SCHUMAN
Report on Europe
State of the Union 2012

Interview by Jean-Claude Trichet

B. Aguilera Barchet, F. Baasner, Y. Barou, J. Bitterlich, C. de Boissieu, T. Chopin, S. De Corte, C. Deloy, M. Foucher, J-D.Giuliani, N. Gnesotto, P. Hassner, J-P. Herteman, S. Hill, J-F. Jamet, P. Joannin, J-P. Jouyet, A. Lamassoure, M. Lemoine, F. Lirzin, W. Martens, L. Martinez, P-A. Molina, O. Passet, S. Paulo.

CES CENTRE FOR EUROPEAN STUDIES

FONDATION ROBERT SCHUMAN

Springer

SCHUMAN REPORT ON EUROPE

STATE OF THE UNION 2012

Springer
Paris
Berlin
Heidelberg
New York
Hong Kong
London
Milan
Tokyo

SCHUMAN REPORT ON EUROPE

STATE OF THE UNION 2012

by the Robert Schuman Foundation
for Springer Verlag

Publication edited by
Thierry Chopin and Michel Foucher

Publication edited by Thierry Chopin and Michel Foucher
Translated by Rachel Ischoffen and Helen Levy

ISBN: 978-2-8178-0318-0 Springer Paris Berlin Heidelberg New York

Printed in France
Springer-Verlag France is a member of the group Springer Science + Business Media
Original title: *"Le Rapport Schuman sur l'Europe 2012, l'état de l'Union"*

3, rue de Téhéran - 75008 Paris
Site internet: www.lignes-de-reperes.com
ISBN: 978-2-915752-80-9

Cover design: Jean-François Montmarché

Translated by Rachel Ischoffen and Helen Levy

The State of the Union 2012, Schuman Report on Europe is a collective work created on the initiative of the Robert Schuman Foundation according article 9 of law number 57-298 11th March1957 and article L.113-2 paragraph 3 of the intellectual property code.

This work has been published with the support of the Centre for European Studies.

"The Centre for European Studies" (CES) is the official think tank of the European People's Party (EPP) dedicated to the promotion of Christian Democrat, conservative and similar political values. For more information consult: www.thinkingeurope.eu.

This publication receives funding from the European Parliament. The European Parliament and the Centre for European Studies assume no responsibility for facts or opinions expressed in this publication or their subsequent use. Sole responsibility lies with the author for this publication."

Table of Content

4. Interview

5. A Summary of Political and Legal Europe

List of Maps

SCHUMAN REPORT ON EUROPE

The State of the Union 2012

Publication edited by Thierry CHOPIN and Michel FOUCHER

Contributors to this book:

Bruno Aguilera Barchet, Frank Baasner, Yves Barou, Joachim Bitterlich, Christian de Boissieu, Stefaan De Corte, Corinne Deloy, Jean-Dominique Giuliani, Nicole Gnesotto, Pierre Hassner, Jean-Paul Herteman, Steven Hill, Jean-François Jamet, Pascale Joannin, Jean-Pierre Jouyet, Alain Lamassoure, Mathilde Lemoine, Franck Lirzin, Wilfried Martens, Luis Martinez, Pierre-Antoine Molina, Olivier Passet, Sebastian Paulo, Jean-Claude Trichet.

Contributors

Texts

Bruno Aguilera Barchet

Director of the university research institute, "Institute for International Legal Studies" and member of the Academic Council of the Centre for European Studies (Brussels), Bruno Aguilera Barchet is professor of comparative legal history at the University of Madrid. He was guest researcher at the Harvard Law School and he is at present guest professor in the Universities of Milan and Paris. He was also Deputy Chairman of the University "Rey Juan Carlos" (Madrid), and Dean of its Faculty Law. Besides many scientific research works he has published numerous articles in the national Spanish newspapers (*El País*, *El Mundo*, *ABC* and *La Razón*).

Frank Baasner

After studying literature and psychology at the Universities of Bonn, Tübingen and Paris he gained a PhD with a thesis on "The European Enlightenment". Since 1995 he holds a chair in Romance Literature at the University of Mannheim. He has been visting professor in Austria, Spain and Sweden. In 2003, Frank Baasner was elected member of the Academy of Science and Literature of Mainz. Since 2002 he has been the director of the Franco-German Institute of Ludwigsburg.

Yves Barou

Polytechnician and PhD in Economics, Yves Barou has followed a career with Rhône-Poulenc and Thales in France and the USA with operational responsibilities and human resources. From 1998 to 2000, he was Deputy Director of the Social Affairs Ministry, responsible for employment, training and working time. As Human Resources Director of the Thales group he signed two major European agreements. Since 2010 he has been a Social Advisor for the FSI, the French Sovereign Fund and Associate Professor at the HEC. He chairs the European Human Resources Directors' Committee.

Joachim Bitterlich

German Ambassador (retired) and former diplomatic and security advisor to Chancellor Helmut Kohl, Joachim Bitterlich joined Veolia Environnement as Executive Vice-President for International Affairs in February 2003. Since June 2009 he has served as Chairman of Veolia Environnement Germany. Vice-President of the association Notre Europe, he is also Professor at the management school ESCP Europe Paris, and co-founder of the Club Rhénan. He is a member of the Scientific Committee of the Robert Schuman Foundation.

Christian de Boissieu

Professor at the University of Paris I (Panthéon-Sorbonne) since 1980 where he manages post-graduate studies in Banking and Finance. Since 2003 he has been the Chairman of the Economic Analysis Council (CAE) working with the French Prime Minister. He is also a member of the Academy of Technology. He has written a number of books and articles on monetary and financial issues, on economic policy and European integration.

Thierry Chopin

PhD Political Science of the School for Advance Studies in Social Sciences (EHESS, Paris) he is currently Studies Director at the Robert Schuman Foundation. He is associate professor at the Conservatoire National des Arts et Métiers (CNAM). He is Visiting Professor at the Collège d'Europe (Bruges) and he also teaches at Sciences Po and at the Mines Paris Tech. He is an associate expert at the Centre for International Studies and Research (CERI-SciencesPo). He is the author of many books on European issues including (with J.-F. Jamet and C. Lequesne), "*L'Europe d'après*", Lignes de repères, 2012.

Stefaan De Corte

Senior Research Officer of the Center for European Studies (CES, Brussels), he looks into social, economic and financial issues. Stefaan de Corte has been advisor on economic policies for a former Belgian Foreign Minister and Deputy Prime Minister. He is a Commercial Engineer ; he also holds a Masters in European Economy.

Corinne Deloy

A graduate of Sciences Po Paris and holder of a DEA in Political Science from the University of Paris-Pantheon Sorbonne, she is research manager at the CERI (Sciences Po/CNRS). She writes the European Elections Monitor for the Robert Schuman Foundation.

Michel Foucher

Geographer and diplomat, professor of applied geopolitics at the Ecole Normale Supérieure (Paris Ulm), he is also a Director at the Institute for Higher National Defence Studies (IHEDN) and a member of the Robert Schuman Foundation's Scientific Committee. He served as the French Ambassador in Latvia, advisor to Hubert Védrine and director of the Policy Planning Staff of the French Ministry of Foreign Affairs. He has published many books including *L'Europe et l'avenir du monde* (éditions Odile Jacob, 2009), *La Bataille des cartes* (2^{nd} edition, François Bourin Publishing, 2011) and *L'obsession des frontières* (3^{rd} edition Perrin Tempus 2012).

Jean-Dominique Giuliani

Chairman of the Robert Schuman Foundation, Jean-Dominique Giuliani was a director at the SOFRES and head of staff in René Monory's cabinet (President of the French Senate 1992-1998). He has notably published *Un Européen très pressé* (Editions du Moment, 2008), *L'élargissement de l'Europe* (PUF "Que Sais-je ?", 2004), *"Quinze + Dix", le grand élargissement* (Albin Michel, 2003), as well as "Plaidoyer pour l'élargissement", et "Atlas des nouveaux members", a *Fondation Robert Schuman Note*, No.11, 2002, with J.P. Betbèze, *Les 100 mots de l'Europe*, PUF, coll. "Que sais-je?", April 2011. He co-directed with P. Joannin the *Atlas permanent de l'Union européenne*, Lignes de repères, 2012.

Nicole Gnesotto

"*Agrégée*" in Modern Literature and a postgraduate in history (DEA) from the University of Paris I-Panthéon Sorbonne, Nicole Gnesotto is a tenured professor and Chair of the Department of European Union, Institutions and Policies at the CNAM and Vice President of the association *Notre Europe*. She is former Director of the European Union Institute for Security Studies. She is a specialist in Europe and strategic issues and notably the author of *La politique de sécurité et de défense de l'UE – Les cinq premières années* (EUISS, 2005), *Le monde en 2025* (co-produced with Giovanni Grevi, Robert Laffont, 2007), *Notre Europe* together with Michel Rocard (Robert Laffont, 2008) and *L'Europe a-t-elle un avenir stratégique ?* (Armand Colin, 2011).

Pierre Hassner

A specialist in International Relations and Geopolitical Relations, Pierre Hassner is "agrégé" in Philosophy and an alumnus of the Ecole Normale Supérieure. In 1959 he became a researcher for the CERI at Sciences Po, then Research Director. He is now an associate researcher. A member of the editorial committee of the review *Survival*, winner of the Alexis de Tocqueville Prize in 2003, member of the Academy of Arts and Sciences, Mr Hassner became a Doctor Honoris Cause of the UQAM in 2008. He is the author of many publications including *Violence and peace: from the atomic bomb to ethnic cleansing, (1997), La terreur et l'Empire – La violence et la paix II (2003)* as well as *Justifier la guerre ? De l'humanitaire au contre-terrorisme* (with Gilles Andréani), Presses de Sciences Po, 2005.

Jean-Paul Herteman

A graduate of the Ecole Polytechnique, engineer of the Ecole National Supérieure de l'Aéronautique et de l'Espace (Supaero), Jean-Paul Herteman is CEO of the SAFRAN group and Chairman of the French Aviation and Space Industries Federation (GIFAS). He is also Vice-President of the General Arms Council (2010), Chair of the French Defence Industries Council (CIDEF) and Chair of the Aerospace and Defence Industries Association of Europe (ASD).

Steven Hill

A writer and columnist who lives in the USA, Steven Hill is the co-founder of FairVote and former Director of the Political Reform Program at the New America Foundation. He has written many books, notably *10 Steps to Repair American Democracy* and more recently *Europe's Promise : Why the European Way Is the Best Hope for an Insecure Age*, University of California, 2010. He also publishes a monthly column in the *Social Europe Journal*.

Jean-François Jamet

Economist, alumnus of the Ecole Normale Supérieure (Ulm) and of the Harvard University, Jean-François Jamet has taught at Sciences Po. He is an engineer (graduate of the Ecole des Mines) and has been a consultant for the World Bank (2007-2008) and since 2009 he has been on secondment at the European Commisison. He is notably the author of "*L'Europe, peut-elle se passer d'un gouvernement économique?"*, La Documentation française, Coll *"Réflexe Europe – Débats"* and he wrote with Guillaume Klossa "*Europe, la dernière chance?"* Armand Colin, 2011. His most recent book (with T. Chopin and C. Lequesne) "*L'Europe d'après*", Lignes de repères, 2012.

Pascale Joannin

General Manager of the Robert Schuman Foundation, Pascale Joannin is a Lecturer at the Ecole Nationale d'Administration (ENA), former auditor of the Institute for Higher National Defence Studies (IHEDN), she is the author of "*L'Europe, une chance pour la femme*", *Note* by the Robert Schuman Foundation No22, 2004. She co-directed with J-D. Giuliani *" L'Atlas permanent de l'Union européenne"*, Lignes de repères, 2012.

Jean-Pierre Jouyet

Jean-Pierre Jouyet has been Chairman of France's independent financial regulatory body, the l'Autorité des marchés financiers since December 2008. He was previously Minister of State for European Affairs (2007-2008), Head of the Inspectorate-General of Finances, (2005-2007), Ambassador in charge of International Economic Issues at the French Ministry of Foreign Affairs (2004-2005), Head of the French Treasury from 2000 to 2004. Deputy Principal Secretary to Prime Minister from 1997 to 2000; he has also worked in the private sector as Chairman of Barclays Bank France in 2005 and Associate Lawyer with Jeantet Associés 1995-1997. He was Deputy Head and then Head of the Private Office of the President of the European Commission (1991-1995).

Jean-Pierre Jouyet chairs the Board of the Pasteur Institute, the Follow-Up Committee for the Appointment ENA graduates and the Follow-Up Committee of the Aspen Institute. He is also associate professor at the University of Paris-Dauphine. He has written several books notably *Nous les avons tant aimés,* with Editions Robert Laffont (2010).

Alain Lamassoure

Former French Foreign and European Affairs Minister then Budget Minister, he is a former member of the European Convention. At present he is MEP (European People's Party, EPP), he is Vice-President of the French delegation of the EPP group and Chair of the European Parliament's Budgets Committee.

Mathilde Lemoine

PhD in Economics from the Institute for Political Studies in Paris (Sciences Po) and a graduate of the University Paris Dauphine, Mathilde Lemoine is Director of Economic Studies and Market Strategy for HSBC France. She has also been teaching at Sciences Po since 1997 and is a member of the Economic Analysis Council (CAE) as well as of the Economic Committee of the Nation (CEN). Mathilde Lemoine was a member of the Liberation of Growth Committee (2010).

Wilfried Martens

Belgian lawyer and politician, Wilfred Martens is a graduate of the Universities of Louvain and Harvard; he was Prime Minister of Belgium from 1979 to 1992. Member of the Flemish Christian Democratic Party he was the co-founder in 1976 of the European People's Party (EPP) which he has chaired since 1992. He is the author of *Mémoires pour mon pays* (Éditions Racine, Brussels) in 2006. He was awarded the Charles V Prize for his contribution to the European Union.

Luis Martinez

PhD in Political Science from Sciences Po, a specialist of the Maghreb and the Middle East, Luis Martinez is Research Director at the CERI, Sciences Po. He was Visiting Professor at the School of International and Public Affairs at Columbia University (New York, 2000-2001) then the University of Montréal (2007-2008). At present he is researching the State in Maghreb, Islamism and Security in the Mediterranean, oil income and democracy. His most recent publication: *Violence de la rente pétrolière. Algérie-Irak-Libye.* (Presses de Sciences Po, 2010).

Pierre-Antoine Molina

Graduate of the Institute for Political Studies Paris (Sciences Po) and alumnus of the ENA (Copernic). Auditor and then Counsel to the Conseil d'Etat; he notably took part in the study as deputy rapporteur *"Pour une meilleure insertion des normes communautaires dans le droit national"* (2007). He was also associate lecturer at the IEP of Grenoble.

Olivier Passet

Advisor to the Economic Analysis Council (CAE) with the Prime Minister, Olivier Passet managed the Economy Finance Department of the Strategic Analysis Centre (CAS) from 2006 to 2011. Previously he was head of the Economic, Financial and International Department for the General Planning Commissariat. From 1989 to 2000 he was Projects Manager at the International Division of the Analysis and Forecast Department of the French Observatory for the Economic Situation (OFCE). His work focuses on the regulation of labour markets, business demography and the funding of the economy.

Jean-Claude Trichet

Born in Lyon, Jean-Claude Trichet is an Inspecteur général des Finances and Ingénieur civil des Mines. He is a graduate of the Ecole nationale supérieure des Mines de Nancy, of the Institut d'études politiques de Paris, of the Université de Paris (in economics) and of the Ecole nationale d'administration. He is former under secretary of the French Treasury, former governor of the Banque de France and former president of the European Central Bank as well as former president of the "global economy meeting" of Central Bank governors in Basel. He is presently chairman of the Group of 30.

Statistics

Franck Lirzin

Economist and graduate of the Ecole polytechnique and of the School for Advanced Studies in the Social Sciences (EHESS); he is also a graduate of the Ecole des Mines. His specialities are monetary policy, European economy and macro-finance. He teaches at the Ecole Centrale of Marseilles and at the Institute for Political Studies in Aix-en-Provence.

Sebastian Paulo

Graduate of the Institute for Political Studies of Paris (Sciences Po) and of the Collège d'Europe (Bruges), he worked as a consultant ad research assistant for institutions including the OECD's Development Centre and the European Union's Security Studies Institute. He is a lecturer at Sciences Po.

Maps

Pascal Orcier

A graduate of the Ecole Normale Supérieure (ENS Lyons), agrégé in geography, he is a specialist of the Baltic and teaches at the Lycée Jean Moulin Draguignan (83); he is a researcher at the University of Lyon III. He is the author of the "*Atlas: La Lettonie en Europe*" (Zvaigzne ABC/Belin 2005) and contributor to various books which have been published since.

Translators

Rachel Ischoffen

Helen Levy

Preface

Governance

This is the fashionable expression when talking of the European Union.

2011 was the year of the public debt crisis, notably blamed on the poor economic governance of the euro zone and of the Union.

This well polished expression in fact hides much more serious flaws than a simple lack of economic, budgetary and fiscal coordination. In reality the entire community is suffering because of the way it is governed. This means that it quite simply lacks … a government.

For the time being it seems incapable of taking that “federal leap forwards” which paradoxically the financial markets, judges of the short term, now deem vital.

However the European Union does not deserve the mistrust which it is subject to right now.

A unique geopolitical achievement, it has accomplished its initial goal, which was to bring stability back to a continent where disorder, conflict and contest have often led us to the edge of the abyss. Its successes are tremendous, but at the turn of the 21st century, which for some started with the fall of the Berlin Wall and the acceleration of globalisation, it is now brought into question. Instead of continuing integration the Europeans contended themselves to sit back, watching and commenting on the emergence of new players.

Europe, the continent of stability, whose economic and social model, likewise its international relations, impresses because of its modernity, is facing a challenge launched by traditional capitalism, which is embodied in the Anglo-Saxon model but taken to its limit and excess by the emerging countries.

Victim of the short term it continues however to be part of the long term and can only be judged from this point of view. Today it is better to live in Europe than in any other continent. This is what many, who either want to join it or move here, think.

It is therefore its governance, its decision making procedures, its internal and external representatives which it has to consider from a new angle. The methods of the past will no longer be enough.

The articles in this book written by eminent personalities all converge and plead for a new European vision of the world, which demands thought about exercising power, economic and trade policy, the common budget and also new trade, competitiveness, agricultural and industrial policies. The Union must make in depth reform in order to address the new world and to give value to its extremely positive assets. A debate has now been launched on how to achieve this. The method is unimportant if the vision is just, if decisions are taken and applied and if confidence is regained!

It is to help in this quest, towards their definition and in their implementation that the “*Schuman Report 2012 on Europe – State of the Union*” is bold enough to innovate and criticise but also, and above all, to make proposals.

Jean-Dominique GIULIANI
Chairman
Robert Schuman Foundation

1

The European Union and the Crisis: Between Doubt and Necessity

Governance of the European Union, two years after the Lisbon Treaty

Jean-Dominique GIULIANI

The Lisbon Treaty entered into force on 1st December 2009. After more than ten years of institutional debate the Union hoped for greater efficacy in decision making, more democracy and to draw closer to its citizens. In other words it wanted better government for the European institutions and a strengthened role on the international stage[1].

Two years on we can make a first assessment of the action it has led to in the exceptional context of an unforeseen crisis.

In the long history of the ten European treaties, the Lisbon Treaty followed on directly from the Nice Treaty[2]. It has strengthened the Union's intergovernmental character, created new bodies, modified relations between the institutions. However, in spite of its declared objectives, it has done nothing to simplify how the institutions function. This has been to the extent that after less than 24 months the Heads of State and government have said they want to supplement the treaty, and then that they want modify it.

To understand why the Union has come to this we must on the one hand analyse the problems in implementing the Lisbon Treaty, and on the other understand that it has pointed to serious shortcomings in European governance.

The problematic implementation of the Lisbon Treaty

Paradoxically, as early as 19th November, during an informal meeting, the European Council appointed the Permanent President of the Council, Herman van Rompuy and the High Representative for the Common Security and Foreign Policy, Catherine Ashton so that they could take up their newly created roles as soon as the treaty came into force on 1st

1. Informal meeting of the Heads of State and Government, Brussels, 19th November 2009, Press release

2. Cf. J.-D. Giuliani, The real post-Lisbon challenges (notably part 1: "The true nature of the Lisbon Treaty") in the *State of the Union, Schuman Report on Europe 2010,* p 23 onwards.

December 2009. But the establishment of the new institutions took more time because of uncertainty about the treaty and institutional practices and simply because of the context.

Uncertainty about the Treaty

The Lisbon Treaty did not facilitate the task of those who held the new posts. It is clear that by providing itself with a permanent President the European Council was seeking to organise its work better by granting him authority to convene, prepare and moderate its meetings. It also wanted to reflect a re-balancing in the institutions in favour of and to the benefit of the Member States by adopting a single face and voice. But the treaty is quite vague about the President's status. Indeed he does not have his own department, only a cabinet of 18 people and has no authority over any department, neither those of the Council nor those of the common diplomatic service.

As for the High Representative, her position is even more complicated since she reports both to the Council and the Commission, of which she is also in her own right Vice-president. The Member States' determination not to "communitize" foreign policy which, it is true, is a matter of sovereignty *par excellence* was fiercely countered by the European Parliament, which, under the impetus of Elmar Brok (EPP, DE) joined forces with the Commission so that it could retain a number of external responsibilities and thereby keep these under the Parliament's jurisdiction. At least four commissioners hold responsibilities which common sense would have merged together under the management of the person in charge of external action: Enlargement and Neighbourhood Policy, "International Cooperation, Humanitarian Aid and Crisis Response", Development and Trade. Ms Ashton, who was responsible for putting together the European External Action Service, the nascent common diplomacy, has been reduced to diplomatic action *stricto sensu*, without the resources available to the Commission, which distributes nearly €12 billion per year in external aid. Hence in one year she managed to put together a service of more than 1,600 agents, who mainly come from the Commission but also from the Member States; she also started to appoint the Union's representatives in 137 delegations which ensure its presence across the world. This *sui generis* body that enjoys a modest budget of €490 million will achieve independent status from the other institutions in 2012 when it moves into its own quarters.

Divided between continuing the community experience (*méthode communautaire*), which provides the Commission and now the Parliament with the central role in budget management and control, and the desire to move ahead with a common foreign policy, the Member States have created a complex administrative and political situation, which in practice has not corrected any of its shortcomings.

Questionable practices

In the corridors of Brussels everyone is aware of the "race" that has been ongoing between the Presidents of the Commission and the European Council since the treaty entered into force. Having concluded a formal agreement[3], the two leaders finally decided to travel mostly together, sometimes accompanied by the High Representative. This has not made the Union any more efficient since these two presidents are often rejoined by the leader of the country which is ensuring the rotating presidency. Since the introduction of this "generous" representation the Union has not achieved any significant diplomatic success; rather it has totted up a series of failures, such as the

3. Interviews with the author.

EU-Ukraine Summit on 19th December[4], which seemed to legitimise Ukrainian oligarchic power without achieving the liberation of imprisoned opponents. The “surplus” of Presidents has not made the Union more efficient on the international stage. It has weakened it.

The Commission’s malaise, which feels it is being challenged by the Member States, is in part the reason for this administrative war in Brussels. The European Executive is both jealous of its prerogatives and wants to retain its former role, including in the new powers attributed to the Union, since it is convinced that it alone embodies the community method. But it has been weakened by a combination of decisions and treaties that work against it, and also by the “sudden crisis”. The Nice Treaty, which introduced one commissioner per Member State, modified the nature of the College, which no longer embodies general European interest but an excessively large, mixed group of people, all with their own individual experience, rather than a vision of the Union in the world.

The so-called Kinnock reform, started after the resignation of the Santer Commission by a British Commissioner who applied Anglo-Saxon 1970’s style precepts (accountability) to a body of high level civil servants who were used to enjoying great liberty, simply diluted responsibilities out towards the DGs, which are now no longer oriented towards initiative and flexibility. There is not one country in the Union in which the Commission’s procedures are not criticised because they are slow and bureaucratic. The Commissioners work in cabinets that obligatorily comprise a certain number of civil servants, themselves under the responsibility of a Secretary General who holds most of the administrative power on behalf of the president. The Lisbon Treaty aimed to endorse the decisive role played by the President of the Commission in the hope that he would embody a long term vision of the Union; this has been confiscated by the administrative and legal power of an omnipotent secretary general.

Far from playing the game in the new treaty, the Commission and its president have waged a constant battle against any development in the Union’s work through these new bodies. This was particularly the case with the new common diplomatic service, in which Commission civil servants were initially the most numerous before returning en masse (around 100 agents) to the Commission, whose external services have started to develop, thereby doubling up and even competing with the new EEAS.

Finally Catherine Ashton has not been exactly brilliant in terms of her diplomatic know-how. Not being very keen on collective administrative work and faced with an impossible task, given the texts and the Commission’s attitude, she has been severely criticised, most recently in December 2011. This resulted in the dispatch of a joint letter by 12 Member States which made “suggestions to improve the functioning of the European diplomatic service”, which in any event is due to be assessed in 2013 at the latest.

International events have not helped her either. The Arab Spring and the war in Libya bore witness to disordered action by the Member States. The conflict in the Near East has not been settled. Neither Russia nor Ukraine or Turkey, notably with Cyprus, nor Iran have resulted in Europe making a diplomatic breakthrough. A notable exception can be noted with regard to relations that have finally been established between Serbia and Kosovo, a situation that owes much to the work of one her advisors, Robert Cooper.

The behaviour of the main Union players in Brussels has not made the implementation of the treaty any easier, since they have preferred to defend their own institution and their own prerogatives, not hesitating to encroach on the territory of the newcomers. And so the President of the Commission went on a tour of the Pacific[5], made an increasing number of foreign policy declarations[6] and continued to monitor the

4. Kyiv 19th December 2011 - 18835/11 - PRESSE 513

5. Official visits to Australia and New Zealand from 4th to 9th September - SPEECH/11/548 - 05/09/2011

6. Statement by President Barroso ahead of the meeting of UNSG Ban Ki-moon with the leaders of the two communities in Cyprus, Demitris Christofias and Dervis Eroglu, on 30th-31st October in New York - MEMO/11/748 - 28/10/2011

writing of the European Council press releases to ensure that they have systematically mentioned the Commission's role. In the meantime, as often is the case, circumstances took their revenge and the crisis then defined the agenda.

Very unusual circumstances

The financial and then the public debt crisis have mainly occupied front stage since the entry into force of the Lisbon Treaty. Given the Union's incomplete nature it was normal for the States to be working and the European Council was strengthened by this. It convened no less than fourteen times, i.e. nearly twice the minimum number of meetings planned for in the treaty. The Heads of State and government, who also wanted to meet five times with members of the euro zone, literally took responses to the crisis in hand. It was quite right to do this in 2008 and 2009 when further financial means had to be found to prevent the collapse of the world financial system, followed by the need to support the European economy; it became evident in 2010 and 2011 for the reform of the Union's economic governance and the euro zone, since it was then a matter of introducing new procedures that were not part of the treaties, to decide on the modification of these texts and have this ratified by the national parliaments. It was even the permanent president of the European Council who was asked to prepare the texts with the aid of the Commission which, for the first time since it was founded, was marginalised.

Internationally the Member States offered a scattered response to the upheavals in the Arab world, with the common institutions content with merely providing financial follow-up to their commitments or with making supportive declarations as events developed. In no way and at no time did the European institutions anticipate what developments might be, including in terms of the policies they manage, such as agriculture for example.

During this series of crises and bad news for the Union, Parliament was upset by activities undertaken by individual States notably that of the Franco-German leadership, and criticism was made, of course, of the inter-governmental nature of the decisions taken. In spite of greater prerogatives and quality legislative work, which gave rise to the adoption of 258 texts, it has continued to pass resolutions (667). *De facto*, the institutional triangle was marginalised and transformed by the priority intervention of the European Council. The latter was even reduced to the Franco-German couple, whose national administrations drew up the main measures in response to the crisis, illustrating the need for a European Treasury with a minister acting and communicating alone on behalf of the Union.

Circumstances upset patiently drafted plans and challenged a certain number of European certitudes that had been taken for granted.

Serious shortcomings in governance

The Union was programmed for periods of calm rather than for raging storms. The only common institution which has fulfilled its function since the introduction of the Lisbon institutions, in which it does not find its origin, is the European Central Bank. Its mandate might be debated, but no one can doubt its efficacy, including when, in an emergency situation, it was forced to take liberties with the treaties and support efforts to counter the crisis. The ECB is a federal institution by nature, bringing together all of the Union's countries, including those which have not adopted the euro. We have to hope that its prerogatives and powers of intervention will be strengthened. But these will only be drawn up after significant progress has been made towards true economic governance of the Union. In this regard we should pay tribute to Jean-Claude Trichet, the President of the ECB board of governors, whose efficacy during the crisis highlighted the importance of appointing first class people to top European posts. His decisions helped the Union to avoid the worst, i.e. a financial crunch; his proposals and ideas enabled the Union to progress towards greater unity in the running of economic policy. In this area at least the Union needs an effective decision making capacity, to clarify its representation and to settle the democratic deficit.

Decision making

The crisis has shown that decision making must happen quickly. But the dual system representing the States and the people makes this impossible, especially when their number continues to grow. To rise to the challenge of investor defiance, only a centralised power has the reactive capacity needed. Economic governance must therefore become economic government, the true companion of the Central Bank.

The Commission should take on this role, under the legislative power of the Parliament and the Council. But we have to admit that the States no longer consider it able to do this, because of its make-up and even, according to some, because of its lack of vision and political commitment, at in any event, because of its lack of means. The criticism directed at it focuses both on the way it functions and, increasingly, on the core of its policy.

With respect to the former we should look at how the Commission organises its communication. By choosing to deliver its messages through spokesmen and doing this every day at midday, the Commission has tried to be transparent; this has clearly been an error, however. Commissioners alone should speak on behalf of the College since they are politically responsible and they should do it only when they have something to say. These declarations should be the focus of a selection of priorities and not focus on banal everyday community work. Hence in the middle of the sovereign debt crisis we learnt piecemeal from the Commission, on 14th November that 11 Member States might be brought before the Court of Justice in 2012 if 51 million "egg-laying hens did not have at least 750cm^2 for their nest and perch", on 16th November we learnt that France might also be prosecuted if it did not do something "to protect the bear" and on 24th November we heard that Italy might very well suffer the same fate if it did not immediately stop hunting the starling, the finch and the turtledove! Moreover, this dysfunction also involves more serious affairs: on 24th November the Commission decided to prosecute Volkswagen and the Italian government because they were trying to protect some of the gems of their industrial successes. More distressing still: a Defence Task Force is to be established at the Commission and its management will be granted to two agents responsible for … the internal market and the defence of competitiveness! This means that priority is to be given to the opening of the defence markets to competition including to competition from third countries.

Finally we have lost count of the Commission's anxiety-filled declarations and even of those issued by its President, who, right through the summer, constantly worsened the confidence crisis started on the financial market, thereby causing an immediate rise in the CDS insurance premiums[7] and interest rates[8]. During the crisis the Commission's communications were almost exclusively negative, unceasingly addressing punitive messages to the States and spreading doubt about the European economy elsewhere. In many respects this is a case study of what should not be done, tailored to match its disarray and even its impotence. Even the most committed Europeans sometimes have begun to

7. Credit default swap: agreement that the seller of the CDS will compensate the buyer in the event of a loan default, for example between sellers and buyers of a State's debt bonds.

8. Statement by President Barroso on the euro area sovereign bond markets Reference: MEMO/11/546 03/08/2011. Olli Rehn European Commissioner for Economic and Monetary Affairs Ongoing developments in the euro zone Press Conference Brussels, 5th August 2011 SPEECH/11/540

wonder whether responsibility for the Commission's communications department has not been handed over to the Eurosceptic, making them responsible for destroying the community institutions' image and work! For the citizens of Europe the Brussels agenda has drifted away from reality, justifying scepticism, pessimism and "decline-ism", and no longer responding to the public's need for explanation.

Indeed at base, in spite of some laudable efforts on the part of some commissioners, the College often trips up over legal principles, the application of which is damaging in times of crisis. In 2008 Joaquin Almunia succeeded in convincing his colleagues not to apply the competition rules to the banking sector which was then under the States' aid. He did not succeed to do the same with the EuroNext-Deutsche Börse merger even so it could have turned Europe into the world's leading financial centre. The competitiveness policy is still interpreted in a restrictive manner which is limited to the European market, whereas most major European businesses have become world players. The imperative of regulation that even became the norm in the USA, constantly clashes with the vigilant guardians of the single market. The difficulties met within the Commission by Michel Barnier, who did not even succeed in regulating the activities of the ratings agencies[9], are worrying indeed.

Other European policies, such as the Trade Policy, Development Aid and the Structural Funds have been "sanctuarised" and declared untouchable by an alliance between the Parliament and the Commission – and it seems that it will be almost impossible to reform them. Hence the principle of reciprocal rules on international public markets is still not being applied within the Union in spite of the evidence and its official recognition by the World Trade Organisation. European Development Aid will continue to benefit China, India and South Africa until 2014, in spite of the author's warnings[10] and the announcement of a late reform by the Commission[11]. Only 25% of the structural funds in the 2007-2013 budget have been spent on average, and yet a policy to support growth has never been so necessary.

Moreover the Union's enlargement has increased its heterogeneity enabling financial players, because of the lack of common economic governance, to play on the differences between Member States. This is how the sovereign debt arose. To emerge from this it would appear that the Union no longer has any choice but to rely on some of its biggest States, thereby justifying of the birth of a differentiated Europe. Because there is a lack of initiative and audacious, credible proposals on the part of the Commission, euro zone Members have decided to meet regularly and to appoint a president and a secretariat, which is the precursor to a new organisation within the Union where the principle of "who pays, calls the shots" applies – i.e. the total opposite to the Community's founding principles.

Consequently, the main decisions taken on a European level to rise to the crisis and strengthen governance since the entry into force of the Lisbon Treaty, all come from the European Council. The establishment of the European Semester, the budgetary supervision and sanctions procedures, which were the focus of the six-pack (a legislative package of six texts) were approved by the Parliament and the Council and presented on the European Councils' request.[12]. The Euro plus Pact (25th March) and the modification of the treaty leading to the creation of the solidarity mechanism with failing States were also

9. The Commission wants better quality credit ratings IP/11/1355 - 15/11/2011

10. Cf J-D. Giuliani "The European Union and the crisis or the albatros syndrome" in "*Schuman Report on Europe, State of the Union 2011"*

11. Commission Staff Working Paper EU 2011- Report on Policy Coherence for Development. Ares (2011)1363399 - 15/12/2011; speech by Commissioner Piebalgs Warsaw 15th December 2011

12. President Barroso and Commissioner Rehn's declaration on the proposals made today by President Sarkozy and Chancellor Merkel MEMO/11/557 - 16/08/2011

initiated by the Council. The point has now been reached when many questions over the Commission's monopoly of initiative have started to be expressed quite openly[13].

Representation

The absence of unity in terms of management has led to a lack of unity in terms of international representation for the Union, whilst one of the main Treaty's goals was to strengthen its position and role in the international arena. During the conference on Libya in Paris on 1st September, the EU was represented by three personalities who could not agree on a single representation, in the midst of 13 Heads of State, 18 Heads of government and 18 ministers who were representing their States alone. The same team met Barack Obama at an EU-USA Summit on 28th November.

