SCHUMAN REPORT ON EUROPE

STATE OF THE UNION 2011

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STATE OF THE UNION 2011

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Thierry Chopin and Michel Foucher

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* The views expressed are those of the author and not necessarily those of the institutions to which he is affiliated.

1. This article was originally published in *Central Banking*, vol. 20, n°3, 2010.

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* The views expressed are those of the author and not necessarily those of the institutions to which he is affiliated.

Preface

Many facts indicate that just like 2010, the year 2011 will be dominated by efforts of the EU and its Member States to save the Euro. That will be the most immediate task, and it will require an extraordinary amount of statecraft and readiness for compromise on all sides. But two other strategic tasks should not be lost from of sight in this: The ongoing implementation of the Lisbon Treaty, and returning the Union to sustainable growth after the financial and economic crisis. It is, of course, true that without saving the Euro, the other two goals are unattainable. But it is also true that without developing a better routine in using the post-Lisbon institutional infrastructure, the performance of the Union will remain sub-optimal. And it is certainly true that without returning to stronger growth in the spirit of the Social Market Economy, all this will come to nothing.

That means that the three immediate tasks for the European Union and its leaders in 2011 are strongly interconnected. Moreover, none of them will be achieved unless the Member States as well as the institutions act in a spirit of compromise and common purpose, more than in 2010. This in turn will be greatly facilitated by basing our actions on the fundamental values for which already the Founding Fathers stood. These fundamental values are freedom and responsibility, solidarity and subsidiarity. They take their inspiration from the Christian image of Man, and they are the best basis for a strong European Union in the service of the citizens.

Wilfried MARTENS

Preface

The Changing Union

This international curiosity – the European Union – which is part federation, part confederation has a facet which many tend to forget: it is constantly changing. It was called to do this from the start – and this reveals both its strength and weaknesses. The cadence of its integration is also changing. But to date the European project has permanently moved towards *"an ever closer union among the peoples of Europe"* as the preamble of the Treaty on European Union reminds us.

Given new external challenges the Union has strengthened its institutions and armed itself with new institutional tools. To face economic and financial difficulties it is pushing for further integration of its budgetary policies, creating its own common supervisory bodies and is standing firmly by some of its members who find themselves in need – it is adapting its trade policy and together austerity plans are being implemented.

There are always some prophets of doom who find the reforms inadequate, who doubt their effectiveness because, they say, never in the history of humanity has a determined group of sovereign nations been able to stand up as an example of success. Above all there are many fools – financial markets, experts, economists, rash observers who understand neither how Europe works nor, more seriously, what its foundations are.

Over the last few months which have favoured the debt crisis, everything possible has been said about the euro area – that is not "optimal"; that the Union is too diverse, that the levels of development of its members are so different that they are incompatible, that its enlargement has prevented its integration, that it lacks the will to have a higher profile in the international arena and that it is too open to the world and trade. The Europeans themselves have even started to doubt the efficacy of the European project since they have been swept up in a whirlwind of information; they have been overwhelmed by daily revelations about how at the beginning of this new century the world is changing and how quickly new balances of power are taking shape worldwide. However the Union still stands firm. It has the greatest amount of wealth in the world, it dominates trade, it is a point of attraction for investors, populations, culture and the States which want to join it. Of course new continents are rising and achieving prosperity. This is good news for humanity, news at which we should rejoice. This is also why we must adapt as quickly as possible.

In many respects although wealth is in Europe, growth is in Asia; although dynamism is elsewhere, gloom overwhelms Europe; although the desire to discover, invent, build and develop is strong in the emerging countries, comfort, security and social security are so in Europe.

And the Union has started a new phase in its development.

The changes are being determined by circumstances rather more than being the fruit of clear analysis. In the 21st century size equals continent and alone our nations have no future.

The latter seem slow to react and find it difficult to take decisions. However they have been extraordinarily rapid if we gauge them against our thousand year history that has forged the identities which we hold so dear.

But real decisions have been taken and in 2011 there will be more if they prove necessary. The euro area has stepped up governance – even though a little more national sovereignty has had to be relinquished. Not one European State will now go bankrupt because the Union's partners are determined and have the means available to prevent it.

Growth will return because we no longer have any other choice nor time to delay conclusive decisions.

In sum this means that when the political leaders of Europe have to take difficult but unavoidable decisions they prefer to choose further European integration rather than disintegration because this is in their interest and it will be like this for a very long time.

This is why the "Schuman Report 2011" is the focus of optimism because it provides real facts and figures, commenting them and putting them into perspective – without waiving the problems and their complexity; it is objective and pleads in a better way than any other for acceleration in the process of European integration.

Jean-Dominique GIULIANI

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The European Union in the Crisis: between National Imperatives and European Interest

The European Union and Crises the Albatross Syndrome

Jean-Dominique GIULIANI

It is good form to say that in the international arena the European Union does not enjoy the influence it should given its economic and social successes which position it amongst the world leaders in terms of wealth, living standards and its major contribution to international trade. The Union is not a Power in the traditional sense of the term. There is still no consensus over the concept of "a powerful Europe" within its ranks. Generally we also rashly conclude that it does not contribute in the settlement of world crises and its relative absence is the focus of a great deal of frustration and regret. What is a crisis from Europe's point of view?

Whilst less than a century ago a "crisis" in Europe would almost certainly have led to armed conflict between some of the continent's States, a "European crisis" now implies a difference in opinion between Member States. With this we forget that European integration was based on the idea of settling differences around a table by means of procedures; these were part of a treaty signed formally by the States which had created common institutions to settle their disputes in a peaceful manner. Since 1950's the so-called "European crises" have all been settled thanks to agreements between governments. This is one of the main successes of European unification. This is not the focus of this article which looks into the Union's reactions to external crises which now comprise a real challenge.

An external crisis is an international event that is serious enough to lead to disruption in the status quo. Therefore it demands of a State or a group of States which intend to exercise global responsibilities, a political, financial or military response. Crises can be diplomatic, military, economic but also humanitarian, related to food supplies and sanitary conditions.

The Union, a power which is not yet finished and constantly growing intends to respect the identity of its Member States and at the same time progressively bring about the unification of the continent. It finds itself dangerously drawn into international crises which call for a response that involves its Member States. The Union's exposure to international crises is therefore quite specific. The responses it gives are no less specific and show that it is still learning to be a great power.

The Union's Basic Limits

Because of its origins the Union is restricted in terms of the responses it can give to crises which privilege peaceful means. Article 3 of the Treaty on European Union stipulates: "*In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter*." If the Union's goals are evidently peaceful, the means given to uphold that peace are too. The Union prides itself on being a "power via the rule of law[1]", cooperation and multilateralism. Embracing the planet's interests to establish stable, confident international relations, it has integrated the United Nations Charter into its vision of the world. By nature it bans all dreams of imperialism, any type of aggressive stance and *a priori* the use of force which is limited to exceptional circumstances by the UN.

The legal rule matches European reality. Stable and safe since the end of the Second World War thanks to its alliance with the USA and since the Soviet threat no longer exists, Europe has no enemies. Faced with global threats and even the violence of crisis situations the Union prefers multilateralism and even its bilateral relationship with America – as in the Balkans in the 1990's. Europeans, who have converted to peace and are protected from immediate threats, have developed an extremely Kantian view of international relations. "Eternal peace" must be possible since it finally came to be on the continent which holds the absolute record in terms of numbers of battles ever fought. Some believe that the rejection of war which goes hand in hand with an "aversion to danger[2], is a real constraint and explains why European Defence has made so little progress except via the so-called "Petersberg" missions i.e. maintaining, or re-establishing peace, reconstructing or intervention[3].

At the same time the Union shows that it is a world power, present across the world; that it has developed its tools to prevent conflict, its civilian missions and its development aid. In this area it is quick to commit to significant financial contributions. The Member States devote nearly 50 billion € yearly to this – i.e. more than half of total worldwide public aid; the European Commission and the European Development Fund spend 12 billion € directly[4]. In this way it is present the world over from the Cook Islands to Belize, from Nepal, Iraq, to Afghanistan and also in India and China! The Union is a world giant which privileges Soft Power.

Aware of its world obligations the Union is the most important participant in the effort to achieve the Millenium Goals and in the international community's work to prevent crises via aid to States or in the fight to counter major epidemics. It is now systematically amongst the first to grant financial assistance whatever the crisis. Present in Banda Aceh after the tsunami in 2006, it provided humanitarian aid to Haitians in 2009 and it stands by the Philippines every year when the typhoons pass; it is trying to stabilise Yemen and avoid the collapse of Somalia. Unfailingly in any situation which might develop into a crisis the Union develops programmes to fund infrastructures, to support local industry; it gives aid for food, administrative requirements and budgetary

1. Zaki Laidi, *La norme sans la force. L'énigme de la puissance européenne*, Presses de Sciences Po 2008, 2nd edition, 268 p.
2. Zaki Laidi, *Europe as a Risk Averse Power. A hypothesis*, Garnet Policy Brief, n°11, February 2011, pp.1-16
3. Articles 42 and 43 of the Treaty on European Union
4. Annual Report 2010 by the European Commission on the EU's development and external aid policies and their implementation in 2009.

support to struggling States and populations, as well as to NGO's. This is a reality of which Europeans are often unaware – that we are appreciated by our allies and highly present in the field. Emergency and reconstruction aid represents 1.61 billion € i.e. 13.7% of all of its development aid. Recently this has been the focus of reform and as a result services and instruments have been grouped together[5]. Kristalina Georgieva, Commissioner for "international cooperation, humanitarian aid and response to crises" is now responsible for ECHO programmes at the European Commission, whilst Andris Piebalgs supervises development aid via EuropeAid.

All of these tools are obviously implemented in an increasing number of external interventions – civilian, military, or a combination of the two and this means that the Union is involved in the management of global crises.

European Response to Crises or Learning how to be a World Power

The Union is now aware that it is involved in every world crisis. In South Korea for example European companies are now the most important investors whilst the country's security is mainly guaranteed by the presence of over 30,000 American soldiers. Threats from North Korea are of concern to Europe, therefore after the signature of the free-trade agreement[6] and a strategic partnership, and it showed its solidarity with the Korean Republic in the spring of 2010 when the latter was attacked by the dictator Kim Jong Il[7]. From now on there are no longer any crises in which the Union cannot become involved even if this simply means taking a stance.

It might be added that the Union is often upbraided because of the declaratory nature of its common diplomacy, the slowness of its decision making processes and the nature of its responses. No less that 62 declarations "on behalf of the European Union" were addressed to the press in 2010 by Catherine Ashton, the High Representative for the Common Foreign and Security Policy; then there were 164 "declarations by the High Representative", 77 from her spokesperson and 43 "local" declarations were made by her services. Hence in 2010 Ms Ashton dispatched 346 declarations i.e. nearly one a day, Sundays and holidays included! To this we might add the political stances adopted by the European Council that met six times in 2010. Declarations of crisis are therefore somewhat drowned in this flow of communication. The positions expressed by the Union in them are not all decisive; they are rather more the result of a permanent technical consultation procedure between European diplomacies[8] than the result of any real desire to influence a situation – however they do show increasing collective involvement in world affairs. The experience of the crisis in Côte d'Ivoire is a positive example from this point of view since we might say that the Union together with the UN and the US clearly expressed their position which was coupled with severe sanctions against those who did not respect the results of the democratic election[9].

The Heads of State and government's decision-making process also explains why the Union is poorly equipped in terms of responding rapidly to world events[10].

5. Press release by the DG Development and Cooperation (DEVCO) – EuropeAid 3rd January 2011.

6. 15th October 2009

7. Council press release 18233/10 PRESSE 358, 22nd December 2010

8. A written procedure that is often backed by the 'silent procedure', which comprises declaring that a decision that has been put forward is accepted if there is no written response within 15 days on the part of a Member State that states that it is opposed to it.

9. Council press release 18261/10 31st December 2010

10. Cf infra the article by T. Chopin , "Europe and the Need to Decide : Is European Political Leadership Possible?" p. 35

Finally the nature of European response to crisis is particularly important. Although it has undertaken 23 external missions since 1999 and taken part in over ten others under the UN[11], the Union seems increasingly reluctant to do so. It has deployed nearly 70,000 men abroad but to date the entry into force of the Lisbon institutions seems to be impeding progress in European Defence. Just as the Council and then the new European External Action Service were setting up a crisis management unit and the tools that went with that[12], a lack of taste on the part of the High Representative, or a lack of experience, and maybe also her "British" view of matters, led to a halt in any further initiatives in this direction which might in fact have helped to assert the Union's existence.

The type of military or civilian/military intervention which was so impressive in the Democratic Republic of Congo in 2005 or in Chad in 2008 has also been limited over the last few months to the management of ongoing operations such as Atalanta, an anti-piracy mission off the coasts of Somalia. There has not been any new initiative even though the issue was raised with regard to Darfur, Ivory Coast and Somalia. It is true that the States are not very enthusiastic about launching into new adventures which they have to fund[13], at a time when they are increasingly involved in the war in Afghanistan. However the European Council of 16th September 2010 laid down its strategy and the means to implement these as part of a global vision of international relations; this new approach seems to indicate a better appreciation of the Union's place and role in the world[14].

The High Representative has also been criticised for a lack of know-how in response to certain humanitarian crises such as in Haiti. This is such that since there are no common diplomacy or defence tools it is firmly believed that only the Member States, i.e. the European Council[15] or some of its members are capable of taking the initiative in terms of significant European intervention.

Nicolas Sarkozy's mediation in the summer of 2008 in the Russo-Georgian war is the only example of successful intervention on behalf of the Union to bring fighting to a halt.

The same applies to the economic and financial crisis. The bankruptcy of the American business bank, Lehman Brothers, on 15th September 2008 endangered the financial system of the entire world. With hindsight we might clearly say that the meeting at the Elysée, the following day with the French Presidency, the Heads of State and government of the euro area, the British Prime Minister and the President of the European Central Bank saved the system from embolism; it will go down in history that the euro area saved world finance from total paralysis.

Moreover the decisions taken and implemented by these players on 7th May 2010 in response to the Greek financial crisis with the extremely positive help of the President of the European Council, Herman Van Rompuy[16], provided adequate answers to the financial problems of some euro area Member States[17]. It is true that in this area the Union has at its disposal one of the only real federal institutions, the European Central Bank – which has been exceptionally effective since the summer of 2007 in protecting Europe from the turbulence raging on the financial markets.

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11. Cf infra the map « Security in the World : European Union Intervention and Participation », p. 98 and also the summary table « EU, NATO and UN External Operations with the participation of EU Member States (2009-2010), p. 170.

12. Situation Centre. Council Press Release, A 265/10, 7th December 2010

13. Report by Arnaud Danjean, 2nd March 2010, on the implementation of the European Security Strategy and the Common Security and Defence Policy – Foreign Affairs Committee – European Parliament – A7-0026/2010

14. Conclusions of the European Council - EUCO 21/10 – CO EUR 16 – CONCL 3

15. Council press release 24th January 2010 – 5699/10 – Presse 14

16. Press releases of 22nd and 28th October 2010 – 239/10 and 294/10 - 16th and 17th December 2010 – PCE 314/10 and 315/10

17. Conclusions of the European Council of 16th and 17th December 2010 – CO EUR 30/10 CONCL 5

Hence it is political leadership and also diplomatic, military, economic and financial integration which the Union is lacking if it is to rise effectively to counter international crises – to give greater value, in terms of influence to its work in the world and thereby enjoy greater authority in the settlement of crises.

The incomplete nature of European integration is the Union's main enemy. But its fear of being drawn into global crises is its permanent handicap. This damages its credibility, for example in the US; it substantiates the idea of detrimental pacifism since Europe cannot be the only region to disarm when military spending is increasing all over the world; this goes with its deficit in defence capabilities; above all it reveals a strategic state of mind that is incompatible with the unpredictable future of international relations. The comparison of the European security strategy "*for a safe Europe in a better world*" adopted in 2003, revised in 2008, with the National Security Strategy that was published in May 2010 by Barack Obama summarizes Europe's crisis response problem quite succinctly. Whilst the goals to contribute to peace, stability and democratization of the world are almost identical, the means to do this and the vision are totally different. The second paragraph of the American document states: "*we shall maintain our military superiority which has guaranteed our country's security and supported world security for decades."*

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The Union is now facing the only realistic question worth asking: can it transform into a real power by stepping up integration in sovereign areas represented by economic, financial and defence policies? If the answer is yes it will be able to provide effective, original, specific answers to crises and contribute to international stability and to its own security. If not it will be reduced to the state of the albatross described by Charles Baudelaire in *Les fleurs du mal*, "*those vast sea birds … which frequent the tempest and laugh at the bowman*;"… forced to limp on the ship's bridge although it was created to fly on high: "*… His giant wings prevent him from walking."*

Germany 20 Years after its Reunification: which Role and Place does it occupy in Europe?

Joachim BITTERLICH

Germany (placed) in the stocks – this is the present summary of how Germany's role in seen in the EU, not only by the media but also by many political critics. Again Germany is the target of most criticism, considered by its partners as the "bête noire", accused most bitterly and for various reasons: for its lack of sensitivity with regard to its partners; its defence of purely national positions denounced as "blackmail" or "economic chauvinism" that damage its European partners.

According to some observers the "*German Chancellor has set herself up as the political leader of the euro area. But her action targets rather more her electorate than the whole of Europe. What is more – as if in an attempt to make us forget her hesitation in the spring during the Greek crisis that cost Europe so much - Angela Merkel continues to make all kinds of statements which only add to her partners' anger*"[1]. Other observers suggest that Germany has come of age 20 years after reunification, and with that it naturally focuses on its national priorities[2].

If Germany shows its agreement with France more ostensibly that it should then its European partners react quickly and angrily accusing them of trying to take control of the EU.

Bernard de Montferrand, Ambassador of France in Germany was right to ask "*Verdienen wir so viel Kritik?" "Do we deserve so much criticism?"*[3]. Moreover his conclusion was totally unambiguous. "*Yes we deserved it once, when the Franco-German duo damaged Europe – in the 2004 agreement not to follow the rules of the European Stability and Growth Pact and to relax them*." He might have added that Berlin and Paris should pay more attention to the way that Europeans think!

But the paradoxes do not end there! Many Member States complain of a lack of German "leadership" and simultaneously express their concern over German domination.

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1. Martine Orange, « Comment la zone euro s'est retrouvée face à l'abîme », Mediapart, La Une, 27th November 2010

2. Deutsche Flegeljahre – das vereinte Deutschland wird volljährig" (Germany's Boorish Years – United Germany comes of Age) was the title of the analysis published in the Neue Züricher Zeitung on German domestic development on the 20th anniversary of its reunification, NZZ 2nd October 2010, page 9

3. FAZ 8th December 2010, page 10

Which role from an economic point of view?

Indeed Germany's economic results are the focus of debate. Many watch Germany's positive economic figures jealously, angry that this upturn should be happening at the expense of the economy of its European partners. The orthodoxy of German policy with regard to the terms set for the rescue of one or another of the Member States in difficulty is considered critically, even with suspicion, and is expressed quite directly: its excellent economic results sometimes inspire Germany to take on the role of lesson giver.

German economic results include some flattering figures in comparison with those of other European States:

– growth of 3.6% in 2010 and in 2011 over 2%;

– a trade surplus – not only because of China – but also become of the demand for German goods in Europe and elsewhere;

– the economy is stabilising in favour of domestic growth networks; services, a traditionally weak point in Germany and domestic consumption seem to be catching up;

– unemployment is maintained at around 7% benefiting from a unique social system; it is possible that the configuration State/Management and even business/unions cannot be copied elsewhere in Europe. The only downside in this context, according to a study by the Bertelsmann Foundation, is that in terms of social inequalities it does not score highly within the OECD countries;

– a reduction in public deficit and a much quicker return to the Maastricht criteria than its partners (2010 : 3.5%, 2011 : 2.4%).

We should not forget one German asset that is often neglected or misunderstood by its neighbours: the aim of reaching societal consensus - political, economic or social. It is a detail that is often difficult, not only for the French, but also for many other countries to understand.

We might even be tempted to forget Germany's weaknesses, the regional banking sector in particular – the *Landesbanken* – which Germany has not had the courage to regulate for the past 20 years. We might also mention other weak points such as the education system, demographic development and an incoherent energy policy. This is all the more unusual in a country that has always known how to adapt and which has had the heaviest burden of all of the Member States: the extraordinary chance and the economic and financial burden, of reunification.

But in spite of being a decade behind this country has recovered its ability to launch decisive reform to provide new impetus to the economy: the reform of the labour market and the moderation of wage demands have been key in German recovery. Germany is proud of its results and aware of its weaknesses, but it struggles to stand firmly by its European partners. How can German reticence be explained? Is it trying to avoid its responsibilities?

Germany, the faithful follower of European integration hesitated a great deal before giving up the Deutschemark for the euro – in spite of the undeniable advantages which the single monetary zone represents for its economy.

The Deutschemark was the symbol of German renaissance after the Second World War because it existed before the Constitution, the flag and even the national anthem! Hence the strict conditions set by the Germans in the European Treaties : the "guarantee" sought after in the Stability and Growth Pact, the deep mistrust with regard to Southern Europe, the "Club Med", which it had to accept unconvinced, the mistrust with regard to France, suspected of wanting to control Germany politically - firstly via its refusal to allow the ECB to be independent and then because of its demand for "economic governance".

If Germany had been obliged to seek the agreement of the people to give up the Deutschemark it is highly likely that it would not have been able to rally a majority.

Until now Germany has been the main winner in the Economic and Monetary Union built on the foundations of its model but in the light of recent experience it continues to mistrust others' good will, in other words their desire for "German" style discipline which is vital to survival in the world economic jungle.

This is why Germany is trying to reinforce once again the "guarantees" of the European system, to convince its partners that they should trust it and follow it a second time in the execution of the economic and financial policy.

It may seem surprising that Germans speak of the completion of "political union" with common economic and financial governance as the new leitmotiv in European integration.

In the 1990's at the time of the Maastricht and Amsterdam Treaties the aim of "political union" meant, on the one hand, the democratic establishment of European integration and on the other pooling forces in the areas of foreign policy and external and internal security. In the latter area unfortunately we have only managed to get half way – the glass of foreign and security policy is still half empty.

At that time and for a long time the road to "economic union" was impeded by the French idea of "economic government" in exchange for the ECB's independence. Unfortunately it has been the present crisis that has obliged us to jump start discussions over what is lacking and necessary to Economic and Monetary Union which we should have prepared in the first, best years of the Euro.

It is true that Germany seems to be holding back in taking on economic, financial and monetary leadership of Europe and yet it is aware of its key role for the euro area and for Europe. On first sight German policy seems contradictory but objectively it continues along the same track. At the end of the day it is not avoiding its responsibilities in the economic, financial and monetary areas, neither has it radically changed its European policy – which has been constant since the time of Konrad Adenauer, Helmut Schmidt, Helmut Kohl, Gerhard Schröder and which is being applied at present by Angela Merkel.

Given the issues at stake and above all the complex national democratic structures, German leaders are being even more careful because perhaps they need more time than others – but this does not mean that they have become less European, or even eurosceptic!

Which Status in the International Arena?

Apart from the economic aspects observers on the outside often have the impression that Germany prefers to abstain from international politics. Germany committed to Afghanistan "in spite of itself"; a commitment that was considered to be an inevitable evil. The same could be said for its commitment in the Balkans (Kosovo).

Former Chancellor Helmut Kohl tried to accustom the Germans, progressively, to participation in international military operations. His biggest problem was finding the necessary majorities from this point of view – even within his own government coalition, in which his partner, the FDP, demonstrated its reticence by having the Constitutional Court in Karlsruhe "check over" this kind of commitment.

Former Chancellor Gerhard Schröder was put to the test from the very start of his mandate and struggled to continue down this road – his coalition partner – the Greens even had to say that there might be another Holocaust in order to convince its supporters to accept military engagement in Kosovo.

Since reunification Germany has performed in the international arena and has often played a useful, important role that is sometimes underestimated by its partners, such as for example in the aid deployed to stabilise Russia or the Ukraine in the 1990's.

However the German political class, with just a few exceptions, has found it difficult to explain the realities of the world and Germany's strategic interests openly.

The world is not just about diplomatic and trade relations – it has become more dangerous, riskier and is changing more rapdly. He who wants to influence international order or disorder must be prepared to get involved and that includes using soldiers. The most obvious example of this difficult – and for some - hypocritical position – was the scandal started by President Horst Köhler. He dared to speak – rightly – given the participation of the German navy in operation Atalanta against piracy, of the vital interest for the international community and above all for Germany to protect the maritime routes that were necessary to international trade.

Germany hesitated for a long time before accepting, even shyly, to use the word "war" to explain the reality of its military commitment in Afghanistan. Former Defence Minister Karl Theodor Freiherr zu Guttenberg, was the first to have dared speak openly with regard to this. Nevertheless we might wonder whether the reform of the Bundeswehr that started a few months ago will help to relax German positions.

The best way to overcome this reticence is and remains the European way, with a common foreign and security policy which pools everyone's experiences. However the EU is progressing too slowly with regard to this; there is too much hesitation and unvoiced doubt. The lack of common policy and strategy for example with regard to China, Russia or Africa is impeding Europe in the defence of its common fundamental interests. The 27 Member States are happy with the excellent bilateral relations they have with their major partners but "bilateralism" weakens Europe's influence both simultaneously and significantly at the international level.

The common policy should provide for the gradual constitution of a European army by the Member States who want it. Given the limited, inadequate budgetary means that certain Member States have been allocating to their armed forces a conclusion is necessary: we have to move towards progressive specialisation Europe wide and towards joint armaments programmes.

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In the past Europe has always been able to move forwards as crises have succeeded one another. In the present financial and economic crisis Europe found it difficult to kick off, to react rapidly together but it seems now to be moving in the right direction, more or less.

Could this crisis be useful in moving forwards decisively in terms of foreign and security policy? After the Lisbon Treaty have the hitherto missing tools now been made available to political decision makers? Do they have the political will for this? Do they want to take on the responsibility of leadership?

Germany is aware of what most of its partners are expecting of it – it is also aware of the dangers and risks. It is prepared to take on such a role, not alone, but within the EU, in permanent dialogue with those who also want to be catalysts and the motor behind a mature, responsible Europe – and this particularly and primarily with France.

Europe and the Need to Decide: Is European Political Leadership Possible?

Thierry CHOPIN

The economic crisis has presented European governance with a challenge in terms of leadership, coherence and also efficiency and legitimacy. In a time of crisis which demands that the European Union and its Member States rise to the challenges they face, European citizens are discovering, much to their frustration, the limitations of European governance. These include weakness of the European executive authority as well as the polyarchic nature of the EU's institutions and its consequences, for example a lack of clear political leadership. Other issues regard competition between the institutions and the States and the slowness in the negotiation procedure between Member States. Within this context it is undoubtedly useful to consider how the EU provided answers to the banking crisis of 2008-2009 and to that of the euro in 2010, to look into the imbalances which embody European governance and *in fine* to try and define what might encourage the development of a capacity to act and to take decisions in Europe in an effective and legitimate manner.

Review of the answers given by the European Union to the crisis. The virtues of a coordinated yet slow response

Who decides what to do in exceptional circumstances in the European Union? What does the EU do ? What do the Member States do? What is the respective role of the various levels of government in managing the crisis ? Looking back we see that the only community institution which played a decisive role during the crisis was the European Central Bank[1]. Although the Commission is now reasserting its authority by strengthening supervisory mechanisms over States' budgetary policies, at the time it had actually lost this authority because of its difficulty in managing the crisis. This shortcoming goes hand in hand with the lack of legitimacy vis-à-vis the accusations made against

1. We should note that the European Investment Bank (EIB) has played a useful role in that it created a tool that aimed to limit the contraction of loans made to businesses.

it with regard to its focus on deregulation over the last few years. Although Parliament has passed laws on the programme to reform financial supervision in its capacity as a "deliberative" institution at that point it was not, by definition, either in a position nor adequately adjusted to face the management of the crisis. Amongst the institutions, only the ECB – which is not really a "political" institution in its own right but one whose legitimacy rests on its independence – proved it could respond rapidly and manage the crisis in the exceptional circumstances that arose with the banking crisis in 2008-2009 and then with the euro in 2010. Moreover, the ECB took historic decisions as it intervened on the markets to supply them with liquidities in a context of interbank mistrust as well as by buying back public debts within the euro zone. It is remarkable that the crisis strengthened the role of the ECB, an institution which is federal by nature whose role as the ultimate lender seemed to be the only one able to reassure the markets.

Beyond the role played by the ECB, it was the States within the European Council which exercised real political leadership and which drew up European answers to the crisis: on February 11th 2010 they decided that the 16 Member States of the euro area "would take determined and coordinated steps if necessary in order to protect financial stability in the euro area as a whole". On 25th and 26th March they decided to come to Greece's rescue by setting out European funding together with the participation of the IMF; finally, on May 7th, they decided on and, two days later approved, the creation of a stabilisation fund (of 750 billion €) to avoid the crisis spreading to other Member States and to protect the EU's financial stability. The European Union could proved it face the banking crisis of 2008-2009 and succeed in finding a solution to the Greek debt crisis thanks to the coordinated initiatives of the ECB, the Eurogroup, the Commission (which adapted the application of the competition rules to the crisis) and the European Council. However, many observers, including some of the most well informed ones, have criticised the Union for "*having progressed too slowly, that it lacked the response and determination necessary to calm the markets before the situation deteriorated and contaminated other economies*."[2]. Procrastination and hesitation on the part of some Member States, notably Germany, with regard to aid and support mechanisms to Greece indeed contributed to the weakening of the Union's response to the debt crisis.

Unbalanced Governance and Exceptional Circumstances: National Diplomacy vs European Diplomacy

The European political system is typified by a high degree of complexity which is costly both in terms of effectiveness and also legitimacy: many observers believe – either rightly or wrongly – that post-Lisbon governance is difficult to understand and potentially incoherent[3].

The complexity of the European machine as well as the heterogeneous nature of national preferences and interests make decision-making and the implementation of joint projects difficult. To date, the EU has mostly demonstrated that it can draw up sets of rules and that for various reasons it is characterised by certain limitations in

2. Tommaso Padoa-Schioppa, former Italian Economy and Finance Minister and former Chair of the IMF's Ministerial Committee in "La crise de la dette dans la zone euro: l'intérêt et les passions" *Les brefs de Notre Europe*, no. 16, 2010.

3. .Cf. T. Chopin, M. Lefebvre, "Three Phone Numbers for Europe: Will the Lisbon Treaty Make the European Union More Effective Abroad?", *US-Europe Analysis Series* no.43, Center on the United States and Europe, Brookings (Washington, D.C.), January 2010.

applying discretionary choices[4]: weakness of the European executive authority; the polyarchic nature of the community institutions and its effect, that is a lack of clear political leadership ; competition between the institutions and the States and, finally, the Member States' mutual desire for control. Above all, it appears the slow negotiation process between Member States seems to impact negatively on the efficiency of the decision-making process.

The pre-eminence of national governments in the decision-making process has an ambivalent effect on European governance in times of crisis. In exceptional circumstances crises can have positive effects for Europe, to the point of endorsing the idea that "European integration often moves forward thanks to crises"[5]. The potentially positive nature of crises is derived from the fact that they cause exceptional political action at the highest possible level within the Member States, i.e. on the part of political leaders who enjoy ultimate political legitimacy in terms of taking strategic decisions and for establishing compromises with regard to issues that are particularly complicated and sometimes of an exceptional financial magnitude. Moreover, it may also be that the urgency of the situation makes it necessary to take decisions that would have been more difficult to take in normal circumstances. However, the influence of diplomatic logic can lead to negative effects that are all the more damaging in a time of crisis. For example, this may create difficulties for the Union to express itself as one and to act effectively and quickly, as well as to the neutralisation of the Member States which creates market uncertainty, whose effects are extremely dangerous in a time of crisis[6].

From this standpoint it seems that in terms of European governance there is an imbalance between national and european diplomacies. Although it appears the States still consider themselves sovereign and the ultimate referees in the decision-making process during a crisis[7], the shortcomings of European governance that became apparent during the financial crisis forcibly lead us to examine what the conditions for political leadership on a European level would be. Even though the Union is logically a Union of States, it is also a community of citizens. If we agree that popular will comprises the foundation of the legitimacy of the authorities in our democratic regimes, the creation of true European leadership necessarily implies improvements in the unity of the European political body. Indeed, the EU is no exception to the rule. We cannot ignore the lack of democratic competition in the appointment of the main European leaders. Indeed, there is no political competition in the appointment of the President of the Commission, the election of the President of Parliament is undertaken on the basis of a bipartisan consensus[8] and, last but not least, the appointment of the President of the European Council is not organised according to minimal democratic rules which we might have

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4. See F. Kydland, E. Prescott, "Rules rather than Discretion: The Inconsistency of Optimal Plans", in *The Journal of Political Economy*, 1977.

Cf. Yves Bertoncini et Thierry Chopin, *Politique européenne. Etats, pouvoirs et citoyens de l'Union européenne*, Paris, Presses de Sciences Po – Dalloz, coll. « Amphis », 2010, chap. 12.

5. See Wolfgang Schaüble, "Au final, l'intégration européenne a toujours été renforcée par les crises", in *Le Monde*, February 4th, 2011. We find a traditional expression of the theory whereby cycles of crisis are consubstantial to the process of European integration in the article by J.-P. Olsen, "Coping with Conflict at Constitutional Moments", in *Industrial Corporate Change*, vol. 12, 2003.

6. On this point see Jean-François Jamet, "Union européenne : trop de diplomatie tue l'économie", touteleurope.fr, 28th May 2010 and by the same author in this book "The Price of Uncertainty :the European Economy and Speculation"

7. Here we refer to the Carl Schmitt's famous phrase which opens his *Théologie politique* (1922): "Sovereign is he who decides the situation exceptional" ("Souverän ist, wer über den Ausnahmezustand entscheidet").

8. We can but regret Mr Jerzy Buzek's, President of the European Parliament's, recent declarations on the principle of sharing the presidency of the European Parliament between the EPP and the S&D : "It works very well like that and I cannot see any interest in putting an end to it," he said in an interview given to touteleurope.fr, 20 October 2010.

the right to expect in the appointment of the holder of a post such as this one. These include his or her registration as a candidate, political competition with several declared candidates, transparent public debate and so on. True European leadership supposes greater popular legitimacy, a foundation on which it must be based. The issue at stake lies in transferring – albeit partially – the source of legitimacy of the Europe of States over to its citizens. This improvement in democratic legitimacy would – as part of the present system – increase the capability of European political leaders to act and take decisions in the face of national political leaders.

Under which conditions would European leadership be possible?

European leadership implies at least three prerequisites.

First, it seems that the way that decision-making is conceived has to be changed, moving from the primacy of the "rule" - emanating from a long, complicated process – to that of "choice",[9] which must be easily identifiable by the citizens. Although the management of some common policies naturally calls for the use of regulation (competitiveness for example), the nature of the issues facing the Union is such that a great number of them – which need to be addressed urgently – fall more within the remit of "government" than simply "governance"[10] as with is the case in the coordination of budgetary policies for example.

With this as a base, the respective roles of the various authorities and the different levels of government in the Union must be clarified. We should remember the spirit of the Lisbon Treaty: "*let the President of the Commission, with the aid of the Parliament, have leadership over the Union's internal policies; the President of the European Council – the coordination of national policies steered by community goals and the conclusion of major international events; the High Representative, the daily coordination of foreign policies*"[11]. More specifically, and as an example with regard to economic policy, the executive authority in a European government such as this one could be built around a duo whose role has been refined and strengthened. This would fit into the post-Lisbon institutional system (with no need for further reform of the treaties) and would respect the dual nature of the Union's legitimacy based on the Commission and the Council. The Commission - whose democratic legitimacy would be consolidated thanks to the improved link between European elections and the investiture of the President of the Commission and the rest of the College - could have leadership over microeconomic matters. The Council, embodying the legitimacy of the States, could ensure leadership over the macro-economic area[12].

Finally, this clear division between duties and roles should lead to a clear european leadership. This is in contrast with the rivalry between institutions and Member States which characterises post-Lisbon polyarchic governance, a *sine qua non* condition of the ability to take effective and legitimate decisions. Ideally, an effective solution would be

9. Cf. J.-P. Fitoussi, *La règle et le choix. De la souveraineté économique en Europe*, Paris, Le Seuil, coll. "La république des idées" 2002 ; see also P. Rosanvallon, *La contre-démocratie. La politique à l'âge de la défiance*, Paris, Le Seuil, coll. "Les livres du nouveau monde", 2006, p. 263-268.

10. With regard to the idea of "governance" we might refer to Sabine Saurugger, *Théories et concepts de l'intégration européenne*, Paris, Presses de Sciences Po, 2009, chapter 7 and also to Jean-Louis Quermonne, "De la gouvernance au gouvernement : l'Union européenne en quête de gouvernabilité" in P. Favre, J. Hayward, Y. Schemeil (dir.), *Etre gouverné*, Paris, Presses de Sciences Po, 2003, p. 315-332.

11. Alain Lamassoure, "L'Europe peut-elle fonctionner sans leader?", in N. Gnesotto, M. Rocard (dir.), *Notre Europe*, Paris, Robert Laffont, 2008.

12. See J.-F. Jamet, "Un gouvernement économique européen: du slogan à la réalité?", in *Questions d'Europe* N°168, Robert Schuman Foundation, 2010.

for the President of the Commission to chair the European Council. The Convention, which laid down the draft European constitutional treaty did not go as far as this for fear of concentrating too much power in the hands of one person. However, the Lisbon Treaty does not exclude this scenario in the future: the European Council would just have to decide to appoint the same person to both posts. The present danger of competition would therefore be replaced by a more coherent system. For this reason, the ban on accumulating this function with a national mandate was maintained in the Lisbon Treaty, whilst accumulating it with another European mandate was withdrawn. If this option were to be used, it would finally mean granting a major political role to the President of the Commission, who would thereby enjoy both community and inter-governmental legitimacy and would be politically responsible before the European Parliament. *In fine*, it is on this condition that the EU will no longer be considered as a restrictive rule producing machine but rather an area in which choices and decisions can be made.

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Max Weber tried to define the conditions for a *"clear, cold decision making" saying that this required "a small number of decision makers and unequivocal responsibility of the latter with regard to others and the citizens"*[13]. For a government system to work, a combination of political leadership, decision making capability and democratic responsibility is required. If European citizens continue to think that political, economic and social problems cannot be solved by their democracies as part of a "mixed government" that combines the EU and the States, then these democracies will continue to lose ground and allow the rise of populism and extremism. A "mixed government" would meet the requirements of democratic legitimacy and responsibility as well as the ability to respond and make political decisions in the face of economic and even exceptional circumstances in the event of a crisis. Ultimately,, it would rise to the supreme political demand which would finally include setting a direction for Europe and giving meaning to European public action.

13. Max Weber, *Parliament and Government in a Reconstructed Germany. A Contribution to the Political Critique of Officialdom and Party Politics*, 1918.

European Public Opinion and the Crisis: which impact on the European Union?

Magali BALENT

With the economic and social upheaval caused in the European States, the financial crisis of autumn 2008 is a challenge to the European Union in terms of taking the shock and implementing effective community coordination mechanisms to support national economies. We still often hear that the EU should have lost the battle for the public opinion's support because it did not succeed in protecting the States and their citizens effectively. However although we cannot argue that the crisis has disrupted the way that Europeans view matters, apart from its social consequences has it necessarily led to the disengagement of citizens with regard to the European project? Might it not rather reveal that the latter is now inevitable? In order to understand this problem we should gauge the development of how Europeans consider this – using data from the polls available -[1], since the beginning of the crisis to define its real effect and to improve our understanding of European opinion about the EU.

European Citizens – Severely but Unequally Affected by the Crisis

Whatever the rescue plans successively launched by the States of Europe to attenuate the effect of the crisis and to stimulate employment, polls undertaken in the EU since the start of the recession have shown how much citizens have been affected by it. The most recent report by "*Transatlantic Trend*" shows that 60% of Europeans interviewed had been personally affected by the crisis against 55% in 2009[2]. Developments in European citizens' concerns revealed by the Eurobarometer surveys provide a useful gauge. Whilst issues related to insecurity, immigration and

1. This mainly involves Eurobarometer surveys (EB) undertaken by the European Commission which surveys European public opinion regularly.

2. *Transatlantic Trends 2010*, http://www.gmfus.org/trends/doc/2010_English_Key.pdf . The survey is based on the public opinion in five EU countries (France, Germany, Spain, Italy, the Netherlands) as well as on that of the USA and Canada.

the environment were still judged as fundamental as those related to socio-economic issues in the spring of 2007, the economic situation and inflation became the main sources of concern for Europeans in the autumn of 2008. In the spring of 2009, at the peak of the economic recession 42% of those interviewed quoted the economic situation and 49% unemployment as the most important problems they faced. In the autumn of 2009 when the effects of the social crisis were at their height 51% of citizens quoted unemployment as their primary concern far ahead of inflation (19%), insecurity (19%) and the healthcare system (14%)[3].

This data hides significant national variations in terms of the social effects of the crisis in the EU. Although 40% of the Dutch say that their personal financial situation was affected by the crisis 71% of the Spanish, 84% of the Bulgarians and 89% of the Romanians say they were affected[4]. These differences are just as significant if we look at the social effects of the crisis and the financial difficulties of European households as shown by Eurobarometer flash surveys since July 2009. If we look at the June 2010 survey results we can see great differences between Northern and Western Europe (Sweden, Denmark, the Netherlands, Luxembourg, Germany, UK, France) where at least 15% of the citizens say they had problems to pay their bills including food over the last 12 months, Southern Europe (Italy, Portugal, Spain) where the percentage varies between 17-20%, and Eastern Europe (in which we include Greece) where the level rises to over 30% (43% in Romania)[5]. The shape of the social crisis in Europe matches that of the economic crisis. Is a political crisis also emerging that will lead to increasing mistrust with regard to the European Union and its ability to counter the crisis?

The European Union, a Victim of the Crisis?

Given the worsening economic and social situation in European States it was quite justifiable to think that the Union's institutions and their financial action mechanisms, because of their impotence, would be a direct target for criticism on the part of citizens. However it has to be admitted that loyalty to the EU has remained high in spite of a visible dip in the Eurobarometer Standard survey undertaken in May 2010[6], and also in spite of differences between States. Since the Greek crisis in February 2010 affection for the EU has only diminished to 49% against 53% in October 2009 and the feeling of having benefited from belonging to the EU only suffered a slight four point decline over the same period (53% against 57%). One citizen in two still believes that belonging to the EU is an opportunity. The rate is low in the countries of Eastern Europe where this varies between 25 and 50% except in Romania and Poland (55 and 60% respectively),[7] where there has been EU and IMF aid since March 2009.

