

For the EU to work, outlying member states should opt for associative membership

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*Brexit has triggered a qualitative change in the nature of EU membership. **Annette Bongardt** and **Francisco Torres** argue that countries with preferences that are too divergent from the rest of the EU should opt for an associative membership status. They conclude that with the eurozone having established itself as the de facto core of European integration, the UK's preference for a stand-alone economic union had become untenable even before the vote.*



The UK has always been torn between the economic benefits that come with European integration, and the perceived political costs in terms of sovereignty.^[i] The fact that the UK did join in 1973 testifies to the interpretation that the prospect of economic advantages – through a large common market and customs union – prevailed over its reservations about the supranational dimension of the EC integration model (including the political aim of an ‘ever closer union’). Yet, reaping the benefits of deeper economic integration requires (enhanced) sovereignty sharing, which presupposes a certain degree of convergence of preferences. In most cases, EU membership has led preferences among member states to converge. By that we mean that most countries have come to adopt common or similar institutions.



Over time, however, the UK has opted to limit its participation in European integration: it does not participate in the Schengen agreement and in police and justice matters, it limited the application of the Charter of Fundamental Rights, and, above all, it has an opt-out from Economic and Monetary Union (the EU's core).^[ii]

From the point of view of the EU, the UK's non-participation in many areas of integration means that benefits of its membership for the union are limited, and through its blocking of decisions at the EU level raises the costs of running the club. The very scope of exemptions granted to the UK and the country's opposition to EU integration in principle have been undermining the functioning of the EU. For instance, the Eurozone risked its legitimate efforts to strengthen EMU (by deepening of the single market) to be vetoed by the UK. The UK's cherry picking of benefits would have increased even further had the option to remain in the EU been victorious in the referendum. At the same time, opposition to EU integration would have probably also risen.^[iii] Upcoming issues such as financial regulation, CETA, TTIP, but also defense and security and other strategic issues, will test whether the UK's preferences are more in line with the US and Canada or with the rest of Europe. If so, that would constitute one more argument confirming the choice for Brexit.

Building a new relationship after Brexit

The UK-EU relationship had become something of a mismatch. The EU and the UK may well cooperate better in areas of common interest after separating, without matters like Eurozone integration standing in the way. Norway and Switzerland provide good examples.

There are various ways in which the UK may want to negotiate its new relationship with the EU; a Norway-style deal is one of the options that the UK can contemplate after invoking Article 50. The UK will have to define its preferences, and choose from options that may be available, notably: the European Economic Area (EEA), with full access to the single market; a free trade agreement (limited access to the single market (goods), and where size matters for bargaining power); or WTO rules (the fall-back option, providing no privileged access to the European single market). The conditions for acceding to the EEA, with a Norway-style deal, are fairly straightforward but imply the free movement of persons. While the question of free movement of labour will certainly be an important factor for

the UK, other factors like the impact on financial services (notably the issues of EU passporting rights and access to Euro clearing and settlements)^[iv] or the possible disruption of intra-community value chains (given the possibility of tariffs to be applied under WTO rules) are also bound to be relevant.

As for the EU, it faces a credibility issue with regard to the exact terms that it grants the UK: it cannot simply accept whatever member states or third countries want to do based on their national interest, at the expense of the union and of the European project. The UK's reported wish of a 'Norway-plus' agreement, which amounts to cherry picking within the internal market, is a case in point.^[v] Already the UK's "enhanced special status" that the EU leaders granted to Prime Minister Cameron in February this year, so he could support the remain referendum option, turned out to be a dangerous precedent, damaging the EU's credibility.



Will there be a domino effect?

It seems unlikely that the UK's exit will cause a domino effect. Other member states have a much higher participation in the EU's common good and a stronger notion of a shared destiny, and/or a higher dependence on the EU. Notwithstanding, some anti-EU parties will continue demanding similar moves in their countries. However, most member states' governments and parliaments will ponder the UK's case and contemplate the wider benefits to be had from their EU membership. In addition, without the UK at least part of the anti-EU parties across Europe, such as the National Front in France, the Alternative for Germany and similar parties in the Netherlands, Denmark, Austria, Italy, Poland and Hungary, could well have fewer reasons for protesting against the EU, taking into account that their fears are rooted in the EU's stance (attributed to UK influence) on liberalisation and trade. Other anti-EU/EMU parties such as the likes of Podemos and Syriza (which already seem to have lost momentum) as part of the anti-globalist convictions oppose the liberal and trade-oriented British stance.

To the extent that the right and the left often collude against the EU (even forming government coalitions as in Greece) they do so specifically against an open and liberal EU. In fact, globalization has been a key factor in the discontent at the national level, which has been directed against the EU. While it is true that the EU's modernization agendas in the face of globalization (the Lisbon and Europe 2020 strategies) have so far produced mixed results at best (held back by weak governance and coordination, where competences for reform remained at the member state level), it is also true that member states can only hope to influence and shape globalization if they work together. Again, a sufficient convergence of preferences among member states is a precondition for more effective governance.