The European Council's representation should also be ensured in Parliament since according to the treaty the permanent President has to give an account of his activities. Herman van Rompuy has been sparing in terms of his appearances in Parliament, which also has to listen to the President of the Commission's annual speech on the state of the Union, which it insists on and every semester it receives the President of the Council in office, i.e. the head of government ensuring the rotating presidency.

On each of these occasions the latter tries to present a programme with his priorities and his vision of ongoing community affairs. The rotating presidency was maintained so that every European State, notably the most recent members, could "don European spectacles" to chair several summits with third countries, host more than 200 committees of every kind, chair of the Council's ten ministerial bodies and undertake negotiations with Parliament. This diplomatic exercise, which aims to be educational is useful in that a country adopts the Union's colours for six months, communicates at home over European integration and in Brussels and Strasbourg promotes itself and its products. But from the point of view of Union governance there is a question mark over whether it will continue.

Finally Parliament and the Commission agree in their defence of the community method in the face of the European Council. This apparently understandable approach has actually proved to lack legitimacy, given the urgency of the crisis. It has weakened the Union on the international stage by attacking Member States that were assuming the financial rescue of distressed States and it has increased uncertainty over the expected developments in terms of economic governance of the Union[14].

Popular acceptance or democracy

The system of governance set out in the Lisbon Treaty is preventing acceptance and even simple understanding of the system by Europe's citizens. They have won the right to special petition for example, which enables one million of them to put forward a proposal to the Commission. But the regulation dated 1st February 2011[15] is the result of a laborious compromise between the Commission, the Council and Parliament and because of this it is almost incomprehensible for the non-specialist.

However national parliaments are referring more and more proposals or responses to texts that originate in the community to the Commission, which is obliged to respond.

---

13. Panayotis Soldatos, Protecting the European Commission's Legislative Initiative, 8th November 2011, www.fenetreeurope.com

14. José-Manuel Barroso, speech on the State of the Union. Strasbourg 28th September 2011. Speech/11/607

15. Regulation (UE) n° 211/2011 European Parliament and Council 16th February 2011. OJEU 11.3.2011

In 2011 alone more than 500 opinions were communicated by national parliaments, representing a 30% increase compared with 2010.[16]

Although the Union is still the Europeans' preferred body (22%), in terms of responding to the crisis, national governments follow close on its heels (20%), likewise the IMF (15%) and the USA (14%) and confidence in the community is declining because of shortcomings in governance.[17]. The feeling of belonging to the Union and the lack of identification with its leaders are fostering a defiance which is growing because of the crisis. During the crisis the governance of the Union is not convincing and is distancing itself from citizens. The preparation of a new treaty focusing on the euro zone is just one of the signs of this.

***

We knew that European governance was complex. In the crisis it has been the Union's weak point – even making matters worse – and has led to serious doubts.

The biggest mistake in the Lisbon Treaty is to have addressed issues on which the States were not ready to move forward using the community method, such as foreign policy and defence. The Founding Fathers of Europe opted for the pragmatic pooling of common economic interests without questioning the sovereignty of its Member States. The defiance which European integration is encountering during the sovereign debt crisis shows that urgency remains in terms of drawing up effective, common modes of economic governance.

The debate over a community or intergovernmental method was the main focus of discussions in Brussels, whilst the whole world was watching the Union and expecting strong decisions to offer reassurance about the future of the European economy.

The Union's institutions have yet to show that they can take decisions quickly, apply them and monitor their implementation – which naturally leads to the creation of new federal procedures. And yet at the same time they have to show that the rules governing their functioning are pertinent, which demands in-depth reform of the Commission. A stronger link must be created between citizens and decision makers, which is where the Parliament comes in. This will probably require further work in terms of innovation. The Union could benefit enormously from the recent progress made towards integration – but there is still a danger that the links created over the last 61 years may be broken.

16. Maroš ŠEFČOVIČ Vice-President of the European Commission, responsible for Inter-institutional relations and administration: Two years after Lisbon: The Commission's view Conference Brussels, December 1st 2011

17. Eurobarometer n°75 – August 2011

Europe – afterwards. From crisis federalism to pragmatic federalism

Thierry CHOPIN and Jean-François JAMET

The recent crises have tested the European Union to the extreme and Europeans have discovered, with frustration, the limits of European governance. The complexity of the latter has prevented the Union from speaking with one voice in response to concerns raised by the financial markets, its partners and its citizens.

If it really were a politically and economically integrated entity, the euro zone's situation, likewise that of the European Union would not be such a cause for concern. But the economic and political differences that have emerged over the last few years, the slowness and lack of simplicity in a decision-making system, typified by a lack of clear leadership, and finally the repeated infringements of collective rules, have limited the credibility of European commitments. The resulting uncertainty feeds doubts over the ability of European decision makers to take the necessary measures for consolidation and solidarity.

From crisis federalism ….

Through a trick of history the present crisis is forcing European economic policy to become increasingly federal. The European Financial Stability Facility (EFSF) established in May 2010, and whose power was increased in 2011, is nothing more than a mechanism by which some States will borrow on the markets for other distressed States, thereby spreading the risk within the euro zone. The rigorous conditions that are associated with it limit de facto the sovereignty of the States that take advantage of the aid plans. Moreover the crisis has strengthened the role played by an institution that is federal in nature – the ECB – which will now act on behalf of the EFSF in market operations and whose role as lender of last resort alone seems to calm the markets.

Furthermore Member States and the community institutions are trying to strengthen economic governance mechanisms. In terms of the budget both the Council and European Parliament approved six legislative acts to strengthen supervision of the euro zone (the "six-pack", comprising five regulations and a directive entered into force on 13th December 2011); in addition to this the euro zone Heads of State and Government came to agreement on an inter-governmental treaty establishing a new "budgetary pact" that plans for the application of stricter rules with regard to the fight against deficits and public debt, as well as possible sanctions against States which are lax in this area. Also with regard to competitiveness the Union and its States have put forward a "euro pact plus" but whose impact is more than uncertain since it only mentions – like the now obsolete Lisbon Strategy – very general goals without specifying any obligation of means.

However, vital though they are, these various elements do not seem to be enough to restore confidence. And this is not only because these "small steps" cannot provide a global response to a systemic crisis, this method does not rise to the challenge made to the Union and the euro zone's democratic legitimacy either. Many citizens and also the German Constitutional Court believe that this type of integration is marked by a lack of democracy. This deficit also fuels mistrust, both of the austerity policies "imposed by external forces" on the States that have been weakened by the crisis, and of the solidarity policies, which the citizens of the States, solicited for their aid, fear will create a deadweight effect and encourage lax attitudes on the part of the "other" States. Yet this reciprocal mistrust is preventing effective action against systemic risk. Europe is caught in a trap in which differences and interdependence are emerging simultaneously. Europe cannot afford to continue its integration under obligation and only according to necessity. A project such as this has to be undertaken according to a prior plan that enjoys an adequate level of political legitimacy. If European policy is to make sense again then we must immediately remedy its total lack of courage and be brave enough to debate quite openly the content that is to be given to the future European project.

… to pragmatic federalism

Beyond national interests, thinking of European interests

At each stage in the crisis Europe has taken another step forwards, working hard towards solidarity, and there seems to be increasing awareness of the need to stand as one. But Europe just does not know how tackle the crisis rapidly; this finds its expression in economic and political differences, national diplomacies camping on the defence of national interests, and the acknowledgement of the need for hard work without coming to agreement on how the burden is to be shared out. While we wait for others to make the first move, we struggle to focus on our common interest.

The ECB is waiting for the States to implement the decisions taken in the most recent European Councils and establish a credible budgetary union.

Germany – and States such as the Netherlands or Finland – is waiting for the Southern States to show they can do without an economy subsidized with public and private debt and for them to undertake structural reforms that will enable them to counter tax fraud, corruption and corporatism. Germany would like to submit national budgets to independent supervision, so that politics does not mean clientelism.

France is waiting for the ECB to take its responsibilities as lender of last resort to reassure the financial markets and thereby protect its terms of credit and its banks. It would like a European government that can respond to the crises and undertake a contra-cyclical policy.

Countries in the south of Europe, weakened by the debt crisis, are hoping for financial solidarity on the part of their partners. They want euro bonds which would relieve the burden on credit interest rates.

Countries outside the euro zone – Poland and the UK – fear that the internal market will be brought into question.

And what if everyone was right to a certain extent? And what if, instead of waiting for the others to make the first move, we acted together? Everyone might find greater advantage than inconvenience in this and Europe would emerge from the crisis in a dignified manner.

What kind of insitutions for the future of Europe ?

Apart from the vital emergency measures taken in 2011 in a bid to extinguish the fire and restore financial stability in the euro zone, a fundamental reform of the European institutions is necessary so that the outline of true economic governance of the euro zone[1] can be defined. Here are some of the elements to be included in this global solution.

The first pillar would guarantee the euro zone's economic efficacy and also that of other Member States who would like to be involved. A list of structural reforms, with an implementation schedule, would be published for each country on the proposal of its government. A European Treasury would be created to manage the common euro zone debt issuance with its own fiscal resource to guarantee its credibility (for example a tax on European companies in place of their national equivalents which have been undercut by fiscal competition). The shared debt would be limited to treasury bonds, i.e. short term debt (eurobills) to a total of 10% of the GDP, as suggested by Thomas Philippon and Christian Hellwig[2]. The European Treasury might also issue, with the agreement of the European political institutions, long term loans to fund a European investment programme – in conjunction with structural funds partially transformed into contra-cyclical investment funds. This would help avoid the collapse of investments in the States that have been most affected by the crisis and it would also help investment in joint European projects, notably in the areas of energy and defence. Moreover the European Stability Mechanism, which is to replace the EFSF, would become a real European monetary fund capable of addressing bank and sovereign default in an orderly manner.

The second pillar would aim to guarantee the euro zone's political legibility and its democratic legitimacy. This first supposes that the euro zone would speak as one. One president piloting both the Commission and the Council would be elected by direct universal suffrage, as suggested by the CDU for the president of the Commission during its congress in Leipzig. The post of European Commissioner for Economic and Financial Affairs would be merged with that of the Eurogroup President, thereby creating the post of European Finance Minister, as suggested by Jean-Claude Trichet [3], which would provide the euro zone with one voice within international economic bodies. Furthermore budgetary supervision would be both technical (via the Commission) and political, involving MEPs, for example, via the creation of "a European Chamber" or a Euro Zone Parliament[4] that would bring together euro zone MEPs (in the same way as there is a council, which involves a restricted group of the Heads of State and government of the euro zone only) as well as the chairs of the Budgetary Committees of the national parliaments and the President of the Committee on Budgets of the European

1. See Jean-François Jamet, *L'Europe peut-elle se passer d'un gouvernement économique ?*, La documentation française, coll. Réflexe Europe – Débats, 2011.

2. Christian Hellwig and Thomas Philippon, "Eurobills, not Eurobonds", *voxeu.org*, 2nd December 2011.

3. Jean-Claude Trichet, "Tomorrow and the day after tomorrow: a vision for Europe", speech at the Humboldt University, Berlin, 24th October 2011.

4. See T. Chopin andt J.-F. Jamet, "Europe and the Crisis : what are the possible outcomes? Collapse, *status quo* or the continuation of integration? ", *European Issue - Robert Schuman Foundation, Policy Papers* n. 219, 21 November 2011, as well as J.-F. Jamet and G. Klossa, *Europe: la dernière chance ?*, Armand Colin, coll. Eléments de réponse, 2011.

Parliament. Finally, the democratic legitimacy of Parliament would be increased by adopting a representation that is more proportional to the population and by granting it a power of legislative initiative. If these changes proved to be far too incompatible with the rejection of federalism by some Member States like the UK, then the latter would be offered a more limited means of association, whereby they would only take part in legislative decisions relative to the internal market – and in this event only the latter would apply to them[5].

The third pillar, the ECB, strengthened by the implementation of this more effective, more credible and more legitimate budgetary union would accept its role as lender of last resort. However to prevent a deadweight effect, the ECB would simultaneously announce that in the future it would refuse (apart from in times of recession) to accept any new bonds issued by States as collateral, if they did not respect the rules included in the six-pack. The ECB would only accept to take on the bonds freshly issued by these States once the necessary corrective measures had been taken.

Each of the players in the present European psycho-drama holds a piece to the puzzle and it is time to put them all together: let us put a systemic response forward in answer to the systemic crisis. Changes to the treaty will be necessary as far as some of the reforms are concerned. It will take time but the path will be clearly traced. It is quite right that they should be validated democratically by the Parliaments or directly by the citizens. But the choice will then be clear: stay in the European Union or leave it.

"Two Europes"?

If modifications to national Constitutions are made necessary by the reform of the treaties involved in a programme like this, it would be up to the Member States' governments to decide to adopt the necessary modifications via parliament or referendum, according to the individual constitutional means in each State. Of course, the question remains of whether some countries would not be tempted to block the process or veto it during any possible ratification procedure. In any case progress towards integration will only be effective if alternatives are anticipated in the event of non-ratification by one or several States. Independent of solutions like ratification by a (super) qualified majority, it would appear clear that the Union's integration will be achieved according to differentiated routes.

In this light the juxtaposition of "two Europe" (a large "Union" with loose links and a close-knit, more integrated "Community" based on the euro zone) is gradually becoming an option to be taken seriously. Of course the danger is that the Member States will divide and the positions of those who remain outside of this Union will become strained. This route should not be seen as the constitution of a club whose members would be able to choose or reject new participants, since this choice would depend more on the specific interest of each of the members than on the common interest of the new Union. It is therefore vital to ensure that differentiated integration is inclusive and not exclusive, that it is an open process and that if it is subjected to conditionality (as with participation in the euro zone), that this is legitimate and transparent.

Having set out these reserves and in spite of the obstacles that may arise, the question of Germany's and France's role in the establishment of an integrated Community such as this has first to be debated and settled between the two countries, because the

5. Another more radical solution – which cannot be excluded – would comprise the UK leaving the EU and yet for it to remain in the European Economic Area. But this would be a problem for the UK which would no longer take part in decision making, and yet be obliged to comply with the common rules of the internal market.

strength of the Franco-German couple lies in its heterogeneous nature. If they want to maintain their driving force France and Germany must work closely with their partners in Benelux, the countries of southern Europe, such as Spain and Italy, but also the countries of central Europe, like Poland for example. Proposals from Germany on the future of the European Union have increased in number over the last few months. Germany's wealth of thought and inventiveness must strike a chord somewhere with the other Union members.

***

Are Europeans ready to discuss this? It is up to European and national leaders and beyond that, all of those who so wish, to rise to the challenge, the difficulty and range of which is similar to that faced by the Founding Fathers of Europe just after the Second World War.

After Fukushima, is a European Energy Policy still Possible?

Joachim BITTERLICH

Until 11th March 2011 the European energy environment seemed to be in order. But the tsunami and the tidal wave in Japan, which led to the catastrophe at the nuclear power plant of Fukushima, totally upset all certitudes.

Indeed on 4th February 2011the European Council[1] had approved the main guidelines and procedures to be used by the Commission and Commissioner Günther Oettinger, for the implementation of an ambitious energy policy to reduce CO2 emissions.

However the tragic events of 11th March in Japan opened up debate over the nuclear future, just as the accident in Chernobyl did 25 years ago. They led to a change in the situation, as far as some Member States were concerned and notably regarding Germany.

Germany's radical decision to quit nuclear power

As of 14th March the German government decided on a moratorium, closing seven of its oldest power stations for three months and ordering a security check on 17 other power plants. Three months later the government defined a radical change to its energy policy thanks to a far reaching national consensus and in agreement with the opposition parties in the Bundestag: nuclear power is to be definitively abandoned by 2022, in other words a year after the date the Schröder government had decided upon a decade ago. This is particularly ironic because the decision taken by the former government was modified by Ms Merkel's government in December 2010 extending the lifespan of the 17 most recent power plants by an average of 12 years.

Therefore over one decade Germany has decided to make three radical changes to its energy policy, all of which have been u-turns.

As far as the future is concerned Germany is counting on massive development of renewable energies, aiming to achieve CO2 reduction goals of 40% by 2020 and of 80% by 2050. It aims to become the world champion of green technologies.

1. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/ec/119182.pdf

This is both an historical and a popular turning point, a challenge coupled with an extraordinary wager in terms of energy to play an exemplary role in the most ambitious and most technological transition within industrialised countries: "*The way that Germany reacted to the Fukushima catastrophe is unique in the world. No other industrialised country wants to quit nuclear power in ten years time and at the same time reduce its CO2 emissions*," says Professor Klaus Töpfer, former German Environment Minister, an expert in this field.

However not only does this decision worry some German industrialists in the energy sector but it is also worrying consumers. Legal proceedings have been started.

What will the price of this 'Energiewende' be? Don't sharp increases in the future costs of energy entail an incalculable danger for the competitiveness of German industry achieved after the economic reforms undertaken in the Schröder era? Don't these changes require greater use of coal powered plants and as a result make CO2 emissions reduction goals unachievable?

Some observers go even further and wonder whether this change is really plausible in such a short period of time. They wonder especially whether the necessary adaptation of the electricity grids to renewable energies (the building of new lines) can be achieved given the delays that have accumulated to date in this field. According to a member of the German parliament (Bundestag) "*it is a sort of gamble, if it works we shall be heroes, if we fail it will destroy the comparative advantages enjoyed by the German economy with all of the consequences this entails.*"

Since the end of 2011 and following an initial series of legislative texts the government has refined the implementation plan of this fundamental transformation. In an article published in the *Frankfurter Allgemeine Zeitung*[2] Norbert Röttgen, Environment Minister presented the outline of the "Masterplan" to be implemented with his colleague the Economy minister. He pointed to four vital points:

– the extension of renewable energies and their integration into a guaranteed energy supply

– the need to have flexible power plants and to build adequate grids rapidly

– energy efficacy to "drive" the transformed supply

– combination of different factors to ensure the functioning of the new system, so that prices remain "reasonable".

Doubt about common European energy goals?

Concern associated to this decision has not just been raised in Germany but also by the European Commission and some other European Union Member States who are puzzled by the German decision, which is radical to say the least.

Some European observers note that the Germans did not even deem it necessary or useful to inform or even consult their European neighbours and partners. This would have been in line with the idea of solidarity included in article 194 of the Treaty on the Functioning of the European Union[3].

German friends did not accept this approach: In the past France has never informed its partners regarding matters involving their nuclear sites located close to the borders in advance, they did it only afterwards and on insistence.

Other observers add that it was not necessary to inform, or even to consult its partners since the energy mix is, according to the Lisbon Treaty, a national affair.

2. Norbert Röttgen, *Frankfurter Allgemeine Zeitung*, 12th December 2011, p.13.
3. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:fr:PDF

Article 194, TFUE

1. In the context of the establishment and functioning of the internal market and with regard for the need to preserve and improve the environment, Union policy on energy shall aim, in a spirit of solidarity between Member States, to:

(a)ensure the functioning of the energy market;

(b)ensure security of energy supply in the Union;

(c)promote energy efficiency and energy saving and the development of new and renewable forms of energy; and

(d)promote the interconnection of energy networks.

2.Without prejudice to the application of other provisions of the Treaties, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall establish the measures necessary to achieve the objectives in paragraph 1. Such measures shall be adopted after consultation of the Economic and Social Committee and the Committee of the Regions.

Such measures shall not affect a Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply, without prejudice to Article 192(2)(c).

3.By way of derogation from paragraph 2, the Council, acting in accordance with a special legislative procedure, shall unanimously and after consulting the European Parliament, establish the measures referred to therein when they are primarily of a fiscal nature.

One thing is certain however: the Fukushima catastrophe initiated debate in Germany and many countries over the future of nuclear energy, including in France. Of course for the French government it was out of the question to give up nuclear power which represents 80% of the energy mix, even though EDF is preparing to step up the share of renewable energies in electricity generation. However, under electoral pressure from the ecologists, the socialist opposition would appear to be looking at the question of reducing nuclear power down to 50%.

It is interesting to note that the European Commission[4] is one of the rare institutions that succeeded in keeping a cool head with regard to events in Fukushima. Indeed it re-iterated its objectives, refined and completed the tools included in the Europe 2020 strategy stressing that the Fukushima catastrophe had given it added legitimacy. According to the Commission the European Union needs greater energy efficacy and security and more sources of renewable energy. It is certain that a European response to present and future energy challenges is necessary, including with regard to the establishment of a common European energy market.

Towards a European energy policy – under which conditions?

The European Union is still capable of developing a common policy if it adheres to five vital points:

– Respecting national powers in the energy mix does not mean abandoning the idea of a common policy or a common market.

4. http://www.europarl.europa.eu/sides/getDoc.do?type=IM-PRESS&reference=20110316STO15692&format=XML&language=FR

Given the European energy policy's legal and political base the Commission has to propose the implementation of an energy policy, and permanent consultation with Member States on the development of energy mixes. This is especially applicable to Germany because of its geographical situation in the centre of Europe.

– *Substantially stepping up energy efficacy and reducing consumption significantly*. The optimisation of energy usage is key to the future energy policy – from insulating buildings with the use of new technologies through to what is now called the "smart grid".

– *Creating a common energy market.*

This presupposes the existence of competition within Member States and within the EU, including supervisory methods, either via the traditional means of the Commission's or Member States' competitiveness authorities and/or via the organisation of adequate "regulation". The first steps towards deregulating the energy sector undertaken since the 1990's have been disappointing, particularly as far as "unbundling" is concerned. To complete the European market transnational connections will have to be strengthened, they are essential elements of a European market.

– *Guaranteeing the funding and construction of adequate infrastructures required for energy supplies and for a market such as this*.

First and foremost this means the building of "intelligent power plants" particularly in the gas sector that can be used too as a base in the temporary supply of electricity alongside renewable energies. Secondly this means the building of the networks necessary for the implementation of a new energy mix based on renewable energies.

– *Creating a common European foreign policy in the field of energy*.

This means the hope of signing treaties of cooperation with third countries – I fear, except with Russia or Algeria, where the approach remains bilateral. In this context, the politicization of gas pipelines has been particularly damaging to the development of a common European approach.

***

In spite of these critical points, we must remain optimistic. Energy is a sensitive issue, notably because of its price; it is crucial for the survival of European industry long term and vital for both citizens and States.

It is easier to understand this optimism if we take on board the fact that adaptation of European energy policies will require an investment of between 300 and 1000 billion € over the next ten years. As a result it might provide a way of reviving industrial innovation in Europe and of promoting the future of leading edge industry and that of employment.

Does Germany still see Europe through the Franco-German Prism?

Franck BAASNER

Since the start of the crisis which we have become accustomed to calling the Greek Crisis, it has become clear that France and Germany, France with Germany, have a heavy responsibility to bear. Without agreement between the two governments progress cannot be made. To a certain degree this confirms an important truth about the European integration process. However, at the same time the attentive citizen could see that the Franco-German agreement was achieved under great duress and extreme external pressure that was stronger than during any other previous crisis. We also noted some new factors in terms of the behaviour and position adopted, both by the German government and parliament.

Many comments, notably in the French press, suggest that Angela Merkel is becoming increasingly stronger, that the stand-off with Nicolas Sarkozy was settled to the benefit of the new “Iron Lady”; Germany is quite simply taking control of Europe. We even read the phrase which is absurd in itself: “Europe is Germanifying”. These ideas, which reflect disquiet and concern, must be taken seriously, since they possibly address a phenomenon that has been emerging with increasing intensity for the last few years, i.e. new German ambition in Europe.

The Franco-German prism – has it ever existed?

Let us just look to the past – simply to see more clearly in the light of history. After the defeat of the Nazi regime, the occupying French hesitated between dismantling and rebuilding a partnership with a Germany that, in the interests of Germany itself and of Europe as a whole, finally had to come to a stable, democratic regime. Happily the idea of education and cooperation won over that of “reparation”, which had led to such damaging consequences post 1918. With the famous Schuman declaration of 1950 that was spontaneously supported by Konrad Adenauer, for the very first time the enthusiasm of thousands of German and French citizens for a better understanding between the two countries found political expression.

The Adenauer generation within European structures was the one that developed what we might indeed call the "Franco-German" prism. In its opinion and that of many German leaders at the time, European integration and pacification could not be achieved without an enormous effort being made towards rapprochement and reconciliation which also involved the First World War. We should remember the "dogmas" of Germany policy in the 1950's: rebuilding the country with millions of refugees arriving from the former eastern provinces of Germany, taking on a heavy political and moral responsibility, establishing the country in the democratic structures of the West.

Since that period of German "rebirth", Franco-German rapprochement has been quite a specific factor in the democratisation process of Germany, of its integration into Europe and NATO. Adenauer looked through this Franco-German prism, as illustrated by the Chancellor's words to Elsie Kühn-Leitz, who founded many Franco-German societies which still form a complex social network today: *"At present Franco-German entente is more important than European integration. Your commitment in this sense is said to be the best possible choice."* But there were less of those like him who understood the need to groom this special relationship with France and maintain a more general European strategy, than we might have wanted.

The second person who marked Franco-German relations was Charles de Gaulle. His official visit in September 1962, with his remarkable speeches in Bonn, Duisburg and Ludwigsburg, encouraged those amongst the Germans who reserved a specific place for France in their idea of Germany's future in Europe. The personal relationship between Adenauer and de Gaulle showed many citizens that the confrontational past between France and Germany was the basis of joint responsibility for a pacific and united Europe. After the signature of the Elysée Treaty in 1963, which laid the foundations for bilateral cooperation outside or in complement to the European structures that were planned for in the Rome Treaties of 1957, the latent dispute between the "Atlanticists" and the "Franco-Germans" broke out again. During the ratification of the treaty in the Bundestag a majority succeeded in imposing a preamble which again stressed the fundamental role of the USA and international structures. We cannot therefore presume that at that time in Germany the majority shared a "Gaullist" Franco-German vision of Europe.

And yet, during the long process of European integration France and Germany played their own particular roles to the full, rarely against European Union interests, often in the interest of an acceptable compromise by all sides involved. This is where the measures established by the Elysée Treaty took full effect. Regular high level meetings, teams of top-ranking civil servants which were formed as the years went by and the pedagogy of cooperation were factors that led to the acquisition of the capital that is vital for any cooperation: confidence.

This capital has allowed some important political figures to enjoy the dividends at key points in European history. When Helmut Schmidt and Valéry Giscard d'Estaing discovered the similarities in their vision of Europe, great progress was made towards deeper European union. As for the period between Adenauer and Schmidt it would be difficult to speak of a "Franco-German prism", with regard to Kiesinger maybe, but for Brandt not much. Therefore, the specific cooperation structures that were part of the Elysée Treaty have not always been extremely productive. But the *acquis* of bilateral structures allowed politicians to take up the opportunities that history offered them – Kohl and Mitterand, when the Berlin Wall came down; Schröder and Chirac, during the Iraq war. Kohl, a Rhinelander like Adenauer, certainly shared the idea whereby the Franco-German relationship had a separate role to play in Europe, but he was also the one to watch over the interests of the "small" countries in the Union which brought him respect and admiration. Schröder first looked to the UK before resigning himself to the simple truth that there was no alternative to enhanced cooperation with France.

What will relations be between Germany and France from now on? A convergence of interests to the benefit of the Union?

The Franco-German prism is far from having been a spontaneous series of post-war events. More often the fruit of rational analysis than the result of bursts of emotion, the particular place occupied by Franco-German relations is often felt by the players to be a constraint, and not so often, a well pondered choice. The strength of the Franco-German couple lies in the way it functions on a European community level. Every time the two countries have asserted their vision of things without the European Union being able to articulate and adapt Franco-German choices, the consequences have been undesirable (no sanctions were made against France and Germany in spite of an infringement of the Stability and Growth Pact). However the Franco-German proposals integrated into a European consensus were able to be deployed at full strength.

Let us focus on the present situation. Angela Merkel and Nicolas Sarkozy have had to do a great deal to get used to their respective country's political culture and to each other's personality. Since the Lehman Brothers crisis we have witnessed a well known phenomenon. France and Germany start off from different points but agree on a common position in the end. On first sight there is nothing new in this.

But the world context and the undeniable danger this represents, change the situation. Everyone is looking to Germany, which is ailing, but not as badly as other European states. Within Germany itself we see that debate over Europe is finally taking place after having been hidden behind a pro-European consensus. Two trends in opinion are now emerging. Some take the attitude of "*that's enough we shan't pay any more*", with the most radical going as far as demanding the dismantling of the euro zone into "North Euro" and "South Euro". In this group there are also some officials who cannot help but say "*we'll survive on our own*". The others remain deeply attached to a truth that has often been repeated, but the credibility of which we have to win back right now: Germany's interests are mostly the same as European interests. As it simply no longer seems possible to carry on as before, the political challenge is to keep on the course of stability and growth, respect the treaties and also democratic rules whilst simultaneously setting strict rules. From this point of view France is of course Germany's vital partner. Hence there is no disengagement by Germany with regard to France. There is even a trend towards traditionally French behaviour – i.e. priority is being given to the intergovernmental approach. We should laud the ability of both leading teams in coming to common positions. But we should stop reasoning according national influence and the Franco-German "Board".

***

If European fate is a shared one then we have to try and see that common interest once again and take a courageous step towards greater integration. There is no Germanic or Latin policy. There is a good or bad policy for Europe. If we could take matters forward on these terms then we might start moving towards the qualitative leap we so badly need.

Europe's Promise : Why the European Way is still the Best Hope in an Insecure Age

Steven HILL

The 21st century world is facing two immense challenges: how do we enact a desirable quality of life for a burgeoning global population of 7 billion people? And how do we accomplish that in a way that does not burn up the planet in a Venus atmosphere of our own creation, due to excess carbon emissions, pollution, and other downsides of development? That is a tall order to fill, yet it is the defining task of our insecure times.

More than anywhere else, Europe has been fostering the types of innovations that point the way forward for the world to meet these challenges. The economic crisis has overturned much of what we understood as the way to foster successful economic development. The Washington consensus that dominated the post-World War II era has been smashed into pieces like a jigsaw puzzle, with confused world leaders trying to reassemble the parts that make sense in this anxious new era. Despite the trials of the euro zone crisis, Europe's brand of "social capitalism" is still a better model for the 21st century than America's "Wall Street capitalism" or China's "communist capitalism" because it has developed itself on several crucial fronts.

The European economic and social model

An economic power

The typical knock against Europe by critics has been that these levels of support for workers, families, communities and the environment are unsustainable, and make the European economies weak and sclerotic. The economic difficulties of the euro zone have only increased these criticisms. But even after the economic collapse of 2008, Europe still has the largest economy in the world, producing over a quarter of the world's gross domestic product, larger than the United States and India combined. It has more Fortune 500 companies than the U.S. and China together, and some of the most competitive national economies according to the World Economic Forum. The E.U. is now the largest trading partner of both the U.S. and China[1].

Europe's economy actually has more small and medium-sized businesses (SMEs) than the U.S. that provide two-thirds of Europe's jobs, compared to half the jobs in the United States[2]. In many European countries, the SMEs are world-class exporters, making products that are crucial to industrial growth in the developing as well as the developed world. So much for too much red tape supposedly strangling the European economy

While several European economies – the so-called PIIGS (Portugal, Ireland, Italy, Greece and Spain) – have had difficulties, the rest of Europe is gradually recovering from the largest economic collapse since the Great Depression. Germany, with only 6 percent unemployment (compared to 9 percent in the U.S.) has defied the experts' predictions and is a reminder of Europe's capacity for pleasant surprises. In Scandinavia, Sweden's economy expanded by over four percent in 2010 and is expected to see more growth in 2012, according to OECD estimates; Norway, Finland and Denmark also are expected to see growth. Poland avoided a recession altogether, and Netherlands, Denmark, France, Switzerland, Poland, the Czech Republic and others have maintained their footing during this economic upending.

So despite sovereign debt worries in five countries, Europe's economy overall is hardly weak or sclerotic. Social capitalism has performed better than Wall Street capitalism in many ways. And while China has outperformed Europe in terms of growth, it is a long way from figuring out how to create a more broadly shared prosperity for the vast majority of its 1.3 billion people.

Environmental sustainability, readying for global warming

Europe is leading in preparing for global warming, with widespread deployment of conservation practices and "green design" in everything from skyscrapers, public buildings, homes and automobiles to low wattage light bulbs, motion sensor lights and low flush toilets. Europe has moved forward vigorously with renewable energy technologies like solar, wind and sea power, as well as efficient mass transit, high speed trains and more. In the face of vehement criticism from the Obama administration, China and other countries, Europe has pressed forward with its plan to force all international as well as European airlines to buy carbon credits to offset their emissions. As a result of this transformation toward sustainability, the average European uses half the electricity of the average American[3], and it takes 40 percent more fuel to drive a kilometer in an American car compared to a European vehicle[4]. Europe has reduced its "ecological footprint" (the per capita amount of the earth's capacity consumed by a population) to half that of the United States for the same standard of living[5]. And in the process, Europe has created hundreds of thousands of new green jobs.

China also has begun greening its economy and society, but it is so vast and poor a country that it has a long way to go before it reaches Europe's level of deployment or sophistication.

1. Fortune magazine's Global Fortune 500 rankings, 2009, located at http://money.cnn.com/magazines/fortune/global500/2009/index.html

2. Jeremy Rifkin (2004), *The European Dream: How Europe's Vision of the Future Is Quietly Eclipsing the American Dream*, New York: Jeremy P. Tarcher/Penguin, p.69.

3. Central Intelligence Agency, The World Factbook, "Country Comparison: Electricity – consumption," https://www.cia.gov/library/publications/the-world-factbook/rankorder/2042rank.html, U.S. per capita consumption is 12,470 kwh, E.U. per capita consumption is 5774 kwh

4. Steven Hill (2010), *Europe's Promise: Why the European Way is the Best Hope in an Insecure Age*, Berkeley: University of California Press, p. 183.

5. WWF (2008), *Living Planet Report*, Gland, Switzerland, October 2008, p. 36-38, http://assets.panda.org/downloads/living_planet_report_2008.pdf. Europe's Total Ecological Footprint was rated at 4.7 hectares per person while the U.S. was rated at 9.4 hectares per person

Health care and social support

In this economically unstable age, European nations have done more than anywhere else to reduce inequality and provide economic security for families and workers. Europeans today enjoy universal health care for all, decent retirement pensions, an average of five weeks paid vacation (compared to two in the U.S.), paid parental leave and sick leave (in the U.S. neither is mandatory or universal), affordable childcare (Americans pay at least six times more), low-cost higher education (American students graduate tens of thousands of dollars in debt), and a shorter work week with comparable wages. Social spending in Europe runs 35 percent higher per capita than in the United States[6]. Not every country enjoys the highest level of family supports, with western Europe generally having more than central and eastern Europe. But the west-east gap is closing, and even in Greece, which has been beset by deep economic woes, people still have more of these supports than most Americans or Chinese.

European nations are rated by the World Health Organization as having the best health care systems in the world, with France having the top-ranked system. Some like Sweden and the UK use a government-directed, single-payer system, while France, Germany, Belgium and others employ private but *nonprofit* insurance companies as the backbone of their health care systems. Costs and fees are negotiated between all the various health care sectors, with the end result being that countries are spending only about half the amount of money per capita as the United States and its for-profit system to provide universal coverage. . Despite spending far more money, 50 million Americans don't have any health care at all except a hospital emergency room, and the quality of U.S. health care is ranked 37th in the world -- just ahead of Cuba and Kuwait, truly a damning indictment of the American for-profit system. And in China, the health care system is primitive and expensive for the average person[7].

