendums requires quite a lot of time which the EU leaders probably do not believe they have. Irish leaders have even tried to use the referendum threat in Ireland to their advantage in their dealings with the EU as mentioned earlier in the thesis.⁹⁰

Meanwhile EU citizens' attitude towards the eurozone seem to have mainly worsened during the ongoing economic crisis according to various public opinion polls. In one such in September 2011 produced by the German Marshall Fund only the majority of Italians and Slovaks thought the euro was good for

⁸⁶ „Kenny admits we may have to hold another EU referendum“. Independent.ie October 27, 2011. <http://www.independent.ie/business/european/kenny-admits-we-may-have-to-hold-another-eu-referendum-2917791.html>

⁸⁷ „New EU deal faces multiple referendum threat“. Euobserver.com December 9, 2011. <http://euobserver.com/18/114585>

⁸⁸ „Public in no mood to amend Lisbon deal“. IrishTimes.com October 26, 2011. <http://www.irishtimes.com/newspaper/ireland/2011/1026/1224306505965.html>

⁸⁹ „New EU deal faces multiple referendum threat“. Euobserver.com December 9, 2011. <http://euobserver.com/18/114585> See also: „EU turmoil revives calls for referendum“. The Telegraph November 11, 2011. <http://www.telegraph.co.uk/finance/financialcrisis/8885498/EU-turmoil-revives-calls-for-referendum.html>

⁹⁰ „Ireland: More money for banks or No in referendum“. Euobserver.com November 25, 2011. <http://euobserver.com/1016/114401>

their country's economy. Furthermore despite most of those surveyed said EU membership was beneficial for their country a minority had a positive view of the single currency.⁹¹ Nevertheless a poll carried out by the market researcher GfK Verein in cooperation with the business magazine The Wall Street Journal Europe majority of the people in ten euro countries polled, including most of those worst hit by the economic crisis, still believed the euro would be their currency in ten years time and furthermore favoured that.⁹² In Sweden and Denmark, however, opposition to adopting the euro has been souring according to polls most probably due to the crisis in the eurozone with the opposition among Swedish voters reaching as high as 87.6 percent in a poll published by the Skop polling institute in December 2011. Only 9.7 percent were in favour of trading the Swedish krona for the euro.⁹³ In Denmark 50.6 percent were against adopting the euro in September 2011 according to a poll carried out for Danske Bank and 22.5 percent in favour.⁹⁴ Opposition to the euro furthermore remains high in Britain.

Various public opinion polls have also indicated negative attitude of the populations of several EU member states to bailing out euro countries which have been facing serious economic difficulties. According to an opinion poll published in Finnish magazine Talouseläma in September 2011 almost half the Finnish people, or 49 percent, opposed further bail-outs for Greece while about a third favoured them.⁹⁵ Similarly in France a poll published by the international marketing firm Ifop in November 2011 suggested 63 percent of Frenchmen did not want their country to increase its contribution to a Greek bail-out while 37 percent supported that.⁹⁶ It should nevertheless be mentioned that opinion polls

⁹¹ „Europeans doubt added value of the euro“. EurActiv.com September 19, 2011.
<http://www.euractiv.com/euro-finance/europeans-doubt-added-value-euro-news-507751>

⁹² „Poll Finds Euro Still Top Option“. The Wall Street Journal December 8, 2011.
<http://online.wsj.com/article/SB10001424052970203501304577084203008752274.html>

⁹³ „Swedish euroscepticism at record high: poll“. Thelocal.se December 6, 2011.
<http://www.thelocal.se/37764/20111206/>

⁹⁴ „Danish opposition to euro soars: poll“. EUbusiness September 27, 2011.
<http://www.eubusiness.com/news-eu/denmark-politics.ch5>

⁹⁵ „Most Finns oppose Greek bailout: poll“. Reuters September 2, 2011.
<http://www.reuters.com/article/2011/09/02/us-finland-greece-idUSTRE78111O20110902>

⁹⁶ „French Oppose Increase in France's Aid to Greece, Poll Shows“. Bloomberg November 5, 2011.
<http://www.bloomberg.com/news/2011-11-05/french-oppose-increase-in-france-s-aid-to-greece-poll-shows.html>

on this matter in the eurozone member states remain rather diverse on whether there is a majority or not in favour of bail-outs for crisis hit euro countries.

However, it should be mentioned that significant opposition to bail-outs of individual euro countries can possibly be explained, at least to a certain point, with lack of collective identity within the eurozone and the EU as such. The lack of the feeling in this case that when contributing to a bail out of another eurozone country a kinsman is being aided but not just some distant country with little or nothing in common. It has for example probably been much easier for Germans in western Germany to accept giving financial aid to the eastern part of the country after the reunification two decades ago than e.g. the people of Greece or Portugal.

5. What will be the outcome for the EU?

During the eurozone economic crisis there have understandably been vast discussions about its possible impact on the future development of the EU. Many people seem convinced that the crisis can only develop in two directions. Either the eurozone will be saved through the creation of a common fiscal government in one way or another or it will either disintegrate in an organised or disorganised manner. As has been previously mentioned in this thesis what the leaders of the EU have obviously been trying to do is to control the situation and prevent it from getting out of hands. Primarily by trying to ensure that the economic difficulties in a part of the eurozone member states would not spread to other parts of it.