The decline in confidence in the EU is therefore quite relative if we compare it to that expressed by European citizens with regard to their own national government or other international players. In May 2010 on average 26% (ie four points more than in the survey of autumn 2009) believed that the EU was the most effective

3. See summary in the last wave of surveys *Eurobaromètre Standard 73* (August 2010). http://ec.europa.eu/public_opinion/archives/eb/eb73/eb73_first_fr.pdf
4. *Transatlantic Trends* 2010.
5. *Eurobaromètre Flash* n°289, "Monitoring the social impact of the crisis: public perceptions in the European Union", wave 4, June 2010, http://ec.europa.eu/public_opinion/flash/fl_289_en.pdf
6. http://ec.europa.eu/public_opinion/archives/eb/eb73/eb73_first_fr.pdf
7. *Eurobaromètre Standard 73*.

structure to counter the consequences of the economic and financial crisis whilst 19% said that their own government fulfilled this role, 14% the IMF and 7% the USA. Recognition that the EU was the most adequate player in countering the crisis was shared by 19 of the 27 Member States. Only the Czech Republic, Hungary, the Netherlands and Finland still thought that the G20 (or the IMF in Finland's case) would have been the most competent; Romania, UK and Sweden still believed their national government the most able. Hence the EU seems to have benefited in the confidence crisis that affected national governments more heavily and in most States it was still considered to be the most effective means to fight the effects of the world crisis. This confidence level in support of the EU was particularly high in States that were severely affected by the crisis (Spain, Greece, Ireland). Greece, which suffered an unprecedented public debt crisis at the beginning of 2010, was the best example of this. 69% of Greeks still attributed the responsibility of this crisis to poor management on the part of the governments, 58% still had a good opinion of the EU (21% for the IMF)[8]. Contrary to popular thought the economic crisis did not therefore reveal the EU's impotence in the eyes of public opinion but rather its efficacy. This confidence was also seen with regard to the euro. A study in May 2010[9] undertaken just as the single currency was suffering the most serious crisis in its history, revealed how little the support on the part of new Member States had been eroded with regard to the introduction of the euro. Hence 48% of citizens still supported the single currency and 49% expected positive results both for themselves and their country. Between 37 and 39% thought the contrary[10]. Hungary is an important example of this: whilst there were 43% of Hungarians in 2009 who believed that the idea of adopting the euro would be a factor for growth and the creation of jobs – 60% said the same in May 2010. The crisis in the euro area did not ruin the credit which the single currency enjoyed amongst those who still have not adopted it, thereby proving that it is seen as having been an effective tool in the financial turbulence. Better still in the citizens' opinion it seems to have legitimised the demand for greater intervention on the part of Europe to counter the crisis.

For Greater Intervention on the Part of a Better Protected Europe

A Eurobarometer survey[11] reveals emerging hope on the part of Europeans to continue reform as part of the community and for greater cooperation between Member States. Hence in May 2010 86% of Europeans wanted greater cooperation between Member States to counter the crisis. 75% hoped for greater coordination of economic and financial policies between the EU's Member States whilst only 73% wanted this in the autumn of 2009; 72%, ie 4 points more than in the previous wave, wanted the EU to supervise the activities of the major international

8. *Opinion poll amongst the Greek population*. Exclusive survey undertaken in Greece by Fondapol. 27th May 2010. http://www.fondapol.org/fileadmin/uploads/pdf/sondage/Sondage-crise-grecque.pdf

9. *Eurobaromètre Flash Survey* n°296."Introduction of the euro in the New Member States", June 2010. http://ec.europa.eu/public_opinion/flash/fl_296_en.pdf

10. Amongst these positive effects are the stabilising of public finances, the guarantee of low inflation, the improvement of growth and employment. *Eurobaromètre Flash Survey* n°296, *op.cit*.

11. http://ec.europa.eu/public_opinion/archives/eb/eb73/eb73_first_fr.pdf

financial groups. Three quarters of European citizens[12] hoped for greater European intervention to rise to the challenge of the crisis and approved the reforms that have already been undertaken – a sign of the EU's efficacy in their opinion, or at least of the awareness of the inadequacy of national authorities in this respect. European citizens seem therefore to accept the need for more reforms although they do not all agree on the measures to be given precedence. When asked about the three initiatives they believed to be a priority 42% spoke of measures to improve professional training and education, 33% target measures to facilitate the creation of businesses, and 27% would like to see measures to reduce public deficit and debt in the Member States. The crisis seems to have led to awareness amongst European public opinion that the EU is fulfilling its role as effectively as necessary to counter the turmoil and that it remained their best asset to this end. Therefore their expectations of it are growing.

However this demand for greater intervention on the part of the EU goes hand in hand with stronger aspirations for greater protection vis-à-vis external factors. This has to be related to the fact that since the start of the crisis there are fewer and fewer Europeans who believe that the EU is adequately prepared to defend its economic interests in the world economy. 61% thought this in the autumn of 2009; only 52% thought this in May 2010 – the trend being less pronounced amongst the Eastern Europeans. Undoubtedly this is why the crisis has led a majority of Europeans to maintain their support of a common foreign policy (62%) and to be increasingly reticent about continuing enlargement and immigration. The Eurobarometer survey of spring 2010 revealed a decrease in support for further enlargement over the next few years. Whilst 46% of citizens supported this in November 2009, in the spring of 2010 only 40% continued to think that further enlargement would be a good idea – and this figure totals 34% if we exclude the opinions of new Member States[13]. The "*Transatlantic Trends*" survey devoted to immigration (2009)[14] revealed that one European out of two considered immigration as a problem rather than an opportunity. A year previously this figure laid at 43%. Illegal immigration was the first target, seen as the cause for rises in crime in society and a burden to the social services. Moreover in 2009 58% believed that an effective migratory policy must be undertaken on a European level calling for greater cooperation between the States (53% in 2008), whilst only 28% defended this idea from a national point of view. The crisis has therefore amplified Europeans' instinct to withdraw on themselves – increasing attitudes of rejection without this systematically leading to euroscepticism. On the contrary it seems in many ways to strengthen the demands made by European citizens together with the expectations they make of the EU. Renewed enthusiasm for the European project will depend on the EU's ability to implement effective tools to rise to external challenges and to satisfy the citizens' need for protection.

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12. This European average hides a difference between Europeans living in the euro area who are much more in favour of European measures to counter the crisis (the rate varies between 75% and 89% of favourable opinions) and those who are not euro area members where the same rate varies between 60%-75%. See *Eurobaromètre Standard 73, op.cit.*

13. http://ec.europa.eu/public_opinion/archives/eb/eb73/eb73_first_fr.pdf

14. *Transatlantic Trends Immigration 2009*, http://www.gmfus.org/trends/immigration/doc/TTI_2009 Key.pdf

It is common to criticize the EU by accusing it of impotence in the face of the crisis, pointing to its dysfunctions. However an analysis of the polls undertaken since the autumn of 2008 reveals continued citizen confidence in Europe in spite of the difficulties the economic and financial crisis has caused. Moreover this crisis seems to have led to an awareness of the need to continue the integration of European policies so that the EU can really provide its citizens with the protection they need. Even though there are doubts Europe has not been discredited nor have its citizens become indifferent to its future and it is now the source of great expectation. In April 2010 78% of the French, 84% of the Germans said they were proud to be European[15], which leaves us room to believe that the European project still holds a firm position in public opinion.

15. This is a survey undertaken for the Etats Généraux of Europe 2010 on the theme "France-Allemagne: identité européenne et nationale sont-elles conciliables?" (France-Germany : Do European and National Identity Go Together?)

http://europanova.eu/pdf/sondage_EGE_Opinionway.pdf

The Germans and the crisis: which perceptions?

Michael BORCHARD

"The House of Europe must not be a hospital", stated German author Karl Dedecius. The crucial matter for Europe's state of health and therefore for its future is whether the idea will continue to appeal to the people. Hence the question of public opinion is that of the EU's future, of its existence even. In this context analysing the public's opinion in Europe with regard to the ramifications of the financial and economic crisis requires a concomitant focus on Germany. This is not primarily because Germany has the biggest population within the EU, but particularly because there are specific trends there, which are rooted in historical and current developments alike.

It is striking to see that there are two opposite developments in Germany.

On the one hand there is an extremely positive mood with regard to the European Union as a whole. Initially not even the start of the euro crisis or the billion euro bonds changed the public's approval of the EU which has grown constantly over the last few years. 71 percent of the people regard the FRG's membership in the EU as a "good thing". [1] The "bail-out for Greece" was also backed by a majority of the public in Germany. Excluding Greece from the euro zone would not have been backed by the majority, even though it was a close-run of 49 against 45 percent.[2] A broad majority (91 percent) in 2010 endorsed close cooperation between EU States in order to counter the financial and economic crisis.[3]

On the other hand, though, there is adamant scepticism towards the euro which did not just emerge with the latest bail-out measures. In April 2010, over 60 percent of respondents in Germany stated that the euro has brought more disadvantages and only 30 percent saw benefits.[4] Worried about their savings therefore many people in Germany regarded the billion bonds for the euro as wrong.[5]

If we consider possible developments in the public's opinion over the next few decades, one fact provides us with hope: It is primarily young people who firmly support the euro and it is the elderly who do not conceal their scepticism. Only around 31 percent of the under 30's would like to have the Deutschemark back, versus around 62 percent of the over 60's.[6]

One thing, however, noticeably unifies the generations: during the financial and euro crisis it again became clear that there is almost traumatic *angst* in Germany about inflation, prevalent also amongst those who, due to their young age, fortunately, have not had any personal experience with devaluation.[7] This pronounced

1. Neu, Viola: Ansichten über die europäische Vereinigung, Analysen und Argumente der Konrad-Adenauer-Stiftung, Ausgabe 82, October 2010
2. Infratest dimap ARD Deutschlandtrend, May 2010
3. Eurobarometer 73, Public Opinion in the European Union, August 2010
4. Infratest dimap ARD Deutschlandtrend, April 2010
5. Infratest dimap ARD Deutschlandtrend, June 2010
6. "Eine Frage der Identität", Frankfurter Allgemeine Zeitung vom 15th October 2010
7. "Eine Frage der Identität", Frankfurter Allgemeine Zeitung vom 15th October 2010

aversion manifestly distinguishes the Germans from their other neighbours. It has led to a situation in which, over the last few months, a majority of Germans have rejected plans for tax cuts, viewed debt reduction as a national priority and refused an increase of the deficit in exchange for the creation of jobs.[8] Monitoring financial activities by EU institutions is supported by 80 percent of the Germans.[9]

Thus, the German federal government's vigorous insistence on consolidating budgets has received great support from the public opinion. These worries and fears which are widespread in Germany, together with an unprecedented monetary culture of stability and a constant desire to prevent inflation are indeed to be taken seriously on a European level.

The first German federal president, Theodor Heuss, said: "Germany needs Europe, and Europe needs Germany." As a driving force of the European Union Germany must not ignore public opinion in the other, particularly smaller Member States, nor give in to egoism. The Member States and decision making bodies of the European Union should, however, not undervalue public opinion in Germany either. A majority of Germans together with the French have supported European Unity even in times of financial, economic and euro crisis. This is a valuable asset for the entire European Union and it must be preserved at all costs.

8. Infratest dimap ARD Deutschlandtrend, September 2010
9. Eurobarometer 73, Public Opinion in the European Union, August 2010

The Rise of Populism in Europe : Which Answers?

Roland FREUDENSTEIN

Populist parties have come to haunt Europe time and again, especially after the end of the Cold War. In the 1990s, Western Europe experienced a weakening of the old left/right paradigms while and Central and Eastern Europe, reintroducing parliamentary democracy and the market economy, went through a painful and complex systemic transition. In both cases, the result was a surge in parties that had four decisive characteristics in common: a Manichaean tendency of dividing the world into the authentic people and the corrupt elite, a strong belief in a paradise-like time in the past when the people was pure (from immigration, globalisation, corruption or other calamities), an emphasis on simple policy solutions for complex problems, and a very 'sales-oriented' approach, with a very weak political consistency.[1] One important element here is that populism can be conservative or progressive, although in much of modern political discourse, it is above all a phenomenon associated to the right.

The Rise of Populism in Europe

Examples for successful populist parties in Western Europe in the 1990s are Jean Marie Le Pen's Front National in France, or Jörg Haider's Freiheitliche Partei Österreichs (FPÖ). In Central and Eastern Europe, movements like Andrzej Lepper's Samoobrona (self-defence) in Poland profited from the insecurity and frustration that the transformation from a planned to a market economy had produced. After 2000, parties like the Dutch Pim Fortuyn List (LPF) and the Danish People's Party had some limited success in Western Europe. But in Central and Eastern Europe, populists sometimes managed to even become heads of government, like Slovakia's Vladimir Meciar. Nevertheless, the success of populist parties remained, on the whole, rather limited, until the end of the first decade of the 21st century.

1. Cf. Paul Taggart, *Populism*, Buckingham, Open University Press, 2000

The summer and autumn of 2010 saw a broad revival of the spectre of populism. Fueled by the global financial and economic crisis, but also by the increasing problems in some EU member states with immigration and integration, especially with citizens from Muslim countries, populist parties seemed to be on an upswing. In the course of the year 2010, electoral successes in Hungary (Jobbik) the Netherlands (Geert Wilders' PVV) and Sweden (Sweden Democrats), and the intensifying debate over immigration and integration in countries like Germany, have given populism a new prominence in Europe's political spectrum. In future, tensions over the euro may play a similar role as the immigration debate as catalysts for populist parties' electoral successes.

In sum, populist parties all across the European Union draw their successes from a perceived gap between the broader population and the elite, they thrive on feelings of injustice and the impression that pressing issues are not, or at least not sufficiently, addressed by the 'established parties'. Another important factor is the declining relative strength of established parties, especially people's parties and here especially Socialists and Social Democrats. Increasing volatility and constantly weakening party loyalty, that can be observed in all democracies is another development that seems to favour populist parties in elections.

What can we do to reverse the rise of populist parties?

In all likelihood, these factors are not likely to disappear by themselves. Mainly because the underlying problems: globalisation, migration and some form of economic hardship and insecurity are not going to disappear soon. But this insight is already a step to the first answer by the governments of the 27 Member States of the European Union.

While national differences and specificities have to be taken into account, broad successes of populist parties are almost always equivalent to major failures of the remaining political parties.

First, these remaining parties often do not seem to address the issues at hand in such a manner that people have the impression of being taken seriously. Consequently, the first thing to do in order to prevent (or reverse) the rise of populist parties, is to openly address issues and listen to the people and their worries, whether they refer to rising unemployment, greater social insecurity, or the existence of parallel societies in which the central values of our democratic constitutions (such as the equality of men and women) are systematically disregarded. That does not mean any responsible party should copy the populists' language. But it does mean that responsible parties and politicians across the EU will have to address the issues properly. That inevitably means walking a fine line.

Second, it is always worth pointing out that time and again, not only has Europe's Left produced its own populism, as in the case of Germany's Die Linke, or the Netherlands' Socialist Party. But Social Democrats and moderate Socialists have welcomed suspicious populists such as Slovakia's Robert Fico into their ranks in the Party of European Socialists. And the principal willingness of Social Democrats in Germany and in the Netherlands, to form coalitions with the respective parties further left, is well known.

Third, it has to be said that the last 20 years have seen the demise of two sets of ideas popular among Europe's two leading party families: Multiculturalism, as well as what one might call immigration denial. The former is a well documented strategic mistake of the Left: the belief that efforts at integrating immigrants and rewarding them for adopting basic democratic values, are somehow imperialist and therefore morally suspicious. But the latter is more a mistake on the Centre Right, or at least in some of its parties in the EU. The denial of the obvious fact that since the 1970s, our societies have become immigration societies, comprising not temporary "Gastarbeiter" but new citizens who are here to stay (and therefore need to be successfully integrated), has cost us dearly. This recognition came particularly late in countries whose concept of citizenship rests on '*ius sanguinis*', such as Germany and Austria. But recent years have shown that change is underway, and Centre Right parties in these countries, too, have engaged in a lively debate about how best to integrate immigrants. The fact that we have immigration is now beyond doubt, and that is a good thing. Openly addressing this will help to engage right wing populism in a realistic debate about the future, and thus help to debunk the myth that populists have any constructive answer to the question of immigration and integration.

Fourth, addressing economic and social fears during the crisis, and in view of the increasing competitiveness of emerging economies, must not become a privilege of the Left. Quite the contrary, the centre right parties have to reiterate their formula about the Social Market Economy – which of course has to be constantly adapted and renewed, and which can never be a pretext for simple state interventionism. This strategy of taking economic and social apprehensions and aspirations seriously, has worked rather well in the crisis. But as a matter of course, the concept of the Social Market Economy must also always imply serious attempts at making our economies more competitive, promote innovation and flexibility, and create the best possible conditions for sustainable growth.

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Ultimately, the only sustainable remedy to the growth of populism is not only to address the problems that caused its growth. It is to solve those problems. That concerns an efficient way to deal with the euro crisis by rescue funds and installing stronger regimes for budgetary discipline. It also entails a return to sustainable economic growth by completing the Single Market in a renewed effort, i.e. by eliminating strong barriers to a truly unified digital economy in the EU. Smarter ways to promote research and development and to use the full potential of green technology is another important element. Tangible successes in integration and successful counter-radicalisation programs particularly among Europe's Muslims also belong to this list. And even though this may be difficult and take a lot of time and effort, in the end, Europe's mainstream parties will be judged by the concrete results of their governance, on the European level as well as on the national ones. This is the only way to create the positive results that will in the long run dry out any support for populist parties with simplistic answers and outdated world views. But part of this effort is listening to the people and taking them seriously. That is no kowtow to populism. That is common sense.

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The Financial Crisis: What kind of Recovery is Possible?

The Economic and Financial Crisis by the European Union: Lessons to be learned Upheaval and Rescue

Jean-Marc DANIEL

Just a year ago observers were still declaring the euro to be one of the victors of the crisis. The Icelandic frenzy to join Europe and the euro after years of sarcasm about Brussels' bureaucracy and the Baltic countries' determination to undertake deflation policies to maintain a stable exchange rate with the euro seemed to confirm the success of the single currency. Whilst Europe suffered particularly badly during the recession at the end of 2008 and at the beginning of 2009, it had at least been able to avoid the mortal competitive devaluations which had amplified the damage incurred by protectionist policies in the 1930s. At present we have to somehow "climb down": the euro area is in complete turmoil and following the Greek misery of spring 2010, doubt about Irish public finances in autumn 2010 has caused the euro to plummet once more.

The most worrying element in the series of convulsions affecting the euro is not the badly dissimulated joy of Europe's adversaries. A hidden alliance has been made been between the eurosceptics, the British press led by the *Financial Times* and part of the American administration, which wants to be rid once and for all of the dollar's rival. The members of this alliance regularly blow the mort and are ever more impatient to see their secret wish of the collapse of the euro area, and why not of the Union, finally come true. More worrying is the fact that as the attacks against the euro follow one another, a kind of resignation seems to be taking hold of Europe's leaders. Increasingly the defence lacks conviction; unexpected voices are being raised to join the concert of eurosceptics to show that the ongoing monetary project will necessarily fail sooner or later. But as Angela Merkel said in November 2010 we should be aware that not only would the collapse of the euro area bring down the monetary edifice, but it would also probably lead to an overall setback in European integration, also threatening *acquis*, as intangible in appearance as competition policy.

It is therefore vital for the European Union to counter the onslaught against the euro. To do this we must take stock and learn from our mistakes and try to draw up specific answers that can solve the crisis. In my view there are *three* mistakes to avoid whilst the durability of the euro, and beyond that, of European integration, supposes two fundamental, thorough reforms. By mistakes I refer to certain aspects of economic theory such as the idea of an optimum currency area; the regular reference to poorly adapted economic policy tools such as devaluation; and concentration by Member countries on economic policy. The solutions lie in giving the total power of a central bank to the ECB and in a policy to harmonise European growth by improving competition.

European Integration and an Optimum Currency Area

The first flaw in the euro area which is systematically condemned is that it is not an optimum currency area. This criticism, however does not really make sense. The idea of an optimum currency area is like all of those in economic theory: it is a tool to understand reality, a means to improve economic policy but in no way should it be a Procrustean bed. The crisis has revealed the weaknesses in the way the euro has been set up – as notably seen in the difficulties in managing the accumulation of public and private debts – in Greece in the first instance and in Ireland and Spain in the second. It is therefore essential to seek solutions to the problems that have emerged. But it would be absurd not to react by saying that in any case nothing can done since the euro area is not an optimum currency area.

Another of the widespread and admitted absurdities is the idea that the zone's weakness lies in the Member countries' inability to devaluate. If there is a strict countable link between the external deficit and the public finances of a country via the development of its credits rating it, is simplistic to think that devaluation is the cure-all. Let's take Greece as an example: it is a country whose tax system is totally incompatible with economic development, and it is therefore difficult to see how devaluation would increase fiscal revenue. Indeed, how would devaluation reduce the Greek population's natural tendency not to fulfil its fiscal obligations? Likewise Iceland, which was swept up in a banking crisis similar to the one in Ireland, saw its currency collapse by nearly 80% against the euro without its general situation ever improving. The fall in purchasing power experienced in Iceland due to the increased cost of imports has gone well beyond that which austerity plans will mean for populations in countries in difficulty in the euro area or even in the United Kingdom. Devaluation is rather more a stratagem to mask the hard truth than an inevitable solution.

The third mistake in our analysis of the convergence of European economies would be to remain focused on simple aspects of economic policy, especially budgetary policy. Spain, which is now under fire, satisfied the criteria of the Stability and Growth Pact perfectly in terms of budgetary deficit and public debt prior to the crisis. However, its growth based on a surge in loans to fund an overestimated property sector was a vector for serious imbalance as revealed by the external deficit. This mistake continues to be made in the discourse on the need for budgetary federalism. It is quite clear that budgetary policy has to be implemented in Europe according to more or less homogenous rules – the most evident of these being the management of automatic stabilisers. If we make the increasingly strict control of Member States finances a central goal we shall however forget what is most important. A country's economic situation cannot be reduced down to that of its State. Moreover, no country can tell its population that a modern policy is based on greater decentralisation of decision making and at the same time say that Europe has to step up the centralisation of this process in terms of public finances. In fact, for economic convergence to occur in the euro area and beyond Europe there has to be convergence of output performance and an improvement in the mobility of productivity.

Enhancing the ECB, Improving Competition

Consequently, the two reforms which are vital– as revealed during the crisis- are the revision of the ECB's powers and the continuation of competition policy.

If there is no serious doubt about the USA's ability to reimburse its debt it is because the Federal Reserve is perceived as an unambiguous, ultimate lender. The same must apply to the ECB. Firstly, this supposes that it is totally independent of any national reference, i.e. that the national central banks have no power within it. It must not be the very first in a long list of monetary authorities, but the only, exclusive manager of monetary policy. This then supposes that its mandate is total and complete, like that of a central bank, which means financing growth but without allowing inflation get out of control. The view that is often advanced, whereby budgetary policy underpins the fight against unemployment, and monetary policy counters inflation –known by economists as the Tinbergen Principle- is now an outdated theory left behind by both instruments of economic policy currently in application. At present, budgetary policy has to regulate the economic cycle and monetary policy has to ensure the optimum funding of the economy. This means that the monetisation of the public debt, a means just like any other to inject liquidities, must not in any circumstance be removed from the tools which the ECB has at its disposal. For example, the Greek State has one single banker, the ECB - it is this bank and not the IMF that should reach agreement with it on defining the conditions governing its economic recovery, thereby allowing it to avoid a situation of sudden default being imposed upon it.

As for the convergence of the economies, this must correspond to a convergence in living standards and the well-being of the populations based on a permanent stimulation of production infrastructures by way of competition. When Europe backs down over the issues like the "Bolkestein Directive", it delays convergence more dramatically than when it allows a State to fall into debt. However, when the Spanish government made the labour market more flexible in order to improve growth, it was moving in the right direction. When Brussels looks into a directive to limit restrictions on working hours, Europe is converging. When Brussels dares to say that everyone should be able to retire in all the Member States at an age a person thinks fit according to the rights that have been accumulated, this new freedom will bring with it both growth and convergence. Instead of splitting hairs over the budget, we should choose to help the market breathe since it is and must remain one of the key elements of European integration. As it is considered polite to speak of the optimum currency area, the best means to draw close to this is to ease restrictions on the circulation of private capital and labour to the full.

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The euro is clearly in crisis, but there are technical means to solve this situation and rise above it. We will overcome the crisis if we all realise that doubting the euro – be it by predicting its disappearance or by calling for a redefinition of the euro area- is a catastrophe to the point that even European integration could be threatened. Silent unrest is starting to emerge however: in Germany some businessmen and politicians are talking of splitting the area into two. Questions are being asked everywhere about the legitimacy of obligatory solidarity which forces virtuous countries to pay for the financial excesses of countries that have no credit. At the beginning of December 2010 Jean-Claude Trichet made a "solemn" appeal for a "qualitative leap in the governance of the European Union". Let us hope his voice is heard! Let us hope that Europe will gain in objectivity and start true economic convergence, notably thanks to a constant increase in competition and greater mobility.

Towards a new Framework for Monetary Policy

Jacques DE LAROSIÈRE

A number of central bankers and their economic advisors consider that monetary policy played little or no role in the run-up to the crisis. On this view, the financial upheaval was mainly the result of an external macroeconomic shock, made worse by the imprudent behaviour of some financial institutions. Their argument can be summarised as follows:

– Inflation (CPI) has been low and stable in recent years, showing that the fundamental objective of monetary policy (price stability) has been achieved;

– The financial crisis was basically the result of "excess savings" and the balance-of-payment surpluses of major emerging economies. This caused the surge in housing and other asset prices, and enabled the US current-account deficit to be financed. The excess liquidity created by these imbalances was not caused by monetary policy;

– Another factor that explains the crisis is the behaviour of a number of financial institutions (in particular "non banks", hedge funds and investment banks) that went too far in leveraging their capital.

The Explosion of Credit

I believe this argument is seriously misleading and that the explosion of credit –which is a monetary phenomenon – was a major factor behind the crisis.

The facts are indisputable. For example, the ratio of US private sector debt to GDP skyrocketed from 112% in 1976 to 295% in 2008. In Britain, the ratio of households' mortgage debt to disposable income surged from 80% in 1991 to 140% in 2008. In the United States, credit expanded by around 10% to 15% per year from 2004 to 2008 when economic growth in nominal terms was around 5% (the corresponding figures for the eurozone are 8% to 10% for a nominal GDP growth of 4%.)

This explosion of debt was bound to have monetary consequences. "Loans create deposits" as the textbooks used to teach us. The fact that many central banks – and in particular the Federal Reserve –allowed real interest rates to hover around zero for several years, pushed up credit expansion which, in turn, impacted on the monetary aggregates.

On the external front, we know – from the research done by Jacques Polak in the 1960s – that it is the evolution of net domestic assets (credit to the economy and to the public sector) that is the main determinant of current-account imbalances.

So, given the importance of credit for both domestic and external monetary stability, it is something of a mystery that central banks do not seem to have paid much attention to it as an indicator, even though traditionally credit growth has been a major element in the analysis and tool box of monetary-policy makers. At the very least, the magnitude of the credit bubble should have raised questions about the adequacy of monetary policies.

Central bankers' response to this view often goes something like this: *"As inflation (CPI) remained subdued, it would have been irresponsible for us to tighten our policies and increase interest rates at the risk of curtailing economic growth and increasing unemployment."* But the implication of such an answer would be to limit the operation of monetary policy to the achievement of a strict concept of inflation targeting – prices of goods and services or of a "non inflationary potential growth targeting" as was the case in the United States.

Now, after the crisis has struck and left such massive casualties in its wake, even the most convinced defenders of central banks' past policies should concede that it would have been appropriate to monitor the credit indicators more closely. In any case, they agree on the proposal for a "systemic risk council" in order to avoid a repetition of past experience. Some even agree that if regulatory instruments prove insufficient, monetary policy could be used as a supplementary tool.

At this point in the analysis, I would like to stress some of the "monetary" aspects of the credit bubble:

- The expansion of credit was a powerful contributor to the increase in asset prices. Furthermore, high asset prices produce wealth effects which, in turn, feed into the credit bubble (the richer you believe you are, the more you are tempted to borrow especially when the banking sector – as it was particularly the case in the United States and Britain – is able to "extract value" from rising housing prices). Strong risk appetite in an environment of low interest rates led to a deterioration of risk quality, to a weakening of due diligence and to very thin spreads. Further, the adoption of "mark-to-market" accounting compounded the surge in asset prices and its wealth effects, since "paper" profits and valuations increased in "good times".

- The systemic pegging to the dollar of a number of structural surplus countries (China, Middle Eastern countries etc), entailed a significant increase in liquidity and has resulted in lower interest rates. No one can deny that intervention on the foreign-exchange markets is a monetary-policy decision. The International Monetary Fund and its shareholders allowed the massive accumulation of excess dollar denominated reserves by surplus countries, thus condoning the consequent surge in international liquidity.

- Deregulation and financial innovation allowed financial institutions (particularly investment banks and hedge funds) to increase their leverage.[1] The abuse of off-balance-sheet operations (SIVs, conduits etc) and of securitisation of complex products significantly contributed to the expansion of credit. For a given amount of regulatory capital, these institutions could lend much more by accelerating the "rotation" of their own funds and getting off their balance sheets the loans they had extended to their clients. The conjunction of an easy monetary policy and weak regulation favoured the expansion of financial products (like adjusted rate mortgages – ARM) with rates indexed on short-term interest rates. This considerably increased the transmission channel of monetary policy and contributed to the crisis.

1. Traditional controls on credit expansion by central banks were eliminated in the 1970s and 1980s. In 2004 US investment banks were practically exempted from leverage ratios. This decision played a major role in credit expansion.

One can understand, given the high leverage of US investment banks in particular, how much the financial system got into debt (ie, in the US, from 1978 to 2008, the net debt of financial institutions related to GDP soared from 16% to 121%).

When liquidity and credit surge in an environment of low interest rates while the CPI remains stable (in large part because of the low wage costs associated with imports from emerging countries) and as exchange-rate flexibility can no longer play its role as a safety valve, the only outlet is an increase in asset prices. The bubbles were a natural accompaniment of low interest rates and of an inappropriate and asymmetric monetary stance. Indeed, monetary policy was eased to avoid a downturn with far greater speed and decisiveness than were displayed during periods of gradualist tightening when the economy was overheating.

Central Banks' Role

To avoid the repetition of such events, central banks will have to start monitoring the expansion of credit and therefore bubbles again. The objective is certainly not to "target" asset prices. Central banks cannot, of course, determine "the right" value of assets. This "targeting" objective is often presented, by those who defend the central bank "status quo", as if it were the alternative solution. This is, in part, aimed to discredit the idea that we need central banks to react sufficiently early on to emerging bubbles.

You did not need to determine scientifically the "right" value of, for example, houses in the United States in 2005-06, to know that there was an excessive rise in prices. We all knew it. The National Bureau of Economic Research has recently published a paper[2] that shows how "rising home prices, falling mortgage rates and more efficient refinancing … lured masses of homeowners to refinance their homes and extract equity at the same time, increasing systemic risk in the financial system." The paper establishes that these three trends have explosive results when they occur simultaneously. It shows "that home-equity extractions alone can account for the dramatic increase in systemic risk posed by the US residential market, which was the epicentre of the financial crisis of 2007-08."

What should central banks do under such ominous circumstances? Should they remain inactive? I believe that they should "lean against the wind" and that they can use different policy options to that effect:

a) Adopt a less accommodative monetary policy. This can provide the market with the right signals, to make the anti-inflationary stance (in its most comprehensive definition) of policy more credible and thus help to anchor future price expectations;

b) Adopt regulatory measures to moderate credit expansion in general or in specific sectors (ie, setting dynamic provisioning, increasing reserve obligations, setting more stringent rules regarding loan to value ratio etc.) These could be used either as an alternative to (a) or as a supplement to it.

Some might object that (a) is too blunt an instrument to prevent a bubble from bursting and that regulatory measures are not always within the competence of central banks. These arguments are not convincing: interest rates should be used when needed to lean against the wind, and regulatory measures should be promoted by central banks if they are required to prevent financial instability. This is why the report on the reform of the European supervisory system has proposed the creation of a "Systemic Risk Board"

2. See Amir Khandari, Andrew Lo, and Robert Merton, "Systemic Risk and the Refinancing Ratchet Effect," NBER Working Paper number 15362, (December 2009).

grouping the EU central bankers and supervisors to detect early enough systemic risks and to propose precise measures (including regulatory ones) to deal with them.[3]

Lastly, some may argue that if central banks were responsible not only for price stability, but also for financial stability, this could entail conflicts between the two objectives and could weaken their main mission (price stability) or even their independence.

In the light of what has happened over the past two years, this is not a convincing argument.

Firstly, central banks have traditionally been in charge of both missions. The practice of the last ten years should not lead us to forget basic historical facts. Furthermore, a number of central banks are in charge of micro-supervision of banks. Secondly, bestowing on central banks and regulators the responsibility of acting to prevent financial crises can only strengthen their authority (and independence). And lastly, let us consider the monetary consequences of not acting to prevent bubbles. We have seen:

- the wealth effects of asset prices and the consequence of excessive credit expansion: they have, by themselves, undermined the foundations of a stable financial system (the ongoing deleveraging process will have major negative economic consequences); and
- once asset prices started to fall, the whole financial sector almost collapsed: enormous injections of central bank liquidity – short and medium term – and of public support were needed. We see how difficult it is for central banks to start thinking of an exit strategy. Is that massive intervention consistent, in the longer run, with monetary stability? Some fear that inflation will come back when the huge liquidity created finds its way in the financing of the real economy. Some believe that the present degree of slack points more toward the risk of deflation. The fact that these expectations are so different poses a new challenge to central banks and to their credibility.

All in all, there seems to me little doubt that monetary policy contributed significantly to the emergence of the crisis.

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To conclude, the time has come to question the "operational model" of monetary policy that has prevailed over the past 10 to 15 years. Its basic principles have been tested throughout the crisis and have not withstood the test.

It is somewhat paradoxical that in a world of increasing financial complexity, central banks have tended to oversimplify their operational policy. One single and narrowly defined objective has prevailed (with some limited variations): CPI targeting. One single policy tool has dominated: the use of official interest rates. And a blind eye has been turned by most to credit expansion and to the surge in asset prices. Actually, extracting value from high asset prices has become a main instrument for some important policy-makers to sustain growth. We have seen the dangers (destruction of value and generalised recession) of such artificial methods. I would also underline that this "consensus" on monetary policy is rather recent and that the history of central banking provides a host of more comprehensive objectives and operational tools.

Contrary to this so called "consensus" and avoiding any dogmatic approach, I consider that:

- financial stability should be part and parcel of the objective of promoting stable monetary conditions;
- asset bubbles can be recognised and eventually acted upon by central banks;[4]
- credit expansion should be closely monitored and moderated when needed;

3. The high level Group on Financial Supervision on the EU chaired by Jacques de Larosière, Brussels, 25 February 2009.

4. Asset prices that are significantly higher than "fundamentals" (ie, the present value of probable future cash flows) are a sign of inflationary expectations.

- when action is to be taken, the earlier the better;
- actions and tools should be multifaceted (interest rates, reserves, changes in regulation etc);
- and anchoring inflationary expectations on a long-term horizon is crucial.

Nothing of this would or should lead to a weakening of central banks' independence. On the contrary, providing central banks with a more comprehensively defined stability mandate could only enhance their credibility.

An Outlook on the European Budget: From Financial Solidarity to Budgetary Solidarity?

Alain LAMASSOURE

The debt crisis which was triggered off at the beginning of 2010 in Greece and temporarily brought under control in the spring started up all the more vigorously in Ireland in the autumn; this completely overturned the optimistic prospects that were still in view in January with regard to the European budget. At the time – about a century ago – the Lisbon Treaty had just provided the European Union with new competences, obliging the Commission to put forward the funding of the latter via the revision of the ongoing multiannual financial framework for the period 2007-2013. The same treaty finalised provisions for the European Parliament to participate fully in the budget – which extended so far as giving it the final word in the event of conflict with the Budget Ministers. In the meantime, the end of the recession facilitated the perception of tax revenue in the Member States which were the main contributors to the Community budget.

Bang! In one blow, the Greek tragedy turned the builders into firemen. Putting out the fire, guaranteeing the protection of households at all costs, wielding the axe on budgetary spending, and trying at the same time to limit tax increases in a bid not to put a complete halt to the timid start of economic recovery: this single objective mobilised national leaders to the full. Those who the day before had their foot to the floor on the accelerator, fighting over who was the most determined, i.e. to be the biggest spender in support of growth, slammed on the brakes vying with each other over the virtue of saving. Everyone agreed on one point: the same effort towards savings was necessary with regard to the European budget.

In these circumstances, the results of the 2011 budget negotiations were given right from the start. In the place of the 6% increase in payment appropriations put forward by the Commission the Council painfully came to agreement in August, by an extremely narrow majority, on a 2.91% increase. Even this figure has to be considered from a relative point of view, since appropriation payments are the obligatory application of prior decisions. Commitment appropriations, those which are the expression of political decisions, were reduced to a homoeopathic increase of 0.2%.

From that moment on it was clear that Parliament could not achieve any more: how could it ask Greece, Ireland, Portugal and Spain for an increase in their respective contributions? Making a virtue of necessity, Parliament put forward an unprecedented political agreement: in exchange for the adoption of the Council's figures for 2011 down to the last euro, the Council was invited to accept the principle of joint work to ensure durably, starting from 2012, the funding of post-crisis European policies. Politically, an agreement such as this one was difficult to refuse. Unfortunately the agreement could only be concluded with the approval of the European Council, as its scope went beyond the remit of the "modest" budget ministers. In October the latter was again absorbed by the financial blaze that had flared up once again. After delaying its decision beyond the normal deadline planned for in the treaty, Parliament finally approved the 2011 budget on 15th December, contenting itself with written declarations of good will on the part of the Commission on the one hand and the future Hungarian and Polish Presidencies on the other.

Stalemate

The basic problem however remains. The European budget is not under threat of financial bankruptcy – it is statutorily balanced– but it is on the verge of political collapse. The Lisbon Treaty has been in force for one year, it includes many new competences (foreign policy, common energy policy, space activity, common immigration policy etc ...). Not one additional euro has been planned for their funding, either in 2010, or in 2011. Even more surprising is that six months after the enthusiastic adoption of the "Europe 2020" project by the European Council, neither the Commission nor any other body in the Council has even started thinking about its funding - whilst the previous project, the Lisbon Strategy, launched with the same enthusiasm in 2000 failed pitifully due to a lack of funding.

The truth is that Europe no longer has the means to fund either the Union's own competences nor the common goals that the Member States establish together in Brussels. It is all just hot air. Verbal inflation, the inflation of words, solemn commitments, and grandiose, illusionary goals are just as pernicious as financial inflation. It gradually wears away confidence and not only that of the financial markets. It is also wearing away that of our main foreign partners: in November in Lisbon Barack Obama, who has been adulated on the old continent, devoted two days to the NATO summit and barely two hours, without a press conference, to the EU/USA summit. This is how the confidence of the European citizens themselves is finally being exhausted.

Coming out on top in 2011?

Which cards do we still hold to emerge from this stalemate? The crisis itself! Last May within 48 hours it was the debt crisis which led the German leaders, the ECB and even the Constitutional Court of Karlsruhe to interpret article 122 of the present treaty in exactly the opposite way from how they had been interpreting it since 1992: the EU now had the right to help a State in the euro area, the ECB had the right to purchase Member States' sovereign debt, and Germany was not prohibited from borrowing in Greece's stead if the country's collapse threatened Germany directly. This was how the first financial stability mechanism was born, followed by its enhancement and consolidation at the end of the year.

Unlike the financial crisis in 2008 and the recession of 2009, the debt crisis in 2010 was no longer worldwide but isolated to Europe alone. It was a crisis of doubt. The most serious financial operators – whose status obliges them to buy safe assets, starting with government bonds – doubt the solidarity of European States when one of them finds itself in difficulty. Although the decisions taken at the end of 2010 make it possible to guarantee financial solidarity in times of crisis, this is not enough; European States must also be able to show their solidarity as they prepare for the future.

The world crisis hit Europe harder and longer because the European economy had been weakened by the malignant deficiency of slow growth; over the ten years prior to the recession in 2009, the euro area's annual growth rate barely rose above 1%! The ten years of the Lisbon Strategy constitute a lost decade. Without a return to a minimum growth rate of between 2.5% and 3% none of our problems can be solved: neither the deficits, nor the debt, nor the funding of retirement pensions, nor the integration of young people from the suburbs. Hence it is absolutely necessary to succeed, with "Europe 2020" where we failed in the previous decade and to take full advantage of "the dividends of Europe".

If Europe is considered with the short-sighted lens of the budget administrations it appears to be a continual source of spending. If we reverse this using the long-term vision of Europe we discover extraordinary possibilities to make savings.

– By giving the EU competences which are cheaper and more effective on a European level. Ultimately, a well invested euro in Brussels enables us to save 27 € in the Member States. A couple of dozen European agencies have been created for air and rail safety, food safety, immigration control, the fight against drugs etc, and so we should do away with the national agencies which duplicate these. Likewise, in 17 countries there is one single currency: why do our national central banks, which no longer have any political function, still have a representation in Tokyo? Another example: in line with the Lisbon Treaty, the EU has set up its own diplomatic service employing 3,500 civil servants present in over 100 countries in the world: this makes it possible to do away with an equal number of diplomatic posts in our national representations.

– By encouraging the pooling of spending between two or several States – even 27 – that one country alone can no longer afford. Defence is the first target here. A first agreement – be it anecdotal or historic - was concluded in autumn by France and the UK. In the long term, the two countries will merge their air/naval forces. The possibilities are enormous. Since there are no longer questions about whether cuts should be made in the military budget or not, it is more a matter of whether we continue alone on a domestic level- finding ourselves with 27 mini armies- or whether due to the crisis, 20 years after the end of the Cold War, we should pool what we have to provide the European family with the instrument that is necessary for its security in the 21st century.

– Finally, by encouraging several countries to join forces on an individual basis in order to reach a critical size, below which public spending is ineffective. Here, we may think quite naturally of scientific research: the European framework programme is excellent, but it concerns only 10% of Member States' total public spending on research. The same applies to development cooperation: the significant budget devoted by the EU (around 8 billion €) is only a tenth of all national aid together. How many developing countries complain of the meagre, poorly coordinated distribution of manna which flatters rather more the conscience of the donors than the ills of the recipients!

This all leads us to one concrete proposal.

As part of the financial solidarity mechanism that was decided upon in December 2010, a coordination procedure with regard to national budgetary policies is going to be set up, the so-called "European Semester". In principle this coordination will be limited to hunting down deficits and reducing debt. We should widen its scope. Apart from balances we should look at budgetary content. We should invite each one to look at his own budget and that of the others, in order to spot any potential "European dividends" and to ensure that each does "his homework", his share of the funding of the Europe 2020 project. Of course we should put the "28th budget" on the table, the European budget, which completes the others although it is financed by them. And finally we should invite, together with the ministers, the representatives of the Parliaments: their absence is an incredible loophole as budgetary issues are the core of parliamentary competence in our democratic traditions.

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As from next spring the so-called "European Semester" could therefore begin with an inter-parliamentary financial conference that would look at public finances in Europe from scratch. It would ensure the combination of budgetary discipline and secure future policies. If need be, there could be a new distribution of tasks between national budgets and the European one, the latter being funded by new resources. Launched by the European Parliament's Budgets Committee, this suggestion has officially been adopted by the leader of the French National Assembly, with the support of the German Bundestag and the Polish Diet. This would be the best way to prepare the negotiations on the future financial framework for 2014-2020 as well as the reform of the European budget's own resources, the two key subjects on which the European Commission promised to put forward formal proposals before 1st July 2011.

After 2010, the year of financial solidarity, let's make 2011 the year of budgetary solidarity!

Europe's Industrial Ambition

Philippe CAMUS

As the cradle of the Industrial Revolution in the 19th century, industrial Europe is gradually being caught up with and taken over by other geographical areas: yesterday North America, tomorrow Asia. Is this an inevitable development? Should we fear it, resign ourselves to it or fight it? Can we turn it to our advantage? What can or must Europe and the States which make it up do? What responsibility do companies have?

A key sector facing increasing difficulties: a European industrial policy with relatively little ambition

Industry still occupies a central position in European economy and society. It represents 20% of GDP and 18% of employment in the Union. If we add to that the impact industry has on services, we might reasonably think that industry is at present the driving economic and social force in Europe. Moreover, European industry is generally more powerful than that of the USA both in terms of total production (around 2600 billion € of GDP) and of significance in world trade (around 1500 billion € in exports). With regard to North America and Asia, the strong points of European industry are well known (automotive, agro-food, transport, metallurgy, equipment industry, aeronautics, speciality chemicals etc …). Its weak points are also known: IT, audio and video equipment.

Confronted by world competition after the opening of borders and the entry of many emerging countries in the economic arena, European industry has lost jobs over the last ten years. This is obviously a source of concern that is motivating the governments of European countries and the European Commission.

