

# A European Commonality of Destiny: Through Social Justice and Strategic Autonomy

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The Citizen and  
the European Elections



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# A European commonality of destiny: Through social justice and strategic autonomy

## Executive Summary

On its course toward integration, Europe has now reached a plateau of impotence, both with regard to its economic and social performance and with respect to its international role. It no longer delivers what its citizens need, nor what third countries expect from a large and advanced economic and demographic power. Internally, it is losing voters' confidence, and externally, it is losing credibility. On the domestic front, the EU is caught in the trap of debt and unemployment. Internationally, its helplessness in the face of Russia, the Syrian crisis and Ukraine's loss of Crimea, has only been matched by its resounding silence on Snowden's revelation of NSA electronic surveillance.

This is in blatant contrast to the support EU has long enjoyed from its citizens, thanks to freedom of movement in the Single Market and the Schengen area, protection for consumers and the environment, the Erasmus programme and many other advances. The powerful attraction which Europe has exerted on its neighbours, and which has led to massive enlargements, bears witness to the popularity of the EU, both internally and abroad. On the broader international level, the EU's trajectory towards global status was, until 2010, only matched by China's rise. The EU's growth stemmed from its steady progress towards integration while China's increased standing was due to its economic miracle. Last but not least, the eurozone governance crisis has even highlighted the resilience of the complex institutional EU system: political determination from the European Council under decisive Franco-German leadership and President Herman Van Rompuy's clever stewardship, daring ECB action under Mario Draghi, and creative thinking and diplomatic skills from high officials of the EU institutions and Member States have rescued the eurozone from disaster and begun the process of rebuilding its skewed and unfinished governance.

Yet, these brilliant achievements are no longer enough to meet social demand in Europe or to assert the EU's authority abroad. On the one hand, people today focus on near-zero growth, banking fragility, unprecedented structural unemployment, rising inequalities and extreme poverty, whilst European middle classes fear downgrading. On the other, foreign governments and markets perceive the eurozone today as the major source of uncertainty for the world economy and fear that Europe is following Japan on a deflationary trend. However, Japan is a homogeneous and cohesive society. The EU's unity is still fragile and in the case of a protracted crisis, centrifuge forces might eventually outgrow centripetal ones. So the overall picture is bleak and justifies radical thinking which reaches out to the heart of the EU's malaise.

Fundamentally, what is missing in Europe is a red thread to pull together separate key policy functions, so as to make the EU more predictable and accountable for citizens and for foreign countries. The real test for EU governance is to regain the trust in Europe's real intentions among ordinary citizens and ability to deliver on two grounds: the economy and the EU's role in the world.

The EU is impaired by two severe shortcomings: the original schizophrenia between security and economy, and the inconsistent division of competences between the EU and Member States with regard to growth and wealth distribution. Unless it addresses this twin challenge head on, the EU will be doomed to frustrate its citizens and play in the junior league in the international championship.

Europe today needs a reunifying concept to bringing together the responsibilities of sustainable and fair development for all its Member States, and to design and implement a global strategy vis-à-vis the rest of the world. Member States are no longer able to cope with either globalised market capitalism regulation, or with huge emerging continental States whose economic weight has caught up with demography. Only the EU provides the relevant dimension. Both economic and strategic missions are linked. The model and the power are indeed two sides of the same coin, a deep sense of commonality of destiny from European people. It is a matter of building up a European consciousness, based on reason and ethics, which would transcend national identities rooted in emotional memory and cultural values. Critical to this common consciousness is the most singular mark of Europe, which makes it stand out among other civilizations and which draws its deep origins from both Christendom and the Enlightenment: Europe's ideal of equality<sup>1</sup> based on freedom and justice. These values are rooted in the conviction that all human beings are equal in dignity and that they deserve to be treated as such, but with a view to extend and not restrain the freedom of each individual. The equality ideal should not be mistaken for egalitarianism, which hints at a levelling down. Rather, it encourages meritocracy and responsibility through policies of equal opportunity and solidarity in the face of life's difficulties. It strives for reasonable equality of social conditions.

European social models, in their various guises, translate formal equality into real equality through policies that range from education and health to social security and social programs for the poor and the disabled. EU officials talk a lot about a European social model. But in fact, through the Single Market and the Single Currency, the lack of a significant central budget and by allowing market forces to arbitrage between national tax and social regimes, the EU puts Member States' social models in competition with each other. As long as growth was prevailing across Europe, this competition drew all countries upwards. This is no longer true. Since enlargement, differences in labour and social conditions have exerted pressure on jobs and wages in Western Europe, while widespread free riding on corporate and financial assets taxation turned into a race to the bottom. The financial crisis and the resulting policy of fiscal and wage austerity have made things worse.

