

Is European Integration In Trouble?

One thing is certain: Economic experts never seem to anticipate political risk. Witness the Arab Spring, which came as a shock to many economists. Could the European refugee situation play just as unpredictable a role? Has the huge influx of refugees already turbo-charged the anti-EU movement? To what degree has the refugee situation put European integration at risk?

Some analysts suggest the so-called Schengen agreement, which guarantees freedom of movement within European countries, has been weakened long-term. Others suggest German Chancellor Angela Merkel's opening of Germany's borders to 10,000 refugees a day, or 1.5 million a year, has put her own political base in jeopardy, creating the risk of a scenario of a leaderless Europe. Are the effects of the refugee crisis being exaggerated, or do European policymakers have something to really worry about? Is there a populist anger bubbling up just below the political surface?

Twenty noted policy experts offer their analyses.



All the ingredients of a nightmare scenario are being assembled.

MICHAEL EMERSON

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Yes for sure, but “at risk” is to put it very mildly indeed. After over half a century of European integration achievements, and after seeing off many a crisis, the present constellation of multiple crises now makes for existential worries like never before. What is unique is the coincidence of several seemingly unrelated crises: very slow recovery from the Great Recession, the Grexit affair that is only anesthetized but not resolved, British Prime Minister David Cameron’s Russian roulette in risking a Brexit, Russian President Vladimir Putin’s insidious aggression with hybrid war against Ukraine and head-on challenge to European values, the rise of ISIS, and now to cap it all the refugee tsunami. Taken together, the European Union is looking worse than temporarily unmanageable, but rather systemically unstable and unsustainable.

There is an old saying in Brussels folklore: “Integration is like riding a bicycle—if you don’t keep going, you fall off.” No doubt at some point that becomes invalid, as the centralization of powers stops, and Cameron’s objection to “ever-closer union” becomes relevant. However, the European Union is not there yet. On the contrary, the euro ran into big trouble because it was systemically inadequate on the side of bank supervision and fiscal union, and now the Schengen area is cracking up because of inadequate common border controls and asylum management. The immature mechanisms of foreign and security policy have made the objective of “Europeanization” of the wider European neighborhood vulnerable to both Putin’s machinations and the barbarity of ISIS.

And now it is the chemistry of democratic politics that synthesizes it all, with a sinister combination of rising extreme right-wing populism and secessionist tendencies. Until now, German Chancellor Angela Merkel was the bedrock of stability for the European Union as a whole, gently leading with calm good sense and firm commitment to the European ideal.

But now she seems to be in big trouble at home for having “invited” the refugees, while Poland has just voted

to undermine its impressive European credentials, and Marine Le Pen’s popularity in France is sustained. All the ingredients of a nightmare scenario are being assembled. Our leaders will have to make a huge turnaround in their performance to avert something very bad indeed. Merkel and French President François Hollande talk of some big new initiative after their 2017 elections, but nothing of substance is on the table.



The refugee crisis has revealed the incompleteness of the European integration architecture.

MAREK DABROWSKI

Non-Resident Scholar, Bruegel, and CASE Fellow, CASE - Center for Social and Economic Research

Indeed, the refugee crisis did take European societies and politicians by surprise even if it could be predicted. The push factors such as civil wars and associated humanitarian disasters in countries such as Syria, Iraq, or Eritrea are not new phenomena. Limits of refugee absorption capacity in Turkey, Lebanon, and Jordan (Syria’s direct neighbors) should surprise nobody. Finally, it has also been clear that the potential of the migrant-smuggling industry in the Mediterranean basin has been growing systematically since long time.

The refugee crisis has revealed the incompleteness of the European integration architecture. As a voluntary project in which each major step forward, at least those requiring treaty revisions, must obtain the unanimous approval of all member states, the European Union represents a hybrid construction with many institutional asymmetries. Economic integration has advanced further than political union because the latter has been considered by some member states as a compromise to their sovereignty. Such asymmetry did not cause tensions in “tranquil” times, but is proving to be a serious problem in crisis time.

In the area of concern, the European Union offers the free movement of people without internal border controls, but policies related to migration, asylum, and internal security, including counter-terrorism, are still largely dealt with in the national domain. This means the fragmentation

of already-scarce administrative and financial resources, cross-border coordination problems, and a diluted sense of responsibility thanks to the temptation to conduct beggar-thy-neighbor policy.

Furthermore, the Common Foreign and Security Policy which could hypothetically address some of the root causes of the refugee crisis in advance, although subject to coordination on the EU level, requires unanimous decisions of all member states. This often shortens the horizon of CFSP decisions and limits its effectiveness.

Nevertheless, one should remain optimistic about the European Union's capacity to draw the right lessons from the current crisis and find a common response even if it takes more time. First, looking back at the history of the EU project, crises and new extraordinary challenges always created impulses for the subsequent integration steps. Second, none of the EU member states is able to respond to a refugee crisis alone; this is the challenge that requires a joint European or even broader—global—cooperation. Third, in the medium to long term, absorption of refugees can be beneficial for the European economy, which suffers from population aging and decreasing working-age population.

The common EU response should include, at minimum, strengthening EU external border protection, operational overhaul and unification of asylum policy (including social benefits provided to refugees to eliminate cross-border arbitrage in search of preferred asylum destination), fair burden-sharing related to absorption of the current refugee inflow, and enhanced cooperation with non-EU countries directly neighboring with the conflict zones or located on major refugees transit routes.



We are too willing to build our institutions on bendable rules, and Germany in troubled times to establish new rules rather than observe the existing ones.

MIROSLAV SINGER
Governor, Czech National Bank

As a central banker, I can't claim to be much of an expert on immigration. Still, recent developments in the Schengen area have all too many similarities with past episodes in the eurozone. They reflect some

unpleasant regularities of EU political processes on which I feel I can venture a few comments.

The recent history of Schengen is reminiscent of two eurozone stories: the weakening of the Stability and Growth Pact and the interpretation of Article 125 (the “no-bailout clause”) on mutual financial aid. In both cases, the rules were “reinterpreted” to give eurozone sovereigns much more leeway. This required the consent of Germany. In the case of the Stability and Growth Pact, Germany was quite keen to agree, but in the case of mutual aid it was reluctant. In both cases new mechanisms were later needed to recapture some of the strictness of the original rules.