Political leaders repeat that priority is being given to industry and the idea of an industrial policy was included in article 173 of the Lisbon Treaty which stipulates that *"The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist."*

Since the ratification of this treaty[1], it is true to say that the Union's economy has been hit by financial turbulence that has captured the entire attention of the governments of

1. The Treaty was ratified by the European Union on 17th December 2007 then by the Member States the last being the Czech Republic on 3rd November 2009. It entered into force on 1st December 2009.

Europe and has occupied a greater part of the political agenda, but we should unfortunately note that relatively little has been achieved in practice.

Some texts in support of European industry have however been published: the most comprehensive of these being the "EU 2020" Strategy, put forward in March 2010 by the European Commission. Nevertheless, recent European Councils have still not taken initiatives that are sufficiently concrete to address a real industrial policy.

Europe's industrial ambitions are certainly not the focus of the Commission or European governments' action. The reasons for this are well known. The European Union is founded on the opening of markets and competition. Any active industrial policy that implies public action struggles to fit into the European institutions. Industrial policy is seen as "aid to lame ducks" or as an impediment to competition and the free market. The Commission is making a concerted effort to jump-start its action. The communication of 28th October 2010 on "an integrated industrial policy in the era of globalisation" puts forward an action plan in support of industrial competitiveness but the "action" suggested is often limited to the analysis of results and the setting out of a strategy. Unlike the competition policy, presently there are no adequate Europe-wide instruments to establish a true industrial policy. Herein lays precisely the ambiguity of the Lisbon Treaty which speaks of the "necessary conditions" for the competitiveness of the Union. Necessary they certainly are, but they are still inadequate. What is necessary gives authority, what is adequate leads to action, that is the difference.

A counter-productive national approach

Given these institutional difficulties and weaknesses, the Member States of the European Union are undertaking their own individual industrial policies. Of course, each government applies its own criteria for success, i.e. the satisfaction of national interests and the aspirations of their own electorate. National response is all the more acute since the crisis has hit entire industrial sectors. Seeing as there is no adequately pro-active supranational response, industrial policy and industrial ambition are reduced to the national level. This is obviously a major mistake. We just have to look at the industrial world around us. North America has an industrial policy and ambition based on innovation. China also has an industrial policy and ambition based on the massive potential of its domestic market and on the choice of particularly strategic sectors for its long-term development. Europe set itself innovation development goals as part of the Lisbon Strategy; unfortunately, these are far from being achieved.

In the face of these giants, national response is inadequate. Only an integrated, active Europe can lead to the success of long term industrial ambition worldwide. It is not enough just to have a single market – the same industrial policy instruments as other major areas, and on a supranational, level are required.

Europe still has a sizeable network of industrial companies, be these major multinationals or SMEs, both sharing a cooperative ecosystem. These industrial companies have been successful to a certain extent. We know about the achievements in aerospace (EADS) or in energy (Royal Dutch-Shell, Total, Areva, Siemens, Alstom, etc.). We do not know so much about the remarkable successes of companies that are positioned in sectors such as manufacturing equipment or chemical specialities. Germany's significant trade surplus shows us clearly that we can be industrially competitive in Europe.

What kind of industrial ambition for Europe?

What has to be done so that Europe's industrial ambition is achieved to the fullest? As demonstrated by major successes already achieved, it would appear to be quite an easy task.

Firstly, the relevant industrial sectors have to be selected. With regard to this, it is the companies which know what to do, not the States. Focus should be placed on the existing strong points- which should of course be enhanced- whilst potential future sectors should be explored, as well as key future technologies. These have been pinpointed, and include nanotechnologies, biotechnologies, digital and "green" technologies. Industrial Europe must then act pro-actively and in an integrated manner. This supposes that the European institutions are enlightened, and that we stop bringing competition and industrial policy into conflict and follow the US example, where competition and industrial policies are complementary. This also supposes the coordination of national industrial policies and that protectionist behaviour is finally put to an end within Member States. German public funds could very well lead to the creation of jobs in France and vice versa. The fair return clause is an intra-European heresy. It has led to the creation of some monsters within certain major programmes and has reduced the effectiveness of all of the policies that have been implemented so far. By dispersing our efforts to satisfy everyone at all times and with regard to every initiative- particularly during the period of innovation or the development of new products- the impact of collective action is diluted. We should do away with the intra-European attitude of "every man for himself."

Once these principles have been acknowledged and the pertinent sectors defined, the Commission and state action has to be coordinated. This can be achieved in two ways: by means of major motivating programmes, and by the launch of poles of technological and industrial excellence that bring together public authorities, industrial players, research centres and universities. In order for this to be effective, dispersion has to be avoided. There are some other industrial policy instruments that can be implemented: the control of standards, industrial property rights, the control of key technologies and finally a careful, coordinated reciprocity policy in terms of external European trade. Hence, with pragmatism and in the grand tradition of Jean Monnet and Robert Schuman, Europe's industrial ambition can be achieved by means of specific creative action.

There is still, however, an important ingredient missing to guarantee the success of European industrial companies. Indeed, they are competing with the American, Chinese and Indian companies. This means that in certain areas of activity the latter have a major advantage, since they enjoy a specific national status. This is clearly the case in areas associated with sovereignty (defence, aeronautics, transport, energy, telecommunications), and this extends in a more diffuse -but just as important- manner to all industrial sectors. To see this, we simply have to consult the list of company heads who are invited to take part in the official journeys of heads of State or government. All industrial sectors are represented to a greater or lesser degree.

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Every European country acts in a disorganised manner, whilst we must show support to all of Europe if we are to rise to the challenge of external competitors who use the diplomatic and economic tools of an important country.

Europe's industrial ambition also implies the assertion of the political identity of Europe. That is, however, another story.

The Price of Uncertainty: the European Economy and Speculation

Jean-François JAMET

Since the beginning of the financial crisis, the European economy has faced uncertainty which has fed into the recession, causing panic in the financial markets and worsening the debt crises in several Member States. Moreover, it continues to impede recovery by preventing investors from correctly gauging the risks they are taking. This uncertainty firstly affected the banks and then the States. Uncertainty, like the crisis, has become systemic. In such a context, economic players legitimately turn towards decision makers to get some visibility and mid-term guarantees.

The responsibility of political players is therefore colossal. However, the institutions of the European Union and the euro area have not played their role to the fullest from this point of view. Existing rules, especially those of the Stability and Growth Pact, have lost their credibility because they have not been respected by the Member States and because they were incomplete, ignoring current account imbalances and private debt. The Commission has failed to coordinate effectively both recovery and austerity plans. The Council has delayed in setting up an assistance mechanism for the States that were in danger of collapse and is also slow in agreeing on the creation of a mechanism for the management of sovereign default. The ECB as not been explicit with regard to the future of its quantitative easing policy and about the purchase of bonds of those governments that are struggling on the secondary market; it indeed admits to being divided over which policy it should adopt.

European political decision makers have gradually become aware of the cost of uncertainty which feeds speculation and brutally cuts short economic players' perceptions. They launched plans to rescue banks and then States; they were pragmatic with regard to institutional constraints to increase their ability to act whilst preparing new, more credible supervisory rules for the future. Rebuilding a more predictable environment has however become a sizeable challenge in a time of high volatility and repeated crises. What are the conditions for recreating a predictable economic environment in the EU?

From the danger of debt to the crisis of uncertainty

Keynes gave an enlightening definition of uncertainty, distinguishing it from the idea of risk: uncertainty is a situation in which "there is no scientific basis on which to form any calculable probability whatever"[1]. This definition seems to be particularly relevant in the present context. From the mid-1990s on, the developed economies in the Western world lived under the illusion that the "Great Moderation"[2], a period of decline in macro-economic volatility would be sustainable. This stability even gave sufficient confidence to economic players for them to accept growing debt: confident in the stability of growth and inflation for the years to come, they did not hesitate to borrow or lend since reimbursement seemed to be subject to a controlled, predictable risk.

This apparently calculable period of risk suddenly came to an end with the crisis it triggered. The complexity of financial deals, revelations about levels of debt and the inter-dependence of economic players, both debtors and creditors, plunged the economy into doubt: first the banks refused to make mutual loans thereby paralysing the inter-bank lending market, then they restricted lending to the economy. The States which were asked to recapitalise the banks and take their place to jump-start growth have witnessed a significant rise in their deficits, a phenomenon that was accentuated by the recession. This was when solidarity between Member States was put to the test.

Aid to the States that face a sovereign debt crisis is vital but it faces several hurdles. The first lies in the financial fragility of the States that provide the funds, because it creates a risk of contagion and limits the possibilities of mutual aid. The second lies in the level of solidarity which the euro area member countries and public opinion are prepared to show: the Greek crisis revealed the reticence of certain public opinions with regard to helping States that had not been very exemplary in terms of their macro-economic management[3]. The third difficulty lies in the legal insecurity associated to these aid plans. It is not clear that these measures are compatible with the Treaties (because of the non-bail out clause) and it is possible for them to be challenged, including before the national courts, as was pointed out by the German Constitutional Court. A fourth difficulty lies in the acceptability of budgetary stabilisation and structural adjustment measures on the part of the populations concerned. The Irish crisis illustrated the humiliation felt by a country receiving conditional aid and the type of political crisis that can be triggered as a consequence. Finally, the fifth difficulty is associated with the very possibility of stabilising the public accounts of States experiencing problems. Austerity measures can only succeed if they do not aggravate the recession in the countries in question. Doubt over the resilience of these economies is leading to a continued risk of default and is discouraging investors. The implementation of aid plans in Greece and even in Ireland was necessary but it will not be enough.

1. J.-M. Keynes, "The General Theory of Employment" *The Quarterly Journal of Economics*, February 1937.

2. See «The Great Moderation», a speech given by Ben Bernanke, who has since become the Chairman of the Fed, during the meetings of the Eastern Economic Association in Washington DC, 20th February 2004.

3. See J.-F. Jamet, "German Ethic and European Spirit: Can Germany guarantee the euro's stability?", *European Issues* - Policy Papers of the Robert Schuman Foundation, n° 182, 2010.

What has to be done to recreate predictability and reduce uncertainty?

There are not many instruments available, and waiting for better days is not a solution: the cost would be too high. Some clarifications are essential:

The rapid adoption of a legislative package by the Commission[4] in September 2010 was a vital element in recreating mid-term visibility. In particular this means guaranteeing the quality of future supervision and ensuring better quality statistical information[5]. Information is a key element to counter uncertainty. The opacity of Greek accounts, together with the tacit approval of the Council must no longer be possible. It is a matter of credibility for the euro area.

Re-establishing confidence with regard to the strength of the banks is imperative. This was the aim of the stress tests undertaken during the summer of 2010. These showed their limits however. Indeed, Irish banks such as the Allied Irish Banks passed the tests successfully, but they had to be saved from bankruptcy with emergency re-capitalisation undertaken with the support of the EU and the IMF. The stress tests therefore lost all credibility and the financial markets are again suffering uncertainty with regard to the real exposure of European banks. A new, more convincing exercise in stress tests or a recapitalisation plan for banks at risk should be put foward rapidly to show that the European Union and its Member States are not trying to cover up the reality of the banks' situation.

Making the European Financial Stability Fund permanent and clarifying its legal status in the Treaties is another priority to ensure that the measure is legally guaranteed. It would seem appropriate to ensure the rapid adoption of the corresponding modification in the Treaty so that it is applied before the present Fund's mandate expires – mid-2013 - and before the markets can speculate on its possible failure. It is true that this aid mechanism carries a moral risk, since negligent States know that they will benefit from the help of their partners. The risk is however limited due to the conditional nature of the aid, whose political price is considerable for the governments who take advantage of it. Moreover, the risk is reduced also because of the supervisory and sanction measures included in the legislative package which the Commission presented in September.

It is not very realistic to count solely on an improvement in the economic situation or on an increase in budgetary restrictions for the absorption of the debt accumulated by some countries. Two instruments could be intelligently combined together. Firstly, clarification by the ECB over the continued purchase on the secondary market of bonds of governments that are struggling would be useful so that financial players would not be left in the dark about the institution's approach on the subject. The implementation of an orderly default mechanism would then reassure the financial markets of the European Union's ability to face a possibility such as this: it is an open secret that partial default is highly likely in at least one European State and it would be better to create a mechanism to solve it beforehand, taking on board the danger of moral risk, rather than defining an emergency negotiation framework with the States' creditors. Several proposals have been put forward[6], including by the Eurogroup on 28th November 2010. *In fine*, the creation

4. European Commission "EU economic governance: the Commission delivers a comprehensive package of legislative measures" Press releases, IP/10/1199, 29th September.2010. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1199

5. Eurostat will notably enjoy auditing powers over national budget statistics of the Member States which find themselves in excessive deficit.

6. See for example D. Gros and T. Meyer, "Towards a Euro(pean) Monetary Fund", *CEPS Policy Briefs*, 17th May 2010; J. Pisani Ferry et alli, "A European mechanism for sovereign debt crisis resolution: a proposal", *Bruegel Blueprint*, 9th November 2010; J. Delpla, J. von Weizsäcker, "The Blue Bond Proposal", *Bruegel Policy Brief*, May 2010.

of a European Monetary Fund[7] would lead to coherence by associating a Permanent Stability Fund with an orderly default mechanism, and at the same time market discipline would be maintained.

Finally, the European Union has to win back the investors' confidence and recreate growth prospects in Europe. It must therefore have an investment strategy[8] to complete the EU2020 strategy, thereby making it concrete. This means protecting public investment from austerity measures, enhancing investment incentive instruments (by enlarging the role played by the EIB), launching community initiatives such as joint technology initiatives[9] and making better use of the cohesion funds to support investment temporarily in the countries that are experiencing the most severe recessions and which are suffering tight restrictions in terms of public finance. This should make it possible to avoid the previous failures of the IMF's adjustment programmes in which stabilisation killed off growth because it compromised investment. This strategy, together with the structural reforms that are required to redress competitiveness of certain Member States, should also lead to an inversion of the trend which had started in many European countries prior to the crisis, namely the decline of the share of investment in GDP. The issue at stake here is simply providing support to one of the vital elements of Europe's potential growth.

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If, according to Emile de Girardin "government means anticipating"– government also means enabling economic players to anticipate. The European economy has however been plunged into uncertainty which is undermining its stability and growth. In this context it is up to European political decision makers to create the conditions for a return to a predictable environment in the European Union. European governance must be reformed in this sense:[10] only a clear, credible response will lead to the re-creation of normal operational conditions for the economy, that is a return to a situation in which risks are predictable, quantifiable and do not discourage investment.

7. D. Gros., T. Mayer,. "How to deal with sovereign default in Europe: Create the European Monetary Fund now!" *CEPS , 202.*, 2010 J.-F.Jamet, "The European IMF is Possible" *Les Echos*, 16th March 2010.

8. On this point see J-F. Jamet et G. Klossa, «A Europe that Dares», EuropaNova, May 2010.

9. Joint technology initiatives are projects that associate companies, research laboratories and universities on the basis of private and public investment (public funds from the Commission and the national governments). The areas concerned at present are global monitoring for environment and security, nanotechnologies, the reduction of pollution in air transport, hydrogen fuel cell, innovative medicines and embedded computer systems.

10. With regard to this see the article by Thierry Chopin in this book: «*Europe and the Need to Decide: Is European Political Leadership Possible?*".

Filling the Sustainability Gap in the EU after the Crisis

Roel BEETSMA and Raymond GRADUS[1]

Most countries in the European Union are facing a structural deterioration of their public budget as a result of the financial and economic crisis. The European Commission (2009) projects an average structural deficit for 2010 of 4.7% for the euro area and a corresponding figure of 5.5% for the entire EU. [2] Actual deficits are generally higher due to the negative output gaps. Greece, Ireland, Portugal, Spain and the UK all feature double digit deficit figures. Further, virtually all EU countries are on exploding debt paths if policies do not change. By 2060, Greece, Latvia and Ireland would all have debt ratios of over 800% of GDP, a number that in reality would of course never be reached as those countries would be forced into default long before reaching those levels. While sustainability gaps were already positive before the current crisis, the crisis has magnified them further.

In this paper, based on the European Commission's (2009) Sustainability Report we present the sustainability gap for different EU countries and discuss the future development of the various age-related spending categories. In particular, we distinguish spending on pensions, healthcare including long-term care and unemployment benefits/education.

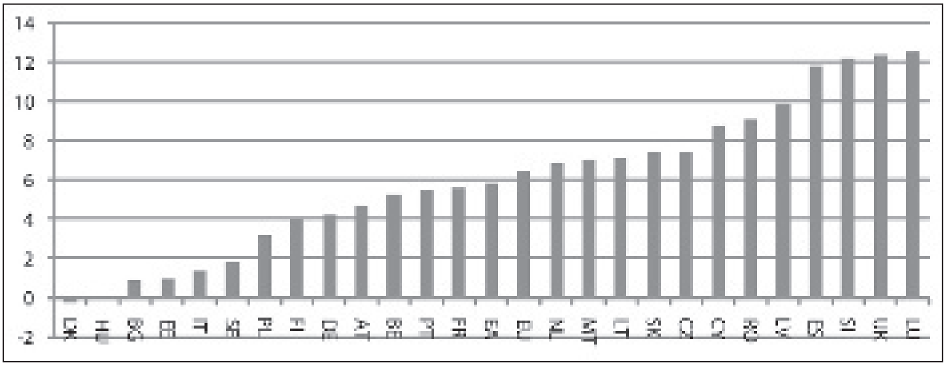
The sustainability gap in EU countries

Based on the EU Sustainability Report, Figure 1 plots the so-called S2 indicator for all EU countries. This indicator of the sustainability gap shows the adjustment to the current structural primary balance needed to fulfill the infinite-horizon inter-temporal budget constraint. The required adjustment also takes account of the additional spending as a result of population ageing. The indicator is based on existing policies.

1. See also Beetsma, R. and R. Gradus (2010). The sustainability gap in the EU with special attention to the Netherlands, *CESifo DICE report*, 8 (2), 69-74.

2. European Commission (2009). Sustainability Report, *European Economy*, No. 9, p 38.

Figure 1: sustainability gap in EU-countries



Source: European Commission (2009, p. 35)

According to the sustainability indicator, 25 of the 27 EU Member States display a sustainability gap. Only Denmark and Hungary appear to be sustainable already. Around a fifth of the countries need a 4% GDP adjustment or less, roughly half of them need a GDP adjustment of between 4 and 8% and about a quarter of them require an even larger adjustment. The most extreme cases are the United Kingdom with a sustainability gap of 12.4% points and Luxembourg with a gap of 12.5% points. Hence, most countries need to put in place drastic policy changes to offset their sustainability gaps.

The composition of the sustainability gap

For most countries total age-related public spending is an important component of the sustainability gap. Total age-related public spending for the EU-27 is projected to increase by 4.6% points over the period 2010-2060 (Table 1). Of this total, 2.7% points are accounted for by an increase in public pensions and 2.5% points by both an increase in healthcare spending and an increase in long-term care spending.[3] In other words, public pensions account for only half of the rise in age-related spending, although they usually receive most of the attention in the discussions about ageing costs. Indeed, in many countries retirement ages are gradually being increased. For example, in the UK the normal pension age is scheduled to rise from 65 to 68 by 2044 and in Germany from 65 to 67 by 2031. In the Netherlands, the Rutte-I cabinet proposed to raise the age at which people become eligible for a public pension from 65 to 66 in 2020. Social partners, employers' representatives and the trade unions, have agreed to link further increases in the public pension retirement age to the development of life expectancy. However, public pensions are the governments' domain and at the moment it is not clear whether the new cabinet will be prepared to take over this agreement. Healthcare

3. Using EU average data based on European Commission (2006) and taking into account the presence of other age-related spending, Beetsma and Oksanen (2008) show that a transition from a pay-as-you-you go public pension system to a funded, actuarially neutral system would require a budget surplus of 1.6 percent of GDP over the next two generations. The surplus is needed to convert implicit debt in the form of accumulated pension rights to the workers into (explicit) public debt (see Beetsma, R. and H. Oksanen (2008). Pensions under ageing populations and the EU Stability and Growth Pact, *CESifo Economic Studies*, 54 (4), 563-592 and for data see European Commission (2006). The Long-term Sustainability of Public Finances in the European Union, *European Economy*, No. 4).

accounts for the other half of the rise in age-related spending. A small reduction by 0.2% points is obtained through lower spending on unemployment benefits. However, those EU-wide averages hide substantial disparity across the countries. The most extreme cases are Greece with an expected rise in age-related public spending by 16% points and Luxembourg with an increase by 18.2% points (see Table 1).

Table 1
Increase in age-related spending in percent of GDP over period 2010-2060

	Pensions Spending		Healthcare*		Unemployment and Education		Total	
	2010	Δ 2060	2010	Δ 2060	2010	Δ 2060	2010	Δ 2060
Belgium	10.3	4.5	9.2	2.4	7.3	-0.3	26.8	6.6
Bulgaria	9.1	2.2	5	0.8	3.0	0.2	17.1	3.2
Czech Republic	7.1	4.0	6.6	2.4	3.3	0.0	17.0	6.3
Denmark	9.4	-0.2	7.8	2.4	8.0	0.1	25.2	2.2
Germany	10.2	2.5	8.6	3	4.6	-0.4	23.3	5.1
Ireland	6.4	-1.6	5.2	1.2	3.2	0.3	14.6	-0.1
Estonia	5.5	5.9	6.8	3	5.3	-0.2	17.5	8.7
Greece	11.6	12.5	6.6	3.4	3.6	0.1	21.9	16
Spain	8.9	6.2	6.3	2.3	4.8	-0.2	20.0	8.3
France	13.5	0.6	9.7	1.8	5.8	-0.2	29.0	2.2
Italy	14	-0.4	7.6	2.2	4.3	-0.2	26.0	1.6
Cyprus	6.9	10.8	2.8	0.6	5.8	-0.6	15.5	10.7
Latvia	5.1	0.0	3.9	1	3.3	0.3	12.3	1.3
Lithuania	6.5	4.9	5.1	1.6	3.5	-0.4	15.1	6.0
Luxembourg	8.6	15.3	7.3	3.1	4.0	-0.3	19.9	18.2
Hungary	11.3	2.6	6.1	1.7	4.5	-0.3	21.8	4.0
Malta	8.3	5.1	5.9	4.7	5.0	-0.7	19.2	9.2
Netherlands	6.5	4.0	8.4	5.5	5.6	-0.2	20.5	9.4
Austria	12.7	1.0	7.9	2.6	5.2	-0.2	25.7	3.3
Poland	10.8	-2.1	4.5	1.3	3.6	-0.6	19.1	-1.1
Portugal	11.9	1.5	7.4	1.9	5.6	-0.4	24.9	2.9
Romania	8.4	7.4	3.6	1.3	2.7	-0.2	14.7	8.5
Slovenia	10.1	8.5	8	3.4	5.1	0.7	23.1	12.7
Slovakia	6.6	3.6	5.4	2.5	2.9	-0.6	14.9	5.5
Finland	10.7	2.6	7.5	3.3	6.4	0.0	24.7	5.9
Sweden	9.6	-0.2	10.8	2.9	6.6	0.0	27.1	2.7
UK	6.7	2.5	8.4	2.3	4.0	0.0	19.2	4.8
EU 27	10.2	2.3	8.2	2.6	4.9	-0.2	23.2	4.6

*Source: European Commission (2009, p. 29); *) including long-term care*

Of course, these calculations are subject to substantial uncertainty, partly because the underlying assumptions may fail to hold in the long run. The EC Sustainability Report assumes that wages rise in line with the growth of labor productivity. Together with the growth of productivity, changes in the number of people employed determine economic growth. As a result of a declining labour supply, GDP growth is forecast to average 1.3% per year by 2040. The EU projects public spending per cohort to increase in line with wages and thus labour productivity. Spending in the healthcare sector may well rise faster, however, as labour productivity in this sector is likely to increase at a slower pace than in the rest of the economy, thereby putting upward pressure on wage costs (the so-called "Baumol effect"). At the same time, technological innovations may boost spending in the cure sector. Both effects will cause healthcare spending to rise faster than projected by the EU[4].

Long-term care accounts for an important part of the rise in health-care related spending. Spending on long-term care will rise exponentially for the very old[5]. It is well-known that in all EU Member States the share of the population that is 80 years or older is growing faster than any other segment of the population.

The estimation of the structural primary balance is subject to substantial uncertainty, especially at the current moment after an unprecedented crisis and with so much doubt about the future of the economy. Therefore, the assessment in the Sustainability Report of the sustainability risks for the EU Member States is useful. According to the Report, Bulgaria, Denmark, Estonia, Finland and Sweden have done most to cope with ageing[6]. There is an intermediate group of countries (Belgium, Germany, France, Italy, Luxembourg, Hungary, Austria, Poland and Portugal) in terms of the projected increase in age-related spending and there is a large group of countries (Czech Republic, Ireland, Greece, Spain, Cyprus, Latvia, Lithuania, Malta, the Netherlands, Romania, Slovenia and United Kingdom) for which a very significant rise in age-related spending is predicted. Greece and Ireland are positioned worst in this regard.

What options are there to close the sustainability gap?

Countries are free to select their own policies to close their sustainability gap. One possibility is to raise taxes. Among the consolidation measures Greece presented in January last year there is a crackdown on tax fraud. However, given that taxes are already high in most European countries and that the incidence of tax fraud is less serious in most countries than in Greece further increases in tax burdens are undesirable as they will negatively impact economies through reduced work incentives.[7] Substantial reductions in public spending and, in particular, social spending will be necessary, especially for Greece[8]. Of course, reductions in public spending may in the short-run have negative demand effects but will in the longer-run crowd in private consumption and investment by limiting the tax burden. Commitment to substantial spending cuts will also send a positive signal to the financial markets. After all, lack of confidence in the resolve on the part of the Greek government has driven up interest rates on its public debt to such high

4. Asselt, E.J. van, L. Bovenberg, R. Gradus and A. Klink (2010). *Health care in ageing European society with special attention to the Netherlands*, CES: Brussels.

5. OECD (2005), Long-term care for older people, Paris.

6. European Commission (2009). Sustainability Report, *European Economy*, No. 9, p. 88-89.

7. For a discussion of the Dutch tax system and its incentives see (R. Gradus (2010). Flat but fair: a proposal for a socially conscious flat rate tax in the Netherlands, *Intertax*, Vol. 38, pp. 601-610.)

8. Gros, D. (2010). What Greece now needs to do, *European Voice*, April 28, http://www.europeanvoice.com/article/2010/04/what-greece-now-needs-to-do/67798.aspx

levels that other euro area members and the IMF had to come to its rescue. Sustainability gaps in Southern Europe can, and probably need, to be reduced through increases in labour market participation, which should be partly achieved through increases in the retirement age and measures that stimulate economic growth. In addition, Southern Europe as a whole has suffered from a loss in competitiveness since joining the euro area. Labour market institutions are badly in need of reform, while an internal devaluation, through wage cuts, might be inevitable to restore competitiveness relative to other European countries, in particular Germany. Also in many instances product markets are in need of reform. One of the best-known examples concerns the proposed abolition of the system of permits for truck drivers in Greece, which only recently led to strikes and blockades.

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European governments are confronted with substantial sustainability gaps. Those gaps are not new. However, for many countries they have become larger as a result of the economic and financial crisis. The crisis has led to higher structural deficits and rising public debt ratios causing substantial turbulence on the financial markets, while, in fact, public debt should have been on the decline in anticipation of rising age-related spending. Obviously, substantial policy adjustments are needed in most countries to fill their growing sustainability gaps and avoid that too large a share of the bill is shifted to future generations. We put forward a number of options to avoid an increase in the tax burden. These suggestions primarily aim at achieving sustainability through structurally higher economic growth and labour force participation. Obviously, other choices are possible. However, it is important that they remain consistent with achieving sustainability and allow future generations to continue to profit from essential public services without having to pay substantially higher taxes.

3

The EU, a World Player

European Trade Policy: Countering Protectionism and Dumping

Anne-Marie IDRAC

Often qualified as liberal, European external trade policy has worldwide influence : the European Union is the world's leading trading power, whose prosperity stems by and large from its imports and exports. It is one of the domains which is best covered within the communitarian scope, and the strong personalities of several Trade Commissioners have guaranteed it high profile and credibility. The choice of opening up European trade borders – with its particular features in the agricultural sector –is one of the milestones in the EU's economic policy and an extension of the single internal market.

On all of these accounts, the EU plays a major role in the liberalisation of the world's markets, especially since many European companies are multinationals.

The EU has always played a major role in the liberalisation of other markets notably via the WTO's multilateralism; in this the Commission and many Member States see a systemic interest that reaches far beyond the effects it might have on European industry or agriculture.

Moreover, the EU has taken extremely interesting initiatives to associate trade and development notably thanks to the "anything but arms" programme that opens its markets duty free and quota free to products from developing countries.

Repercussions of the crisis: are we becoming less naïve in terms of trade policy?

Taking European interests into account

The economic crisis led to shifts in policy, as expressed in the Communication presented in November 2010 by European Trade Commissioner, Karel de Gucht. According to the French positions on the matter, these changes explicitly aim to take on board our own European interests more specifically so that we consider our external trade relations, notably with emerging countries, from a less naive point of view.

The first aspect which attracted growing awareness during the crisis is the importance of trade for growth in the face of the dangers of protectionism. After having been one of the main factors behind the crisis in 2009 -notably for Germany- it became in 2010 the driving force behind world recovery.

This intensifies the EU's interest in achieving the opening of external markets for its manufacturing and services enterprises, as well as for its agricultural and agro-food produce.

However, world liberalisation is somewhat in decline; on one hand, we have been witnessing the emergence of some protectionist phenomena. On the other hand, the WTO's Doha Round – in which the previous Commission had placed most of its hopes - has been losing ground, or even been in a stalemate since 2008.

Fortunately the Commission, with the support of the Member States, has been able to draw two conclusions from this situation: firstly, the WTO's Dispute Settlement Body is more often used to counter certain protectionist measures, this being the only global settlement tool, whose role incidentally deserves to be strengthened. Secondly, without losing sight of the goal of reaching a conclusion in the multilateral Doha Round, bilateral trade talks have resumed (with Korea, India, MERCOSUR, ASEAN, etc...).

The second crucial phenomenon that emerged with the crisis is a new structure in trade and balances of power: in 2009 China took the lead over Germany as the world's top export country. The European trade deficit vis-à-vis China has multiplied tenfold in ten years; Asia and more generally the so-called emerging countries have matured and they are now leading world trade.

At least three conclusions can be drawn from these developments in terms of the trade policy:

- firstly, geographical redeployment is necessary. We must go and seek out growth where it is situated, aware that at present, intra-community trade represents around 60% of the Member States' foreign trade. Community measures in support of SME's to access the emerging markets are being drawn up to this end;

- secondly, realism obliges us to refine our approach: during trade negotiations or in the European generalised system of preferences (GSP): it no longer makes sense to treat developing countries in the same way as the so-called emerging countries such as China, India or Brazil since these have in fact already emerged;

- finally, the EU's bilateral economic dialogue with the USA must focus more on the common positions of industrialised countries in the face of major new players such as in the defence of intellectual property rights, for example.

A strengthened trade policy after the Lisbon Treaty

As the crisis took place, the Lisbon Treaty provided greater political force to the EU's common trade policy from an institutional point of view. Community competence was extended to several major areas that are of extreme importance vis-à-vis European interests: aside from services, this includes investment protection agreements (IPA) and the trade aspects of intellectual property protection. Qualified majority has now almost become the absolute decision making rule.

Incidentally, it is probable that the trade policy will be co-decided *de facto* with Parliament, whether this concerns formative rules like that relating to anti-dumping or to the follow-up on bilateral negotiations such as the agreement with Korea which is now being finalised.

Finally, the links between trade and foreign policy – together with their institutional effects (respective roles of the Council and Commission and within this the relations between the High Representative and the Trade Commissioner) still have to be defined in practice. For example, taking up issues relating to human rights may clash with goals set to liberalise trade. It is notable to observe that the idea of mutual trade – so dear to France – was recorded officially for the very first time at the European Council on 16th September 2010.

The new European trade policy and its challenges

The assertion of new approaches: a test for European trade policy

In the near future several issues will reveal the EU's effective determination and ability to defend these new approaches:

Firstly, from a political standpoint, we must decide what the idea of reciprocity really means, notably with regard to access to the procurement markets of India and Canada, not to mention China.

Similarly, another vital test will consist in the the ability to sustain the anti-dumping procedures and other export subsidies or restrictions, as well as the capacity to use them judiciously. The effectiveness of a common policy approved by the qualified majority is clear, since the danger of retaliation is so high.

In the negotiations on free trade agreements other issues will entail the fair assessment of European interests. These will be both offensive and defensive; the Commission will have to assess the general, common balance between the various service sectors, industry and agriculture. Winning the political approval of the Member States who have their own national interests is a complicated task, as witnessed during the agreement with Korea and as we will see with MERCOSUR.

Finally, new ways will have to be found to link trade agreements and the protection of investments; from this point of view, the transfer of technology is an area in which Member States do not yet share enough common ground. Access to raw materials and notably the security of energy supplies is decisive for the balance of future talks with countries like Russia, amongst others.

As for the successful completion of the Doha Round, the EU will not contribute to this by making further agricultural concessions. It hopes, however, to improve matters with regards to industrial markets and services in the emerging countries; in truth the pace of the negotiations was such that Europe is now expecting the US to take decisive steps.

The trade policy's new frontiers

Europe's political energy will have to be extended to other areas. The crisis has made the mutual opening up of markets particularly vital. It has revealed how important it is to respect investment, intellectual property and access to public procurement, raw materials and energy. The EU has to continue all of these battles in the interest of Europe but also for a strong and balanced global growth.

Apart from these areas, which fortunately are increasingly the focus of the EU's attention, new frontiers were indicated by Nicolas Sarkozy in relation to France's presidency of the G20; it would be the EU's honour to be able to promote the following points in keeping with its global political mission.

- the need to connect trade and social rules, the first step being to set in place a shared body of observers between the WTO and the ILO,
- establish links between trade and environment, notably to find the key to countering environmental dumping and between trade and development, via the Economic Partnership Agreements (EPA) with the ACP countries, which unfortunately are at a standstill,
- the need for regulations and the fight to counter speculation, be this in a monetary sense or in the field of raw materials, starting with agricultural products.

From a European point of view, trade policy can only make sense with respect to growth and employment if it is linked to internal competitiveness policies: the industrial and innovation policies, the internal market and the CAP.

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With its strengths and values Europe can continue to influence the world; its project to have a regulated opening of the markets must aim to take all economies and societies forward. It is an economic project, but above all it is a political project!

The Common Security and Defence Policy: Decline or Transition?

Arnaud DANJEAN

The end of 2009 was significant for the realm of European defence policy, as it seemed to form a perfect, symbolic link between the ten year acquis of the European Security and Defence Policy (ESDP) and the promises held by the Common Security and Defence Policy (CSDP), both clearly included in the finally ratified Lisbon Treaty. 2010 dominated by debate over NATO's strategic concept and its role within the EU as well as by the introduction of the European External Action Service (EEAS) under the management of Lady Ashton, and yet it seemed to be desperately empty as far as the CSDP was concerned; none of the new challenges (institutional, operational, capabilities) against which the EU had to measure its new ambitions witnessed any significant progress.

This disappointing condition must of course be considered in the wider context of the unprecedented economic, financial and monetary crisis experienced by the EU, which legitimately disrupted all priorities. Another element which lead to a certain degree of indulgence is the setting up of the institutional projects included in the Lisbon Treaty; this difficult organisational period is a transitional yet obligatory stage which cannot, however, be necessarily linked to the abandonment of the resolve to achieve a CSDP worthy of its name. Aside from the achievement of modest results, and despite the interpretations of 2010 as a bad year or simply a year of transition, there is above all a feeling that it is time for the Member States and the High Representative to take initiative in an area where expectations are high.

Budgetary Crisis and NATO relegates the CSDP

It is undeniable and understandable that the unprecedented monetary and financial crisis which the EU still faces has relegated other projects to second place in all Member States. It is also not illogical for national budgetary tension to affect defence spending severely; hence the gap between European countries – both individually and collectively – and the US has widened a little more, likewise widening the gap that distances the EU from the main emerging powers (China, India, Russia), whose military and security spending have soared when compared to Europe's limited spending (military budgets external to the EU increased by nearly 50% in the world between 2000 and 2009).

The three main European countries (Germany, France, UK) have all announced measures to reduce spending and/or to change the configuration of their forces. Although the end result of the British strategic review is not as severe as predicted, the reduction in the defence budget still totals 8%, the reduction in the forces' size 9% and some programmes have even been abandoned. In France, more than 3 billion € are to be saved on policies included in the military programming law over a period of three years. Finally, Germany launched a vast reform that is due to lead to the end of conscription in 2011. Although making the forces professional should lead to greater flexibility, deployment and commitment in the long run, in the short term this implies significant savings and considerable reductions in the configuration of the forces without any major visible change in terms of future capabilities. The restrictions affecting these three States are obviously to be found in the other Member States, most of which already fell short of the 2% of GDP threshold in defence spending.

Aside from the effects of the crisis, the 2009-2010 defence policy strategic agenda was also dominated by NATO, in two ways:

Firstly, NATO was engaged heavily in the main external theatre of operations - Afghanistan - where the Alliance was facing an extremely harsh situation. 2010 was by far the bloodiest year for the coalition forces and the vicissitudes of the American command (establishment of the new counter-insurrection strategy, dismissal of General McChrystal and the arrival of General Petraeus, the announcement of the start of withdrawal as from July 2011) meant that it was difficult to read Western commitment.

Secondly the Alliance launched a review of its strategic concept in 2009, led at first by a group of experts and Madeleine Albright, and finalised after difficult negotiations between the States until the Lisbon Summit in November. This vast project led to a confirmation and "recalibration" of the organisation's priorities at the end of a sometimes tense but mainly successful debate (definition of an anti-missile defence capability, the role of nuclear dissuasion, and the inclusion of the issue of cyber-defence).

NATO's control over strategic considerations has left even less space for CSDP, particularly since the link between NATO and the EU – as expressed in the conclusions of the NATO Summit – falls well below expectations and requirements in terms of complementarity between the two organisations. Although the relationship is a close one it has been substantially weakened by the Turkish/Cypriot dispute. In spite of efforts undertaken by new Secretary General Anders Fogh Rasmussen and some real progress with regard to capability and operational cooperation, firstly through contact between the European Defence Agency (EDA) and the Command for the transformation of Norfolk, then through pragmatic organisation in joint fields of deployment such as Kosovo and Afghanistan – NATO's new strategic concept did not confirm the initial goals of establishing a "strategic partnership" with the EU. Mutual concessions included in the so-called "Palma" proposal (reference to the proposal supported by Rasmussen during the meeting of European defence ministers in Mallorca in February 2010) face intransigence from both the Turks and the Cypriots. There is therefore no progress in terms of Cypriot acknowledgement and Ankara's demand for an EU/Turkey security agreement, as well as Turkish participation in the EDA's work.

European Prevarication

Whilst strategically NATO took front stage, the EU was concentrating all of its energy into setting up the EEAS, one of the main innovations of the Lisbon Treaty which provides the basis for the EU's international relations headed by the High Representative for Foreign Affairs and Security Policy and Vice-President of the Commission, Catherine

Ashton. After some very tedious tripartite negotiations (Council, Commission, Parliament) and a compromise on the edge, the organisation, budget, and the composition of this service comprising 3,500 people were agreed upon in Madrid in June, leading to the official birth of the EEAS on December 1st 2010. The focus on institutional technicalities, apart from giving the impression that the political content of immediate international issues which the EU was facing was being neglected, highlighted how little was being allocated to security and defence in terms of the EU's external action. Crisis management mechanisms that had been patiently put together over the last ten years barely received the benevolent attention either of the Commission, the Parliament or the High Representative. Disinvestment and apathy with regard to the institutional chapter were therefore perceived by observers and by many of the players themselves.

In the face of this generally unfavourable period there has fortunately not been any further sudden, unexpected international crisis (eg the Russian-Georgian conflict in 2008) demanding urgent response on the part of European countries, which would have undoubtedly placed crisis management capabilities in a delicate position. Contrary to the last few years - notably 2007-2008 - which witnessed the unprecedented deployment of civilians and troops (EUFOR, Chad/RCA, EUMM Georgia, Atalanta Operation Somalia, EULEX Kosovo) there was no major operation launch in 2009-2010. Only the modest terrestrial “addition” to the anti-piracy action undertaken in the Gulf of Aden and off the Somali coasts, involving the training of Somali security forces in Uganda (EUTM Somalia launched in the spring) contributed to the development of the CSDP's operational aspect. Ultimately, we might rejoice over this if it meant that there had been fewer crises threatening the EU's security. However, when it comes to a policy which is commonly said to have been designed pragmatically thanks to involvement in operations of both wide geographic and thematic scope, the lack of any further operations might also be interpreted as increasing disinterest in the use of European crisis management tools by the Member States, and also as reticence on the part of the High Representative with regard to promoting them.

Indeed, there is no lack of potential theatres of interest: the Gulf of Guinea, Sahel, the Horn of Africa and so on. There are many unstable areas that might call for the celebrated global response (linking up aspects of development-humanitarian action-security/defence) of which the EU is so proud, all the more so since the ratification of the Lisbon Treaty. This does not mean reducing the consideration of neighbouring crisis areas simply down to the military response which the EU might provide or deploring the fact that no planning has seriously been undertaken with regard to this. Rather, it is surprising that no general strategy which includes all of the civilian (economic, trade, diplomatic, security) and possibly military tools that the EU has at its disposal has been put forward to rise to these major security challenges. Apart from regional conflicts, the outcome of which is always unpredictable, these theatres are the hub of terrorist, criminal and migratory turmoil which increasingly affect European interests and even its territories.

With its institutions under construction and operations at a standstill, some progress might have been discerned in terms of the EU's capabilities - an area which, when compared to its ambitions, is still its weak point. With regard to this issue, 2010 will not go down in history books. We might praise the establishment of the European Air Transport Command in September and take note of the promising start of cooperation between NATO and the EU in programmes to counter improvised explosive devices and to underpin medical support, helicopters and possibly even the area of nuclear, radiological, biological and chemical protection. However, progress is mostly limited to the demonstration of good intentions. In addition to this, the confusion over the real role to be played by the European Defence Agency – the importance of which is acknowledged in the Lisbon Treaty – feeds serious doubts over the Member States' political will to achieve closer cooperation. Tense discussion over the EDA's budget – which will not increase – and over the appointment of its new executive director, together with the Ashton method being seen as excessively unilateral, as has been highly criticised by certain States, are clear illustrations of European prevarication.

2011, a year to recover?

Despite the rather bleak view of the CSDP in 2010, some developments do allow us to breathe a sigh of relief. All of these came in the last quarter and in a variety of ways, perfectly illustrating both the need to take initiatives given the danger of strategic relegation- not only as 'Europe' but also in terms of individual Member States, including the most powerful ones- and the lack of a European reaction with regard to defence issues.

The main novelty in Europe came with the signature of a Franco-British defence and security treaty on 2nd November in London covering a vast range of operational, capability and technological cooperation projects. Although the most spectacular measure involves nuclear activities, the establishment of a joint expeditionary force – which will not be permanent but remain available for bilateral operations including heavy combat - is surely the most ambitious aspect of this agreement. Under the pressure of the new British government this treaty does not fly under the European flag, unlike that of Saint-Malo in 1998, which became the explicit and accepted precursor to the ESDP. However, in the post-Lisbon context both Paris and London believed that the institutional initiative could no longer to be taken on a European level. According to this view, it is up to the States of Europe who want to and who are able to, to provide impetus to the ambitions of the CSDP.

Will the Franco-British shock therapy produce the desired effect, that is raise awareness amongst other Europeans that without a concerted effort to build on capabilities the simple declarations of intention laid out in the Lisbon Treaty, or even those put forward by the Council will not be enough to conceal the slow but certain devaluation of European military power? This is desirable and possible, seeing that, beyond the first polite but visibly frosty reactions of other European States with regard to this Franco-British bid to go it alone, nearly all of them admit in private that this initiative has the merit of reminding the States of their obligations. Both Germany and Sweden immediately confirmed that they wanted to work together to pinpoint capabilities that would benefit from the pooling of their respective forces.