There has for example been a certain interest in Greece leaving the eurozone among EU leaders. President Sarkozy has for example said during the economic crisis that the country should never have been allowed to adopt the euro as its currency in the first place. But he and others have also pointed out that if Greece would default on its debts it would have domino effects on other eurozone member states.⁹⁷ However, the EU leaders simply have not yet managed to reach the point where they have been able for example to ditch Greece in one way or another and at the same time been able to make sure that it would have limited or no negative economic impact on the rest of the eurozone.

5.1. Further European integration?

The discussion within the EU about what needs to be done to tackle the economic crisis in the eurozone has so far primarily been focused on further integration in the eurozone. Leading people within the EU and other commentators have repeatedly claimed during the crisis that this is the only way to tackle it. Some of them have gone further than others. As mentioned earlier in the thesis former German Foreign Minister Joschka Fischer has claimed that the only way for the EU to preserve its influence in the world is to develop towards

⁹⁷ „Nicolas Sarkozy: Greece should have been denied euro“. BBC October 28, 2011. <http://www.bbc.co.uk/news/world-europe-15487269>

some kind of United States of Europe.⁹⁸ In other words an approach which can be considered in line with neofunctionalism. Others have also taken this approach as for example the American financial services corporation Citigroup. In a note to its clients in April 2010 the company claimed that the eurozone was heading for a break-up unless steps would be taken towards integrating its member states politically and fiscally even though a solution would be found to the economic problems of Greece. The EU needed to decide whether it was going to become the United States of Europe or a patchwork quilt of independent countries.⁹⁹ Similarly the then Prime Minister of Belgium, Yves Leterme, said in an interview in March 2010 that common economic governance for some or all of the EU member states was inevitable consequence of the creation of the single currency.¹⁰⁰

However, not everyone has been as optimistic that further integration within the EU, seen as necessary by many, can be reached. Mainly due to reluctance among EU member states to take such steps. In a paper published in March 2010 the Belgian economist Paul De Grauwe argues that the structural flaws in the eurozone must be fixed before it will be faced with another crisis. He refers mainly to the fact that a monetary union was not followed by a political union which has among other things made it much more difficult to reach a decision in the EU and the eurozone how to respond to the current economic crisis. He claims that the crisis was allowed to unfold among other things

„because of hesitation and ambiguities by both the Eurozone governments and the ECB. The Eurozone governments failed to give a clear signal about their readiness to support Greece. The failure to do so mainly resulted from disagreements among member state

⁹⁸ „Joschka Fischer: United States of Europe is the only way to preserve EU influence“. Euobserver.com January 13, 2011. <http://euobserver.com/18/31634>

⁹⁹ „Euro ‘Doomed’ Without Fiscal and Political Unity in Europe, Citigroup Says“. Bloomberg April 20, 2010. <http://www.bloomberg.com/news/2010-04-20/euro-doomed-without-fiscal-and-political-unity-in-europe-citigroup-says.html>

¹⁰⁰ „EU economic governance inevitable, Belgian PM says“. Euobserver.com March 16, 2010. <http://euobserver.com/18/29695>

governments concerning the appropriate response to the Greek crisis.”¹⁰¹

It can be argued that what De Grauwe is saying is that a sort of liberal intergovernmental approach by the EU member states has been in the way of a development in the spirit of neofunctionalism. De Grauwe says in his paper that the fundamental thing that needs to be done in the short run to tackle the eurozone economic crisis is to put an end to the debt crisis in Greece. This must be done without allowing the Greek state to default on its obligations since that would risk contagion to other eurozone member states and their bond markets (since the paper was written this has, however, happened to a certain extent mainly with the spread of the problem to Italy). That in turn would have negative impact on the balance sheets of many European banks which own large amount of bonds issued by eurozone countries. That could trigger a new crisis in the European banking sector. He says that the EU therefore has to choose between two bad choices. Bailing out Greece is bad he claims since it sends the message that bad behaviour will not be punished. Allowing Greece to default on its debts is nevertheless to his opinion worse due to the negative results it would have on the eurozone as a whole.¹⁰²

In the long run De Grauwe claims that the most rational approach, due to the EU member states' reluctance to take large steps towards increased integration, is to take smaller but focused steps towards a political union. Something which is no less in line with neofunctionalism since the theory does not regard large steps towards more integration as any condition. One such step could be according to De Grauwe to create a kind of a European Monetary Fund with the purpose of coming to the aid of member states in the future in need for financial assistance. An idea previously put forward by the economists Daniel Gros and Thomas Mayer. Another such step could be to create common

¹⁰¹ De Grauwe, Paul. „The Greek crisis and the future of the Eurozone“. Katholieke Universiteit Leuven March 2010. http://www.econ.kuleuven.be/ew/academic/intecon/Degrauwe/PDG-papers/Discussion_papers/EuroIntelligence-March-2010.pdf