The immigration story is analogous. Again, it involves an exclusive club of EU countries—this time the Schengen Area rather than the eurozone. Again the rules were broken initially by Greece, which failed to protect the Schengen borders, and then by German Chancellor Angela Merkel, who invited everybody in need to Germany. We are now in a minor retreat phase in which the need to protect borders—even internal ones—is starting to prevail and there is growing recognition that many of the immigrants are economic migrants rather than refugees. In general, we in the European Union are too willing to build our institutions on bendable rules and Germany is too willing in troubled times to establish new rules rather than observe the existing ones.

However, there are new aspects to the latest crisis. Among the most notable is the recent ostracizing of Hungary for attempting to protect its Schengen borders, that is, for observing the current rules. Another is the breathtaking speed of demolition of the Dublin asylum rules and the more recent attempts to reverse that process. A third is the obviously futile measures proposed by the European Commission given the scale of the problem. As I write, Austria is building a border fence just a week or two after criticizing the Hungarian one, and the Commission is saying it will propose new rules as early as next spring.

What should be done? The first positive steps to contain the eurozone financial crisis were taken once the scale of the problem had been accepted and some initial attempts had been made to assess the situation in individual countries. The same should be done now. No one has any idea about the size of the problem in the transit countries or about the nationality composition of the migrants. In addition, measures should be taken on the Schengen borders to ensure that migrants enter in a controlled manner. And finally, containment of the problem should be allowed—if a country fails to protect the Schengen borders, those harmed by this fact should be able to treat it as a non-Schengen territory. New rules—and possibly also new institutions—will of course be prepared, but these will be steps equivalent to those that initially helped contain the eurozone banking crisis.



The European Union is in clear and present danger of collapsing.

THOMAS MAYER

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European monetary union and the freedom of movement for travelers under the Schengen agreement were supposed to push European integration significantly forward. Unfortunately, the common currency and common external border are achieving the opposite. Bad implementation of these projects and policymakers' overestimation of their electorates' willingness to give up more sovereignty to the European level have created a serious risk of European fragmentation.

German unification acted as midwife for the birth of the euro. However, like the economics of unification, the economics of the euro were built on sand. "Bail-out" of over-indebted countries was strictly forbidden in the Maastricht Treaty, but the fathers of the euro neither provided for an insolvency procedure for bankrupt states nor an exit procedure from European monetary union for serial bankrupts. Thanks to the global credit bubble, the euro had a happy childhood. But when the bubble burst, monetary union fell into a crisis. Collapse of the euro was prevented by three magic words from ECB President Mario Draghi ("whatever it takes"), but the crisis continues to smolder in the background.

Travel in Europe without border controls agreed in the Luxembourgian town of Schengen was built on sand, too. Without internal border controls, the external border needs to be secured. This requires agreement among member countries over immigration and asylum policy. Neither the one nor the other was achieved. Instead, countries at the border of the Schengen area are waving migrants through to the center, that is, primarily Germany. For the Germans, monetary union and Schengen now feel like a peach: problems penetrate through the pulp with little or no resistance to the core. But the core cannot withstand unlimited pressure. At some point it will be crushed. Germany pulled the emergency brake under the Schengen agreement and reinstated border controls, at least on a temporary basis and in certain regions. The lesson from this is that Germany will at some point also

pull the emergency brake on monetary union and prepare for exit. What was the expectation of 1.5 million immigrants this year for Schengen could be the expectation of 5 percent German inflation as a result of the ECB's loose monetary policy for the eurozone.

The European Union is in clear and present danger of collapsing because of the zeal of political leaders for ever more integration against the instincts of their electorates. To avoid collapse, politicians would be well advised to scale down their ambition and build on the huge successes of the past: trade liberalization and the single market.



The refugee crisis has produced a lot of scare stories.

DANIEL GROS

Director, Centre for European Policy Studies

Every crisis creates its own scare stories and thus feeds on itself. The numbers bandied on potential inflow of refugees into Germany are a classical example of such scare stories. One and a half million refugees for Germany for 2015 is not a realistic perspective. Until September of this year, three hundred thousand asylum applications were counted, making it highly unlikely that the total will be more than five hundred thousand for the full year. Many more are coming across the border, but not all of them stay and many, especially those from the Western Balkans, are now sent home rather quickly. Even if around eight hundred thousand came this year, this would correspond to about 1 percent of the German population, hardly an unbearable burden.

There is thus a tendency to exaggerate the impact of the—admittedly much larger—influx of refugees into Germany. It is also true that many of the refugees from the Middle East and Afghanistan will have great difficulties integrating into German society. But Germany can certainly bear the cost.

The influx becomes a political crisis because the refugees do not arrive as individuals, but bunched together as highly visible groups which overwhelm the capacity of the local authorities to accommodate and process them. The crisis is thus largely one of perception: the perception

of a lack of control over the borders and control over the public space.

In politics, perceptions are sometimes more important than reality. It is thus possible that German Chancellor Angela Merkel will lose her preeminent position in the German political system (she will not lose her job since there is no apparent successor in waiting) if she cannot re-establish a sense of control over the situation.

Moreover, this crisis is the first time Germans expect support from the European Union. Germany accounts after all for only about one-fifth of the total EU population and about one-fourth of the population of the passport-free Schengen area. It will thus be important for Merkel to be able to show that part of the burden is being borne by Germany's EU partners. The first steps in this direction have been taken, but more is needed to convince a skeptical German public that the European Union is bringing them benefits, not just the burden of bailing out other countries. In this area too, perceptions will be key. The so far largely symbolic steps taken at the EU level are thus important to anchor Germany in the European Union.



The refugee crisis is clearly putting European integration at risk.

SEBASTIAN DULLIEN

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Yes, the refugee crisis is clearly putting European integration at risk. While the risk of an abrupt breakup of the European Union might not be as large as it was during the euro crisis, the refugee situation increases the medium- and long-term risk of the European Union becoming either a much more shallow integration agreement or shrinking in geographical scope.