On 9th December, and for the first time in the history of the European institutions, the Defence Ministers wanted to issue a firm message, both formally and independent of the "supervision" of the Foreign Ministries, demanding the end of the crisis and return to taking initiatives. This simple detail bears witness to the fact that the spirit of the Lisbon Treaty is becoming a reality in spite of continuing reticence on the part of some States who are not interested in the defence debate taking place in a more formal, specific framework under the authority of the High Representative. Although the debate was limited in terms of time and themes (capabilities), one point was clearly defined in this first meeting: "*the need to transform the financial crisis and its effects on national defence budgets into an opportunity to be seized, the aim being to provide new impetus to the development of European military capabilities […] and to protect the defence capabilities required to support the CSDP."*

Finally, as proof that the Franco-British initiative did exclude the rest of Europe, the Weimar Triangle (Germany, France and Poland) addressed a joint letter to the High Representative on 6th December co-signed by the three Foreign Ministers and three Defence Ministers pleading in favour of a concerted effort for the CSDP. "*In a context of great financial restriction we must be prepared to take audacious decisions"* they asked Lady Ashton to work towards achieving "*a more effective and efficient CSDP*". This initiative shows that these three major EU countries have not given up their European ambition in terms of defence. With regard to this, the attitude of the Polish government is quite revealing: Warsaw, which will ensure rotating chair of the Council of the EU in the second half of 2011, has made this subject one of its presidency's priorities, marking a break from the outrageously Atlanticist platitudes that predominated until recently.

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The Weimar Triangle's assertion in a new area illustrates the flexible, pragmatic way in which the CSDP is developing: bilateral capability agreements, operational proposals put forward unilaterally or in small groups of States, joint political initiatives, institutional experiments that result from the Lisbon Treaty and so on. Without falling into the sterile confusion of excess, it seems that it would be good to develop any initiative in the present context. However, we should never forget that, in terms of security and defence, the unstable and dangerous reality of the world in which we live will make us aware of the situation much more quickly than any of the political structures patiently put together by Brussels or by any other national capital.

The Europeans, their Defence and their External Action: Structural Disarmament or Strategic Re-Engagement?

Michel FOUCHER

The real strategic surprise of the period 2007-2010 was the violence of the financial and economic crisis. The crisis had a striking effect on the power relations of the main geopolitical players, on budgets of the States that were most affected and on public opinion in democratic countries. Will these factors durably modify the conditions of politico-military action outside of Europe and the exercise of the autonomous defence capabilities of Member States?

In its various shapes and forms the crisis was not worldwide; its epicentre was American and it spread across Europe due to the interdependence of the two economies. Since the EU is not a State it took a long time to define the means of response. For a long time the meaning of these tools was not very visible, and the differences in collective culture influenced the situation. Washington opted for recovery as a means to emerge from the crisis; most European governments instead chose rigour and austerity measures that were supposed to reassure the financial markets in the short term and show the futility of the attacks made against the single currency. Beyond that, the French Presidency of the G8 and G20 in 2011 will endeavour to address the main economic imbalances in the world.

From a geopolitical point of view, one of the effects of this multiple crisis that started in the West was a reappraisal on the part of several emerging countries of the balances of power in the established world order. The Western deficit in "governance" was noted in Singapore, Beijing and in New Delhi; some analysts have spoken of winners and losers, others of the displacement of a so-called "centre of gravity" towards Asia, denying the long term reality of economic, demographic and geopolitical polycentrism. However, it remains necessary to have a better representation of international institutions (UN Security Council, IMF, World Bank, the effective shape of a G20 with 35 participants but which does not replace the G8), although hurdles often arise due to the rivalry between the candidates themselves (China against India and Japan, Mexico and Argentina against Brazil, indecision in Africa) than from the established powers.

Changes in how the state of the world is perceived and the danger of Europe's geopolitical relegation have weighed negatively on the feeling that there is an urgent need to strengthen European capabilities in terms of autonomous defence and external action.

Is there a Trend Towards Structural Disarmament?

Successive Eurobarometer polls (notably no. 71 in 2009) reveal a constant attitude amongst European public opinion: power is not rejected from an economic and even political point of view, but military power and therefore "defence policy" are never deemed a priority. European security is mainly delegated to NATO i.e. the US (Transatlantic Trends, German Marshall Fund[1]). It appears that the tranquilising effect of "the transatlantic infusion" diagnosed by Jean-Claude Casanova[2] persists.

A poll undertaken in five major European states (UK, France, Italy, Spain and Germany) after the Russian-Georgian war in the summer of 2008[3] revealed a contradiction between the awareness of the real threats to global stability (Russia, China, Iran etc …) and the dual refusal to increase defence spending at the expense of healthcare and social security funds on one hand, and on the other hand to stand by the Baltic States, members of the EU and the Atlantic Alliance in the event of a threat from Russia. We now know that the Balts had to be reassured with an Alliance agreement.

There are other more concrete signs which illustrate this attempt at "structural disarmament". For example, the end of conscription (Germany, Sweden), pressure in support of the withdrawal of forces deployed to external theatres of war (Spain which opened the way by leaving Afghanistan, was then followed by others, the Netherlands, Germany) and above all the drastic cuts in defence budgets, a variable adjustment in an attempt to reduce public deficits (a decrease of 25% over four years in the UK, between 3 and 5 billion euros in France over three years). There is therefore a risk that the scope of capabilities will be dictated by budgetary restraints alone. As stated by the chief of staff of the French armies, the decision to postpone equipment programmes and to reduce the size of the armed forces means that political leaders believe that nothing serious will happen within the next five years as far as security is concerned.

Budgetary reductions in Europe and increasing reticence on the part of public opinion with regard to external commitments contrast with increased investments in defence in new poles of influence (which offer new opportunities for European industries that struggle on their own markets – a cruel paradox for the pro-Europeans). This paring down feeds the hypothesis of "strategic narrowing " on the part of Europe. Fortunately, several heads of State and government are aware of this – in Paris, London, Berlin, Stockholm, Warsaw and Brussels – and they have decided to fight it.

Towards Strategic Reinvestment

Herman Van Rompuy, the stable President of the European Council, has no doubts about the EU playing a greater role in the international arena. He is also convinced of its capacity to be better armed in order to rise to the predictable challenges- and surprises- of a period he quite rightly qualifies as one of transition between the economic phase of globalisation and the political one, in which emerging countries establish themselves as political forces. As a result, he places greater emphasis on reciprocity and mutual interests in the EU's relations with its strategic partners. Furthermore, he also highlights its ability to undertake twelve military and civilian crisis management operations.

1. *Transatlantic Trends 2010*, http://www.gmfus.org/trends/doc/2010_English_Key.pdf. The survey is based on the public opinion in five countries of the EU (France, Germany, Spain, Italy, The Netherlands), as well as in the USA and Canada.

2. Jean-Claude Casanova, "The Time has come for Europe to free itself of the USA," in *Le Monde*, 17th November 2009.

3. Harris for the *Financial Times*, 22/09/2008

The first prerequisite for strategic reinvestment by the Europeans lies in their lucid analysis of the state of the world as it is and their own interests in this context. The ability to ward off attacks against the euro, just to quote an example, and the awareness that real strategic interests have to be protected in sensitive industrial sectors in spite of the naïve rhetoric of ultraliberal laissez-faire (that is still fashionable in many Commission circles), takes them forward in this direction.

A second condition lies in the awareness that Europeans must consider taking responsibility for their own security, under the paradoxical impetus of the USA which is concerned about rising tension in other strategic theatres. In other words, they should contribute more to the security of European territory and not just makes plans for forces abroad. In the second half of 2010 the Polish Presidency of the European Council made this its priority together with specific issues and military coordination between European States who could and wanted to be involved.

The two treaties (a comprehensive treaty and a specific one involving nuclear simulation), the declaration on 17 industrial projects and the letter of intention on the cooperation of the armed forces signed on 2nd November 2010 between London and Paris are not part of an effort that seems to have any European scope right now. The approach is bilateral and has been approved as such by the political forces, especially by London. But since these two powers guarantee more than half of the EU27 defence budget, two thirds of research and development work and a major share of external operations, we should see practical formative results on their part.

Bilateral cooperation is open to those who can contribute effectively to the renewal of military capabilities by 2020 at a shared and reduced cost. The process is not based on principles but on projects. It is likely that other joint projects will be added with Berlin (for example in the domain of space). Likewise the three page German-Swedish paper dated 7th November 2010 solicits greater cooperation on "the European imperative for military cooperation". The aim is to bring the Member States to state clearly in which sectors they want to retain their entire freedom of movement (fighting units, frigates, fighter planes) and in which sectors they are prepared to share all or part of the capabilities (air transport, a subject that is already being made official with the joint chief of air staff of Maastricht as well as logistics, training and instruction) and those in which they accept a certain amount of interdependence as part of a task sharing exercise. Berlin and Stockholm are promoting cooperation in R&D for new materials.

We should note that a council on the development of military capabilities took place in Brussels as part of the Foreign Affairs Council on 9th December 2010. Its conclusions call to "transform the financial crisis and its effect on national defence budgets into an opportunity, the aim being to provide the development of European military capabilities with new impetus in order to achieve the level which has been set". The High Representative was invited to report on the state of progress of work by mid-2011.

Although inter-operability is a vital necessity in which the progress already achieved is quite significant, industrial players must cooperate and privilege Europe, resisting temptation to form external alliances, as in the case of the German shipyards which joined forces with an Arab Emirate investment fund rather than with a French partner. The lessons learned from the crisis are starting to affect the areas that belong to national sovereignty. In the area of defence this simply means seeing to what political degree the States are able to accept interdependence and to manage it at a reduced cost.

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Mutual trust that is confirmed politically, explained to public opinion and embodied by real military and industrial projects is the only strategic response to the temptation to undertake moral disarmament and strategic narrowing, which is in no one's interest.

The European Union and the Threat of Al-Qaeda

Jean-Pierre FILIU

The threatening messages issued by Osama Bin Laden or his supporters continue to cause a legitimate stir in Europe and even enjoy a significant amount of media coverage. However jihadist terror comprises just a small share of the terrorist threat in Europe: of the 294 terrorist attacks registered by EUROPOL in 2009 only one could be defined as being of Islamist origin. This was the 12th October 2009 attack on a Milanese barracks by a Libyan citizen who was quickly brought under control; this attack which apparently was an individual initiative revealed no links with Al-Qaeda, whose concept of mass terror this event did not match.

Police cooperation, whether it is intra-European, transatlantic or Trans-Mediterranean, has played a decisive role in the prevention of jihadist violence within the European Union. But the embarkation in Amsterdam of a Nigerian Al-Qaeda terrorist on 25th December 2009 (who fortunately could not activate his bomb on the flight to Detroit) or the discovery on 29th October 2010 in the UK, of parcel bombs (on a cargo plane heading for the USA) highlight that it would be too early to lower the guard. From their refuge in the tribal areas of Pakistan, Al-Qaeda's leaders continue to inspire terrorist conspiracies in Europe and its branch in "The Islamic Maghreb" has the explicit goal of lashing out at "the Crusaders" north of the Mediterranean. Finally jihadist sites on the Internet aim to encourage terrorist action and motivate radical converts, amongst others, to this end.

The Base in Waziristan

Al-Qaeda's leaders, in hiding in the tribal zones of North West Pakistan since the winter of 2001-2002 have built up an entire network of training camps, support structures and propaganda agencies within this new sanctuary. Pakistani Waziristan, which lies on the borders of Afghanistan, seems to be the epicentre of this planetary jihad and the main terrorist attacks undertaken over the last few years in Europe imply a more or less extended stay in this Pakistani "Wild West". It was there that the British leader of the attacks of 7th July 2005 in London received his operational training and recorded his posthumous claim. It was there that the "Saarland Cell" comprising two converted Germans and a Turkish immigrant were programmed by the Islamic Jihad Union (IJU) to undertake attacks in Frankfurt/Main and in Ramstein **(**the plot was foiled by the German police in September 2007**)**.

Al-Qaeda tried to influence the general election in Germany in September 2009 by threatening to punish the country for its commitment in Afghanistan. But this attempt to resume terrorist blackmail which turned, with regard to Iraq, the Spanish elections into a bloodbath in March 2004, fell through and so Ben Laden's organisation re-focused its propaganda and planning on America – demonstrated by the attempted attack in Manhattan on 1st May 2010 – using Pakistan as its base. Conspiracies in Europe now seem to have been delegated to Al-Qaeda's partner organisations such as the IJU (dissidents of the Islamic Movement of Uzbekistan (IMU)), the Pakistani Taliban of the TTP (who were behind the plot against the Barcelona metro in January 2008) and even the Islamic Party of Turkestan, accused by the Norwegian and German police after a series of coordinated arrests in July 2010 of three Jihadist militants (a Norwegian of Uyghur origin who had been trained in Pakistan and his two Uzbek and Iraqi accomplices).

This necessary sojourn in the Pakistani tribal areas has sharpened the vigilance of European services in this direction. Of course this land of jihad is of much less interest for European radicals than was the case with Iraq a few years ago because Al-Qaeda has now mainly departed from the Afghan theatre to focus on attacks against the Pakistani regime and those who support it. But the Jihadists, who have now been trained, although less in number, are just as determined and well seasoned and the risk of them returning to Europe is taken very seriously as demonstrated by the arrests in Italy in September 2010 and in France two months later. In the country itself however it is the Pakistani government which is leading the land operations whilst the USA frequently bombs jihadist targets in tribal areas by means of Reaper and Predator drones. September 2010, with 22 raids of this kind, was particularly intense and the escalation in American strikes went hand in hand with revelations of a complex conspiracy – attributed to Al-Qaeda involving attacks on various European cities, in replica of those which turned Bombay into a bloodbath in November 2008.

Islamic Maghreb

When Ben Laden accepted the allegiance of the Algerian jihadists of the Salafist Group for Preaching and Combat (GSPC) in January 2007, he renamed them "Al-Qaeda in the Islamic Maghreb" (AQIM) and gave them the task of striking the "Crusaders" in Europe. AQIM's propaganda distinguished itself by its virulent aggressiveness towards France and Spain, accused of still being in control of the "apostate" regimes in North Africa. But the former GSPC networks in Europe, which had turned their attention to supporting the anti-American insurrection in Iraq**,** find hard to mobilise for the Jihadist guerrilla in Algeria even after their integration of Al-Qaeda. In addition to this, the wave of suicide attacks which shook Algeria in 2007-2008 were the source of horror amongst the populations in Maghreb thereby intensifying the rejection of Ben Laden's ideas and the isolation of his followers.

Unable to spread terror north of the Mediterranean AQIM has turned to western targets that lie in its immediate vicinity (murder of four French tourists in Mauritania in December 2007 and a French engineer in Algeria in June 2008) whilst its Jihadist commando, which are extremely mobile in the Sahara, are increasingly aggressive. A diatribe by Ayman Zawahiri, Al-Qaeda's no.2, against France in August 2009 was followed by the attack against the French Embassy in Nouakchott by an AQIM kamikaze (who was the only one to die in this attack). Al-Qaeda's leaders also encouraged the execution of western hostages the liberation of whom the GSPC and AQIM had previously preferred to negotiate in exchange for its imprisoned supporters and for the payment of a ransom. Hence a British tourist and a French humanitarian worker were killed by AQIM, in May 2009 and July 2010 respectively.

This Jihadist violence which is relatively limited in Algeria is increasingly worrying in Mauritania, Mali and Niger where it is compromising the development of tourism and foreign investments. The kidnapping of seven expats, including five French citizens on 15th September 2010 by AQIM from the AREVA site in Arlit, North Niger is in this respect a sign of significant escalation. Ben Laden took over the affair himself on 27th October by demanding that France withdraw its troops from Afghanistan and that it abolish the recent law banning the full veil. The effects in the media of these kidnappings should not allow to forget that most of AQIM's terror victims are Muslims, civilians or soldiers. The open cooperation between the Jihadist commanders and Mafia-like groups involved in various types of trafficking only accentuates the discredit of Al-Qaeda's message. In order to recruit outside of Maghreb and Sahel AQIM has been reduced to using the internet where its scouts browse Jihadist fora to pick out potential supporters. These are then invited to consult encrypted pages or sites on which significant exchanges of information and even the giving of orders can take place.

The Virtual Challenge

In effect the internet has become the main vector for Al-Qaeda's doctrine and its guidelines, offering its affiliated organisations or partners a virtual tribune of unequalled potency. Apart from recruitment opportunities as described for AQIM, the net enables these various groups to feed the illusion of their power and to amplify their militant rhetoric. AQIM promotes its leader, Abdelmalek Droukdal, who was crowned with an exclusive interview with the New York Times in July 2008. For their part the groups based in Pakistan mobilise Jihadist converts who address their European public in their own language. The most famous of them was German Eric Breininger (1987-2010), who enrolled in the IJU under the war moniker of Abdulgaffar al-Almani, before being killed in the Pakistani tribal areas.

The internet hype primarily aims to circumvent the condemnation of Al-Qaeda on the part of Islam – since it is wholly considered to be a "deviant" and even "heretic" sect by the religious scholars whether they are pro-government muftis or opposition sheikhs. The virtual propaganda targets isolated individuals, with a low or almost no religious culture, for whom Al-Qaeda stands as a self-proclaimed avant-garde, the holder of the absolute truth. The internet attracts converts or the "born-again" Muslims in particular because it structures their individual road to redemption or assertion and at the same time it feeds the false sense of militant community. The Jihadist sites are therefore a privileged area, not for the freedom of expression but for the preparation of real terrorist acts; it is now becoming a matter of urgency to take this on board across Europe and adopt a preventive approach.

More generally, Al-Qaeda's formidable dialectic should be revealed for what it is. Ben Laden and his supporters have totalitarian plans for those with whom they are supposed to share the same religion: they want to dominate this "close enemy" in order to facilitate his "purification". America and Europe are just the "far enemy", of a tactical nature, whose direct and armed intervention has to be provoked in order to weaken the "close enemy". The overwhelming majority of Al-Qaeda's victims are Muslims killed in Muslim countries but Al-Qaeda continues to hijack of the European debate over Islam to its advantage, as if Ben Laden's organisation represented the ultimate stage in Islamic "radicalisation". As far as counter-terrorism is concerned it is much less an issue of encouraging a "moderate" form of Islam at the expense of a "radical" one (ideas which recently demonstrated how fluid they were) than the rigorous implementation of a certain number of rules of law – applicable to everyone, both men and women. In Europe as elsewhere Al-Qaeda represents a security challenge rather than a challenge to society.

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Interview

Herman VAN ROMPUY
President of the European Council

1. Is it possible at the beginning of 2011, one year after the entry into force of the Lisbon Treaty, to see what has been learnt from your work within the European Council and as chairman of the Task Force? The first achievement that you have been credited with is your work in managing the debt crisis. Are you optimistic about the way the euro area will be able to overcome the sovereign debt crisis and quell doubts of the financial markets? What are the first conclusions you can draw of a turbulent 2010?

Indeed I have been able to draw several conclusions. We inherited a common currency, a currency which I consider to be a major accomplishment. In the history of the European Union the creation of the euro is a revolutionary success on a par with the launch of the ECSC[1] in 1950. It was an exceptional moment in the Union's history and never witnessed before. In the past we have witnessed countries with 17 currencies and one government today we have the opposite. It is a tremendous heritage.

Unfortunately our predecessors did not learn all the lessons imposed by a common currency. They settled for the Stability and Growth Pact, which incidentally, was not respected. They did not create a true convergent economic policy among the members of the euro area. From a macro-economic point of view, for example, there is no mechanism to counter real estate bubbles or address certain excesses such as rash salary increases in the public sector. They lack convergence and coordination of economic policy.

We might say then that the euro is a victim of its own success. It became a strong currency and at the closure of its first decade one could say that the euro is a success. However with the onset of the financial crisis, the structural economic problems experienced by certain countries were brought back to the surface. We had no instrument with which to act. As there were no problems over the first ten years, our predecessors saw no need to act and had they wanted to act they were not equipped to do so.

The financial crisis quite clearly showed the weaknesses in some Member States of the euro area. Certain tools had to be created. For example to help Greece we had to design a financial support mechanism. In March 2010 the European Council asked me to propose a stronger system of economic governance. When this work was completed in October I put forward several proposals. We still have to turn this consensus into legislative acts via Commission proposals and request the agreement of the co-legislators – i.e. Parliament and the Council (of Ministers), but we have succeeded. We knew we had to fight the

1. European Community of Steel and Coal

crisis and set up vital instruments in order to do this. Over the past 60 years we have worked on a major political project towards greater European unity but without all the necessary economic infrastructure for its completion.

2. There are tools but is there also the political will? Do you feel that on the part of the Heads of State and government that there is real political will to continue?

Firstly we have had to invent the necessary tools to quell the storm.

Secondly the euro is strong and stable from a general point of view but it is only as strong as the weakest link in the chain. No one knew the extent to which the problems of one country could affect everyone else. Because of holdings of the banking sector, international financial institutions and State bonds are no longer just held nationally. The problem of one State is now shared by other countries and therefore by the euro area as a whole. With the financial crisis, it has become clear that the situation of a particular country also depends on the health of its banks. At a certain point the problem of the euro became that of the world. The Euro's problem emanates from political divergence within the euro area rather than from a general world economic situation and no one had ever imagined this prospect.

Thirdly people have underestimated two points.

When there is a crisis in a country, we must take action and undertake reforms that are themselves challenging the government of that country. It is difficult to face public opinion when reforming the labour market, increasing the age of retirement and stabilising the budget. It is not easy to assume both budgetary and structural responsibilities in a climate in which populism is on the prowl.

However in the other States who had to come to the aid of a struggling country, public opinion also has to be faced, for example in Germany, to explain that reforms are leading to results, that financial stabilisation is being addressed; yet at the same time it has to be explained that certain countries with major budgetary problems need help because they have not implemented their own reforms adequately! These are complex political issues in a pervading atmosphere of populism, that tends to be mostly anti-European and eurosceptic. That is one point.

The other is that certain observers cast doubt about the determination of some governments to defend the euro. I do not think any members of the European Council doubted this for one moment. Perhaps there were different viewpoints; however, I can say that in the heart and mind of the member of the European Council they believed that the future of the euro is also the future of the European Union. This is now firmly established. Both are linked, they are "one and inseparable". The German Chancellor also stated this clearly just a few months ago.

Albeit there are some who are still not members of the euro area, the Lisbon Treaty provides that all Member States, with the exception of the UK and Denmark, shall be candidates obligatorily.

One of greatest achievements of the last few months has been the desire expressed by all our important leaders that we must do everything in our power to protect the Union and the Euro. This was incidentally one of the conclusions of the European Council of December 2010. It shows our determination: the euro convoy continues on its way whilst the dogs bark.

These measures have to be credible which means they must be part of tangible policies. Having a blind belief in the euro is not sufficient, concrete action has to follow. This is what we have done. With the Task Force several issues have been raised and addressed: economic governance, the temporary crisis mechanism, the permanent crisis mechanism. If we have to do more we will do it because we believe that the European project depends on this. There is no alternative.

3. Do you think we shall be able to convince this sceptical, even eurosceptic nebula we call the financial market?

Some have never forgiven Europe for acquiring the single currency. Of course there is some jealousy and envy. For 10 years the euro has worked smoothly and it has become the rival of other reserve currencies in the world economy. In this crisis the same circles which have never forgiven the euro for existing were quick to launch a poisonous campaign with catchphrases such as: "*we were right; it was to be expected; we told you so:; it was impossible*." I am not daunted by this.

Of course we have fuelled the arguments of some market players who did not like the advent of the euro since we did not immediately understand or act upon the implications of the single currency. As in the catechism where circumstances that lead to sin are just as important as the sin itself, we have indeed sinned, since we did not respect our own rules and we have had to adjust and learn from the consequences. To do this the Task Force conclusions are of the utmost importance and if necessary we shall go even further in terms of economic coordination.

4. What are the Task Force's goals?

Notably it suggests a supervisory mission based on certain criteria which have been less frequently discussed such as public debt and competitiveness, and not just deficit. Apart from economic coordination, labour markets, social security systems and retirement systems are also being discussed. These are difficult, sensitive issues and we have to find a way of avoiding ideological debates on a European level. We also need to find greater economic convergence amongst the Member States without launching into a left/right debate. We took another step forwards with the creation of the "European Semester"; we have advanced in economic coordination as far as the examination public finance rules and competitiveness are concerned.

5. In order to convince people of the pertinence of all of these instruments invented by the Heads of State and government are you ready to intervene more as the "voice" of the Union bearing witness to the commitment of the 27?

Many believe that the President of the European Council must have a public higher profile. I understand this problem well. Indeed my experience as a Belgian political leader has led me to the conclusion that high profile often clashes with consensus and that a choice has to be made. I am not conceited and I do not want to take front stage because this can become a handicap when seeking consensus. This is a deep conviction that I have held for a long time and which has been confirmed since I took office a year ago.

Moreover when it comes to setting up a financial support mechanism we enter the intergovernmental sphere, notably with two countries which represent half of the euro area. Therefore further progress depends in large part on them. At the end of the day even though there is an increasing harmony between national and European interests, it is not the President of the European Council, but, for instance, the German Chancellor and the French President and so on who in the end decide. They have been elected and enjoy democratic legitimacy in their country. We must not create a fictitious or artificial myth nor must we harbour any illusions – the President of the European Council is not like the President of the French Republic. And even if he wanted to be, it would not work for very long! I really have to carefully gauge my position in the institutions. Too much discretion can be damaging, but overexposure would be worse. It would be a major threat to the effectiveness of the post. I believe I have found the right balance and I am certain that my successors will not make any other choice.

6. Precisely, one year after the entry into force of the Lisbon Treaty how do you think about the way the new institutions have been established? Notably how would you define your position?

One year is not enough time in which to be able to form a consummate opinion and we still need more time to be able to appreciate fully what the Lisbon Treaty has contributed. Moreover you must understand that it is difficult for me to remain totally objective considering the position I hold. I can, however, tell you how I feel. The President of the European Council chairs a meeting which normally takes place four times per year. People have tried, however, to provide an image equivalent to that of the American or Russian President –this is not the case. The President of the European Council speaks on behalf of the 27 Member States and not on his own behalf. He has no authority over the Council of Ministers, the European Commission or the Eurogroup; he has no administration at his disposal including that of the Secretary of General of the Council in which he has neither hierarchical power nor the power to appoint.

The parameters of the new presidency of the European Council are strictly defined. First its duration is limited to two and a half years and is renewable once. From an institutional point of view its structure is quite specific, the result of a compromise that I have to assume, just as Ms Ashton has to with regard to her post. She is High Representative, Vice-President of the Commission and President of the "Foreign Affairs" Council.

If the real intention had been to create a presidential post, the Presidency of the European Commission and that of the European Council would have to have been merged. This, however, raises other issues. The Lisbon Treaty has led to this specific – if not strange - institutional function; for my part and on my own initiative I have filled-in the missing gaps so that the institutions may work better.

Therefore, on my own initiative, I see the President of the European Commission on a weekly basis in order to review the agenda and see which measures need to be taken. There is complete dialogue and I believe that this works so that there is no rivalry between the institutions and people concerned. Naturally it took some time before everyone found their place but we eventually managed it. Occasionally there is still some tension but it works well. I am completely satisfied with this situation.

The same applies to the rotating Presidency of the Council of Ministers. The presidency puts a programme forward before the start of each presidency and delivers a report afterwards. The Foreign Minister of the respective country chairs the "General Affairs" Council which prepares the European Council. The President of the European Council attends the "General Affairs" Council informally, for lunch or dinner, before the European Council. There is a monthly meeting with the rotating presidency to review the progress of work and above all to ensure that we are on the same wavelength – in this way we avoid frustration and there is true dialogue between the institutions. I am happy to travel to the capitals if it is useful for achieving a goal.

Concerning the European Parliament I took the initiative of organising a meeting with the heads of the political groups immediately after each European Council in order to provide them with all the essential details with regard to the decisions that have been taken. At the same time I respect the confidentiality of our discussions because the plenary session, provided for in the Treaty, often happens a few weeks or even one month after the meeting of the European Council, which may seem too late. However I take part in a debate in Parliament four times a year (six in 2010) after each European Council meeting. I do not present a programme there but I participate in the debate, I make an introduction and I tell them what is not working.

With regard to the Task Force I took the initiative to organise a debate with MEPs, the heads of the political groups and committee chairs so that they were kept up to date. For example in September I delivered the same presentation to MEPs and to the rotating presidency of the Council as I did to the European Council with regard to the state of progress in the Task Force's work.

I also meet regularly with the President of the Eurogroup, Jean-Claude Juncker.

It is part of my role to smooth over any gaps in the Lisbon Treaty from an informal point of view to enable greater coordination with all players across Europe and to ensure that the institutions do not complicate matters but rather simplify them. I am in a natural role of coordinator, facilitator of consensus and compromise amongst the 27.

Moreover according to the Lisbon Treaty I am the Union's external representative; this includes foreign policy, defence and security. I therefore represent the Union from an external point of view. However Mr. Barroso fulfils this role in other areas such as international trade. Hence we came to a written agreement in March 2010 to act together as far as possible. The best example of this concerns the economy which comprises both a community and intergovernmental aspect. Normally the economy is more the scope of the Commission's field of work. But in the G20 meetings we have split our roles relatively easily. We always try to find pragmatic, flexible solutions, rules which refine some paragraphs in the Treaty that are not always very clear. With regard to third country summits – there were about 15 in 2010 – I always chair them working closely with the Commission.

My judgement is not therefore final but to date it has always been pragmatism that has won the day. Sometimes I am criticised because of this but above all it is my aim for the institutions to work well.

It is no more difficult today than it was in the past with regard to other countries. When we discuss climate or defence do you think that in the US or in Russia matters are any clearer? Every country - and the European Union is not even one – has its own political constraints and every institution within the European Union, as elsewhere has its specific features. The only detail which is specific to Europe is that there are the European institutions and the Member States. The task of doing everything possible, not necessarily speaking with one voice, but of sending out one message is a daily undertaking. This is the main feature particular to Europe.

7. You have seen how the Franco-German couple works. Can you tell us what you think of the joint work undertaken by France and Germany?

First and foremost this is an old tradition. European history started with Robert Schuman, a man from the borders, and his proposal to reconcile France and Germany on 9th May 1950. Franco-German reconciliation was the starting point for the European idea: "never again will there be war between France and Germany". Europe's entire history is interspersed with examples of Franco-German entente: De Gaulle/Adenauer, Giscard d'Estaing/Schmidt, Kohl/Mitterrand, and even Chirac/Schröder, and now Merkel/Sarkozy – hence the tradition of cooperation is an old one.

Franco-German entente is a necessary condition for European action but not a *sufficient* one. French and German leaders have high profiles in the media. It is not necessary to always involve the media in every meeting and the numerous Franco-German agreements, as it can be counter-productive.

During the crisis I did what I could to play the game of Franco-German understanding. When there was an agreement over the Greek crisis – and it was not an automatic victory – a Franco-German agreement was first required and I believe that I facilitated that. This agreement was subsequently approved by the other Member States. There was another in December on the modification of the Lisbon Treaty, notably with regard to the text of the Treaty. Again the Franco-German agreement became that of all of the other Member States adjusted to take into account their views. Each time all Heads of State and Government approved the decision. They are completely free not to agree but disagreement would cause a major problem. I believe it important to respect and facilitate this relationship between the two countries which are the expression of two different temperaments in the Union. A Belgian understands this better than anyone else because in some ways our country is the border between these variations in temperament and we really know what they are!

8. Although there is still prosperity in Europe, growth is elsewhere and consequently the Europeans are somewhat morose whilst Asia and Latin American and even Africa are striking due to their dynamism. Do you think that the European project has lost some of its drive? What can be done to provide new hope and renewed enthusiasm to Europeans?

We should see this in perspective. I started my professional career in Léo Tindemans' cabinet whose famous report[2] lamented the fact that the European idea no longer met the same enthusiasm as it had in the beginning and that it had lost its air of adventure. The present lassitude is not so new since the same observation has been made for the last 35 years. The European idea is in part the victim of its own success. The European idea forms an inherent part of our daily life; unlike the Founding Fathers, we have known only this. After the war it embodied reconciliation and it was really marvellous and new. We cannot expect our grandchildren, who are the great-great grandchildren of the Founding Fathers to share the same enthusiasm. There is always enthusiasm at the beginning, then it becomes routine and the problems that go with that.

It would be vain to believe that we could re-establish the enthusiasm of the Founding Fathers. Countering anti-Europeanism and euroscepticism is, however, another matter. I think this is vital and anti-Europeanism is part of an undefined trend that we might describe as populism. Anti-Europeanism is just part of populism. I do not want to reinvent Europe because there are 60 years of European experience which precede us but I want the European idea to remain, so it is worth defending now and in the future.

9. In your opinion what does the future of the European Union mean in the international arena?

Europe is still a force in terms of other continents. Of course it is quite natural for economic growth in its initial phase to be much greater compared to the advanced economies. It is the catching up effect: 2% in economic growth here is equal to around 6% in many emerging countries in terms of added prosperity per capita. To reduce the gap in absolute terms they have to have a much greater growth rate than ours.

Having an 8 or 9% growth rate is a feat of achievement which I welcome because it enables hundreds of millions of people to emerge from poverty. But technically speaking once a certain stage of development has been reached it becomes increasingly difficult to achieve such results quite simply because the States have to take care of their populations' well-being, adopt social, environmental laws etc ... which to some extent impede economic growth and provide greater scope for social protection and for the

2. December 1975

human dimension. This has a high economic cost. We must not delude ourselves: the day China establishes social laws (minimum wages, pensions, social security) it will no longer have growth of 8 or 10%.

If Europe is no longer a model for itself, either because of its gloomy attitude or its masochism, it is still a model for the rest of the world. It is a model not only from an economic point of view but also from a human and social standpoint. This is what the Lisbon Treaty calls “social market economy”.

With levels close to 1% Europe’s economic structural growth is of course too weak and if things go on like this we shall not be able to fund our social model. It is, however, a delusion to believe that we shall reach structural growth of 4%. Emerging countries will soon have problems further linked to their development. In some countries like in China they will even experience problems such as ageing much more acutely than we experience here in Europe.

In this period of transition Europe has to invest in economic growth –not in a defensive manner to protect ourselves but in offensive way so that we create added value. Hence Germany has succeeded in specialising in exportable, cutting-edge investment products. Germany took greater advantage of the recovery in 2010 because it has a competitive output, which is by far the best in Europe. This shows that it is quite possible to have added value if investments are made. The European Union’s “Europe 2020” Strategy is a major step in strengthening our economic and industrial structures.

If we speak of Europe with greater conviction then people listen[3], we arouse interest. We must not become discouraged when times are hard – we have to discuss what motivates us because Europeans need hope. Make no mistake about it: Europe has a greater audience than we think. Rhetoric is extremely important but actions are equally so. We have to know how to rise beyond the technical and inspire imaginations. Europe is still a major project and it is my task to steer it in the right direction.

Interview undertaken on 10th January 2011

3. Berlin Speech 9th November 2010.
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/ec/118813.pdf

5

Overview of Political and Legal Europe

European Voters Confirm the Decline in European Social Democracy and the Rise of Populism

Corinne DELOY

The 2010 electoral cycle in Europe can be summarised in one short sentence: the right triumphed in each of the 8 countries where parliamentary elections were held.

Three States chose to return right-wing governments to power (Sweden, the Czech Republic and Latvia). Three others swung from left to right (Slovakia, United Kingdom and Hungary). In 2010 the Netherlands, which had been governed for almost 4 years by a coalition of right and left-wing parties, expressed a clear majority vote for the right. Finally, Belgium was divided between the victory of independence parties and the right-wing in Flanders and the socialist triumph in Wallonia. Belgium aside, right-wing governments are now in power in 20 Member States, with left-wing governments in only 6.

Everywhere, including Belgium, social matters were highly dominant in electoral campaigns.

Table 1
Governmental majorities in the European Union on 31/12/2010

Countries governed by a left-wing majority	Countries governed by a right-wing majority
Austria (left-right coalition)	Germany
Cyprus	Bulgaria
Spain	Denmark
Greece	Estonia
Portugal	Finland
Slovenia	France
	Hungary
	Ireland
	Italy
	Latvia
	Lithuania
	Luxembourg (right-left coalition)
	Malta
	The Netherlands
	Poland
	Czech Republic
	United Kingdom
	Romania
	Slovakia
	Sweden

Breakthrough of the far right in the Netherlands and Hungary

With 20.4% of the votes, the People's Party for Freedom and Democracy (VVD) beat the Labour Party (PvdA) which collected 19.6% of the vote in the Dutch general elections on June 9th The Party for Freedom (PVV) led by Geert Wilders came third (15.5%). The Christian Democratic Appeal (CDA) led by outgoing Prime Minister Jan Peter Balkenende, was the big loser in the election (13.7%). Voter turnout was 74.5%.

Some of the measures of the VVD programme include a reduction in the public deficit by cutting 10% of the State's annual spending, cutting down unemployment benefits after one year and adding 2 years to retirement age. Dutch citizens, aware of the need to make such efforts, chose to put their trust in the Liberals, whom they considered more credible from an economic point of view. Government formation was long and difficult, however. Mark Rutte, the first liberal to be appointed Prime Minister since 1913, formed a coalition with the CDA. The new team enjoys support in Parliament from the populists of the PVV. This latter party suffered from the fact that social-economic questions knocked one of its favourite topics - immigration and relations with Islam - off the top of the list of concerns of the Dutch population.

In Hungary, the Civic Union (Fidesz) led by Viktor Orban came out on top in the general election (11th and 25th April) with 52.7% of the first round proportional representation vote and 263 seats, that is a two thirds majority in Parliament, a result without precedent in Central and Eastern Europe. Fidesz came in ahead of the Socialist Party (MSZP), which had been in power for 8 years but lost the election with only

19.3% of the vote. The elections were marked by a breakthrough of the extremists of the Movement for a Better Hungary (Jobbik) which collected 16.7% of the vote. Turnout was 64.3% for the first round. Hungary was one of the member States of the European Union most severely affected by the international economic crisis and was the first to benefit from aid from the International Monetary Fund (IMF). The Hungarian economy, whose fundamentals are particularly vulnerable is shrinking, with high inflation, over 10% unemployment amongst the working age population and the highest budgetary deficit and public debt in Central and Eastern Europe. Viktor Orban has been elected on his promise of strong leadership and a return to basic values such as work, the family, order and nationalism, which he will find difficult to reconcile with his country's obligation to continue with budgetary consolidation.

In the spring, Czechs and Slovaks chose the right-wing

Although the Social Democratic Party (CSSD) came out top in the Czech general elections held on 28th and 29th May with 22.1% of the vote, right-wing forces were nonetheless the real winners with 47.7%. The Civic Democratic Party (ODS) won 20.2% of the vote, the Tradition, Responsibility, Prosperity 09 Party (TOP 09), 16.7% and the Public Affairs Party (VV), 10.8%. Turnout was 62.6%. The Czechs expressed their dissatisfaction with the two major parties on the political scene, which saw their lowest result since 1996, giving a chance to new parties. Increased public spending, which was at the heart of the left-wing programme, did not convince the population. The CSSD also suffered from the confusion that arose with regards to the Communist Party in Bohemia and Moravia and suffered from the unpopularity of their leader, former Prime Minister Jiri Paroubek.

The Social Democratic (SMER-SD) Party led by the outgoing Slovakian Prime Minister Robert Fico won a resounding victory in the general elections held on 12th June, with 34.8% of the vote. The main opposition party, the Slovak Democratic and Christian Union-Democratic Party (SDKU-DS), collected 15.4% of the vote. It was followed by Freedom and Solidarity (SaS) with 12.1%. The Christian-Democratic Movement (KDH) obtained 8.5% and Most-Hid (meaning Bridge), a new party representing ethnic minorities, 8.1%. Turnout was 58.8%. In this era of austerity, the Slovakian people expressed their doubts regarding the social-democrat social policy, which seriously aggravated the budgetary deficit in response to the crisis. After the vote Iveta Radicova (SDKU), who was the first woman sociologist in her country, became the first woman Prime Minister of Slovakia.

In the autumn, the historic return of the right-wing in Sweden and Latvia

The Swedish general elections held on 19th September were historic. On the one hand the outgoing coalition of the Alliance forces won a second consecutive mandate, a first in a country dominated throughout the 20th century by social-democracy. The Alliance coalition led by the outgoing Prime Minister, Fredrik Reinfeldt, collected 49.3% of the vote, failing by just 3 seats to achieve absolute majority. The coalition was ahead of the left-green party, which obtained 43.7% of the vote. On the other hand, with 5.7% of the vote, the far right made its entry into Parliament. Turnout was 82.1%. With the economy well on its way to recovery and public finances looking healthy, the Alliance's economic results were honourable, even though cuts in social spending have affected a certain section of Swedish society. Fredrik Reinfeldt dominated the campaign which was centred on tax reduction. The red-green coalition was unable to represent a real, alternative programme and suffered from its heterogeneity, its lack of strategy and a problem with the leadership of Mona Sahlin, who is relatively unpopular.

Two weeks after the Swedish elections the Latvians chose to return the Unity (*Vienotoba*) coalition, led by the outgoing Prime Minister Valdis Dombrovskis in October 2nd general elections. This three-party alliance – New Era (JL), Civic Union (PS) and the Society for Other Politics (SCP) – collected 30.7% of the vote. The Harmony Centre (SC), a coalition of the left-wing opposition, came second, with results well up on the 2006 vote, at 25.7%. Turnout was 62.6%. The most dynamic economy in Europe just a few years ago, Latvia was only saved from bankruptcy in 2008 by loans from the IMF and the European Union. Valdis Dombrovskis's government had implemented a severe austerity plan with massive budgetary cuts, a 10% cut in retirement pensions, a 35% cut in public workers' salaries, a drastic reduction in the number of public workers and a tax increase, showing proof of a serious, rigorous approach which ultimately convinced voters. The Harmony Centre collected the votes of many Russian-speakers, who represent around 30% of the population. In Latvia each party defends the interest of a given ethnic group: the right-left divide is less relevant here than the divide between parties that defend Russians and those that protect Latvians.

The "half-victory" of British Conservatives

On 6th May the Conservative Party (Tory) came top of the British general election with 36.1% of the vote, but was 20 seats short of an absolute majority. The Labour Party came second with 29% of the vote, and the Liberal-Democrats (Lib-Dem) won 23%. Turnout was 65.1%. After the vote, the United Kingdom therefore found itself with a "hung Parliament", a disappointment for all parties.

The country suffered enormously from the international economic crisis and only came out of recession several months after the United States, France and Germany. How could spending be reduced whilst maintaining public services? This question was at the heart of the elections. On the Conservative side, David Cameron stood as the defender of "compassionate conservatism", proposing the creation of a "Big Society" with "massive, deep and radical redistribution of powers: from the State to the citizen, from the government to Parliament, from judges to people, from bureaucracy to democracy". Promising "blood, sweat and tears" the Conservatives also defended a truly rigorous programme which in the end attracted the British, putting an end to 13 years of Labour government.

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Left-wing forces, not always able to adapt to economic transition and globalisation, meet the same difficulties throughout Europe. The irony is that this decline is happening at a time when the social-democratic model is dominating the continent as a whole, carried by the right-wing, which is seen as economically more credible and which has no hesitation in taking a stance as the defender of the European social model, highlighting the need for State intervention in the economy.

