

Deeper fiscal integration within the eurozone would significantly alter the concept of a two-speed Europe. George Osborne's support signals an important U-turn in British policy on the EU.

[Olaf Cramme](#) discusses George Osborne's seeming inclination to encourage greater fiscal integration in the eurozone, which would indicate a significant realignment of UK policy in relation to Europe.



Policy U-turns in the UK coalition government have so far been a matter for the Liberal Democrats – or at least so it is perceived by the public. Among them, the scrapping of the gender pay audits, the dropping of plans for a job or training guarantee and the reform of higher education funding have stood out. The political consequences are well known: large-scale university [protests](#) against the increase in tuition fees have deeply unsettled Deputy Prime Minister Nick Clegg and his party are currently trailing at a mere 10 per cent in the polls. For disillusioned supporters, this was not about abandoning a simple electoral pledge against the background of a changing financial situation, but a radical departure from a long-standing principle.

In recent weeks the Conservatives have offered a very different image of U-turns – one which is supposed to bring political dividends instead of brickbats. When the Chancellor George Osborne said that the UK government should be prepared to let greater integration happen in the euro area, he seemed to reverse a position held dear by Britain's ruling elite over decades, namely that it should always have a seat at the EU's top table and therefore oppose any integrationist steps which could undermine this. In other words, a 'two-speed Europe', with some member states pressing ahead in certain policy areas, was acceptable as long as it did not affect the power balance inside the EU's central decision-making institutions, such as the European Council.

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Past experience had shown that flexible integration was perfectly compatible with this fundamental concern. Indeed, Europe's most spectacular advances, such as the euro, the Schengen area or defence cooperation, were all based on some form of flexibility, allowing a group of member states to pioneer while others decided to stand back or opt out. None of these advances led to significant political spill-overs in policy areas which remained to a large extent subject to unanimity, such as the Single Market. This equilibrium of forces was facilitated by a carefully balanced implementation and interpretation of "two-speed Europe", made up of [at least three different models](#).



- First, there is multi-speed integration. This approach is based on the assumption that all EU member states essentially agree on a defined objective or common policy but differ in either the technical capacity or political disposition to introduce the required changes. The existence of a 'two-speed Europe' is thus considered to be only temporary and transitional, and not in lasting contradiction to the consensus-driven nature of EU policy-making.
- Second, there is what has been described as 'Europe à la carte'. From this perspective, the EU legitimises itself by allowing greater political choice on the policy areas to be deepened. The key characteristic is to accept persistent diversity while allowing member states to join or leave a particular policy regime at any time. Although there are certainly limits to how this model can be applied across the entire *acquis communitaires*, it allows far-ranging experimentation of where the EU can genuinely add value.
- Third, there is the idea of 'concentric circles', giving expression to the desire of some countries to integrate much faster and deeper than others. In this account, an "avant-garde" creates a super-ordinate system of governance within the existing EU structures to facilitate the creation of an inner

core, recognising the incompatibility between certain policy objectives surrounding the European project. The consequence is a two-tier order in which the preferences and values are largely shaped by those on the first tier given the predominance of their common interests and concerns.

As a matter of fact, these models of flexibility differ in both means and ends. But they are not mutually exclusive in the complex set-up of the EU. For instance, even the introduction of the euro contains elements of all three models: it demands states which enter the convergence mechanism to join once the criteria are met; it granted countries such as the UK or Sweden an opt-out without excluding admission at a later stage; and it incentivises a regime where restricted bodies, like the euro group, gradually acquire more rights and powers.

The question now is whether such a division between different conceptions of 'two-speed Europe' remains attainable at all, if the eurozone follows Mr. Osborne's advice to embark on some path of fiscal federalism, including Eurobonds. The evidence points in the opposite direction.

Take the example of the 'Euro-Plus-Pact'. Conceived of by the Franco-German couple in order to tighten coordination on economic policy among euro members, the pact quickly gained followers from beyond the currency club – partly because of fear of exclusion, partly because of similar interests. Only four countries resisted, including the UK. In this case, there appears to be neither a common destination nor is there much space for diversity or experimentation. As a result, the number of models to be applied is basically reduced to one – albeit less out of choice but of sheer necessity.

If this direction of travel continues, or is reinforced by a treaty change to allow for deeper fiscal integration, 'two-speed Europe' is likely to get a new meaning. Gone will be the principle of internal openness with which the EU has so far managed to balance diverging objectives. Instead, non-euro members unwilling to adopt, or at least tolerate, the preferences of the core group will increasingly find themselves in a position of confrontation, facing the negotiated decisions of the majority. In extreme cases, the outer lane might even resemble more Switzerland than full membership of the Union.

Of course, Britain as a new Switzerland is precisely what a number of Conservatives (and also Labour politicians) would want to see. But this vision completely misreads how power is actually distributed between EU and non-EU countries. Then, the U-turn would be truly completed. Mr. Osborne would therefore do well to spell out more clearly what the government's policy on Europe is designed to achieve in the long-run. The consequences are bound to be huge, but are yet ill-understood by policy-makers and the public alike.

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