THE INTERNATIONAL ECONOMY

THE MAGAZINE OF
INTERNATIONAL ECONOMIC POLICY
888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

The *EU's Future*

BY SIMON SERFATY

The argument for success lies in how much has been achieved in the last sixty years.

The Greek debt crisis unfolded last spring, bringing with it an excess of gloom about Europe and the future of its union. Now an excess of complacency has taken hold, especially in Europe, as the crisis appears to be under control in countries that were said to be falling into an ever-deeper euro trap and institutional quagmire. Neither reaction is unusual. Europe always seems to undergo such dramatic mood swings: from indifference to Asia and other emerging parts of the world's economy, to sheer panic in the face of an impending demise of its institutions. "*Tutto é a posto, niente in ordine,*" or "everything is in place, nothing is in order," an Italian saying reassures. In fact, although some of the clouds over Europe have dissipated, conditions remain unstable and little of what caused earlier apprehension has been resolved.

Concerns about Europe should not be over rupture, but over atrophy. During the debt crisis, for example, there was too much talk about some reappraisal of the eurozone's membership and even of the survivability of the single currency. Proposals were floated for some members to take a leave of absence from the euro. Greece, it was suggested, might enjoy the ill-defined benefits of a time-out from the zone's discipline, or a stronger economy such as Germany could regain its lost autonomy.

Yet however difficult it may be to live with the euro, leaving it would be worse. There is little evidence that staying out of the eurozone works any better than staying in it, as shown by Britain, previously the most successful model of non-membership. In fact, the same is generally true of every other aspect of the European Union: for any particular member and most if not all countries in Europe, there is little or no future outside of the Union. That reality applies even to Europe's larger states.

During the Greek debt crisis, German Chancellor Angela Merkel understood well that the very future of the European Union was at stake, and Germany could not do without the European Union. Merkel therefore echoed Margaret Thatcher twenty-five years ago as she repeatedly felt compelled to embrace those EU decisions to which she had forcefully objected initially. (Thatcher—who ended up saying yes, yes, yes after she had first answered no, no, no—had herself resembled France's Charles de Gaulle, whose anti-European rhetoric did not slow

---

Simon Serfaty holds the Zbigniew Brzezinski Chair in Global Security and Geopolitics at the Center for Strategic and International Studies in Washington, D.C. He is also a senior professor of U.S. foreign policy and Eminent Scholar at Old Dominion University. His most recent book is Architects of Delusion: America, Europe and the Iraq War *(2008).*

down a fast-moving Common Market which served as the launching pad for everything that followed.)

Atrophy or paralysis is less dramatic than rupture but nearly as significant. Admittedly, there was some paralysis during the de Gaulle and Thatcher years, when Europe could have done more in the area of foreign policy in the 1960s, or for monetary stability in the 1980s. More recently, atrophy is a condition that has been threatening EU institutions since the ill-fated EU Summit in Nice, France, in December 2000, and grew sharply in late spring 2005 with the rejection by France and the Netherlands of a new treaty, misleadingly dubbed "constitutional."

Symptoms of this condition included a deep Euro-fatigue the like of which had not been seen before. Inspired by the admission in fifteen years of fifteen new members—a majority of them small, poor, and placed by history and geography at the margin of Europe's Western core—this fatigue was felt most from the bottom up, and proved increasingly intense in France and especially Germany.

At present what has come to be challenged is not only the belief that the European Union is "indispensable," as was claimed at inception, but also the conviction that it is "inevitable," as was argued to keep it going. These are not the same. Embracing the idea of inevitability helps make the case for membership—if not in and with the European Union, where and how? But a weaker sense of indispensability helps deny the need for new initiatives—enough is enough, why do more?