¹⁰² De Grauwe, Paul. „The Greek crisis and the future of the Eurozone“. Katholieke Universiteit Leuven March 2010. http://www.econ.kuleuven.be/ew/academic/intecon/Degrauwe/PDG-papers/Discussion_papers/EuroIntelligence-March-2010.pdf

eurozone bonds which all member states would be responsible for. If such steps will not be taken De Grauwe claims he sees no future for the eurozone:

„These proposals are only small steps towards political unification. They have the important quality of being signals of a determination of the members of the eurozone to commit themselves to a future intensification of the process of political union. Such signals are of crucial importance today. They make it clear that the members of the eurozone are serious in their desire to preserve the eurozone. Without these (or similar) steps there can be little doubt that the Eurozone has no future.“¹⁰³

The new EU treaty proposed at the European Council's summit in December 2011 is supposed to introduce steps in this direction. Whether the treaty will eventually be put into force and furthermore go far enough to stabilise the situation in the eurozone remains largely to be seen.

However, since there was not a unanimous support for the new EU treaty the results of the summit are as a consequence likely to contribute further to making the EU a multi speed project. Although Britain was the only EU member state to directly oppose the treaty it is very possible, as discussed before in the thesis, that more countries in the EU may eventually not be able or willing to support it due to possible discontent with its final content and/or lack of support at home in their parliament or among their voters.

After all the EU's headache is not only to prevent the economic crisis in the eurozone to spread to euro member states not yet facing serious economic problems but also to ensure that the possible departure of e.g. Greece or another eurozone member from the club will not create an example for others to follow. In a way similarly to when Greenland left the EU's predecessor in 1985

¹⁰³ De Grauwe, Paul. „The Greek crisis and the future of the Eurozone“. Katholieke Universiteit Leuven March 2010. http://www.econ.kuleuven.be/ew/academic/intecon/Degrauwe/PDG-papers/Discussion_papers/EuroIntelligence-March-2010.pdf

and its succession was declared a „special case“¹⁰⁴ (although the country was not a member state of the EC but was part of it through Denmark). The same goes for Britain' refusal to back the proposed new treaty and calls for renegotiating its membership terms and getting back certain powers which have over the decades been transferred to the EU. That is another domino the EU does not need and has obviously not been willing to risk either although that situation would probably be somewhat easier to manage than the current economic crisis. Nevertheless not everyone agrees that the EU needs to worry that countries will decide to leave the eurozone at their own initiative. Professor Barry Eichengreen of University of California, Berkeley, argues for example in an article from 2010 that euro countries will not leave the single currency simply because it is in fact not possible from both economic and political perspective. Changing back to national currencies would not only have serious economic consequences but the task itself of adapting the whole country in question to a new currency would be too enormous.¹⁰⁵

An important part of the question how the eurozone economic crisis will affect further European integration is therefore also whether the EU and mainly the eurozone will gain more members as a consequence of it – or loose members. Nothing indicates that the EU will stop expanding entirely but it must, however, be seen as very plausible that at least new countries seeking to adopt the euro as their currency will be asked to fulfill stricter economic conditions to do so than they are obliged to do today. Or at least that the current rules will be enforced more strictly. Regardless of whether the eurozone emerges from the current crisis intact or in a smaller version. If the eurozone will survive the crisis in one form or another its leaders will probably want to ensure as they possibly can that it will not face such problems again which must then include not letting new countries into the eurozone unless they fulfill the necessary conditions to the letter.

¹⁰⁴ „Treaty amending, with regard to Greenland, the Treaties establishing the European Communities“. Greenland Representation to the EU (no date).

<http://eu.nanoq.gl/Emner/EuGI/~media/419EF30F356645048639049D197273D3.ashx>

¹⁰⁵ Eichengreen, Barry. „The euro: love it or leave it?“ VOX May 4, 2010.

<http://voxeu.org/index.php?q=node/729>

The other side of that question also needs to be considered. The eurozone crisis may also perhaps make membership of the EU less appealing in the eyes of possible new member states as discussed earlier. Perhaps among other things seeking a safer economic harbour by joining the club. One country has adopted the euro since the current crisis began, Estonia, and one is in the last paces of joining the EU, Croatia. However, both these processes began before the crisis started. A number of other EU members which are obliged to adopt the euro according to their accession treaties furthermore seem to be becoming increasingly reluctant to adopt the single currency as previously mentioned in this thesis.

5.2. EU or eurozone break-up?

One of the possibilities that have been discussed as a possible outcome of the eurozone crisis is a break-up of the eurozone either partly or completely and even the EU itself although the latter is seen as a far less likely outcome. Predictions that the eurozone might unravel sooner or later have increased as the economic crisis within it has worsened. But even before the current crisis started there were warnings that this could possibly happen mainly due to flaws in the construction of the eurozone as previously mentioned. For quite some time it seemed to be a taboo for the leaders of the EU, and especially the eurozone countries, to say in public that it was possible that the eurozone would dissolve in some way not to mention collapse entirely.¹⁰⁶ But with increased discussions on the possible disintegration of the eurozone, not the least among economists, and worsening of the crisis the leaders have found themselves forced to acknowledge this as a possibility. In fact lately this has been used by them to some extent to advance more political and economic integration as a result of the crisis as noted earlier in this thesis.