America can take great credit as the inventor of the middle class, but Europe has figured out how to put the middle class on a more stable footing by providing supports for families and workers, and by reducing inequality and the number of people in poverty. As British medical researchers Richard Wilkinson and Kate Pickett have demonstrated in their book *The Spirit Level*, inequality dramatically affects other social ills, such as infant mortality, crime, homicides, incarceration (the US incarcerates 7 to 10 times more people than European nations do), life expectancy, mental illness, drug abuse, alcoholism and more. These social ills are expensive to treat and an additional drain on the economy and social fabric. In all these areas, Europe's social capitalism has made demonstrable improvements over America's trickle-down capitalism or China's communist capitalism.

The European economic and political democracy

An economic democracy

Europe has fostered a greater degree of economic democracy by deploying practices like codetermination, works councils, co-operatives, strong labor unions, and public-private partnerships. Codetermination, first pioneered by Germany, allows workers at

6. "Before austerity, sizable social benefits," *Washington Post*, April 24, 2011, www.washingtonpost.com/world/before-austerity-sizable-social-benefits/2011/04/24/AF22IvdE_graphic.html

7. WHO (2000), *The World Health Report 2000—Health Systems: Improving Performance*, Geneva, Switzerland, annex table 1, 152, www.who.int/whr/2000/en/whr00_en.pdf.

major corporations and Fortune 500 companies to elect their own representatives that sit side by side with stockholder representatives on corporate boards of directors. From the American standpoint, this is like requiring Wal-Mart to allow its workers to elect up to 50 percent of its board of directors. It's hard for Americans or the Chinese to even conceive of such a notion, yet many European nations employ some version of this as standard procedure.

Codetermination also includes worker-elected works councils in most workplaces, which give workers a great deal of input and consultation at the shop floor level. Europe in effect has reinvented the corporation and stockholder capitalism by empowering its stakeholders, yet most political analysts and economists have barely noticed. The impact of codetermination has been immensely significant, and yet it has not hurt Europe's competitiveness. Indeed various studies have shown that these practices have helped the economy by fostering a culture of consultation, information-sharing and consensus-building between business managers and workers[8].

Europe also has been steadily reforming its financial sector, cracking down on the "greed culture" by limiting bonuses, pushing for a financial tax on stock market transactions, proposing alternatives to the corrupt rating agencies, regulating hedge funds, derivatives and short selling, increasing cash reserves for banks, and requiring the originators of asset-backed securities to retain at least 5% "skin in the game" (meaning they must retain ownership of 5 percent of those securities they have created, which disincentivizes Goldman Sachs-type financial fraud). Europe also has greatly increased supervision by launching four new agencies that police Europe's financial institutions, protect consumers and taxpayers, and monitor and warn of excessive risk in the financial system.

But banks and the financial industry is one area where Europe has a lot of work still to do. Europe, like the US, allowed its banks to become gambling casinos backed by tax payers' money. While European banks are not as guilty as Wall Street for causing the global crash that still bedevils policymakers, nevertheless Europe was extremely vulnerable because it has yet to figure out the proper role for a financial system in a sustainable, steady state economy. As in the US, discussions of core principles such as whether some banks can become "too big to fail" have been shelved. Europe has yet to develop a concept of "social banking" that outlines how financial institutions can play the crucial role of providing suitable amounts of credit for businesses and the economy, but in a way that would "make banking boring again," as former Federal Reserve chairman Paul Volcker has called for. The financial system and its banks remain one of Europe's greatest challenges as it tries to maintain and further advance its progress.

A political democracy

After centuries of kings and dictators, Europe has forged pluralistic political institutions and electoral methods like proportional representation, public financing of campaigns, free media time for campaigns and automatic/universal voter registration that have produced the most representative democracies in the world at the national level (at the European Union level, however, which is relatively new and still in formation, the institutions have not yet resulted in sufficient levels of democracy or accountability). These modern practices have fostered inclusiveness, participation, multiparty representation and policy based on broad public support and consensus-building. Europe's robust political democracies ensure that politics rule over economics, instead of the other way

8. Jonas Pontusson (2005), *Inequality and Prosperity: Social Europe vs. Liberal America,* Ithaca, NY, and London: Cornell University Press, p. 117–18. See also the work of Klas Levinson, researcher for the former National Institute for Working Life in Sweden, one of the world's experts on codetermination.

around, resulting in the benefits of its social capitalism being broadly shared. But in America's Wall Street capitalism, powerful economic forces have captured the political system and turned the economy into a trickle-down one; the 400 wealthiest Americans now have $1.4 trillion in wealth, greater than the GDP of India with a billion people (this stark inequality has given rise to the Occupy Wall Street movement and its framing of "the 1% vs. the 99%")[9]. And in China's "consultative dictatorship," a small cadre of political and business leaders try to manage the nation like a giant corporation, which so far has resulted in vast inequality.

Despite Europe's considerable achievements, many myths abound. One myth says that "Europeans pay more taxes than Americans," but for their taxes Europeans receive a long menu of supports and services for which Americans must pay extra, via out-of-pocket fees, premiums, deductibles, higher tuition and other charges, in addition to their taxes. For example, many Americans are paying a lot more out-of-pocket than Europeans for escalating health care costs. Other Americans are stuck saving tens of thousands of dollars per child for their college education, yet young Europeans pay low tuition (and in some countries no tuition). Millions of Americans are scraping to save the money they will need for retirement beyond their meager government pension, but the European public retirement systems are more generous, paying out twice as much per individual as America's Social Security[10]. Many Americans pay extra for child care (at least six times what Europeans pay), or self-finance their own parental leave after a birth, or sick leave when they get sick, and senior care when they are old, but Europeans receive all of these and more in return for paying their taxes. When you sum up the total balance sheet – taxes paid as well as out-of-pocket expenses -- it turns out that many Americans pay out more than Europeans, but they receive a lot less for their money.

That kind of inefficiency is undermining America's middle class and families. In this era of globalized capitalism, with developing countries like China, India and Brazil demanding their deserved seat at the table, all of the developed countries are going to need to learn to do more with less, and to increase productivity in all sectors. European Member States can offer services such as healthcare, childcare and more for much lower cost than in the US because they collect their tax dollars into pools of "social insurance" which allows them to design relatively efficient, cost-effective systems. But the US has created scattered, hodgepodge systems, many of them for-profit and privately financed, that are inefficient, expensive and lacking in quality and coverage.

Properly understood, Europe's economy, political democracies, social support system and environmental policies are all components of an identifiable European Way -- a well-designed framework in which a capitalist economy has been harnessed to finance a broadly shared prosperity as well as environmental sustainability. The economic engine finances a social system that better supports families and individuals in an age of globalized capitalism that threatens to turn most people into internationally disposable workers. Even the continent's conservative political leaders agree that this is the best way; indeed European conservatives are for the most part to the left of the Democratic Party in the United States.

9. Julianne Pepitone, "Forbes 400: The super-rich get richer," CNNMoney, September 22, 2010, http://money.cnn.com/2010/09/22/news/companies/forbes_400/index.htm

10. For American figures, see "Understanding The Benefits," SSA Publication No. 05-10024, January 2010, ICN 454930, p.4. and "Social Security Provides a Foundation on Which to Build Retirement Security," Social Security Administration, www.ssa.gov/pubs/10055.html. Also see Stephen Beard, "German pension system showing age," Marketplace Money, May 15, 2009, www.marketplace.org/topics/business/next-american-dream/german-pension-system-showing-age; Reuters, "Possible French pension reform proposals-FACTBOX," July 13, 2010, www.forexpros.com/news/interest-rates-news/factbox-french-pension-reform-proposals-148090; Edmund L. Andrews, "Germany Clears Way for Pension Reform," New York Times Service, published in the International Herald Tribune, May 12, 2001; "Germany's Pension Reform," The Economist, May 10, 2001; and "Go Private, Says the State," The Economist, May 10, 2001.

The differences between the European, American and Chinese ways is not a mere coincidence, but rather a direct result of basic differences in key economic, political, media/communication and environmental institutions and infrastructure that have been quietly incubating and evolving in the post-World War II period. Taken together these differences in "fulcrum institutions" -- the crucial institutions on which everything else pivots -- are the keys to understanding the striking divergence between the European way and the American and Chinese ways.

Young Europe meet young America

Some analysts and pundits predict the unraveling of Europe as a result of the euro zone crisis. But these same experts have been predicting the "end of Europe" for many years and have been wrong. That's because this viewpoint ignores the historical record about the complex process of integrating economies. Europe is in the process of deciding how united it wants to be, and that process is going to take decades.

To understand the present and future, sometimes it's helpful to revisit the past. In the case of Europe, it is instructive to consider the young United States of America in 1789. This young America was torn by regional tensions and sovereign-minded Member States that were constantly in the process of deciding to what degree they should forge a new union or maintain their separate ways. Young America had no single currency -- each state had its own currency, indeed banks even had their own scripts that were used like currency. The new nation also was plagued by debt to domestic as well as foreign creditors. To meet these challenges head-on, the first Secretary of the Treasurer, Alexander Hamilton, took the lead in designing the beginnings of a modern financial system, including a single currency. Attesting to how controversial these matters are, two of the most important and influential founders, Thomas Jefferson and James Madison, were fiercely opposed to Hamilton's plans.

Even more than the current European Union, this young America was gripped by regional tensions, north, south, east and west, with few Member States wanting to yield much state sovereignty to a national government. Americans were so suspicious of central government that President George Washington – who was a military hero and enjoyed god-like stature as the nation's preeminent leader – dared not propose raising funds for a standing army. People were so against federal taxes that the first national tax, which was levied on whiskey – chosen because it was less controversial than other possible taxes – led to open rebellion in western Pennsylvania, prompting President Washington to march troops there to suppress it.

There were moments throughout the 1820s, 30s, 40s and 50s when it seemed like those "united" states might crack. Finally, a full 70 years after its first government, America fought a bloody and bitter civil war over "states' rights" (and the related issue of slavery), which at its core was a violent disagreement over the powers of central government and member state integration. In short, it took many decades from its founding for America to cease being a collection of regions and to become a nation. And during that time the US economy suffered at least seven bank and financial crises. Yet America persevered, continuing to define its union decade after decade, uneasily bound by a political will that believed, as founder father Benjamin Franklin had forewarned, "We must all hang together, or most assuredly we will all hang separately." These tensions between the central government and Member States never really disappeared. You could see them in the U.S. in the 1960s during the civil rights era, and even today in the insurgence of the Tea Party movement.

***

Sound familiar ? Europe today has many contradictions and tensions, but nothing on the scale of those that led to a civil war in United States. But Europe has a long road ahead as it continues to fashion its "union" and decide how united it wants to be. Despite the short-term debt crisis in some of the E.U. Member States, if we are to survive the 21st century then Europe must step up its global leadership. America and China are each grappling with their own deep-seated challenges and internal contradictions, and so their capacities for leadership have limits.

Part of Europe's leadership must involve spotlighting its fulcrum institutions – economic, environmental and political - as well as its values of solidarity, social capitalism and ecological and economic sustainability as the basis for a new development model that offers hope to the world. In this make-or-break century beset by a worldwide economic crisis, global warming and new geopolitical tensions, the European Way still has the greatest potential to carry the world forward.

2

Facing the Economic and Financial Crisis: Regulation, Investment, Solidarity

The Euro, Markets and Politics

Christian DE BOISSIEU and Olivier PASSET

Under pressure from the markets partial solutions are currently being found for the euro zone crisis. Recent financial turmoil, linked to the delay in setting up the EFSF and the persistence of contagion towards "heavyweights" in the zone, are emblematic of this tension between political time, subject to democratic rule, and the short time spans of the markets.

The methods for resolving the crisis behind closed doors, the ascendant position taken by the Franco-German couple within the European Council, the recurrent declarations made by the Eurogroup president regarding the need to limit Greek sovereignty, the role in managing the crisis devolved to the Troika and the nomination of technical governments in Greece and Italy, almost mandated by the European elite, are all so many signs of the increase in power of "technocratic governance". Political scientists discuss the scope of this movement: democratic deficit or not? It is not unusual for periods of high risk to lead to exceptional methods. A strong tendency or a parenthesis, public deficits on the one hand and democratic deficits on the other, place States under the double threat of brutal debt market reactions and social explosion. Both risks added together create uncertainty as to the European integration process, unequalled since 1957.

Market time and democratic bypassing is necessary, however, when States do not integrate "long run" into the decisions they make prior to crises adequately. The shortcomings in the euro zone were identified years ago - right from the outset in fact. From 2005, the board of governors had also sent an initial analysis of the multiple signals of price and cost divergence within the zone to the Eurogroup and asked the authorities to give more in-depth consideration to the problems of real convergence and particularly competitiveness[1]. We might also probably add to this inertia errors of analysis. There are many who believe that differenciation of risk premia on interest rates would be limited under the single currency. The lack of any clear mechanism of insurer of last resort in case of sovereign default and, specifically, the ban put on the ECB from directly supporting a State, now appear as congenital weaknesses of the euro which, with hindsight, have been extremely costly. It is this failing that countries in the zone are now very late in facing. This factor is, nevertheless, just one stage in a re-working process that must go much deeper, one that the politicians must initiate immediately, at the risk of putting the euro zone well and truly, and lastingly, under the tutelage of the markets.

1. SEBC monetary policy working group (2005) "Competitiveness and the export performance of the euro area", study n° 30 in the ECB studies series.

The euro and market time

Market time compared with the time taken by diplomatic negotiations

In Brussels on 27th October 2011, a defensive mechanism was put in place intended to re-establish market confidence and avoid the spread of the crisis within the zone. The agreement proposes a review of the format of the EFSF, restructuring of the bank component within the Greek debt (to a total of €102 billion) and sets the principle of recapitalisation of the banks. The EFSF is a tool to guarantee and mutualise risks in the euro zone. It has a twofold aim of ensuring liquidity on the primary public bonds market and of participating, as a last resort, in the recapitalisation of banks. By taking action at these two levels, amongst the States and the banks, the new mechanism is supposed to minimise the probability of systemic financial crisis.

Europe has been criticised for its slowness in finding a joint solution in response to the emergency situation. Market time is not the same as time required for arbitration at inter-governmental level. This is also true for the G20, which is suffering from this excessive gap between intentions, decisions and then performance. It is nonetheless true that what has caused the problem is less the institutional slowness than the mistake made in analysis, as demonstrated by the lack of any credible mechanism to prevent crises. Continental Europe finds itself in a paradoxical situation. Although not the epicentre of the crisis that has shaken the world since 2007-2008, and particularly not having suffered from any kind of massive and generalised drifting of private debt (with some notable exceptions, including Spain), it is nonetheless seen as the weak financial link as the crisis comes to an end. This turnaround leads one to presume that there are major shortcomings. If the euro zone had been given a guarantee fund right from the very outset, in a credible format, the market would probably not have played on the differentiation of premiums within the zone. In the absence of any high *spreads,* the problems of public finance unsustainability would be much less intense, and probably restricted to Greece. The banks would also be less fragile. The prior existence of a support fund or less drastic provisions regarding the purchase of bonds by the ECB would perhaps have enabled the tool to avoid being mobilised, with risks remaining latent. Its late creation, within a context of very high interest rates in peripheral countries, forced not only the creation but also the actual use of the instrument. The markets dictate their own law only because the politicians did not use the time available to them. The markets had actually left them over a decade to do this.

Market impatience in response to lack of growth and unemployment

Strains in the markets in fact reveal less impatience in response to the time required by democracy, than with the problems caused by slowing growth and its consequences on unemployment. The markets are issuing a contradictory injunction for rapid consolidation of the financial imbalances and hyper-sensitivity to the signals of a slowdown in growth. This contradiction, which rejoins the question of short term/long term articulation, is a source of instability. Yet this instability is set to last because, even considering the fear of a repetition of "the error of 1937[2] ", the dilemma of economic policy is difficult to manage. Of course, consolidation is compatible with a preservation, even a restart, of growth drivers in the long term by structural policies and targeted investments

2. Eggertson and Pugsley, "The mistake of 1937: a general equilibrium analysis", *Bank of Japan Monetary and Economic Studies*, 2006. The process of budgetary consolidation begun by the federal American government and the FED's policy to combat inflation plunged the United States into another recession.

for the future. But the response time associated with these two types of orientation are not the same. The tightening of the fiscal policy comes into play within a year, whereas the effect of structural policies is much more spread out. Yet over two points of GDP must still be contributed first [3] in the euro zone in order to bring deficits down to sustainable levels. Throughout this transition phase, it is highly likely that the markets will be subject to a high degree of volatility.

It is not so much the slowness of the democratic process that should be pointed at, as the delays of countries in giving themselves the institutions required for stability of the euro zone and a lasting single currency. The fact that the euro zone is not an optimum currency area is nothing new. Moreover, does any optimal currency region actually exist, that is to say with respect to the strict criteria posed by economic theory and particularly by Nobel Prize winner Robert Mundell? Imperfection and heterogeneity imply either the need to prevent any kind of nominal divergence or the establishment of inter-regional transfer instruments, an option that Germany does not want to use.

The euro and policies' time

Extinguishing the fire and then rebuilding: managing heterogeneity

The EFSF and the emergency solutions adopted by States within the inter-governmental framework are aimed at the immediate symptoms of the European crisis. Faced with the crisis in the euro zone, the objective since 2010 has been to contain the effects of contagion towards Italy and Spain and towards other countries which, in the "sequential" process of the markets, would come afterwards.

These mechanisms do not resolve the deepest causes of the crisis in the euro zone. Resolution of the crisis is not possible by means of a simple cocktail, mixing a measure of EFSF and a measure of tighter fiscal rules. The euro zone cannot last for much longer without truly coordinated macro-economic and structural policies and renewed governance. This is the challenge facing Van Rompuy's task force, whose work began in March 2010. This process, which received less media coverage that the emergency treatment given to the Greek crisis, resulted in the "governance package" examined by the EU Council in March 2011 and adopted after lengthy discussions at the end of September by the European Parliament. The principles set forth in this new renovated governance framework commit the euro zone to extended supervision of its "excessive" imbalances. This framework is certainly more relevant than the previous one from the point of view of the economic principles on which it is based, but it is also more complex (and still rather hazy) with regard to the indicators to be supervised. Practical implementation has yet to be invented. The proposals made in November 2011 by the Commission President, including on "stability bonds", complete the previous ones. But they raise the same questions regarding the fragile political consensus within Europe and the difficulties entailed in taking action.

The heart of the problem lies in the real divergence of economies and the absence of any automatic mechanisms for re-equilibration of intra-European current account imbalances. The crisis in the euro zone is not just a debt problem. It is also the consequence of poorly managed heterogeneity within the zone, particularly sub-competitiveness of part of Southern Europe with regard to Germany, which is top of the European class in terms of both price and non-price competiveness, and a few other countries that form the "hard core" of Europe.

3. Much more ex post within a context of growth below its potential.

The increasingly marked asymmetry of current account balances within the European area bear witness to the difficulty in reducing imbalances by playing on relative prices alone. Alongside this, inter-regional financial transfer instruments have proved to have insufficient scope in the event of any deep crisis.

The ECB pointed years ago to the dangers induced by divergence in costs and prices inside the zone. This divergence has been accompanied by increasingly marked imbalances in terms of bilateral balances of payment in Europe. Since then, much research work[4] has found an intensification of problems with competitiveness, with, as a background, a high degree of disparity in terms of productivity levels and unit costs in Europe. Adjustment through prices is necessarily slower than adjustment through exchange rates. Asymmetric shocks are alleviated not only slowly, but differences in productivity levels weigh heavily on the margins of exporters and, in the longer term, on market shares. Financial imbalances can then prove cumulative. The tightening of credit limitations in the event of financial crisis also limits the possibilities of finance for innovative sectors and contributes to the real divergence of economies. Within a context where there is no automatic correction mechanism for imbalances, the danger of seeing them grow tendentially is great. This means, in substance, that there exists, in areas in deficit, an increasing number of agents exposed to a risk in terms of solvability or liquidity. Within this context, the insurance instruments set up at any given time regularly risk proving to be of insufficient size. The EFSF has, moreover, been reformatted three times since it was established, a year and a half ago, and this could probably happen again.

The European Central Bank: lender of last resort?

Faced with the real divergences that exist, in the short term, in order to prevent any systemic risk, the EFSF (European Financial Stability Facility) must not have any previously fixed limit on its striking force. Because experience shows that as soon as this kind of limit is announced, the markets (in reality a certain number of operators and investors) want rapidly to test its strength and political credibility. Such was and remains the spirit of France's proposal, and that of a certain number of economists, to "connect" the EFSF to the ECB and thereby open up a refinancing capacity and an ability to access liquidity that is not capped to begin with. Until now this proposal has been rejected by Germany, for reasons that are both economic (risk of inflation, through the monetisation of public debts, in case of limitless refinancing of the EFSF through the ECB) and legal (risk of violation of the Maastricht Treaty with regard to the rule of "no bail-out" of Member States by the ECB and therefore banned by the Karlsruhe Constitutional Court). With its back to the wall Germany has nevertheless shown itself to be more pragmatic than it had said itself to be and than had been foreseen by others. If a real systemic problem were to arise in the zone, coming from Italy or Spain, we would have to go beyond the €1000 billion announced in the Brussels agreement of 27th October 2011 and articulate in one way or another, the EFSF and the ECB. In a scenario such as this legal arguments would probably give in to the principle of economic and political reality. The appropriate legal solution would be found only afterwards.

Reconciling rigour, growth and solidarity

How can rigour and growth be reconciled, how can we find a balance between negative opinion causing lack of mobility and more positive messages? It is important to walk "on both legs", i.e. to stay the course over time to achieve a reduction in deficits and public debts, take initiatives to increase growth that is far too moderate and improve

4. On this subject see the recent COE-Rexecode report, directed by M. Didier and G. Koléda: *Compétitivité France Allemagne : Le grand écart*, Paris, Economica, 2011, 135 p.

unemployment figures in general and youth unemployment in particular, which may rise. How can both aspects be reconciled? By financing future expenditure (R&D, innovation, education, SMB development, etc.) using more active mobilisation of the private saving available, at national and European level. A recession would certainly not be the right solution to get public finances back on track.

The definition of rules for public as well as private financial imbalances would be a good way, to avoid a break up of the zone in the long term. The European crisis suggests that it is artificial to separate public and private debt, and to reason only in terms of sovereign debts. Two examples illustrate this. In Ireland private over-indebtedness, including that of the banks, which accompanied the property bubble and led to massive intervention by the State and the sharp increase in the public debt when the property bubble exploded. In Spain the ratio of public debt (68% of GDP) is not the n°1 problem unlike in Greece or Italy. Fragility is due to private over-indebtedness and the resulting vulnerability for regional savings banks. This is the road that the Commission would appear to be taking with the establishment of a supervision and sanctions procedure for "excessive imbalances". This direction is, however, not an easy one to put into practice.[5]

From a strictly fiscal point of view, the establishment of constitutional rules would appear to be the necessary counterpart to the development of insurance, transfer and inter-regional equalization tools. They may also take the more flexible form of independent fiscal committees, as is the case of the Swedish fiscal policy council. In view of the difficulty in applying mechanical rules to the paroxysms of a crisis, the second solution may be necessary during a transitional phase.

The risk of rules failing within a context of price rigidity should also be underlined. By making the whole adjustment weigh on public finances, the danger is that these freshly created rules will lose their credibility. Because in an environment where prices are rigid, fiscal multipliers are particularly high. Increasing or persistent deficits are firstly the consequence of the real divergence of economies. It is very difficult for States to re-establish public finances when the industrial base shies away and unemployment is on the increase.

So Member States really must reduce their public deficits when growth so permits, in order to gain contra-cyclical fiscal room for manoeuvre when growth diminishes. The systems of sanctions applicable to euro zone member countries that lastingly deviate from public finance standards must also be made tougher, not now in the middle of a crisis but in the future. Depriving lastingly deviant countries of their voting rights in European bodies or of access to structural funds throughout the periods of deviation would appear to be a more efficient sanction than penalty deposits with the ECB on which the current mechanism relies. After much hesitation about what sanctions to apply, now, at the end of 2011, the debate is heading in a direction that is much better, because it is more credible.

Increasing policy coordination and mutualisation of debts

5. From what level should excessive imbalance be sanctioned? There is current debate on imbalances of payment that are sustainable within a monetary zone. A current account deficit does not always indicate economic dysfunction and may be optimal according to its macro-economic situation. Specifically, account must be taken of the structure of financing of the economy. Monetary financing does not have the same scope as financing by direct investment, which witnesses to anticipations of positive profits within a territory. The commission's analysis cannot therefore apply a mechanical rule and, in particular, a fixed threshold. The analysis must thus be circumstanced. Should there also be symmetry in the sanction of excessive imbalances? One may suppose that symmetry is the very basis for coordinated action but it would appear difficult to combine this situation with sanctions, particularly when they are addressed at Germany and its excessive surpluses.

Consolidation rather than partition of the euro zone

If Europe wants to avoid a scenario in which the consolidation targets it has set itself fail, it is essential that it also takes action on coordinated adjustment of prices. This means specifically that the ECB could, at least in the crisis resolution phase, initiate a policy known as *price targeting*, in which countries in surplus and with low inflation rates, would temporarily relax their grip on salaries and inflation whilst countries in deficit would implement wage moderation. This is not a matter of challenging the average target in the euro zone, but of lightening adjustment for countries with a competitive handicap. Undertaken separately, in Greece or in Portugal, wage deflation policies raise fearsome political and social challenges of inequality and acceptability by public opinion and citizens, and tolerance thresholds. It would also be advisable to give Greece more time in which to get back in line in terms of public deficit, in the knowledge that, in any case, a great deal of time will be required to correct the public debt ratio.

Within this context, partition of the euro zone between North and South would involve more dangers than benefits. The gap between the two groups of countries would only grow, with more efficient countries benefiting from virtuous circles and the others getting bogged down in vicious circles. The same name, euro, would then be used for different, increasingly divergent realities. Moreover, how could this type of division in the euro zone operate within the reality of a single market? With a euro zone reduced to just a few countries we would lose the advantages of size, demography, economies of scale, geopolitics, etc. It is far better to consolidate Europe than to "slice it up".

The crisis: an opportunity for progress in the economic and political governance of the Union

To avoid recurrent crises, which would end up putting both the euro zone and the euro itself in danger, we must use this crisis as a springboard towards better economic and political governance within Europe. In practice this means giving the euro zone and the Eurogroup more of their own powers, reinforcing national fiscal policy supervision mechanisms and sanctions in the euro zone, heading for greater integration and coordination between the 17, and, if necessary, institutionalising a Europe of variable geometry which actually already exists.

Hitherto the serious crisis in the euro zone is not a crisis of the euro as a reserve currency and reference currency. Firstly, the euro exchange rate against the dollar remains high, overvalued by around 20% in a bilateral exchange rate after two years of sovereign debt crisis in the zone. This means that the world has not sold the euro massively, suggesting that, in the mind of many operators, the American dollar is fragile, weighed down by the deficits and debt of the United States and disputed in terms of its international role, at least verbally, by the Chinese and a few others. Also, the euro's market shares, whether in terms of currency reserves held by central banks, world trade invoicing, the currency market or the international bond market, have not fallen over the past two years, quite the contrary in fact! That being said, if turbulence goes on much longer there will come a time when the euro zone crisis will pose a problem in terms of the image and credibility of the euro itself.

In the long term, pooling of sovereign debts in the euro zone is desirable. Pooling should remain partial to avoid taking responsibility away from Member States. This is a classic problem of moral hazard. It will take time, because there is no lack of legal and factual obstacles. The Karlsruhe Constitutional Court ruling, last September, implies, without actually mentioning them, that for German national sovereignty it would not accept euro bonds.

Euro bonds would have the advantage of creating in Europe a public securities bonds market, in a better position to rival the American securities market and with a depth and liquidity that would bring financial benefits with them. However, one should be aware of what the creation of euro bonds implies: much more intra-European coordination, not to say integration of fiscal and tax policies and of the public debt than is the case as things stand. This link between euro-bonds and the counterparts in terms of supervision of national fiscal policies underlies the proposals made by the European Commission in November 2011, to which we have already referred, regarding *stability bonds*. In the long term we will look towards euro bonds formulae because the crisis shows that the current functional and institutional configuration must evolve if we are to consolidate the euro zone, the euro and Europe, and avoid recurrent crises.

***

A combination of vision and pragmatism is necessary in order to regain confidence and stability. As things stand, Europe is singularly lacking in vision and project, for many well known reasons. Although the crisis is encouraging more inter-governmental initiatives, the Commission must regain a proactive role instead of one that is merely reactive. Pragmatism is also necessary. It has inspired some of the developments seen over the past two years. That means, for example, reinforcing the powers and prerogatives of the euro zone alone, adapting the EFSF to the needs of the hour and implementing the national fiscal policy coordination that must go alongside the single currency viability. The ECB has shown proof of a good measure of pragmatism since the start of the world crisis and the breakout of the crisis in the euro zone. It can do more, without seeking to reply specifically to activism on the part of the Fed. But the ECB cannot be asked to make up for shortcomings in the coordination or integration of other fields of economic policy or for the hesitations and misunderstandings between member countries and their political leaders. European citizens are legitimately preoccupied by the slowdown in growth and the persistence of unemployment. Since 2008, Europe has adapted to exceptional circumstances, innovating without altering the founding treaties (examples of responses to the banking crisis after Lehman Brothers went bankrupt or the ripostes in answer to the crisis in the euro zone since 2010). Of course, the Lisbon treaty has shown its limitations and insufficiencies, if only due to maintenance of the rule on unanimity between the 27 on subjects that affect above all the 17 in the euro zone. But does that mean that now is the time to open up a constitutional debate, resulting in major "grooming" of the founding texts? In view of the urgency of the economic and social challenges to be met and the current image of Europe within the minds of Europeans, one would doubt it. But we can certainly not wait for prior modifications to treaties before dealing with the current crisis and responding to demands in the short term. In the present crisis phase all the necessary answers must be brought, even without texts, in order to show those promising the worst that they are wrong. There will still be time later to reconcile law with fact.

For a Political View of Financial Regulation

Jean-Pierre JOUYET

The economic crisis is deep and structural. We must end the cycle of excessive financialization of our economies that began at the end of the eighties, without going into recession. For 30 years now, the economies of developed countries have shown diminishing returns, with the exception of market players who have benefited from ever increasing and exceptional returns. We are now aware that they involved high risks and, more serious still, they compromised sustainable economic development, due to the consubstantial instability of their nature. Market volatility and high debt levels amongst States, households and businesses went hand in hand in our economies which abused leverage, starting with public authorities, to the detriment of potential growth and true competitiveness.

Begun in 2007 through the massive debts and poor management of liquidities by American investment banks, the crisis has moved over the past two years to European sovereign bonds. Whereas in 2008, States, notably European States, supported the banking system, it is now the financial markets that are targeting too highly indebted States, distrusting a euro zone that they believe to be poorly governed. This defiance has resulted in a considerable reduction in the margin for manoeuvre available to States.

This crisis demands far-reaching reform of financial regulations and market organisation for an improved financing of the economy and a return to growth in the medium term. For we Europeans it also calls for in-depth thought about how the euro zone works, its governance, as well as a reflection on the European Union as a whole.

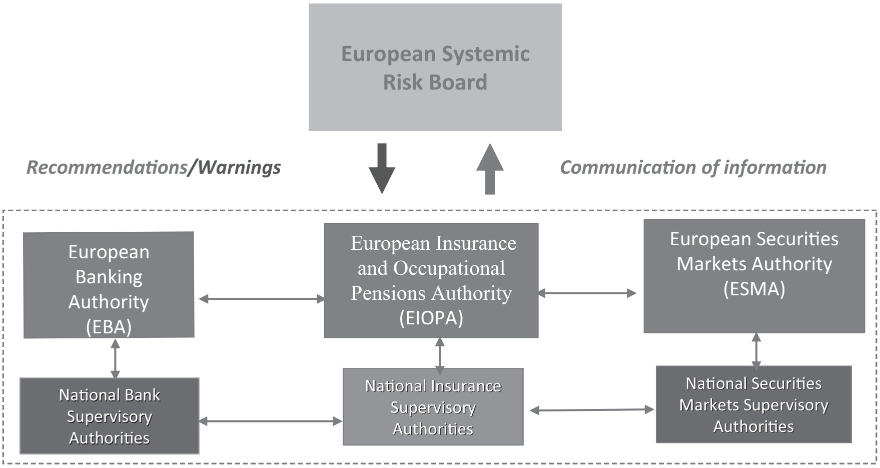
Re-working the regulations governing financial markets

The financial crisis calls for a change of paradigm. Financial regulations must be re-worked.

Important progress has been made under the effect of the crisis …

The first and most important feature of this progress is the re-appropriation of the theme of financial regulation by the political and public sphere. The creation of the G20, at France's initiative, and the placing on its agenda of financial regulation subjects, have

The New European Financial Supervisory System



The European Regulatory Authorities are mainly repsonsible for setting out a joint rule book for the entire European internal market .
They act as part of the task set by the Parliament and the Council included in the sectoral legiislative acts.
They report to the Parliament and the Counciil.
They have a power of arbitration in the event ot litigation between the national authorities regarding the implementation of European legislation.
They have the power to take emergency measures which are necessary with regard to the national authorities . They can decide on individual , binding meaures against regulated entities if their national supervisory authorities do not implement European decisions.
The ESMA also has direct supervisory power over the c redit ratings agencies .

P. Starkman - AMF

had a determining effect. Financial regulation, a job for specialists, has now become a subject for political debate, addressed by both parliamentary commissions and journalists alike. The politicians are right to have addressed the matter; they must ensure that the file remains open until things are done differently and better. The key to success in market reform is the appropriation of financial regulation by politicians and public opinion; it should not be a matter for financiers alone.

Since the start of the crisis and the G20 meeting in Pittsburgh, much has been done in terms of regulatory reforms. Major reforms have been implemented in both Europe and the United States. Provisions governing ratings agencies and hedge funds have been adopted. Implementation of the Basel 3 agreements provides for major reinforcement of banks' equity and will help to redirect banking finance towards the real economy, making the most speculative activities more expensive. The regulation of OTC derivatives markets, with the requirement to register and compensate transactions, is also heading in the right direction. More recently still, in Europe an agreement has been reached on the regulation of short selling with, in particular, a ban on holding naked CDS involving sovereign debts, without also holding the debts themselves.

The heart of the matter has yet to be reviewed, that is to say regulation of the financial instruments markets. In Europe the work is still ahead of us, but the project is already on the table. The European Commission has presented a draft review of the directive. The first version of this text introduced greater competition between stock markets, with the aim of breaking the monopoly of traditional stock markets and thus reduce transaction costs. It also had less positive collateral effects, specifically the emergence of *dark pools* (opaque negotiation platforms where orders are not made public). It is also this text that has contributed to the fragmentation of the markets and, combined with the effect of technological progress, involuntarily contributed to the development of high frequency trading. Finally, the text also exempted from regulation players involved on the raw materials markets. Revision of this text should therefore remedy the current defects of the markets and improve their transparency and organisation. Expectations are high, commensurate with the challenges before us. There again it is important to look carefully at the developments happening in the United States in order to achieve a similar approach within the context of world regulation bodies.

Despite limitations yet to be overcome ….

Although the overview of regulatory activity is positive, two elements temper the results.

Results are not always tangible. Time required by reflection, negotiation and democracy is not the same time as that of the markets. Five years can pass between initial European considerations and the coming into force of a text after transposition into each of the Member States. Thus, the three big ratings agencies, Moody's, S&P and Fitch, have only been entirely regulated since 31st October, the date on which their registration process with the European Financial Markets Authority (ESMA-AEMF) was finalised. The obligations to register hedge funds will come into effect only as from 2013. The Basel 3 agreements are set to come into force gradually between now and the end of the decade, although pressure from the markets should lead to the application of certain provisions, particularly in terms of the amount of equity, as from next year. The United States is suffering a delay in the technical implementation of the Dodd-Franck law by regulatory authorities, notably due to a lack of resources, whereas it was adopted at top speed in response to the crisis.

