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Essay

Europe Works Best a la Carte

To save the EU, try the flexible, experimental approach known as 'variable geometry': more Europe for some countries, less Europe for others

by John O'Sullivan

In London a few weeks ago, President Barack Obama urged the British public to vote to stay in the European Union in their forthcoming referendum and encouraged the rest of Europe to steam ahead to further integration. Many observers took him to be saying something controversial, but he was only stating publicly the position of almost every U.S. president since the Eisenhower administration.

Nor is Mr. Obama the only one who sees "more Europe" as the answer to all of Europe's problems. The mantra is the governing platform of the EU's leaders and civil servants and has been the orthodoxy of the U.S. State Department for some 50 years. Outside of the U.K. and a few peripheral European countries, "more Europe" is a bicontinental consensus.

Yet this policy of "ever-closer union" (in the official jargon) is also causing or aggravating Europe's largest crises. Whatever happens with the Brexit vote in June, it is no longer possible, in the U.K. or on the continent, to ignore the possibility that solutions might lie in the opposite direction: with a deliberate policy of "less Europe" that allows governments to be much more selective in deciding the quality and degree of their participation in the EU project.

The failings of EU institutions are by now familiar. Migrants surged across Europe last year because the EU had abolished most of its internal borders without first strengthening external ones. As for the euro, it has succeeded in imposing a single exchange rate on half the continent but at a high cost: Because the EU did not first establish fiscal discipline or transfer payments among its member-states, the currency has inflicted stagnation, high unemployment and political instability on Mediterranean Europe.

Caught between new crises and old orthodoxies, the EU's central institutions are paralyzed. Meanwhile, national governments are often moving in opposite directions, either inviting in refugees or building fences to exclude them, demanding subsidies or resisting them. Europe looks increasingly dysfunctional.

There are still advocates of the old approach, of course. "More Europe" was the theme of a report last year signed by the heads of five key EU institutions. They suggested maintaining the euro's existing structure but stabilizing it with new fiscal and financial rules and institutions. But their proposals were very cautious, half-measures at best, limited by political realities.

The politics at play here are quite simple: Germany and other creditor nations want a fiscal union that would impose fiscal discipline on debtor nations. The latter, notably Mediterranean Europe, want to require creditors to help them with bailouts, the sharing of debt and so on. These divisions correspond roughly to parties of the left and the right across Europe. Similar ideological divisions on migration and other policy areas seem likely to frustrate the one-size-fits-all solutions usually inherent in approaches based on "more Europe."

By why not go in the opposite direction and restore powers from Brussels to national parliaments, allowing countries to choose different levels of European integration? It is hardly a novel idea. It was laid out by Margaret Thatcher in a 1992 speech in The Hague not long after she left the prime ministership. "The larger Europe grows, the more diverse must be the forms of cooperation it requires," she said. "Instead of a centralized bureaucracy, the model should be a market—not only a market of individuals and companies, but also a market in which the players are governments [that] compete with each other for foreign investments, top management and high earners through lower taxes and less regulation."

This kind of Europe has had several names. Some refer to it as a "variable-geometry" Europe, or Europe a la carte. The idea is that the EU would have more success and less conflict if it allowed different countries to adopt different levels of integration on different policy areas. Instead of "more Europe for all," we could have "More Europe for some, less Europe for others."

Steps toward such a Europe might include creating a two-tier euro that would allow Mediterranean Europe to escape an overvalued exchange rate that prices its goods, services and tourism out of the market. Those countries could instead adopt a devalued "southern euro" that would spur growth.

Instead of harmonizing all national regulations in Brussels, the continent could return to the earlier principle of "mutual recognition," whereby EU member states agreed to accept each other's regulations and standards in good faith as a basis for free competition in trade and services. The EU also could reject policies minted in Brussels to eliminate "harmful tax competition" (i.e., tax competition), the effect of which is to protect high-tax countries from the incentives for relocation offered by countries with lower tax rates.

Individually, each of these changes would be modest. Taken together, they would encourage competition among member states. Each would put forward its own tax-and-regulation package to attract or retain investment and talented people. The changes would transform the EU from a cartel of governments into Thatcher's market of governments.

And it needn't all work in one direction. Decentralization would let countries seeking a more centralized and regulated Europe move ahead on their own without, as now, the British walking slowly in front of the Franco-German locomotive, constantly waving a red flag of obstruction.

Brussels loathes the idea of "less Europe," but in a few key areas, it is already reality. Denmark and the U.K. received permanent opt-outs from adopting the euro, and many EU member states not yet using the euro will never join it despite their treaty commitments to do so. This is the single most important example of Europe's already existing variable geometry: a de facto two-tier Europe in which the 19 countries of the eurozone will deepen their integration fiscally and financially, separating from the others.

Variable geometry even extends in Europe beyond EU borders. Switzerland, Norway, Iceland and other members of the European Free Trade Area enjoy access to the EU's single market without involvement in the EU's political and defense arrangements, farm and fishing policy, the Value Added Tax, the European Defense Agency, the eurozone and so on.

Flexibility and the freedom to experiment also might save the trans-Atlantic Trade and Investment Partnership, the trade pact between the U.S. and the EU that has been in the works for years and is now threatened by new skepticism about free trade. Europe might instead offer its American and non-EU European partners something less corporate, more democratic and more appealing: an economic counterpart to NATO based on free trade and rooted in the recognition of mutual standards, but without free migration or special courts that can override national laws.

Any such reshaping of Europe and the West will require the cooperation of an American president with the vision to imagine a bolder and freer Western future. For that, alas, we may have to wait another four years.

—Mr. O'Sullivan is the editor of Quadrant in Australia, president of the Danube Institute in Budapest and a senior fellow of the National Review Institute.

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