One of the latest predictions that the eurozone might collapse has come from the British think-tank Centre for Economics and Business Research (CEBR). In a forecast report in early January 2012 CEBR said it was almost certain that the

¹⁰⁶ „Eurozone breakup no longer taboo“. EurActiv.com November 12, 2011.
<http://www.euractiv.com/euro-finance/eurozone-breakup-longer-taboo-news-508883>

eurozone would disintegrate within the next decade putting the odds as high as 99 percent. Previously the think-tank had put the odds at 80 percent.

Furthermore the CEBR claimed that this development could possibly start as early as this year with at least one country leaving the euro and perhaps more.¹⁰⁷

In an interview with the British newspaper *The Daily Telegraph* Douglas McWilliams, CEBR's chief executive, said that Greece seemed quite certain to leave the euro and it also looked more likely that Italy would eventually do the same than that it would stay in the eurozone. He added that „virtual political impossibility of doing the deal that would be necessary to make the euro survive“¹⁰⁸ had become clearer in the last year. Countries needed economic growth to pay off their debts and become competitive and lack of that was the most likely factor to contribute to the collapse of the eurozone.¹⁰⁹

Another recent prediction came in November 2011 in an interview by the British newspaper *The Sunday Telegraph* with Jim O'Neill, chairman of Goldman Sachs Asset Management. O'Neill said that Ireland and Finland might eventually decide to quit the euro since they were adjacent to EU countries, that is Britain and Sweden, that had not adopted the euro as their currency. He also said that looking back in time Germany, France, the Netherlands, Belgium and Luxemburg were probably the only countries of the original member states of the euro which were ideal economically for creating a monetary union due to similar economical policies.¹¹⁰ In a similar fashion Professor Simon Johnson, at the MIT Sloan School of Management, and Peter Boone, a senior fellow at the Peterson Institute for International Economics, claimed in an article on Bloomberg's website later that same month that the eurozone was coming to an end as a

¹⁰⁷ „Top ten predictions for 2012 include a country leaving the Euro, economic recession in Europe including the UK, a sharp fall in inflation, a successful Diamond Jubilee and a disappointing Olympics“. CEBR January 2, 2012. <http://www.cebr.com/?p=734>

¹⁰⁸ „Eurozone collapse 'starts this year' says CEBR“. *The Telegraph* January 2, 2012. <http://www.telegraph.co.uk/finance/financialcrisis/8987886/Eurozone-collapse-starts-this-year-says-CEBR.html>

¹⁰⁹ „Eurozone collapse 'starts this year' says CEBR“. *The Telegraph* January 2, 2012. <http://www.telegraph.co.uk/finance/financialcrisis/8987886/Eurozone-collapse-starts-this-year-says-CEBR.html>

¹¹⁰ „Goldman: euro could split apart“. *The Telegraph* November 5, 2011. <http://www.telegraph.co.uk/finance/financialcrisis/8872380/Goldman-euro-could-split-apart.html>

result of the economic crisis and that some of the member states would have to leave the club.¹¹¹

„Ultimately, an integrated currency area may remain in Europe, albeit with fewer countries and more fiscal centralization. The Germans will force the weaker countries out of the euro area or, more likely, Germany and some others will leave the euro to form their own currency. The euro zone could be expanded again later, but only after much deeper political, economic and fiscal integration.“¹¹²

Similar views were then also aired by e.g. Jeremy Warner, associate editor of The Daily Telegraph, in November claiming in an article on the newspaper's website that „almost anything is going to look preferable to a currency which might soon be assigned to the dustbin of history.“¹¹³ The reason for those remarks was especially a rather unfavourable bond auction by the German state earlier that month which was seen by many as a token that Germany was not immune to the eurozone crisis anymore. He then went on saying that people were witnessing the death throes of the euro which had been expected to become one of the world's main reserve currencies. Something which now seemed to be in ruins.¹¹⁴

But not everyone have agreed that the euro is going to collapse in one way or another. At a meeting of 17 Nobel Prize winners in economics, including Joseph Stiglitz and Robert Mundell, in August 2011 on the island of Landau on Lake Constance in southern Germany there was e.g. an agreement that the

¹¹¹ Boone, Peter and Simon Johnson. „The Euro Area Is Coming to an End: Peter Boone and Simon Johnson“. Bloomberg November 28, 2011. <http://www.bloomberg.com/news/2011-11-28/the-euro-area-is-coming-to-an-end-peter-boone-and-simon-johnson.html>

¹¹² Boone, Peter and Simon Johnson. „The Euro Area Is Coming to an End: Peter Boone and Simon Johnson“. Bloomberg November 28, 2011. <http://www.bloomberg.com/news/2011-11-28/the-euro-area-is-coming-to-an-end-peter-boone-and-simon-johnson.html>

¹¹³ Warner, Jeremy. „Death of a currency as eurogeddon approaches“. The Telegraph November 24, 2011. <http://www.telegraph.co.uk/finance/comment/jeremy-warner/8913884/Death-of-a-currency-as-eurogeddon-approaches.html>

