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European integration or disintegration?

Britain is bringing break-up talk out of the closet

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First, there were only a handful of cranky Tory backbenchers and libertarian Nigel Farage who were receptive in the 2000s to the growing popular discontent over the way the European Union was being run. Seen as a fringe movement and part of British political folklore, few expected euroskepticism to get much traction.

The coming out of Nigel Lawson, former chancellor of the exchequer, seems to be a game-changer. Writing about leaving the European Union, the Tory peer concluded that "the economic gains would substantially outweigh the costs." Lord Lawson was soon followed by two Cabinet ministers — Education Secretary Michael Gove and Defense Secretary Philip Hammond — who also indicated that they would favor Britain's exit.

Finally, writing in Financial Times, columnist Wolfgang Munchau acknowledged that "[a] departure need not be a disaster if the terms are negotiated with skill" — a statement that only weeks ago would look out of place on the opinion pages of a newspaper that had traditionally embraced the euro and European integration with fervent enthusiasm.

For the first time in years, it seems that the British are willing to have an open discussion about the costs and benefits of EU membership, without running the risk of being labeled as political extremists.

While so far this shift has been mostly a British occurrence, it does not have to remain one — indeed, it should not. For many countries in Europe, the costs of being part of the EU are very salient — particularly for those that are part of the eurozone and are expected to contribute toward the bailouts of less-than-solvent countries on the eurozone's periphery.

Neither should this shift be only, or predominantly, about a binary choice between being a part of the EU versus leaving it. While many small, open economies on the European continent might benefit from the common market, there ought to be space for an open-ended debate about the EU's governance and its dysfunctions.

Instead of having such a debate, Europeans were long fed the mantra of ever-closer union. It was assumed that the EU's problems would be solved by deeper integration and tighter policy coordination. The monetary union was a part of that process, as was the growing body of EU directives, regulating everything from privacy issues to mobile-phone roaming charges. At the onset of the crisis, a banking and fiscal union were proposed as fixes to the macroeconomic imbalances that were becoming apparent in the eurozone's periphery.

Only a small group of politicians tried to challenge that consensus. With exceptions, euroskeptics were not a savory bunch, as they were dominated by groups such as the Front National in France or the True Finns. The more thoughtful skeptics were often embarrassed to express their concerns, for fears of being ostracized and lumped together with the likes of the French right-winger Marine Le Pen.

However, closer integration has not been delivered. In 2013, the EU economy is expected to contract by 0.1 percent, following a year of negative growth. Unemployment is at a record high, with youth unemployment in some countries hovering well above 50 percent. Instead of becoming an economic powerhouse, Europe is flailing.

Today, there seems to be an opportunity to have an adult conversation about what has gone wrong with the European project. British Prime Minister David Cameron can help to set the tone for that discussion, but other European leaders need to join in as well. Many areas are in a desperate need of change.

Take regulation. The European Commission estimates that the administrative burden that EU-wide legislation imposes on businesses is $160 billion — and that does not include the economic costs that regulation creates by distorting incentives to produce and innovate. Another overdue problem: agricultural subsidies. Some 38 percent of the EU budget for 2014 to 2020 — or $470 billion — is going to be spent on farm subsidies.

The list is much longer. The past few years have seen the creation of a permanent bailout fund for the eurozone's members in fiscal distress, with very little in terms of a cost-benefit analysis to justify it. There is an ongoing, silent power grab by European institutions, which can be illustrated by a recent note by the European Commission in which the commission asks member states to subject their economic policymaking to EU control: "The Commission considers it important that national plans for any major economic-policy reforms are assessed and discussed at EU-level before final decisions are taken at the national level."

For far too long, the thoughtful dissenters were being mocked into hiding. With the political equilibrium shifting in Britain, however, it is no longer possible to simply ignore the discontent with the direction taken by European political elites. Although the denizens of Brussels' corridors of power may not realize it yet, the time to renegotiate the "social contract" guiding the Continent is now.

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