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<sup>1</sup> This central concept is already present in Defraigne Pierre, *La Stratégie 2020 et la lutte contre la pauvreté en Europe: Idéal égalitaire contre idéologie néolibérale*, Madariaga Paper Vol.3, No 2, Madariaga-College of Europe Foundation, Apr. 2010; Biscop Sven, *Raiders of the Lost Art : Strategy-Making in Europe*, in *Security Policy Brief No 40*, Egmont Institute, Nov. 2012; And in my own pamphlet: Defraigne Pierre, *l'Euro, le modèle et la puissance/the Euro, the Model and the Power*, Madariaga-College of Europe and European Trade Union Institute (eds.), Aug. 2013

If we are to protect the cohesiveness of the EU, and in particular, the eurozone, it is obvious that we should seriously endeavour towards a common social model that would envisage upwards convergence among countries and some degree of cross-border interpersonal transfer across borders, especially with regard to unemployment benefits. The equality ideal is a noble ethical value, but, as the proof of the pudding is in the eating, this ideal must be embodied in concrete policies and effective institutions which together make up a social model. A common social model calls for three systemic and structural conditions: a European framework for market capitalism regulation; a stronger and more integrated industrial base, i.e. a hard core of true European champions in central high-tech industries; a set of institutions and rules encouraging growth and solidarity and organised on the basis of a European labour market consistent with rising mobility of workers.

Such a common social model would warrant consistency in EU economic policy, starting with eurozone governance; providing it with the sense of purpose that it is desperately lacking today due to an over-reliance on the market and being confined to currency stability. The common social model would provide a framework for policy consistency in the eurozone between the ECB, the EU institutions and the Member States. It would ease debt restructuring, get rid of unbridled tax competition and eradicate tax havens within the EU.

But the common social model would fulfil another role in the area of security, which, currently, is completely disconnected from economic and social policies. The EU needs a global strategy of its own. A European strategy is more than the algebraic sum of national policies, and different from a hypothetical Atlantic one. Without a strategy, which implies a common diplomacy and a common defence within NATO on a political par with the US, and whose effectiveness requires qualified majority voting on foreign policy, the EU can only be reactive player, but not a shaping actor in international affairs whose developments greatly impact Europe's social and political cohesion and security.

A common social model constitutes the vital core interest of the EU, which eventually justifies its political unity as opposed to its dispersion among national entities or its dilution in a wider Atlantic area. It is the central value which is worth fighting for, because it brings Europeans together on the basis of their rich cultural legacy.

European equality based on freedom and justice, and incorporated in a set of institutions, rules and social practices, would also provide a powerful beacon for the EU to contribute actively to shaping up a multilateral system geared up to prosperity, fairness and peace in the new global economy and power balance context.

Eurozone governance built on a common social model and an EU-wide security strategy, whose vital core interest would be the same common social model, would radically change the perceptions and attitudes of European citizens. This would make Europe more relevant and more accountable to voters, since this model would be confronted with critical stakes which are today out of reach for national Member States. This radical move would make effective democracy in Europe possible once more. A common social model, coupled with strategic autonomy, would revive the perception of a commonality of destiny across national borders and contribute to the rise of a European demos, which still remains the missing link in European integration.

## 1. A United Europe Could Shape the New World Order

Economic globalisation has triggered a transition toward a new world economic order. Europe was, along with America, a leading force behind this trend: it contributed both to trade and financial liberalisation, and its multinationals played their part in the outsourcing and off-shoring drive. Yet today, the EU struggles to keep up with the movement it has initiated. It is at pains to retain its competitiveness in the most advanced high-tech sectors and resist competition from China's first global firms. It is at loss to understand, much less cope, with the geo-economic and geopolitical consequences of the East-West convergence brought about by globalisation. The unconsidered rush into the unpromising TTIP negotiations is a sign of European disarray in the face of the new geopolitical landscape. It is evidence to many that Europe has no strategic vision, neither for its internal development, nor for a tentative common foreign policy.

The world is today facing a strategic vacuum. It is in search of a new global order, either grounded in rule-based multilateralism, or founded on a balance of power. As time elapses, globalisation is proving a far more radical and deep change than had been anticipated when it started, almost unnoticed in the early 80s. The product of a triple revolution - technological, political and managerial - globalisation has been seized by China and its East-Asian periphery seeking convergence with the West, with structural and systemic consequences for the rest of the world. Over the last two decades, America and Europe have been deprived of two ancient economic privileges: on the one hand as China turned into the factory of the world and began climbing up the technology ladder, the West lost its monopoly over manufacturing, putting its jobs and wages under the pressure of Asian labour markets; on the other, the race for energy and natural resources resulted in a reversal of terms in trade with the South as the prices of major manufactured goods went down whilst commodity prices went up. Moreover, over the course of two or three decades, the whole planet has been confronted with dramatic climate change which calls for difficult burden sharing and a new world energy order.

Besides the loss of such a 'Western rent' over the rest of the world, America, Europe's security guarantor, has had to deal with the erosion of its strategic hegemony. China's "peaceful rise" has nevertheless been accompanied by the development of a 'blue water navy' to protect its maritime supply lines, whose importance is increasing with China's growing dependence on energy, commodity and food sources in Africa, the Middle East and Latin America. Someday China will be like the US today, a world maritime power. This new prospect drastically changes the world map of strategic power. It entails tremendous consequences for Europe. These consequences have not been addressed so far. Yet the changes brought about by globalisation make a decisive case for Europe's political unity and the creation of a real strategic capacity.

What are the changes? Let us first mention the well identified threats and risks that will persist and which call for renewed efforts from the international community: nuclear proliferation, rogue states, terrorism, pandemics, cyber-attacks, human trafficking and trans-border crime.