¹¹⁴ Warner, Jeremy. „Death of a currency as eurogeddon approaches“. The Telegraph November 24, 2011. <http://www.telegraph.co.uk/finance/comment/jeremy-warner/8913884/Death-of-a-currency-as-eurogeddon-approaches.html>

eurozone would probably survive the crisis. While Mundell stressed that the EU needed to develop towards the equivalent of the United States of Europe Stiglitz said it was very difficult to unscramble a scrambled egg referring to the integration that had already taken place in the eurozone. However, Stiglitz maintained that if there would be disintegration in the eurozone it would be more convenient „in terms of contractual complexity“¹¹⁵ if Germany would leave than for example Greece. While e.g. a restored Greek national currency would devalue against the euro, making it harder to repay euro-denominated debt, a restored German mark would probably rise against the euro.¹¹⁶

But regardless of how likely it may be that the eurozone will disintegrate the possibility has led e.g. the British government to prepare plans in case this will happen including capital controls if there will be massive transfers of capital from the eurozone and into Britain.¹¹⁷ British embassies have also been ordered to be prepared to help British nationals in euro countries in case of a eurozone collapse which could lead to difficulties to get cash from banks and even riots.¹¹⁸ Major British companies have also begun preparations to secure their interests in case there will be a break-up in the eurozone.¹¹⁹

One of the possibilities that have been discussed should it come to the disintegration of the eurozone is that the EU will formally become two-speed project. That means that part of it will integrate faster than the other part. As has been previously discussed the EU has already developed to a certain degree into that direction. To this date that has, however, happened more or less by accident as certain EU countries have for example in one way or another refused to adopt

¹¹⁵ „Economists reckon euro zone will survive“. EurActiv.com August 26, 2011.

<http://www.euractiv.com/euro-finance/economists-reckon-euro-zone-survive-news-507145>

¹¹⁶ „Economists reckon euro zone will survive“. EurActiv.com August 26, 2011.

<http://www.euractiv.com/euro-finance/economists-reckon-euro-zone-survive-news-507145>

¹¹⁷ „Treasury plans for euro failure“. The Telegraph December 26, 2011.

<http://www.telegraph.co.uk/finance/financialcrisis/8976204/Treasury-plans-for-euro-failure.html> See also: „UK Treasury prepares for 'economic armageddon' if euro falls apart“. The Guardian November 10, 2011. <http://www.guardian.co.uk/world/2011/nov/10/uk-treasury-prepares-for-armageddon>

¹¹⁸ „Prepare for riots in euro collapse, Foreign Office warns“. The Telegraph November 25, 2011. <http://www.telegraph.co.uk/news/politics/8917077/Prepare-for-riots-in-euro-collapse-Foreign-Office-warns.html>

¹¹⁹ „Eurozone crisis: Britain's companies prepare for life after the single currency“. The Guardian December 3, 2011. <http://www.guardian.co.uk/business/2011/dec/03/eurozone-crisis-uk-companies-plan-breakup>

the euro. That is Britain, Sweden and Denmark. Something that may be spreading to other EU member states in Eastern Europe which have not yet formally adopted the euro despite being obliged to. As the crisis in the eurozone has grown more serious the discussion of a two-speed EU has increased. Even to the extent that leading people within the EU have publicly mentioned it as a possible outcome of the crisis and even come out in support of it. As an example French President Sarkozy called for this development in November 2011 referring to it as the only way forward given there would be more EU member states. He said „total integration“, or federalism, would not be possible with increased membership.¹²⁰

The British veto of the new EU treaty at the European Council's summit in December further contributed to the possibility of a two-speed, or perhaps a multi-speed, EU. The stated aim was to get an unanimous support for the treaty but before the summit leading people within the EU were aware that it was very much possible that some member states would not be willing to accept it. As a result the plan was to go ahead with those countries that were willing to.¹²¹ The British veto has also contributed heavily to doubts that the new EU treaty will do something to solve the eurozone crisis. It is for example not clear when this thesis is written if the existing EU institutions, such as the European Commission and the European Court of Justice (ECJ), can be used to execute the treaty since Prime Minister Cameron has declared himself opposed to that.¹²² Furthermore it is not either clear what effects Cameron's veto will have on his coalition government with the Liberal Democrats who obviously have not been too pleased with his decision.¹²³

But as there are mixed feelings whether the eurozone, or possibly even the EU itself, may collapse or not there have also been different opinion on what

¹²⁰ „Sarkozy eyes two-speed future for Europe“. Reuters November 8, 2011.
<http://www.reuters.com/article/2011/11/08/us-france-eurozone-idUSTRE7A75PN20111108>

¹²¹ „Paris, Berlin hasten plans for 'two-speed Europe'“. EurActiv.com November 28, 2011.
<http://www.euractiv.com/euro-finance/paris-berlin-hasten-plans-speed-europe-news-509243>

¹²² „Cameron pledge on EU institutions after veto“. BBC January 6, 2012.
<http://www.bbc.co.uk/news/uk-politics-16440099>