However, the complexity of the markets and the considerable developments seen in finance and its uses, require us to go further, to re-work things more profoundly, reducing the opacity and fragmentation of the markets, setting up public regulation structures with forceful execution powers at international and European level.

Reinforcing economic and financial governance in Europe

Completion of the single market for financial services and the increase in the power of world financial institutions or at least those that are pan-European, should lead to the establishment of more integrated supervision.

On 1st January 2011 three European authorities were created for the regulation of banks, insurance companies and financial markets. The main task of these three authorities, the creation of which was inspired very directly by the report drawn up by Jacques de Larosière, is to encourage convergence by creating joint technical rules in application of the directives. They also have specific competence to take more direct action on those involved, particularly in case of emergency or when arbitrating. To begin with these authorities have not been given direct powers over market players, with the exception of the European Financial Markets Authority with regard to ratings agencies.

A European Systemic Risk Board has also been created. This Board brings together regulators from the three sectors as well as the central banks; it is chaired by the President of the European Central Bank (ECB). It is an extremely important forum for discussion, particularly in view of the current circumstances. It has its own resources and also works closely with the ECB.

Although it is too early to report on these authorities, it would appear however, and in the light of the challenges which the markets are facing, that greater integration will be necessary. Their power must be developed as the review of the directives progresses and they must be given the means by which to establish their authority. This summer, and in the absence of any sufficiently strong provisions in European texts, the new European Financial Markets Authority was barely able to go beyond concertation, and no decision was reached regarding joint action, particularly in terms of dealing with short selling or the treatment of sovereign debt in banks' balance sheets. Moreover, and in view of integration of the markets, these authorities should be called on to play a pivotal role in data gathering and the implementation of European supervision tools.

Finally, and more fundamentally, whereas the euro is the most visible and most undeniable asset in the construction of Europe, management of the single currency shared by 17 States is being challenged by private or institutional investors. Although the United States, downgraded in August 2011, can place their State bonds at very low interest rates, the same is not true for States in the euro zone, with the notable exception of Germany.

To reduce this asymmetry, which could be fatal to the joint work being undertaken, we must, everyone is agreed, show proof of more discipline, preserve our solidarity and provide ourselves with more efficient crisis management and financial regulation tools. In these unstable times, governance of the zone must be simultaneously simpler, more visible, more reactive and more democratic. This is a vast programme that cannot be achieved in just one day, but the direction towards economic, budgetary and financial federalism, which respects our democratic traditions, must be indicated quickly and firmly. If not we will spend our time running after the markets, living with the obsession of down-grading, creating despair amongst our Asian, American or Middle-Eastern partners who, paradoxically, are asking us to get better organised and to defend ourselves more forcefully in order to be worthy of the trust that has been placed in the euro. To some extent they are asking us to trust ourselves.

***

The crisis has put the European Union's back to the wall. It must, even at the price of institutional adaptations or unconventional measures, affirm a more political vision of financial regulation, bring the markets back to serving the economy and the economy to serving people. Europe, and first and foremost the euro zone, must have faith in its assets, show proof of daring. Sure of itself, it will have the means by which to impose its model and remain a reference market.

Aviation, Defence and Security Industries Want a Strong Europe

Jean-Paul HERTEMAN

Aviation, defence and security industries share technologies that ensure control of the skies and manage the earth-sky interface in optimal conditions of safety and competitiveness: engines, inertial navigation, optronics, materials, electronics, computerised simulation as well as biometrics and tomography, used to detect unlawful substances. Often referred to as dual-use, these technologies are integrated into sub-systems (engine and electronic equipment, for example), fitted on both civilian and military vehicles. All the world powers associate them with their sovereignty and strategic impact. Today, Europe's attractiveness and influence in the world relies among other assets on aviation, defence and security industries whose economic bases are healthy: an efficient production tool in terms of development and production costs, as well as in terms of product life; worker productivity up by 60% in twenty years, i.e. 3% a year, and a turnover figure (€157 billion in 2010) constantly on the rise.

Aviation, defence and security industries share their ambition with the European Union

This shared ambition is to rely on national roots and to consolidate Europe. Born during the wars that tormented the Europe of nations in previous centuries, these industries remain rooted in the cultures of, and linked to, States' military institutions. They are spread very unevenly between European Union States. Six States concentrate 87% of the turnover achieved in these industries in Europe (2010): France, United Kingdom, Germany, Italy, Spain and Sweden. The first three of these represent two thirds of jobs in this sector: France (193,000), United Kingdom (151,000) and Germany (133,000). The building up of the European Union through trade deregulation and the europeanisation of industry initially excluded this sector. Then, in civil aviation, the creation of Airbus enabled Europe, within just a few years, to stand as an equal to the United States in the airliners market. Very quickly, under the incentive of States' budgetary constraints and of progress made with European Defence, other European programmes were started. Recently, the "defence package", voted under the French presidency of the European

Union, has opened the way to considerable simplification of the transfers of military materials within the European Union and has given a European framework to public tenders in the defence sector, through two directives which are currently being transposed. These reforms can but strengthen the attractivity of Europe for investors in the aviation, defence and security sector; Europe is still the world's leading market in terms of consumers and the second largest aviation pole, after the United States.

These industries can also help to give European citizens a horizon within globalisation. The industrial crisis experienced in Europe over the past thirty years and, more recently, the crisis hitting the euro zone, call certainly for greater economic integration but they also require the redrawing of a political horizon for Europe, based on an industrial ambition. Europe has grown on a vision of peace, thanks to the market, but must also consolidate itself around a project of prosperity, through industry and technology. Aviation, defence and security industries are among the rare ones to have created jobs in Europe over recent years, increasing from 590,000 workers in 2003 to 700,000 in 2010. They have been strengthened by their openness to the outside. Job losses observed in other industrial sectors will not be solved by closing our borders. On the contrary, it is the growth in external markets that today enables our firms, through their exports and their industrial partnerships, to maintain their jobs in Europe. The European aviation industry achieves over half of its turnover through exports. Safran group achieves three quarters of its sales abroad and employs three quarters of its 56,000 workers in Europe. European students and workers have a future in these industries, and these industries need them. In France alone, aviation industries plan to employ 9,000 new workers in 2012.

With their respective performance levels, these industries reinforce Europe's strategic weight in the world. We are often told that they are too fragmented but that does not prevent them from ensuring that Europe retains its leading position in these specific fields. Two companies, Eurocopter and Agusta Westland, although competitors, offer to Europe a top position on the world helicopters market. Competitors too, Safran and Rolls Royce, put together, set Europe as number one in the world market of jet turbines. Another technology in which European genius makes its mark is biometrics, used to guarantee identity rights, ownership rights and access to public and private services. Created in the seventies to meet the demands of crime police, it really took off after the fall of the Berlin Wall, to identify voters and organise the democratic transition of former Soviet block countries. Today, the most highly populated States in the world have decided to support the modernisation of their administration with a biometric enrolment of their inhabitants. Safran enrols over a million people per day in India, developing the largest biometric database in the world. China has decided to give all its provinces biometric administration of their citizens and from 2012 numerous European companies will be offering their services there to contribute to this effort.

Aviation, defence and security companies are pioneers in Europe's partnerships with the rest of the world

These companies have created strong partnerships in the United States. After the Cold War, the United States restructured its defence industry around five major groups. Today, this industry is still the largest in the world, with nine of the fourteen biggest defence industry groups in the world and 60% of their turnover. Its size enables major synergies in terms of research and development between civilian and military activities. For its part, Europe is home to six of the world's top fourteen groups in terms of turnover and two of them (EADS and BAE Systems) are in the top five. Between the United States and Europe, all these companies have made a major contribution to the industrial dimension of the transatlantic partnership. We know about the success of the CFM joint venture, created in 1970 between General Electric and Safran/Snecma, renewed in 2008 and whose engines are fitted on three quarters of all commercial single aisle aircrafts. Another example is BAE Systems, the world's fifth largest aviation group, which achieves most of its sales in the United States. Thanks to these synergies, European industry is gaining access to the big American market and, more widely, is achieving a leading role in the world.

Apart from the United States, European aviation, defence and security industries are realistic in their relationship with emerging countries. Between 2000 and 2020, the joint share of Europe and the United States in world GDP will have fallen from 48% to 35%, at purchasing power parity. Aviation and defence markets are seeing their centre of gravity shift towards emerging countries. Russia is using its energy resources and domestic market to modernise its production facilities in this sector. India and Brazil are seeking to back up their status as regional powers by giving themselves a modern defence industry. China is recovering its ancient influence over the world economy and wants to reinforce the industrial dimension of its power. It should be remembered that in 1820 China was already producing 34% of world GDP. Currently it represents 20% of the world aviation market and is giving itself the means by which to become a world player. Through its C919 aircraft project, China is setting a challenge for the American-European duopoly in medium haul single aisle aircraft and could well be followed by Brazil and Canada.

All the emerging countries are using their commercial attractiveness in a bid to climb back up the value chain. They demand offsets or industrial partnerships which are increasingly intensive in technologies. The European aviation and defence industry plays the game because it needs these markets. It is aware of the sensitivity of these transfers and remains prudent on technologies that make the strength of Europe or impact its values. Transferring "technologies of continuity" that are already well known to our groups is less risky than transferring the "edge technologies" being developed in our laboratories. European firms share these concerns with their American counterparts. The C919 designed by the Chinese aircraft manufacturer, COMAC, planned to come into service in 2016, relies on partnerships with Safran (engine system and cabling), Liebher (landing and braking systems) and GE (avionics and electronics). The Superjet 100 regional aircraft, designed by the Russian conglomerate Sukoï, benefits from the cooperation of several European players, including Alenia Aeronautica and Safran.

Our industries need a constructive partnership between Europe and the rest of the world. Europe can reinforce its growth centres by working intelligently alongside the development of emerging aviation nations. Current industrial cooperation sketches out an Eastern European and North African periphery for European aviation and defence productive centres, as is the case for the United States with Canada, Mexico and even Japan. These European partnerships form part of the enlargements of the European Union: new EU Member States have provided qualified workers, extended the intra-European division of labour and improved Europe's competitiveness; today, Russia can form industrial links with Europe that are greater than those built with Morocco. The European Union can also, through the negotiation of its commercial instruments, help aviation, defence and security industries to strike a fair balance in their partnerships with emerging countries: technology transfers in return for the purchase of European industrial goods as well as co-financing of joint R&D programmes, but – equally important – reciprocity in the management of public tenders. Reciprocity and trust are based as much, if not more, on the quality of the individual relationships to be created with our industrial partners in emerging countries, as they are on treaties between States.

Beyond this industrial cooperation, the European Union can contribute to forging the rules of the globalisation of technologies. The world economy, like any physical system, is built around rules, which often result from a balance of power. Europe can contribute to their elaboration through the promotion abroad of the standards of its internal markets, through an incentivising and creative intellectual property policy and a certification policy based on the imperatives of safety and security.

Noise level standards set by EU for aircraft have set Europe as a world reference and represent a major support for the competitiveness of its industries. The intellectual property rules that govern the projects of the European Defence Agency and the Framework Programme for Research and Development could also play an important role, provided that they get reformed. For the time being, they open up the benefit of their research results to all Member States, without distinction, a rule that dissuades the most innovative companies from taking part in these programmes.

Similarly, it is necessary to export our safety requirements, by negotiating certification agreements with the major emerging economies on a reciprocal basis. In this respect, the creation of the EASA (European Aviation Safety Agency) and the bilateral agreements signed with the FAA (Federal Aviation Authority) to replace the national regulators of Member States, have been seen as progress in the integration of the European and American markets. In order to set up similar agreements with the major emerging countries, the question of the certification of aircraft and aviation equipment must be addressed solely from the point of view of safety.

In the field of commercial regulation, the European Union can implement a balanced policy, with a concern for reciprocity. In the aviation sector Europe has its main dispute with the United States, but both players have an interest in seeing a better regulated world. They would do well to close through an amicable agreement the Airbus Boeing case opened in 2004 before the WTO and to agree on rules for public support to industries that may become of international significance.

Europe has currently the most open commercial zone in the world. It must encourage others to open up too and seek to inspire efficient legislation amongst its partners. In the United States the *"Buy American Act"* requires a minimum of American components as well as, in practice, American general contractors in purchases made by the Ministry of Defence. The Committee on Foreign Investments (CFIUS) assesses sovereignly and, without any right of appeal, the compatibility of these foreign investment projects with US national security, in its widest meaning (including critical technologies and energy supplies). Mergers and acquisitions must today be considered from the point of view not only of the principle of competition but also that of consolidation of a European industry. In cases where Europe has supported some technologies to come into being, it may be in its interest to prevent them from going over to the competition.

European Union can contribute to strengthening within Europe its aviation, defence and security industry

The EU can help to regulate the globalisation of technologies and can also use its domestic market to strengthen its technological centres. This domestic market of 500 million people is an opportunity for companies in the area, I am referring particularly to the security industry. But progress must be made in drawing up standards to stabilise this market, particularly in terms of airport security equipment, which in some cases continues to function within the Union according to various national regulations.

In order to have an impact abroad, the technological centres of Europe must, above all, be able to give birth to new technologies. To achieve this, the human skills of their companies need to be sustained with new research programmes. However, due to their size and complexity, these programmes require large amounts of finance. In this respect, Member States have a defining responsibility in terms of the future of European aviation, defence and security industries. If they want to make this sector stronger, they must promote European programmes rather than buying their equipment abroad, ”off the shelf“. They must converge towards a truly European demand for equipment, giving up their claim of national versions of such programmes, which generate extra cost. Reducing the number of versions of the A400M military transport plane would result in considerable economies of scale. This would not have the impact on jobs that we are led to believe. In fact, redundancy-linked job cuts stemming from the synergies achieved would be greatly compensated for by the recruitments that would result from a massive increase in volume sales. All the restructuring programmes carried out in the past by the aviation industry never reflected in any massive reallocations of activity. Jobs stay where skills are.

Moreover, States have major responsibilities in terms of preserving investment and research in their budgets. Current efforts on savings being made by Member States offer an opportunity for restructuring defence budgets. These budgets must be richer in investment and research content. In most Member States, the share taken by staff costs is still over 50%, compared to 30% in the United States. Decisions are therefore being taken at the expense of investments, which do not go beyond 20%, i.e. €40 billion out of €200 billion of total defence budget in 2010, divided between the 27 Member States. As for defence research, according to the European Defence Agency, the EU States devoted €9 million to it in 2008, compared to 54 billion by the United States. However, and this should be acknowledged, positive developments are appearing. The Framework Programme for Research and Development has opened up, since its 2007-2013 budgets, to projects in the security field, and could progressively extend to that of defence, as permitted by the Lisbon Treaty. Also, if one looks at Member States individually, the investment effort made by France through the creation of the research tax credit followed by the launch of the “Major loan”, in the context of current debt crisis, demonstrates a real will to get prepared for future challenges.

***

Aviation, defence and security technologies have immense influence on the world stage and on industrial jobs in Europe. Member States benefit from skills in these technologies and their control by the European Union and its companies. The legitimacy of European integration can only grow from succeeding with the challenge of Europe’s re-industrialisation. Budgetary resources and legal instruments exist; they should be used with an eye for the long term and for European solidarity. European aviation, defence and security companies are ready and willing to do their part of the job.

The Budget: For a European Solidarity Pact

Alain LAMASSOURE

Neither public opinion nor even, unfortunately, the main political leaders are aware that the community budget is an area in which, for about twenty years, European integration has been moving backwards. Successive enlargements to include countries that are particularly dependent on Union aid, and the half dozen treaties that have extended the jurisdiction of the latter have not benefited from the corresponding budgetary translation. On average, all mandatory contributions amount to 40% in Member States, half of which goes to the budget of the State itself. After coming close to 1.20% of European GDP, the Union budget has been frozen at 1% for several years – i.e. a quarter less than the amount that Margaret Thatcher herself accepted a quarter of a century ago for the small, pre-single market Europe!

The European budget and the crisis: the essential debate on own resources

How has this been possible? It will be interesting for historians and political sociologists one day to consider an incoherence such as this. In 1992, in every country, the main political leaders (head of State in France, heads of governments elsewhere) had the will and the ability to overcome the strong hostility of their ministers of finance, their central banks and, in some cases, their public opinion, (particularly in Germany) to impose the historic abandonment of the national currency. But, since then, none has wanted, or been able to force its national budgetary fortress to provide Europe, once and for all, with its own system of resources, independent from national budgets. And yet such is the principle set by European treaties from the very first day and which was applied over the course of the first three decades: in those openly protectionist times, customs duties alone were sufficient to finance the small, mainly agricultural, community budget. When the competence of the Union increased and its necessitous members increased too, the gap was made up by national contributions calculated theoretically in proportion to the wealth of each country. Thus, for the past twenty years, the Union has no longer been financed by autonomous resources, but almost 90% by contributions from national budgets.

Already paralysing before the financial crisis, this system has now become an unbearable yoke, since the public finances in most Member States are in a comatose state. This has reached a point where the credibility of the entire European policy is now at stake. Thus, at the end of 2010, when it was thought that the mechanism to aid Greece and the establishment of a European Financial Stability Facility would bring a lasting response to the debt crisis, our wish was that in 2011 priority would go to the budgetary question.

This wish has not been granted. New financial fires have been started which have continued to lock our leaders into their role as firemen. A considerable step forward has been made, however: the basic problem is now posed in public and a few proposals for solutions are on the table. Under pressure from the European Parliament at the end of June the Commission presented its budgetary framework proposals for the 2014-2020 period, combining them for the first time with a project to create new own resources for the community budget: allocation of one VAT point, as well as the creation of a tax on financial transactions, intended gradually to replace national contributions from 2018.

In the meantime, the successive relapses of the Greek disease and the threat of contagion to other major continental countries, have created the necessary temperature and pressure conditions to ensure that leaders, even the least daring, cannot exclude successfully solving the crisis, i.e. by means of a new stage in European integration. Within just a few weeks, a former secretary general of the RPR admitted that he no longer excluded the “federalist” route, the CDU’s European wing revived the idea of the United States of Europe, David Cameron solemnly declared that reinforcing the organisation of the euro zone was of vital importance for the United Kingdom and Helle Thorning-Schmidt, winner of the Danish elections, declared that she wanted to put joining the single currency and the Schengen area to referendum: could this astonishing European autumn be the forerunner to a new Union spring?

Maybe. But only if we can get through the winter. That means dealing once and for all with the loss of confidence from financial operators and citizens in the Union’s ability to overcome the simultaneous crises suffered by many of its members. In 2010, already, we witnessed the euro zone leaders’ slowness in taking the right decisions, without which the Greek bush fire would never have reached the proportions of a Biblical plague. 2011 revealed another defect in European governance: once political leaders reach an agreement they do not implement their decision! They do it in the end, but not immediately. We are democracies: when public finances are to be committed, a vote by national Parliament is needed. It took three months for the modest agreement of 21st July (strengthening of the Facility created the previous year) to be ratified by the 17 parliaments in the euro zone, at the cost of political suicide by the Slovakian government. Three months of intense speculation on the markets, of concern about the solvability of States and their banks, three months of credit slowdown, a brake on recruitments, suspension of investment projects and, finally, general doubt as to the future of the Union.

For a European solidarity pact

In such a climate, the budgetary problem can no longer be detached from the basic question: how can solidarity between Member States within the Union be made credible? I propose a European solidarity pact. By that I mean a political agreement supplementing the Lisbon Treaty, just as the stability pact supplemented that of Maastricht. It would be in two parts.

A financial aspect, itself in two chapters, designed around the motto “one for all and all for one!”

– “One for all”. A commitment by all to budgetary discipline: everyone commits to doing their utmost never to have need of assistance from their partners. Since the text of the treaty has not been sufficient, this means that everyone introduces this "gold rule" into their own Constitution. That's the essential condition to ensure that Germany and other well managed countries agree to help the others.

– In return, the Union will commit to come to the assistance of any Member State in great difficulty, despite its efforts: that is the "all for one" part. As for the necessary mechanism, any name would do (Facility, Agency) and the status is not important (inter-State, community). Any number of variations are possible based on what has already been set up over these past two years. Finalisation of the mechanism will require a unanimous decision ratified by all parliaments. However, once created, its speed of action must be as fast as that of the ECB. Those in charge of it must have the necessary autonomy: market time is not that of the politicians, so they need a laser weapon which works just as fast.

Alongside financial solidarity we need budgetary solidarity too. This is the second aspect, also in two parts.

– An agreement on lasting financing of the European budget itself, which does not worsen the Member States' debt. Proposals tabled by the European Commission can be used as a basis. The pact must be an opportunity to mark a return to the principle that says that European policies engendering European expenditure must be financed by the Union's own resources. Reducing national budgets by as much.

– An agreement on the way in which one ensures that the 28 budgets – the 27 + the community budget – will work together to finance joint European objectives.

In fact, the financial markets themselves are starting to remember that sustainable solvability of a debtor does not only depend on its immediate situation but also on its ability to create wealth in order to honour future reimbursements, so, for all our European States to regain the path to growth and competitiveness. That's why it is everyone's duty to reduce functioning expenses as much as possible, whilst maintaining the resources for future policies: innovation, education, research, network infrastructures, renewable energies: all flagship actions contained in the "Europe 2020" programme the financing of which, to date, no-one has paid any attention to. If we are unable to obtain a significant increase in the community budget by then, we will at least have to mobilise national budgets which will have to cover most of it.

The annual "European semester" conference undoubtedly provides the easiest and best suited opportunity to keep careful track of the harmonising of national budgets. Its political scope would be greatly increased if national parliamentarians and the ministers were involved: at the end of the year they are the ones who will have to take the final decision on their respective budgets. The European conference, organised on 20th and 21st October 2011 by the Polish presidency and the European Parliament, acted as a kind of feasibility trial for a meeting of this sort. Participants at the meeting deemed it a success.

***

Solidarity at a time of crisis, solidarity to prevent it from happening again, solidarity in order to lay the foundations for new European growth: this is the commitment that all Europe needs. It does not need either a global increase in its expenditure, currently unimaginable, nor any modification to its treaties, something that is currently out of immediate reach. That is a realistic objective for 2012.

An Investment Strategy in EU: A Means to Compensate for the Lack of Fiscal Transfers[1]

Stefaan DE CORTE

Since May 2010, Greece followed by Ireland and Portugal, receive financial support from other Euro-area Member States as well as the International Monetary Fund (IMF) in the context of a sharp deterioration of their financing conditions[2]. With Italian spreads[3] currently on the rise, as well as an outlook of weak growth for the already fragile European economy, Europe's sovereign debt crisis has entered another decisive phase.

In this contribution my arguments will make use of the following theoretical foundation: An optimal currency area (OCA)[4] requires a system of sufficient fiscal transfers to deal with asymmetric shocks. Such a system could be a social security system (e.g. an unemployment benefit scheme) or funds that are allocated to regions negatively affected by an asymmetric shock. The counterpart of this theoretical foundation implies that if such a system is not in place or will not be envisaged in the near future, a currency area will most likely not survive severe and repeated asymmetric shocks.

In the next section I will provide an overview of the short- and medium-term economic outlooks based on recent international reports. I will then focus on the economic and sovereign debt situations in select Member States. In the last section I will describe the necessary policy reaction.

---

1. All data has been collected before December 2011

2. I am grateful to Roland Freudenstein, John Lageson and Vit Novotny for comments and suggestions.

3. On November 10th 2011, Italian 10-year government bond yield was higher than 7%, German 10-year government bond yield was below 2%.

4. In the early 1960s, before the euro came into existence, the theoretical foundations for currency zones were laid out by Robert Mundell, Robert McKinnon and Peter Kenen. A country that gives up its own currency can no longer change the value of its currency (mainly devaluations were used in the period before the introduction of the euro). The cost of losing this policy instrument can be mitigated via, amongst other elements like labor mobility, a system of fiscal transfers.

Economic outlook for the Euro-area

The September 2011 World Economic Outlook by the IMF projects real GDP growth worldwide at 4.0 % for 2011 and 2012. Within the European Union, due to growth coming to a standstill in the second quarter in several Member States, real GDP growth is projected to be 1.7% in 2011. According to the IMF, the deceleration was partly the result of global shocks, but also the escalation of the Euro-area crisis, which is having a more wide-spread effect on domestic demand, as the confidence shock spreads beyond the periphery to core countries' consumers, bankers, and investors[5].

The European Commission's Autumn forecast confirmed the IMF forecast and put forward even worse real GDP growth projections (see Table 1). The Commission states: "Against the background of increased uncertainty and ongoing market turmoil, the risk of stronger and more adverse feedback loops threatening the EU economy is substantial. It accentuates the downside risks to the growth outlook."[6]

Table 1
Real GDP growth

	Real GDP Growth (IMF, October 2011)				Real GDP Growth (European Commission, November 2011)			
	2009	2010	2011	2012	2010	2011	2012	2013
World	-0.7	5.1	4	4	5	3.7	3.5	3.6
Europe	-4.6	2.4	2.3	1.8				
Advanced EU economies	-4.1	1.7	1.6	1.3				
Emerging EU economies	-6	4.4	4.4	3.4				
European Union	-4.2	1.8	1.7	1.4	2	1.6	0.6	1.5
Euro area	-4.3	1.8	1.6	1.1	1.9	1.5	0.5	1.3
France	-2.6	1.4	1.7	1.4	1.5	1.6	0.6	1.4
Germany	-5.1	3.6	2.7	1.3	3.7	2.9	0.8	1.5
Italy	-5.2	1.3	0.6	0.3	1.5	0.5	0.1	0.7
[1] Average weighted by GDP valued at purchasing power parity								
Emerging EU economies: Bulgaria, Hungary, Latvia, Lithuania, Poland, Romania								

Source: Eurostat, different tables consulted on 13 November 2011 on http://epp.eurostat.ec.europa.eu and the author's own calculations.

5. International Monetary Fund, Regional Economic Outlook, Europe – Navigating stormy waters, October 2011, p. XI.
6. European Economic Forecast Autumn 2011, European Commission, p. 11.

The same IMF Regional Economic Outlook for Europe stated: “With fiscal consolidation ahead, an additional concern is that public investment in research, education, and infrastructures will be curtailed, harming future growth performance”.[7]

In the European Commission’s forecast, we read that growth differences across Member States were one of the key elements in Europe’s recovery in 2010. Germany, due to its significant exports to non-EU Member States, was able to reach output levels above those in pre-crisis periods. Moreover, this generated positive spill-over effects to other Member States. It is interesting to note that also Sweden and Poland were able to reach higher output levels than before the crisis. In the same forecast, we read the following: “Survey indicators point to a slowing of economic activity in all Member States and across almost all sectors.”[8] Based on its analysis, the Commission expects a slowdown of economic growth or even periods of contraction for almost all Member States in 2012. However, the Commission also notes that, due to low sovereign refinancing rates of certain Member States, fiscal consolidation might be spread over a longer period, which would have a positive impact on growth[9].

Economic and sovereign debt situations in select Member States of the Euro-area

In the previous section we found that growth prospects for the European Union look grim. Moreover, we found that the real growth predictions for the members of the Euro-area are mostly the cause of the overall deterioration in this negative outlook. We found that one of the main reasons for this is the worsening of confidence caused by the sovereign debt crisis. We could also read in the Commission’s outlook that Germany has been an important driver of the recovery in 2010, but that this will no longer be the case in 2012.

Let us therefore focus on the economic and sovereign debt situations in two Member States of the Euro-area: Germany and Italy.

As can be seen in Table 2, both German and Italian real GDP growth is predicted to be (much) lower in 2012 than in 2011, with German growth falling from 2.9% to 0.8% of GDP in one year[10]. As Germany and Italy together represent over 40% of the Euro-area’s GDP, a relative decline in the real GDP growth of both countries will have a huge impact on the overall growth performance of the Euro-area. This could also be predicted based on the large spill over effects from the German economy to other Euro-area members (see earlier point).

We also find in Table 2 the evolution of general government gross debt as a percent of GDP. Table 2 shows the significant relative increase of Germany’s general government debt since the introduction of the common currency (from 60.9% in 1999 to 83.2% of GDP in 2010) compared to Italian general government debt (from 113.7% in 1999 to 118.4% GDP in 2010).

Table 2 also shows the main challenge of the current sovereign debt crisis: the yield on Italian 10 year government bonds was 6.5% on 11 November 2011, where 7% is considered to be unsustainable in the medium run.

What do all these numbers tell us?

7. International Monetary Fund, Regional Economic Outlook, Europe – Navigating stormy waters, October 2011, p. 21.

8. European Economic Forecast Autumn 2011, European Commission, p. 30.

9. European Economic Forecast Autumn 2011, European Commission, p. 34.

10. Based on the European Commission’s Autumn 2011 Economic Forecast from 2.9% real GDP growth in 2011 to 0.8% in 2012.

First: The current yield on Italian government bonds implies that the Italian government has no choice but to bring the general government deficit down as fast as possible, as borrowing costs are close to unsustainable levels. Moreover, borrowing at over 6% implies huge interest payments that cannot be invested in growth enhancing measures.

Second: A "normal" exit strategy would imply austerity, structural reforms and investments. However, due to the high level of debt and the high yield, the Italian government might not have room for investments in growth enhancing areas.

Third: With the German general government deficit at 4.3%GDP and gross debt up to 83.2% GDP, the German government might rely on the recipe imposed on Italy: austerity and, where necessary, some structural reforms. In doing so, Germany will respect the Maastricht criteria[11] as well as the German Schuldenbremse[12].

Table 2
Real GDP Growth, relative importance in Euro-area GDP, general government gross debt as % GDP and Yield on 10 year government bonds for both Germany and Italy

	Real GDP Growth (European Commission November 2011)		Country represent X% of Euro area's GDP		General government gross debt as % GDP			General government deficit/surplus %GDP			Yield government Bond 10 Year
	2011	2012	2011	2012	1999	2009	2010	1999	2009	2010	11/nov/11
Euro-area	1.5	0.5	100%	100%	71.60%	79.80%	85.40%	-1.40%	-6.40%	-6.20%	
Germany	2.9	0.8	27.21%	27.26%	60.90%	74.40%	83.20%	-1.50%	-3.20%	-4.30%	1.89%
Italy	0.5	0.1	16.82%	16.80%	113.70%	115.50%	118.40%	-1.70%	-5.40%	-4.60%	6.50%

Source: International Monetary Fund, Regional Economic Outlook, Europe – Navigating stormy waters, October 2011, p. XII and European Economic Forecast Autumn 2011, European Commission, p. 9.

The necessary policy reaction?

Historically speaking, a large spread between German and Italian yields is not exceptional. The Italian 10 year government bond yield reached a historic high of 13.75 % in March of 1995, whilst German 10 year government bond yield reached 9.61 % in the same period (a spread of 4.14%). However, the German and Italian economies were not part of the same currency union at that time.

Within a currency union, we should look at the differences in yield on German and Italian government debt as an asymmetric shock. And, as the theoretical foundation mentioned in the introduction teaches us, in order to have a sustainable currency area, we need a system of sufficient fiscal transfers to deal with these asymmetric shocks. However, apart from the structural funds, such a system (like a European unemployment benefit scheme) is not in place and not envisaged.

Therefore, I would argue that Italy and Germany, representing over 40% of Euro-area GDP and suffering an asymmetric shock, cannot undergo the same economic policy reaction at the same time. As the Italian government will be forced to merely focus on

11. Max 3% GDP deficit and 60% GDP general government debt.
12. A balanced-budget amendment to the German constitution.

increasing its primary surplus, the German government, as well as other countries with room to manoeuvre, should delay their consolidation efforts and engage or continue their stimulus plans for their own economies.

The main objective of these stimulus plans should be to restore market confidence via public investments as well as measures to stimulate household consumption and to increase business investments within the country as well as in countries like Spain, Italy, Greece, etc. As we can see in Table 3, most indicators related to those areas show Germany's positive room to manoeuvre compared to pre-euro or pre-crisis levels.

Table 3
General government fixed investment as % GDP, Gross fixed capital formation by the private sector as % GDP, Investment rate of non-financial corporations and household saving rate. All indicators for the Euro-area as well as Germany and Italy

	General government fixed investment as % GDP				Gross fixed capital formation by the private sector as a percentage of GDP			Investment rate of non-financial corporations (The gross investment rate of non-financial corporations is defined as gross fixed capital formation divided by gross value added)			Household saving rate (The gross saving rate of households is defined as gross saving divided by gross disposable income)			
	1999	2008	2009	2010	2008	2009	2010	2008	2009	2010	1999	2008	2009	2010
Euro-area	-0.7	5.1	4	4	19%	3.7	3.5	22.86	20.45	20.56	NA	NA	NA	NA
Germany	-4.6	2.4	2.3	1.8	17.50%	16.10%	16.40%	19.38	17.40	17.78	15.31	17.41	17.05	17.05
Italy	-4.1	1.7	1.6	1.3	18.40%	16.50%	17.30%	24.63	22.29	23.79	15.77	14.56	13.44	12.06

Source: Eurostat, different tables consulted on 13 November 2011 on http://epp.eurostat.ec.europa.eu and the author's own calculations

Other more structural and long-term investments could include policies that increase both public as well as private investment in education and research and development. As one can see with the example of Germany in Table 4, public and private investment in tertiary educational institutions is the lowest of the countries mentioned, whilst German private investment in R&D is low compared to that of Sweden, the USA and Japan.

***

In conclusion, I refer to what we have seen earlier: when countries with room to manoeuvre engage in an investment strategy to stimulate growth, there will be positive spill over effects to those economies not in a position to invest. This additional growth will make the necessary consolidation effort in those countries more feasible and yields on government bonds will come back to sustainable levels. Together with a more flexible use of structural funds (amounting to up to 2.29% of Greek GDP in the coming three years[13]), this strategy might compensate for the absence of a system of fiscal transfers between different regions of the same currency area. It could be, so to speak, a second-best and politically acceptable option. However, if both Italy and Germany engage in policies to increase their primary surpluses in the short run, Italy might be forced to partly default on its debt and, even worse, the currency area might be forced to break apart.

Table 4
Investment in higher education and gross domestic expenditure on R&D as % GDP

	Expenditure on tertiary educational institutions as a percentage of GDP (2006)			**Gross domestic expenditure on R&D (2008)**		
	Public	Private	TOTAL	Public	Private	TOTAL
EU27				0.665	1.235	1.9
Germany	0.94	0.16	1.10	0.79	1.84	2.63e
Poland	1.18	0.12	1.30	0.42	0.19	0.61p
Sweden	1.56	0.04	1.60	0.98	2.78	3.75e
UK	0.98	0.32	1.30	0.64	1.24	1.88p
France	1.18	0.12	1.30	0.73	1.29	2.02p
Italy	0.83	0.07	0.90	0.54	0.64	1.18p
USA	1.97	0.93	2.90	0.63	2.13	2.76
Japan	1.00	0.50	1.50	0.69	2.75	3.44

Source: Education at a Glance 2009: OECD indicators accessed at www.oecd.org/edu/eag2009 on 14 November 2011 and Eurostat Pocketbooks, Science, technology and innovation in Europe, 2011 edition, page 35.
e = national estimate, p = provisional. USA data: Excludes most or all capital expenditure; GOV sector includes federal or central government only; provisional data.