There are new challenges ahead though. The first one is the compatibility and rivalry between the development models of the US, Europe and the BRICs, mainly China. A variety of combinations of market capitalism models and political systems are coexisting in a global and interconnected market. On which legal ground do we keep trade markets open by tackling competition distortions? How shall we ensure the stability of the international monetary

polycentric system that is shaping up? Can we develop a new multilateral system, on the basis of the Bretton-Woods foundations, but rebalance the leadership so as to factor in the new economic power balance, as well as provide more policy space for the converging economies so as to address their development needs? The severe loss of credibility of the Washington Consensus, after the 2008 financial crisis, leaves a political void with respect to ensuring the compatibility and convergence of the various development models. A muddy transition is therefore inevitable and could drag on. Will ad-hoc cooperation to avoid policy conflicts and promote synergies despite systemic differences, be limited to US and China - a G2? Or would the EU be able to participate effectively in a G3, instead of simply outnumbering other participants in the G20, yet playing a modest role there?

A second threat lies in the fair access for all countries to natural resources - energy, minerals and food - at a time of rising demand. As GDP per person rises in the BRICs, so does their demand for commodities. Their sheer size makes the impact on prices of their productivity and consumption growth very serious. Access to resources based on market price competition favours rich countries at the expense of developing ones. Most of the BRICs are both emerging and developing economies at the same time. For commodity-import dependent countries such as China, any price rise amounts to a toll on development capacities. Therefore China, like major Western countries, implements a strategy to directly control commodity supply sources through financial investments or political deals. Among the latter, the strategy of offering “protection” to supplying countries, such as the ‘oil-for-security’ deal concluded in 1945 between Franklin D. Roosevelt and King Abdel Aziz on the USS Quincy, might present the risk of confrontation among large commodity users.

A third cause for concern is burden-sharing between advanced and emerging economies in the fight against climate change. Could effective and fair deals be concluded or will unilateral CO<sub>2</sub> reduction policies impose carbon taxes on imports from reluctant exporters?

The fourth risk is the widening development gap, as the least developed countries are left aside by globalisation, or populations are left in abject poverty by corrupt governments and foreign intermediaries reaping the benefits in commodities-exporting countries.

## 2. Distributional Issues as the Disregarded Challenge

But the most serious threat might come from within our own societies - Europe, America and China - as growth slows down, making social inequalities more and more unacceptable. The lack of consideration given to distributional issues is proving a serious social and political problem on each continent, which contains the seeds of civil strife and protectionism.

The neoliberal mantra exalted ‘trickle down growth’ supposed to improve the lot of the rich and the poor in such a way that income redistribution was deemed irrelevant by conservative economists. They ignore the ethical dimension, the deflationist risk entailed in rising inequalities which was recently highlighted by the IMF and the protectionist risk attached to high unemployment. They also overlooked the link between debt and stagnant wages, as the subprime loans granted to ‘Ninja’ (no income, no job, no asset) by unscrupulous bankers in America clearly illustrate.

Inequalities have been rising everywhere in all countries, including China and most BRICs. Western Europe has more or less contained the trend towards inequality, depending on the national social model. Today, as the growth wave is receding, it is uncovering the magnitude of the problem, which has taken macroeconomic proportions with potential severe political consequences.

America, where the concentration of wealth reaches appalling proportions, is today paralysed by the divide between Democrats and Republicans which blocks the correction of the fiscal deficit. The USA, which can no longer, to the same extent as in the past, issue dollars to finance private and public overconsumption, is now seriously confronted with the 'guns and butter dilemma': cutting spending or raising taxes. The 'fiscal cliff' is forcing the FED to push the limits of monetary policy, so far towards quantitative easing, and soon with higher interest rates. A significant portion of the cost of a monetary policy exclusively serving American interest will be borne by the rest of the world. If the inequalities which remain unaddressed persist, they will eventually have a serious impact on trade.

China has built its exports-driven growth on consumption repression, allowing for explosive income gaps both between regions and between rich entrepreneurs and poor unskilled workers. The CCP is undertaking to correct this skewed development strategy by letting wages go up and setting up social networks, and possibly increasing the return on households savings through financial liberalisation. Yet the task is huge and complex, since it amounts to a deep reshuffling of China's economy, whose growth rates have come down from two digits to 7-8%, a figure which might not be enough to create jobs for the migrant workers moving from the country to the cities.

Europe is confronted with the fragility of its national social models, which have to correct growing primary inequalities stemming from technological progress and from global labour markets pressure. But due to tax competition, which takes on the air of a race to the bottom, and the need to reduce debt to GDP ratios, governments encounter growing difficulties in preserving the high level of solidarity and social protection which are the salient features of the European economic system.

All countries are today facing up to the social tensions which the combination of slow or slower growth and rising inequalities creates, with potentially dangerous political consequences. The remarkable thing is that, so far, protectionism has remained relatively low on the world markets, probably because of the constraints imposed on firms by the existence of global value chains and intra-firm trade of components.