¹²³ „Nick Clegg: Britain should sign eurozone treaty“. The Telegraph January 9, 2012.
<http://www.telegraph.co.uk/finance/financialcrisis/9002956/Nick-Clegg-Britain-should-sign-eurozone-treaty.html>

it would mean if there would be a eurozone break-up. While various leaders within the EU have repeatedly claimed that it would be a catastrophe other have insisted it would be far from that. In November the President of the European Council, Herman van Rompuy, said for instance that if countries were forced to leave the eurozone it could spell the end of the EU's single market.¹²⁴ Meanwhile the British journalist Gideon Rachman claimed in an article in the Financial Times that it was nonsense that the destruction of the euro would destroy the EU itself. After all most of its other elements had preceded the single currency. He furthermore claimed that instead of trying to save the euro the leaders of the EU needed to realise that it was part of the problem, mainly due to its design flaws, and prepare for the break-up of the eurozone.¹²⁵

5.3. Impact on the EU's geopolitical position

The economic crisis in the eurozone has undeniably weakened the European Union's position in the world economy and global politics at least to a certain degree just as the economic difficulties of the United States have had certain negative impact on their global role. It is probably safe to say that the crisis has undermined the image of the EU as a strong economic bloc and made it vulnerable in relations to other economic areas. The EU has been forced to seek financial assistance from countries such as China in its attempt to restore stability in the eurozone. China has already bought up significant part of the debts of eurozone countries facing economic difficulties. The leaders of the EU have on a number of occasions found themselves having to issue public statements describing the weaknesses and fragility of the eurozone which must have been quite humiliating for them.

Therefore it is both interesting and relevant for this thesis to speculate what impact the eurozone crisis could possibly have on the EU's geopolitical position in the world. It is quite obvious that the Chinese government has mainly

¹²⁴ „Eurozone split 'would destroy single market'“. The Telegraph November 11, 2011. <http://www.telegraph.co.uk/news/worldnews/europe/eu/8885611/Eurozone-split-would-destroy-single-market.html>

¹²⁵ Rachman, Gideon. „Saving the euro is the wrong goal“. The Financial Times November 7, 2011. <http://www.ft.com/intl/cms/s/0/9542474a-0937-11e1-a20c-00144feabdc0.html>

decided to come to the aid of the eurozone not as a charity but simply to protect its own interests as large part of China's currency reserves are in euros. In fact similar e.g. to Germany's motive to come to the aid of Greece not out of love for the Greek people but mainly because of its own interests but also the eurozone's in general. As a consequence it would have huge negative impact on China's assets in euros should the value of the single currency collapse. But the Chinese are obviously also aware of the geopolitical meaning of the crisis and the possibilities it could provide to advance their interests.

The Chinese have for example already claimed that they would like certain favours from the EU for their assistance although they have so far not made that a direct condition for coming to the aid of the eurozone. That is at least not publicly. They have for example wanted the EU to lift the arms embargo that was imposed in 1989 as a response to China's handling of the students protests in the Tiananmen Square in Beijing that same year. So far the EU has not been willing to end the embargo despite the Chinese assistance although it has considered it.¹²⁶ But as the eurozone crisis has escalated and its need for outside help has grown China's pressure seems to have increased. The same goes for China's ambition to get recognition at the World Trade Organisation (WTO) as a market economy which would among other things make it much easier for the country to export its products to markets in the West. Furthermore China has also wanted to increase its influence within the IMF and its currency, the yuan, and tried to use the eurozone crisis to advance that. Something the EU has opposed not the least as it would mean decreased influence for itself.¹²⁷

At a conference on the relationship between China and the EU in November 2011 a senior Chinese diplomat in the country's foreign ministry, Hua Chunying, called for an early resolution both regarding the arms embargo issue and the market economy recognition which she said were symbols for „political

¹²⁶ „EU to keep China arms embargo despite massive investments“. Euobserver.com January 5, 2011. <http://euobserver.com/884/31592>

¹²⁷ „Political deadlock derails China's EU aid offer“. The Telegraph November 11, 2011. <http://www.telegraph.co.uk/finance/financialcrisis/8883851/Political-deadlock-derails-Chinas-EU-aid-offer.html>

prejudice and inequality“.¹²⁸ She said that to advance the relations between the EU and China a real trust needed to be built up. Hua furthermore said that the Chinese authorities had been waiting for the arms embargo to be lifted for many years and been very patient. But she stressed that an early resolution might help resolving „many issues in China-EU relations“¹²⁹ claiming that furthering of the partnership between the EU and China was not a matter of choice in a globalised world but a strategic necessity.¹³⁰

The EU is as a result in a rather difficult situation towards China. It desperately needs Chinese financial backing but it has not been willing to give China what it wants instead. As mentioned before China's leaders have so far not actually made that as a condition for the assistance but that of course doesn't mean it may not happen at some point. In a report from the think-tank European Council on Foreign Relations in July 2011 it is pointed out that the EU's main problem in its relations with China is its lack of cohesion which in turn has allowed the Chinese to deal with individual member states and exploit their divisions. This may in the future, the report claims, allow China to have EU members dependent on it to influence and even block decisions it considers harmful to Chinese interests.¹³¹