13. The fast track for EU structural funds investments in Greece amounts to 15 billion euro until the end of the current programming period (2011, 2012, 2013), which represents an annual investment of 5 billion euro. With a forecasted GDP of 217828.8 million euro, this represents 2.29% in 2011 (http://epp.eurostat.ec.europa.eu).

The emerging European Social Model, an Asset to Face the Crisis

Yves BAROU

Europe's social dimension is often forgotten or limited to the work done by the European Commission. However, although the Commission has an obvious and important role to play, Europe's social dimension should be defined from a wider view point.

The social history of each European country has been built on the base of conflict, innovation as well as, in both cases, on negotiations to achieve satisfactory solutions, and in this way to define social norms. Governments everywhere have played a regulatory role but these necessary legislative interventions have, more often than not, followed the action of "social partners": unions, companies, regions etc…

Indeed autonomy has emerged in the social arena, which does not have its origins in the political sphere. Social democracy has not identified with political, parliamentary democracy. The same applies and will apply to Europe.

Europe and the social dimension: unity in diversity?

Can we consider Europe as an asset though? Many authors have described the various models existing: continental, Mediterranean, Anglo-Saxon, Nordic[1]. It is true that there are major differences between countries, in the same way as they exist between companies, sectors or regions. Moreover, the way the unions and industries are structured and levels of decentralisation are the obvious heritage of these different histories. But this breakdown takes less and less account of progress and innovation, as these are primarily responses to new and widely shared issues.

In other words although ignoring history, culture and different traditions is not the point in question here, we also have to see, and this is the most important aspect – what is emerging before our very eyes: a European social model based on a specific history, an original approach, a common culture, a model which could be an asset against the crisis.

1. Cf. Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, 1990 ; we might also refer to André Sapir, "Globalisation and the reform of European social models", *Bruegel policybrief*, November 2005.

In order to see it we have to have an overview of an ever globalised world. For example, we have to compare China, the USA and Europe. On doing this it appears quite clearly – particularly for HR departments/directors with global experience, practices and responsibilities - that we share a great deal in Europe and, on this basis, we can strengthen our competitive advantages. This can be done on the condition that we do not go straight from an arrogant stance, which characterized Europe just a few years ago, to an attitude of systematic self denigration and also on the condition that we take more notice of our common points rather than our differences.

Businesses are building Europe thanks to their transnational operability!

We are Europeans and claim this identity because we do not believe that the American or the Chinese social models are appropriate for the future.

On the contrary, Europe and its 27 countries could become the world's laboratory; learning to rise above national differences to set out new, common standards could prove to be vital know-how on a worldwide scale. In an extremely specific area Europe has succeeded in establishing railway-signalling standards and by doing so it has laid down the foundations for global standards. Why should we not aim to adopt a similar approach with regard to social issues: this supposes learning from experience, understanding good practices and organising cross-fertilization; it also supposes gauging specific European features and defining this famous "European social model".

In a time of globalisation Europe as a region indeed benefits from extremely specific circumstances: for example distances are comparable to those of the USA, and the quality of its infrastructures makes it possible to split the working week, for example, with two days in Paris and three in Hamburg (this is not the case however between London and Sydney); cultural differences exist in Europe but they are of a secondary nature in comparison with those on other continents; living standards are a lot closer than on the world scale; the political systems of the Member States are quite similar; the European Union is working towards the creation of a common framework for social dialogue; Europe now reflects a specific employment market.

Definition of an emerging European social model: pact for employment, social dialogue and distribution of the fruits of growth

Several common features, only the last two of which are usually taken into account, can define the emerging social model. However on each point divergent forces are simultaneously at work and new challenges are rising.

Common norms created by companies

European companies still enjoy strong business cultures with high levels of commitment and a sense of belonging; mercenary practice has not become the rule and companies enjoy a certain level of stability in their teams and therefore in terms of their competences. An implicit pact for employment, particularly evident in Germany, characterizes Europe. Overall European businesses have distinguished themselves by a high level of protection against economic risks, thereby strengthening loyalty to the company. Securing one's professional life is sought in the face of the crisis which forces people into greater professional mobility.

More than anywhere else the management of working time reflects the will to find a balance between professional and family life. Working time is one of the most significant social indicators involving lifestyle, the increasing share of working women and the level of childcare facilities for example. The Netherlands (due to part time work) and Germany (due to agreements that are mainly negotiated by each Land), have the lowest annual total of working hours (1,378 and 1,390 hours respectively). Contrary to preconceived ideas, France finds itself in an intermediary position with an annual total of 1,473 working hours, which has resulted mainly from company agreements signed at the start of the 2000's, that include original flexibility mechanisms (annualisation, counting in days for executives, etc.). For its part the UK still has the highest number of annual working hours in spite of a shortened Friday (1,643 hours on average), without achieving however the rates seen in the US or in China.

The distribution of earnings is tighter than elsewhere, - tighter than in the USA and in China in any event; this is still true in companies as in society and this comprises a kind of social glue. The European model is characterized by a virtuous circle of significant collective productivity gains and has produced, for many years, a more egalitarian distribution of the fruits of growth.

The union movement is an important element, even though on observation the differences in union membership levels can be surprising. Apart from the Scandinavian countries with membership of around 70% (because of union membership in the service industry), levels vary from one country to another: France (8%), Germany (19%), UK (26%). But everywhere unions are major actors with high turnout in professional elections. Moreover the emergence of European Union movements, with the European Trade Union Confederation (ETUC), the European Services Union (UNI Europa) and the Industrial Union that is now being created has been evident since the Athens Congress in 2011.

Consultation and negotiation methods are also inherent to the European model: European directives on information, consultation and even European committees have contributed and continue to contribute towards transposing them Europe wide, and by doing this, they bring national traditions closer together. Negotiation methods which were the result of value being given to consensus in certain countries and of the need to settle conflicts positively in others, converge in three ways: everywhere negotiations are increasingly undertaken at the company level and less at the branch or regional level. By doing this pragmatism and the quest for tailor-made solutions win over ideology; European agreements signed by international groups for their European entities are emerging (200 to date) and helping by addressing new themes to extend the range of collective negotiation, which in turn leads to European standards. Finally the idea of majority agreements, which are by definition stronger and easier to implement, and obvious in many countries, are becoming the rule, especially in France where the tradition of minority agreements was however, firmly established.

Choosing to regulate

Legislation governing labour has developed over time through laws and negotiation, and offers real guarantees to employees; but its complexity, which in part reflects complicated situations, has become a problem for companies. Although national legislation remains very different from one country to another, there is however a common vein in continental Europe, and that is of a collective framework which relativises the range of the individual work contract.

The Welfare State, in its role of re-distribution has embodied the maturity of the European countries. The approach, which has been more egalitarian than elsewhere, has not been limited just to companies but has found its place in terms of social goods, such as education and healthcare. In spite of its imperfections this approach has proven effective and has clearly helped towards growth. It now has to contribute to a different kind of generational balance.

Common stakes

Globalisation and the crisis have obviously forced European countries to question this social model. But these doubts, far from being a factor for further differentiation, could lead to the development of new solutions, which, in fact, will bring harmony to existing practices. For each of these present challenges, some countries are showing the way.

More human companies

The most obvious joint challenge is of course that of rising unemployment – at around 10% right now within the Member States – and its counterpart, dualism in a labour market split between secure and insecure jobs. The burden of unemployment weighs mainly on young people.

Germany is however an exception, with an unemployment rate that is half the above figure. This reflects the original way it has managed decreasing activity over the last few years; it has avoided the trap of employment becoming the leading adjustment variable and has used partial unemployment and has only made limited use of relocation. Combined with the traditional strength of apprenticeship and of course the stability of its industry, this approach has stabilised businesses, by enabling them to retain their competence and to maintain unemployment at a moderate level. This exception, although not everything can be transposed, lights the way for other countries.

In addition to this, demography is the most difficult issue, since the share of senior citizens is extremely high in Europe and several countries, such as France, have been indulging in the vice of early retirement since the 1970's. We still have to find a position for the 60 year olds and part time work might recover its dynamism in this area.

A further challenge, both managerial and global, is being launched at European companies – and that is the integration of the Y generation, the children of Erasmus, who are seeking greater autonomy with a more critical attitude towards the traditional organisation of work and wages. But potentially Europe has some specific advantages: the traditional balance between the collective and individual, opportunities for mobility offered by the unified labour market, experiments in time management particularly in the Netherlands, the place offered to women in the labour market especially in north European countries. If Europe rejected the dogma of single managerial thinking it could come up with answers adapted to business life: how can a profession be assessed without stigmatising people? How can each individual become the player in his own professional development? How should life be injected back into team work? How can we have more human companies?

A new social pact consistent with limited growth

The sovereign debt crisis is forcing us to review redistribution levels, which have decreased however over the last few years as well as to re-assess social policy priorities. Choices will have to be made; if possible these will be joint; we might also be able to share some aspects of social policy. The European social contract will have to be re-created in a context of slow growth and with challenges being made to the need for higher productivity.

Moreover the financial crisis is clearly a challenge to governance. Again Europe might have the answer. All of the ingredients are indeed there. There is the German tradition of social relations, typified by the presence of employees on the companies' boards and the quest for shared social solutions. However, this does not mean co-management, because shared solutions only apply to the social field. The example of restructuring is a revealing example since the economic decision is not the focus of just a simple consultation, as in France, whilst social measures have to be the focus of an agreement. Therefore everyone retains his role but "social plans" have to be focus of a consensus

Potentially, Europe could provide answers to these questions. It has the diversity, the quality of human capital, the size, the humanist culture in order to rise to this challenge. Convergence is occurring even if the man in the street does not really realise it.

Europe also possibly shares the same language – that of negotiation – which is clearly the most modern method to innovate and settle problems. This is possible in Europe since unions exist within companies and also thanks to their independence. This dual condition is not to be found either in the USA nor in China! Yet to negotiate there has to be two sides! European style social dialogue, apart from the fact that it has served in other countries around the world, from Latin America to Australia, is clearly an asset – it is a comparative advantage and in all events, an indicator of the European social model. It might prove decisive when a new social pact has to be re-designed without which changes are hardly possible.

***

But does Europe have time to do this? Relations in the world's balance of power develop quickly. It is urgent for us to acknowledge a revamped, more coherent European social model which could then be an asset for Europe.

3

Europe and the New World (Im) Balances

European Times: From One Crisis to Another

Michel FOUCHER

The European Union has entered its third decade since the great bifurcation that took place in 1989-1991. Is an overview of what has been accomplished through the tests of successive crises helpful in controlling the future?

The Europeans were able to manage the final crisis of "real socialism". Asymmetric federations have collapsed; the area in which power, freedom of expression and movement and prosperity can be democratically exercised has been extended. Even Russia no longer seems to be able to escape it. Security has been established after the end of the wars in the Balkans, from which Greece, anchored more or less firmly within institutional Europe, escaped. Only four so-called "frozen" conflicts remain. The decade of the nineties saw the hour of glory of a Europe regaining its history and its geography, playing its part as an attractive, structuring centre. The American ally was able to impose its concomitant agenda of enlargement of its security structures and found new allies in Central and Baltic Europe. The creation of the euro embodied, at the political demand of Paris but under the functional conditions of Berlin, European anchorage of a Germany that moved from Bonn to Berlin. Dedicated to their legitimate historical task of reorganising the European homeland democratically, Europeans did not pay enough attention to the fact that other major players had drawn the same conclusions as they had from the social and geopolitical failure of the centrally planned economy. The Chinese communist party imposed the socialist market economy as from 1992, whilst Mamohan Singh sketched out deregulation in India. To counter the technological advance of Japan, American firms accompanied Beijing in this great transformation and, by means of an astonishing alliance with a modernising Chinese Communist Party, invested massively in free trade areas, much more than in the newly enlarged Europe.

From September 2001, the Europeans had to contribute, as back-up, to the management of a real security crisis, by reaffirming their solidarity with the United States. In turn they adopted the curious concept of "*war on terror*" and had to follow, with few exceptions, the wanderings of the foreign policy of two American administrations. The military expedition in Iraq, intended to avenge the humiliation suffered, came to an end at the end of 2011 with a redeployment of military forces in the Arab-Persian Gulf States. It contributed to a division of the Member States, of a group that was nonetheless presented as a "Union". In 2003, the effort involved for Europeans in drawing up a security strategy was cut short by integrating American priorities rather than setting out their common interests. The engagement in Afghanistan will come to an end in 2014 at the latest, at least in military terms, without the political and geopolitical result of this intervention being in any way certain in terms of internal and regional stabilisation. NATO has committed to actions outside its zone to ensure its reconversion. But European public opinion is not convinced that its security is still at risk in the Hindu Kush mountains or in the tribal areas of Pakistan.

Since 2007 financial and then economic tensions have arisen, the epicentre of which was on the other side of the Atlantic. Europeans have delayed gaining control of this, a crisis of "real capitalism", dominated by a financial system deployed further to the massive deregulation begun by the Clinton administration and aggravated by the deterioration of the public accounts of most European countries. Some of these countries have been more severely sanctioned by American rating agencies than the economies of the United States and the United Kingdom. Internal decision-making and management mechanisms in the euro zone established in Maastricht have demonstrated their shortcomings, which have been in part made up for by the decisions taken at the European Council held on 8th and 9th December 2011. New elements are a rallying to Franco-German proposals by Central European and Baltic States, concerned to take care of their near future in the euro zone, and the lasting isolation of the United Kingdom, whose positions are blocking any kind of joint political progress in areas of central concern (taxation, regulation, European defence). The battle of reserve currencies – dollar or euro – is set to last (almost 30% of Central Chinese Bank reserves, over 40% for the Central Russian Bank), against a background of Anglo-American domination of evaluation criteria. The financial crisis in the European Union is perceived in emerging countries as an economic risk of foreign markets drying up, there is also a perception of long term weakening of western countries which have the choice, according to Chinese experts, between decline and a defensive stance. The notion is gaining ground that the European momentum, so forceful in the nineties, is now over.

Finally, since February 2011, the Arab-Muslim world has been on the move. There will be various outcomes to this history-in-the-making. The various Islamist-conservative parties, which are winning initial ballots, are confronted with taking over government and making fundamental choices: establishments of rule of law, drafting of constitutions finding a balance between religion and State, between private and public sphere, the status of women, answers to social and economic expectations, choices in foreign policy. For the Europeans, this is a matter of getting out of the *status quo* and of rethinking the neighbourhood policy, working alongside this political transition movement, without fear or condescendence and with realism. Every democratic journey must follow its own road. It is not for Brussels to export a model but it does have a duty to respond to the modernising forces that ask it to do so. Tension is again growing in the equilibrium of European policies, southwards and eastwards.

Military intervention in Libya, at French and British initiative, has contributed to consolidating a central block of political transition from the Maghreb to the Mashriq. The Europeans were unable to adopt a joint response, whereas the responsibility to protect should have come into play, as it complies with the concept they have of their foreign action. Abstention by a majority of NATO and European Union Member States demonstrated the difficulty that Europeans have, together, of envisaging the use of force. An opportunity to make progress in European defence was not taken, even though the United States were in a position of initial decisive participation, followed by deliberate withdrawal.

So what is needed for Europeans to move forward in the field of common defence? There is certainly no lack of messages from Washington: a 454 billion dollar reduction in military spending over ten years, a call for greater European effort, by Robert Gates and then Leon Panetta, clear indications of strategic repositioning in a theatre that extends from the Gulf to Djibouti after the withdrawal from Iraq and facing Iran and, above all, the decision to reinforce permanent presence, both naval and terrestrial, in the western Pacific, facing the Chinese navy. A continuation of the disengagement from Europe will doubtless be announced in 2013.

With this in prospect, Franco-British activism in Libya has been highlighted both in Washington and at NATO. Facilitated by the rapprochement between Paris and London, demonstrated by the signature of the Lancaster House agreements, it has not, since it is strictly bilateral, had any effect on the management of critical European dossiers, for which responsibility has been assumed by Paris and Berlin. This segmented nature of understandings, depending on the stakes involved, is a structural factor in European and international life.

Finally, Europeans must affirm their position without naivety in the current rebalancing of a multi-centric world. This should be distinguished from any kind of multi-polarity which would result from a general agreement in the great international bodies to reorganise the UN Security Council and voting rights in the IMF. New players are structuring themselves as powers and want to give themselves the attributes of sovereignty. Their trajectory is initially national and they look rather towards particular States (Germany, France, Italy, Spain) than institutional structures such as the European Union. The Franco-British initiative in Libya was severely criticised by emerging democratic countries (Brazil, India, South Africa) with which Paris and London are nonetheless cooperating in terms of executive powers. The Europeans therefore find themselves confronted with a world that has never been so inter-dependent – and the European Union is an advanced laboratory for managing interdependency – and discordance – in the sense that there is no fixed alliance and prior convergence of interests and positions. Negotiations must therefore take place on every dossier and the temptation of taking the solitary road in the building of strategic partnerships with players in the throes of affirming themselves is both strong and destructive to the European Union.

***

It is therefore urgent, in this year of 2012, a year marked by a succession of presidential and legislative elections in States that count – the United States, France, India, Russia, Turkey (plus access to power of a fifth generation of leaders in China) -, to return to the work of drafting a true European White Paper on foreign and defence policy. Taking stock of a world which presents the inconvenience of being as it is today, it would set clear and lucid objectives, autonomously this time. The starting point would be establishment of a short list of common European interests, encompassing eastern and southern neighbours as well as the open sea, from which are blowing winds that are alternately headwinds or tailwinds depending on the ambition that Europeans are all seeking, together.

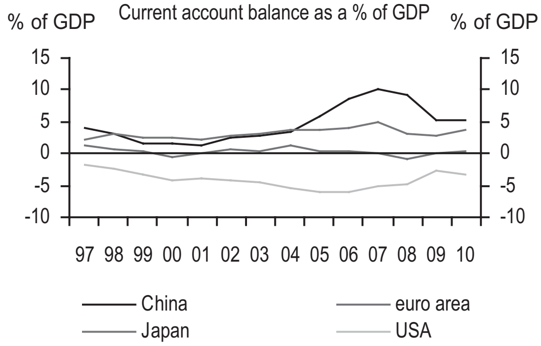
The Euro: Spectator or Player in the World's Financial Imbalance?

Mathilde LEMOINE

The creation of the euro limited world financial imbalances by increasing the financial stability of members of the Eurozone and also by triggering reworking of the international monetary system, which was added to the G20 agenda by France, during its presidency. Indeed, the Eurozone generated a current balance in equilibrium, unlike in the United States and China. But, above all, the single currency encouraged financial integration. It improved the liquidity and depth of financial markets and thus acted as a brake on deterioration of world financial imbalances. The euro cannot be blamed for current imbalances in Eurozone Member States and the European sovereign crisis. These are the result of the failure of the economic and monetary Union to channel strong growth in credits and to coordinate budgetary policies.

The euro: a player in the world financial equilibrium

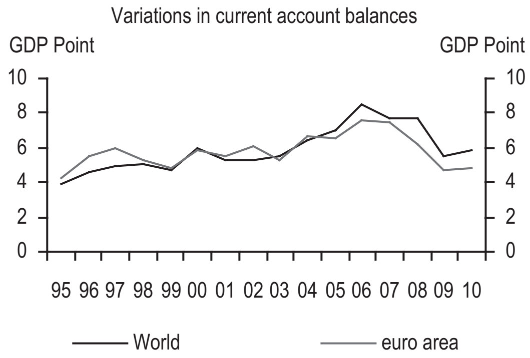
The 2007 crisis revealed the defects in financial regulation and the unsustainable nature of world imbalances. This revelation has led to a fierce debate on the true causes of these current surpluses and deficits. Two main theories confronted each other, the theory making the American monetary policy of the years 2000 mainly responsible for the banking and financial crisis, and the theory which considers that it was the inflow of Asian, particularly Chinese, capital to the United States which engendered the biggest recession since 1929. According to the first theory, the Central Bank of America (Fed) undertook a monetary policy that was far to expansionist after the events of 11th September, using major reductions in its base rate. The result was a strong increase in the American debt and a reduction in savings rates, which encouraged the development of a real estate bubble. Between 2001 and 2007 the mortgage debt increased by an average of 12% per year, to reach over $10 000 billion. As a consequence, the deficit in the American current account balance reached 6% in 2007 and investors' share of assets in dollars doubled. The other theory puts the accent on the responsibility of emerging countries, particularly China. In seeking to accumulate foreign currency reserves to defend their own currency in case of attack by speculators and by failing to liberalise their financial systems, emerging governments had to invest abroad. They therefore sought the safest assets, which financed the American debt. The Chinese current account surplus represented up to 10% of the Chinese GDP in 2007!



Whatever the theory, Europe has not been accused of any responsibility in the increased worldwide imbalances because its own current account balance has always been stable and close to equilibrium. The euro's external position was deemed strong. It resulted from the commercial strength of Europe, which exports almost twice as much as the United States, and from financial integration which has enabled the development of debt instruments. Over the past ten years, the bonds market in the Eurozone has also reached the size of the American market. The euro thus represents 32% of international bonds held, excluding national issues, as well as 40% of foreign currency transactions (of 200%), 28% of foreign currency reserves and 16% of current international banking loans, excluding cross-border European loans.

Also, although the euro does not yet have the status of reserve currency, monetary stability in the zone is now defined in terms of an internal reference, managed jointly, and no longer in terms of the dollar, a fact that has limited the volatility of financial markets.

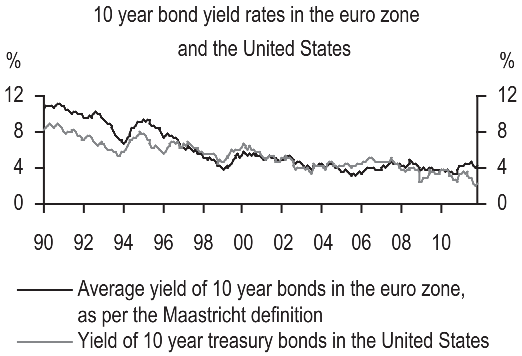
Finally, thanks to more exchanges of assets and liabilities between countries in the Eurozone, the single currency has enabled better diversification of risks and has increased the possibility of international sharing of risks. The years 2000 were therefore the years during which a new international monetary system was established.



The creation of the euro was therefore the foundation stone in the new world monetary system, the definition of which was added to the G20 agenda by France during its presidency. In this respect the single currency has been a player in world equilibrium.

The positive role played by the European Central Bank in the international monetary concert

The European Central Bank (ECB) has played a very important role in the international monetary concert and for increasing the role of euro. The ECB rapidly made its mark as the Federal Reserve's equal. It has also established a credible monetary policy which guarantees price stability whilst identifying the problems caused by the weakness of risk premiums. Jean-Claude Trichet was one of the first central bankers to voice his concern publicly with regard to the excessively low level of these risk premiums and the major imbalances that it risked causing. The ECB also stood out during the 2008 crisis by granting emergency loans and currency exchanges to central banks which needed them, from outside the Eurozone. In this way it assumed its role as issuer of a recognised international currency, in a position to provide emergency liquidities[1].



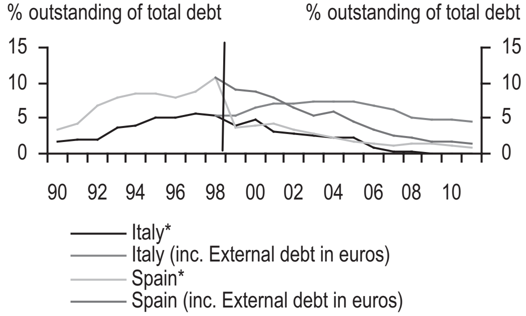
This analysis may appear paradoxical, at a time when the sovereign crisis in the Eurozone has reached a peak. The single currency is indeed considered to be responsible for the deterioration in current account imbalances between member countries of the European monetary union and, consequently, for the massive increase in public bond yields of peripheral countries. Creation of the euro did indeed mean easier, cheaper access to external finance and a reduction in nominal and actual interest rates. The apparent disappearance of the external constraint delayed the moment of rebalancing of current accounts. However, it has always been clear that the sanction would come from an increase in interest rates which would force "clandestine" Member States, that is to say those not complying with Stability and Growth Pact criteria, to get back in line, even though the euro was postponing the date of the sanction.

Further, it is not the creation of a single currency as such which accentuated the current account imbalances in each country, but the way in which public and private authorities used this sudden influx of capital. Indeed, the increase in the current account surpluses and deficits in Member States dates only from 2004, that is to say

1. Barry Eichengreen, Un privilège exorbitant, Paris, Odile Jacob, 2011, p.167 and following.

from the time when credits in the private sector increased rapidly worldwide and which was known as the "*global credit boom*"[2]. Yet this acceleration was the result of a demand for bonds higher than the offer, the deleveraging of States, statutory developments, the flattening of the curve of interest rates and, above all, the development of *collateralised debt obligations* (CDO). In fact these structured products increased by 75% between 2003 and 2004 according to the Bank of France, a consequence of abandonment by the banks of balance sheet CDO in favour of synthetic arbitrage CDO[3].

Share of the debt in foreign currency



The euro is thus neither responsible for, nor guilty of the size of current imbalances within the zone. It is the incomplete nature of European construction that does not allow for budgetary and economic coordination which has limited the stabilising function of the single currency. In other words it is not financial integration accentuated by the euro which has caused the crisis in public debt and destabilised the world financial system, but the lack of federalism or, at least, the lack of economic, social and financial integration.

Completing progress made under the effect of the crisis: the need for economic and financial integration

Recent progress will significantly improve the functioning of the economic and monetary union because it deepens economic integration and provides the euro zone with institutional structures. The "6 pack" added a preventive aspect to the Stability and Growth Pact and makes sanctions less dependent on political haggling. The "Euro Plus Pact" increases the coordination of economic policies and the creation of a "Euro summit" is the foundation stone for specific governance of the Eurozone. However, this progress is not sufficient to make the Eurozone a first rank player in the reduction of world imbalances.

2. Philip R. Lane, International financial integration and the external positions of euro area countries, OECD Working papers n°830, Dec 2010.

3. In fact, although the regulations introduced by Basel II no longer enable banks with low equity levels to outsource their risk by securitisation, as was the case under the 1998 Basel agreement, it gives them the possibility of provisioning the economic risk actually transferred. If the risk is judged to be low, securitisation again enables outsourcing of debt. In parallel to this, the tightening of credit spreads encouraged recourse to underlying more complex or more liquid instruments, which offer greater profitability. For further information see Mathilde Lemoine, "Le marché de la dette américain soutenu par les ménages et la titrisation", *Annuaire des Professions financières*, 2008.

The first limit of institutional evolutions over these past few months has been to exonerate States from considerations regarding continued construction of the single European market. Indeed, economic theory, particularly that of R. Mundell, clearly shows that it is possible to create a joint currency, even if the monetary zone is not optimal, that is to say even if reactions to external impacts are not symmetrical. In this case, workers and investments must be able to move from one country to another without hindrance or develop transfer mechanisms between countries in the zone thanks to a federal budget. Continued European economic integration, thanks to elimination of obstacles to trade, harmonisation of regulations segmenting the markets and increased worker and capital mobility would have enabled us to bring the prices of factors closer together, along with economic structures and growth rates. Member country economies would not have diverged in the way they have done recently, but would have seen their economies draw closer to one another.

The second limit on European progress observed over these past few months is the importance of "inter-governmental" decisions. This method of decision-making, where discussions between States are given priority, exacerbates both national interests and conflicts. Which Member State can most legitimately give advice or directives to another?

Further, the Eurozone does not yet speak with one voice in international bodies such as the IMF or the G7/G8/G20. This means that there is no defence of any joint European position in monetary terms. The euro is thus hindered in its progress towards becoming a heavyweight player in international financial stability.

Making the Eurozone a player in world balances calls not only for greater mutual supervision of national budgetary developments, but also better coordination of economic policy choices. After the failures of the main economic policy orientations and the Lisbon Strategy, "Europe 2020" and the "Euro Plus Pact" risk encountering the same lack of success if the European Commission cannot control the attainment of objectives and the sustainability of public finances. Moreover, since in the end the only source of growth is technical progress, a major step towards federalism could be taken by allowing the European Stability Mechanism (ESM) to borrow in order to finance investments aimed at achieving the objectives detailed in the "Europe 2020" programme. It is also urgent to facilitate the movements of workers amongst the various countries in the Eurozone. The creation of a European work contract, with rights for the employee financed by a European fund paid for by Member States could be one way of getting around national reticence. Finally, to ensure that the euro becomes an essential player in the new international monetary system, one Member State could represent its partners in the Eurozone at international bodies debating monetary and financial matters.

***

The Eurozone sovereign crisis is not a euro crisis. The euro has contributed to world stability and growth by improving financial integration, as well as permitting the formation of a leading regional zone. The euro has also been a pioneer in the reform of the international monetary system. The sovereign crisis is not a crisis for the euro as a currency but rather the reflection of a lack of economic and budgetary integration and of the failure of the functioning of economic and monetary Union. Considerable progress has been made recently. This should be supplemented in order to "*make the European Union the world's most competitive and dynamic economy*", as pronounced by the late Lisbon Strategy and reduce regional specialisation. It is by creating the conditions for strong, sustainable growth that Eurozone Member States will complete their work of positioning the euro as a reserve currency and will become essential players in world financial stability.

What European "Power"?

Pierre HASSNER

A few years ago people were scrutinising the "enigma of European power", the key to which they thought was "power through norms". Currently we would rather tend to wonder about the "enigma of European impotence". Of course the first explanation of this contrast can be found in the economic and financial crisis, in the failure of European States to meet the standards they themselves had enacted and in the differences found within their Union. However a good introduction to the ambiguity of the idea of power can also be observed.

Forms of power

Philosophical definitions of power

"Power" can be set against the idea of impotence or weakness. But it can also refer to the classic distinction, which goes back at least to Aristotle, between potentiality and actuality. It can be said that the successive treaties, from Rome to Maastricht, contained a potential Europe that has not developed into reality. All living organisms contain the germ or power for development which will result in the production, maturity or fulfilment as actualisation of their nature.

Without necessarily using such as finalistic concept, we can, with Bergson, consider that all organisms must face the problem of identity and change, reconciling the past with the future, the interior with the exterior or, in other words, their endogenous development with their exchanges with their environment. The optimal combination of stability and evolution, opening and closing, is the key to evolution that will create power. A healthy organism can reconcile remembering and forgetting, conservation and imagination, opening and selection, to the extent of its own dynamic and energy. This is what appears to have been lacking, over these past few years, faced with the double obstacle of fragmentation by renationalization and dilution by globalisation.

Sociological and political concepts

Let's return to a definition that is closer both to sociology and politics, and consider Europe or, more precisely, the European Union, as a player. Its power can be defined like an essence, or like a range of possessions: size, population, resources. But this type of power is almost nothing without being used. We say "almost" because, and this is particularly true in the case of Europe, its dimensions and resources can force respect and contribute to its security. "*When a good man is armed and defends his property, what he owns is at peace*" (even though it is coveted or envied) says the Gospel. That is what is known as the "law of anticipated reactions" on which deterrence is based. Seduction and deterrence can, up to a certain point, be of an "existential" nature, in other words automatic, even involuntary.

That's somehow how enlargement happened. It has been said that the Union has acquired an empire in spite of itself.

Charles de Gaulle did indeed extol "Europe from the Atlantic to the Urals" and Jean Monnet saw the building of a regional entity based on a combination of federalism and functionalism merely as a beginning, intended to spread gradually. But their successors (with the exception of the German authorities for Poland) did see enlargement at best as a necessary evil which it was difficult to get out of, something which, I rather than increasing Europe's power, risked reducing its cohesion. According to the Anglo-European diplomat Robert Cooper, if the United States constitutes liberal imperialism, the European Union represents an "imperial liberalism", more exactly than the United Kingdom for which it was first pronounced, the formula of "an empire acquired in a moment of absent-mindedness".

Power: a matter of relations

It remains that power is neither an essence nor a possession, but rather a relation. It consists of getting the other to do something he otherwise would not do, or preventing him from doing something we do not want him to do and, moreover, preventing him from preventing us from doing something we want to do, or from forcing us to do something we do not want to do. Defensive power and offensive power combine but are not identical: any excessive accent on one can endanger the other.

Montesquieu and Rousseau both insisted on defensive power and extolled federalism or a confederation of small states, which would be as impossible to conquer as they were to do any conquering themselves. However, this makes it difficult to protect allies or, under modern conditions, to intervene against genocides or crimes against humanity.

Of course, however, military force, whether defensive or offensive, is only a particular case of power. Although force and ruse are two of the means (theorised in the opposition of lions and foxes by Machiavelli, or of the soldier and the financier by Pareto), seduction and conviction or conversion (ideological, philosophical or religious) are two others. Joseph Nye invented, popularised and used (*ad nauseam*, one is tempted to say) the distinction between *hard power* and *soft power*. The former includes military as well as economic pressure, used for its own ends or as a means by which to blackmail, at the service of a political objective. The latter can go from the attractive power of example, through seduction, whether aesthetic or affective, to the intellectual or rhetorical power already mentioned, of convincing, converting or leading.

All these forms of strength or power (one can, like H. Morgenthau, the theorist of "*power politics",* identify these two concepts or, like Aron, distinguish them by using power for domestic political life and strength for international relations) are clearly not merely one way. What counts is the result of the dialectic of two wills. But there is more: purely bilateral relations are exceptional. In a complex and interdependent world, true power consists of manipulating this interdependence or, better still, defining the rules of the game, determining or influencing the nature of the system, or the limits of legitimate problems. Power can be found in norms, as mentioned at the beginning of this article, but with the difference that it can never impose itself alone and by itself, it depends on the respective interests and weight of the players, at the same time as on their values.

Europe and power

It is here that Europe unquestionably benefits from a critical size which gives it, more than the states comprising it, the possibility of taking part in the definition of the rules of diplomatic-strategic negotiation or negotiations involving economic and social exchanges. This is what it does to a certain extent for international trade but not, unfortunately, for defence.

Two basic problems remain, one more general and the other more particularly acute for the European Union. These are the relations between the various dimensions of power and that of the degree of unity or cohesion enabling a collective yet pluralist player, such as the European Union, to act efficiently.

What relations between the various forms of power?

The first problem could be said to be that of the rate of exchange or of loss of energy between the various forms of power. Everyday experience, particularly that of military intervention, shows that the power to destroy is different from the power to build, the power to constrain does not bring with it the power to persuade. Machiavelli wondered whether it was better to have great riches or good soldiers and he chose the latter because, with them, one could always rob the rich neighbours whereas nothing could replace military virtue. To what extent is this still the case in our technical age? Will drones never replace the power given through acceptance of sacrifice or death? Decades ago the political scientist Kenneth Waltz, who defended the stability of the bipolar world in the name of the idea that "whoever can do most can do least", received an answer from another political scientist, Karl Deutsch, who said that a man's power to knock out a man did not give him the power to teach him to play the piano. I added that the first man could always go to a piano teacher and threaten to beat him up if he did not teach the second to play the piano, but that it was a very risky, short-term method. Another possibility, more plausible and less risky, was to pay for his piano lessons, but a cost would be involved here too.

Economic power, military power and political power can go side by side, but they can also divide, or even countermine one another and, in any case, they involve choices ("butter or guns?"). During the cold war we had Europe, a great economic power but with low military power, the USSR, military superpower, known as the "poor power" and the United States who alone benefited from every aspect of power. But this position of "hyperpower" has itself been shown to be fragile and undermined on the one hand and arousing distrust and opposition on the other. Europe could, if it were willing to take the risk and pay the cost, benefit from its middle position which makes it less suspect of having imperial ambitions, at world level at any rate, to gain a balance between the various forms of power which would enable it to aspire to a greater role, consisting of influencing world power in the direction of balance and moderation.