The Reform Treaty was engineered in June 2007 at the close of the German presidency of the European Council, with decisive assists from a newly elected French President Nicolas Sarkozy and Britain's outgoing Prime Minister Tony Blair. It was finally ratified in Lisbon in November 2009 after an initial rebuke from Ireland. The treaty was expected to help the EU institutions get started again. However, results have been disappointing. If anything, the Lisbon Treaty—which was not yet in place when the great recession started in late 2008—brought additional layers of confusion in EU governance by increasing the competition between its various bodies. Moreover, Europe's new institutional leaders, seemingly picked in late 2009 for their mediocrity and obscurity, gave the nation-states a control of the process which the stronger leaders envisioned by the Lisbon Treaty—like such early front-runners as Blair and Sweden's Carl Bildt—might have prevented. More than ever, Europe seems voiceless. To the proverbial question of, "Who do I call to speak to Europe?" the answer heard, after a long wait and through a voice mail, is "not him"—not Sarko or not Silvio, and above all not Angela. The answer is also "not there"—not the Commission, not Parliament, and above all not the European Central Bank. Even France's foreign minister Bernard Kouchner publicly complained after the Irish vote, "No one understands the [European] institutions and no one's interested…not even me." In late spring 2010, President Obama's decision to sit out the U.S.-EU summit scheduled to be held in Spain reflected that confusion and could be heard as a call to his European counterparts to put their institutional house in order.

However difficult it may be to live with the euro, leaving it would be worse.

Obama's call was not understood, however, and it gave rise instead to complaints about his neglect of Europe—although the U.S. president had crossed the Atlantic a record seven times in 2009. "The transatlantic relationship is not living up to its potential," said European Commission chief José Manuel Barroso in an interview with the *London Times.*

This is regretfully true, but who has failed whom? In Strasbourg in April 2009, less than one hundred days after his inauguration, President Obama invited Europe to share with the United States the responsibilities of global leadership. "Whether it's the recession or climate change, or terrorism, or drug trafficking, poverty, or the proliferation of nuclear weapons," he said then, "…I've come to Europe to renew our partnership, one in which America listens and learns from our friends and allies, but where our friends and allies bear their share of the burden." In some ways, this invitation paralleled Henry Kissinger's call for making of 1973 a "Year of Europe,"

WORLD ECONOMIC FORUM

I'm Bored

France's foreign minister **Bernard Kouchner** publicly complained after the Irish vote. "No one understands the [European] institutions and no one's interested…not even me."

whereby Europe's power and influence would compensate for a sense of decline in the post-Vietnam and pre-Watergate years. Thirty-seven years later, the influence of the transatlantic partnership is at its lowest point since the 1950s. Restoring that influence, now that Europe has a U.S. president it likes, demands that the states of Europe put their union in order. In an allegedly post-Western world, the United States needs a post-America Europe.

For the European Union to put its institutional house in order, however, will not be easy. The national governments are, for the most part, fragile political coalitions that must tediously balance the parties' conflicting interests with the national interest, and their leaders' incompatible ambitions with their voters' convictions. This is especially difficult in Germany and Britain, two countries that have had traditionally little or no experience with multiparty politics. Given the public mood there, anything having to do with Europe will be decided by the German chancellor and the new British prime minister according to the lowest common denominator so as to not offend coalition partners and electoral constituencies. These include Liberals in Britain who, unlike their Tory partners, want more Europe across the Channel but less rigor at home, and Free Democrats in Germany who, unlike their Christian Democratic partners, want less Europe and lower taxes.

Stagnation in these national capitals will predictably spill into the European Council and the Commission, after detouring to Paris, where Sarkozy remains eager to stay close to Berlin while getting closer to London (and moving faster in Brussels). Elsewhere, causes for political fragility may be different but no less real. In Italy, Silvio Berlusconi's coalition now depends on the goodwill of an opposition led by his former partner Gianfranco Fini. In France and in Spain, Sarkozy and Prime Minister Zapatero face difficult electoral deadlines, in May 2012 for the French and possibly earlier for Spain.