First, the refugee crisis and the European politicians' reaction endangers one of the key European achievements most tangible to ordinary citizens: The ability to cross intra-EU borders without hassle (and, in many cases, without passport controls). The so-called Schengen agreement (which is the basis of this convenience) has already

been suspended. Several member states discuss or have even started building fences or walls around their borders. With no sign of the refugee flow ebbing, there is little hope of reinstating free cross-border movements completely anytime soon.

Second, the refugee crisis is further moving the European Union down a slippery slope, with more and more member states not seeing the European Union as a community of values and solidarity, but hardheadedly evaluating their own membership in terms of tangible costs and benefits. Many Central and Eastern European countries are loath to accept refugees even if the massive inflow of migrants into Germany is creating problems there, and they are dragging their feet in fulfilling their commitments. In the south of Europe, after half a decade of austerity which many feel was imposed by Germany, the willingness to help Angela Merkel is limited. Yet the more each member state looks at national interest first, the less resilient the European Union will be in the face of new crises which might demand national sacrifices for the stability of the union.

Finally, the refugee crisis increases the risk of a British exit from the European Union. Even though Britain is not part of the Schengen agreement and the flow of refugees coming into Britain has nothing to do with the European Union *per se*, euroskeptical British politicians are using the refugee crisis as an argument against EU membership. As current polls suggest a close race between the Yes and No Brexit camps in the upcoming referendum, news of incompetent or chaotic dealings in Brussels with the refugee crisis might provide the final straw tipping the balance towards a British exit.



The refugee crisis is a soft breeze compared to the hurricane we face if we don't reduce unemployment.

HEINER FLASSBECK

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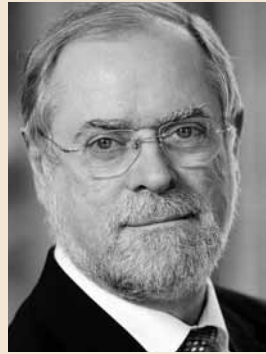
Many factors contribute to the refugee drama that is taking place on our doorsteps at this very moment. In Germany, reactions proved to be

initially generous and tolerant. Now, things are unfortunately evolving in the direction that had to be feared from the very beginning. It remains to be seen if the prejudices underlying German and European policy can be overcome or if politicians will just go on discussing the misleading idea of the distribution of a given pie. There are a few indications that change is possible. More and more European politicians make the argument that the refugee crisis constitutes an exceptional circumstance and that the criteria of the Maastricht Treaty should be temporarily relaxed in order to allow member states higher deficits in state budgets.

These politicians seem to understand that easing the restriction on government deficits is a necessary condition for creating new jobs in Europe. This is the turn we need. It is absolutely clear that the European refugee crisis constitutes an exceptional circumstance and that the Maastricht criteria should be revised. However, why does the same thinking not apply to the millions of unemployed in Europe? Is that not an exceptional circumstance? The idea of letting member states accumulate higher deficits in order to boost employment has been anathema in European politics for decades. It flies in the face of austerity. But the incoherence is of course real: if we want more jobs for refugees and we are willing to let government deficits increase to accomplish this goal, why are we not willing to follow the same policies for the sake of the millions of European unemployed?

There can be no doubt. Governments have to spend new money for both groups. Income redistribution is not enough. Deficit spending is urgently needed. Governments have to set up new projects that help refugees directly and, more importantly, they have to stimulate new economic activity so that refugees and the unemployed at home can work and create an income on their own. Such stimulus would boost the overall economy: there would be more income and more investment. The pie would be bigger, so that even with a million new citizens, no one would lose out. Given the macroeconomic situation in Europe, no country is better placed for the implementation of such a program than Germany.

To put it bluntly, debates on the right about cuts in public expenditure as well as debates on the left about the need for higher income and property taxes for the rich to finance refugees' needs are inappropriate. We need the maximal effects of economic stimulus right now. A completely different dynamic of economic development is needed and that cannot be achieved without deficit spending. If we now fail to break through the mental blockade that exists in the minds of the "Swabian housewives" against deficit spending, it will be superfluous to devote any more thought to the current storm. The refugee crisis is but a soft breeze compared to the European hurricane that will arrive if we do not act boldly to reduce unemployment.



The refugee crisis exposes the cracks within the European edifice rather ruthlessly.

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For some years now, Europe has had to contend with rising skepticism on the part of its citizens about the future—and indeed viability—of the European Union. Part of this concern has been fueled by shrinking confidence that the requirements of stabilizing the eurozone can be met. Another source of concern is insufficient growth and problems in EU labor markets, including lack of internal mobility. In a stark departure from the past, European institutions seem no longer to guarantee to provide a solution for the problems which member countries face. This problem is actually aggravated by the fact that many EU member nations at present only seek to defend the advantages they have derived from European policies, but are unwilling to provide contributions to meet new challenges.

The refugee crisis puts all of this into the spotlight. It actually exposes all the cracks within the European edifice rather ruthlessly. Given that Europeans by and large are reluctant to embrace mobility as a step toward prosperity, they have a difficult time coming to grips with the challenge of international migration by virtue of a common labor market and refugee policy.

As enshrined in the European Treaties, any effort to restrict the free movement of labor runs counter to Europeans' long-term interest in living in a dynamic and prosperous economy. Free labor mobility serves as a fundamental means to better allocate human capital within the European Union. The free movement of labor promotes economic growth and advances competitiveness. International migrants serve as a reserve of flexibility for an aging continent and provide a much-needed safety net against shrinking population levels. This ought to be welcomed, not resisted. Moreover, many more EU countries than are presently willing to admit it face a steep demographic challenge.

There are those who insist on seeing the current refugee crisis as a threat, rather than as an opportunity to rejigger the European economy. But no matter where one stands politically on this issue, the refugee crisis will serve

as a true catalyst. There will either be more integration, coordination, and shared responsibility—or the European Union will break apart.

Make no mistake about it: The refugee flow cannot be stopped by closed borders, by gunboats on the Mediterranean Sea, or by “transition zones” inside the European Union. Rather than exhibiting our worst “defensive” instincts, this crisis, properly managed, has the potential to strengthen Europe. That would be the case if it leads to an open immigration policy, improved institutions, and a growing economy.