But protectionism can take an aggressive form as it attempts to evict major partners from trade deals. It can also take the form of trade bilateralism, a modern version of mercantilism when it is imposed by large trading powers on their smaller partners. Such bilateralism can lead to the formation of trading blocks and possibly currency blocks which would fragment the multilateral trading systems. What can the EU do to measure up to these challenges which could hit at the heart of European societies if they are not dealt with at both the internal and the external level?



### 3. A Waning European Influence

The EU's international standing is weakening. Since the Greek crisis it has been drifting away from the ascending trajectory towards global player status which it had enjoyed until then. This is reflected in three circumstances: firstly at multilateral level, its influence is waning in the WTO and in the climate forum whilst it is playing no role at all on the international monetary scene. Secondly, it often displays weakness in dealing with major powers such as US, China and Russia, essentially because of the rivalry among the main Member States which gives rise to "divide and rule" tactics. Thirdly, its recent record with regard to the Arab Spring, the Syrian crisis and the Ukrainian crisis, reveals a lack of vision, of leadership and of capacity for effective action. The EU is definitely punching below its economic and demographic weight. As it does not succeed in gathering its own forces, there is a propensity in some leading circles to play the American card, as in the Cold War.

### 4. Achieving Atlantic Political Parity

The nature and the quality of the Atlantic Alliance between America and Europe is by far the most relevant and important challenge for the future of the EU. The EU-USA relationship is both very rich and very challenging. The two partners share fundamental values. They have fought Nazism and Soviet imperialism together, and their joint fight forged a strong common legacy. Yet deep differences abound with regard to societal values - from genetic food treatment to the death penalty, from regulation *ex-ante* to litigation *ex-post*, from the dominant role of special interests in US politics to a more democratic control of business in Europe, from American competitive individualism to solidarity embodied in generous social policies in Europe, and last but not least, in the balance between security and individual freedoms with regard to the privacy of personal data and communications. What Europeans often overlook is the effective cost of their strategic dependency on the US. As America is the security guarantor of last resort for a defenceless Europe against serious threat, Europeans have to bear a hidden economic cost, instead of sharing a clear military or financial defence burden. At the end of the day, the hidden costs out price the straight ticket, which ultimately makes it a poor deal for Europe. Let's list a few. The first is the "exorbitant privilege" of the dollar whose depreciation must be absorbed by Europe in terms of market and jobs losses. The second is the competitive edge, provided to the US economy by defence-led dual technologies paid for by the US taxpayer and by the foreign holders of US T-bonds, which gives it a comfortable lead on Europe in key high tech sectors. The third is the "digital vassality" of Europe, which puts its big data in American clouds whilst the NSA intercepts and treats sensitive information in private, business and strategic communications, with Europe so far keeping silent.

Some want to aggravate this dependency by rushing into a "Transatlantic common market", notwithstanding the huge bargaining power gap between US lobbies and a Europe still confronted with the fragmentation of the Single Market in key areas such as telecommunications, defence equipment, energy, financial services and digital industry. While a wobbling euro and a significant energy cost differential would result in serious competition distortions, these risks remain ignored by TTIP promoters. Moreover, the TTIP would not only undermine WTO authority and further damage the multilateral trading system, but it would

also turn Europe into an instrument of the US trade-based strategy of China containment. Such risk is enshrined in the twin TTIP and TPP trade strategies controlled by the US, since they both exclude China. This containment strategy could result in reactionary tactics from China, with the RCE trade deal. The latter could converge with the Chiang Mai (1998) swaps deal and eventually result in the emergence of a rival trading and monetary block. Such deals could pave the way toward a “continentalisation” of the global economy. Such continentalisation might nurture other confrontations, in particular with regard to market and resource access.

These situations create the potential for serious conflicts of interest between advanced and emerging economies. Therefore, Europe is confronted with a choice: either to defend its stakes as a politically united EU or, as a loose coalition, be sucked in as a junior partner in a US-led block, turning the Atlantic Alliance into an offensive ganging up against other large economies, such as China or Russia.

What also makes the EU-US partnership important is its relevance to NATO. NATO has been a powerful strategic tool in search of a strategic purpose since the end of the Cold War. Very effective for half-century as a deterrent, NATO has a narrow effective military record, in only the Kosovo war and as an intelligence and transportation support to the Anglo-French engagement in Libya. In the future, either NATO will fulfil a strategic capacity whose mobilisation is decided on a par by EU and USA; or it will become the framework for a broader political alliance between America and a coalition of individual Member States. In other words, either the Alliance is led by its instrument whose scope of responsibility would be extended to political and economic cooperation which would confine Europe to the status of “junior partner of America”, or NATO will be the common strategic tool of the US and the EU with decisions made on a par. This would require the EU to have a common defence and a strategic autonomy in order to reach political parity with the US. This ambitious course of action is only accessible to Europe if it chooses the path of fully-fledged political unity which implies both an internal and an external dimension, namely a common development model and strategic capacity.

## 5. Europe’s Soul Searching

What is lacking for a European political Union or, preferably a political Community coinciding with the eurozone, is a sense of commonality of destiny shared by European people beyond their respective national identities. This stems first from serious divergence on what should and could be a true European social model which constitutes the common good of European societies. Also, the original schizophrenia between strategic security left to NATO, and economic growth entrusted to the EU, blurs the citizens’ sense of belonging to Europe. Fourthly, a lack of common defence turns the EU into a soft power without a hard power; that is, no power at all. Unanimity in decision-making on foreign policy ultimately exposes the EU to divide and rule tactics from third countries, and as a result makes the EU an unpredictable partner since it is easily divided.