The unfolding debate over the next EU budget (2013–20) is a good and somewhat neglected example of a European Union torn between what the institution must do as a matter of regional policies and what its members can do as a matter of local politics. With total EU spending limited to about €140 billion ($180 billion), or barely more than 1 percent of its members' GDP, the budget is a vital test of solidarity for and among all EU members. An early attempt at a new budget deal to address the costs of enlargement failed when Blair, then the European Council's president, openly clashed with then-French President Jacques Chirac.

Conditions have not improved as a new political cast must work with a far worse economic script and a much more difficult audience. Nonetheless, the EU commissioner in charge of the budget, Janusz Lewandowski, has boldly asked for autonomous revenues—an issue raised in the mid-1960s by the first president of the European Commission, Walter Hallstein, when the Union was a small "community" of six members struggling to start a modest common market. A tax on carbon emissions or financial transactions, it is now argued, would help provide for a much-needed 6 percent increase in spending. Such a tax could also provide resources to respond, at no direct cost for the members, to the growing needs of many more and poorer members, and a wider range of responsibilities within the single market and beyond Europe.

But no "rich" national capital is likely to endorse any such proposal while conditions of budgetary rigor hold sway at home, especially since giving the European Union some taxing authority would open a new front on whatever remains of the sovereignty of the nation-states, and weaken further the national legislatures relative to an ascending, post-Lisbon European Parliament. In any case, significant reform on any issue of significance would require a new treaty which would take years to negotiate, without guarantees of ratification by all of its members anytime soon, if ever. That is atrophy, and for an institution that is nearing the age of sixty, it is a potentially terminal condition.

Lacking new revenues, a redistribution of spending is overdue. At this point, the budget still consists mostly of entitlements (as much as two-thirds) that are more or less automatic but do not always reach the poorer countries or regions and sectors within those countries. For that to happen would require another reform of the European Union's common agricultural policy which Sarkozy, among others, has already pledged to veto. "I am ready to face a crisis in Europe rather than accept a dismantling of the Common Agricultural Policy," he warned last March. Sarkozy must run for reelection in May 2012, and though he will find his campaign difficult because of public mistrust, he will likely win due to a lack of credible opposition. Sarkozy is unlikely to show much flexibility—and past 2012, budget reforms may be postponed to the next seven-year budget sequence. In some ways, the budget debate will provide a first cut on the scope

"Policy without politics" by the Brussels bureaucrats is no more sustainable than politics without policy by the politicians in Athens or Madrid.

How things have changed for the European Union. Where bigger used to be better, smaller is now said to be smarter; and where more used to be smarter, less is now thought to be better.

and credibility of the European Union for the balance of the decade. This includes whether and how well it can accommodate further enlargement (such as Turkey, with a very large farm sector and a per capita GDP that is lower than that of nearly all current twenty-seven members), and whether and how it can develop a common foreign and security policy that will have the capability to make the European Union into a world power. How things have changed. Where bigger used to be better, smaller is now said to be smarter; and where more used to be smarter, less is now thought to be better.

Although the budget debate thus touches upon most other issues, including institutional enlargement and reform, it is only one issue among others. The defining characteristic of the current EU crisis is that this is the most "complete" crisis in the history of European integration since the signing of the Rome Treaties in March 1957. It is about prosperity, of course, but it is also about notions of leadership, security, and identity—each with its own institutional, regional, and national context. The situation is quite messy, and that is also what makes it an "existential" moment for the European Union.

The inability to address the totality of Europe's crisis may help to explain the mood swing in 2010. With each premature announcement of Europe's death, what has always mattered was the re-launch that followed, often called *relance européenne,* one of those many French phrases that escape translation, as if to symbolize France's determination to keep its imprint on the history of European integration. For example, "Europe" reportedly died in childbirth with the demise of the European Defense Community in August 1954, but it was miraculously resurrected with the decision to launch the European Economic Community less than a year later, at a conference of seven nations (including Britain) held at the Italian port of Messina. Shortly after the Common Market was launched in January 1958, it appeared to die again five years later, when France said no to Britain's bid for membership. But somehow the process managed to outlive de Gaulle's presidency, after which it was renewed with a first attempt at monetary union in The Hague in 1969. In the 1970s, two oil crises and several years of stagflation seemed to run Europe out of gas and out of time, until a European Monetary System and a substantial budgetary bribe for Britain produced the Single European Act in 1986 as the first new European treaty since Rome twenty-eight years earlier; and so forth.