In this process, the European Union needs to clarify its relationship with Turkey and strengthen its ties to the countries in Northern Africa and other countries that are sources of migration. These efforts could ultimately form the basis of a “Mediterranean Economic Zone.” The European Union should also consider developing contractual partnerships with these countries, for example, by utilizing so-called circular labor migration treaties. These allow economic migrants who now still arrive under the refugee label to create solid medium-term employment prospects in countries with demand for their labor.

In conclusion, the current refugee crisis can mark the dawn of a new era, but it could also mark the end of the European idea. Europe must seize the chance to reinvent itself to ultimately become the “United States of Europe.” Only this approach will put Europe on a path where it can compete with the United States and China in the long term. American-style optimism toward the future is what Europe now needs. It has sulked in pessimism about the future long enough.



The crisis is an opportunity.

BARRY EICHENGREEN

George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

The refugee crisis is by no means exaggerated; it is a very serious challenge for Europe indeed. Haphazard, uncoordinated responses put not just the Schengen Agreement but the Single Market itself at risk.

But the crisis is also an opportunity. It creates a *prima facie* case for strengthening the EU institutions and the European Union itself. Securing the European Union’s external border is a shared responsibility and common task. This will require not just strengthening FRONTEX, the EU agency charged with mobilizing and coordinating the activities of border guards, but also investing in the development and management of refugee reception facilities, processing centers, and, in some cases, repatriation mechanisms.

All this has to be done at the EU level to avoid having one EU country after another to erect razor wire fences in the effort to divert the flow of refugees to other member states. Only the European Union collectively, and not its individual members, can strike an agreement with Turkey to better manage the flow of refugees before they reach the European Union’s shores. And only the European Union as a whole can develop the kind of robust foreign policy, in which Germany plays a foreign policy role in the context of a common EU policy, needed to begin to restore stability in the troubled regions where the flood of refugees originates.



The refugee crisis is a medium-term asset for a region that is dealing with structural headwinds.

MOHAMED A. EL-ERIAN

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The Europe Union faces an unprecedented challenge in responding to the massive influx of refugees, the vast majority of whom are escaping violence, persecution, and other life-threatening circumstances. This massive challenge is compounded by fluid internal politics and an inability to meaningfully influence the forces abroad that drive this historic flow of humanity. Yet this time of intense challenge also offers massive opportunities for Europe.

No one should underestimate the short-term challenges, particularly when it comes to humanitarian issues, country coordination, and integration. The flow of refugees is immense, difficult to monitor and channel, and virtually impossible to stop in the short term. Border

crossings are overwhelmed, as are shelters and refugee centers, as well as registration procedures.

Nor should there be any doubt about the eagerness of certain anti-establishment/non-traditional parties to jump on this immigration phenomenon as a way to fuel further political polarization and extremism. All of which is compounded by the difficulty of evolving a common EU response, especially when it comes to countries that still differ in their interpretation of the past, present, and future.

Yet the refugee crisis is also a medium-term asset for a region that is dealing with structural headwinds to durable economic prosperity. A well-managed migration process can—and should—play a key role in helping Europe deal with its demographic and productivity challenges, as well as help in rebalancing an aggregate demand configuration that currently frustrates a full economic recovery. It can also provide a much-needed catalyst to re-invigorate regional efforts to address large remaining gaps in the region's historic integration project.

The task of Europe's enlightened politicians is to seize this moment, managing the considerable short-term challenges and unleashing the equally considerable longer-term opportunities. It is a moment that will help define both the current and future success of the European Union.



The crisis of European integration has to be resolved in Germany.

MICHAEL HÜTHER

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European integration has never been a linear story. There have been phases of back-sliding and phases of euphoric progress. Since the introduction of the euro, all attempts to enhance the competitiveness of the eurozone (the Lisbon Strategy of 2000 and its successor, Europe 2020 of 2010) and to develop a policy framework (the Treaty of Lisbon in 2009, replacing the unratified Treaty Establishing a European Constitution of 2004) have failed. The sovereign debt crisis in the eurozone made these deficiencies crystal clear. The only possible way to manage the crisis was to strengthen the

original principles of the single currency defined in the Maastricht Treaty and the Stability and Growth Pact. Europe has become more and more a union of different speeds.

The movement of refugees to Europe, which has been escalating for over a year and bringing an ever-increasing number of people from the crisis and war zones in the Middle East and Africa, is challenging Europe as a whole and bringing its fundamental values and beliefs into question. Refusal to face the problem—including by the German government—led first to a gradual, then unavoidable break with the rules of the Schengen area for the recognition of refugees (Dublin III Regulation of 2013). This found Europe virtually unprepared. The EU countries with external borders—especially Italy, Greece, and Hungary—were overwhelmed and left to deal with the problem alone.

The European Union has so far reached no consensus on an appropriate way of coping with the refugee issue. As the economically strongest European nation, Germany must bear the greatest burden. In September, German Chancellor Angela Merkel overrode the Dublin Regulation without first consulting her European partners. Here, however, in contrast to the sovereign debt crisis, Merkel has not succeeded in involving the other governments in a policy of joint action while, apart from fine-sounding words, the EU Commission has proved more or less ineffectual. The proposal to reallocate refugees to different countries on a quota basis does not reflect the real dynamics of the ongoing influx. Moreover, this proposal only makes clear the ultimate failure of the Dublin Regulation, which was not designed to cope with a crisis.

In past crises of European integration, it has usually been joint action by Germany and France that has combined power and influence to find a new way. But so far the two governments have failed to reach a common position concerning the refugee crisis. The German government is largely isolated, with Paris's presence being barely felt. To bring the problem in Germany under control, Merkel has to reverse her course. This time, a European solution can be found neither by preaching nor by force of argument. This time, as was never the case during the sovereign debt crisis, Germany is actually alone.

In all the history of European integration, Germany has never been so isolated. The reluctance of many Europeans to accept German reunification was overcome by skilled and open negotiation, by Germany's commitment to the European ideal and, ultimately, with the help of the United States. This time, comparable mechanisms are not in sight. For the other EU countries, Germany, having adopted its moral stance, is responsible for, and with its economic strength also capable of, finding a solution. This time the crisis of European integration has to be resolved in Germany.