The EU has not yet agreed on the ultimate objective of its integration process and still has no fixed frontiers. Huge divergences prevail among Member States with regard to a common social model, the institutional nature of the EU - federal or intergovernmental -, the future borders and the degree of strategic autonomy of the EU *vis-à-vis* the USA. Therefore the main developments in EU political integration do not originate from inner leadership, but result from

the interaction between a growing economic interdependence inside, and external factors, of either economic or geopolitical nature. It is not an exaggeration to say that the EU is crisis-driven. Only crises carry the strength to bring about the necessary sovereignty transfers. There is indeed no appetite for more Europe, and even less for a federal Europe among the leaders and among the public at large.

A growing number of people though want another Europe, more democratic and geared towards social progress and the construction of a strategic power. Yet a Europe of that sort also means, in fact, more Europe and a more federal one.

There is not yet a true EU leadership. It is the collective gathering of national Heads of State and Government which initiates and takes strategic decisions. They decide on compromises which are achieved through diplomatic procedures and never start from consistent and comprehensive blueprints. They take decisions in emergencies and often do too little and too late. Gradualism and incrementalism are the rule within the European Council. Tensions reflecting conflicting political views or opposing interests from national constituencies are imposed in the negotiation of complex and hard-fought compromises. There is not yet any European demos, sharing a sense of common destiny and organised along ideological lines across national boundaries

Considering those constraints, it is astonishing that major decisions have been taken to rescue of the Euro and advance integration. The determination and courage of key national leaders, the diplomatic skills of high officials, expertise and imagination from European Commission and Central Bank technocrats explain how, despite strict political constraints, the EU survives and works.

Yet its accomplishments are more and more out of step with the pace of geopolitical change. EU leaders today are at pains to cope with a major crisis of a systemic and structural nature. Both geopolitics and the solution to the economic crisis call for a quantum leap and for a radical change in policies. Is European society ready for such a move? Probably more than one would expect. National voters are torn between their attachment to their Nation-state and the admission that, whatever its size and its past glory, the Nation-state is helpless to confront the new geopolitical deal and nascent global market capitalism. If the EU showed direction and initiated movement, it would reanimate democracy, presently at a very low ebb, in Europe. People indeed realise confusedly, beyond their respective national identities, that there is no future for them and their children, unless through common action at an EU level. A European conscience is surreptitiously building up on the basis of reason, transcending waning national identities of a more emotional nature. Tensions about sovereignty transfers will persist, but they reflect more the usual conflict between tradition and modernity.

The crossing of a significant threshold towards a more political Europe must concentrate on the eurozone as the core of integration. It requires two prerequisites: on the one hand, redistributing economic policy competences between EU and Member States in order to eliminate severe institutional inconsistencies and to allow for coherence in handling the crisis and in shoring up the social model; on the other, repatriating strategic capacity under EU control within the Atlantic Alliance so as to cure the EU from its original schizophrenia. Achieving EU's fully-fledged political unity would allow its citizens to develop a commonality of destiny.

The EU today has reached a plateau and its integration is levelling off because of its inner heterogeneity. It has not proved able to match massive enlargement, imposed by geopolitical upheaval in Central and Eastern Europe, by deepening its political integration. Its trajectory towards global player status has abruptly stopped. This change did not pass unnoticed in foreign countries, especially among the largest ones and the emerging ones. The contrast with China, whose trajectory based on economic growth paralleled that of the EU based on integration until the early 2000s, is blatant. Paradoxically, it is a source of disquiet in Beijing, which is very eager to promote world multipolarity. But the ordinary citizen is also struck by the weakness of Europe in tackling the crisis and in harnessing global market capitalism which left unbridled, represents a major challenge for the integrity of the EU.

The EU won't reach political maturity as long as it does not re-appropriate its potential strategic capacity, which is today split between Member States and NATO as part and parcel of a European grand design. Citizens will never entrust EU with further responsibilities in the economic and social area, though is urgently needed for the eurozone's mere viability, unless they are reassured about Europe's ability to protect them against the uncertainty of a reshuffling global world. National identities forged by history and culture are strong and deep, but they are turned towards the past and undermined by the growing feeling that European Nation-States are becoming mere prey for global firms and emerging continental powers.

Citizens sense that the EU is exhausting its original model because governance is lagging behind economic integration. Yet the latter must go further towards a deeper industrial integration with the creation of EU-wide EADS type transnational groups, along with a eurozone-wide labour market, which are the twin structural conditions for enhancing innovation-led growth and for ensuring a fairer sharing of its benefits. A strong industrial basis goes hand in hand with a common social model.

## 6. Building Up a Common Social Model on a European Model of Market Capitalism

Progress towards effectiveness and democracy at an EU level, calls for a confrontation between the "realist school", as pragmatic leaders and seasoned diplomats refer to themselves, and the "prescriptive school" which focuses on institutional consistency and pan-European democracy with strong reference to shared values. Realists rely on intergovernmental negotiations using crises as a lever for change. Prescriptivists plead for an institutional quantum leap and a re-appropriation of Europe by citizens.