The challenge of unity and cohesion

But can it and will it, even if the current crisis is surmounted? What handicaps it in a general way, which is cruelly underlined by the present crisis, is the imperfect, even ambiguous and shaky nature of its unity. As pointed out by Jean-Louis Bourlanges, the years in which, after the creation of the euro, we should have advanced towards political Europe if we were not to move backwards, are precisely those during which, in the public opinion of several of its various countries, we witnessed a rise in Euroscepticism, not to say Europhobia. May we add, as he would most certainly do, that in the dialectic of relations between governments and supranational institutions, the former (even those who are keen to see the euro and the common market survive) have done all they could to reduce the role of the second, and have achieved their aim, at least as far as the Commission is concerned. We would also add that the gap between economic health and policy in the various Member States has widened instead of narrowing (this is the case independently of the new enlargements, opposition between North and South appearing to be just as important) and, *last but not least*, that all these phenomena are directly linked to more general factors such as globalisation and immigration.

The result is that Europe's ability to take decisions, its power and action, are severely challenged by the multiple nature of the levels involved (governments, European institutions, public opinion and various economic constraints and, above all, the markets, which appear to be having the last word).

***

Under these circumstances European power would appear to have regained its virtual rather than actual nature. Faced with the evidence of impotence and the risk of catastrophe, only a rebound in solidarity, simultaneously political, social and European, overcoming at the same time individual selfishness and the absolute power of the markets, can give Europe any chance of regaining a sense of its vocation and its power.

Has the Euro Crisis Sounded the Death Knell of the Union's Strategic Ambitions?

Nicole GNESOTTO

After a decade of ever-increasing strategic power, Europe is struggling to influence developments in the international system. Since 2009, the Union has in fact been conspicuous by its absence: globalisation is constantly changing the configuration of the world, Southern Mediterranean countries have begun historic political transition, Russia itself has undergone contradictory currents between a return to authoritarianism and popular opposition, but the Union has not moved. Doesn't count. The 27 Member States were divided over Libya, divided over the recognition of Palestine, remained silent a long time on Egypt and Tunisia, are impotent with regard to Syria and, in any case, are uncertain as to the role they could or would like to play in these major world developments. Many observers have already concluded that the European policy on security and defence – which has made no proposals or produced anything since the Lisbon Treaty came into force – is condemned to slide all too soon onto the dust heap of history and that a European pole of power or, more modestly, of political influence on the international scene, still remains, 61 years after the start of the European adventure, a pious wish on a dead-end track.

The crisis and a return to introversion

Political reflux in Europe

Are they entirely wrong? After all, European performance has been so consistently discouraging that the question of the Union's lack of adequacy for international responsibility is not entirely unfounded. There are firstly many reasons of economic context that can explain this political reflux in Europe. The first, and not the least, lies in the violence of the economic crisis, which for over a year now has caused upheaval in the euro zone and is impacting all European gains. When times are hard, when the basic contract underlying the European Union – that of shared growth – is being smashed to smithereens, priority must indeed go to managing the domestic crisis and re-establishing prosperity. Management of the crises being suffered by others, export of security outside the Union, can wait. No European government, or moreover, public opinion, is giving priority to the political upheavals in the world outside Europe. Particularly since the financial resources required for possible investment in these external crises are shrinking rapidly: the scale of public deficits is such indeed that budgets for foreign aid and defence are being cut drastically in most Member States.

This moment of financial truth is not helping the resolution of more structural political differences either. These are returning without ambiguity to the front of the stage: in December 2011, the United Kingdom broke away from Europe in terms of budgetary and financial solidarity, but it had already started this movement away several years earlier, in terms of security and defence aspects. London is opposing more fiercely than before the slightest reinforcement of the Union's strategic capacity – veto on the European command, freezing of European Defence Agency budgets, non-participation in the terrestrial operations of the CSDP – whilst attempting to "sell" Franco-British military cooperation as Europe's sole serious strategic contribution and the sole possible substitute for European defence.

France vaguely maintains a semblance of political ambition for Europe but, since 2009, it has been concentrating on its reconciliation with NATO without the latter producing the desired effect: far from finding itself strengthened, strategic Europe now slumbers in the folds of an alliance that is now reconciled. Obsessed by numerous principles of economy, the Europeans scarcely find it difficult to return to more traditional strategic reflexes: delegation to NATO and America of the business of dealing with international security. In a rather unexpected way the scale of the economic crisis, in addition to the comfort of a reconciled Atlantic alliance, is now resurrecting in the heart of globalisation, the sharing of the tasks of the cold war: to the Union the aim of prosperity, to NATO that of security.

Return of the exile

Some explanation should be given of this return of the exile. When, in 1999, it launched itself into the sphere of strategic responsibility, the Union did not of course have as its model the American military superpower: the aim was not to build a mini European power, more or less emancipated from NATO. It was simply a matter of giving the Union the minimum resources required to manage peripheral crises, based on an approach to security that was less militaristic than that of the Americans, yet nonetheless more realistic than that of UN peacekeepers, above all giving value to a specifically European political vision of the world where negotiation, compromise, sharing and a respect for the law figure in the pantheon of international rules. This was a time when, with the adoption of the euro and defence, the Union was getting closer to the model of a political Europe based on the two attributes of sovereignty and power, which are traditionally currency and the sword. It was a time when the *big bang* of enlargement also gave European integration every appearance of success, every reason for a certain degree of collective self-satisfaction.

A decade later these beginnings have disappeared to a large extent: the American model of military superpower collapsed in the sands of Iraq; Barack Obama's United States has given up on the idea of military aggression and has focussed on a more political, more sophisticated vision of international security, Franco-American reconciliation removes the credibility of the European strategic option, in favour of a more or less efficient transatlantic panacea. With the euro crisis the Europeans have lost all feelings of pride, success and self-confidence, whilst globalisation and its train of crises is confronting all international players with the need, more or less accepted, of increased international cooperation within the G20, the UN, the IMF, etc. In other words the context is not favourable. A certain political Europe had been "boosted" by the dynamic and new position of the post-cold war world. Another, more abstentionist or more impotent Europe would appear to be being created, on the other hand, by the multiple crises and the unknown factors of globalisation.

Relaunching the debate on the need for a political role for the Union

And yet, should one abandon the work or the ambition of an active Europe, influential on the international political scene? In the short term, doubtless. The priority of the euro crisis, the risk of recession, barely leave any room for strategic availability of the Union. But this necessary pause does not have to mean definite abandonment.

Removing ambiguity from the heart of "political Europe"

Within the current context there are at least three elements liable to relaunch the debate on the need for a political role for the Union with regard to world crises.

The first is illusory but is all the more worth mentioning: it is the presumed return of a federal dynamic in Europe. Some are relying, in fact, on the scale of the financial crisis to relaunch the idea and practice of a more integrated, more supportive, more responsible Union, not only in economic and budgetary terms but also in terms of foreign policy. The federal budgetary option would entail, in the long term, a political Europe. But there is no lack of counter-argument. There is a great deal of difference between budgetary pseudo-federalism, which is mainly technical, as involved in the recent agreement between 26 Member States, and a global, political federalism, instilled with a political project by the States and a no less collective appropriation of this project by the peoples of the Union: all of which are absolutely non-existent as things stand. There is, moreover, in the concept of a political Europe, a fundamental ambiguity between two concepts which are more or less incompatible. In the first politico-institutional school of thought, political Europe does indeed identify with federal Europe: it presupposes a collective journey of exceeding national sovereignties in favour of a supranational body, of which the European Commission is a forerunner.

With this in view the policies implemented are less important than the integrated processes that define them, in the name of the general interest of Europe which is higher than the sum of the individual interests of the nations. In the second school of thought, of strategic obedience, political Europe is defined firstly by its content and its status: it is an autonomous player on the international scene, with its own foreign and defence policy, capable of influence and of taking action in the settlement of the great affairs of the world. The first approach feeds on systematic criticism of the principle of national sovereignty, which would incarnate, depending on the authors and periods of history, the very worst of dangers or the absolute in terms of collective impotence. The second approach feeds on an ambition of collective power, carried by the nations and on a certain distance in terms of American policy. The first is embodied in the valorisation of a specific institution, the Commission, which is supposed to represent the future European government, transcending the differences between the nations. The second conversely makes the European Council the heart and driving force behind the global political influence of Europe on the international scene.

Yet the contradiction is massive and doubtless fatal, between these two approaches by political Europe. One places a ban on the other. The more "defence" is placed within the competence of the Union, the greater the weight and power of the nations. Conversely, the more the federal tendencies gain in importance, the less the Member States are tempted to include foreign and defence policy within the competencies of Europe. Reconciling these two dynamics, strategic and federal, would therefore appear to be very difficult. In the first case the ambition of a strategic Europe becomes an additional alibi by which to reduce to the strict minimum any progress made with political integration and reinforce control by the States over the whole of the Union: since the creation of the CFSP/CSDP at the end of the nineties, no-one has had any doubt about the global reinforcement of the role of the Council compared to the Commission. In the second case, the emergence of a more federal Europe in economic and budgetary terms, combined with an increase in the Commission's responsibility in the Union's civil power, has every chance of causing even greater reticence by States in terms of integrating their foreign and security policy within such an institutional system.

External driving forces behind a possible relaunch of political Europe.

It is therefore outside the Union that the driving forces for a possible relaunch of political Europe lie. Developments in American policy are a first major indicator. Whatever the merits of Barack Obama, the strategic crisis which the United States is undergoing is deep and lasting. For many reasons, starting with their considerable debt levels which will reduce defence budgets, plus their new reticence in terms of military adventurism which is as expensive as it is risky, the United States is no longer in a position to take charge of all regional crises, nor is it capable, alone, of breathing a consensual dynamic into the international system. It is a European illusion to believe that America would want to, or could, continue to do everything in terms of international security. For all non strategic crises – in Europe, the Middle East and Africa particularly – the United States will be less and less the actor and will increasingly be requesting assistance from the Europeans. In spite of the Atlantic comfort in which they hope to remain, with no problems and outside of History, the new weakness of American power will oblige Europeans to take on more responsibility in the political management of the world.

The second driving force behind the relaunch of political Europe comes quite simply from its involuntary modernity. Globalisation backs up, in many ways, the framework and strategic vision of the Union. Who can believe that the solution to the Lebanon conflict or the Iranian question will involve military confrontation? How can one fail to recognise, for Afghanistan, the insufficiency of strategies that are based only on the counting up of trials of strength? Reinforced by the appearance of global threats (climate, health, criminality, terrorist networks, etc.), the insufficiency and relative nature of the military tool in the management of crises do indeed reinforce, on the contrary, the strategic modernity of the European framework. In addition to the fact that the Union is a rather reassuring and friendly player, it has, spread throughout its various institutions, all the means necessary for global management of a crisis and for the needs of rebuilding after a conflict – defence forming one link amongst many others in this continuation of means. Conversely, NATO has no rebuilding budget, no civilian resources, no commercial or legal skills for third party countries.

***

Crisis or not, whether they want to or not, Europeans in the Union risk therefore finding themselves increasingly on the receiving end of demands in terms of the global, political and military management of external crises, which are themselves increasingly complex. Their answer, in other words the collective will to shape world developments, is far from being ready, but the demands coming in from outside are no less real.

Europeans and the Arab Revolutions: What Role Is there for the EU in the Southern Mediterranean?

Luis MARTINEZ

The Arab revolutions put the spotlight on the limitations and contradictions of Euro-Mediterranean politics: from the Barcelona Process, launched in 1995 to the Union for the Mediterranean (UfM), inaugurated to much acclaim in Paris in 2008, the European Union has failed to take the measure of the social, political and economic transformations at work in the Southern Mediterranean. Symbolically, the two overthrown Heads of State, Ben Ali and Hosni Moubarak, were pillars of the UfM. Amongst the structural factors in European blindness towards the Southern Mediterranean, although it is always useful to underline the obsession with security (the fight to counter migration, terrorism, etc.) as the dominant prism in relations between the two shores, it must be shown that the failure of European policy in the Mediterranean can also be explained by the role played by Southern European countries (France, Spain, Italy), always too inclined towards defending their own trade interests to the detriment of European principles. In short, what the Arab revolutions highlight is a need for more European union. This need is particularly great because the on-going political transitions will very probably be led by political coalitions directed by Islamist parties.

Bringing an end to the mercantile, security-based vision of relations with the South

Right from the launch of the European policy in the Mediterranean, the role of the European Union could only be marginal, due to the preponderant role played by France, Spain and Italy in the running of exchanges with the Southern Mediterranean. With Germany preoccupied with its own reunification and with the enlargement of the Union on-going, Southern European countries obtained tacit agreement from the other EU Member States that North Africa was within their scope of competence due to their geographic proximity and their historical links. To a certain extent the Barcelona Process could be seen as an institutionalisation of the “privileges” of these three countries within

North Africa. Further east the complexity of problems and the importance of the stakes (Israeli-Palestinian conflict, security of the Suez Canal, etc.), forced the European Union and countries with the greatest involvement in the Southern Mediterranean to play a secondary role in favour of the United States.

On the other hand, from Morocco to Libya, France, Spain and Italy worked on the building of their own "exclusive preserve", to the detriment of promoting EU principles and values. The complexity of the relations between countries around the Mediterranean coast has, to date, encouraged dangerous liaisons that have led the rulers of these countries to make none too democratic arrangements, a far cry from the values promoted by the European Union. The fierce desire to conquer Southern Mediterranean markets went alongside blindness to the political and social effects on populations on the southern shore. The proximity and warmth of personal relations between the Heads of State on both sides of the Mediterranean convinced populations that this "friendship" was to the detriment of their own fundamental interests. Indeed, for opposition parties and movements, Europe's silence on corruption, election rigging and the flight of capital, were all derivatives of the complicity born from such close relations.

It has to be observed that one of the factors behind the success of Islamist parties in the region is the fact that the combat against corruption has been put at the heart of their mobilisation strategy. From their point of view, concern about them due to their ideology is in fact a pretext, hiding a concern about denunciation of the unreasonable arrangements made between certain Heads of States and company managers from both sides of the Mediterranean. The mercantile and security-based vision of exchanges with the south deeply affected civil societies in the region, which were incredulous at the ability of European countries to consider that it was not worth taking certain basic principles to the other side of the Mediterranean. Far from a surprise, the success of the Islamist parties is due, amongst other things, to the bad seed that has been sown throughout recent decades. Therefore, one of the roles that the European Union is in a position to play in this period of uncertainty is to play down the emergence of Islamist parties as the main political force in the region.

Partnering transitions, investing in democracy

The Arab revolutions have brought with them much uncertainty and one of the roles of the European Union is to reduce this uncertainty. Throughout the decade of the years 2000, the vain combat against Islamism justified the support of authoritarian regimes. The resurgence of the Islamist parties and their probable victory in post-revolution elections must be given very particular attention in order to avoid tension in south Mediterranean countries. The amalgam, after 11th September 2001, between Islam, Islamism and terrorist violence fed a deep lack of understanding regarding the profound changes at work in countries on the southern coast of the Mediterranean Sea.

To avoid repeating the errors of analysis committed in terms of the region, the European Union must work alongside the political transitions ahead, without rejecting Islamist parties as long as the latter are part of the political game. Turkey's experience gives Islamist parties in the region a model they were having difficulty in finding. From Tunisia to Egypt, not forgetting Libya and Morocco, using the Turkish model does not mean that it will be copied. The historic road travelled by Turkish democracy is unlike those being observed in the region: institutionalisation of laicity, the army's role, the European project, etc., are all absent from most of the Southern Mediterranean countries. On the other hand, de-radicalisation of the Islamist movement, once organised into a political party out to win power, is an experiment being considered by the region's Islamist parties. In short, recognition of the Islamist parties as legitimate actors is a means by which to reduce the risks of radicalisation. To this is added that, in an open and competitive political game, Islamist parties are forced to negotiate alliances and thereby learn democracy. This period of apprenticeship of democracy should be, for the European Union, a period of apprenticeship of the region! In order to partner the Arab revolutions, the European Union has been forced to change its attitude; it now must define a clear and strategic vision of the relations it wishes to establish. The region is providing the European Union with an historic opportunity both to promote its principles and to defend its interests subject to agreeing to see the region in all its complexity and not seeking to reduce it to what it should be. The new governments are expecting not only full and complete recognition of their authority based on electoral legitimacy but also support in terms of electoral techniques and, more generally, in terms of the functioning of political institutions run down under the previous authoritarian regimes. Clearly, this apprenticeship will not fail to arouse concern and criticism; it is up to Europe to invest in the consolidation of institutions (Parliament, Council, etc.) which, provided through electoral processes with the legitimacy they lacked, are the only ones in a position to guarantee the sustainability of the state of law demanded by both Islamists and their opponents alike.

Added to this is greater investment in education and in particular in universities. The European Union should encourage policies of cooperation for the training of the managers and elite of tomorrow. Such a prospect forces European countries to rethink the hosting of foreign students, the granting of visas and, above all, the migrant policy used for electoral purposes by populist parties whereas it should be seen as a lever for development between the two shores of the Mediterranean. The current political transitions are subject to major internal and regional pressures: resistance from the chiefs of former regimes, Islamist radicals promoting violence, the unemployed who expect better days, countries spared from revolution that are hoping for the failure of their neighbours in order to defend the status quo. Further to this, the countries in transition have to reassure their European partners who are concerned to see that the region has become unpredictable; the long term consolidation of democracy in the south of the Mediterranean Sea can but reinforce links with the European Union. It will doubtless require ten years before the return of the stability and security which the European Union was pleased to see under the authoritarian regimes of the past but which caused the distress of their populations.

Encouraging the economic integration of the south of the Mediterranean

The region's apprenticeship of democracy is taking place within an economic context of crisis. One of the roles that the European Union is in a position to play is not to reproduce the Marshall Plan in favour of countries in the Middle East North Africa (MENA) region, as has often been suggested, because Europe's financial situation does not appear to be very suited to this type of policy, but above all because the example of Greece underlines the limitations of financial assistance if this is not backed up by political institutions in a position to exercise democratic control. On the other hand, in order to work alongside the political transitions in an economic context in crisis, the European Union should open up its market further to encourage exports from countries of the south. Similarly, it must get a grasp of the Western Sahara issue, put on hold due to Franco-Spanish interests both in Morocco and Algeria, and assist the region with the development of its economic integration: less than 10% of trade takes place between Southern Mediterranean countries! Many economists believe that one of the sources of job creation is in the re-direction of trade between countries in the region. The region suffers from a lack of prospects and of hope for an improvement in living conditions.

The Arab revolutions have restored the feeling of dignity, lost under authoritarian regimes. The establishment of the state of law is clearly the most urgent task to which the new regimes must put their minds, with the support of Europe. But the consolidation of these transitions requires, over time, not only better political governance, but above all clear economic prospects, prospects that can mobilise energies. It is for the European Union to understand and support the political coalitions able to provoke within Southern Mediterranean countries, liberated from their authoritarian regimes, the leap required in order to undertake the political and economic reforms their populations are awaiting. In short, after having been far too attentive to the authoritarian coalitions, Europe must now pay more attention to the demands of the populations and to the political parties representing them.

European Values in the New Global Context

Wilfried MARTENS

The global context emerging at the beginning of the 2nd decade of the 21st century is significantly characterised by a protracted financial and economic crisis in Europe and North America, and a relative decline of the West and the rise of new global players led by China; in a power shift from West to East, from the Atlantic region to Asia.

I am deeply convinced that in this situation, more than ever, the European Union has to base its policies on some of the core values that the European People's Party (EPP) and all its member parties and associations share. At this moment, the EPP is busily formulating a new platform1 spelling out its central values, the new challenges of the 21st century and the policies resulting from them. In the context of the current crisis, I would particularly like to emphasise three of them: Solidarity, subsidiarity and sustainability. Together, they already contain much of the EPP value consensus. And they have been, and will continue to be, crucial in getting the EU back to dynamic growth, prosperous stability and security. That is why they should guide our policies in the implementation of the economic governance incorporated into the Euro Plus Pact.

Solidarity is a time-honoured principle as old as mankind, although the term itself came into use only about 150 years ago. "No man is an island, entire of itself; every man is a piece of the continent, a part of the main."2 – I believe this quote by the English baroque poet John Donne brilliantly expresses what we are talking about. And, using his words, I believe we can say that in this crisis, all the people and all the countries of the European Union are a piece of the same continent, quite literally. Economic collapse in one country affects all others: Inside as well as outside the Eurozone, the failure of one is the failure of all.

Consequently, there is a clear obligation for the strong to help the weak. In terms of the Euro Plus Pact, this principle is contained in the European Financial Stabilisation Facility. But solidarity works both ways. In order for the principle to work, and be accepted by everyone, those who are helped have to help themselves. They have to create

1. This document, replacing the Athens Basic Programme of 1992 http://www.32462857769.net/EPP/e-PressRelease/PDF/athene-BASIC_PROGRAM001_.pdf , and following up on the 2001 Berlin Declaration "A Union of Values" http://www.32462857769.net/EPP/e-PressRelease/PDF/13-01-2001%20A%20UNION%20OF%20VALUES.pdf%20EN001_.pdf , is to be adopted at the statutory EPP Congress in October 2012 in Bucharest.

2. Devotions upon emergent occasions and seuerall steps in my sicknes - Meditation XVII, 1624

their own tools to stimulate economic competitiveness. They have to make their own efforts to get out of their calamity, and provide evidence that they are striving to avoid trouble in the future. That is why the European Semester is so important: The mechanism for mutual economic and fiscal supervision and coordination is an integral part of the Euro Plus Pact. It is, in a way, the other side of the coin of the applied solidarity that we all invoke in this situation.

Subsidiarity is a term literally invented by the forefathers of the EPP political family, in the framework of Christian Social Teaching in the 19th century. “It is a fundamental principle of social philosophy, fixed and unchangeable, that one should not withdraw from individuals and commit to the community what they can accomplish by their own enterprise and industry.” – this is what Pope Pius XI said in his encyclical Quadragesimo Anno3, in 1931. It is so important to our political family because, like few other values, it distinguishes us from most of our competitors. Until today, subsidiarity remains a branded product of the European People’s Party.

In the context of this crisis, subsidiarity means that economic governance must remain limited to the indispensable. It should focus on avoiding a repetition of the debt crisis we are going through, and thus strengthen the European Union. It should increase coordination and address macroeconomic imbalances on the basis of the Social Market Economy. But it must not endanger the diversity, creativity and dynamism that form the basis of Europe’s economic potential.It should especially protect Small and Medium Enterprises from excessive administrative burdens and avoid market distortions. It must strengthen, and not weaken, our competitiveness. In other words, smart economic governance must not become an oppressive economic government. That is why subsidiarity is so essential to getting out of the crisis.

Third, sustainability: The term which is traditionally used in the context of environmental policy, signifies the capacity to endure over time. It must also be applied to our economies, especially to the financial markets. And here, more than anywhere else, better regulation is in demand. And because the crisis originated in the financial sector, banks need to be the central focus of attention. A new European financial architecture, with new regulatory standards, is an elementary part of the Euro Plus Pact, because the lack of smart regulation was one key element in leading us into the crisis.

But in order to achieve economic and financial sustainability, we will need another indispensable element: dynamic growth. For the EPP, market forces remain the critical driver for growth. The institutional and regulatory framework contained in the idea of a European Social Market Economy should enable free competition for the well-being of all actors. Growth, jobs and through them the ability of everyone to share prosperity are at the heart of economic sustainability.

In addition to better regulation and market-driven growth, sustainability has another important component: austerity. Throughout this crisis, it has become obvious that most European countries have been living beyond their means for decades. It has to be spelt out very clearly today: There is nothing moral about building up debt without thinking about how and when it will ever be paid back. Just like environmental pollution, it carries a price, which will be paid by future generations. Therefore, it flies in the face of the principle of subsidiarity.

I am deeply convinced that by emphasising these three central values: solidarity, subsidiarity and sustainability – the European Union will be able to master this crisis and return to stability and prosperity. The political family of the EPP should play the leading role in this process, just like it has played the leading role in all decisive phases of European integration. And the EPP and its member parties should be frank and open about all of this to the European public. We know there are no simple solutions to

3. http://www.vatican.va/holy_father/pius_xi/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno_en.html

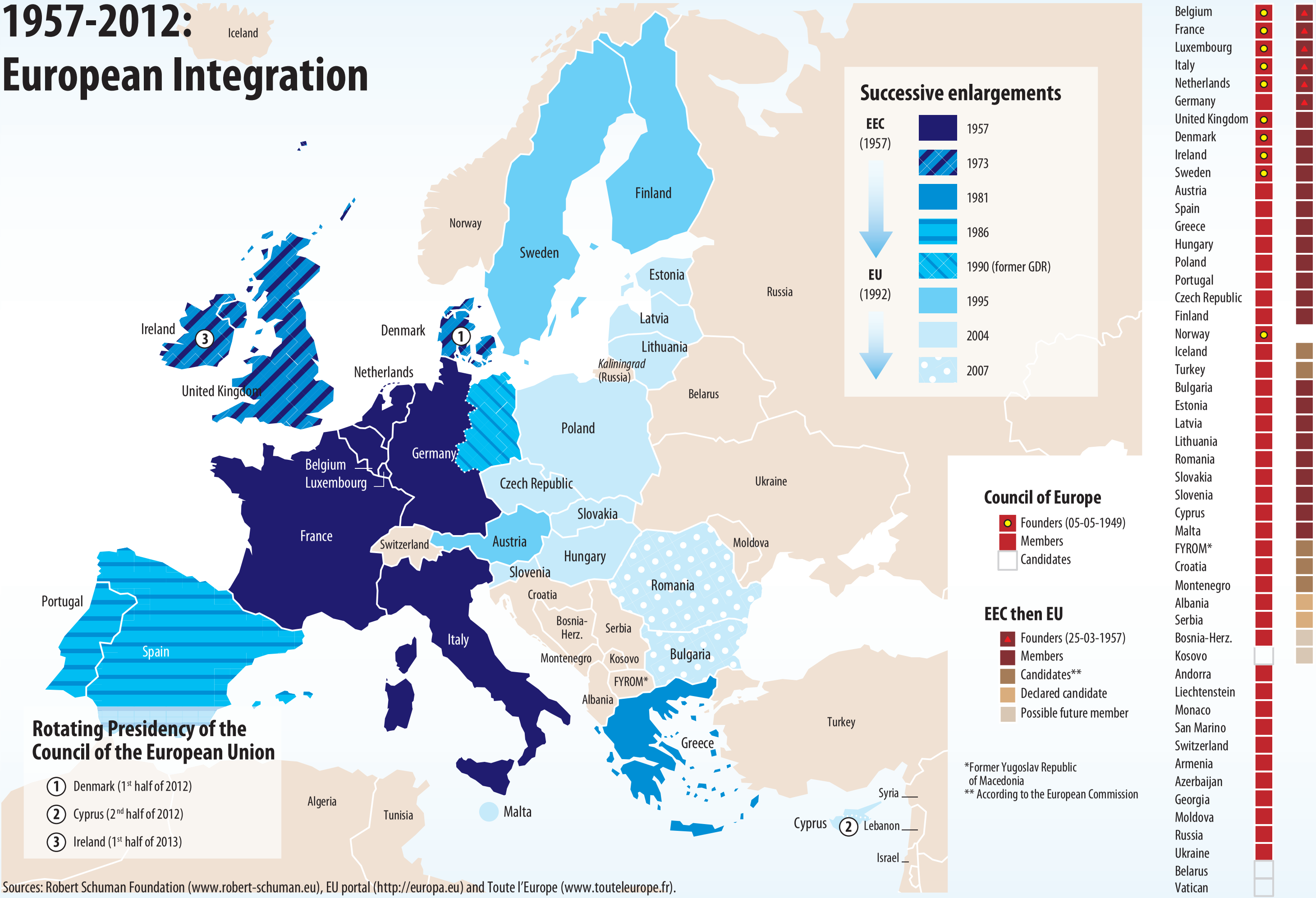
complicated problems. But we have to take the apprehensions and aspirations of our people seriously. We have to listen and then explain our policies. That is not populism, as some of our competitors are claiming. That is common sense.

I believe it is obvious: Ordinary people vote for populist parties because populist parties talk about ordinary problems. And as long as populist parties are the only ones to do so, their strength will grow, as we have recently witnessed in many elections across the continent. Accordingly, we cannot leave the difficult issues to them. On the other hand, we ourselves have to avoid oversimplifying things and helping populist parties to gain further legitimacy. We know this is a political tightrope, but we have to walk it. It will not be the first or the last difficult balancing act for our political family.

But ultimately, no political communication effort will succeed against populism if the EU does not deliver success, in terms of a better and more secure economic future. That is why, in the financial and economic crisis, we have to base our policies on the central values of our political family.

The ongoing global power shifts will not be reversible in the near future. Nor should Europe strive to weaken its competitors in the global market. But by reemphasising the central values of the EPP, and becoming more self-confident again about the future of the West as a whole, the negative effects of the power shift can be minimised. And we should always be confident that our central values of freedom and responsibility, as well as solidarity, subsidiarity and sustainability, will retain and even increase their attractiveness to the people in Asia and other parts of the world, because in the end, these are values which have emerged in Europe, but they are valid universally.

1957-2012: European Integration



Sources: Robert Schuman Foundation (www.robert-schuman.eu), EU portal (http://europa.eu) and Toute l'Europe (www.touteleurope.fr).

Territories of Europe

Council of Europe Member States

EU on 1st January 2012:

EU Member States

Candidate States: negociations have been completed with Croatia, membership expected on 1st July 2013 ; ongoing negociations with Turkey (13 chapters opened out of 35, 1 closed) and Iceland (6 chapters opened, 4 closed, about 20 considered to comply).

States that submitted their membership applications and States that the EU has recognised as "possible" future members.

Euro Area Member States

Schengen Area Member States

The Azores (Portugal) which are not visible on this map, are part of the Schengen Area.
Membership of Romania and Bulgaria was planned for March 2011 but has been delayed to an unknown date, before the end of 2012.

European Neighbourhood Policy:

Agreement signed

No agreement signed

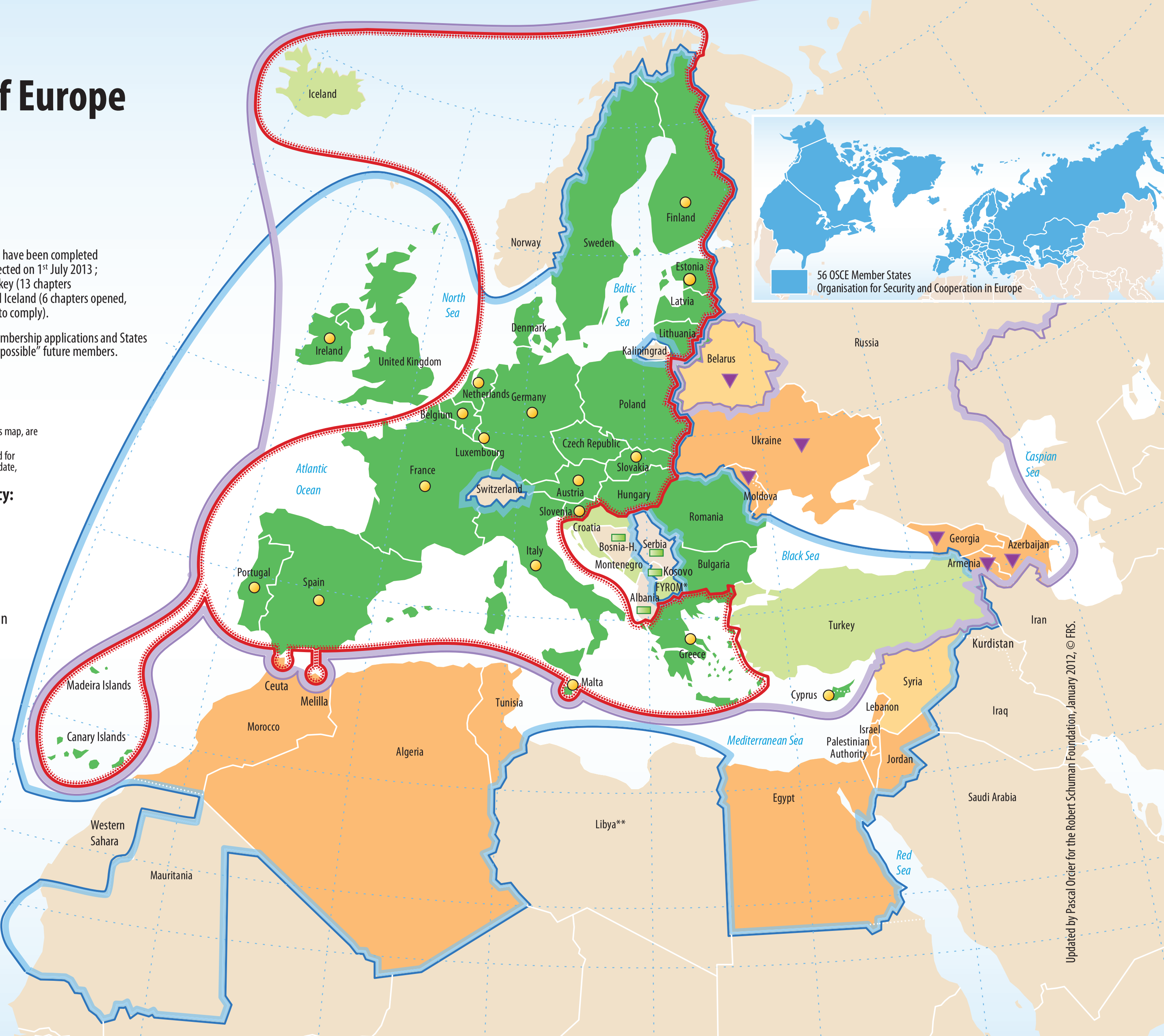
Union for the Mediterranean (July 2008)

The League of Arab States and Monaco are also members of the Union for the Mediterranean.