One should not be too quick to draw final conclusions.

MARTIN HÜFNER

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The influx of more than a million refugees is of course a great concern for Europeans, especially for Germans. But one should not just focus on the worst case. The immigration of so many people can also be an opportunity. The negative demographic developments in many countries of the European Union will at least in part be alleviated. There are new investment possibilities. Europeans can learn from people coming from a different culture. The United States would never have been so successful and dynamic had they not had the immigration of so many people of different origin. The refugee influx could be a catalyst for the stalling European integration and help bring closer the political union that is so essential for the survival of Europe and the long-term success of the common currency.

It is true that such a vision seems rather farfetched at the moment. The population is anxious about all the new people in their neighborhoods. There is a return of nationalistic thinking that many thought had been overcome. Instead of tearing down walls, new fences are being erected. Politicians from the different countries, though faced with the same challenges, cannot agree to common answers. The integration of the refugees is also hampered by the stickiness of administrative regulations. In Germany, it takes months to check whether an immigrant will get permission to stay. Even if he is accepted, he has to wait for another three months before he can apply for a job. So you have hundreds of thousands of young men who want to work, who would be welcome at companies, but who just are not allowed to. German Chancellor Angela Merkel initially pledged to amend the German culture of thoroughness by a culture of flexibility. Such a change of priorities was highly welcomed in German companies and would have triggered reforms also in the firms themselves. But not much has happened in the meantime. The result is that the influx of refugees is leading to uncertainty in the economy and will in the end weaken economic activity and increase unemployment.

One should not, however, be too quick to draw final conclusions. It is true that the European integration is at

risk. The Schengen Agreement with open frontiers between the partners which was so helpful for the integration is in danger. There could be negative effects on the euro. Chancellor Merkel might have to resign. But it also could go differently. How often in history have we experienced escalating tensions where nobody believes in a good outcome, before finally a breakthrough to a new world is reached. Perhaps due to the refugee challenge Europe will get the big push toward more integration and more dynamism and flexibility that is so necessary and that so many Europeans are longing for. The end result is still open.



On integration, Europe is at a crossroads.

GUSTAV A. HORN

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The answer to this question is a strong yes. There is one obvious reason that can be seen on every TV screen. The massive influx of refugees via the Balkans is an overwhelming logistical challenge for each country along the road. In reaction, Hungary, followed to some extent by Croatia and probably soon Slovenia, closed its borders by setting up fences. More and more European countries are strengthening their border controls one way or the other. If this process goes on, the Europe of open borders will be a thing of the past.

But there are more hidden and even more serious reasons, too. First of all, the influx of refugees has shown that the member states of the European Union do not necessarily share the same values. Many Eastern European countries in particular bluntly refuse to accept refugees, predominantly for cultural and religious reasons. The unsettled question behind this behavior is whether Europe should be a culturally homogeneous or diverse region.

The split on this issue exists not only between different states but also within states. The difference in attitude towards the refugees between western and some parts of eastern Germany is an example. However, political parties opposing further immigration are on the rise almost

everywhere in Europe. They consequently also oppose any further European integration. Instead, they argue in favor of a return to more national decision-making, which would further weaken EU integration.

All this happens in times of economic uncertainty due to a crisis which Europe has not yet overcome. The attitude of Germany and other northern and eastern European countries towards Greece has left deep political and economic scars among member states of the euro area. Politically, there is a deep alienation between the European left and the labor movement on the one side and European institutions on the other side, since measures were taken that were clearly directed against their goals.

Economically, Europe has not yet completely recovered from the Great Recession. Unemployment, especially youth unemployment, is still very high. It is obvious that against the backdrop of this economic performance, anger and fear are rising at the sight of millions of refugees moving towards Europe. It is the political right that harvests this angst and combines it with nationalistic approaches. All this makes further steps towards more European integration rather difficult, if not—for the time being—impossible. Europe is heading for a crossroads, when it will have to make a fundamental decision: Either move toward a more united Europe, or back to nationalism.



*There is the chance
of a reshuffling
of the political
equilibrium
within Europe.*

LORENZO CODOGNO

Visiting Professor, London School of Economics and Political Science, and Founder and Chief Economist, LC Macro Advisors Ltd.

“ **L** a guerre est une chose trop grave pour être confiée à des militaires (War is too serious a thing to be left to military).” This motto attributed to Clemenceau, but also used by de Gaulle, seems also to fit the immigration crisis. In effect, it is too big an issue to be confined to economic and technical expertise. It goes to the very root of European integration and politics.

For a start, purely from an economic point of view, the wave of immigration could be a boost to potential

growth, if correctly managed. Refugees tend to be adults, already trained or ready to enter the labor market, and thus they can effectively produce a labor supply shock. On top of the long-term supply-side effect, there could also be a near-term stimulus to demand. The extra spending on migration-related issues may provide a temporary lift to the European economy and a number of countries have already asked for additional budget flexibility for that. Economic literature suggests that the effects on wages and employment of native workers are rather small and sometimes negligible. However, the wave of immigration could put some pressure on low-skilled jobs, given immigrants’ generally lower level of education and experience, and could also displace native workers towards higher-skilled and higher-paid occupations. In addition, it will put some strain on healthcare systems and welfare (although typically this is a second-generation problem).

The key, however, will be the ability of institutions to provide assistance, placement services, and active labor market policies. The huge inflow is concentrated in a short period of time and in a few areas, notably Germany and a few other countries, and within each country in specific big cities. Managing such inflow will not be easy. But again, this is a too serious a phenomenon to be relegated only to economic/technical matters as it could undermine the social and political fabric of Europe in a number of different ways.

First, within countries it could provide a boost to xenophobic anti-immigration movements. This is closely related to social problems created in the specific areas where the concentration of immigrants is higher. If the issue becomes significant, as is the case in a number of countries nowadays, it could result in political instability and changes of governments. It could also push incumbent governments to adopt tougher policies on immigration.

Second, it could provide a boost to anti-EU movements or shift policies of incumbent governments away from the European Union. The Schengen agreement may become a casualty of such toughened stance. This would undermine freedom of movement within the European Union, which is one of the pillars of the political/economic integration project.