The EU is indeed suffering from a triple institutional inconsistency causing serious fault-lines which endanger the unity of the EU.

### 6.1. The Original Schizophrenia: Strategy and Economy

EU is the product of Cold War. The Marshall Plan (1947), the OECE, NATO (1949) and the ECSC (1951), the latter making the rearmament of West Germany possible, are the key blocks of the US-led Containment Policy against Soviet Imperialism in Europe. The EEC has been confined to the task of constructing a common market, starting with a custom union. The "bicycle theory" suggested a mechanical process through which market integration would lead to economic union and then to a common currency. This approach, taught across the world by generations

of Jean Monnet University Professors funded by the EC, has been twice proved wrong. On the one hand, real convergence among national economies did not result in deep industrial and financial integration through the emergence of genuine transnational companies. On the other, more integration did not prevent the return to economic divergence among countries within the eurozone, the flagship of the integration process. The EU in fact turned into a common space for competition between firms and governments. The Lisbon Strategy and its successor, Euro2020, highlight this ambivalence of the EU, not as a political entity, but as a competition area. Moreover uncertainty about common defence, whose absence severely limits the very possibility of a common foreign policy, has also acted as an inhibitor for further political integration. Today it would look absurd to move towards a half-backed federalism covering only the domestic agenda whilst foreign policy would remain in the hands of the Member States, the latter often being subject to *de facto* coordination by Washington or through NATO when it comes to serious issues of security and defence. Separating economic security from strategic security seems all the more surreal as the US, the EU's ultimate security provider, is also Europe's major competitor. The US is still enjoying the exorbitant privilege of the dollar and puts an effective limit on Europe's capacity to exploit dual technology in defence industries, as a key factor of global competitiveness.

## **6.2. The Fatal Chasm: European Market, National Social Models**

After the rapid completion of the Custom Union (1968), economic integration, through the edification of the common market, took a slower pace since it was, like social and tax harmonisation, decided by consensus. Thanks to the quasi generalisation of the QMV, the Single Act speeded up the abolition of internal borders, whilst very little progress was made on the front of social and tax harmonisation which remained, and still is, blocked by the national veto. The four freedoms of movement - goods, service, labour and capital - took prominence in the hierarchy of objectives and instruments of economic and social policies. National industrial policies were slashed by the EU for generating competition distortions; protection of workers was often subordinated to free movement, and tax competition set in, especially on mobile factors - transnational firms and large financial assets - after the liberalisation of capital flows (1990) and the passage to the euro (1999).

A chasm appeared between EU's grand design - pursuing growth through market integration - and Member States' ability to preserve the effectiveness of their redistributive systems. The deceleration of growth, the increase in unemployment, the rising of inequalities nurtured by technological change, globalisation outsourcing and offshoring and the accession of 13 low wage countries, aggravated the original tension between market-led growth and national social contracts. The latter's sustainability was undermined by the coinciding increase of inequalities and diminishing of the national tax revenues used to fund the redistribution.

Neoliberal thinking, as embodied both in the Broad Economic Policy Guidelines and in the Lisbon and Euro2020 Strategies, led to an exclusive emphasis on growth and its supposed trickle-down mechanism. It did not actually matter if growth - in fact on a declining trend - was obtained through more inequalities and more private and public debt. The EU's dysfunctional distribution of competences, and in particular the differences in the decision-making process between economic integration and social protection, have therefore resulted in a gaping confidence gap between the European and national elites on the one hand, and a large section of public opinion on the other. The failure of the French referendum on the

Constitutional Treaty in 2005 was the first clear symptom of the growing distrust of citizens towards the sort of Europe emerging from a market-led integration. It became gradually clear to the ordinary people that, especially in a time of crisis, the EU's integration model was in fact on a collision course with the most advanced national redistribution models. An additional factor of distrust was the ineffectiveness of social dialogue between trade unions and employers at EU level. Several factors explain the lack of results: the narrow EU social mandate, the disaffiliation of workers from trade unions, the lack of unity of the latter, and the confederal nature of the European employers' association, Business Europe. But the main reason lays in the absence of a relevant social space in Europe, because labour markets remain national whilst employers are either national or multinational. A true social model calls for a hard core of genuine European transnational companies, a strong EU authority and more representative and more united trade unions.

### 6.3. The Wobbling Eurozone

It was no secret from the start that the eurozone was designed for fair weather but would not withstand a severe storm. An orphan euro, i.e., without government, was also a one-legged euro, i.e. it had a federal monetary policy without its fiscal counterpart: no central budget; no banking union; no tax and no social harmonisation. ECB policy failures aggravated governance fault-lines by overlooking assets inflation, bank debt and massive purchases of toxic assets which hastened and worsened the financial crisis imported from the US. The eurozone was doomed to fail as soon as the financial crisis broke out in 2008. It almost went bankrupt with the Greece sovereign debt crisis in 2010, which all of a sudden revealed the divergence dynamics at work behind the '*one-size fits all*' ECB monetary policy. The euro was rescued by an energetic and clever intervention from the ECB and by the resolute action of the European Council under Herman Van Rompuy's clever chairmanship. The worst is perhaps over, but a bare and cold landscape lies ahead: quasi deflation, structural unemployment and rising inequalities.