The eurozone crisis could also have other effects on the EU's relations with China as pointed out in December 2011 by Alicia Sorroza analyst at the Elcano Royal Institute. It could mean that the EU found itself in a more difficult position than before to criticise Chinese authorities e.g. for various human rights violations. As a consequence of the crisis and the EU's dependency on China such

¹²⁸ „EU arms embargo shows political prejudice“. ChinaDaily.com.cn November 30, 2011. http://www.chinadaily.com.cn/china/2011-11/30/content_14187588.htm

¹²⁹ „EU arms embargo shows political prejudice“. ChinaDaily.com.cn November 30, 2011. http://www.chinadaily.com.cn/china/2011-11/30/content_14187588.htm

¹³⁰ „EU arms embargo shows political prejudice“. ChinaDaily.com.cn November 30, 2011. http://www.chinadaily.com.cn/china/2011-11/30/content_14187588.htm

¹³¹ „Crisis allows China to 'divide and rule' Europe: Report“. EurActiv.com June 30, 2011. <http://www.euractiv.com/global-europe/crisis-allows-china-divide-rule-europe-report-news-506071>

sensitive issues could become even more marginal than they already are Sorroza argues.¹³²

But China is not the only country that the EU has had to ask for assistance during the eurozone crisis. There have e.g. been repeated discussions of a possible aid from the so-called BRICS countries which along with China includes four other emerging economies which have been enjoying overall a relatively strong economic performance; Brazil, Russia, India and South Africa. These countries have said they are willing to come to the assistance of the eurozone mainly through the IMF and perhaps also by assisting individual eurozone members directly depending on their situation. But as in the case of China the main motive of the other BRICS countries are their own interests as they fear that if the situation in the eurozone will not be put under control it will eventually have serious consequences for their own economies. In the same way as China they see the crisis in the eurozone also as an opportunity to advance their own agendas, mainly so far to press for increased influence within the IMF.¹³³ The economic crisis many developed countries are currently facing have in fact changed things in an interesting way on the global stage where developing countries are all the sudden with a certain upper hand economically and politically whether that will only turn out to be temporarily or not. It should, however, be added that more recently the oil-rich Norway has also offered to assist the eurozone financially through the IMF citing it is in the countries own interest to do so.¹³⁴

How exactly the eurozone economic crisis will affect the EU's future global position remains to be seen. But there are already indications that the crisis may possibly undermine the EU in this regard permanently. As an example of this is the increased focus of the United States towards Asia rather than Europe and its efforts to strengthen its ties with Asian countries. In a speech at a

¹³² „Is The Eurozone Crisis Changing EU-China Relations? – Analysis“. EurasiaReview December 4, 2011. <http://www.eurasiareview.com/04122011-is-the-eurozone-crisis-changing-eu-china-relations-analysis/>

¹³³ „BRICS offer help to euro zone with strings attached“. EurActiv.com September 23, 2011. <http://www.euractiv.com/euro-finance/brics-offer-help-euro-zone-strings-attached-news-507875>

¹³⁴ „Norway offers IMF EUR 7bn to help eurozone“. EUBusiness December 21, 2011. <http://www.eubusiness.com/news-eu/norway-imf-finance.e9e>

conference with Asian leaders in Hawaii in November 2011 US Foreign Secretary Hillary Clinton declared that the countries of the Pacific Rim were at the forefront of the US government's plans. She also said that the United States were now shifting its focus away from Europe and towards Asia's economic powerhouses.¹³⁵

¹³⁵ „'The future belongs to Asia,' says Hillary Clinton“. The Independent November 12, 2011. <http://www.independent.co.uk/news/business/news/the-future-belongs-to-asia-says-hillary-clinton-6261152.html>

6. Summary and conclusions

It can be argued that the eurozone economic crisis is in fact the ultimate test for the European Union, not to mention the eurozone itself. Ultimately it is a question whether the EU can deliver in circumstances when it is really needed or whether the member states need to look to other means in order to solve such difficulties. It is also important how the eurozone crisis will affect the global role of the EU and if the member states will continue to see it as an important tool for them to tackle globalisation and compete with other powers such as China and the United States. If the eurozone crisis will leave the EU vulnerable and fragile on the global scene the member states may decide their interest are better secured in some other way than within in it. If that happens it also matters very much how fast the EU may recover from that situation. In this context it is also very important how the citizens in the EU member states will see EU and whether they will consider it as something that will benefit them and their interests. Not the least since EU integrating steps have increasingly been the subjects of referendums in the last couple of decades or so in the EU member states and may even become more so in the future.

During the crisis the EU leaders have obviously been very much aware of the need to control the chain of events but at the same time their approach has been in many ways fumbling. Two EU countries have mainly been leading the search for solution to the crisis, Germany and France, while other member states have mostly been on the sideline, especially those eurozone members which have been faced with serious economic difficulties. Key EU institutions such as the ECB and the European Commission have also been involved but the leadership has nevertheless mainly been in the hands of German Chancellor Merkel and French President Sarkozy. The heat has, however, rested mostly on the shoulders of Merkel because of the economic strength of Germany. It is quite obvious that the eurozone's chance of survival is closely linked to Germany's economic credibility. In fact it can be argued that the eurozone may never have been created if Germany had not decided to participate.