Finally, it may change the geopolitical landscape in Europe. The *de facto* German dominance of EU policymaking of the past few years could be challenged by the newly created fault lines between Germany, backing a quota system for sharing asylum seekers within the European Union, and the so-called Visegrad group (Czech Republic, Hungary, Poland, and Slovakia) and others, which strongly reject this system. This may lead to a reshuffling of the political equilibrium within Europe, with all the risks that this may imply.



The challenge is of epic proportions but a collapse of integration is hardly certain.

MICHAEL CALINGAERT

Visiting Scholar, Center on the United States and Europe, Brookings Institution, and Executive Vice President, Council for the United States and Italy

The European Union is facing a challenge of epic proportions: an unprecedented mass of refugees and migrants is converging on the European Union in the hope of gaining entry and a better life. This does not represent an existential threat to the fundamentals of European integration. Integration has been a remarkably successful process, carried out incrementally over the past six decades, and the ability of the European Union to overcome seemingly intractable obstacles over the years is testament to its strength and utility. However, this migration raises a fundamental question: In a climate of increasing public disaffection with the European Union, political weakness of mainstream parties and governments, and the absence of an EU consensus on how to respond, can the EU decision-making mechanisms work effectively toward resolution of the crisis? If not, European integration will regress.

Many factors have contributed to the challenge: the staggering increase in the number of refugees; the European Union's administrative and financial limited ability to provide food and housing, vet the refugees' eligibility for asylum, and eventually accommodate significant numbers; and their many differences from the European social mainstream (notably the preponderance of Muslims, but also different cultural backgrounds, languages spoken, and skills acquired). While the surge has generated a strong, instinctive humanitarian response in much of Europe, it has also evoked concerns over the high cost to government of handling the refugees and the difficulty of integrating them into European societies, and fears—in a time of economic stagnation—that the new entrants will take jobs away from local citizens, put downward pressure on wages, and undermine the social fabric of the Union. Unlike virtually all other crises Europe has faced, the issues pertaining to the refugees' situation affect Europeans in a very personal and immediate sense.

The political consequences of this situation are hardly surprising. We see increasing strength of political parties taking a hard line on immigration issues, a corresponding weakening of centrist parties and governments, and pressures for firm and swift action at the member state level to deal with the tide of refugees—the twin issues of keeping most out and arranging to let some in. The spectacle of thousands of migrants trekking along and across the European Union's southeast border, and the continual arrival of other thousands elsewhere in the European Union, has imparted a strong sense of urgency. Yet decision-making has taken place largely in uncoordinated fashion at the member state, rather than EU, level, reflecting the innate difficulty of moving quickly and the divergence of views among the member states, despite the useful efforts of the European Commission.

Yet it will be impossible for the member states to deal effectively with the refugee crisis except on the basis of collective decisions taken under the EU framework. That will be difficult, but doable. As on so many EU issues, the role of German Chancellor Angela Merkel will be crucial. Although she has lost some standing in Germany because of her generous opening to the refugees, she has few political rivals, and the government coalition remains strong. She alone can provide the necessary leadership. Failure would be a blow to European integration, but that is an unlikely outcome.



The refugee crisis demands greater action based on solidarity and our common European values.

JÖRG ASMUSSEN

Deputy Minister, Federal Ministry of Labour and Social Affairs, Germany

Europe is facing a great challenge for our generation: Never since the end of World War II have so many people been fleeing political persecution and war as today, many of whom are seeking refuge in Europe, particularly in Germany. In view of the crises in our neighborhood, we must assume that this could remain the case for years. As Europeans, we owe it to ourselves and to the world to rise to the great challenge posed by these people

seeking help. We can meet this challenge if we set the right course.

The political framework for action has long ceased to be national—also and particularly with regard to refugee and migration policy. Only together, at the European level, will we be able at all to find rational solutions. This is why refugee and migration policy is currently the most important policy field in which we must advance the project of European integration with dynamism and conviction, while also ensuring we do not neglect other policy areas, such as climate change or the completion of monetary union.

We must set the course at many levels: At the national level, in the near term we must ensure that humane conditions prevail when receiving refugees (provision of food, medical assistance, accommodation for the coming winter). The citizens of Europe, and of Germany, have demonstrated a great spirit of solidarity and great involvement in this regard. Over the medium term, those coming to us and remaining in our country must be integrated into the labor market. This is imperative if migration is to be a success—both for those arriving in our country and for the aging societies receiving them. Learning the language is a key prerequisite for successful integration, followed by vocational qualifications or further training. Integration is not optional: anyone wishing to stay must learn the language, get a formal qualification, and accept the core values of liberal democracies.

At the European level, we need much more ambitious integration of European asylum policy, a fair distribution of refugees, and a common approach to managing Europe's borders.

At both the European and international level, all efforts must focus on developing new political initiatives to fight the causes of flight in the countries of the Middle East and Africa. Stabilizing failing states and curbing violence and civil war must go hand in hand with concentrated efforts to achieve economic and social development prospects—especially for young people in the countries of origin.

I am therefore convinced that the refugee crisis does not call European integration into question but that, on the contrary, it demands greater European action based on the principle of solidarity and on our common European values. Nevertheless, a risk remains: as political decision-makers and the media can often only address one crisis at a time, there is the danger of not investing the necessary energy to push ahead with other important European projects, such as the completion of economic and monetary union. For example, the debate on the Five Presidents' Report is currently not receiving the attention it deserves. To neglect this would be a mistake. And climate change will not go away just because refugees are arriving (on the contrary, more people could be on the move to escape the effects of climate change). To quote the great European,

Jacques Delors, "History is knocking at our door. Are we going to pretend that we cannot hear?"



HOLGER SCHMIEDING
Chief Economist, Berenberg

*I worry more
about the fate of
Britain than that
of the eurozone.*

European integration has delivered the longest period of peace and prosperity for most of the European continent since the fall of the Roman empire. As a result, the ties that bind are strong. Of course, they are not unbreakable.