The incremental path chosen by the ECB and the European Council to prevent a secession from the euro and a new banking crisis, consists of a mix of limited financial solidarity - the EMS which is only an intergovernmental guarantee scheme - and of strict and intrusive fiscal discipline - the TSCG Treaty and the six-pack and two-pack regulations.

The European Council has opted for a debt exit strategy through fiscal austerity - spending cuts and tax hikes - which is the orthodox, but socially painful and politically hazardous route. Restoring current imbalances has been achieved through internal devaluations, namely diminishing wages, which can prove deflationary as they spread across the eurozone.

Neither a transfer union, nor any debt mutualisation has been agreed by the 18 eurozone Member States, with Germany pointing out the risk of massive moral hazard. But the orthodox route, already difficult for an isolated State, proves very dangerous for a monetary union because the burden of adjustment is necessarily shared in a very unequal way: social tensions in one country can turn into political confrontation and spill over in the eurozone, threatening its cohesion and its integrity. In that respect, large countries such as Spain, Italy and France, represent a far more serious risk than that represented by more severely hit but smaller countries, if only because the cost of a rescue would exceed the resources of the European Stability Mechanism. A race against the clock has begun for the eurozone: any severe recession

in the present quasi-deflationary context could have unforeseeable consequences. The Damocles sword of the debt must be taken down, even by using heterodox policies: either inflation, very unlikely despite the accumulation of liquidities issued by the ECB quantitative easing policy, or some form of debt restructuring. As long as the eurozone is constrained by sovereign and bank debt, its survival represents the most serious global uncertainty for the world economy and for the future of Europe.

## 7. EU Foreign Policy, an Untransformed Essay

EU external action is a disappointment for the European citizen. The EU's impotence in dramatic circumstances, such as the Arab Spring, the Syrian civil war, where gas has been used against the civil population, and Ukraine, which has ended up losing Crimea through Russia's military pressure, as Georgia did South Ossetia in 2008, are blatant examples of the inability of Europe to gather its diplomatic and defence forces in order to ensure the territorial integrity and the respect of civilian lives in countries on its doorstep. EU's procrastination in Africa, where France is left alone fighting Islamist terrorism and ethnic and religious strife, is telling of the absence of strategic thinking of Europe.

Europe's record as a foreign policy player is a mixed one, and is on a declining trend. EU clarified its overall external strategy in 2003, in a brilliant document, the European Security Strategy, which sets out principles - prevention, comprehensiveness and preference for multilateral - which are never been completed by the identification of core interests and by the definition of priorities. The EU's foreign policy agenda is more eclectic than articulate. It is a mix of geographical targets - the immediate neighbourhood which is expanding as a result of successive enlargements and a list of strategic partnerships or dialogues more emphatic than effective with the US, Russia, China and Brazil; of instruments with their own national trade and development rationale; and of grand moral speeches about Human Rights and democracy. Trade policy, once focused on mercantilist interests, is pursuing a twin track of commercial interests and emphatic visions such as a "transatlantic internal market" from California to Romania and a FTA with Russia and its partners from Lisbon to Vladivostok, which was offered to Putin in Moscow on February 18 in a desperate attempt to entice him out of Crimea.

At the multilateral level, the EU plays a role in the WTO but is not represented in the IMF, while overrepresented in G20 and in fighting desperately to build an effective climate forum. For those who favour a step-by-step approach and "giving time to time", foreign policy is the ideal playground for the EU. Progress is achieved on a millimetric scale and at a snail's pace. The Lisbon Treaty developments of the CFSP and CSDP, especially the creation of the EEAS and the HRVP, have enhanced EU international standing in a significant manner. On the contrary, the EU has been losing its power of influence through its poor handling of the economic crisis and by its sheer inertia in the Syrian and Ukrainian crises.

Three ingredients are lacking for the EU's advancement: a clear definition of the EU's core interest, an effective decision making process based on QMV and common defence. Without a consensus on a common social model as its core vital interest and without strong strategic autonomy, the EU will remain a junior partner on the international scene. The contract is blatant between the rise of large continental powers, starting with China, which changes the global economic and environmental order and the strategic power balance, and the soul

searching exercise of Europe, satisfying itself with political declarations disconnected from effective diplomacy backed up by financial resources and military might.

The EU was successful in stabilising Central and Eastern Europe after the collapse of Soviet Union, but its record stops here. And it was an odd foreign policy achievement, since success was obtained through enlargement which is not exactly a standard foreign policy action. Foreign policy is about influencing others. Enlargement is about transforming oneself. And this was done without further political integration, especially on the security front, which results in increased exposure to more serious threats without the internal cohesion and the external tools for coping with them. The vicinity of Russia and of the Middle East provides Europe with two major reasons to complete enlargement by developing an effective strategic capacity.

The EU is currently the most serious source of uncertainty for the world economy, despite EU claims to be a global economic player. It is failing where it should excel. Its credibility is severely dented as the IMF and China are called to rescue the eurozone from wreck because the EU does not take the appropriate steps to put its own house into order. Yet its contribution to the strength of the world economic and multilateral economic order would give the EU invaluable credentials for standing out as a key international actor.