In Belgium, an everlasting, increasingly hardened crisis

Bart de Wever's New Flemish Alliance (N-VA) was the big winner in the Belgian elections held on 13th June. It collected 17.4% of the vote for the Chamber of Representatives and 19.6% for the Senate, a result without precedent. The Flemish Christian-Democratic Party (CD&V) of outgoing Prime Minister Yves Leterme collected 10.8% of the vote for the Chamber of Representatives (10% for the Senate), the Flemish Liberals and Democrats (Open VLD) won 8.6% of the vote (8.2% for the Senate). The far right party, Vlaams Belang (VB), collected 7.8% of the vote (7.6% for the Senate) and its counterpart, Dedecker List, collected 2.3% of the vote (2% for the Senate). When the votes of N-VA, VB and the Dedecker List are added together, independent parties represent 44.1% of the Flemish electorate (27.5% nationally).

In Wallonia, the Socialist Party (PS) has regained its position as leading political force, with 13.7% of the vote for the Chamber of Representatives (13.6% for the Senate). The Reformist Movement (MR) won 9.2% of the vote in both chambers and the Humanist Democratic Centre (CDH) collected 5.6% (5.1% for the Senate), ahead of the Greens (Ecolo) with 4.8% of the vote (5.4% for the Senate).

Turnout, although obligatory, was exceptionally low with 66.8% for the Chamber of Representatives and 66.5% for the Senate, down respectively by 24.2 points and 24.5 points compared to the previous elections in 2007.

The result is that Belgium is left divided by these elections, between Flanders which is strongly anchored in the right and socialist-dominated Wallonia. Far from unravelling the crisis, the results of these elections have increased the polarisation of the political classes and aggravated the crisis of confidence between communities in a country which finds itself unable to get out of the storm.

Five elections, three new Presidents in Europe

Three new Presidents were elected in 2010 in Europe (two by national parliaments, and the third by universal suffrage); two others returned to office.

On 29th June Pal Schmitt succeeded Lazlo Solyom at the head of Hungary: the candidate put forward by the majority in power (Fidesz) was elected with 263 votes.

The next day Christian Wulff (Christian-Democratic Union (CDU) became the youngest (aged 51) Head of State in the history of the German Federal Republic, with 625 votes in an early presidential election which followed the surprise resignation of President Horst Köhler. This victory in the third round of the election demonstrated the fragility of the government in place; Chancellor Merkel failed to get Ursula von der Leyen (CDU) chosen as candidate and struggled to mobilise her coalition as a whole.

A few days later (4th July), Bronislaw Komorowski (Civic Platform, PO) won the Polish presidential election with 52.6% of the vote compared to 47.4% for his adversary, Jaroslaw Kaczynski (Law and Justice, PiS), the twin brother of the outgoing President of the Republic, Lech, killed in an accident on 10th April.

Carolos Papoulias was re-elected as President of Greece on 3rd February, after a near-unanimous vote by parliamentarians; no opponent stood against the outgoing Head of State who was assured of the support of the two major political parties – the Panhellenic Socialist Movement (PASOK) led by Prime Minister George Papandreou and the New Democracy party (ND).

On April 25th, the outgoing Austrian President, Heinz Fischer, was resoundingly re-elected with 78.9% of the vote, well ahead of the far right candidate put forward by the Freedom Party of Austria (FPÖ), Barbara Rosenkranz, who won 15.6% of the vote. For the first time in the country's history, no candidate stood for the main opposition party, the Austrian People's Party (ÖVP).

Table 2
Summary of general election results in 2010 in the European Union in %

Country	Turnout	Far left	Government left	Government right	Far right	Others
Hungary*	64.3	0	19.3	55.1	16.7	8.9
United Kingdom	65.1	0.6	30.4	36.1	5	27.9
Czech Rep.	62.6	11.3	22.1	52.1	3.7	10.8
Slovakia	58.8	0	34.8	36.1	5.1	24
Belgium**	66.8***	1.9	31.4	34.2	10.8	21.7
Netherlands	74.5	9.9	26.2	41	15.5	7.4
Sweden	82.1	0	43.7	49.3	5.7	1.3
Latvia	62.6	1	25.7	55.1	10.1	8.1

** Because of the complexity of the Hungarian polling method, only the results of the proportional representation 1st round of the elections are taken into account here*
*** Turnout is obligatory in this country*
**** Only the results of elections to the Chamber of Representatives have been taken into account.*

Table 3
Electoral movements in Europe in 2010

	Previous elections	2010 election
Hungary	Left	Right
United Kingdom	Left	Right
Czech Rep.	Right	Right
Slovakia	Left	Right
Belgium	Right	?
Netherlands	Right (Right-left coalition)	Right
Sweden	Right	Right
Latvia	Right	Right

Elections in the European Union and the Candidate Countries in 2011

23rd January	Portugal	Presidential
25th February	Ireland	General Elections
6th March	Estonia	General Elections
17th April	Finland	General Elections
22nd May	Cyprus	General Elections
May	Latvia	Presidential
July	Turkey	General Elections
October	Bulgaria	Presidential
October	Ireland	Presidential
October	Poland	General Elections
November	Denmark	General Elections

Women's Europe

Pascale JOANNIN

The "feminine" question, that is to say the place and role of women in society is increasingly becoming a part of debates. Every political leader, company manager, journalist, etc. is gradually becoming aware of the fact that the current situation cannot go on because women represent over half of the world's population. The economic media have recently headlined on women, for example "Women at the Top" *Financial Times* 17th November 2010, "Female Factor" *International Herald Tribune* 27th November 2010 and "Le pouvoir des femmes", *L'Expansion* January 2011 – who study, work, consume and in spite of the resistance that continues to exist, are making their mark at the top.

The new decade ahead should therefore see things evolve still further. One should remain extremely vigilant, however, because things do not unfortunately go without saying and there is a temptation to keep certain obstacles or "glass ceilings" in place. Indeed, it is only too clear, for example, that one of the rare top French companies to be managed by a woman (Anne Lauvergeon at Areva, ranked 15th of the 50 women in the FT ranking), is the object of intensive tactics orchestrated exclusively by men with the aim of getting rid of her and, in fact, taking her place.

2010 saw the advent, in France particularly but also throughout Europe and worldwide, of the question of women's representation on company boards/management teams. Based on the model in Norway, which is the only country with a rate of over 40% women in top jobs in companies, economic stakeholders are being forced to make up lost time and show proof of a situation that is better than their competitors, by rapidly appointing women to their management boards. It was about time too. Why didn't they do it before?

In the political field, two women were elected Prime Minister of their country in Europe in 2010 (Iveta Radicova in Slovakia and Mari Kiviniemi in Finland) thus bringing to 3, from a total of 27, the number of women government chiefs in the EU; they join Angela Merkel, who no longer stands alone. In Brazil Dilma Rousseff was elected President, along with Laura Chinchilla Miranda in Costa Rica. Micheline Calmy-Rey will chair the Swiss Confederation in 2011. However, here again vigilance is needed because the old macho demons are still alive and well. In Hungary, despite a resounding victory on 25th April, Viktor Orban has not appointed a single full-time woman minister! The same is true in the Czech Republic after the elections of 28th and 29th May last year! One can scarcely believe it!

And yet for many women Europe is a model, but if we do not take care and do not use all our strength, the European star will begin to fade. Our political leaders would be better inspired to take part voluntarily in change rather than having it imposed on them.

Because, in the end, promoting women is truly one of the most efficient ways to take civilisation forward, contribute to progress and strengthen democracy.

Women in Economic Life

Women have gradually conquered every professional sector worldwide.

More and more women are working; in the European Union, for example[1], an average of 62.5% women is working. However, 31.2% of them work part time, that is a percentage that is four times higher than amongst men. Moreover, with equal qualifications women are still too often less well paid than men (average gap of 17.8% in the Union), which is real discrimination.

Women are also more highly qualified than men, they achieved 58.9% of the degrees from universities in the European Union last year. Although highly qualified and coming onto the employment market in increasing numbers, women still remain in the minority in managerial positions in companies or the world of politics, particularly at the highest level. On average 29% of women hold positions of responsibility in the Union. In banks a study shows that only 5 of them had, on 30th September 2010, a percentage of women close to or over 30%[2].

Amongst the largest stock-market listed companies, there is an average of 12% of women (26% in Sweden and Finland) sitting on the management boards or supervisory committees of European companies and only 3% are chairs of these boards (13% in Bulgaria). Only Norway has almost 40% thanks to a law passed in 2004. On 27th January 2011[3] France passed an equivalent law. And other countries may follow.

It would now seem as if we have reached a turning point because many studies show all the advantages there are in having more women on management teams and boards.

Thus, according to a study undertaken by the World Economic Forum[4], of the 10 countries where the place of women is best assured and where therefore life is best, 7 are in Europe and 4 are EU Member States (Finland, Sweden, Ireland and Denmark).

In its report entitled "More Women in senior position : key to economic stability and growth"[5] the European Commission considers that the economy would gain from both women and men being duly represented in top level positions and shows that there is a positive link between the proportion of women in positions of high responsibility and company results.

Finally, on 1st January 2011 the UN created an agency for sex equality and the autonomy of women,[6] directed by the former president of Chile, Michelle Bachelet.

It would appear, therefore, that women's time has finally arrived.

1. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0491:FIN:FR:PDF
2. http://www.globewomen.org/CWDI/tOP%20bANKS%20(w).pdf
3. http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000023487662&dateTexte=&categorieLien=id
4. http://members.weforum.org/pdf/gendergap/report2010.pdf
5. http://ec.europa.eu/social/main.jsp?catId=418&langId=en&pubId=476&type=2&furtherPubs=yes
6. http://www.unwomen.org/fr/2011/01/un-women-begins-its-work/

Women company directors (SME)

Rank	Country	Number of women company directors (1.000s)	% of women company directors
1	Spain	413	36
	France	287	36
	Latvia	19	36
4	Italy	556	35
5	United Kingdom	331	34
	Estonia	20	34
7	Germany	317	33
	Poland	166	33
9	Lithuania	19	32
10	Bulgaria	49	31
11	The Netherlands	168	30
	Greece	121	30
	Belgium	81	30
	Portugal	74	30
	Austria	47	30
	Hungary	33	30
	Slovakia (2009)	19	30
18	Czech Republic	48	29
	Romania	40	29
20	Sweden	24	27
21	Slovenia	14	27
22	Denmark	22	25
23	Ireland	35	22
	Luxembourg	2	22
25	Malta	1	20
26	Finland	17	18
27	Cyprus	1	14
	EU TOTAL	**2 914**	**29**

Source : http://ec.europa.eu/social/main.jsp?catId=779&langId=fr&intPageId=680

Women directors in stock market-listed companies

Rank	Country	Number of companies studied	% of companies chaired by women	% directors
	Norway	**16**	**13**	**39**
1	Finland	24	4	26
	Sweden	26	0	26
3	Latvia	33	9	23
4	Slovakia	10	10	22
5	Romania	10	0	21
6	Denmark	18	0	18
7	The Netherlands	21	0	15
8	Hungary	13	8	14
9	Germany	30	3	13
	United Kingdom	49	0	13
	Lithuania	28	3	13
12	Poland	19	5	12
	France	36	3	12
	Czech Republic	11	9	12
15	Bulgaria	15	13	11
16	Belgium	19	0	10
	Spain	34	3	10
	Slovenia	17	6	10
19	Austria	19	0	9
20	Ireland	19	5	8
21	Estonia	14	7	7
22	Greece	19	0	6
23	Italy	38	3	5
	Portugal	19	0	5
25	Cyprus	19	5	4
	Luxembourg	10	0	4
27	Malta	18	6	2
	EU TOTAL	**588**	**3.77**	**12.25**

Source : http://ec.europa.eu/social/main.jsp?catId=777&langId=fr&intPageId=675

Women in political life

In the parliaments that are supposed to represent the population as a whole, women are still under-represented: according to the Interparliamentary Union (IPU)[7] on 31st December 2010, of the 45 150 members in parliaments worldwide (including both lower and upper chambers), only 8 431 are women, that is a proportion of 19.2%.

The European Union (24.2%) is ahead of the Americas (22.9%), other European countries (20%), Asia (18.7%), Sub-Saharan Africa (18.3%), the Pacific States (12.6%) and Arab countries (12.5%).

With regard to the number of women elected in Parliaments, European countries hold 6 of the top 10 places in world ranking. According to the IPU[8] on 31st December 2010, of these 6 countries, 4 were Member States of the EU (Sweden, the Netherlands, Finland, Belgium). In terms of the number of women who preside one of the chambers in Parliament, of the 38 women listed by the UIP[9] on 31st December 2010, 14 are Europeans, 10 of whom are from EU Member States (Austria, Bulgaria, Estonia, Germany, Latvia, Lithuania, the Netherlands, Czech Republic, Romania and the United Kingdom), 9 are from African States, 5 from American States, 6 from the Caribbean Islands and 4 from Asian States.

Since 1st January, the average percentage of women in Parliaments in the European Union is 24.22%.

Women in the 27 national Parliaments (lower or single chambers)

	Member States	Parliament	Date of election	Total seats	Number of women	%
1	SWEDEN	Riksdag	2010	349	161	46.13
2	THE NETHERLANDS	Tweede Kamer	2010	150	60	40
	FINLAND	Eduskunta	2007	200	80	40
4	BELGIUM	La Chambre	2010	150	59	39.33
5	DENMARK	Folketinget	2007	179	67	37.43
6	SPAIN	Congreso	2008	350	128	36.57
7	GERMANY	Bundestag	2009	622	204	32.80
8	AUSTRIA	Nationalrat	2006	183	51	25.87
9	PORTUGAL	Assembleia da Republica	2009	230	64	27.83
10	ESTONIA	Riigikogu	2007	101	23	22.77
11	CZECH REPUBLIC	Poslanecka Snemovna	2010	200	44	22

7. http://www.ipu.org/wmn-f/world.htm
8. http://www.ipu.org/wmn-e/classif.htm
9. http://www.ipu.org/wmn-f/speakers.htm

	Member States	Parliament	Date of election	Total seats	Number of women	%
12	UNITED KINGDOM	House of Commons	2010	649	142	21.88
13	BULGARIA	Narodno Sabranie	2009	239	51	21.34
14	ITALY	Camera dei Deputati	2008	630	134	21.27
15	POLAND	Sejm	2007	460	94	20.43
16	LATVIA	Saeima	2010	100	20	20
	LUXEMBOURG	Chambre des Députés	2009	60	12	12.20
18	LITHUANIA	Seimas	2008	141	27	19.15
19	FRANCE	Assemblée Nationale	2007	577	109	18.89
20	GREECE	Vouli	2009	300	52	17.33
21	SLOVAKIA	Narodna Rada Slovenskej Republiky	2010	150	23	15.33
22	SLOVENIA	Zbor	2008	90	12	13.33
23	IRELAND	Dáil Éireann	2007	166	22	13.25
24	CYPRUS	House of Representatives	2006	56	7	12.5
25	ROMANIA	Camera Deputatilor	2008	334	38	11.38
26	HUNGARY	Az Orszag Haza	2010	386	35	9.07
27	MALTA	Kamra Tad Deputati	2008	69	6	8.70
	TOTAL EU			**7121**	**1725**	**24.22**

Source : Fondation Robert Schuman ©

In governments, women represent on average, on 1st January in the European Union, 26.29% of ministers. Finland is the only country with more female than male ministers (55%). Two European governments do not include any women at all: Hungary and the Czech Republic.

8 women are currently Prime Minister in their country, of whom 5 are in Europe – 3 in the EU (Germany, Finland, Slovakia), Croatia and Iceland -, 1 in Australia, 1 in Bangladesh and 1 in Trinidad and Tobago.

10 women are Presidents, including 4 in Europe (Ireland, Finland, Lithuania, Swiss Confederation), 1 in Argentina, 1 in Brazil, 1 in India, 1 in Liberia, 1 in Costa Rica and 1 in Kyrgyzstan.

Women ministers* in the 27 governments

Rank	Member State	Date of election	Minister members of the govt*	Number of women	%
1	FINLAND	2007	20	11	55
2	DENMARK	2009	19	9	47.37
3	SWEDEN	2010	24	11	45.83
4	SPAIN	2008	16	7	43.75
5	AUSTRIA	2008	14	6	42.86
6	GERMANY	2009	16	6	37.5
7	FRANCE	2007	23	8	34.78
8	BELGIUM	2008	15	5	33.33
9	SLOVENIA	2008	19	6	31.58
10	PORTUGAL	2009	17	5	29.41
11	POLAND	2007	18	5	27.78
12	LUXEMBOURG	2009	15	4	26.67
13	MALTA	2008	9	2	22.22
14	ITALY	2008	23	5	21.74
15	LATVIA	2010	14	3	21.43
	THE NETHERLANDS	2010	14	3	21.43
17	IRELAND	2008	15	3	20
18	CYPRUS	2008	11	2	18.18
19	UNITED KINGDOM	2010	23	4	17.39
20	GREECE	2009	18	3	16.67
21	SLOVAKIA	2010	14	2	14.29
22	LITHUANIA	2008	15	2	13.33
23	ROMANIA	2009	17	2	11.76
24	BULGARIA	2009	18	2	11.11
23	ESTONIA	2007	13	1	7.69
26	CZECH REPUBLIC	2010	15	0	0
	HUNGARY	2010	10	0	0
	TOTAL EU		**445**	**117**	**26.29**

Source : Fondation Robert Schuman © -
** N.B.: The Prime Minister has been counted but not Secretaries of State.*

In the European Parliament, whose role and powers are on the increase, specifically with the Lisbon Treaty, women chair 9 committees and 8 delegations. 6 are vice-chairs and 2 are quaestors. They have a much greater presence in the European Parliament (35.05%) than in national Parliaments (24.22%). Only 1 Member State (Malta) has not sent any women to the European Parliament.

Women in the European Parliament

	Member State	Number of MEP	Number of women	%
1	Finland	13	8	61.54
2	Sweden	18	10	55.56
3	Estonia	6	3	50
4	The Netherlands	25	12	48
5	Denmark	13	6	47.22
6	France	72	34	45.83
7	Austria	17	7	41.18
8	Slovakia	13	5	38.46
9	Latvia	8	3	37.50
10	Germany	99	37	37.37
11	Belgium	22	8	36.36
	Hungary	22	8	36.36
	Portugal	22	8	36.36
	Romania	33	12	36.36
15	Spain	50	18	36
16	Bulgaria	17	6	35.29
17	Cyprus	6	2	33.33
	United Kingdom	72	24	33.33
19	Greece	22	7	31.82
20	Slovenia	7	2	28.57
21	Ireland	12	3	25
	Lithuania	12	3	25
23	Italy	72	16	22.22
24	Poland	50	11	22
25	Czech Republic	22	4	18.18
26	Luxembourg	6	1	16.67
27	Malta	5	0	0
	TOTAL EU	**736**	**258**	**35.05**

Source : Fondation Robert Schuman ©

Women are gradually entering political and economic bodies. The move is of course still only relatively timid and incentive measures are needed to encourage the trend. Mentalities and education must be changed, and that will take time. However, if the movement is not increased deliberately, it will be inevitably or under the demands of necessity. Because qualified and capable women are ready - and willing - to take up the challenge. It would be wrong to deprive ourselves of their know-how and talents.

The decade now beginning, and this 2nd decade was indeed important in both the 19th and the 20th centuries, could well be the decade when women gain access to key positions in every sector of activity, because the 21st century is the century that will see the advent of women's power.

Legislative Production of the Union in 2010 «The Start of a New Cycle»

Pierre-Antoine MOLINA

Legislative production in the EU in 2009 was affected by the transitions resulting from European elections, from the end of the Barroso I Commission and by the coming into force of the Lisbon Treaty, encouraging institutions to finalise the legislative work at hand[1]. 2010 became the first year in a new cycle, characterised by the first steps of the new college and the beginning of the implementation of the new treaty. A context such as this one was therefore not very propitious to abundant legislative production. On the other hand, implementation of the new institutional framework resulted in a certain number of innovations in legislative activity, mainly concerning methods for the production of legislation.

Cyclical "dip" in Legislative Production

From a quantitative point of view, the first thing to say about the year 2010 was that it was characterised by a "dip" in legislative production. Only about fifty legislative texts were passed between 1st December 2009 and 1st December 2010, compared to about 160 over the preceding 12 months. This drop would appear to be mainly due to the aforementioned context. Whereas in 2009 institutions sought to finalise procedures at hand rapidly, 2010 was marked by a gradual re-starting of legislative production. Furthermore, this was slowed down by the fact that through until 1st February 2010 the Commission, reduced to a caretaker's role due to the new college not being yet in place, passed barely any proposed legislation. However, almost twenty legislative texts were passed over the course of the following two months. Many of these new texts could not be finally passed in 2010. Moreover, the new college initially sought, above all, to establish the

1. See our presentation on legislative production of the Union in 2009 in *State of the Union 2009, Schuman Report on Europe*, Paris, Lignes de Repères, 2009.

programme for its action, as shown by the passing of the "Europe 2020 Strategy" on March 3rd as well as by the communications containing some of its flagship initiatives[2].

In terms of quality, the content of texts finally passed in 2010 reflects both the priorities of the time and the longer term trends of EU legislative production.

The wave of financial activity regulation reforms, begun in 2008 following the financial crisis continued, therefore, with the passing of the "financial supervision" package, which institutes three European regulatory agencies, competent in terms of banks, insurance and financial markets[3] and the "hedge funds" directive, which introduces the first European-wide regulation of these activities[4]. Texts relating to rating agencies and capital requirements for banks (an opportunity for regulating certain remunerations received by their executives)[5] were also passed.

Legislative production has also been marked by the building of the internal market, in the broad sense. In this respect, note should be taken of the passing of a new directive aimed at reducing payment times, particularly by public bodies with regard to their co-contractors, with a concern to facilitate the activities of SMEs[6]. Numerous texts were passed in the fields of transport and energy: a regulation relating to passenger rights in bus and coach transport, a directive on accident and incident prevention as well as several texts aiming to improve energy efficiency[7]. In the environmental field, the passing of a new directive on industrial emissions[8] is worthy of note: it aims to reduce emissions other than Co2, the latter being governed by the "energy-climate" package.

Moreover, on 4th June 2010, the "Justice and Home Affairs" Council decided to launch the first enhanced cooperation in the history of the building of Europe, involving the designation of applicable law in divorce cases. This first enhanced cooperation caused institutions to consider concrete implementation of a procedure which, although provided for in the treaty, still contained certain obscurities.

Gradual passion of legislative production methods contained in the Lisbon Treaty

In view of the fact that the Lisbon Treaty came into force, legislative activity over the year was in part devoted to the establishment of the new institutions. Some reforms required the intervention of secondary law, such as the establishment of the European External Action Services (EEAS). The decision which set up the EEAS took place on 26th July 2010[9] and institutions agreed, in the autumn, on the revision of the staff regulation and the financial regulation required for establishment of the EEAS. The committee

2. See communications on the «digital strategy» passed on 19th May or on «commercial strategy», on 9th November.

3. See the regulations of 17th November instituting a European Surveillance Authority (European Banking Authority), a European insurance and professional pensions authority and a European Financial Marketing Authority, as well as the Directive passed on 17th November modifying directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC with regard to the jurisdiction of these authorities.

4. See Directive of the European Parliament and of the Council on alternative investment fund managers.

5. See the modifications made to regulation 1060/2009 and to directives 2006/48 and 2006/49

6. Reworking of directive 2000/35 on late payment in commercial transactions

7. Modification of regulation (EC) n° 663/2009 establishing a programme for aid for economic recovery, in order to use the remainder of this programme in favour of energy efficiency, reworking of the directive on the energy performance of buildings and the directive on energy labelling of products.

8. Reworking of the directive on integrated prevention and reduction of pollution.

9. Council decision of 26th July 2010 setting the organisation and functioning of the European External Action Service (2010/427/EU).

provided for in Article 255 TFEU, which is responsible for issuing an opinion on applications to the functions of judge or advocate general at the Court of Justice and the EU general court, was established on 25th February 2010[10]. Another reform provided for in the Lisbon Treaty, the implementation of the "citizen initiative", presupposes the passing of a regulation that was discussed throughout the year. In December 2010, an outline of an agreement appeared to have been reached between the institutions in this regard.

Beyond this, methods for the production of legislation bore the mark of the changes provided for in the treaty, which affected the entire legislative hierarchy.

Primary law

Just a few days after the Lisbon Treaty came into force a first review procedure of the latter was launched. Commitments made during the European Councils of December 2008 and June 2009 had to be translated into a protocol. This would ensure that the 12 Member States whose representation had to be increased by virtue of the provisions made during the intergovernmental conference could immediately benefit from additional European MEPs.[11]. This first application of Article 48 of the EU treaty allowed to measure the importance of the power attributed to the European Parliament to approve the decision not to make a convention prior to the intergovernmental conference. It was indeed only with difficulty that the European Parliament- with certain members challenging the procedures laid down for the appointment of additional members- approved the requested dispensation. Indeed, several revision exercises are envisaged, for example on the inscription of the guarantees given to Ireland [12] and the Czech Republic[13] when the Lisbon Treaty was signed in specific protocols. Other examples regard the "limited revision" called for by certain Member States to reinforce governance of the euro zone and the projects put forward by the MEP Andrew Duff with a view to the election of certain MEPs in a pan-European circumscription[14]. It cannot therefore be excluded that EU legislative production will result, over the course of the coming years, in new acts of primary law.

International agreements

Modifications made with regards to the conclusion of the Union's international agreements made themselves felt. Thus the procedure for the negotiation of association agreements was adapted, as illustrated by the passing of the mandate authorising the negotiation of this type of agreement with Georgia. These agreements remain mixed because they cover certain shared competences not exercised by the EU as well as some matters that do not fall, in external terms, within its exclusive jurisdiction. They cover both the CFSP and other competencies of the Union. The Council therefore decided, in application of the new provisions of article 218 of the TFEU, to form a "negotiations team" and designated the Commission, due to the predominant nature of the "community" aspect, as head of this team. For its part the latter has committed to the High Representative dealing with coordination of negotiations, a task which she will

10. Decisions 2010/124 and 125.

11. The new treaty setting at 751 the maximum number of MEPs and their distribution between Member States for the 2009-2014 legislature session was made official by a draft European Council decision approved by the European Parliament on 11th October 2007 and by declaration n°4 attached to the final act of the intergovernmental conference which approved the Lisbon Treaty.

12. See conclusions of the European Council of 12th December 2008 (doc. 17271/08).

13. See conclusions of the European Council of 30th October 2009 (doc. 15265/1/09REV 1).

14. Report proposing a modification to the 1976 Act on the election of MEPs debated by the Committee on Constitutional Affairs on 12th July 2010 (INI/2009/2134).

be assisted with by the EEAS. This compromise has therefore enabled Member States to maintain their competence, which would not have been possible in the opposite case, as Parliaments would not have been able to ratify the agreement. It also allows the drawing of consequences with regards to the establishment of the EU as having a unique legal personality. Finally, it ensures the unity of the EU's external representation and the consolidation of the roles of both the High Representative and the EEAS.

The reinforcement of the prerogatives of the European Parliament, which results particularly from the extension of the scope of the agreements submitted for its approval, was immediately perceptible. The European Parliament's initial refusal to approve the SWIFT[15] agreement on information regarding bank transfers supplied to the United States with the aim of combating terrorism illustrated the influence that it intended to exercise in terms of international commitments by relying on the "right to veto" which has been granted to it.

Legislative acts

On the other hand, it may be stated that, whilst significantly extending its scope, the new treaty has barely modified the co-decision procedure, which has become the "ordinary legislative procedure". Logically, the proportion of legislative acts falling under co-decision has increased, from 58% of the texts examined by the Council between 1st December 2008 and 1st December 2009, to 71% over the following twelve months. At the same time, the proportion of legislative texts requiring an approval procedure, the scope of which has been extended, increased from 4 to over 9%, whereas the proportion of legislative texts on which the Parliament was merely consulted decreased from 38% to less than 20%.

The new bases providing for co-decision were used right from 2010. Such was the specific case of Article 43 §2 TFEU relating to the common agricultural policy and to the common fisheries policy, with no less than 8 texts examined by the European Parliament in 2010, mainly linked to the preservation of fish stocks. It was also the case of Article 114 (formerly article 95) concerning the approximation of legislations in the field of the internal market, with 6 texts, and Article 212 §2 TFEU relating to implementation of cooperation and financial assistance for third countries[16]. The Parliament also initiated its role of co-legislator in the fields of commercial policy[17], structural funds[18], asylum and border control as well as in the staff regulation[19].

Independently from the procedure in question, certain new legal bases resulting from the Lisbon Treaty were used for the first time in 2010, such as Article 194 §2 relating to energy policy[20], Article 189 §2 on space policy with the passing on first reading of the European Earth Observation Programme (GMES)[21], or Article 82 §2, which allows the Union to pass minimum rules in criminal matters with a vote on first reading of the

15. The European Parliament approved a new version of the SWIFT agreement on 8th July 2010 after the rejection in February.

16. See decision n° 388/2010/EU and n° 938/2010/EU of the European Parliament and the Council, granting macro-financial assistance respectively to Ukraine and Moldova.

17. See not. The vote on first reading, on 21st October, of the regulation relating to the indication of the country of origin on certain products.

18. See Regulation (EU) n° 539/2010 modifying regulation (EC) n° 1083/2006 of the Council relating to general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

19. See above, the Regulation (EU, Euratom) n ° 1080/2010 of the European Parliament and of the Council of 24th November 2010, modifying the status of staff.

20. See the aforementioned directives 2010/30 and 2010/31.

21. See Regulation (EU) n° 911/2010 regarding the European Earth Observation Programme (GMES) and its initial implementation (2011-2013).

directive on the right to interpretation and translation within the context of criminal procedures[22].

It should be noted that protocol No 2 attached to the treaties and relating to control of the subsidiarity principle by national parliaments was implemented right from the first year of application. Several parliamentary assemblies passed motivated opinions as provided for in Article 7 of this protocol, considering that a proposed act violated the subsidiarity principle[23].

Delegated acts and implementation measures

The Lisbon Treaty also entails a profound reform of the so-called "comitology" procedures, by which the Commission implements European legislation. With regards to this matter, the new treaty establishes a distinction between the "delegated acts" provided for in Article 290 TFEU- which aim to "modify or complete non-essential elements"- and a legislative act and the implementation measures[24] governed by Article 291 TFEU.

After discussions with the Council and the European Parliament, on 9th December 2009 the Commission published a communication presenting the method that it intended to follow in the preparation of draft delegated acts, committing itself particularly to consulting Member States experts systematically. This commitment was extremely important in view of the fact that these acts very often require expertise that is mainly located in national administrations and may be extremely politically sensitive[25]. In an appendix, the communication included standard clauses, supposed to serve as models for the legislator. Implementation of this method did however prove laborious and the passing of several legislations was delayed due to this fact at the beginning of 2010. The first texts referring to delegated acts[26] did however "break in" legislative practice, resulting in few developments to the standard clauses. The European Parliament also offered its partners in the "institutional triangle" the signature of an informal agreement on this subject which would pick up, by means of a few additional adaptations, the content of the December 2009 communication. By the end of 2010, negotiations on this text appeared to be on the point of coming to fruition.

In terms of the implementation of Article 291 TFEU, the Commission passed a proposal for a regulation[27] on the means of control of its implementation competencies by Member States on 9th March 2010. Whilst waiting for it to come into force, institutions were extended in order to ensure the continuity of the legislative process, and to continue to insert references to the procedures provided for by the "comitology" decision into texts passed after 1st December 2009, with the exception of the procedure for regulation with scrutiny (PRAC)[28]. In December 2010, it appeared that an agreement was being reached between institutions on the proposed regulation. According to this agreement, the number of procedures would be reduced to two: the consultative procedure would

22. See Directive 2010/64 relating to the right to interpretation and translation within the context of criminal procedures.

23. See, for example, the motivated opinion passed by the French Senate on the proposed decision to create a European heritage label.

24. In terms of this distinction, see ECJ judgements of 13th June 1958 in the case C-02/58 and «Köster» dated 17th December 1970 in the case 25/70

25. See, for an example, the controversy that preceded the European Parliament vote on 18th May 2010 opposing, within the context of a PRAC procedure, the use of thrombin in meat products.

26. See Directive 2010/31/EU on the energy performance of buildings or Regulation (EU) n° 438/2010 on non-commercial movements of pet animals.

27. Proposed Regulation establishing the general rules and principles relating to methods of control by Member States of the exercise of execution competencies by the Commission (doc. COM(2010) 83 final)

28. Measures within its field can now be the object of delegated acts

be maintained, and management and regulation procedures provided for in Articles 4 and 5 of the comitology decision would be replaced by a new "examination" procedure. The legislator will remain free to choose the procedure which he intends to refer to in each legislative act, even though choice criteria will be indicated. The Council will no longer have a decision-making role in these procedures, but the Commission may not pass measures that have received an unfavourable opinion passed by the committee with qualified majority or, for some sensitive matters, those on which no opinion has been given. In this case, it may go to an "appeal committee", which it chairs and which would be made up of representatives from the Member States. The committee may only oppose the passing of measures opposed by qualified majority. Whilst permitting quicker and more flexible procedures, this compromise, which is considerably distant from the Commission's initial proposal, maintains Member State capacity to submit controversial measures in sensitive areas to political debate[29].

Although these rules will apply to new legislative texts, the community acquis will have to be gradually adapted. The terms of this "alignment" were still being discussed at the end of 2010, although the Commission has made a public commitment to proceed as a priority with a revision of legislations which, since they fall within co-decision only since 1st December 2009, do not include any reference to the PRAC. Moreover, it has specifically committed inserting references to delegated acts in the legislation.

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Over and above legislative production the first year of legislature and implementation of the Lisbon treaty- 2010- was therefore characterised by the establishment of the new institutions and procedures, and by several programming exercises intended to set the priorities of the European Union for the coming years. Forthcoming exercises should therefore enable a better evaluation of how the mechanism works and of the EU's ability to implement these priorities.

29. One will remember the disputes arising from decisions taken in comitology regarding dilution of rosé wine (December 2008), chlorinated chicken (May 2008) or GM safeguards (February and March 2009).

European Protection of Human Rights in 2010: Towards a United Human Rights Europe

Olivier DORD

European protection of Human Rights is assured, in principle, by two organisations: the Council of Europe (47 Member States set up in 1949, and the European Union (27 Member States.

Around twenty European conventions have been ratified by States within the context of the Council of Europe. Amongst these, the European Convention on Human Rights and Fundamental Freedoms is the most famous. It protects the main civil and political freedoms and has its own legal protection mechanism: the European Court of Human Rights. Sitting in Strasbourg, this supranational court can be applied to by any individual after the exhaustion of all internal means of redress. The Court can sentence a State for violation of any freedom covered by the Convention.

Within the European Union the defence of Human Rights is assured by the policies implemented by the main institutions, which are the European Parliament, the Council of Ministers and the European Commission. Sitting in Luxembourg, the Court of Justice of the European Union ensures that the fundamental rights of individuals resulting from its case law and from the treaties[1] are respected by means of the Union's legal acts (regulations, directives, decisions).

Similar in terms of the values they defend and the Member States they have in common, these two supranational systems are soon to be linked at institutional level due to the European Union's accession to the European Convention on Human Rights. A new page will be written in the Europe of Human Rights.

1. These are now on the one hand the Treaty on European Union (TEU) and on the other the Treaty on the Functioning of the European Union (TFEU).

Modification of European Treaties on Human Rights

The European Union

When the Lisbon Treaty came into force on 1st December 2009, two major developments in the guarantee of rights and freedoms by the EU were made possible.

First, the treaty grants the Charter of fundamental rights the *"same legal value as the treaties"* (art. 6, §1 TEU). Adopted on 7th December 2000, the Charter proclaims, under six headings (Dignity, Freedom, Equality, Solidarity, Citizenship and Justice), the rights and principles that the EU guarantees to its citizens. Previously its scope had been merely declaratory. Due to the Lisbon Treaty the Charter now becomes legally binding for both European institutions and Member States when they implement European law[2]. This change in status is an additional step in guaranteeing the values that lie behind the building of Europe. The Charter's provisions can be claimed by any individual before the Court of Justice as well as before the courts in individual States in those cases where the dispute in question falls within the scope of application of European law.

Secondly, the Lisbon Treaty offers a legal basis for EU accession to the European Convention on Human Rights (art. 6, §2 TEU)[3]. Like its Member States, the European Union submits its institutions and its law to compliance with the requirements of the European Convention. It thus reinforces the guarantees offered to individuals who can bring their cases before the Court in Strasbourg in case of any violation of their Human Rights by the EU. Moreover, it encourages coherence between the two European systems, whose potential contradictions Member States find hard to overcome. Negotiations for EU accession to the European Convention began in July 2010.

The European Convention on Human Rights

The 60th anniversary of the European Convention on Human Rights was marked by the coming into force of its 14th additional protocol, on 1st June 2010. This follows a new reform of the functioning of the Strasbourg Court, which threatened to suffocate under an increasing number of claims[4]. The aim is to guarantee the long-term efficiency of the Court by optimising the filtering and processing of claims by ensuring better execution of its orders. Three main modifications have been made:

– in terms of the court's organisation, new formations made up of a single judge replace the committees of three judges required to dismiss individual claims that are clearly inadmissible. The committees of three judges will now rule both on the admissibility and on the merits of claims in cases that clearly have legitimate grounds or for which established case law exists. In the past, they only examined the admissibility of claims. Cases were tried on their merits by chambers of seven judges or by the Grand Chamber.

– in term of admissibility, the Court now has a new criterion that enables it to give priority to cases that raise real problems in terms of Human Rights. It can declare a claim inadmissible when the applicant has not suffered any major prejudice if, in terms of compliance with Human Rights, the claim does not raise any serious question regarding the application or interpretation of the Convention or of national law.

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2. Protocol n°30 of the Lisbon Treaty does however accept a dispensation in favour of the United Kingdom and Poland. To enable ratification of the treaty by the Czech Republic, the European Council also agreed, in October 2009 to extend to that State the benefit of protocol n°30.

3. It is also set forth in art. 59, §2 of the European Convention on Human Rights as amended by protocol n°14.

4. From 5200 in 1990, this figure increased to 35000 in 2002 and 57 000 in 2009. On 1st January 2010, the number of cases pending was over 100.000.

– finally, in terms of tracking enforcement of the Court's judgement, the role of the Council of Europe's Committee of Ministers has been strengthened. In addition to the traditional report that it draws up regarding the enforcement of judgements by States, the Committee has now been given new powers. On the one hand, it can ask the Court to interpret a final order that is proving difficult to enforce. On the other hand, the Committee may exceptionally introduce, before the Court's Grand Chamber, action for failure to fulfil obligations, obliging a State that has been sentenced to enforce the initial judgement. At the end of this procedure, the Court issues another judgement on failure of enforcement.

Human Rights in EU policies

The treaties have made respect for Human Rights a general duty for community institutions and the particular object of specific public policies (protection of personal data, equality between the sexes, non-discrimination, etc.). Tensions that arose during the second half of 2010 between France and the European Commission regarding the Roma community demonstrate the on-going nature of questions involving the respect of fundamental rights in Europe.

As part of its strategic priorities for 2010, the European Commission wishes to *"build a citizens' Europe"*. This specifically implies the adoption of the proposed regulation on citizen's initiative[5], preparation of the EU's accession to the European Convention on Human Rights, and the reinforcement of citizens' procedural rights. A communication dated 10th October 2010 insists on effective implementation of the Charter of Fundamental Rights. To ensure that the European Union is exemplary, the Commission is planning three measures. First, ensure respect for fundamental rights during the pre-legislative and European legislative process. Second, inform citizens of their rights set forth in the Charter and, finally, regularly publish a report detailing the progress that has been made.

Through its resolutions, The European Parliament demonstrates its traditional concern in terms of Human Rights[6]. As co-legislator with the Council, it is also involved in protection as shown by adoption of the directive dated 20th October 2010 relating to the right to translation and interpretation in criminal procedures, which increases the rights of European individuals to a fair trial.

Finally, since 2007 the European Agency for Fundamental Rights has done a great deal of work on assistance and information for institutions and States. Its publications are of great interest. In two reports published in 2010 it analyses, from the point of view of discrimination, social exclusion and sport[7].

5. The Lisbon Treaty enables one million European citizens from a significant number of States to invite the Commission to present a particular legislative initiative to the European Parliament (art. 11, §4 TUE)

6. See resolutions of 9th September 2010 on the situation of the Roma people and free movement of people within the European Union and of 25th November 2010 on Tibet – Project aiming to impose Chinese as the main language in schools.

7. The first is entitled «*Expérience de discrimination, marginalisation sociale et violence : une étude comparative des jeunes musulmans et non-musulmans dans trois Etats membres de l'UE" and the second : Racisme, discrimination ethnique et exclusion des migrants et minorités dans le sport : une vue comparative d'ensemble de la situation dans l'Union européenne* (www. fra.europa.eu)

Judicial Protection of Fundamental Rights

The European Court of Human Rights

During this period, three judgements are worthy of specific attention. The first reinforces freedom of expression, the second refuses to extend the protection of the Convention to homosexual marriage and the third poses the question of the independence of the French public prosecutor in terms of the right to freedom and security.

In the *Sanoma Uitgevers B.V. v. Netherlands* case, the Court reinforced the protection of journalistic freedom of expression as well as the protection of sources[8]. In this case it judged the Netherlands as guilty of violating Article 10 of the Convention for having forced magazine journalists to deliver to the police information that identified their sources. Due to the serious consequences resulting from this disclosure, the Court specified procedural requirements in such cases. It imposes prior control by an independent body responsible for assessing whether the demands of public interest justify dispensation from the protection of sources. The decision of this inspector must be based on clear criteria and be proportional to the situation. Finally, the inspector must be able to select from the sources those whose identity can be divulged.

In the *Schalk et Kopf v. Austria*[9] case, the Court judged for the first time that the right to marriage guaranteed by Article 12 of the Convention does not relate to same sex couples. Similarly, it refuses to see any discrimination, within the meaning of Article 14 of the Convention, in Austria's refusal to grant such couples a legal status that is equivalent to marriage. The order does however leave the position open to possible developments. The Court's reasoning is based on the current absence of any consensus on homosexual marriage amongst States. Above all it refuses to interpret Article 12 of the Convention as reserving the protection of the right to marriage to heterosexual couples.

In the *Medvedyev and others v. France* case, the Court held that detention for thirteen days of the crew of a foreign vessel boarded by the French navy was illegal[10]. It sentenced France for violation of Article 5, §1 of the Convention. On the other hand, the Court dismissed violation of Article 5, §3 which requires prompt presentation of the person arrested to a judicial authority. It does however note that this authority must *"present the required guarantees of independence with regard to the executive and parties, which excludes specifically taking action later against the plaintiff in a criminal procedure brought by the public authorities"*.

In the *Moulin v. France* case just a few months later, the Court examined the conditions under which a lawyer was held in police custody for presumed violation of legal confidentiality[11]. It sentenced France for violation of Article 5, §3 of the Convention. Specifically the Court judged that the deputy public prosecutor before whom the plaintiff appeared did not have the required independence. The French government requested that the case be sent before the Grand Chamber.

The European Union Court of Justice

Three judgements will be mentioned for the given period. The first illustrates the fact that the Court of Justice takes account of the Charter of Fundamental Rights. The second refers to relations between independent authorities and the democratic principle.

8. ECHR, G.C., 14th Sep. 2010, req. n° 38224/03.
9. ECHR, 1st section, 24th June 2010, req. n° 30141/04.
10. ECHR, GC, 29th March 2010, req. n°3394/03.
11. ECHR, 5th section, 23rd Nov. 2010, req. n°37104/06.

The third refers to compliance of the question of constitutional priority (QCP) with European law.

In the *Seda Kücükdeveci/Swedex GmbH & Co.* case, the Court ruled on a preliminary question that was referred to it. Its judgement stated that failure by of German legislation to take account of employment periods before the age of 25 in the calculation of redundancy notice is contrary to the principle of non-discrimination on grounds of age[12]. This is the first judgement, apparently, in which the Court bases its ruling explicitly on the Charter of Fundamental Rights, Article 21, §1 of which bans any discrimination on grounds of age. However, in the absence of any reference in the treaties, the Court continues to qualify this principle as *"the general principle of community law"* in reference to the judge-made method it had used hitherto to consecrate fundamental rights. This judgement is doubtless a sign of a transitory state during which the Court will have to adapt the state of its jurisprudence on fundamental rights to the Charter, which now enjoys the same legal value as the treaties.