Western Partnership (December 2008)

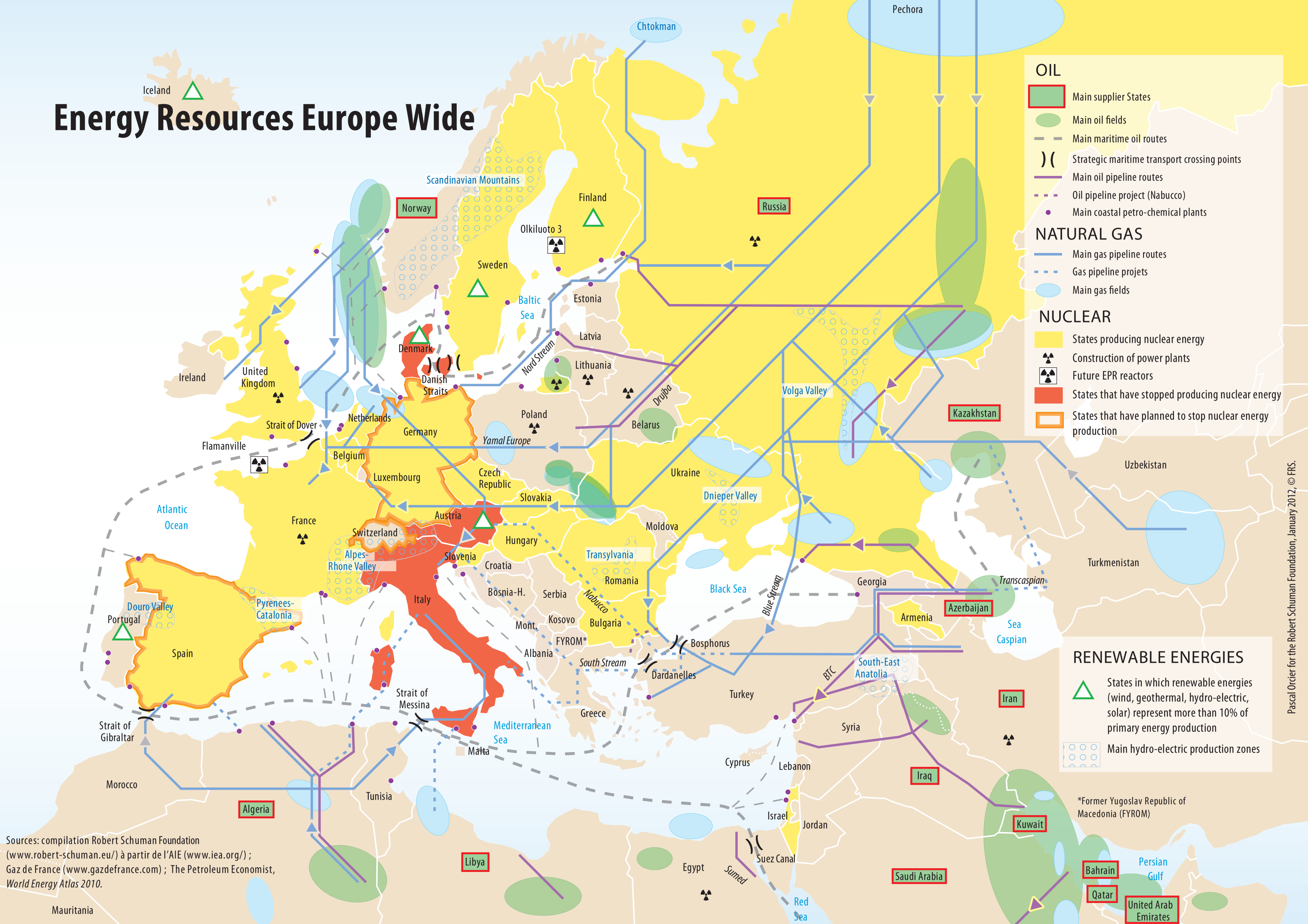
Sources: compilation of the Robert Schuman Foundation (www.robert-schuman.eu/), the EU's internet portal (http://europa.eu/), Council of Europe (www.coe.int/) and the OSCE (www.osce.org/)

* Former Yugoslav Republic of Macedonia (FYROM)
** Libya has observer status within UfM



Updated by Pascal Orcier for the Robert Schuman Foundation, January 2012, © FRS.

Energy Resources Europe Wide

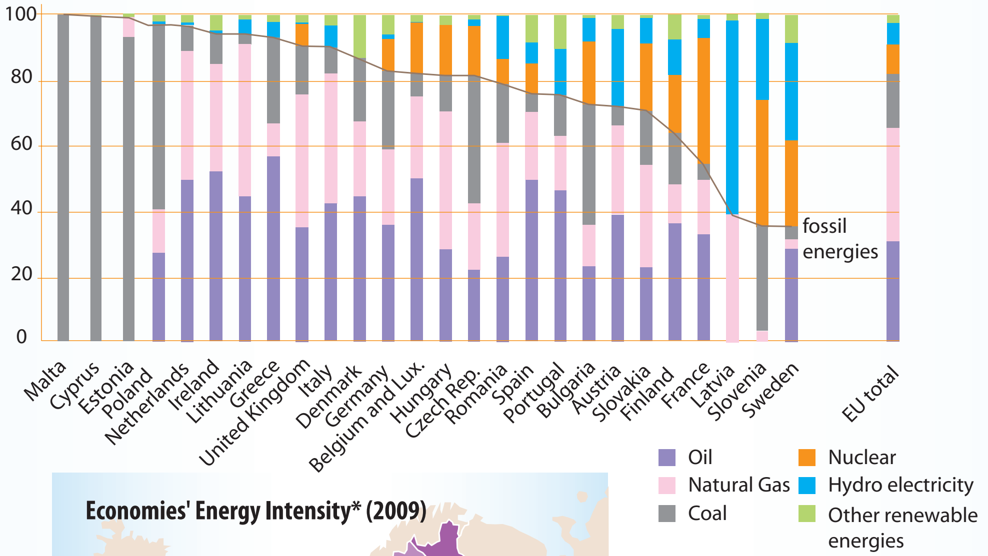


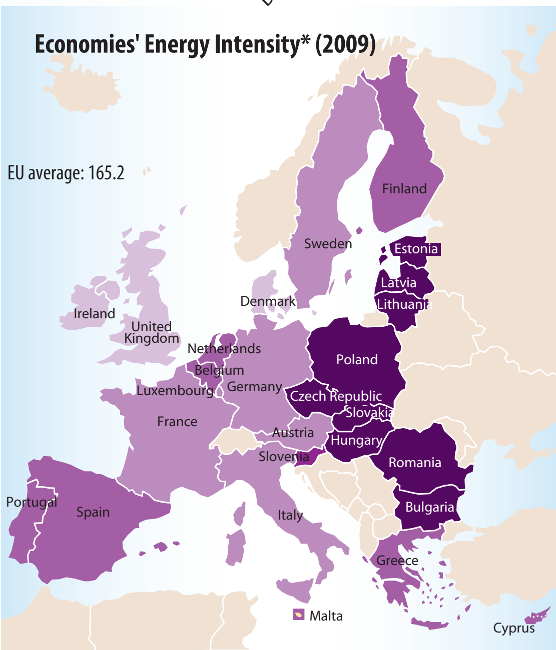
Sources: compilation Robert Schuman Foundation (www.robert-schuman.eu/) à partir de l'AIE (www.iea.org/) ; Gaz de France (www.gazdefrance.com) ; The Petroleum Economist, *World Energy Atlas 2010*.

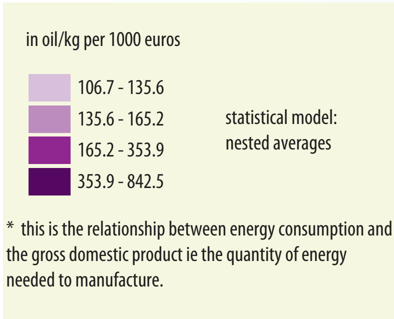
Pascal Orcier for the Robert Schuman Foundation, January 2012, © FRS.

Energy in the EU States

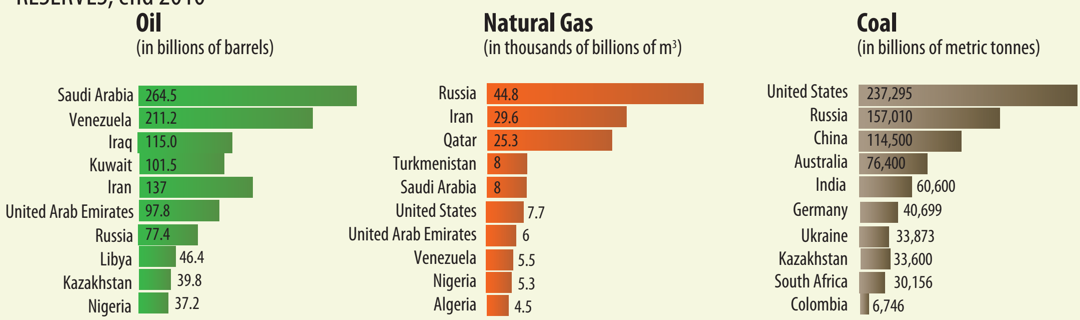
Energy mix in the EU States







RESERVES, end 2010

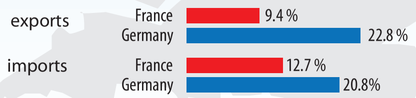


Sources: BP *Energy Statistical Review 2011*, Eurostat, www.observatoire-electricite.fr

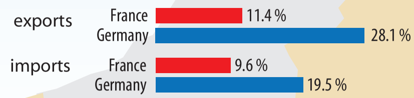
France - Germany, 2011

Trade (2010)

Proportion within intra-Community trade

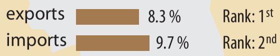


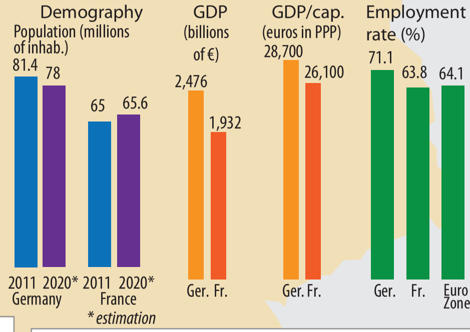
Proportion within extra-Community trade



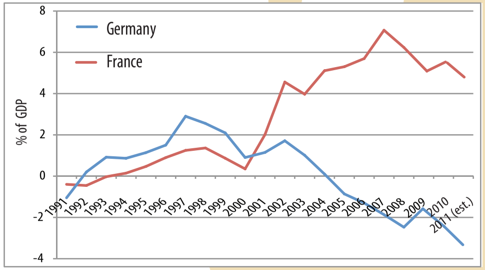
Germany's position in French trade

France's position in German trade

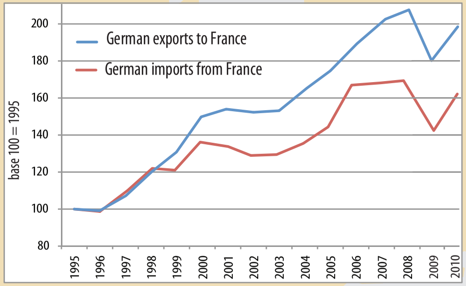


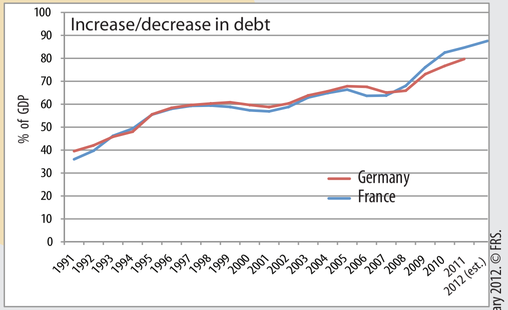


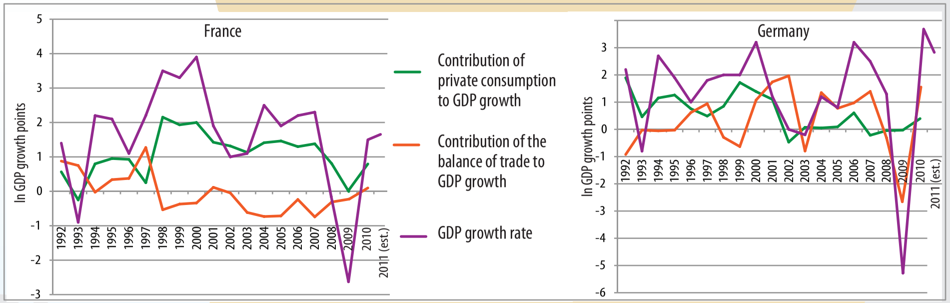
Evolution of the Balance of Trade

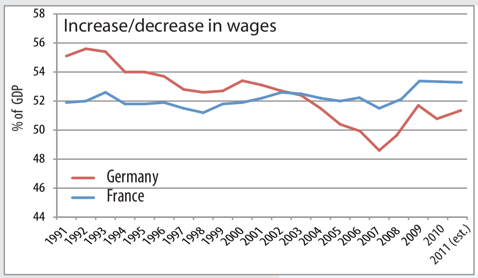


Evolution of the Franco-German Balance of Trade





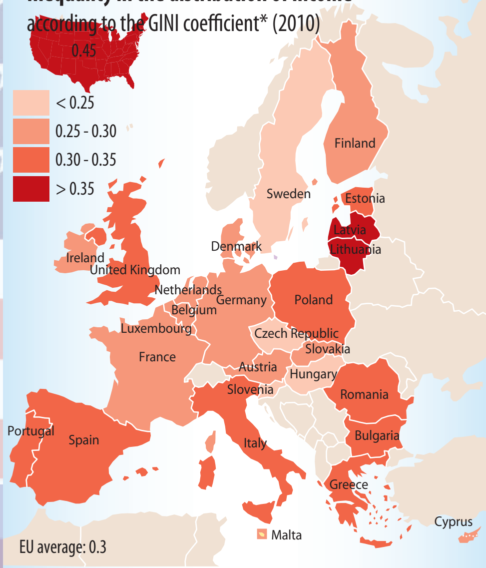




Sources: Compiled by J.F. Jamet, Eurostat, INED, Destatis.

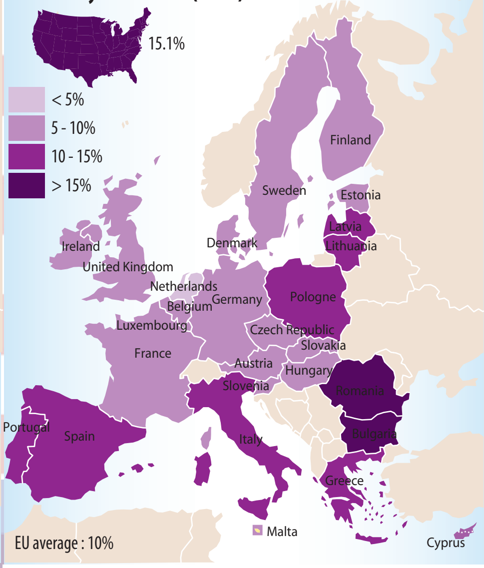
USA - EU

Inequality in the distribution of income according to the GINI coefficient* (2010)



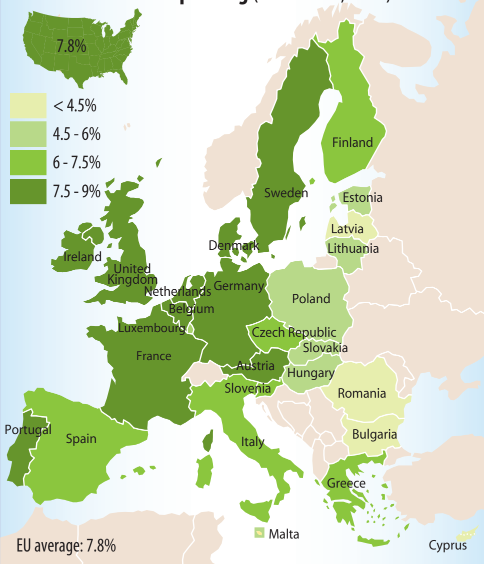
*The GINI coefficient measures the degree of inequality in the distribution of income in a society according to a scale of 0 (total equality) to 1 (total inequality). 2009 figures for Cyprus, Ireland and the United Kingdom.

Poverty risk rate** (2010)

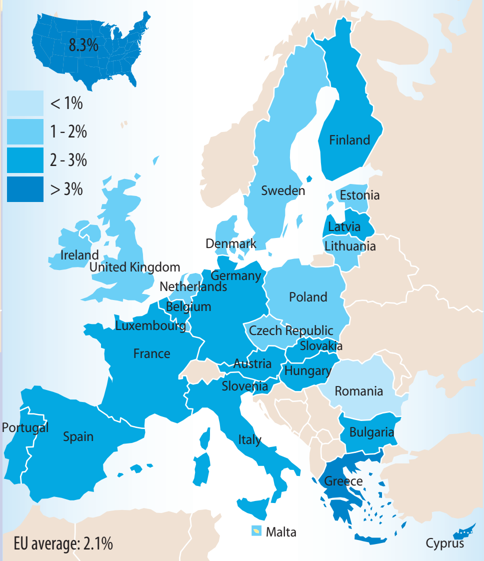


**Share of people whose equivalent available income lies below the poverty risk rate set at 60% of the equivalent national median available income (after social transfers). 2009 figures for Ireland, Cyprus and UK.

Public Healthcare Spending (in % of GDP, 2009)



Private Healthcare Spending (in % of GDP, 2009)

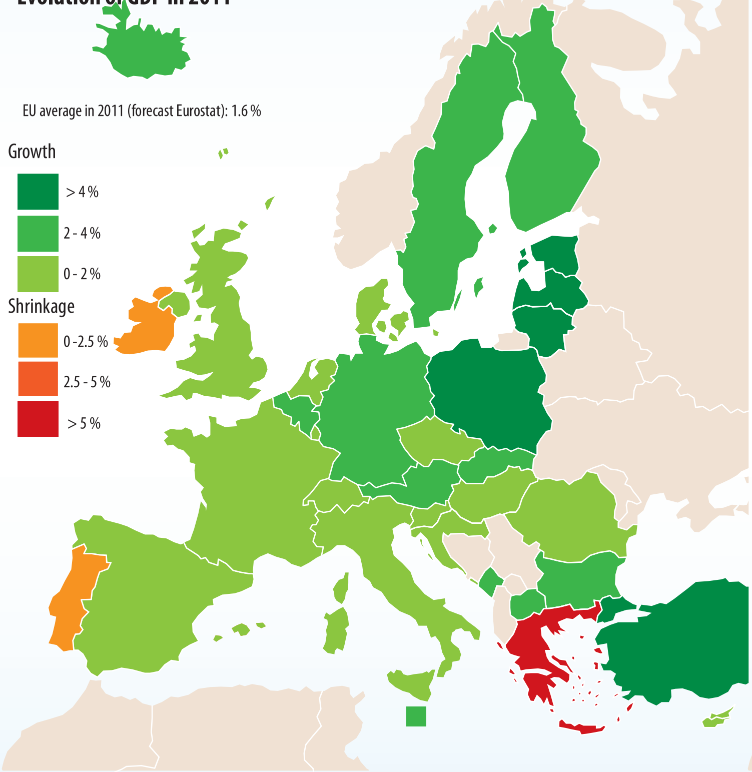


Sources: World Bank, Eurostat and CIA Factbook.

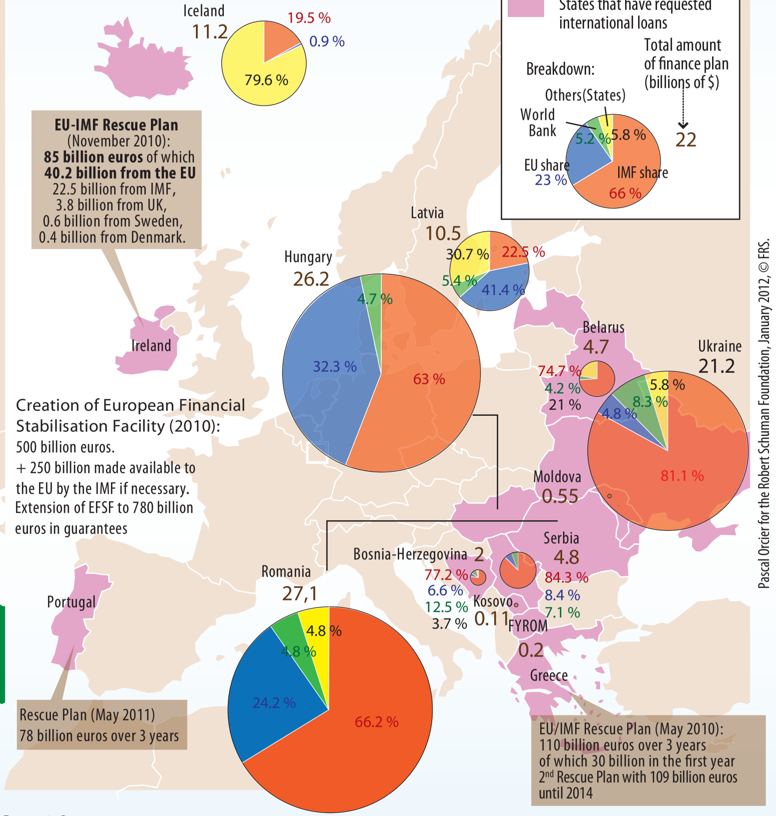
Crisis in Europe, 2011

see also "Euro Map" and "Euro in the world"

Evolution of GDP in 2011



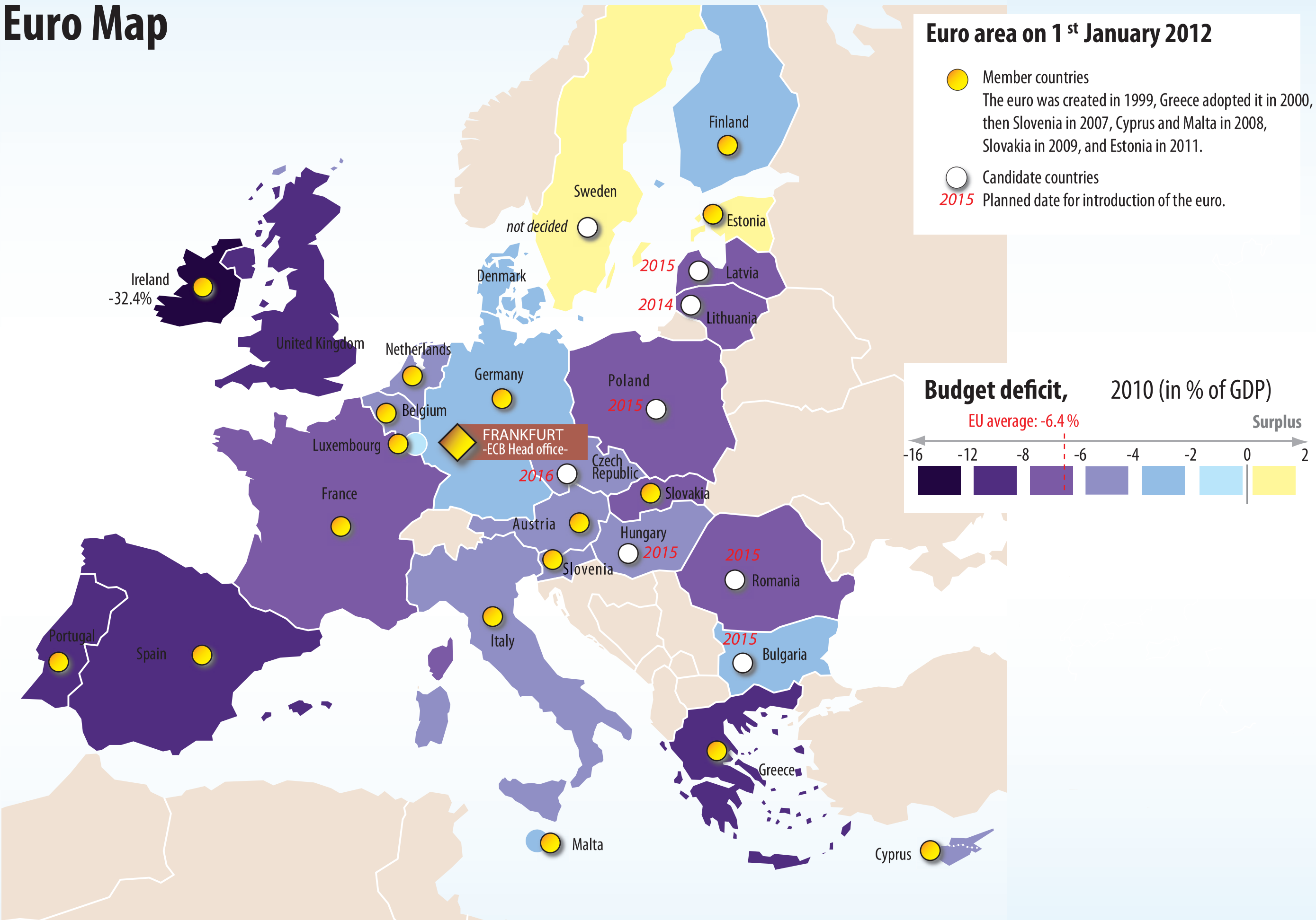
International loans



Pascal Orcier for the Robert Schuman Foundation, January 2012, © FRS.

Sources: IMF (www.imf.org), World Bank (www.banquemondiale.org), Eurostat (http://epp.eurostat.ec.europa.eu), Bruegel, US Economic Department.

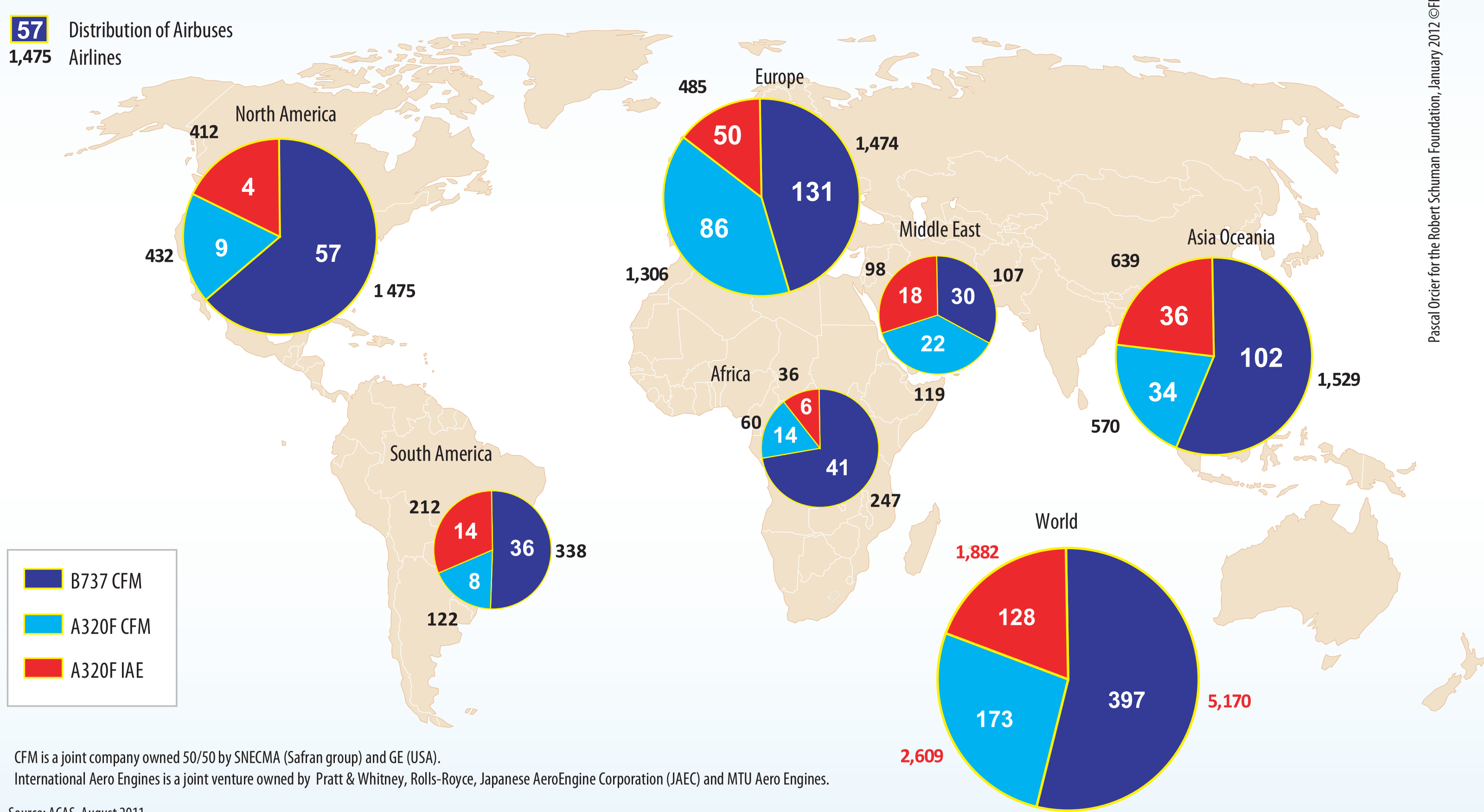
Euro Map



Sources: Eurostat, Robert Schuman Foundation (www.robert-schuman.eu), EU portal (http://europa.eu) and EU Commission (http://ec.europa.eu/economy_finance).

Aeronautical, defence and security industries in Europe and in the world

Airbus A320 and Boeing B737 motorisation

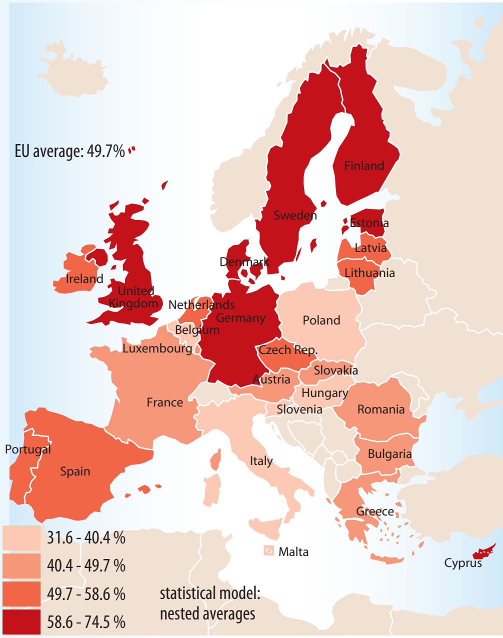


CFM is a joint company owned 50/50 by SNECMA (Safran group) and GE (USA).
International Aero Engines is a joint venture owned by Pratt & Whitney, Rolls-Royce, Japanese AeroEngine Corporation (JAEC) and MTU Aero Engines.

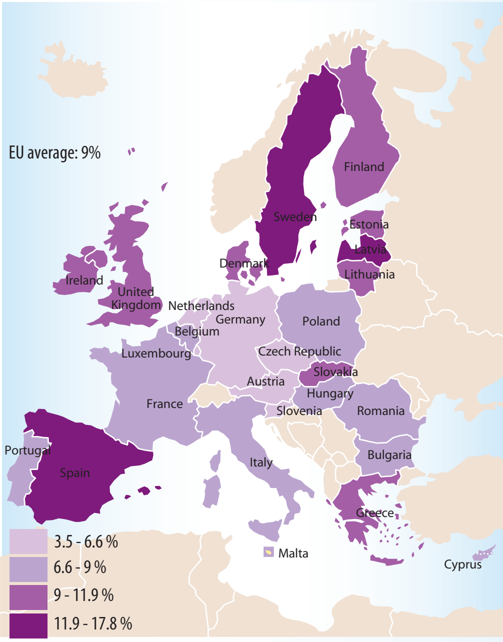
Source: ACAS, August 2011.

Unemployment and Activity in the EU Member States

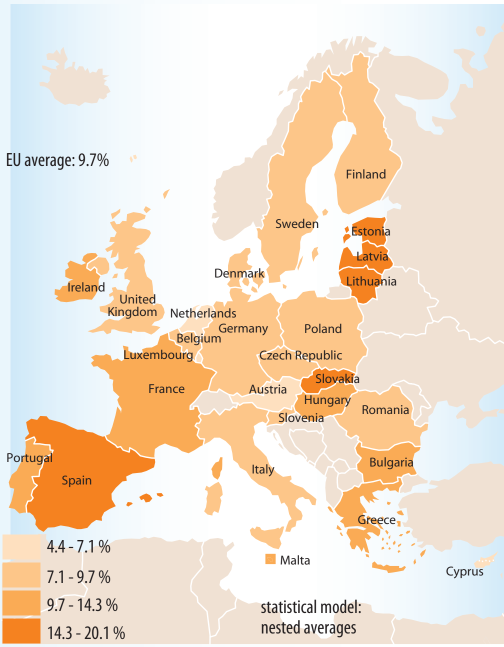
Employment of the 55-64 year olds (2010)



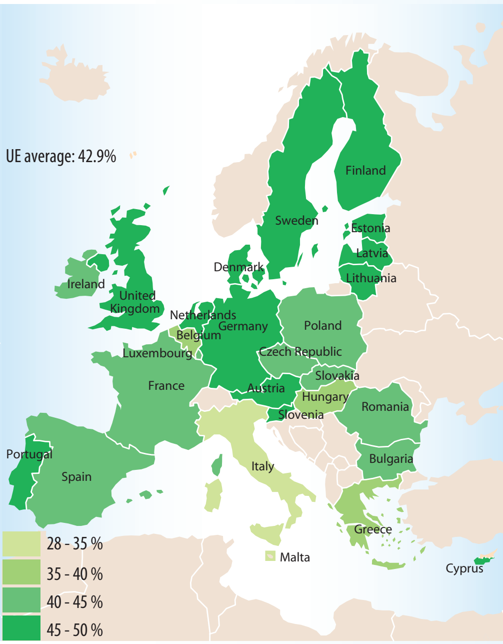
Unemployment rate of 15-24 year olds (2010)



Unemployment rate (2010)



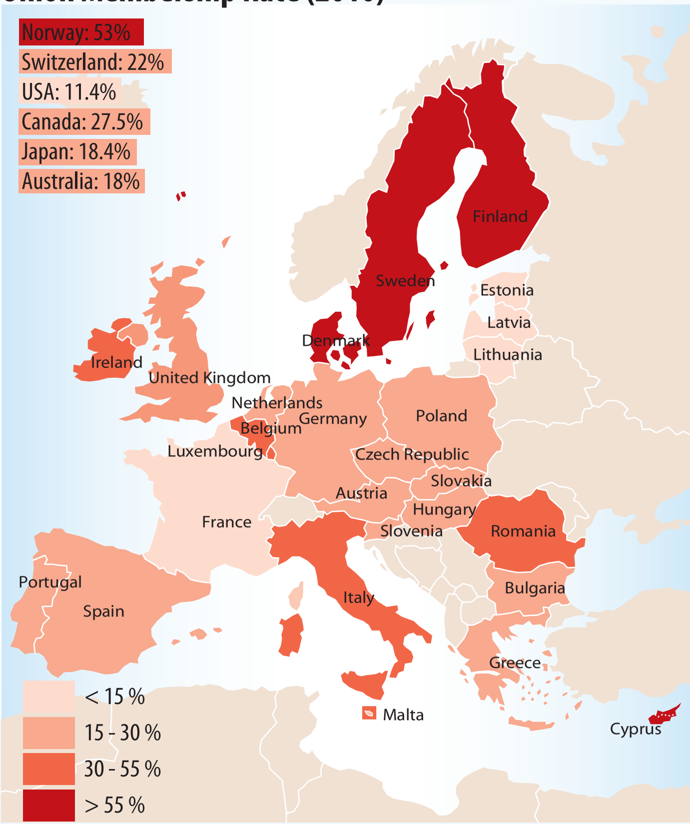
Women's Employment Rate (2010)



Source: Eurostat.