The tragedy of Europe's foreign policy is captured by the eurozone's inability to shore up its governance and find an exit route from over-indebtedness. The eurozone leaders see their effort as a domestic challenge, not as an international stake. They mobilise their collective energy on governance reforms and for deleveraging through growth paradoxically expected from restrictive fiscal policies aimed at restoring viable debt to GDP ratios and by wages diminution geared towards raising competitiveness.

But in this crucial and extremely difficult task, they completely overlook the fact that the world is watching and waiting. Third countries are eager to see the euro consolidated and growth resumed and maintained on the EU market because they need it, both for their own stability and for an exports outlet for themselves. Moreover, they want to know whether the European social model will eventually weather the storm, or whether it will be sacrificed to monetary stability and globalisation pressure. The euro crisis is the moment of truth for Europe. Europe is facing serious difficulties in establishing a strategic partnership on a par with its three most important partners.



## Conclusions

Faced with a protracted crisis at home, confronted with a brutal resurgence of military nationalism in Russia and with the rise of China as the new world giant, the EU is wobbling. The weakness of institutions and their persistent lack of support from citizens have forced Europe back into intergovernmentalism, with only half success and several unanswered questions.

On the domestic front, intergovernmentalism has worked, but on German conditions: the euro has been rescued from ruin at the cost of quasi-deflation, an unsustainable perspective. Germany's dominance is both reassuring and divisive. In the long term, it can't work even if cautious Berlin is reluctant to overplay its hand.

On the external front, intergovernmentalism has proved a non-starter: torn between narrow national strategic visions, inhibited by the rule of consensus and relying on an embryonic and defenceless diplomacy, the EU simply does not deliver on foreign policy. Its only foreign policy success has been the stabilisation of its Eastern flank, but that was done under American leadership and with NATO support in Kosovo, and has only been achieved through a legitimate but premature enlargement. The massive accession of ten countries should have led to more political integration, but actually it made the task more difficult because of the heterogeneity of membership divided on the social model, the institutional system, borders and the degree of strategic autonomy *vis-à-vis* the USA. The enlargement, which over the long term will represent a plus for Europe, meanwhile proves an additional complication. Yet eurosceptical UK deliberate and systematic efforts to slow down work and political progression are far more harmful than the inevitable steep learning curve of the new Member States.

The persistence of the financial crisis, which inhibits the very possibility of inclusive and sustainable growth, constitutes a major pitfall for EU integrity and for social cohesion and political stability in several Member States. However, the helplessness of the EU as an international actor represents the most serious risk for its future. The Ukrainian crisis is pushing Europe back into a Cold War scenario where America, more reluctant though because of its Asian pivot, is once again called to help because Europe, divided on its energy, financial and defence industry interests, cannot speak with one voice and stand eye-to-eye with Putin.

Moreover, if the EU embarks on the creation of a "transatlantic internal market" through the TTIP, then there is every reason to fear that Europe will give up the ambition of a genuine social model and become just a subset of an Atlantic block which sooner or later will be sucked into a confrontation with China. This is the reality of the challenge European citizens are confronted with, but they don't know it and they probably prefer not to hear about it. Democracy is on a declining trend in Europe, partly for deep cultural reasons - exacerbated individualism and ruling materialism, either as consumerism or as sheer greed - and partly for systemic reason - the irrelevance of Member States and Europe's unpreparedness to cope with the two sides of globalisation, global market capitalism forces and emerging huge continental states. This is why the present incrementalism is not up to the challenges Europe is facing. A quantum leap with a twin objective is paramount: a common social model as the keystone of eurozone governance and a strategic capacity putting EU on a political par with the US.

The social model embodies Europe's main values - freedom and justice - and Europe's singularity, a concern for equality. It should resume its ambition of full employment, which is

the condition of a sustainable welfare state, and of preventing and correcting excessive income and wealth inequalities and alleviating poverty. Restoring public finance viability and ensuring competitiveness are practical constraints, but not final priorities. The social model, which is a political project, should replace the market, which - with the crisis - proves more and more divisive as the cement of Europe's unity. A modern social model calls for a regulation of market capitalism at EU level, fully-fledged governance for the eurozone with a central budget funded by taxes levied on mobile bases - corporate profits and financial assets - a strong industrial base made up of European champions and a eurozone labour market framed by common social protection standards based on social dialogue.

Europe must project its social model as a benchmark for setting up a multilateral governance system on the foundation of the original Bretton Woods system inspired by the New Deal "embedded liberalism". But since there is no such thing as a soft power, Europe needs to back up its policy of influence with a common defence policy.

A common social model, coupled with strategic autonomy, would stir up the perception of a commonality of destiny across national borders and contribute to the rise of a European demos, which so far, still remains the missing link of the European integration.

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Benefiting from the role acquired by Brussels in the global arena and from the prestigious setting of the Egmont Palace, the Institute offers an ideal forum to visiting Heads of State, Heads of government, representatives of international organisations, foreign ministers and other political figures.

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## The Citizen and the European Elections Project

This Working Paper is part of the publication series “The Citizen and the European Elections”. The project intends to bring the debate on the European elections closer to the citizens, by focusing on those EU issues that are of particular importance to them.

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