A qualitative change in the nature of EU membership

What comes out of a Brexit is that EU exits may become easier, without necessarily causing a domino effect. Countries with interests that are too divergent to accommodate may consider not to be part of the core of European integration and to opt out, preferring instead membership of the EEA that allows them to fully participate in the single market, or to negotiate a free trade agreement. Denmark, also a former EFTA member enjoying various opt-outs, most notably from the euro, is a case in point. It is a development, which is in itself positive, as it is in the interest of both the EU and discontented member states.

The EU faces a fundamental challenge, the club has become not only much larger over the years but by many accounts also a lot more heterogeneous. This risks compromising its decision-making and problem-solving capacity.^[vi] The fact that the Brexit vote has potentially opened the door for any discontent member state to exit the club ought to reduce any member state's capacity to hold up decisions that are in the common interest, and to that extent can be expected to facilitate decision-making and problem solving.

The Eurozone as the core EU

If there is one fundamental lesson to be learned from the Brexit vote, it is that the EU will need to focus and deliver on the EU common goods in order to be sustainable. With divergent interests across member states, differentiation through opt-outs and reinforced cooperation seems to offer a way out but at best in the short term – too much differentiation puts the cohesiveness of the EU project at stake.^[vii]

Furthermore, EMU is a political project that has triggered and still requires further integration. Making monetary union work requires completing the economic union side so that it can sustain the single currency and deliver on the EU's wider objectives. The single market can therefore not be seen as static. It is in the legitimate interest of present and future Eurozone members – all EU members except the UK and Denmark, which have an opt-out – that it be deepened, to make it sustainable in light of the increased interdependencies between its members. This issue is at the heart of the EU project. To be sustainable, the EU needs to complete its Economic and Monetary Union so that it delivers economic and social results. Member states should be prepared either to contribute to those aims or to seek alternative forms of association with the EU. The EU's capacity to shape globalisation in line with citizens' concerns (not merely growth-oriented but in a more inclusive and greener manner, in line with the Lisbon and Europe 2020 strategies) will be critical for the support of the project.

Conclusion

The choice for Brexit represents a qualitative change in the nature of EU membership. On the one hand, membership needs to entail constant care taking as far as individual members' contributions to the common good are concerned, with both rights and obligations. Countries with preferences that are too divergent for the Union's to function properly should then not be discouraged to invoke Article 50, and to opt for membership in the EEA or for a free trade agreement. The Union has to deliver to be sustainable, but it cannot do so if there is a constant hold up of decisions that are in the common interest. On the other hand, with the eurozone having established itself as the de facto core of European (political) integration, the UK's preference for a stand-alone (and incomplete) economic union became untenable, because the need to make the monetary union work calls for further integration and institution building in the economic sphere.

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Annette Bongardt and Francisco Torres are Senior Visiting Fellows in European Political Economy at LSE European Institute.

[i] See Bongardt and Torres (<http://www.intereconomics.eu>). Baldwin (<http://voxeu.org/article/new-ebook-brexit->

[beckons](#)) traces the stances towards European integration, manifested by the EEC/EFTA divide, back to the different lessons that countries have drawn from the economic dislocation and human loss caused by WWII, that is, the notion of shared destiny in the EEC (the case of Germany, France, Italy and the Benelux countries) and the wish to preserve sovereignty (notably the case of the UK).

[ii] The UK did not want to participate in the completion of economic union through the various intergovernmental arrangements aimed at strengthening economic governance, most notably the European Banking Union. The UK, besides having opted out of EMU like Denmark, does not participate in the Euro-plus Pact, the Fiscal Compact (having forced all other member states to resort to an intergovernmental arrangement in the first place) and in the European Banking Union. See Sapir and Wolff (<http://bruegel.org/2016/01/one-market-two-monies-the-european-union-and-the-united-kingdom/>) for a nice graphical representation.

[iii] According to De Grauwe (<http://blog.oup.com/2016/05/eu-benefit-from-brexite/>), the Brexit camp would be working from within to undermine the union.

[iv] Thanks to privileged access UK banks benefited from the ECB's liquidity operations during the global financial crisis. The regulation and oversight of central counterparties (CCPs) – presently done jointly by the ECB and the Bank of England – means that there is a high proportion of euro-denominated financial activities, from which the City of London benefits. See den Haan et al. (<http://voxeu.org/article/cfm-survey-june-2016-brexite-and-city>).

[v] A point also raised by De Grauwe (<http://voxeu.org/article/new-ebook-brexite-beckons>).

[vi] At present only six countries participate in all main EU institutions and reinforced cooperation sub-clubs, namely Austria, Belgium, France, Germany, Portugal and Slovenia. The UK stands out as the least integrated of all member states, followed by the Czech Republic, Sweden, Denmark, Poland and Hungary. See Koenig (<http://www.delorsinstitut.de/en/publications/posttype/policy-paper-posttype/differentiated-view-of-differentiated-integration/>).

[vii] Spolaore (<http://voxeu.org/article/monnet-s-chain-reaction-and-future-europe>) hints at this tension.

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