In the *Commission v. Germany* case, the Court of Justice sentenced Germany for failing in its obligations under the terms of the directive of 24th October 1995 relating to the processing of personal data[13]. The independence with which the authorities for the protection of individuals with regard to the processing of personal data carry out their tasks is in opposition to their being controlled by an executive which responds to the national Parliament. They must not be subject to any political influence whilst remaining within the law, under the control of the courts with jurisdiction.

In the *Mélki and Abdel* case[14], the Court of Justice validated the *de facto* compliance of French law with European law for the procedure for questions of constitutional priority (QCP) as interpreted by the Constitutional Council in its decision of 12th May 2010[15], after the case was referred to it by the French Supreme Court. It judged that a Member State may set up an incidental procedure for the constitutional control of law insofar as national jurisdictions play their role as Community judge. As noted in the aforementioned decision made by the Constitutional Council, they must be able to take a case before the Court of Justice, adopt any measure necessary for the guarantee of the rights conferred by European Union law and leave unapplied, after a constitutionality procedure, any legislative measure deemed contrary to European Union law.

***

The almost simultaneous coming into force of the Lisbon Treaty and the 14th protocol of the European Convention on Human Right marks a new and important stage in the building of Europe. Contrary to the economic and monetary Europe, which is in deep crisis, the Europe of Human Rights is consolidating and uniting, specifically because of European Union's adherence to the European Convention on Human Rights.

The review of European treaties is resulting in important progress both from an institutional point of view (reform of the Strasbourg Court in particular) and from a substantial one (legal value of the Charter of Fundamental Rights). The latter may however only be appreciated in consideration of the actual and forthcoming modalities of their implementation.

12. ECJ, GC, 19th Jan. 2010, case C-555/07
13. ECJ, G.C., 9th March 2010, aff. C-518/07
14. CC, decis. n°2010-605 DC, *On line gaming*, 12 May 2010,
15. ECJ, 22nd June 2010, case. C-188/10 and C-189/10.

6

The European Union in Statistics

Franck LIRZIN and Sebastian PAULO[1]

This statistical appendix includes a series of statistics giving an economic portrait of the European Union. It provides the reader with the latest data available at the time of writing this book, mostly from 2009 and the beginning of 2010. As far as existing sources permit, we have provided elements of comparison with the United States, Japan and some emerging economies (Brazil, Russia, India, China).

All data is given in euro or euro at purchasing power parity.

List of abbreviations:

EU: European Union. The 27 Member States are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden and the United Kingdom.

PPP: purchasing power parity. According to the French National Institute for Statistics and Economic Studies (INSEE) "purchasing power parity is a currency conversion rate which allows expression of the purchasing powers of various currencies in a common unit. The rate expresses the ratio between the amount of currency units required in various countries in order to purchase the same "basket" of goods and services. The rate used for PPP standardisation is calculated by the statistics institutes that supply the data. The rate varies from one year to the next, which explains certain differences with the Schuman Report 2010.

R&D: Research and Development.

na: indicates that data is not available.

***:** indicates that the data is not available for the given date and has been replaced by a figure for the previous year.

1. The authors express a personal point of view

Country abbreviations

DE	Germany	GR	Greece	PT	Portugal	CA	Canada
AT	Austria	HU	Hungary	CZ	Czech Republic	US	United States
BE	Belgium	IE	Ireland	RO	Romania	CN	China
BG	Bulgaria	IT	Italy	UK	United Kingdom	IN	India
CY	Cyprus	LV	Latvia	SK	Slovakia	TR	Turkey
DK	Denmark	LT	Lithuania	SI	Slovenia	RU	Russia
ES	Spain	LU	Luxembourg	SE	Sweden	BR	Brazil
EE	Estonia	MT	Malta			W	World
FI	Finland	NL	Netherlands	ZE	Euro Area		
FR	France	PL	Poland	UE	European Union		

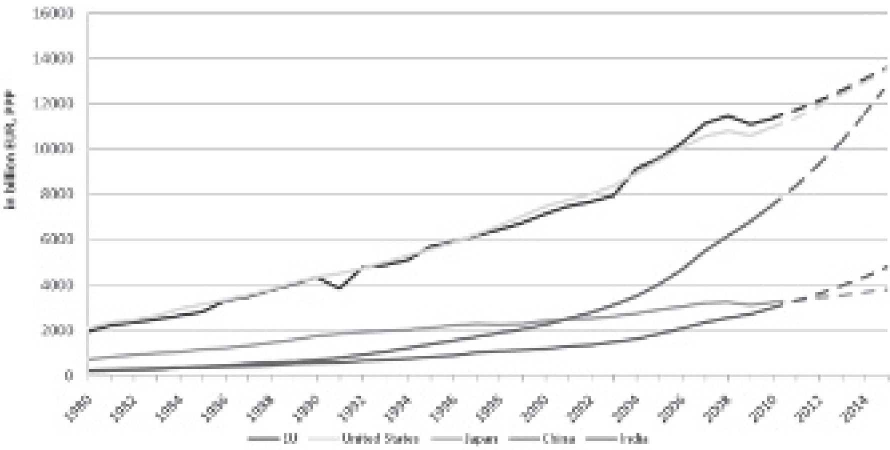
Contents of the Statistical Appendix

1. The European Union in the New World Order

The European Union, the world's leading economic power

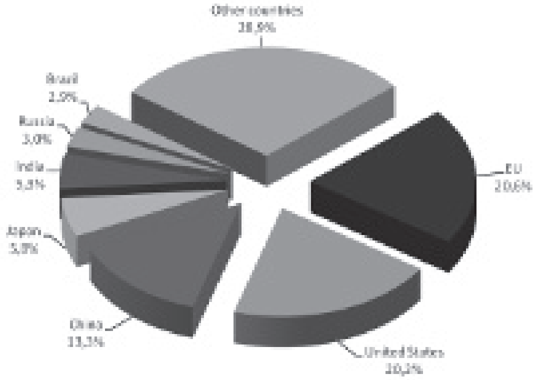
1.1 The Economic and Financial Weight of the EU and its Member States

1.1.1 Comparative GDP in the EU, the United States, Japan, China and India (1980-2010, and projections until 2015)



Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

Distribution of world GDP, at purchasing power parity (2010)



Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

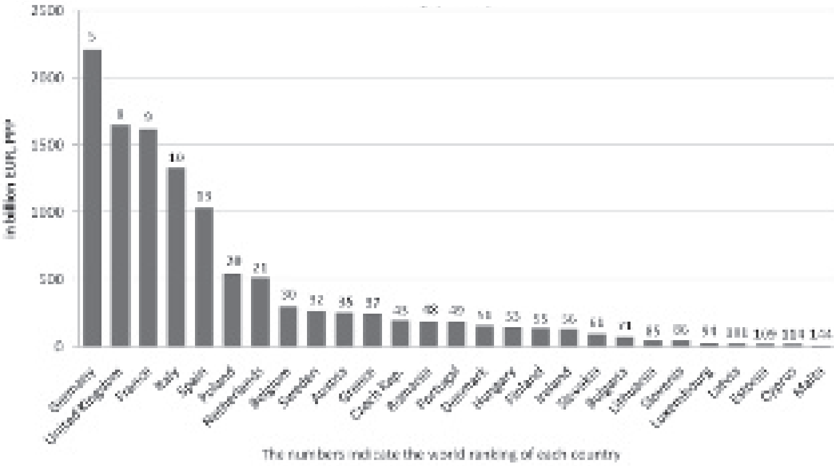
The European Union and the United States hold a comparable share of the world economy: in 2009 they represented respectively 20.6% and 20.2% of the world's GDP. Together, they therefore represent more than 40% of the wealth produced worldwide, which gives them a central position in the world economy.

Their growth profiles are however different: the EU has grown in jumps, in step with successive enlargements, and overtook the United States for the first time in 1990. However, more sustained economic growth on the other side of the Atlantic has enabled the American economy to catch up with the European economy systematically, at every stage of its progress.

Alongside these two giants new powers have made their mark. Japan was the first after the Second World War, all the way through until the beginning of the eighties, when the property bubble burst due to world currency imbalances resulting from the Plaza Agreements, which froze the banking system and plunged the Japanese economy into a long stagnation from which it has yet to recover. On the other hand, by positioning themselves in booming sectors (agriculture, computer services, manufacturing) and by adopting a liberal and aggressive economic policy, Brazil, India and, above all, China, have benefited enormously from globalisation. Over the past 30 years, the share of the EU and the United States in the GDP of major powers (Brazil, China, India, Japan, EU, United States) has dropped from 73% to 59%, and will reach 53% within 5 years, according to International Monetary Fund (IMF) forecasts. The crisis has only served to accelerate the trend.

Although the global economic landscape remains dominated by the two giants, the United States and the EU, major powers are emerging as competitors in sectors that are at the heart of their economic activity, that is innovation and high technology.

1.1.2 GDP of EU Member States at purchasing power parity and world ranking (2010)



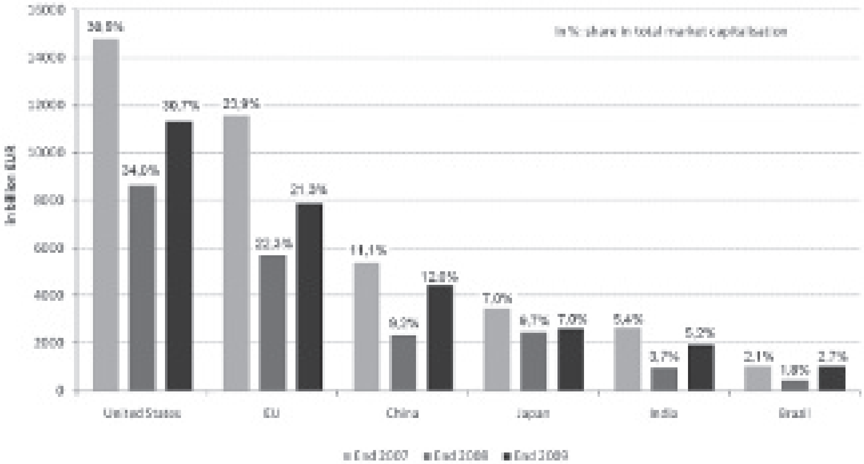
Source: IMF and author's calculations
Data collected and collated for the Robert Schuman Foundation, © FRS

The relative strength of the European Union should not serve to mask the fragmentation of its internal landscape, split between major and small economies. Member States have extremely heterogeneous economic characteristics, as demonstrated by a comparison between Cyprus and Germany, where GDPs represent a ratio of 1 to 127.

Three countries make up half (48%) of European GDP: Germany, the United Kingdom and France. These three are followed by a few medium-sized economies such as Spain and Poland. The other Member States' economies are of a relatively small size.

The purchasing power parity approach shows that even the largest European countries have been overtaken by Brazil, whose GDP is equal to that of France, India or China.

1.1.3 Stock market capitalisation of the world's main financial centres (2007, 2008 and 2009)



Source: World Federation of Exchange and author's calculations
Data collected and collated for the Robert Schuman Foundation, © FRS

A country's stock market capitalisation measures its ability to attract investors to its companies as well as the strength of the latter. It should be noted that the share held by the EU and the United States is still 52% despite the crisis, whereas their share in world GDP is currently only 41%. This can be explained by the greater development of their financial systems, which enables them to drain savings, particularly from emerging countries such as China. Thus, the power of the EU and the United States lies less in their productive ability and the vigour of their economy than in their ability to attract financial flows . However, there is no certainty that this transformation of savings into "hedge funds" will be of a lasting nature, particularly within the context of a world monetary crisis.

1.2 Demographic and Military Weight of the EU and its Member States

1.2.1 Population (2010)

	Population in million inhabitants (1950)	Population in million inhabitants (2010)	Share in world population in % (2010)	Population in million inhabitants (estimates 2050)	Population aged under 15 years, in % of total (2010)	Population aged 65 years or more, in % of total (2010)	Population in working age, in % of total (2010)	Fertility rate (2005-2010)
Austria	6,90	8,39	0,12	8,52	14,74	17,56	67,70	1,38
Belgium	8,70	10,70	0,15	11,49	16,75	17,41	65,84	1,77
Bulgaria	7,30	7,50	0,11	5,39	13,50	17,59	68,91	1,40
Cyprus	0,50	0,88	0,01	1,18	17,39	13,18	69,43	1,52
Czech Rep.	8,90	10,41	0,15	10,29	14,09	15,25	70,66	1,41
Denmark	4,30	5,48	0,08	5,55	18,03	16,68	65,30	1,84
Estonia	1,10	1,34	0,02	1,23	15,38	17,03	67,59	1,64
Finland	4,00	5,35	0,08	5,45	16,56	17,19	66,25	1,83
France	41,80	62,64	0,91	67,67	18,39	16,96	64,65	1,89
Germany	68,40	82,06	1,19	70,50	13,35	20,47	66,18	1,32
Greece	7,70	11,18	0,16	10,94	14,21	18,32	67,47	1,38
Hungary	9,40	9,97	0,14	8,93	14,74	16,37	68,89	1,35
Ireland	3,00	4,59	0,07	6,30	20,77	11,35	67,88	1,96
Italy	47,10	60,10	0,87	57,07	14,17	20,44	65,39	1,38
Latvia	1,90	2,24	0,03	1,85	13,84	17,46	68,71	1,40
Lithuania	2,60	3,26	0,05	2,58	14,62	16,37	69,00	1,34
Luxembourg	0,30	0,49	0,01	0,73	17,68	14,02	68,29	1,66
Malta	0,30	0,41	0,01	0,41	15,12	14,88	70,00	1,26
Netherlands	10,10	16,65	0,24	17,40	17,62	15,35	67,02	1,74
Poland	24,80	38,04	0,55	32,01	14,76	13,51	71,74	1,27
Portugal	8,40	10,73	0,16	10,02	15,19	17,84	66,97	1,38
Romania	16,30	21,19	0,31	17,28	15,22	14,87	69,92	1,32
Slovakia	3,50	5,41	0,08	4,92	15,17	12,27	72,56	1,28
Slovenia	1,50	2,03	0,03	1,95	13,83	16,40	69,78	1,36
Spain	28,00	45,32	0,66	51,26	14,94	17,16	67,90	1,43
Sweden	7,00	9,29	0,13	10,57	16,47	18,31	65,21	1,87
United Kingdom	49,80	61,90	0,90	72,37	17,36	16,59	66,05	1,84
EU	**373,60**	**497,53**	**7,20**	**493,86**	**15,52**	**17,46**	**67,01**	**1,53**
United States	157,81	317,64	4,60	403,93	20,22	12,96	66,82	2,09
China	544,95	1354,15	19,60	1417,05	19,90	8,23	71,88	1,77
India	371,86	1214,46	17,58	1613,80	30,81	4,92	64,27	2,76
Japan	82,82	127,00	1,84	101,66	13,19	22,57	64,23	1,27
Brazil	53,98	195,42	2,83	218,51	25,47	6,90	67,63	1,90
Canada	13,74	33,89	0,49	44,41	16,31	14,12	69,56	1,57
Russia	102,70	140,37	2,03	116,10	14,97	12,91	72,12	1,37
World	**2529,35**	**6908,69**	**100,00**	**9149,98**	**26,94**	**7,58**	**65,48**	**2,57**
Source	UNO							

Data collected and collated for the Robert Schuman Foundation, © FRS

The EU's strength does not lie in its economy alone; it also resides in its ability to unite 500 million inhabitants, as well as large-scale military forces.

In population terms, the EU is placed just behind China and India, ahead of the United States. Although the birth rate is one of the lowest in the world (1.53 children per woman), this balance should last until 2050, thanks to immigration. However, some countries, such as Germany, Italy and some Central and Eastern European countries are set to see their population levels fall considerably. This fall will be compensated by population increases in countries such as France, the United Kingdom and Spain.

The European population is ageing; along with Japan it is the only place in the world where there are more old people than young people. The number of people of working age will fall in the EU whereas it will increase in the United States, India and Brazil. To ensure that its standard of living is maintained, the EU will have to learn how to distribute resources more fairly between its citizens, making social transfers between inactive and active populations and making better use of the skills of the latter as well as of technical progress in order to achieve the productivity gains required to compensate for the increase in the number of inactive people.

1.2.2 Military spending, the armed forces and external operations

	Expenditure per country in current dollars, million (2009)	Share of military spending in GDP, % (2008)	Share in world military spending in % (2009)	Military personnel (2008)	of which deployed armed forces (comparison EU - USA)
France	63876,4	2,3	4,2	347200	12008
Germany	45640,3	1,3	3,0	251616	7100 (2010)
Italy	35755,6	1,7	2,3	186956	8562
Spain	13199,0	1,2	0,9	137800	5177
United Kingdom	58326,7	2,5	3,8	194330	18557
EU	**291755,0**	**1,6**	**19,2**	**1823707**	**80177**
United States	661049,0	4,3	43,4	1401757	209700
China	100400,0	2,0	6,6	2255000	---
Russia	53300,0	3,5	3,5	1245000	---
Japan	51029,0	0,9	3,4	239000	---
India	36340,7	2,6	2,4	1325000	---
Brazil	26076,5	1,5	1,7	287000	---
South Korea	24059,1	2,8	1,6	687000	---
Saudi Arabia	41272,5	8,2	2,7	124000	---
Canada	19238,0	1,3	1,3	62000	---
Australia	19005,5	1,8	1,2	54000	---
Sources	Stockholm International Peace Research Institute (SIPRI)			European Defence Agency, US Library of Congress, Federal Ministry of Defence (Germany)	

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Continent	Country	ESDP missions	NATO missions	UN missions
Africa	Côte d'Ivoire			UNOCI (1 April 2004 - 31 December 2010)
	Guinea-Bissau	EU SSR Guinea-Bissau (16 June 2008 - 30 September 2010)		
	Liberia			UNMIL (19 September 2003 - 30 September 2011)
	Democratic Republic of the Congo	EUSEC DR Congo (8 June 2005 - 30 September 2012) EUPOL DR Congo (1 July 2007 - 30 September 2011)		MONUC (30 November 1999 - 30 June 2011)
	Western Sahara			MINURSO (April 1991 - 30 April 2011)
	Somalia	EUNAVFOR Somalia - Operation ATALANTA (8 December 2008 - 12 December 2010) EUTM Somalia (since 7 April 2010)	Allied Protector (March - August 2009) Ocean Shield (17 August 2009 - end of 2012) Assistance to the African Union (AMISOM) (7 June 2007 - 21 February 2009)	
	Sudan			UNMIS (24 March 2005 - 30 April 2011) UNAMID (31 October 2007 - 31 July 2011)
	Chad/CAR	EUFOR Chad/CAR (28 January 2008 - 15 March 2009)		MINURCAT (25 September 2007 - 31 December 2010)
Americas	Haiti			MINUSTAH (1 June 2004 - 15 October 2010)
Asia and Pacific	Afghanistan	EUPOL Afghanistan (15 June 2007 - 31 May 2013)	ISAF UN Security Council Resolution of 20 December 2001 (NATO - since 11 August 2003) NTM-A (NATO Training Mission in Afghanistan) (since 21 November 2009)	
	India/Pakistan			UNMOGIP (since 1 January 1949)
	East Timor			UNMIT (25 August 2006 - 26 February 2011)
Middle East	Egypt, Israel, Lebanon, Syria			UNTSO (since 1 June 1948)
	Iraq	EUJUST LEX (1 July 2005 - 30 June 2012)	NTM-I (NATO Training Mission in Iraq) (since 14 August 2004)	
	Lebanon			UNIFIL (since 1 March 1978)
	Syria			UNDOF (since May 1974)
	Palestinian Territories	EU BAM Rafah (24 November 2005 - 24 May 2011) EUPOL COPPS (since 1 January 2006)		
Europe	Bosnia-Herzegovina	EUPM (1 January 2003 - 31 December 2011) EUFOR ALTHEA (2 December 2004 - November 2010)		
	Cyprus			UNFICYP (since March 1964)
	Georgia	EUMM (1 October 2008 - 14 September 2011)		UNOMIG (24 August 1993 - 15 June 2009)
	Kosovo	EULEX Kosovo (16 February 2008 - 14 June 2012)	KFOR (since 12 June 1999)	UNMIK Kosovo (since 10 June 1999)

The mission start dates refer to the actual launching of the missions or, in lieu thereof, to the decision of the launching.

Sources: Stockholm International Peace Research Institute (SIPRI), mission web sites
Data collected and collated for the Robert Schuman Foundation, © FRS

It is paradoxical to observe that the European armies, if united, represent the world's second largest army, behind that of the United States, but this army is much less present on the field, and its budget is only half that of the American military. The construction of European defence began in 1998 with the creation of a rapid reaction force and the running of European military operations within the framework of the European Security and Defence Policy (ESDP).

The main European armies are those of France, the United Kingdom, Germany and Italy, each with a force of over 150 000 military personnel.

The European Union and Globalisation: Competitiveness and Foreign Trade

Within a context of globalisation economies are increasingly subject to direct competition. The industrial sectors that are most exposed to international competition must increase their competitiveness in order to remain in the race and enable all those who depend on them to do the same. The globalised economy is characterised by a new international distribution of work, in which the EU and the United States concentrate their efforts on research and development (R&D) and the production of high added value goods. A knowledge society is gradually being set up, typically in clusters (linking of researchers, industrialists and investors) within territories. The crisis and the increased influence of China and India are however challenging this world order.

1.3 Competitiveness and Productivity

1.3.1 Summary of competitiveness and innovation indicators

	Global ranking of the business environment (2010)	Ranking according to the ease of doing business (2010)	Summary innovation index (2009, *2007)	Share of employment in science and technology (2009, *2008)	Share of high-tech exports (2008)
	ranking out of 139 countries	ranking out of 183 countries	On a scale from 0 to 1	as % of total employment	as % of exports of manufactured goods
Austria	18	32	0,54	39,0	10,8
Belgium	19	25	0,52	48,2	6,8
Bulgaria	71	51	0,23	32,2	3,6
Cyprus	40	37	0,48	43,0	19,1
Czech Rep.	36	63	0,42	37,9	14,1
Denmark	9	6	0,57	51,8	10,8
Estonia	33	17	0,48	45,6	7,5
Finland	7	13	0,62	50,7	17,3
France	15	26	0,50	43,2	16,4
Germany	5	22	0,60	44,8	12,4
Greece	83	109	0,37	31,8	5,9
Hungary	52	46	0,33	33,2	20,2
Ireland	29	9	0,52	44,7	24,3
Italy	48	80	0,36	34,3	6,0
Latvia	70	24	0,26	38,9	4,6
Lithuania	47	23	0,31	41,7	6,5
Luxembourg	20	45	0,53	45,5*	35,2
Malta	50	n/a	0,34	32,3	45,0
Netherlands	8	30	0,49	50,9	16,2
Poland	39	70	0,32	34,9	4,3
Portugal	46	31	0,40	23,5	6,1
Romania	67	56	0,29	24,1	5,4
Slovakia	60	41	0,33	32,0	4,8
Slovenia	45	42	0,47	40,6	5,2
Spain	42	49	0,38	39,0	4,2
Sweden	2	14	0,64	49,6	13,5
United Kingdom	12	4	0,58	44,4	15,1
EU	**n/a**	**n/a**	**0,48**	**40,1**	**16,6**
United States	4	5	0,55*	n/a	19,2
Japan	6	18	0,60*	n/a	16,3
Brazil	58	127	n/a	n/a	n/a
Russia	63	123	n/a	n/a	n/a
India	51	134	n/a	n/a	n/a
China	27	79	n/a	n/a	n/a
Sources	World Economic Forum	World Bank ("Doing Business 2011")	European Innovation Scoreboard	Eurostat	Eurostat

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The ability to innovate and to be enterprising is essential for a knowledge economy. With the Lisbon (2000) and Göteborg (2001) strategies, the EU set itself the objective of becoming the most competitive economy as well as the most attentive to sustainable development in the world by 2010, specifically by raising expenditure for research and development (R&D) to a level of at least 3% of GDP. These objectives were not reached and the Europe 2020 Strategy now aims to renew this ambition, together with a more marked social inclusion objective, by reinforcing the environmental aspect and correcting the imperfections that resulted in only partial success.

Although the EU remains at the head of the most competitive economies, there is an enormous difference between Member States. Northern countries (Sweden, the Netherlands, Finland, Denmark and Germany) are the most innovative and the most competitive. Conversely, some of the new Member States, such as Slovakia and Latvia, have not yet succeeded in closing the gap with other Members.

1.3.2 Patents

	Number of patents granted by the European Patent Office (EPO, 2009)	High-technology patents (EPO, 2007, *2006)	Number of patents granted by the United States Patent and Trademark Office (USPTO, 2009)
	per million of inhabitants	as % of total number of patents	per million of inhabitants
Austria	69,4	8,3	91,4
Belgium	54,2	15,7	66,1
Bulgaria	0,7	28,8*	4,9
Cyprus	30,1	52,3	4,5
Czech Rep.	3,8	5,6	4,8
Denmark	79,1	10,4	98,0
Estonia	6,0	29,6	3,0
Finland	124,3	15,8	186,4
France	62,6	13,4	60,7
Germany	138,8	8,8	126,3
Greece	2,1	5,7	3,5
Hungary	3,8	11,2	4,8
Ireland	32,6	13,2	41,2
Italy	33,2	4,9	30,6
Latvia	0,9	12,2	2,2
Lithuania	0,0	28,5	0,9
Luxembourg	170,2	4,3	114,3
Malta	29,0	15,7*	14,6
Netherlands	96,8	9,5	93,6
Poland	0,9	16,8	1,1
Portugal	2,3	23,8	1,8
Romania	0,2	34,7	0,4
Slovakia	1,7	9,1	3,0
Slovenia	13,8	13,5	13,3
Spain	7,6	6,6	8,9
Sweden	141,0	12,2	132,5
United Kingdom	26,7	10,3	64,8
EU	**50,2**	**9,8**	**53,9**
United States	35,7	11,6	298,9
Japan	74,3	17,5	299,7
Brazil	n/a	n/a	0,8
Russia	0,4	n/a	1,5
India	n/a	n/a	0,6
China	n/a	n/a	1,7
Sources	EPO and author's calculations	Eurostat	USPTO and author's calculations

Data collected and collated for the Robert Schuman Foundation, © FRS

The protection of intellectual property is a key element in a knowledge economy, as it protects and diffuses innovation. The most competitive countries, such as Germany, Sweden and Finland, have large scale intellectual creation activity, which results in a large amount of patents being registered. Since competition takes place on a global scale these patents are registered in Europe, the United States and elsewhere. Although some countries direct their economy massively towards high tech exports, the latter represent only 16.7% of total exports in the EU, compared to 26% in the United States. This difference is mainly explained by the heterogeneity of economies and by the size of the internal European market, which absorbs a large share of the exports of Member States.

1.3.3 Labour productivity: international comparisons (2009)

	Labour productivity per hour worked (2009)	Annual growth of productivity per person employed (1990-2009)	Annual hours worked per person employed (2009)	Total hours worked (2009)
	% of USA*	%	hours	in millions
Austria	87,9%	1,5	1634,4	6,7
Belgium	99,2%	1,1	1543,7	6,8
Bulgaria	26,0%	2,4	1653,0	6,2
Cyprus	56,7%	2,3	1834,4	0,7
Czech Rep.	46,9%	1,9	1890,7	9,9
Denmark	81,3%	1,4	1529,1	4,4
Estonia	40,4%	5,3	1831,3	1,1
Finland	79,7%	2,3	1671,6	4,1
France	92,7%	1,1	1553,9	39,7
Germany	90,6%	1,1	1390,2	56,0
Greece	59,0%	2,4	2119,3	9,9
Hungary	42,9%	3,9	1967,6	7,9
Ireland	91,5%	3,1	1821,5	3,5
Italy	69,5%	0,4	1773,4	44,0
Latvia	30,6%	2,4	1948,9	1,9
Lithuania	38,6%	2,4	1862,9	2,6
Luxembourg	126,3%	0,7	1603,3	0,6
Malta	51,0%	2,2	1891,5	0,3
Netherlands	100,2%	1,0	1378,4	11,9
Poland	39,4%	5,7	2067,0	32,7
Portugal	43,4%	1,6	1931,9	9,7
Romania	26,2%	4,9	1875,0	17,2
Slovakia	56,9%	5,3	1693,5	3,7
Slovenia	60,8%	3,1	1687,3	1,6
Spain	75,2%	0,9	1654,2	31,7
Sweden	84,7%	2,4	1610,9	7,2
United Kingdom	86,1%	2,5	1646,8	44,7
Euro area	**77,3%**	**n/a**	**1591,8**	**231,0**
EU	**68,3%**	**n/a**	**1662,9**	**366,6**
United States	100,0%	2,0	1680,5	237,7
Japan	67,7%	1,0	1713,8	108,3
Source	Groningen Growth and Development Center and author's calculations			
* as percentage of the labour productivity per hour worked in the United States.				

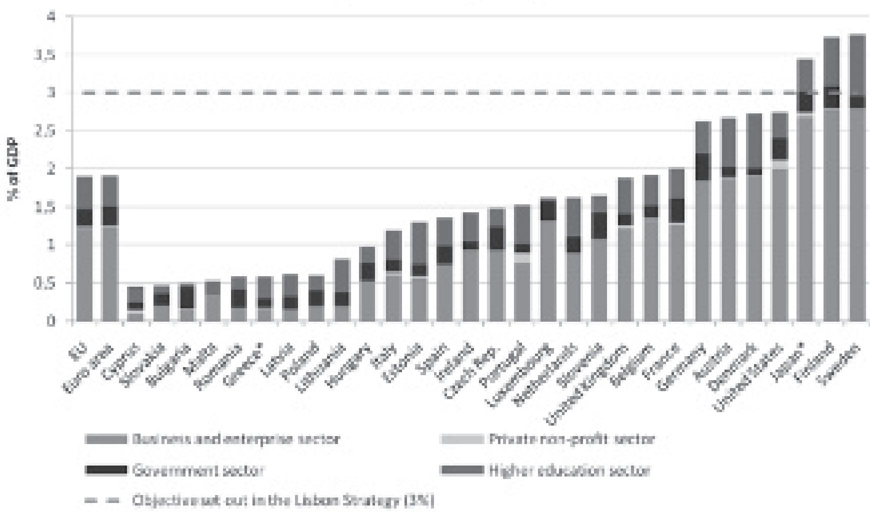
Data collected and collated for the Robert Schuman Foundation, © FRS

Not only do Europeans work on average less than the Americans, they are also 25% less productive. The Netherlands and Luxembourg are the only countries that equal American productivity, followed closely by the United Kingdom and France.

European countries with a high level of productivity have chosen to reduce working time, whereas the United States have preferred to increase salaries (74 500 per person, per year in the United States compared with 55 900 in Germany, with the Germans working on average 30 days less per year).

The difference between the EU and the United States can also be explained by a high degree of heterogeneity due to the presence of countries such as Romania (where productivity represents 25% of that of the United States) or Bulgaria (26%). Although these countries, along with Greece, are those where people work the most, they are scarcely able to bridge the gap. However, their growth in productivity shows that they are catching up.

1.3.4 R&D spending in the EU, the United States and Japan by sectors of performance (2008)



**Data of 2007*

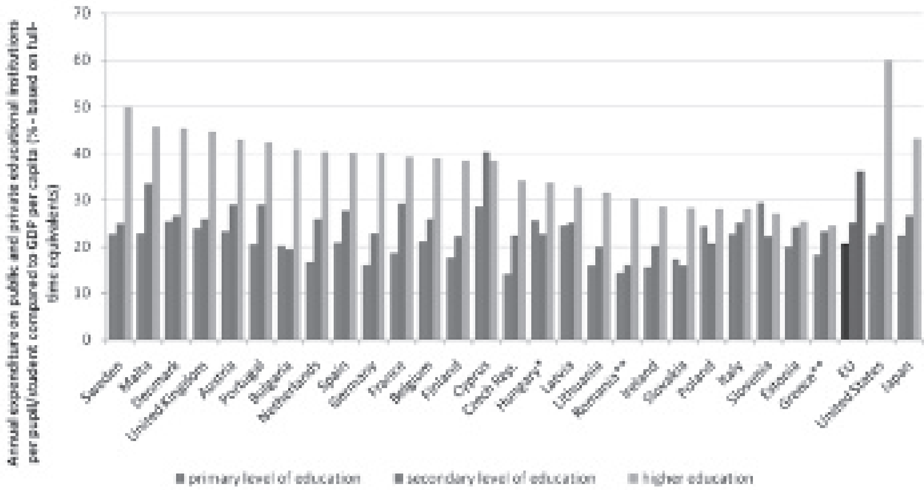
Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

The Lisbon Strategy set an objective of 3% of GDP to be devoted by each country to R&D, thus exceeding the amount in the United States (2.76%): only countries that were already at this level, Sweden and Finland, managed to reach this target. Average spending is actually around 2%.

It is the private sector that contributes most, representing an average of 64% of R&D. In the most advanced countries, such as Sweden, this percentage reaches 74%. More specifically, industry remains the largest centre for research: companies have the financial means to invest in applied research.

However, public research and education do play a quite considerable role, specifically with their ability to explore directions whose applications are not yet clear (fundamental research) or to initiate spin-offs and the creation of innovative start-ups through mechanisms that value research.

1.3.5 Education: annual spending per pupil/student by level of education (2007)



*Data of 2006 ; **data of 2005

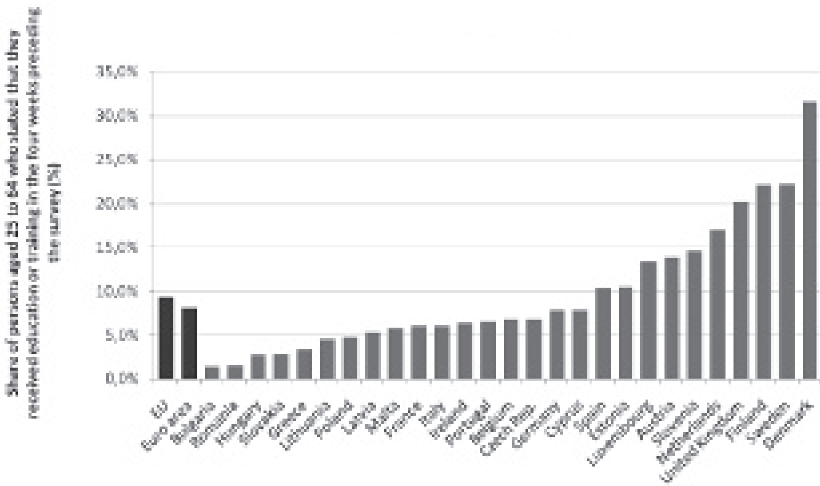
Source: Eurostat

Data collected and collated for the Robert Schuman Foundation, © FRS

Education represents a key investment in the knowledge economy: companies must be able to rely on a high degree of skill amongst their employees, at every level, in order to improve competitiveness and meet the challenge of globalisation. Education also runs into the university environment, thus encouraging research.

Between 2005 and 2007, annual spending per pupil as a share of GDP stagnated within the EU (-1.6%), masking major differences between countries such as Romania (+22%) and Luxembourg (-16%). Efforts must continue if the EU is to reach the levels attained by the United States and Japan. Specifically, the public effort remains large scale since an average of 5% of Member States' GDP is devoted to education and training. Surprisingly, the most innovative countries are not always those that invest the most in education. Countries that try to catch up, such as Portugal or Slovenia, or those that cannot rely on domestic resources and have to turn towards high added value businesses, such as Cyprus and Malta, stand out with high expenditure on education.

1.3.6 Life-long learning (2009)



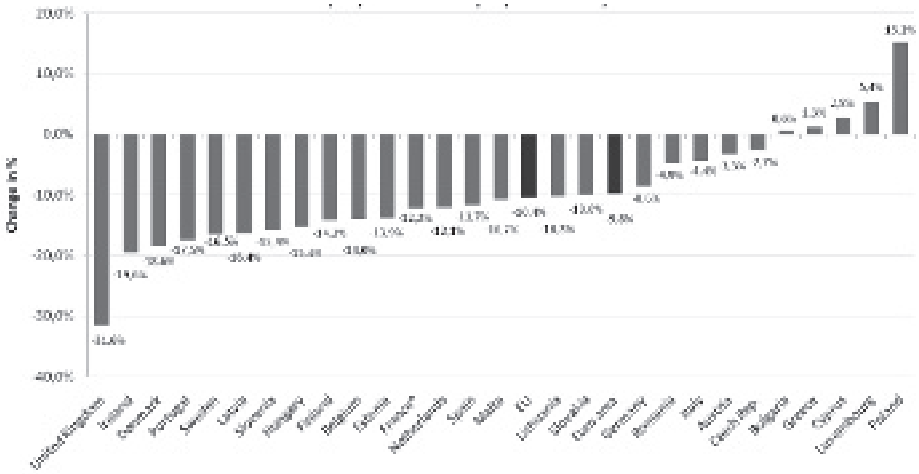
Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

In a world that is rapidly evolving, basic education is no longer sufficient: employees must be able to adapt quickly. Life-long learning enables them to increase their skill and also benefit from more diversified professional career paths.

And yet, on average, only 9.3% of the working-age population was involved in education or training over the past year. It is no surprise to see that the highest rates can be found in those countries most open to globalisation such as Sweden (22%), Finland (22%) and Denmark (31.6%). Big countries are having more difficulty: 8% in Germany, 6% in France and in Italy. After an increase at the beginning of the 2000s, a clear fall has been observed in these latter two countries, along with stagnation at European level, proof that there is still a great deal of work to be done in the field of professional training.

1.4 Specialisation, Territorialisation

1.4.1 Deindustrialisation or a new industrial landscape?
Decline in industrial employment in Europe (2000-2009)



**Data for the period 2000-2008*

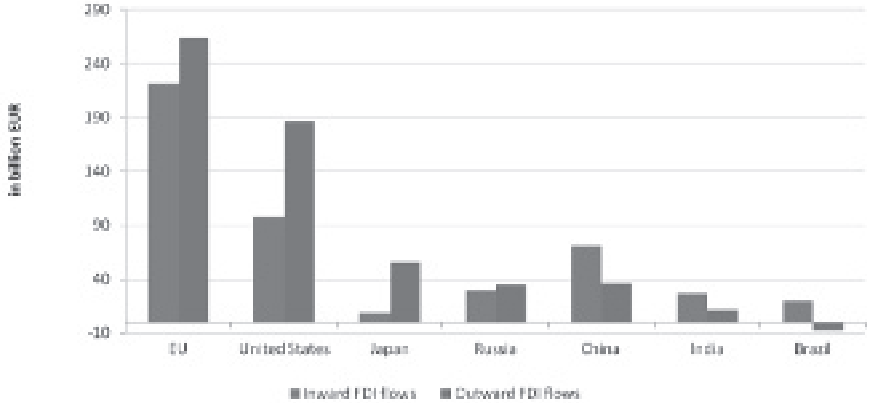
Source: Eurostat and author's calculations
Data collected and collated for the Robert Schuman Foundation, © FRS

The idea of deindustrialisation covers a range of very different phenomena. Firstly, developments amongst companies are increasingly tending to dissociate productive functions (industry) from support functions (services). This phenomenon is leading to the development of the service sector in the economy, resulting in a fall in industrial employment compensated by an increase in service activities (logistics, R&D, marketing, etc.).

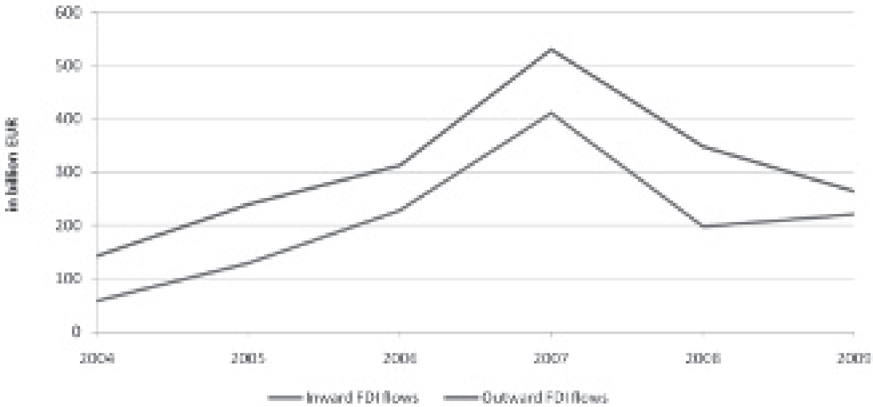
The enlargement of the EU has also contributed to changing the industrial landscape: Central European countries have a major industrial sector with low labour costs, which is encouraging industrialists to relocate part of their production to these countries. Within the EU industrial activities are therefore being transferred from one place to another.

Finally, the crisis has played a role in the reduction of industrial activity in some sectors such as the car industry. Industrial production has not yet returned to pre-crisis levels.

1.4.2. Foreign direct investment in the EU and the rest of the world (2009) and developments in foreign direct investment in the EU (2004-2009)



Sources: Eurostat, UNCTAD
Data collected and collated for the Robert Schuman Foundation, © FRS



Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

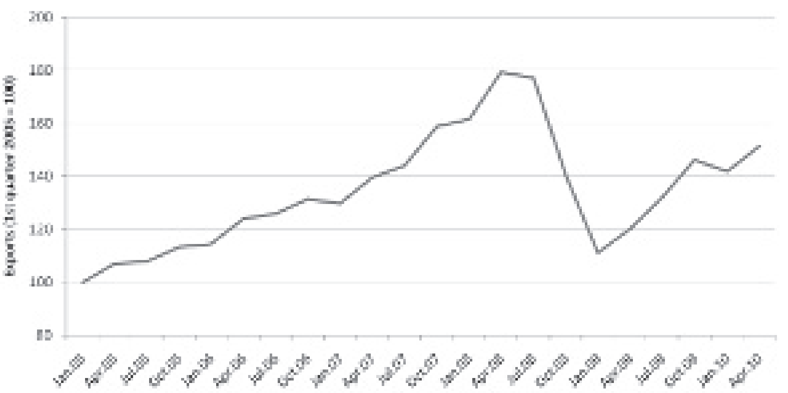
Contrary to conventional wisdom, the EU is the top destination for foreign direct investment (FDI), well ahead of any other part of the world, including China. Quality of life in the EU, its transports, communication infrastructures, the size of its domestic market and the intensity of research and innovation resources are amongst Europe's attraction factors. Some factors, such as labour law or corporate taxation may however make some countries less attractive. France is the top destination for FDI in Europe and is also third in the world, behind the United States and China.

The EU is also the top investor. The United States and Japan are extremely focussed on external investments, a fact that might convey the wrong impression that they are more present in the world than the Europeans.

Foreign investments are an opportunity for exchange and partnerships between economies. For example, 40% of French exports are achieved by foreign companies established in the country. This creates both employment and innovation. The considerable reduction in FDI resulting from the crisis (-57%), corresponding to the decline after the bursting of the Internet bubble (-52%), does however portend a cooling in the globalisation dynamic.