All these past crises, however, were one-dimensional. One issue defined the crisis—Germany's rearmament, for example, or Britain's membership, or the Common Agricultural Policy, or the terms of monetary discipline, or the pace of enlargement. The crisis could thus be overcome either by resolving that single issue, or, should resolution not be possible, a diversion of the process to other issues. Now, however, the EU crisis is unfolding as a complex composite of many issues of affluence, identity, leadership, and security—each vital and difficult to resolve on its own, but all inseparable and even more difficult to address together.

Even under better economic conditions, the European Union would therefore be in crisis, far removed from what used to be called the "finality" toward which it needs to proceed in order to satisfy the widening array of members it serves. In the words of leading EU expert Vivien Schmidt, Europe now stands as a "region-state" that integrates its member-states and transcends the nation-states on a growing number of vital issues, but lacks political accountability for the policies over which it asserts unchallenged authority. Herein lies the European Union's most central contradiction. "Policy without politics" by the Brussels bureaucrats is no more sustainable than politics without policy by the politicians in Athens or Madrid. Under such conditions, there is little hope for decisive action on any of the main issues on the EU agenda, whether among the sixteen eurozone members (assuming no dropouts) or twenty-seven EU members or more. More than ever before, the European Union is moving at multiple speeds, with some members ahead, a few willingly left behind, and the rest bitterly unable to keep up or moving openly in reverse.

Making the eurozone whole has not been less likely since the launch of the single currency, when Tony Blair was preparing for a "euro-ic" referendum. Even over time, there does not appear to be much hope for an expanded EU-compatible eurozone whose members would prepare for economic union by a date deemed to be credible even if not certain.

Nor is the making of a new EU consensus promising, either. Germans are growing restless about a Union now populated with too many states that are "unworthy," or else

In Greece, the numbers still simply fail to add up.

acquired in a fit of collective absent-mindedness, often inspired by a French partner whom younger Germans, denied their father's memory, also find too intrusive and even obtrusive. EU policymakers have never met as often, bilaterally and through repeated and repetitive EU summits, but the more they meet and the more they claim to agree, the less they seem prepared to do collectively after they have regained their respective capitals.

Finally, another unique dimension of today's crisis has to do with its global context. Thus, the experts' talk of double dips and the like is too narrowly based on "economic fundamentals" that neglect the real danger of new geopolitical shocks for the global economy. That may well be the most pressing and yet the least discussed dimension of the present EU crisis. Thirty to forty years ago, for example, Europe's difficult period of stagflation grew out of the first oil crisis, which was itself precipitated by the 1973 Middle East War.

Remarkably, and notwithstanding the horrific events of September 11 and at least two ongoing wars, the great recession of 2008–09 occurred in the absence of any new geopolitical shock: no significant act of terror, no precipitate exit from or escalation of the U.S. wars in Iraq and Afghanistan, no military clash with Iran over its quest for nuclear weapons, no new military confrontation between Israelis and Palestinians in Lebanon, and so forth. In late 2008, a short war in Georgia and brutal skirmishes in Gaza were quickly kept under control, the former through a surprisingly effective EU mediation, and the latter with a relatively swift Israeli withdrawal. If anything, the geopolitical conditions that surrounded the recession in 2009 were benign. This is partly because of the decisions made by George W. Bush during the latter part of his presidency, which softened the U.S. policies relative to adversaries and allies alike, and partly because of the high, even exaggerated expectations that accompanied Barack Obama's election in 2009.