However, the question remains how far Germany is willing to go to save the euro. Merkel has been hesitating to go further than necessary and further

than she believes she can in the light of German domestic politics. She has also resisted actions that she thinks might put German interests at serious risk such as the introduction of eurobonds. It can be argued that all this is much in line with liberal intergovernmentalism and its emphasis on the state as the primary actor and also the influence of domestic politics and national interests on the position brought to international negotiations. At the same time the spillover effect has perhaps never been as obvious as during the eurozone crisis with increasing calls that more integration is needed to tackle the crisis, especially more fiscal integration as a result of the monetary integration in the eurozone. It is also very interesting to see how not even Germany has been able to resist the spillover effects and has slowly given in on that on various subjects.

It seems that the more countries are involved in the European integration the stronger the spillover effect becomes. Countries sharing the euro as their currency are in this case have more direct interests in trying to find solutions to the crisis in it than those which have not yet adopted the single currency. Something which in turn means the former are more exposed to the spillover. They are already part of the eurozone and if they remain there they are under pressure to participate in what is deemed as necessary to solve its problems. If they protest they may be faced with the possibility of being forced to leave the eurozone. So they may decide to follow the mainstream policy out of fear of the possible consequences if they do not. They seem to believe that it is more secure to cooperate with other countries even if they may have doubts that the decisions being made are the most sensible ones.

But whether the eurozone crisis will lead to increased European integration, and to what extent, or not mostly remains to be seen. However, carrying on in a „status quo“ is obviously not considered as an option. Either it is therefore forward towards more integration or a disintegration of some sort. I believe there will probably be more integration in the eurozone based on the strong political will among eurozone leaders to head in that direction. It also seems like the most likely outcome that the eurozone will lose some members and the rest will increase the integration among them. How many may leave is a bigger question. Greece is at the moment the most likely candidate and has been

for quite some time. But it seems unlikely that Greece will leave the eurozone at its own decision. If Greece will leave I think it will be expelled in one way or another and then probably when the leaders of the eurozone, mainly Germany and France, believe that they will still have things under control. Unless of course they find themselves absolutely forced to do it before they will.

Various EU member states have nevertheless tried to tread their own path so to speak and resist certain actions meant to tackle the eurozone economic crisis. Britain's veto against the proposed new EU treaty is probably the most significant example of this. Britain is, however, not in the eurozone and therefore it is interesting to speculate if Prime Minister Cameron would have used the veto if his country would have been in the eurozone. By being on the outside Britain is not as directly exposed to the crisis in the eurozone as it would probably be on the inside. Cameron's decision is, however, obviously very much in line with liberal intergovernmentalism. It can be said that he used the veto against the new treaty for two reasons. Firstly because he believes the new treaty will harm Britain's interests and secondly because of domestic politics at home. It seems therefore that by being on the outside can increase the possibilities of states to take a different path if they believe it is necessary for their own interests.

But to what extent do liberal intergovernmentalism and neofunctionalism manage to shed light on the eurozone economic crisis and how it has been handled by EU and eurozone leaders? I believe that both these theories help to explain the development of the crisis. Liberal intergovernmentalism explains better to my opinion both how national governments within the EU (although not all of them) have been leading the search for a solution to the eurozone crisis but not supranational institutions. It also explains better the EU member states' emphasis on their own interests and how they have tried to guard them and advance them during the development of the crisis. Not the least by means rather meant to halt more integration than to promote it. On the other hand, as has been mentioned before, the neofunctionalism's spillover effect has been very obvious during the crisis and furthermore very strong. Especially in that context the theory explains the development during the crisis very well.

However, if the integration process in the EU will come to a halt or even be reversed partly or altogether, not to mention if the eurozone and even the EU will collapse, then that might cause some problems for the neofunctionalism although the so-called spillback has been introduced in relations with the theory where integrating process can be reversed to limited extent under certain circumstances. But it may nevertheless happen that the theory will find itself in similar circumstances as in the 1970s when the European integration process ran into certain halt and the theory as a consequence had to be reconsidered.

Over all I think if anything liberal intergovernmentalism, however, comes closer to explaining what has been happening during the eurozone economic crisis especially because of the leading role of national governments in trying to solve the crisis and their primary emphasis on their own national interests.

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Appendix: List of acronyms

BRICS	Brazil, Russia, India, China and South Africa
CEBR	Centre for Economics and Business Research
CER	Centre for European Reform
EAEC	The European Atomic Energy Community
EC	The European Community
ECB	The European Central Bank
EJC	European Court of Justice
ECSC	The European Coal and Steel Community
EEC	The European Economic Community
EMU	The European Economic and Monetary Union
EP	The European Parliament
EU	The European Union
IMF	The International Monetary Fund
MEP	Member of the European Parliament
MP	Member of Parliament
SGP	The Stability and Growth Pact