A major surge in immigration often triggers a right-wing populist backlash. This is neither new nor does it have much to do with the European Union or the euro. However, the same kind of populist backlash against immigration is potentially more dangerous in Europe than in the United States. Iowa would not leave the United States even if Donald Trump were to win the state in the presidential primaries with diatribes against immigrants and the Beltway insiders of Washington, D.C. But if right-wing populists win a national vote in a major EU member, they could take their country out of the union. Unlike the euro crisis, the migrant crisis cannot be defused by the magic words of a central bank that finally assumes its role as lender of last resort. The migrant crisis thus poses a more serious risk to the cohesion and prosperity of Europe than the euro crisis ever did.

But don't overstate the risks. Remember that Germany is receiving far more migrants than any other country. Germany has a strong labor market and a small fiscal surplus. It can afford some extra spending on refugees. For historical reasons, it is also the country least prone to a huge right-wing populist backlash against Europe. This mitigates the political risks a lot.

In Germany, Angela Merkel is facing the most serious challenge of her ten-year tenure as chancellor. Large-scale immigration is even more contentious within her own center-right CDU/CSU than within the population at large. However, she is a wily political operator without any obvious rival.

Step by step, she is adjusting the German stance to become less welcoming to migrants. Of course, we cannot rule out completely that the CDU/CSU might turn against her. But the scare story that this would spell the beginning of the end for Europe seems far overdone. All major parties in Germany are solidly pro-European. Regardless of who is chancellor and which mainstream parties form a coalition, the risk that Germany might leave the euro or even the European Union is close to zero. Yes, public support for right-wing populists has doubled in Germany in reaction to the migrant crisis—from 4 percent to a still paltry 8 percent.

Outside Germany, Front National's Marine Le Pen is far from taking power in France, and her new Italian copycat is unlikely to win a serious national election. As it stands, the tail risks posed by right-wing populism could first come to the fore in Britain in 2016 if the planned Brexit referendum were to turn into a *de facto* vote over immigration rather than the commercial advantages of belonging to the biggest single market in the world. Opinion polls look close. For the time being, I worry more about the fate of Britain than that of the eurozone.



Europe has to take advantage of the opportunities afforded by refugees.

HANNES ANDROSCH

Former Finance Minister and Vice-Chancellor of Austria

Henry Kissinger recently described Middle East policy as a shambles. Military intervention in Afghanistan was abandoned owing to its lack of success. Though Saddam Hussein was toppled in 2003, his toppling left chaos in its wake. One consequence has been the civil war in Syria, now into its fourth year, which has resulted in over half of the country's original population of twenty-two million attempting to flee the violence. Yemen is a failed state. All these developments are linked to the power struggle in the region between the Shiites, spanning from Yemen via Bahrain and Iran as far as Hezbollah in Libya, and the Sunni triangle of Saudi Arabia, Turkey and Egypt. One further source of conflict is the Palestinian question, unsolved since UN Resolution 181 of 1947, because,

unlike that of Israel, the creation of a Palestinian state has remained an unfulfilled promise. Moreover, we have seen warring turmoil in North Africa as a consequence of the Arab Spring. In 2011, Libya's Gaddafi was overthrown as a result of military intervention but no one considered the political consequences which have, in turn, led to rising floods of refugees.

Jordan alone, which has only 6.5 million inhabitants, has taken in 1.5 million refugees; Iran, Lebanon, and Turkey have each taken in far more than two million. Given the proximity to Europe, it is no surprise that this wave of refugees has made its way to Europe, primarily via the islands of Lampedusa, Lesbos, and Kos. Owing to its lack of a common security, foreign, and defense policy, Europe was caught unaware and unprepared. And this remains the case. For much of the time, Italy and Greece were left to cope with this problem alone. Now, other transit and/or host countries in the Balkans as well as Austria, Germany, and Sweden, in particular, have been affected and are being overwhelmed with floods of refugees because the European Union is not able to distribute several hundreds of thousands of refugees.

One million refugees is merely 0.2 percent of the population of Europe. And in addition to the humanitarian aspect, one must consider that, due to their falling birth rates and aging populations, many European countries are in desperate need of immigration simply to maintain their social budgets. Moreover, we should not forget that, in 1945, at the height of the desperate plight of the post-war era, western Europe was able to receive thirty million refugees and displaced persons and that West Germany alone took in twelve million displaced persons, who went on to make a significant contribution to the German *Wirtschaftswunder* or economic miracle. In the wake of the Hungarian uprising in 1956, Austria took almost 300,000 people; her doors were open to refugees after the Prague Spring, after martial law was declared in Poland, and more recently in 1992, to refugees from Bosnia. It is simply that nowadays we were not ready, even though intelligence agencies had been warning for years that developments in the countries in question were growing increasingly serious.

What I would refer to as "Orbanisation," that is, erecting new fences more than twenty-five years after the fall of the Iron Curtain and believing that a Fortress Europe can thus be created, is not going to be able to stem the tide of refugees. Hungary would do well to recall that, 1,100 years ago, the Magyars entered its territories from the northern Urals. In 1036, their first King Stephen I counselled his son with these words: "Welcome strangers to this country and allow them to keep their language and their customs, for any country that has but one language and one single custom is weak and fragile."

Europe has to recognize and take advantage of the opportunities afforded by these refugees and shape a common European policy that will help to tackle and solve the problems at their root in order to eliminate anarchy, terror, and violence in these countries. Therefore, Europe must not succumb to the risks of a “DisUnion” but must, in its own interests, follow the political path towards being a strong, common Union.



This new wave of immigration will again increase the economic muscle and influence of Germany in Europe.

PHILIPPE RIÈS

Writer, Médiapart, and author, Asian Storm: The Economic Crisis Examined (2000) and Le jour où la France a fait faillite (The Day France Went Bankrupt, with Philippe Jaffré, 2006)

While the eurozone sovereign debt crisis continues, in the European Union a new and equally complex crisis has emerged on the radar: the so-called refugee and migrants crisis. What these two crises have in common is an exogenous shock which originated across the Atlantic. The subprime crisis was triggered by the bursting of the U.S. bubble in 2007–2008, while the refugee and migrants crisis has been set in motion by the failure of successive U.S. administrations to deal with the consequences of their irresponsible (Bush) or irresolute (Obama) attitude with regard to the Middle East. Indeed, the Middle East shocks which successive U.S. administrations have created over the past fifteen years continue to profoundly impact Europe.