Time, however, is running out on the resolution of the most significant issues inherited by the new U.S. administration. In Iraq, there is a threat of civil war after the full withdrawal of U.S. forces. In Afghanistan, there are the risks both of an ever-deeper quagmire or of a premature withdrawal. In Iran, the decision over military action now seems to be mainly in Israeli hands, while another failure over the long-delayed Palestinian state will increase the prospects of another war in Lebanon. Pakistan and North Korea face increasingly aberrant or desperate conditions. In short, halfway into Obama's first term it is too late to blame it all on Bush, but surely not too early to fear that we may have been better off then when we were admittedly worse off.

All of this gloom would not augur well for the European Union if it were not for the fact of indispensability. Even for a committed Europhile, it has now become sadly appropriate to question whether the European Union has a future, and even whether it might be dying. The previously unthinkable has seemed to shape the two decades since the end of the Cold War. The collapse of the Soviet empire, the horrific events of September 11, and the great recession of 2009 were all system-changing events that caught most experts by surprise. Will the European Union now take a turn for the unexpected?

But having raised the question, it important not to overlook the signs which point to the ability and intention of the European states to move on with their institutional construct as the best of all bad alternatives. Complacency aside, there remain many reasons for optimism. First, at age ten, the eurozone finally suffered the crisis that economists had anticipated at birth, and not only survived but responded with unexpected steps, including the unprecedented ability of the European Union to have an explicit say, potentially enforceable, in how a member-state spends and even raises its revenues if it is to rely for help on the substantial resources of its richer and more affluent partners.

Though Europe may have stumbled on its path to economic union, there are many hopeful signs for its future. World demand remains solidly above 4 percent and some of the German-led European economies are well-equipped to exploit it. The euro's value met and surpassed its ceiling relative to the U.S. dollar ten years after its launch, and is likely to continue to evolve at least 15 to 20 percent below that ceiling and thus reasonably close to its initial value. EU governments and institutions showed willingness to eliminate the bad banking instruments that created the shortage of liquidity which is of continued concern in and beyond Greece. They also mounted an unprecedented institutional intrusion into the fiscal affairs of weak members, and the European Union is now endowed with a direct and potentially enforceable say in how member-states spend and even raise revenues. Members have shown a surprising political will to restore government solvency with drastic budget cuts once unthinkable but now implicitly recognized as inevitable. New initiatives like Sarkozy's call for a Euro Forum of heads of state and government (with a Secretariat) would, however timidly, attempt to move the European Union toward economic union. Bilateral relations between the United States

Continued on page 72

Continued from page 58

and the leading EU members have sharply improved, including France, traditionally America's *bête noire* in Europe and now arguably its best partner. Historical political reforms to improve democratic governance are under way in the main EU countries, including British electoral system reform and reform of the Constitutional Court in France.

Some will say these signs are not conclusive, and they may be proven right. There is still no absolute certainty the eurozone will survive with its current sixteen members, let alone expand to include all EU countries. In Greece, the numbers still simply fail to add up. The public debt continues to move on an upward trajectory that could soon reach nearly 150 percent of GDP, with an interest rate as high as 10 to 12 percent and thus interest payments as high as 18 percent of GDP, assuming no worse-case scenario, geopolitical or otherwise. To be sure, Greece is a small country relative to its twenty-six other partners, but a Greek collapse could bounce on to other small economies like Portugal and Ireland, and ultimately spill over to larger countries that remain fragile, including Spain and Italy.

This debate is not about conclusions, however. After sixty years, Europe is what it has become from one treaty to the next. Over the next three to five years, Europe will be further shaped by decisions it makes on each issue in an unprecedented agenda faced by its members and addressed more effectively as a union of member-states than as a mosaic of individual nation-states. The argument for success lies in part in the knowledge of how much has been achieved over the past six decades. ◆

Members have shown a surprising political will to restore government solvency with drastic budget cuts once unthinkable.