1.5 Europe in International Trade

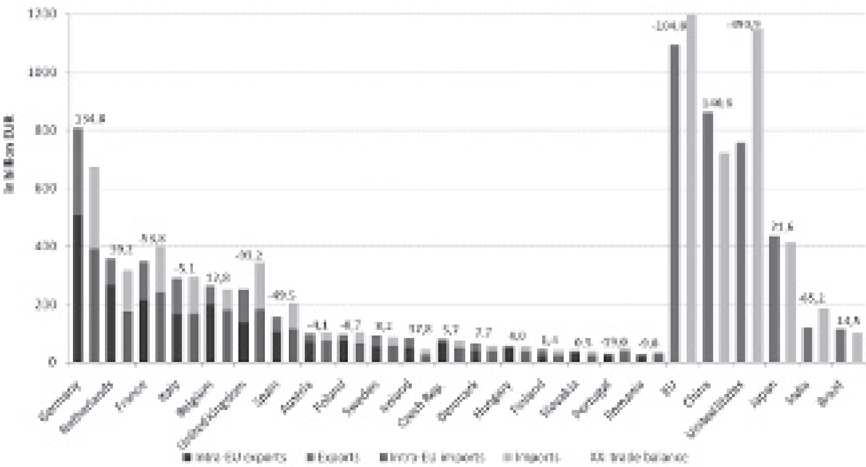
1.5.1 Developments in world trade (2005-2010)



Source: WTO
Data collected and collated for the Robert Schuman Foundation, © FRS

The dynamics of opening up and trade liberalisation, which have spurred globalisation took a U-turn during the subprime crisis, when the volume of trade dropped by 12.2% in 2009 according to the WTO, a fall not seen since 1929. The situation returned to normal in 2010, mainly due to recovery plans. Once these plans will have been completed the situation could turn around again.

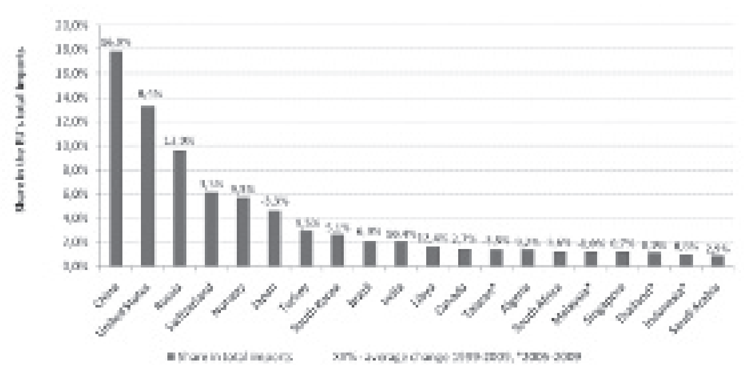
1.5.2 The EU in international trade (2009)



Sources: Eurostat, WTO and author's calculations
Data collected and collated for the Robert Schuman Foundation, © FRS

The EU is the largest market in the world and a leading centre of commercial attraction, representing 20% of the total volume of world imports and exports. International trade is organised around three major poles: North America, Europe and Asia. The EU invested strongly in the WTO's Doha round of negotiations in order to establish a regulatory framework to avoid unfair practices such as dumping.

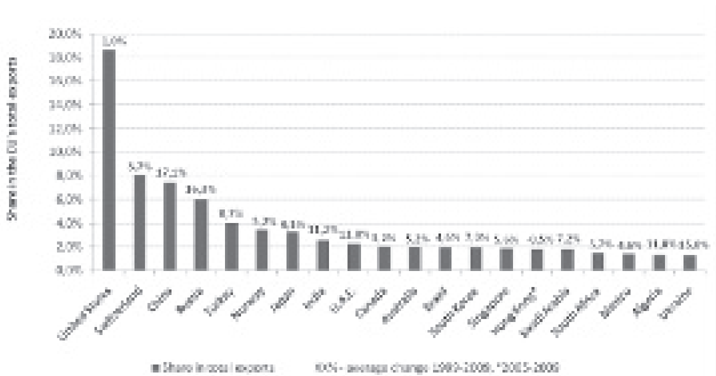
1.5.3 Where do European imports come from?
The EU's main suppliers (2009)



Source: Eurostat - Data collected and collated for the Robert Schuman Foundation, © FRS

China is by far the top country in terms of imports into the EU. China has achieved its position in just a few years with 20% growth over ten years. Manufactured goods are mainly concerned here, particularly textiles, toys and, more recently machines, as well as electrical and electronic equipment. On the other hand, China (7.5% of exports) is only the EU's 3rd largest export market, behind the United States (18.7%) and Switzerland (8.1%). There is also a major trade deficit in absolute terms (133 million € in 2009). However, exports to China have increased massively, with China overtaking Russia in 2009. For example, Germany has succeeded in conquering the Chinese market for high added-value machines. On the other hand, France has lost ground in China.

1.5.4 Where do European exports go?
The EU's main customers (2009)



Source: Eurostat - Data collected and collated for the Robert Schuman Foundation, © FRS

The main export country is still the United States, with a positive 45 million € trade balance. The United States and the EU represent 40% of world GDP, 40% of world trade and 62% of the stock of direct investments: the high level of integration that exists between these two units structures international trade. Contrary to a widely held belief, cross-over investments between the United States and the EU exceed those that each of these two economies makes in emerging economies. Goods traded are of all types and play their part in transatlantic cooperation projects.

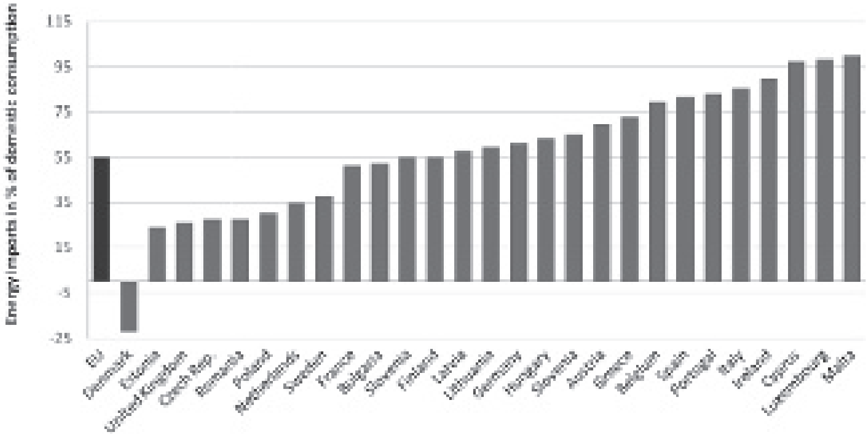
Countries that border the EU (Turkey, Norway, Sweden) are of course major commercial partners. It is noteworthy that – despite Europe's strong historical ties with the African continent – trade with Africa is low compared to trade relations with other continents.

The European Union and Scarcity of Resources

1.6 Energy Dependency

Energy is at the basis of all civilisations: industry, businesses and private individuals all need energy in order to work, produce and live. This is why energy matters are of capital importance for countries and are often a determining factor in geopolitical relations.

1.6.1 Energy dependency of EU Member States:
net energy imports (2008)

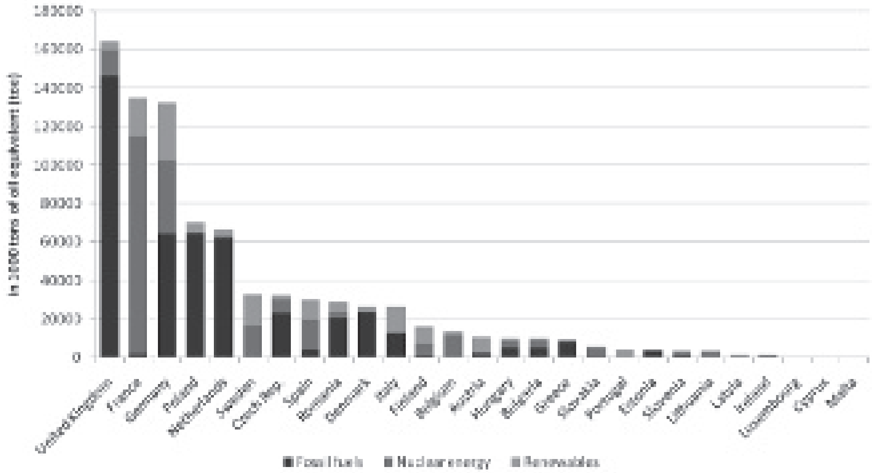


Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

The more energy a country imports, the more it is dependent on external producers, putting the country in a vulnerable position. Europe is scarce in energy resources and has to import over half of all its energy requirements. A large part of imports comes from Russia, whose conflicts with neighbouring countries, notably Ukraine, have hindered supplies. Securing reliable supplies and the creation of new pipeline networks (Baltic Sea, Caspian Sea, Turkey) will enable the EU to reinforce its energy position.

Countries such as Malta have to import all their energy, whilst others, like Denmark, have developed renewable energy (wind turbines, etc.) and are net exporters of energy, making them independent. The development of renewable energy is therefore not merely an ecological concern, it is also a geopolitical challenge. The relatively modest level of imports displayed by France is deceptive; it can be explained by the fact that France has chosen to use nuclear energy, and uranium imports are not included in the calculation.

1.6.2 Energy production in the EU (2008)



Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

The EU's energy policy encourages renewable energy. The share of this type of energy in total enregy production has almost doubled in ten years. This development has taken place mainly to the detriment of coal and oil. The nuclear industry produces over a quarter of energy, much more in France (about 80%), and this share is on the increase: new generation nuclear power stations have improved their fuel use so that current reserves can now guarantee energy resources for the next millennium. The EU is therefore gradually positioning itself on long term energies, both for reasons of energy independence and ecological considerations, as well as in anticipation of the "*oil peak*", when oil will start to become scarce.

1.6.3 The cost of electricity, gas and petrol in EU Member States (2010)

	Prices of premium unleaded gasoline 95 RON (EUR per litre, 2010)	Share of taxes in the price of premium unleaded gasoline 95 RON (2009)	Prices of diesel oil (EUR per litre, 2010)	Gas prices for household consumers in EUR per gigajoule (2009)	Gas prices for industrial consumers in EUR per gigajoule (2009, *2007)	Electricity prices for household consumers in EUR per kWh (2009, *2007)	Electricity prices for industrial consumers in EUR per kWh (2009, *2007/2008)
Austria	1,18	42%	1,09	13,13	8,91*	0,14	0,09*
Belgium	1,40	39%	1,13	13,54	8,73	0,14	0,10
Bulgaria	1,01	n/a	0,97	10,95	8,74	0,07	0,06
Cyprus	1,03	57%	0,98	n/a	n/a	0,13	0,12
Czech Rep.	1,25	46%	1,20	11,55	8,98	0,11	0,11
Denmark	1,44	39%	1,20	12,40	7,38	0,12	0,07
Estonia	1,11	49%	1,09	8,99	7,30	0,07	0,06
Finland	1,42	37%	1,12	n/a	8,00	0,10	0,07
France	1,34	39%	1,13	13,01	9,76	0,09	0,07
Germany	1,39	36%	1,19	13,48	10,86	0,14	0,10
Greece	1,40	51%	1,22	n/a	n/a	0,11	0,09
Hungary	1,22	47%	1,15	11,15	10,04	0,12	0,12
Ireland	1,30	46%	1,21	15,76	9,30	0,18	0,12
Italy	1,36	42%	1,20	14,16	10,40	0,17*	0,1*
Latvia	1,08	56%	1,05	13,21	10,86	0,10	0,09
Lithuania	1,17	53%	1,01	10,00	8,73	0,08	0,09
Luxembourg	1,15	47%	0,98	12,19	11,08	0,16	0,11
Malta	1,19	56%	1,02	n/a	n/a	0,16	0,15
Netherlands	1,49	40%	1,14	14,43	9,02	0,14	0,09
Poland	1,13	43%	1,05	8,85	7,73	0,09	0,09
Portugal	1,37	41%	1,14	15,68	9,81	0,13	0,09
Romania	1,05	n/a	1,02	4,84	4,70	0,08	0,08
Slovakia	1,24	44%	1,10	10,78	11,12	0,13	0,14
Slovenia	1,19	49%	1,13	14,44	11,34	0,11	0,10
Spain	1,15	49%	1,06	14,64	8,70	0,13	0,11
Sweden	1,33	36%	1,23	14,00	9,30	0,10	0,07
United Kingdom	1,35	37%	1,38	11,28	7,99	0,14	0,11
EU	**1,25**	**45%**	**1,12**	**12,67**	**9,30**	**0,12**	**0,10**
Euro area	**1,29**	**45%**	**1,12**	**13,66**	**9,90**	**0,12**	**0,10**
Source	Eurostat						

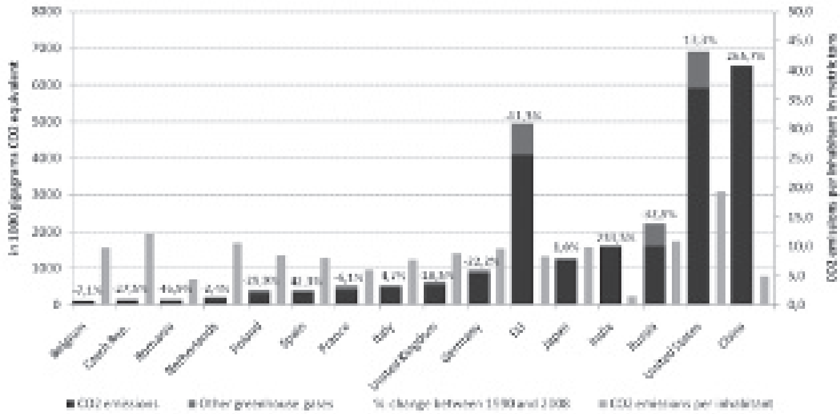
Data collected and collated for the Robert Schuman Foundation, © FRS

The cost of energy has a major impact on fixed household expenditure and on the fixed costs of industrial production. Prices have been increasing constantly over recent years: the cost of gas increased by 15% between 2007 and 2009. This increase is creating inequalities between households, with the poorest amongst them devoting 15% of their income to the energy bill compared to only 6% for the richest households. Increases are also penalising transport and logistics.

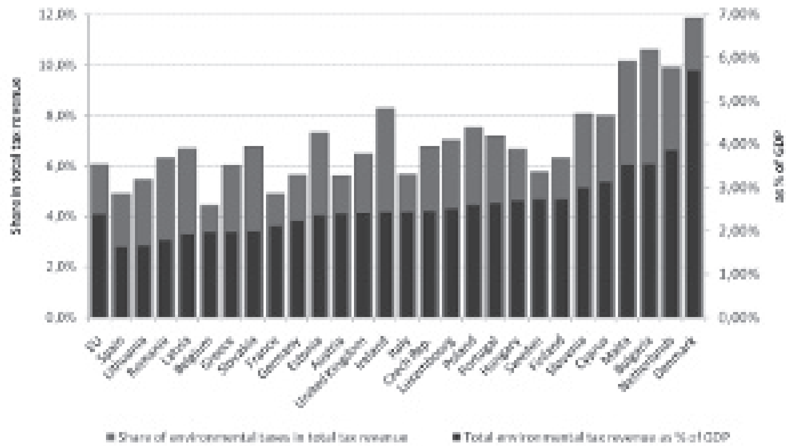
This increase is due to rising raw material prices and higher taxes which represent, for example, between 36% and 57% of the cost of unleaded petrol in the EU. Price differences between European countries can be explained in large part by the taxation system and national price controls. The electricity and gas market is gradually being liberalised at European level, by means of a separation between the production and distribution of energy.

The price increase is accelerating the transition towards a sustainable lifestyle and better energy management.

1.6.4 Greenhouse gas emissions and environmental tax revenue (2008)



**Data for China and India refer to the period 1990-2007 and do not include other greenhouse gases.*
Sources: UNFCCC, World Bank
Data collected and collated for the Robert Schuman Foundation, © FRS



Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

A reduction in greenhouse gases is one of the EU's objectives: its Member States are committed to reducing their emissions by 20% compared to 1990 between now and 2020. This objective has already been reached by some countries, such as Latvia or Poland. Others have not succeeded in controlling their emissions, but on average the EU has already reduced them by 11%. Nonetheless it is still the world's second biggest polluter, behind the United States, where emissions have increased.

In addition to the objectives set out in the Kyoto protocol, European commitments were made independently of any international agreement. Emerging countries, for which no objective was set in order to avoid hampering their growth, have however now become major polluters, China being a prime example. The Copenhagen conference tried to set the international discussion on climate change on a new footing, especially by involving emerging countries stronger than before. Yet, the conference turned out to be a failure, particularly for the EU which had initially presented itself as the model student in the fight against climate change.

In addition to the transition to renewable energies, incentivising taxation has been introduced in most countries in order to reduce emissions. Thus, in Denmark environmental taxes represent almost 6% of total tax revenue.

1.7 Scarcity of Resources

Cutting edge industries (micro-electronics, nanotechnologies, etc.) are increasingly using rare materials: molybdenum and antimony are used in semi-conductors, lithium is used in batteries, platinum and palladium are used in catalysis, etc.

1.7.1 Evolution in the price of oil, gold and platinum (2005-2010)

Sources: US Energy Information Administration, World Gold Council, Platinum today
Data collected and collated for the Robert Schuman Foundation, © FRS

Demand for these materials is increasingly strong and is causing prices to rise. China alone represented over 50% of the world increase in the consumption of industrial metals between 2002 and 2005. Countries where these new "gold mines" are located run the risk of suffering from "Dutch disease", that is to say seeing their economy focused entirely on this sole source of wealth, to the detriment of other sectors. Speculation may also play on the volatility of prices.

The price of gold is also on the increase because it is still a "barbarous relic" as Keynes would say, a safe investment towards which investors head in case of crisis, to protect themselves from inflation and hoard their income. The current increase is in part due to the fear of a return to inflation at world level.

Oil is still the basis for industry, both in terms of energy generation, logistics and chemistry. Exhaustion of reserves naturally pushes prices up, but new fields are discovered every year, such as in Brazil, for example. However, it would appear that the " oil peak " could occur in the coming years. Transition to an oil-free economy will require a radical change in our societies and will also lead to major geopolitical tensions. It is estimated that the cost of oil could double between now and the end of the decade.

Between 1995 and 2010, the Brent barrel price was multiplied by more than three: that is the equivalent of the oil crises in the seventies, the consequences of which were long and painful. The economy is now less directly dependent on oil, but the consequences of this increase are not yet known.

The EU is aware of these major challenges to the sustainability of its industries. In 2008, the EU initiated a joint policy on access to raw materials. It is based mainly on better management of energy and recycling. The EU is naturally poor in raw materials and has to obtain supplies from South America and Africa. However, it is experiencing difficulty in setting up an efficient external policy to gain access to these resources, particularly up against emerging powers such as China and India.

2. Post-crisis European Union: between Homogeneity and Disparity

The economic crisis, which began with the bursting of the subprime mortgages bubble, is considered to be the most serious since the Great Depression of the thirties. Insolvency on the market for *subprimes*, a financial product intended to finance the property investments of American households, caused panic on the financial market, disrupting banking systems. The whole of the economy was affected, and particularly the construction and car sectors.

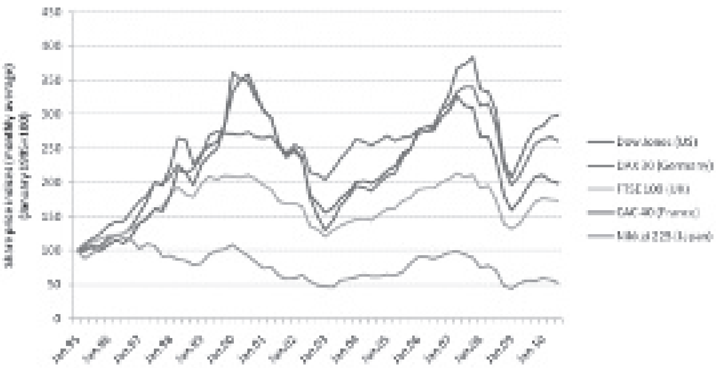
However, not every country was affected in the same way: banking systems were more or less vulnerable and mechanisms in place to cushion economic shocks were more or less firm. Some countries, with only relatively little involvement in international financial markets and with their own growth dynamic, as well as countries catching up in the EU and certain emerging countries such as Brazil, China or India, were relatively spared.

However, the crisis is entering a phase of high and persistent unemployment as well as major imbalances in public accounts which threaten the vitality of growth in the long term. Moreover, the difficulties encountered by advanced economies will also have an impact on all their commercial partners.

From the financial crisis to the crisis in public finances

2.1 Financial and Economic Crisis

2.1.1 Developments on stock markets (1995-2010)



Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

Stock markets are a good illustration of developments in the mentalities of economic players. Prices had started to rise again about three years after the bursting of the Internet bubble in 2000, which had marked the peak of investor optimism in the “new economy”. At the time, it looked as if a new period of growth had just begun, based on the dynamic of globalisation and on abundant liquidities.

The rise in the American federal funds rate gradually strangled this profusion of liquidities and caused the “*subprime* crisis” which led to a rapid fall in prices. The situation accelerated rapidly with the Lehman Brothers bank bankruptcy, with some fearing that this could cause a systemic bug. It was only after the implementation of recovery plans at the beginning of 2009 that prices rose again and are now stagnating.

The correlation should be noted between prices in the various countries, demonstrating the interdependency of economies and financial markets. Only the Japanese stock market is subject to less correlation with those in Western countries, due in particular to a financial system that has been in difficulty since the crisis in the nineties.

2.1.2 Investment and consumption in the euro area and international comparisons (2008-2010)

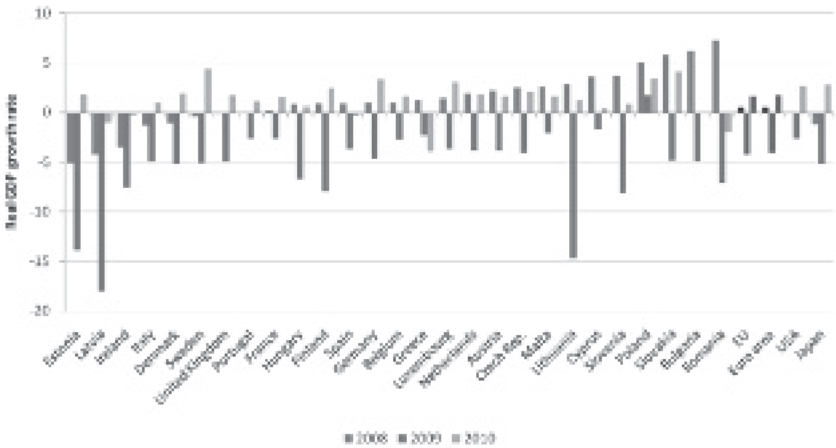
	Investment, as % of GDP (2010)	Change of the investment rate (2008-2010)	Final consumption expenditure of households, as % of GDP (2010)	Change in the consumption rate of households (2008-2010)	Final consumption expenditure of general government, as % of GDP (2010)	Change in the consumption rate of general government (2008-2010)
Austria	20,7	-6,3%	54,4	4,0%	20,0	7,0%
Belgium	20,8	-7,1%	52,1	0,4%	24,6	6,0%
Bulgaria	22,7	-32,4%	64,5	-2,9%	16,3	-1,8%
Cyprus	17,6	-24,5%	68,9	-0,9%	20,5	14,5%
Czech Rep.	22,0	-7,9%	49,8	0,2%	22,0	7,8%
Denmark	16,8	-19,2%	49,8	3,1%	29,8	11,6%
Estonia	20,9	-26,9%	50,1	-9,2%	21,1	8,2%
Finland	19,0	-12,0%	55,1	6,6%	25,2	12,0%
France	20,0	-8,3%	58,2	2,1%	24,8	6,9%
Germany	17,7	-6,8%	58,2	2,1%	20,0	10,5%
Greece	16,7	-13,0%	74,8	0,4%	18,0	2,3%
Hungary	21,4	0,0%	52,5	-3,0%	22,0	1,9%
Ireland	12,6	-43,0%	50,1	-1,2%	18,7	2,7%
Italy	18,9	-8,7%	60,2	1,5%	21,4	5,9%
Latvia	19,4	-33,8%	60,2	-4,3%	18,4	-6,1%
Lithuania	17,1	-32,7%	67,3	2,4%	20,8	7,8%
Luxembourg	17,3	-14,8%	33,3	3,1%	16,8	13,5%
Malta	16,0	-4,2%	63,2	0,3%	21,8	2,8%
Netherlands	17,0	-17,5%	45,4	0,0%	28,7	12,5%
Poland	21,5	-3,6%	60,5	-1,8%	18,5	0,0%
Portugal	18,4	-17,1%	66,9	-0,4%	21,6	9,6%
Romania	25,7	-19,4%	62,4	-3,9%	17,4	3,0%
Slovakia	21,1	-14,6%	59,5	4,2%	20,2	14,8%
Slovenia	23,9	-17,0%	55,6	4,9%	20,5	13,3%
Spain	21,8	-24,0%	57,6	0,7%	21,6	10,8%
Sweden	17,2	-14,4%	48,8	4,5%	27,7	6,5%
United Kingdom	14,2	-14,5%	64,8	0,9%	24,0	10,6%
Euro area	**19,0**	**-12,0%**	**57,6**	**1,8%**	**22,2**	**8,3%**
EU	**18,5**	**-12,3%**	**58,2**	**1,2%**	**22,6**	**8,7%**
United States	15,3	-16,4%	71,0	1,0%	17,2	3,6%
Japan	19,7	-15,5%	58,9	1,9%	19,7	6,5%
Source	Eurostat					

Data collected and collated for the Robert Schuman Foundation, © FRS

The credit crunch mainly impacted companies that were unable to borrow to finance their investments: private investment dropped by 12% within the EU, by 16% in the United States and by 15% in Japan over the course of just two years. In the short term companies were subject to serious cash flow problems; in the long term, the lack of investment in new machines and the absence of innovation will penalise their competitiveness. The effects of the crisis will therefore be felt long term, particularly in the most seriously affected countries, such as Ireland (-43%), Bulgaria (-32%) and Latvia (-34%).

On the other hand, consumption levels have resisted relatively well and public investment, particularly recovery plans, have compensated in part for the fall in private investments. This financing substitution has softened the effects of the crisis on the real economy.

2.1.3 Real GDP growth rates (2008, 2009 and 2010): international comparisons



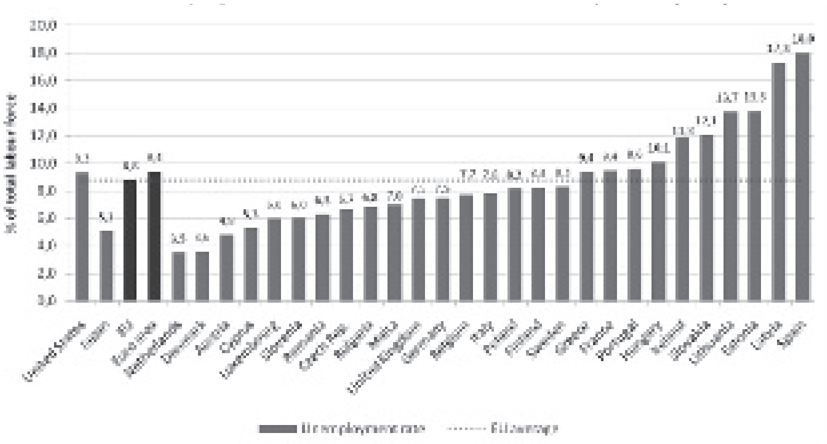
Sources: Eurostat, IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

Although the crisis began in 2007, its effects on the real economy were only fully felt in 2009. Growth slowed down as from 2008, particularly in Italy, Ireland and Denmark, but the most difficult year was 2009, with a 4.2% fall in the EU, (-2.6% in the United States and -5.2% in Japan).

2010 was a year for coming out of the crisis, except for certain countries such as Latvia, Greece or Ireland, which are having difficulty in returning to growth. But growth is still only sluggish and this situation is set to prevail even beyond 2011.

By the end of 2011 the EU should have regained its pre-crisis level (mid-2007), representing a loss of almost four years.

2.1.4 Unemployment rate in the EU and international comparisons (2009)



Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

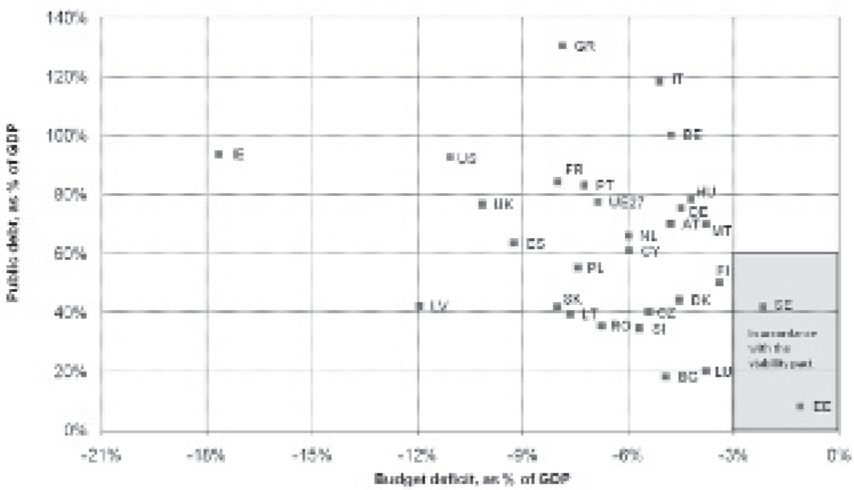
The most dramatic consequence of this economic slowdown is the rise in unemployment. The unemployment rate had been gradually diminishing during the first years of the new century and reached historically low levels prior to the crisis. With the crisis companies it had been gradually diminishing since th years 2000s, it reached a historically low level after the crisis. Companies faced with financial difficulties were forced to make massive redundancies. Some countries used partial unemployment mechanisms (France, Germany) enabling employees to return when the economic climate improved. This did not prevent the crisis from erasing in just a few months all the efforts made over previous years: thus the unemployment rate which in Spain had fallen from 14% in 2000 to 8% in 2007 reached the record rate of 20% in 2010. Forecasts are relatively pessimistic in terms of the ability of economies to absorb this rise in unemployment within a context of sluggish growth.

The most notable effect of the crisis was the divergence between unemployment rates: in 2007 rates varied between 4% and 9% on average, with a few extreme cases. In 2010 they varied from 4% to 20%.

Whereas in the United States an unemployed worker can move to another State and find a job, such mobility is almost unknown within the EU. Worker mobility does therefore not enable the balancing of unemployment rates, and re-absorption of unemployment must involve social policies at national level. This heterogeneity, which should be reabsorbed between now and 2013, is leading to social policies and budgetary pressures that are very different from one country to another, making European unity more fragile.

2.2 The Crisis of Public Finances and the Greek Crisis

2.2.1 Public deficit and debt in EU Member States (2010)



Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

In 2010 only two EU Member States still meet the Maastricht criteria (public deficit at 3% of GDP and public debt at 60%): Sweden and Estonia. These two countries were not even part of the euro area, a clear sign that the Stability and Growth Pact in its current shape and form has failed. Initially, the Pact was set up to avoid free riding , that is to say a country taking advantage of belonging to a joint monetary area to allow its deficits to rise without taking responsibility for the consequences. The crisis forced countries to implement massive recovery plans to bail out part of their banking system (Ireland) and above all deal with drastically reduced tax receipts. Both public debts and deficits increased considerably. As from 1998, Spain laid the ground for a sound budgetary management enabling it to reduce its public debt in twenty years, from 67% to 36% of GDP. The latter has now returned to its initial level (63%) and should reach 82% by 2015. For its part, the Irish debt has been multiplied by four, increasing from 25% in 2007 to an estimated 101% in 2011. Four years have been enough to wipe out twenty years of effort.

Members States have chosen to use austerity policies aimed at reducing public deficits by cutting spending (reduction in the salaries of public servants, reduction in subsidies) and controlling public debt. The countries in the greatest difficulties are Spain, Ireland, Latvia and the United Kingdom. Belgium and Italy have had large scale public debts for many years, which makes their growth fragile but poses no threat to the credibility of their banking system. This is not the case in either Ireland or Greece.

2.2.2 Deterioration in public finances (2008-2011)

	Public debt as % of GDP (1998)	Public debt as % of GDP (2008)	Public debt as % of GDP (2009)	Public debt as % of GDP (2010)	Public debt as % of GDP (2011)	Change between 1998 and 2008	Estimate of the change between 2008 and 2011
Austria	64,8	62,4	67,1	70,0	72,4	-3,7%	16,0%
Belgium	117,1	89,7	96,8	100,2	103,1	-23,4%	15,0%
Bulgaria	69,9***	16,1	16,1	18,2	21,1	-77,1%	31,2%
Cyprus	51,2	48,4	56,2	60,8	64,1	-5,4%	32,4%
Czech Rep.	15,0	30,0	35,3	40,1	44,4	99,4%	48,3%
Denmark	72,4	42,3	41,4	44,2	46,7	-41,6%	10,6%
Estonia	5,5	4,6	7,1	8,1	7,8	-15,9%	68,9%
Finland	48,6	34,7	43,9	50,0	52,2	-28,6%	50,6%
France	59,4	67,5	78,1	84,2	87,6	13,6%	29,7%
Germany	60,3	66,3	73,5	75,3	76,5	10,0%	15,3%
Greece	96,6	99,2	115,2	130,2	139,3	2,7%	40,5%
Hungary	58,9	72,9	78,3	78,4	78,8	23,6%	8,1%
Ireland	53,6	44,4	65,5	93,6	101,7	-17,3%	129,2%
Italy	114,9	106,1	115,8	118,4	119,7	-7,7%	12,8%
Latvia	12,2*	17,1	32,8	42,2	49,0	39,8%	186,7%
Lithuania	23,7**	15,6	29,5	39,5	42,3	-34,1%	170,5%
Luxembourg	7,1	13,7	16,5	20,1	22,9	92,7%	67,6%
Malta	53,4	63,1	68,7	70,0	70,9	18,2%	12,3%
Netherlands	65,7	58,2	61,8	66,0	69,4	-11,4%	19,2%
Poland	38,9	47,1	50,9	55,2	57,4	21,1%	21,8%
Portugal	50,4	65,4	76,3	83,1	87,1	29,7%	33,3%
Romania	22,4***	21,3	29,9	35,5	37,7	-5,0%	77,0%
Slovakia	34,5	27,7	35,7	41,8	44,0	-19,8%	58,9%
Slovenia	21,8	22,5	29,4	34,5	37,2	3,1%	65,5%
Spain	64,1	39,7	53,1	63,5	70,2	-38,1%	76,8%
Sweden	69,9	37,6	41,6	41,7	41,3	-46,2%	9,9%
United Kingdom	46,3	52,1	68,5	76,7	81,9	12,5%	57,4%
Euro area	**72,9**	**69,5**	**79,0**	**84,1**	**87,0**	**-4,6%**	**25,1%**
EU	**66,6**	**62,3**	**72,1**	**77,5**	**80,6**	**-6,4%**	**29,3%**
United States	64,5	71,1	84,3	92,7	99,3	10,3%	39,6%
Japan	120,1	194,7	217,6	225,9	234,1	62,1%	20,2%
China	11,4	16,8	18,6	19,1	18,9	47,4%	12,2%
India	65,4	72,6	74,2	71,8	71,4	10,9%	-1,6%
Russia	99,0*	7,8	10,9	11,1	12,9	-92,1%	63,8%
Brazil	66,6**	64,1	68,9	66,8	66,6	-3,9%	3,9%
Canada	95,2	69,8	81,6	81,7	80,5	-26,7%	15,4%
	*1999, **2000, ***2001						
Source				IMF			

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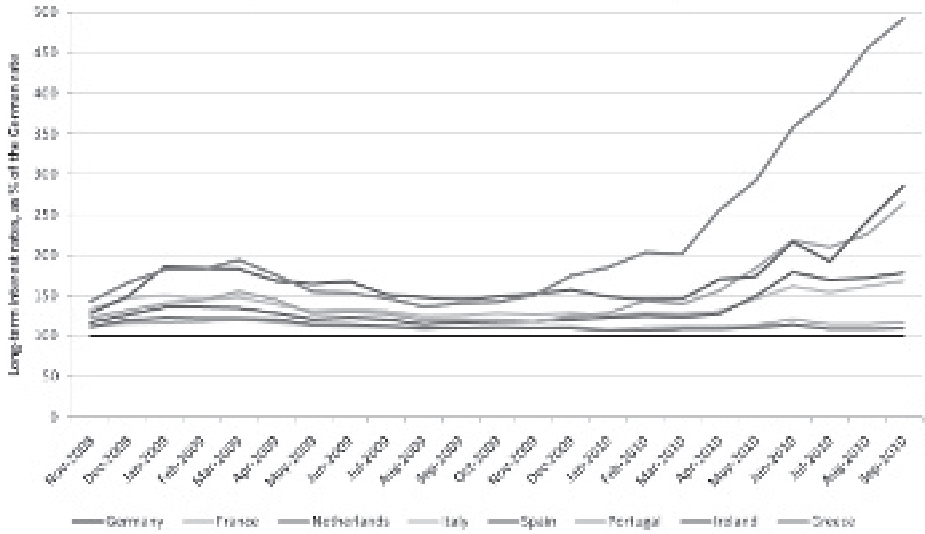
The deterioration in public finances is common to all developed economies, particularly Japan and the United States. The Japanese debt is however held by its residents, which makes it a domestic problem with very little effect on exchange rates or the financing capacity of businesses. The American debt still benefits from the privilege conferred upon it by the international currency status of the dollar, that is the ability to get into debt without suffering the consequences. Such high degrees of debt will oblige governments to review their modus vivendi and challenge the very foundations of the welfare state. It will also weigh on growth in the long term. The EU will doubtless be the most severely affected by this deterioration because its social model is highly developed.

On the other hand, there has not been any impact on public finances in China, India or Russia since the crisis has affected these countries less. This situation is increasingly putting them in the position of major creditors of advanced economies.

2.2.3 Divergence in market interest rates in the euro area (2008-2010)



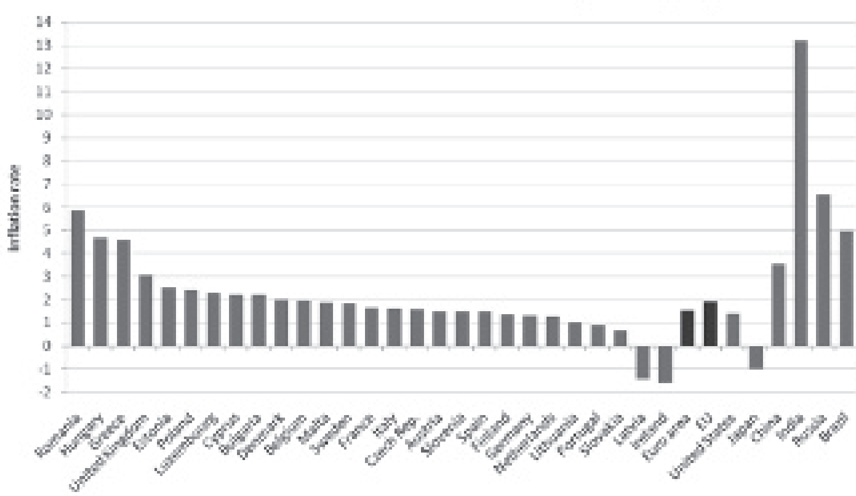
Source: OECD
Data collected and collated for the Robert Schuman Foundation, © FRS

The deterioration in public finances has consequences on States' ability to borrow on the international markets. Investors who are seeking to limit risks are taking refuge in "safe values" (Germany, the Netherlands, France, the United States) ratcheting up lending rates for the most fragile economies (Greece, Ireland, Portugal) to very high levels.

It is a vicious circle: a difficult economic situation increases lending rates, which further aggravates deficits. The strong divergence of interest rates weighs heavily on the credibility of the euro area, making exchange rates extremely volatile. Also, the nervousness of investors is contributing to fears over panic and contagion to other banking and financial systems. The European Financial Stability Facility (EFSF) was set up to enable countries in difficulty to borrow at reasonable rates. By lending their signature to the most fragile countries, stronger countries take on some of the risks that private investors hesitate to take. These loans, together with aid from the IMF for Greece, are subject to conditions regarding the implementation of austerity policies, aimed at regaining competitiveness by means of a real reduction in salaries.

This divergence in interest rates is not so much the effect of speculators as the consequence of the inability of the euro area to manage highly disparate post-crisis situations. It is by no means certain that the EFSF, by carrying over risks to the stronger countries, is not merely delaying the time when real crisis management mechanisms will have to be implemented within the euro area and the EU.

2.2.4 Inflation in the EU and international comparisons (2010)



Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

The rapid fall in the cost of raw materials in 2009, followed by the deflationist effects of the crisis have led to a slow-down in inflation in Western countries. The difficulties encountered by the banking system have resulted in a contraction of credit, reducing the ability of businesses to finance their activity, forcing them to reduce both salaries and prices in order to remain competitive. It is in order to counterbalance this deflationist mechanism, similar to the one seen in Japan since the end of the nineties, that the main central banks have reduced their rates to levels close to zero, in order to retain a positive real interest rate. The injection of liquidity into the economy has not had any notable effect on inflation for the time being.

The situation is very different for China or India, which are in an "over-heated" position, with very high inflation rates. China has announced that it will undertake a more restrictive monetary policy in 2011, in order to limit risks linked to inflation: this should have major consequences on the dynamism of the Chinese economy and slow down world recovery.

Portrait of the post-crisis European Union

2.3 Employment

2.3.1 Employment structure in the EU (2009)

Employment (2009)	Agriculture	Industry	Construction	Wholesale and retail trade; hotels and restaurants; transport	Financial intermediation and real estate	Public administration and community services; activities of households
Austria	5,2%	16,6%	6,6%	27,8%	15,1%	28,7%
Belgium	1,8%	13,4%	5,9%	23,6%	20,9%	34,4%
Bulgaria	19,9%	20,6%	6,5%	25,8%	7,4%	19,8%
Cyprus	4,6%	10,2%	9,5%	34,2%	11,1%	30,3%
Czech Rep.	3,5%	28,0%	9,2%	24,8%	13,3%	21,2%
Denmark	2,8%	13,3%	6,2%	26,1%	16,0%	35,7%
Estonia	4,1%	22,4%	8,7%	26,2%	10,7%	27,9%
Finland	4,9%	16,9%	7,2%	23,3%	13,9%	33,8%
France*	3,2%	13,1%	7,0%	23,1%	18,8%	34,9%
Germany	2,1%	19,4%	5,5%	25,0%	17,3%	30,8%
Greece	11,5%	11,5%	7,7%	32,3%	10,1%	26,8%
Hungary	7,1%	23,1%	7,5%	25,1%	10,4%	26,8%
Ireland	5,3%	13,3%	8,9%	27,1%	14,7%	30,8%
Italy	3,9%	20,0%	7,7%	24,4%	14,9%	29,0%
Latvia	8,6%	15,4%	7,9%	30,9%	11,9%	25,3%
Lithuania	9,3%	18,4%	8,8%	27,2%	8,7%	27,6%
Luxembourg	1,4%	10,5%	10,9%	25,7%	28,9%	22,7%
Malta	2,5%	19,9%	6,7%	31,9%	10,6%	28,4%
Netherlands	2,8%	11,0%	5,7%	25,6%	21,4%	33,5%
Poland	13,9%	23,9%	7,5%	23,3%	8,8%	22,5%
Portugal	10,9%	17,2%	9,7%	26,0%	10,5%	25,7%
Romania	27,8%	23,3%	8,0%	20,2%	4,5%	16,3%
Slovakia	3,2%	23,5%	8,7%	30,2%	10,9%	23,4%
Slovenia	8,6%	23,7%	9,1%	22,5%	14,6%	21,4%
Spain	4,4%	14,2%	9,8%	29,2%	12,4%	30,0%
Sweden	2,1%	15,4%	6,4%	21,3%	15,9%	39,0%
United Kingdom	1,8%	10,4%	7,1%	29,6%	22,8%	35,2%
Euro area	**3,8%**	**16,5%**	**7,2%**	**25,6%**	**16,0%**	**31,0%**
EU	**5,6%**	**16,8%**	**7,2%**	**25,4%**	**15,4%**	**29,7%**
United States*	1,5%	12,7%	7,4%	26,2%	17,5%	34,7%
Japan**	5,0%	18,1%	8,4%	22,5%	4,3%	41,6%
*2008, **2007						
Source	Eurostat					

Data collected and collated for the Robert Schuman Foundation, © FRS

Depending on their resources, history and abilities, Member States have adopted different economic models. Thus, Luxembourg and the United Kingdom are focused on financial activities, whilst Germany has a very large industrial sector.