Some in Europe are more realistic than others in dealing with these great shocks. For instance, in much of Europe, governments are still insisting on achieving balanced budgets and respecting mechanically the eurozone’s fiscal rules, while others are less prisoners of such orthodoxy. For all of her rhetoric about the virtues of fiscal discipline, German Chancellor Angela Merkel has just shown that when conditions change, policy must change. In announcing that Germany will now provide an initial €6 billion, with more to come as needed in order to provide for the hundreds of thousands of migrants rushing into the country, Germany has once again demonstrated

that it knows where her interests truly lie, and when larger strategic imperatives outweigh fiscal orthodoxy.

One million or more new migrants will have made their way to Germany by the end of the year. According to some estimates in business circles, three million more are likely to arrive in succeeding years, as family members, distant relatives, and former neighbors follow suit. At an annual average cost of roughly €15,000 per head, this vast influx of people in such a short period of time may challenge Finance Minister Wolfgang Schäuble’s budgetary orthodoxy, but that is not stopping Germany from turning a crisis into a great opportunity. As enormous as that number is, it is small compared to what West Germans paid and are still paying for reunification with the former East Germany, which has been of enormous long-term benefit to the country. Once again, German realism and foresight is allowing the country to capitalize on the situation.

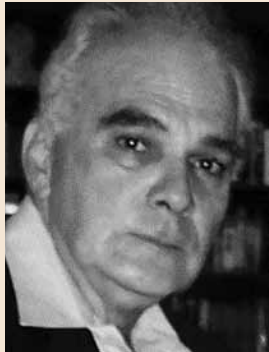
Thanks to this vast immigration of ambitious, highly determined, and often very well-educated people, Germany’s pending demographic crisis will be over really before it starts. And that will give a real boost to the German economy over the next few years.

Against that background, and given France’s increasing difficulties in addressing its own demographic trends despite the myth of French reproductive profligacy, the dream of Paris mandarins of France overtaking Germany as the dominant power in Europe within a generation is now, at best, a fantasy, and at worst an exercise in complete self-delusion. France’s frigidity toward immigration is but one more of the consequences of the country’s increasing inability to put her own house in order, and to deal in any timely and realistic manner with the vast changes occurring in the world.

But it is not just France that has its head in the sand. A number of countries to the east of Germany must also open their eyes, and do so quickly. For example, Germany’s newly arriving workforce, many highly qualified, others less so but all of them ready and willing to work hard, could render redundant many of the East European “guest *arbeiters*” now working in Germany. We could well see a re-shoring of German manufacturing operating in some countries of the former Soviet block. Poland, for example, seems to see no contradiction in claiming freedom of movement for her own migrants to Berlin, London, and even Paris, but Warsaw has declared that the country will not take a single refugee from Syria. Then there is the odious Prime Minister Viktor Orbán in Hungary. Those who think that being members of the European Union comes only with rights and no obligations, with Brussels subsidies but no burden sharing, are in for a rude awakening down the road.

Just as unification profoundly changed the economic weight and influence of Germany in Europe, so this huge new wave of immigration will again increase the

economic muscle and influence of Germany in Europe. From Paris to Warsaw, much of Europe is still in denial. Yet denial is the very worst way of dealing with this powerful new reality.



A Le Pen victory in France or a Russian move in Central Europe would be a bigger threat to integration.

CRITON M. ZOAKOS

President (1994-2014), Leto Research LLC

The threat to European integration is not the refugee problem but the dis-integration of organized states in the Middle East. Five states of the Middle East have already disintegrated. In chronological order, they are: Lebanon, Afghanistan, Iraq, Libya, and Syria. A sixth, Turkey, is poised to join them.

Both the European Union and these now disintegrated Middle Eastern states had been founded by senior European bureaucrats. They drew borders disregarding national identities, tribal affinities, and ethnic ties, and replaced customary law with bureaucratic *diktat*. These bureaucrats—Mark Sykes and François Georges-Picot who created Syria, Lebanon, and Iraq, Mortimer Durand of Afghanistan, and Giuseppe Volpi of Libya—shared with the founding fathers of the European Union a common founding principle: contempt for the identities of the people whose state borders they were drawing or erasing.

After a century of trying, this founding principle failed to create national identities in Lebanon, Syria, Iraq,

Libya, and Afghanistan, and resulted in their disintegration and the ensuing wave of refugees flooding Europe.

Contrary to populist fears, the European Union could easily absorb 1.5 million refugees a year for a number of years and benefit economically from it—if it had the political will to do so. But beset by economic uncertainties and fears, Europe’s electorates lack the will to do so.

The economic failure of the euro has set in motion fears and resentments in the broader European Union that have fatally undermined decades-old efforts to create a European identity so essential for securing European “integration.” This, and not the flood of refugees, is what threatens European integration.

In the short term, German Chancellor Angela Merkel’s pro-refugee policies will most likely prevail and she herself will survive politically. But that will not lessen the threat to European integration, whose principal long-term threat does not stem from a possible decline of Merkel’s political standing.

The threat stems from the rising political standing of Marine Le Pen, Vladimir Putin, and others like them who utilize traditionalist symbolisms to mobilize opposition to European integration.

Russia is in the middle of a state-sponsored religious revival in part aimed at appealing to conservative, anti-EU European audiences. Russian Orthodox Patriarch Kirill of Moscow has declared that the war against Islam is a “Sacred War.” The mass media routinely show Russian Orthodox priests in full regalia blessing with holy water the Russian weapons used in the war in Syria. For the first time this year, Moscow’s annual May 9 Victory Day parade began with the parade marshal, Minister of Defense and General of the Army Sergei Shoigu, piously crossing himself in the Eastern Orthodox style with television crews broadcasting the religious symbolism across the world.

Marine Le Pen, the front-runner for the French presidential election of 2017 and a beneficiary of Russian funding, has selected Saint Jeanne d’Arc as the patron saint of her election campaign. A Le Pen victory in 2017 in France or a Russian move in Central Europe would be a bigger threat to European integration than the refugee crisis. ♦