These differences can reflect a different evolution towards post-industrial societies; countries such as Poland and Romania still have economies that are highly focused on agriculture or industry, whereas France is increasingly focusing on services.

2.3.2 Labour market

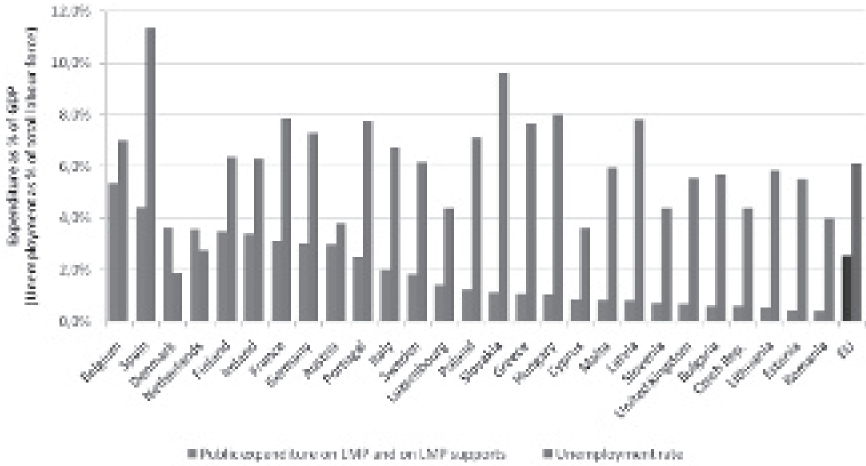
	Employment rate	Change in the employment rate (1999/*2000-2009)	Employment rate of men	Employment rate of women	Ratio between male/female employment rates	Unemployment rate of persons under 25	Employment rate of seniors (55-64 years)	Average exit age from the labour market (2008, * 2007 or before)
Austria	71,6	4,4%	76,9	66,4	86,3%	10	55,2	60,9*
Belgium	61,6	3,9%	67,2	56	83,3%	21,9	49,1	61,6*
Bulgaria	62,6	24,2%*	66,9	58,3	87,1%	16,2	55,6	64,1*
Cyprus	69,9	6,4%*	77,6	62,5	80,5%	14,1	64	63,5*
Czech Rep.	65,4	-0,3%	73,8	56,7	76,8%	16,6	59,4	60,6
Denmark	75,7	-0,4%	78,3	73,1	93,4%	11,2	66,6	61,3
Estonia	63,5	3,3%	64,1	63	98,3%	27,5	65,9	62,1
Finland	68,7	3,5%	69,5	67,9	97,7%	21,5	64,1	61,6*
France	64,2	5,4%	68,5	60,1	87,7%	23,5	53,4	59,3
Germany	70,9	8,7%	75,6	66,2	87,6%	10,4	65	61,7
Greece	61,2	9,5%	73,5	48,9	66,5%	25,8	51,7	61,4
Hungary	55,4	-0,4%	61,1	49,9	81,7%	26,5	46,2	59,8*
Ireland	61,8	-2,4%	66,3	57,4	86,6%	24,4	57,8	64,1*
Italy	57,5	9,1%	68,6	46,4	67,6%	25,3	47,8	60,8
Latvia	60,9	3,6%	61	60,9	99,8%	33,6	60,9	62,7
Lithuania	60,1	-2,6%	59,5	60,7	102,0%	29,2	59,7	59,9*
Luxembourg	65,2	5,7%	73,2	57	77,9%	16,5	52,8	59,4*
Malta	54,9	1,3%*	71,5	37,7	52,7%	14,4	38,2	59,8
Netherlands	77	7,4%	82,4	71,5	86,8%	7,7	64,6	63,2
Poland	59,3	3,0%	66,1	52,8	79,9%	20,6	46	59,3*
Portugal	66,3	-1,6%	71,1	61,6	86,6%	20	58,3	62,6*
Romania	58,6	-7,3%	65,2	52	79,8%	20,8	51,6	64,3*
Slovakia	60,2	3,6%	67,6	52,8	78,1%	27,3	53,8	58,7*
Slovenia	67,5	8,5%	71	63,8	89,9%	13,6	51,7	59,8*
Spain	59,8	11,2%	66,6	52,8	79,3%	37,8	52,3	62,6
Sweden	72,2	0,7%	74,2	70,2	94,6%	25	74,7	63,8
United Kingdom	69,9	-1,5%	74,8	65	86,9%	19,1	65,1	63,1
Euro area	**64,6**	**4,5%**	**70,7**	**58,6**	**82,9%**	**n/a**	**56,1**	**61,3**
EU	**64,7**	**7,1%**	**71,2**	**58,3**	**81,9%**	**19,7**	**56,5**	**61,4**
United States	67,6	-8,5%	72	63,4	88,1%	n/a	n/a	n/a
Japan	70	1,6%	80,2	59,8	74,6%	n/a	n/a	n/a
Source	Eurostat							

Data collected and collated for the Robert Schuman Foundation, © FRS

The employment rate, which is the proportion of people aged 15 to 64 years in employment, is the reverse image of the unemployment rate for the population of a country. It depends on the ability of each labour market to employ the available active population. Countries are experiencing very different situations. Thus, some countries (Austria, Germany, the Netherlands) combine a low youth unemployment rate (jobs carried out in parallel to study) with high senior employment rates, thus achieving an overall high employment rate. Others, such as France, are in the reverse situation, which is penalising the whole of the economy and the social system. The average exit age from the labour market also varies a great deal from one country to another and determines in part the type of pension system.

Every labour market has its own specific characteristics, which explains, irrespective of the current economic climate, variations in the employment rate. Thus, in Scandinavian and Germanic countries, particularly the Netherlands, part time working is highly developed and results in greater flexibility. On the other hand, in other poorer countries workers have two jobs (Poland, Slovenia). The number of fixed-term contracts, which is an indicator of the precariousness of work, also varies a great deal, from Lithuania and Romania - where the number of fixed-term contracts is very low - through to Poland and Spain, where it is higher. This can be explained by the relative sensitivity of labour markets to the current economic climate.

2.3.3 Public expenditure on labour market policies (LMP) and on labour market policy supports (2008)



Sources: IMF, Eurostat and author's calculations
Data collected and collated for the Robert Schuman Foundation, © FRS

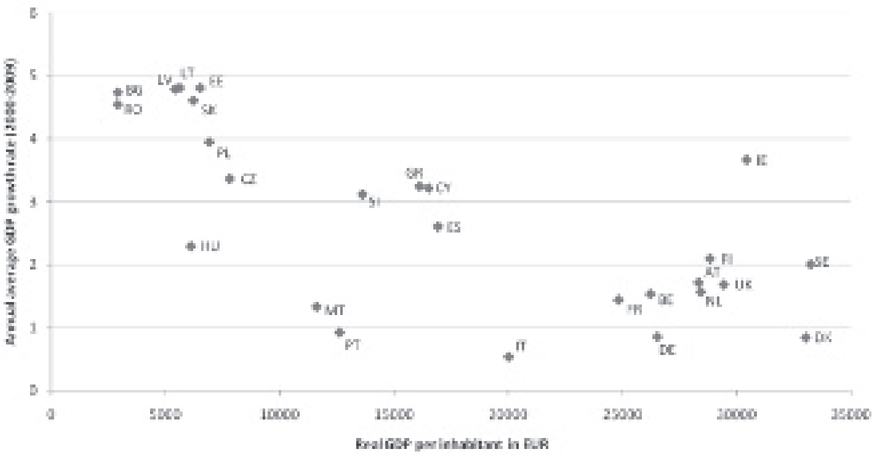
Public spending on the labour market encompasses all structural mechanisms put in place by States to encourage those who are unemployed to find a job. The graph shows that a high unemployment rate does not necessarily imply high levels of aid. Each country has built up its own labour market policy according to its history, its budgetary means and its culture. Thus, Scandinavian countries, where the unemployment rate is low, have an active policy of partnering workers in the form of secured professional career paths. New EU entrants have a weak policy and relatively high unemployment rates.

The subprime crisis has led to a major increase in unemployment, resulting in an increase in social spending. Spain, whose unemployment rate is the highest in the EU, also has the highest spending rates.

Such disparity between situations can also be explained by the inefficiency of certain economic policies. The three Nobel Prize winners for Economics in 2010 (Diamond, Mortensen and Pissarides) have shown that the higher the unemployment benefits, the higher the unemployment rate, and the longer it takes for people to find work again.

2.4 Purchasing Power and Living Standard

2.4.1 GDP per inhabitant and average annual growth rate of GDP (2000-2009)



Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

Two types of country can be distinguished: developed countries such as France or Germany, where GDP per inhabitant is about € 35 000 per year and per inhabitant, but where growth is slow (about 1%), and countries that are catching up, such as Romania or Lithuania, where GDP per inhabitant is low, between € 10 000 and € 25 000 per year and per inhabitant, but where the growth rate is sustained (about 3-4%).

This table illustrates a two-speed Europe, with mature countries which are progressing slowly, on the one hand, and countries that are catching up, and rapidly progressing, on the other. However, there are nuances to this attractive image. For example, some countries are somewhere between the two: both Spain and Ireland have completed their catch-up phase, with rapid growth rates, but they have now been hit very hard by the crisis; Portugal is also experiencing difficulties in continuing with its catching-up phase.

However, this duality within the common market also acts as a good dynamic: it opens up new markets to companies in "saturated" countries and enables cross-over trade, encouraging European unity.

2.4.2 Mean income, median income and salary differentials between men and women

	Mean income[1] (2009, *2008)	Median income[2] (2009, *2008)	Gap between mean income and median income	Gender pay gap[3] (2008, *2007)
Austria	21495	19411	9,7%	25,5%
Belgium	19151	17506	8,6%	9,0%
Bulgaria	5812*	4723*	18,7%	13,6%
Cyprus	21789	19178	12,0%	21,6%
Czech Rep.	11468	10155	11,4%	26,2%
Denmark	19035*	17513*	8,0%	17,1%
Estonia	9213	7944	13,8%	30,9%*
Finland	18754	16946	9,6%	20,0%
France	21631	18226	15,7%	17,9%
Germany	20656	18100	12,4%	23,2%
Greece	14081*	11996*	14,8%	22,0%
Hungary	7799	7097	9,0%	17,5%
Ireland	21620*	18590*	14,0%	17,1%*
Italy	17548*	15469*	11,8%	4,9%
Latvia	9145	7534	17,6%	13,4%
Lithuania	9147	7497	18,0%	21,6%
Luxembourg	31320	27054	13,6%	12,4%
Malta	14417	12956	10,1%	9,2%
Netherlands	22325	19774	11,4%	19,6%
Poland	8748	7483	14,5%	9,8%
Portugal	12091	9684	19,9%	9,2%
Romania	4266	3678	13,8%	9,0%
Slovakia	8775	7858	10,4%	20,9%
Slovenia	15586	14501	7,0%	8,5%
Spain	15833	14128	10,8%	16,1%
Sweden	20028	18749	6,4%	17,1%
United Kingdom	23247*	19449*	16,3%	21,4%
Source	Eurostat			

[1] Mean equivalised net income per inhabitant, expressed in PPS, for persons aged 16 or above.

[2] Median equivalised net income per inhabitant, expressed in PPS, for persons aged 16 or above.

[3] The gender pay gap represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of gross hourly earnings of male paid employees.

Data collected and collated for the Robert Schuman Foundation, © FRS

The gap between the mean income and the median income allows an analysis of the inequalities within a given society. In the most egalitarian societies, such as Norway and Sweden, the gap is almost equal to zero.

However, we may also observe that the mean income is systematically higher than the median income, meaning that there are a few very rich people and a lot of poor people. This is particularly the case in Estonia, Latvia, Lithuania, the United Kingdom, France and Bulgaria.

Another case of inequality is demonstrated by the fact that women on average earn 10 to 15% less than men. The most "virtuous" countries in this regard are the Scandinavian countries (Sweden, Finland, Norway and Denmark) as well as Hungary and Slovenia; the least "virtuous" are Portugal, Bulgaria and Latvia. The EU supports policies in favour of male/female equality.[1] Thus implementation of the Europe 2020 strategy should aim to reduce these inequalities.

1. See Strategy for equality between women and men 2010 – 2015, SEC(2010) 1°79, European Commission.

2.4.3 Income inequality and poverty

	Income inequality		Poverty		
	Gini coefficient[1] (2009, *2008)	Ratio between highest and lowest quintile[2] (2009, *2008)	At-risk-of-poverty rate[3] (2009, *2008)	In-work at-risk-of-poverty rate[4] (2009, *2008)	Unemployment trap[5] (2008, *2007)
Austria	25,7	3,7	12,0	5,9	68,0
Belgium	26,4	3,9	14,7*	4,6	85,0
Bulgaria	35,9*	6,5*	21,4*	7,5*	80,0
Cyprus	28,4	4,2	16,2*	7,0	61*
Czech Rep.	25,1	3,5	9*	3,2	68,0
Denmark	25,1*	3,6*	11,8*	5,1*	89,0
Estonia	31,4	5,0	19,7	8,1	63,0
Finland	25,9	3,7	13,8	3,7	74,0
France	29,8	4,4	13,3*	6,7	78,0
Germany	29,1	4,5	15,2*	6,8	74,0
Greece	33,4*	5,9*	20,1*	14,3*	61,0
Hungary	24,7	3,5	12,4	6,2	80,0
Ireland	29,9*	4,4*	15,5*	6,5*	74,0
Italy	31*	5,1*	18,7*	8,9*	80,0
Latvia	37,4	7,3	25,7	11,2	85,0
Lithuania	35,5	6,3	20,6	10,4	81,0
Luxembourg	29,2	4,3	13,4*	10,0	86,0
Malta	27,8	4,1	14,6*	6,0	58,0
Netherlands	27,2	4,0	10,5*	5,0	82,0
Poland	31,4	5,0	16,9*	11,1	75,0
Portugal	35,4	6,0	18,5*	10,3	82,0
Romania	34,9	6,7	23,4*	17,9	70,9*
Slovakia	24,8	3,6	11,0	5,2	44,0
Slovenia	22,7	3,2	12,3*	4,8	83,0
Spain	32,3	6,0	19,6*	11,4	80,0
Sweden	24,8	3,7	12,2*	6,9	79,0
United Kingdom	34*	5,6*	18,8*	8,6*	65,0
Euro area	**29,8***	**4,7***	**n/a**	**n/a**	**77,0**
EU	**30,5***	**4,9***	**16,5***	**8,6***	**74,9***
United States	40,8 (2000)	n/a	n/a	n/a	71,0
Japan	24,9 (1993)	n/a	n/a	n/a	58,0
Canada	32,6 (2000)	n/a	n/a	n/a	n/a
China	41,5 (2005)	8,4 (2005)	n/a	n/a	n/a
India	36,8 (2005)	5,6 (2005)	n/a	n/a	n/a
Russia	43,7 (2007)	9 (2007)	n/a	n/a	n/a
Brazil	55 (2007)	19,6 (2007)	n/a	n/a	n/a
Sources	Eurostat, UNDP, World Bank		Eurostat		

[1] The Gini coefficient measures income inequality on a scale from 0 to 100, 0 indicating total equality and 100 total inequality.
[2] Refers to the ratio between the cumulated income of the richest 20% of households and the poorest 20% of households.
[3] The share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).
[4] The share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).
[5] Eurostat defines the "unemployment trap" as the percentage of gross earnings which is "taxed away" through higher tax and social security contributions and the withdrawal of unemployment and other benefits when an unemployed person returns to employment. This structural indicator covers single persons without children earning, when in work, 67% of the average earnings.

Data collected and collated for the Robert Schuman Foundation, © FRS

Although growth is an important factor in shared well-being, the ability to fairly distribute the benefits of growth is also a factor. Overall, the EU is still a place where inequalities are average. The Gini coefficient measures inequality of income, with 0 indicating perfect equality and 100 a society that is absolutely unequal. Redistribution mechanisms (income tax and assistance to the most impoverished) are used to iron out inequalities, unlike what happens in some countries such as Russia, Brazil and China. This general view masks realties that are actually very different, from Scandinavia and Germanic countries which are amongst the most egalitarian in the world down to the United Kingdom and Latvia which are amongst the most inegalitarian in Europe. In spite of this, no European country is more inegalitarian than the United States.

The ratio between the top and bottom fifths of incomes confirms this impression. It shows that in France, for example, the richest people earn on average 4.4 times more than the poorest.

After having been reduced a great deal over the past few decades, poverty is now on the increase as a consequence of the economic crisis. The poverty rate, which measures the share of the population without the financial means by which to live decently, is about 8.6% in the EU. It is striking to note that in countries left most fragile by the crisis, this rate is particularly high: Spain (11.4%) and Greece (14.3%).

Finally, the "unemployment trap" measures the share of gross salary that is absorbed by the increase in contributions and the loss of social assistance when someone who is unemployed finds a job: the higher this rate, the less an unemployed person will be financially motivated to find job. Clearly, the EU has not yet found an incentivising rate.

2.5 Fiscal competition between Member States

2.5.1 Taxation in EU Member States: implicit tax rate on consumption, capital and labour and tax rate on low wage earners

	Top statutory tax rate on personal income (2010)	Implicit tax rate on consumption (2008, *2007)	Implicit tax rate on capital (2008, *2007)	Implicit tax rate on labour (2008, *2007)	Tax rate on low wage earners		
					Tax wedge on labour costs (2008, *2007)	Low wage trap (2008, *2007)[1]	
						Single person without children, 33% of Aw	One-earner married couple, at 33% of Aw, with two children
Austria	50,0	22,1	27,3	41,3	44,4	41,0	65
Belgium	53,7	21,2	32,7	42,6	49,8	59,0	48
Bulgaria	10,0	26,4	16,9*	27,6	35,1	22,0	22
Cyprus	30,0	20,6	36,4	24,5	11,9*	6,0*	115,0*
Czech Rep.	15,0	21,1	21,5	39,5	40,1	41,0	45
Denmark	51,5	32,4	43,1	36,4	38,2	79,0	95
Estonia	21,0	20,9	10,7	33,7	38,2	23,0	3
Finland	48,6	26,0	28,1	41,3	38,5	56,0	100
France	45,8	19,1	38,8	41,4	45,4	47,0	60
Germany	47,5	19,8	23,1	39,2	46,6	56,0	84
Greece	45,0	15,4*	15,9*	35,5*	36,3	24,0	18
Hungary	40,6	26,9	19,2	42,4	46,7	39,0	54
Ireland	41,0	22,9	15,7	24,6	20,2	50,0	88
Italy	45,2	16,4	35,3	42,8	43,0	37,0	-5
Latvia	26,0	17,5	16,3	28,2	39,9	32,0	50
Lithuania	15,0	17,5	12,4	33,0	40,3	27,0	79
Luxembourg	39,0	27,1	n/a	31,5	28,5	52,0	107
Malta	35,0	20,0	n/a	20,2	17,9	19,0	27
Netherlands	52,0	26,7	17,2	35,4	33,6	84,0	116
Poland	32,0	21,0	22,5	32,8	33,4	62,0	53
Portugal	42,0	19,1	38,6	29,6	32,4	23,0	60
Romania	16,0	17,7	n/a	29,5	40,9	30,3*	23,9*
Slovakia	19,0	18,4	16,7	33,5	36,0	25,0	25
Slovenia	41,0	23,9	21,6	35,7	40,3	53,0	68
Spain	43,0	14,1	32,8	30,5	34,0	21,0	14
Sweden	56,4	28,4	27,9	42,1	42,5	45,0	79
United Kingdom	50,0	17,6	45,9	26,1	29,7	52,0	84
EU	**n/a**	**n/a**	**n/a**	**n/a**	**39,9**	**49,7***	**63,1***
Euro area	**n/a**	**n/a**	**n/a**	**n/a**	**42,8**	**48,4**	**58,37**
Source	Eurostat						

[1] The "low wage trap" measures the percentage of gross earnings which is "taxed away" through higher tax and social security contributions when gross earnings increase from 33% to 67% of the mean income.

Data collected and collated for the Robert Schuman Foundation, © FRS

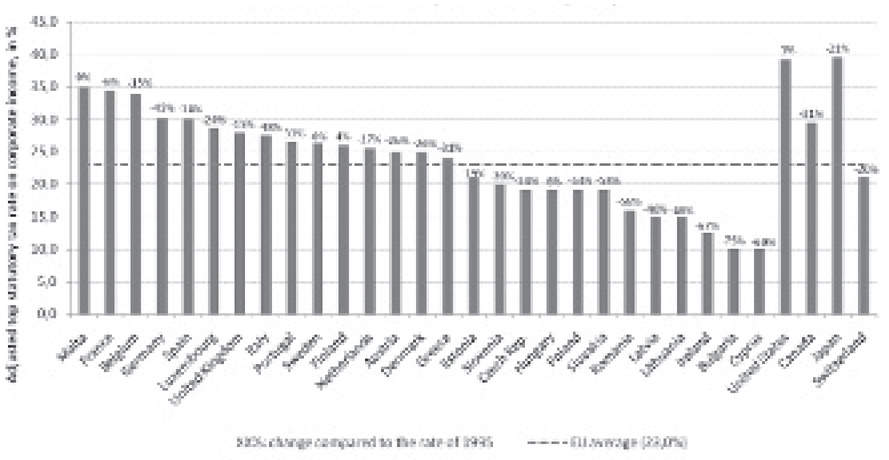
Member States are in competition with each other to attract foreign investment. The quality of infrastructures, human resource skills, living standards and communications are amongst the decisive criteria in investment choices. Taxation is also an important aspect. Thus Ireland implemented an aggressive policy of tax reduction on capital and labour in order to attract foreign companies, carrying fiscal pressure over onto consumers. This choice enabled the country to move from an agricultural economy to an economy based on new technologies within the space of just a few decades.

Whereas all countries need similar tax income, each develops its own fiscal strategy, in line with its economic strategy. At a macroeconomic level, this allows for a great variety of offers for companies (some preferring to set up in France, others in Central or Eastern Europe in order to benefit from low labour costs, etc.) and thus to attract a larger share of foreign investments.

The tax effort varies according to the salary levels of citizens: the poorest are usually those who pay the least taxes. However, when salaries increase so do taxation rates, whilst social aid and allowances are reduced. The result is greater or smaller absorption of the salary increase. The greater this absorption rate,the less an individual is encouraged to find a job that gives him a higher salary: this is known as the "low wage trap".

Couples with children are the most sensitive to this factor. Countries such as Cyprus, Finland and Luxembourg are even counterproductive since an increase in salary results in a fall in actual income.

2.5.2 Tax rate on corporate income (2010)



Sources: Eurostat, OECD
Data collected and collated for the Robert Schuman Foundation, © FRS

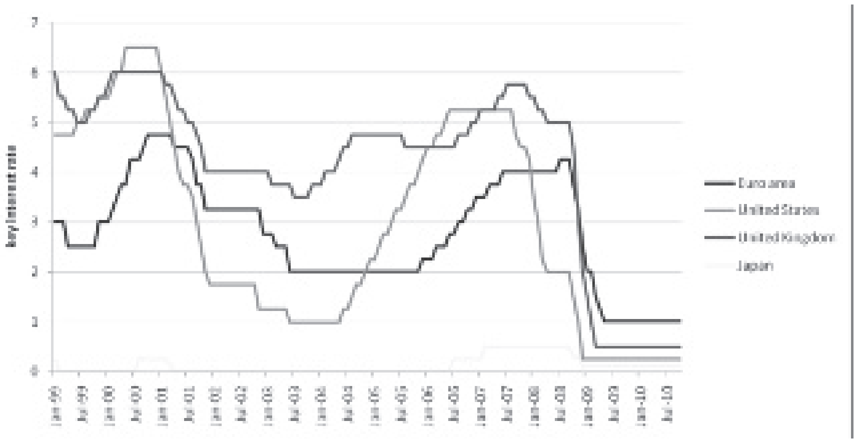
The lack of harmonisation between tax systems also creates interferences between countries: some do not reap the tax benefits from the investments they make, and some companies create complex legal montages in order to escape taxation. The tax question is also a question of social justice, which takes on its full meaning when a crisis occurs: thus Ireland is bringing the increase in tax pressure due to the crisis and the deterioration of public finances to bear on its citizens and consumers rather than on companies. Better coordination of fiscal policies is therefore desirable.

2.6 Measures Implemented to Exit the Crisis

The *subprime* crisis was quickly considered as one of the most serious for decades and all resources were called on in order to soften its consequences. Economic policies were supported by budgetary reviews and a slackening of monetary policies: this is what is known as a *policy mix*. Good coordination between governments and the central banks in the main countries served to optimise the response .

Recovery plans were implemented in 2010 and their effects are now fizzling out. Some countries, such as the United States for example, are envisaging a second recovery plan. These policies have however weakened public budgets and reduced margins for manoeuvre to the point that an expansionist monetary policy now remains the sole economic policy tool available.

2.6.1 The ECB's key interest rate, compared to that of other central banks (1999-2010)

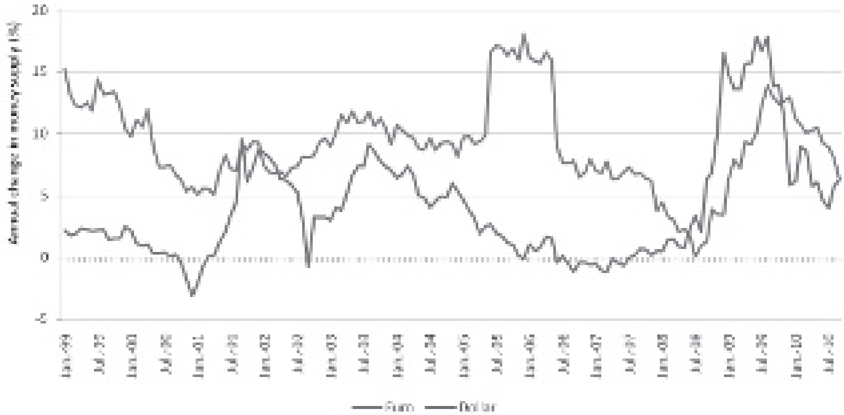


Sources: ECB, Fed, Bank of England, Bank of Japan
Data collected and collated for the Robert Schuman Foundation, © FRS

The *subprime* crisis led to a liquidity crisis in financial markets, blocking the refinancing capacity of banks and then the borrowing capacity of businesses and households. A relaxation and monetary facilities were decided on in order to avoid a blockage of financial flows and panic movements. This resulted in a rapid reduction in base rates by all central banks. Low rates support the economy but in the long term risk creating financial imbalances. Thus, the rapid reduction in rates after the bursting of the Internet bubble led in turn to a property bubble, the consequences of which we are now suffering.

The difficulty is that rates are at historically low levels (the Bank of England is at its lowest rate since it was established in 1694) and the monetary instrument is losing its efficiency. Inflation remains low, actual rates are close to zero and there are now fears that this situation could lead to deflation.

2.6.2 Money supply change in the euro area and in other currency areas (1999-2010)



Sources: ECB, Fed
Data collected and collated for the Robert Schuman Foundation, © FRS

Low rates mean that banks can borrow more and thus create money. Developments in the financial markets and in complex products comparable to currency have made an evaluation of total money supply difficult: M1 corresponds to liquidities, notes and short term accounts, i.e. the money used on a daily basis.

The fall in rates has led to a very rapid increase in the creation of money. However, contrary to what one might believe based on economic theory, this has not caused inflation but rather greater instability of the financial system.

3. Shared Instruments: the European Union Budget and the Euro

Over the course of its successive Treaty reforms the EU introduced two additional economic policy instruments: a budget and a currency that is shared by all countries in the euro area. These instruments reflect the Member States' will for greater economic integration: to achieve this they have had to give up certain prerogatives relating to their sovereignty, such as the issue of currency, and commit to the way of virtuous cooperation. This increase in the power of the means available to the EU has resulted in greater stability both in monetary terms (controlled inflation, free circulation of capital) and in economic terms (free circulation of goods and people, regulation of the markets, competition policy).

This coordination has softened the effects of the crisis, but it is struggling to resist the divergences that are occurring between countries. An economic and monetary Union that is not supported by a political Union runs the risk of losing its credibility and disappearing. Discussions on the creation of economic governance, the European Parliament's will to increase the EU budget in a spirit of budgetary federalism, or even the implementation of shared diplomacy are objectives which are leading in the right direction. The stability of the euro should indeed be added to these. It is the speed at which these objectives are implemented that will determine their credibility in the eyes of the markets, at a time when the international monetary situation, particularly in Europe, is both nervous and volatile.

3.1 The Common Currency in the Euro Area

3.1.1 Euro exchange rate against the main currencies (1999-2010)

Sources: Banque de France, ECB
Data collected and collated for the Robert Schuman Foundation, © FRS

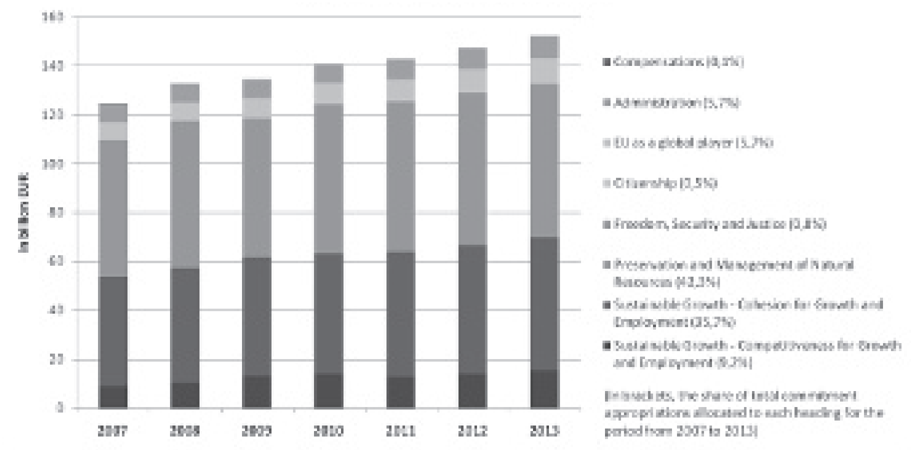
The euro is the logical continuation of the Economic and Monetary Union (EMU) set up after the collapse of the monetary system created by the Bretton Woods agreements. It was the first time in history that sovereign countries had freely decided to unite their currencies and, although many doubted their ability to do so, what followed shows that the challenge was met. During the first ten years of the euro's existence, its exchange rate has varied a great deal, between -30% and +35% of its initial value against the main international currencies. At the very beginning doubts regarding its capacity to exist brought its value down but the constant and rigorous monetary policy of the European Central Bank (ECB), which inherited the reputation of the *Bundesbank*, convinced the markets of the solidity of the European currency. Little by little the euro has established itself as an international currency, alongside the dollar.

But a multi-currency world is fundamentally unstable. Since the start of the *subprime* crisis, euro/dollar parity has varied according to what investors think they know about the health of each of the two economies. They rush alternately for the dollar and then for the euro, thus creating a great deal of volatility which destabilises export industries. Under-evaluation of the yuan (renminbi) also penalises exports from Western countries, where growth has not yet picked up again. The implementation of a European diplomatic service would enable the EU to take part in negotiations on the international monetary system.

3.2 The Community Budget

The community budget is the sole resource available to the EU to carry out its policies. Exceptional circumstances aside, it does not have the jurisdiction to levy taxes or to issue bonds; it is therefore dependent in large part on the amounts that Member States commit to procuring for it.

3.2.1 Financial framework 2007-2013



Share of the budget in the EU's Gross National Income, in %							
2007	2008	2009	2010	2011	2012	2013	2007-2013
1,02%	1,08%	1,16%	1,18%	1,16%	1,15%	1,14%	1,13%

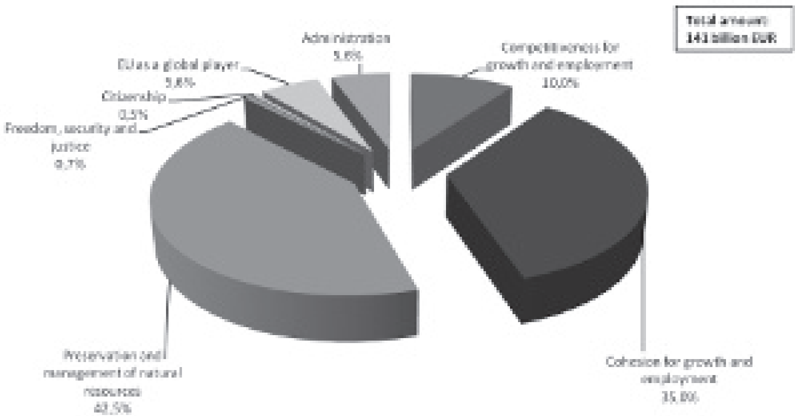
Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

The EU budget represents barely 1% of its gross revenue, a figure that is derisory compared to the United States, for example, where the federal budget represents 31.9% of GDP. The EU therefore has limited financial resources at its disposal and its role is often necessarily limited to coordinating the action of the various countries.

The low community budget has consequences in terms of economic balance. The EU is not able to rescue any of its members affected by an asymmetric crisis, as is the case for Greece or Ireland, for example. There cannot be any stabilising mechanism similar to those that may exist in federal states, and this deficiency leaves the euro area extremely vulnerable to asymmetric shocks. The European Financial Stability Facility is a solution that prevents fragile countries from becoming the target of speculation, but it does not resolve their structural problems.

The 2007-2013 financial framework sets out the rough framework for the EU budget over this period. Commitment appropriations correspond to spending planned by the EU, but they do not necessarily match actual expenditure, known as payment appropriations.

3.2.2 Breakdown of the community budget by main headings (2010)

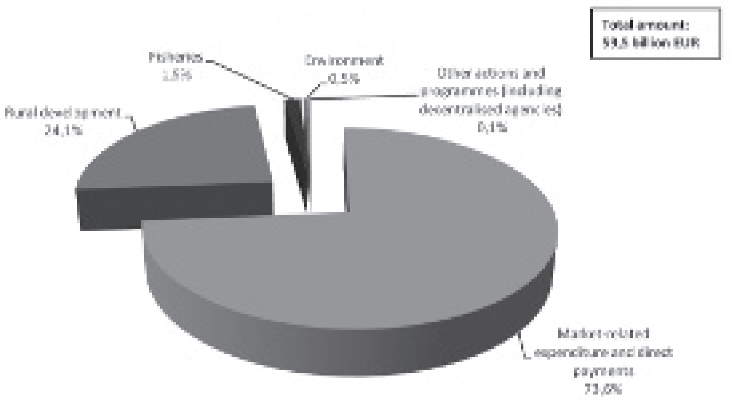


Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

Three sections can be distinguished. The preservation and management of natural resources, which corresponds approximately to the common agricultural policy (CAP), is still the top item. It is followed by spending on cohesion policy and competitiveness including structural funds, whose role is to reduce inequalities between Member States and to finance the development of the less prosperous regions. These last two policies should see a big increase in their budget, respectively 6.7% and 9% over the period. They represent the largest tools of action available to the European Union.

The remainder is mainly devoted to administrative costs and to the promotion of the EU's role in the world. It should be noted that the heading "freedom, security and justice" is set to increase by 8.6% over the period.

3.2.3 Budget allocated to the preservation and management of natural resources (2010)

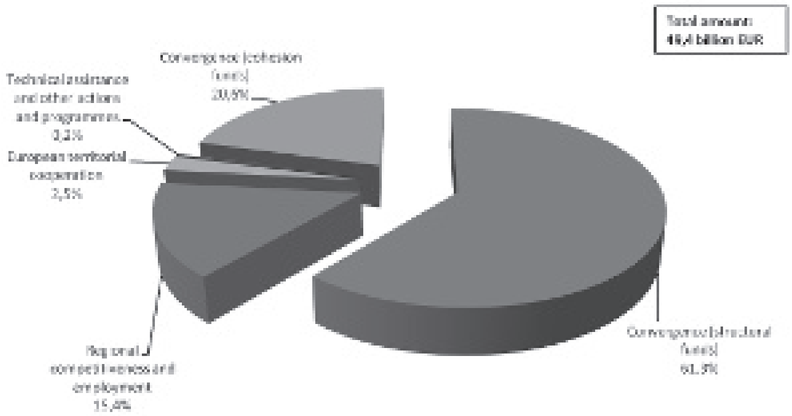


Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

The Common Agricultural Policy (CAP) is the biggest and most important of all community policies. Its first aspect, and the one that is best known, corresponds to direct subsidies, most of which are paid to farmers. These direct payments were subject to review by the Council in 2009. The latest CAP reform has increased the disengagement of aids, meaning that subsidies are no longer directly linked to production. It also aims to remove the obligation of leaving land uncultivated. In the long term, dairy quotas are to be abolished as well. The overall objective is to make agriculture more competitive and more environmentally-friendly (aids are subject to compliance with environmental criteria), in order to open it up to international competition.

The other aspect of the CAP, which is seen to be increasing in influence, is rural development, which is based on a European Agricultural Fund for Rural Development (EAFRD). This fund works like the other structural funds and aims to improve the attractiveness and competitiveness of rural areas (social, environmental, forestry approaches, etc.).

3.2.4 Budget allocated to cohesion policy (2010)



Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

Cohesion policies are based on structural funds and aim to harmonise competitiveness within the EU by accelerating the economic development of new entrants and supporting the competitiveness of the others. Four structural funds work at regional level to co-finance projects that are part of the Lisbon strategy (growth and employment objective) and of the Göteborg Strategy (environmental objectives). The Europe 2020 Strategy takes up these objectives of competitiveness, inclusion and the environment for the new period 2013 – 2020.

Regions whith a GDP per inhabitant below 90% of the European average benefit from the cohesion fund that operates on infrastructure and environmental projects.

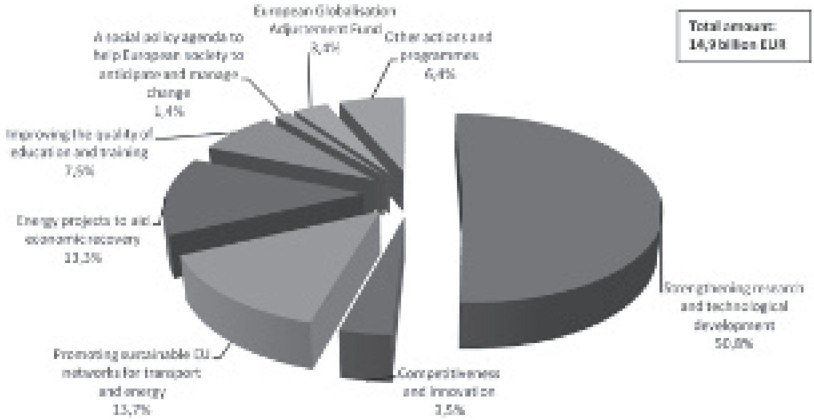
Other regions are supported by the European Social Fund (ESF) and the European Regional Development Fund (ERDF). These funds co-finance projects that support employment (training, integration of at-risk populations) and innovative and structuring projects (R&D, sustainable development).

Distribution between regions is defined by their GDP per inhabitant: 61% of credits are intended for the poorest regions, where the GDP per inhabitant is inferior to 75% of the European average.

These mechanisms are completed by the INTERREG programme used to finance inter-regional cooperation projects with the objective of enhancing competitiveness.

These funds are mainly used in the form of subsidies, but financial mechanisms such as JEREMIE or JESSICA increasingly follow an investment logic.

3.2.5 Budget allocated to improving competitiveness (2010)



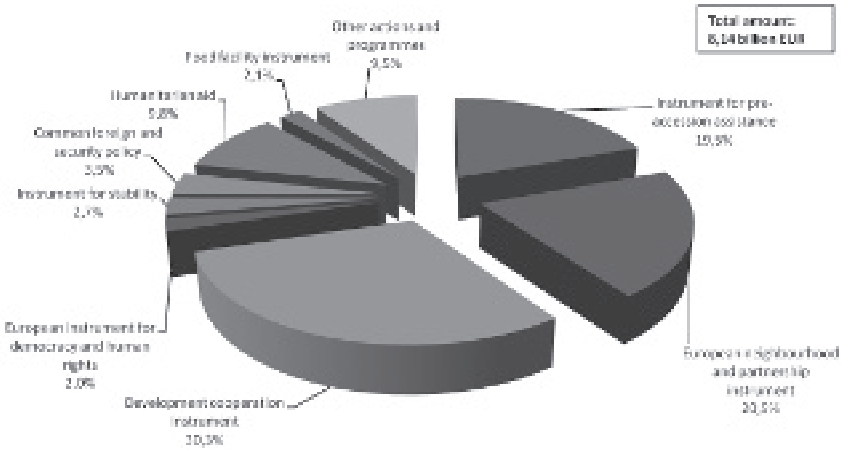
Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

The Lisbon and Göteborg Strategies set ambitious objectives for the promotion of a knowledge economy that is respectful of the environment within the EU. For this purpose a structural fund, the ERDF, has been set up. Its main objective is to support R&D and innovation (54% of the budget). It operates as co-finance, alongside other national or regional financial instruments and therefore acts as a lever. Yet, very few countries have managed to devote 3% of their GDP to R&D, which was the pre-established aim. The new strategy of "Europe 2020"[2], retains the same ambitions, but is now placed in a difficult context of unemployment and sluggish growth. The strategy aims both to intensify R&D efforts in view of the 3%-target. Other objectives included in the strategy are the raising of the employment rate from 69% to 75% and the reduction of greenhouse gas emissions by 20% compared to 1990 levels. Competitiveness, inclusion and the environment are the three watchwords for this new strategy 2020.

The other objectives of the ERDF concern transport, education and adjustment to globalisation, which aims to help regions affected by relocations.

2. Evaluation of the Lisbon Strategy and test of the Europe 2020 Strategy are available on http://ec.europa.eu/archives/growthandjobs_2009/

3.2.6 The EU as a global player (2010)



Source: European Commission
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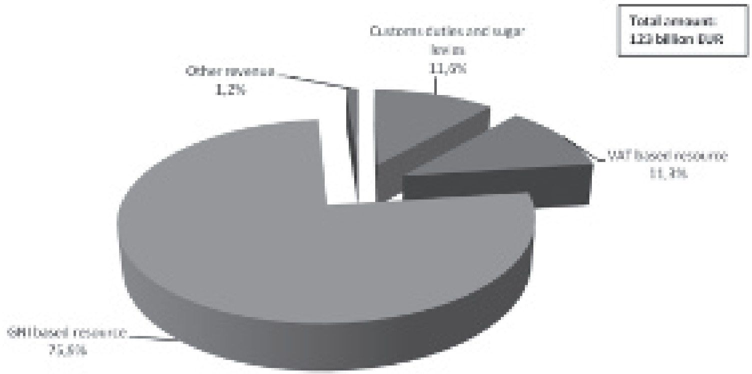
Although EU financial ressources devoted to international action are limited (6% of total budget), the fact that they target the economic development either of neighbouring countries, future Member States, or even emerging countries, allows the EU to support its zone of direct influence actively, especially through its neighbourhood policy.

47 developing countries benefit from the development cooperation instrument, which represents € 2.5 billion and seeks to reduce poverty, to set up democratic institutions and to protect natural resources. The instrument for pre-accession assistance, € 1.6 billion, is designed for candidate countries (Croatia, Turkey, and Macedonia) as well as for countries of the Western Balkans, considered to be "potential candidates".

Finally, the Common Foreign and Security Policy (CFSP) has a modest budget of € 281 million. Still it is able to play an essential role in reinforcing stability at the EU's borders, particularly in the Balkans.

3.2.7 Breakdown of the community budget by type of revenue (2010)



Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

The EU has virtually no own resources: it does not levy taxes and cannot issue bonds. It therefore has to rely on the resources that Member States can obtain for it through a direct contribution calculated according to their Gross National Income (GNI). This resource represents ¾ of the community revenue. It is supplemented by traditional resources such as deductions from VAT or customs duties, which have not ceased to decrease over the years.

With the crisis and the increasing financial needs of the EU due to the extension of its competences , "European bonds" have been suggested as a solution to broaden the EU's financing options.

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