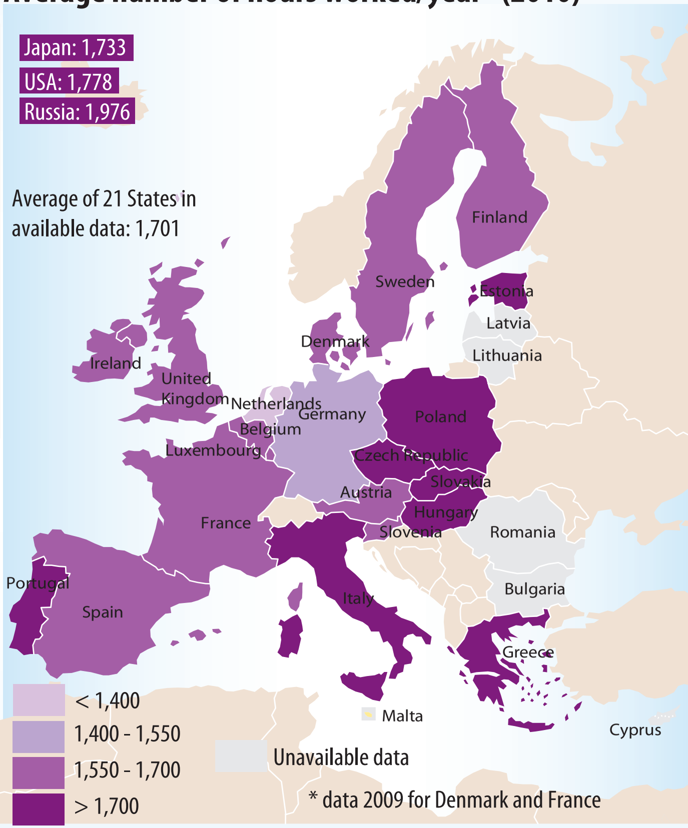
Working Time and Union Membership in the European Union Member States

Union Membership Rate (2010)



Sources: OECD, Worker-participation.eu.

Average number of hours worked/year* (2010)

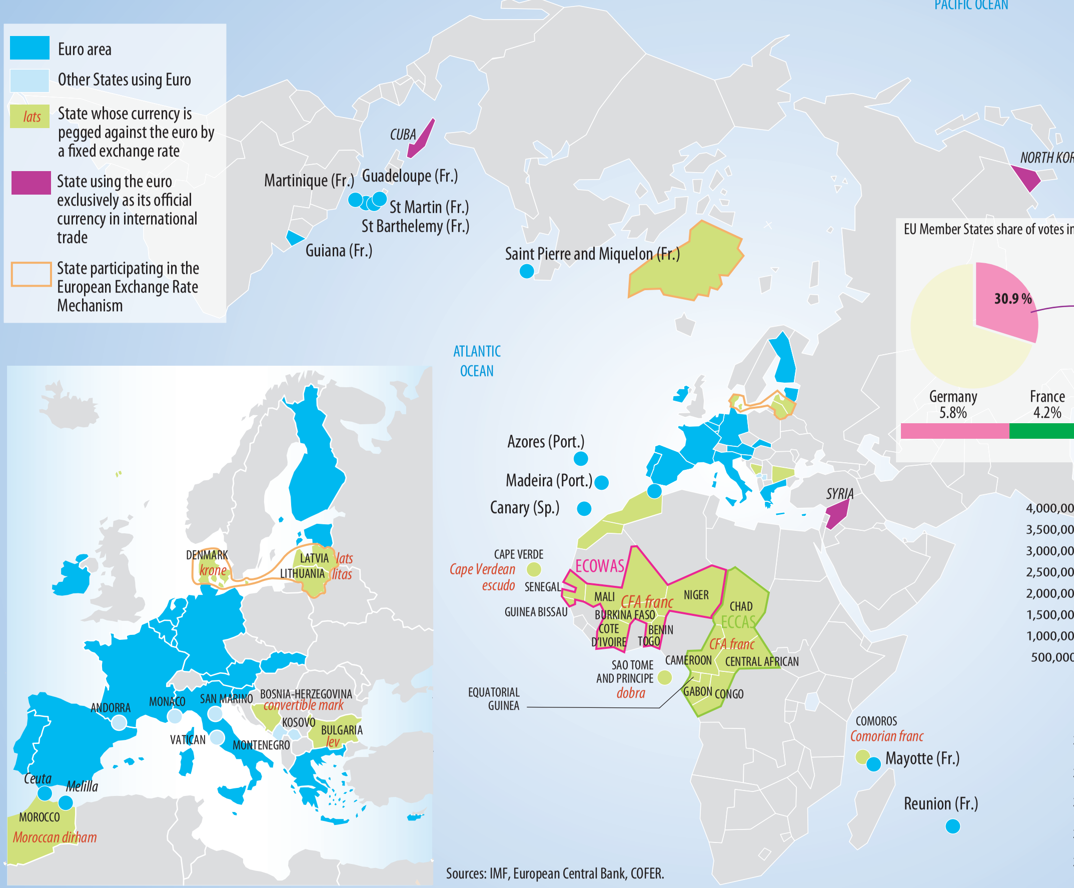


Pascal Orcier for the Robert Schuman Foundation, January 2012. © FRS.

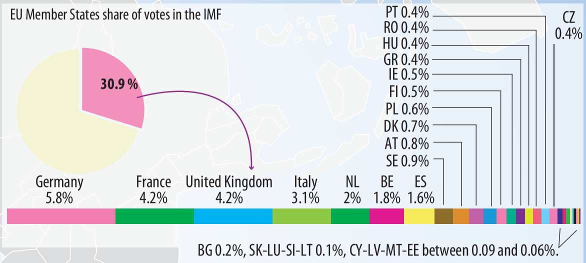
The arc of crises

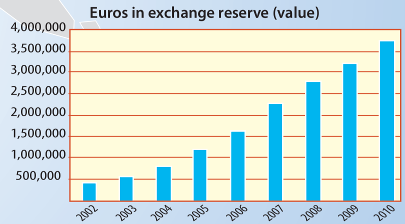
Source: Michel Foucher, *La bataille des cartes*, 2011, Fr. Bourin.

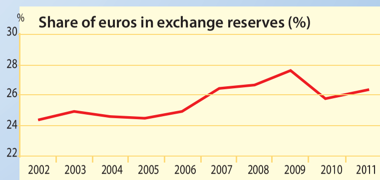
Euro in the world



Sources: IMF, European Central Bank, COFER.



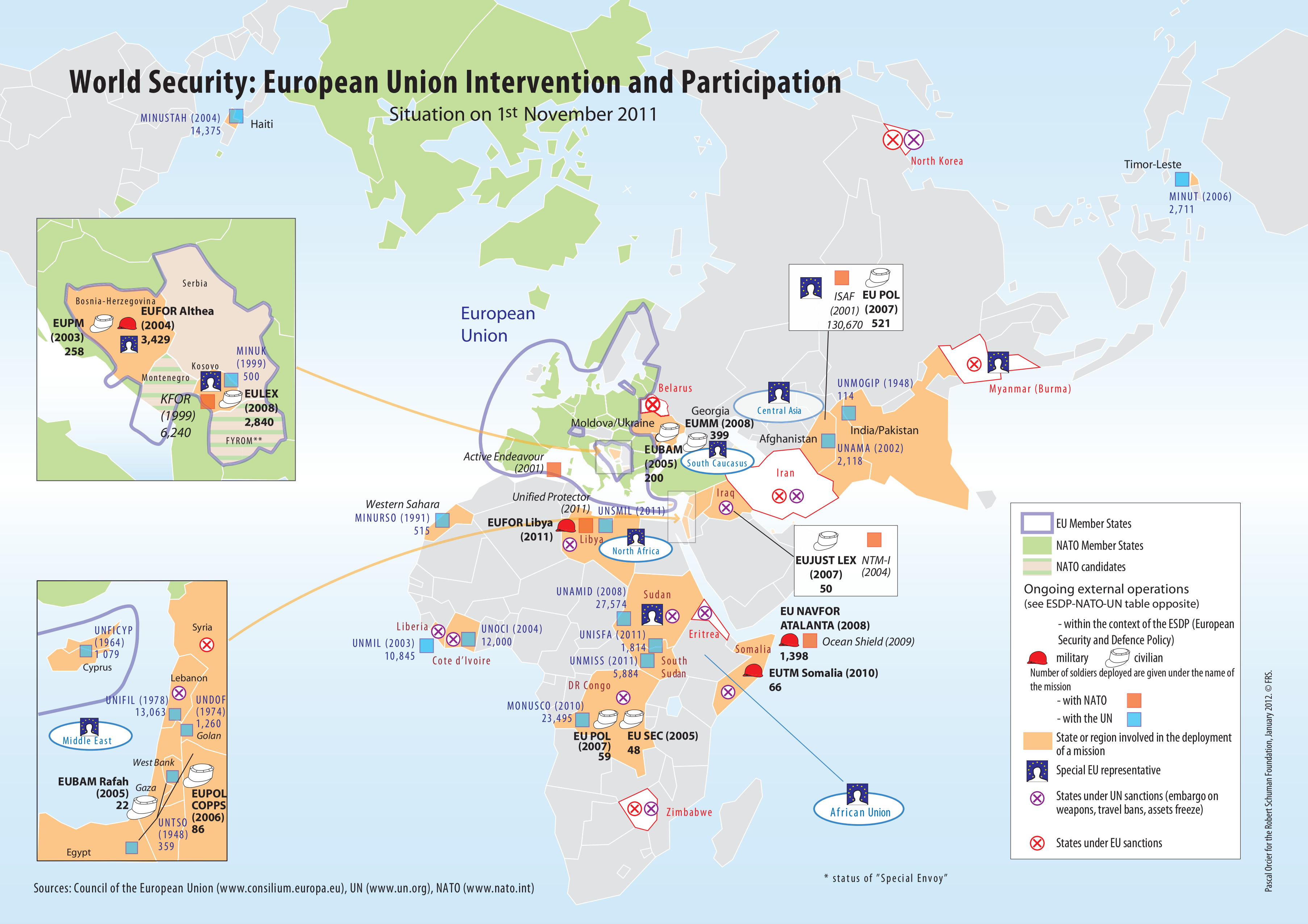




Pascal Orcier for the Robert Schuman Foundation, January 2012, © FRS.

World Security: European Union Intervention and Participation

Situation on 1st November 2011



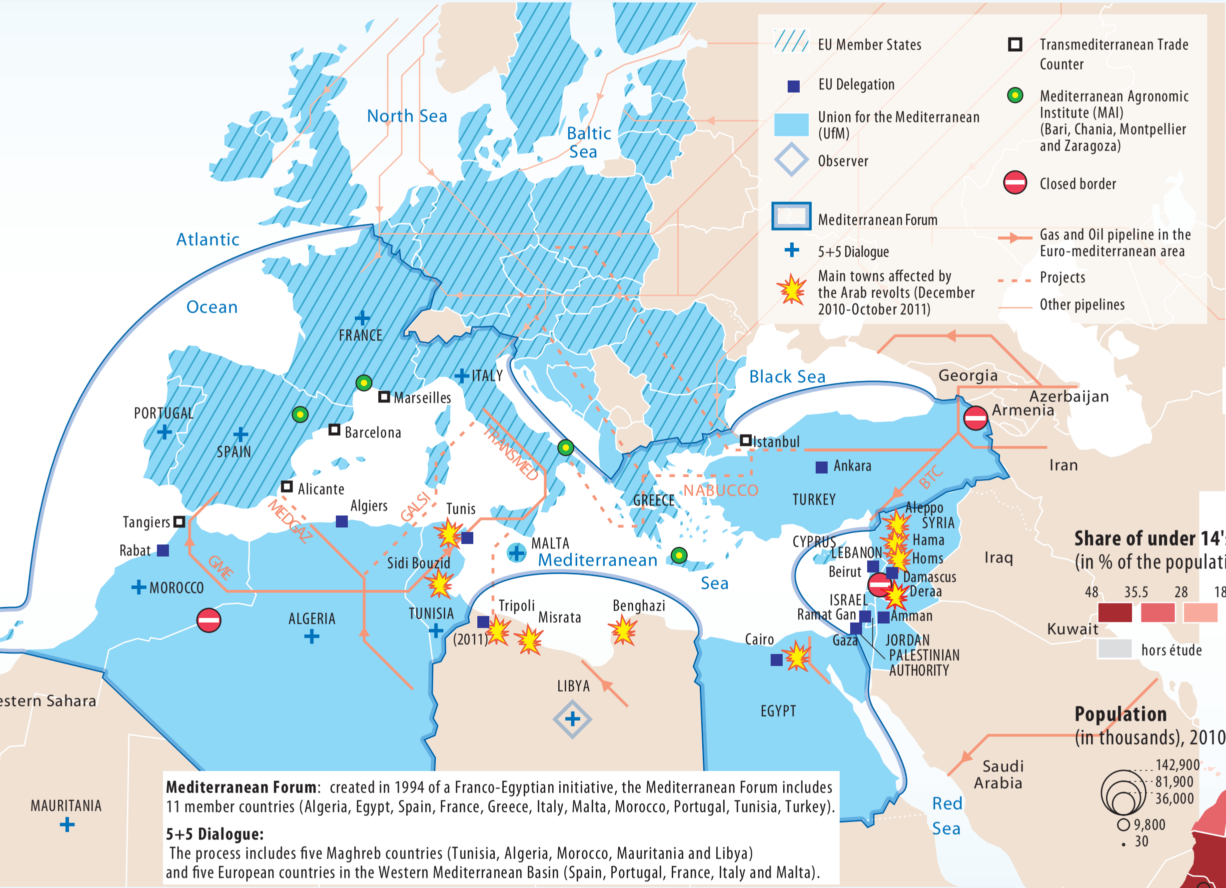
Sources: Council of the European Union (www.consilium.europa.eu), UN (www.un.org), NATO (www.nato.int)

European External Action Service (created 1st December 2010)

Source: EEAS.

Pascal Orcier for the Robert Schuman Foundation, January 2012. © FRS.

The EU and the Arab revolutions



Mediterranean Forum: created in 1994 of a Franco-Egyptian initiative, the Mediterranean Forum includes 11 member countries (Algeria, Egypt, Spain, France, Greece, Italy, Malta, Morocco, Portugal, Tunisia, Turkey).

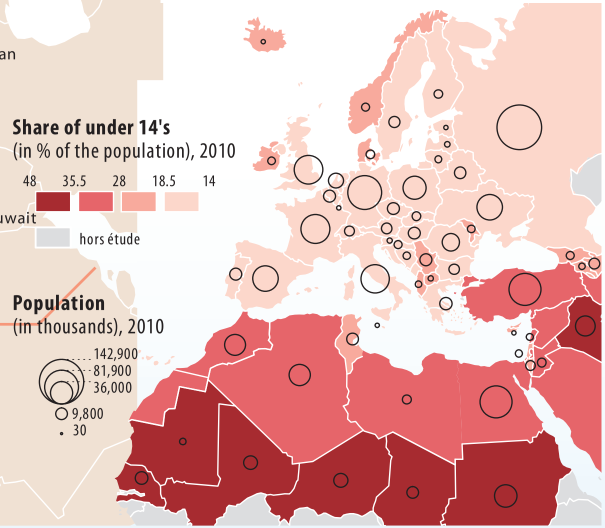
5+5 Dialogue:
The process includes five Maghreb countries (Tunisia, Algeria, Morocco, Mauritania and Libya) and five European countries in the Western Mediterranean Basin (Spain, Portugal, France, Italy and Malta).

Sources: compiled by Michel Foucher ; CIHEAM, *Mediterra 2008* ; UE GD Trade;
Eurostat, http://epp.eurostat.ec.europa.eu/ ; UN, division population, *World Population Prospects: The 2011 Revision.*

EU share in trade of southern and eastern Mediterranean countries
2010 (in %)

Rank	IMPORTS		EXPORTS	Rank
1st	↘ 67.2	Tunisia	74.5 ↘	1st
1st	↘ 53.4	Algeria	46.4 ↘	1st
1st	↗ 57.2	Morocco	59.3 ↘	1st
1st	↘ 39.3	Turkey	46.3 ↘	1st
1st	↘ 35	Lebanon	10.3 ↘	3rd
1st	↘ 34.8	Israel	26.3 ↘	2nd
1st	↗ 33.5	Egypt	34 ↘	1st
1st	↘ 20.7	Jordan	3.7 ↘	7th
1st	↘ 18.7	Syria	29 ↘	2nd
1st	↘ 42.5	Libya	77.2 ↗	1st

Evolution 2009-2010 ↗ *Increase* ↘ *Decrease*



Pascal Orcier for the Robert Schuman Foundation, January 2012. © FRS.

Political Europe in 2012

Source: compiled by the Robert Schuman Foundation (www.robert-schuman.eu).

Political Colour of Governements

left

right

left / right coalition

left / right / green coalition

national union government

Andrus Ansip Prime Minister

Elections planned in 2012

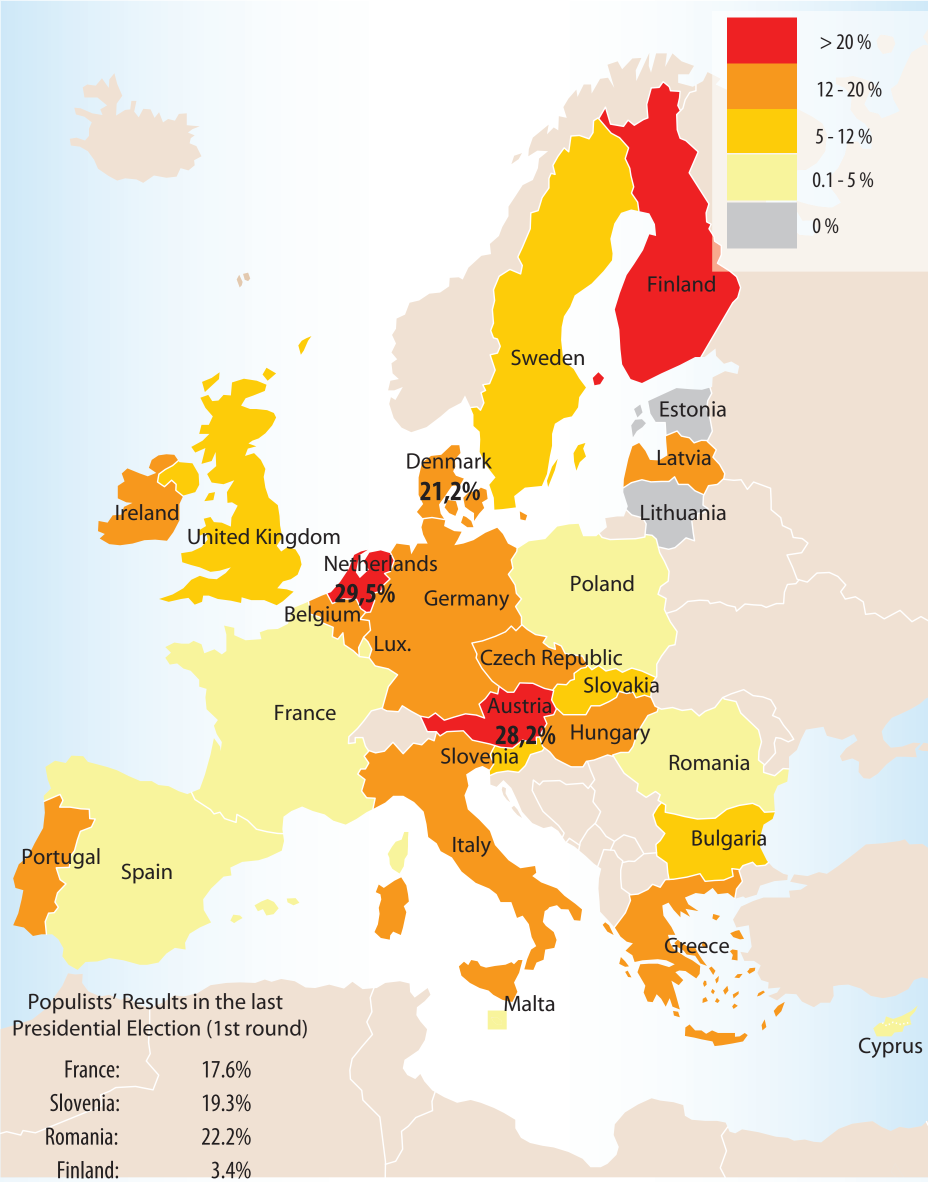
22nd January- 5th February: Finland, *presidential*
10th March: Slovakia, *legislative*
22nd April - 6th May: France, *presidential*
April: Greece, *legislative*
10th - 17th June: France, *legislative*
October: Slovenia, *presidential*
October: Lithuania, *legislative*
November: Romania, *parlementarian*

* posts of both President and Prime Minister.

** Former Yugoslav Republic of Macedonia

Populism in Europe

Results obtained by populist parties in the last general elections*



Populists' Results in the last Presidential Election (1st round)

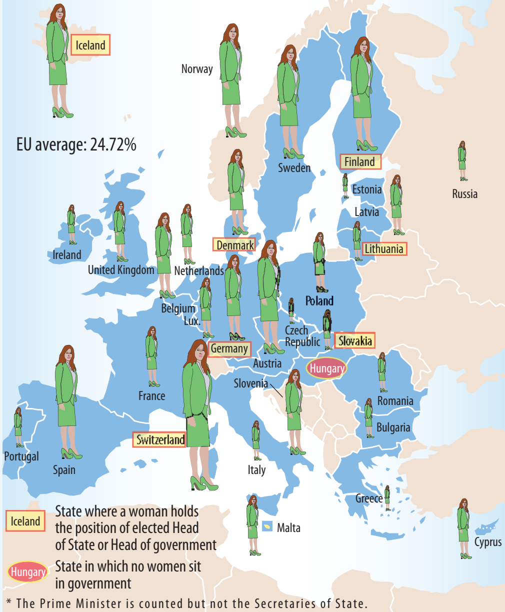
France:	17.6%
Slovenia:	19.3%
Romania:	22.2%
Finland:	3.4%
Portugal:	7.14%
Slovakia:	1.1%
Austria:	15.6%
Poland:	1.5%
Lithuania:	9.7%
Bulgaria:	3.64%

*In France and Hungary only the first round of the election was considered.

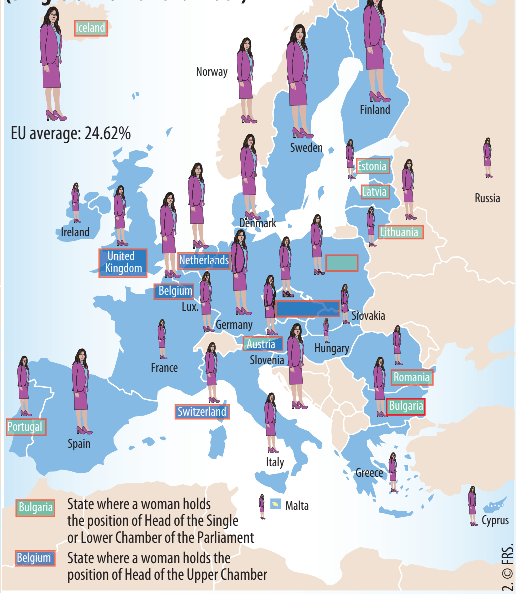
Source: Compiled by the Robert Schuman Foundation.

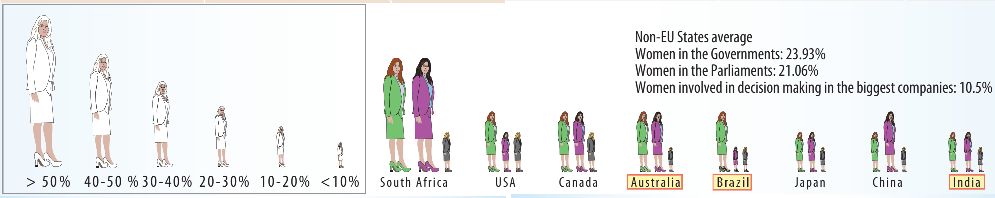
Women's Europe on 1st January 2012

Share of women in the Governments*

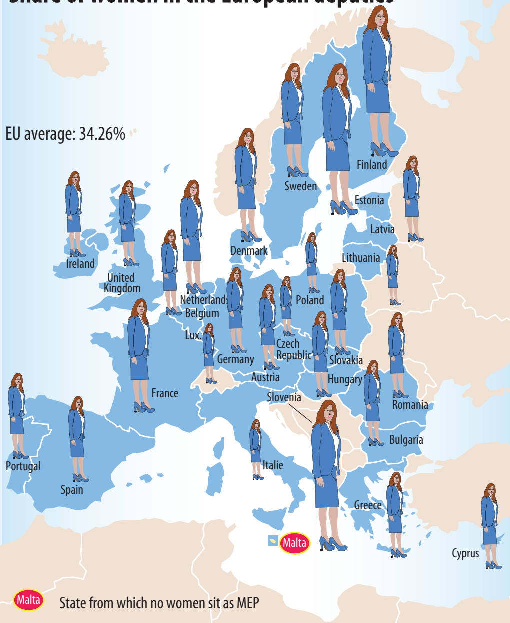


Share of women in National Parliaments (Single or Lower Chamber)

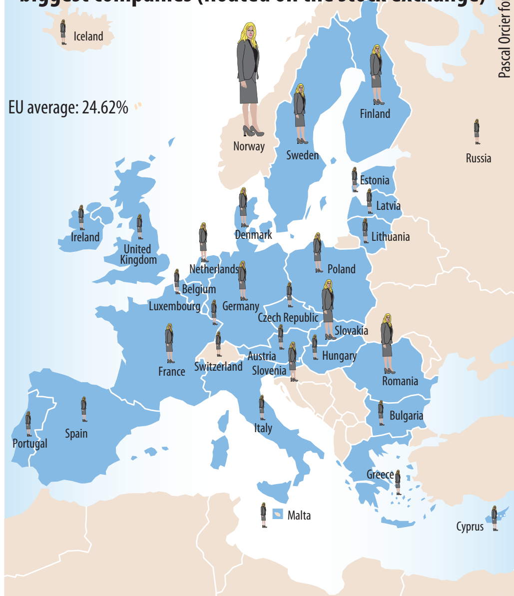




Share of women in the European deputies



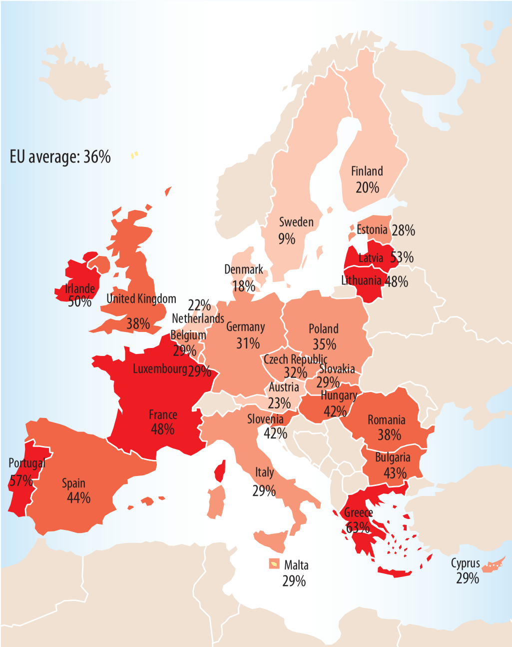
Share of women involved in decision making in the biggest companies (floated on the stock exchange)



Source: Compiled by the Robert Schuman Foundation.

European Public Opinion and the crisis (1)

Assessment of length of crisis

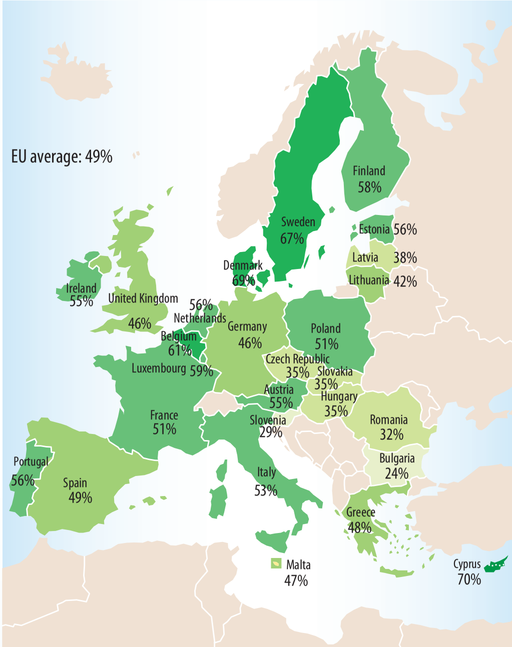


Share of interviewees who believe that the crisis will last for some years to come

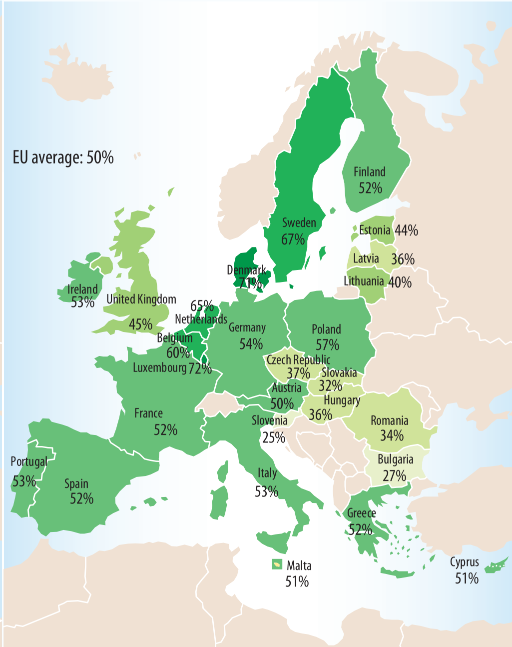
- 9 - 23 %
- 28 - 36 %
- 36 - 44 %
- 44 - 63 %

Assessment of financial solidarity

2010



2011



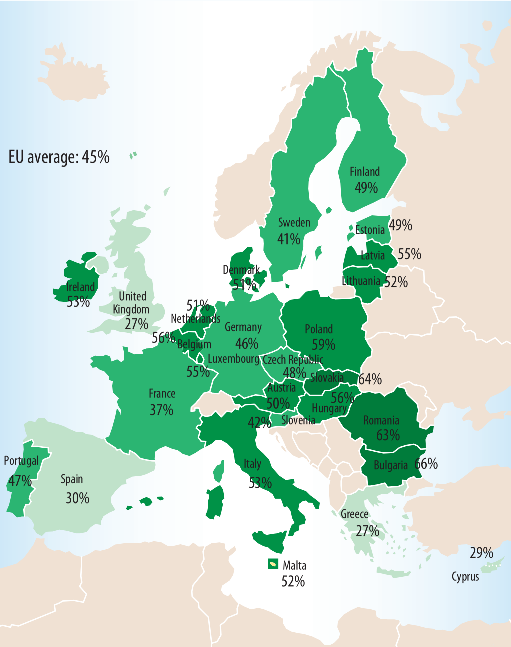
Share of interviewees who believe that their country should provide financial aid to another Member State facing major economic and financial difficulties

- < 30 %
- 30 - 40 %
- 40 - 50 %
- 50 - 60 %
- 60 - 70 %
- > 70 %

Sources: European Parliament Survey June 2011 *EB Parlemètre* 75.2, June 2011; Eurobarometer Surveys EB 74 and EB 76.

European Public Opinion and the Crisis (2)

European Union effectiveness in fighting the crisis

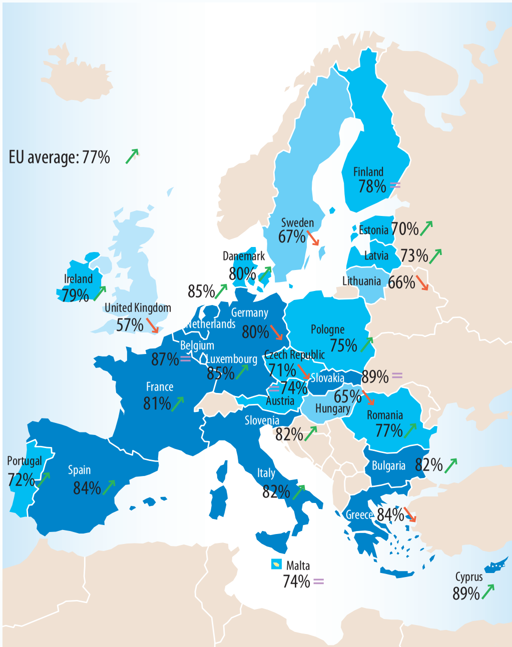


Share of interviewees who believe that the European Union acted effectively to counter the crisis

- < 30 %
- 30 - 40 %
- 40 - 50 %
- 50 - 60 %
- > 60 %

Source: Eurobarometer poll n°74, February 2011.

Request for greater economic and financial policy coordination



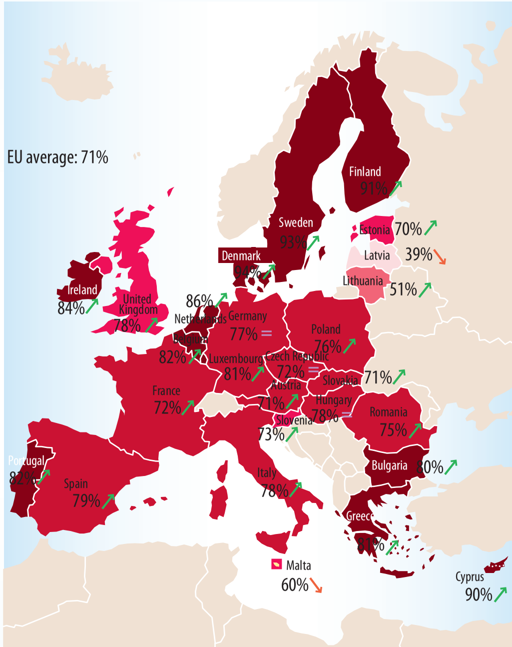
Share of interviewees who support greater coordination of economic policies.

- 50 - 60 %
- 60 - 70 %
- 70 - 80 %
- 80 - 90 %

Change in comparison with the previous year

- increase
- decrease
- stability

Request for reform in spite of sacrifices this might involve.



Share of interviewees who support greater reform

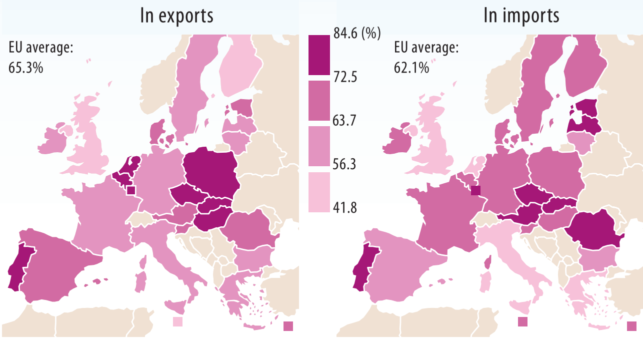
- < 40 %
- 40 - 50 %
- 50 - 60 %
- 60 - 70 %
- 70 - 80 %
- > 80 %

Change in comparison with the previous year (Eurobarometer EB73)

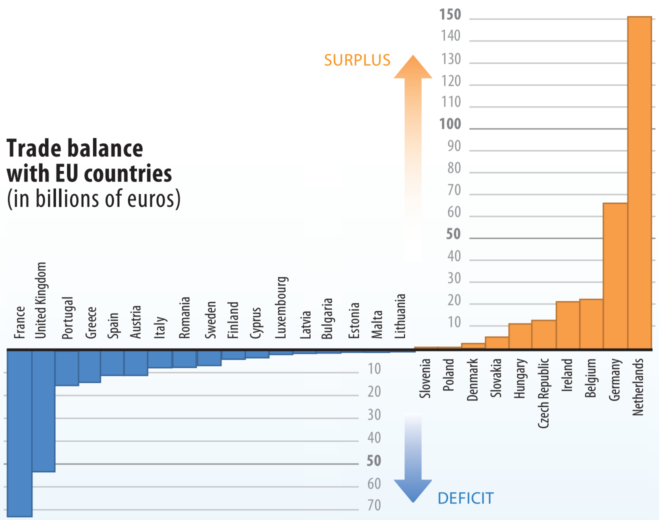
- increase
- decrease
- stability

Intra community trade, 2010

Share of intra-community trade



Trade balance with EU countries
(in billions of euros)

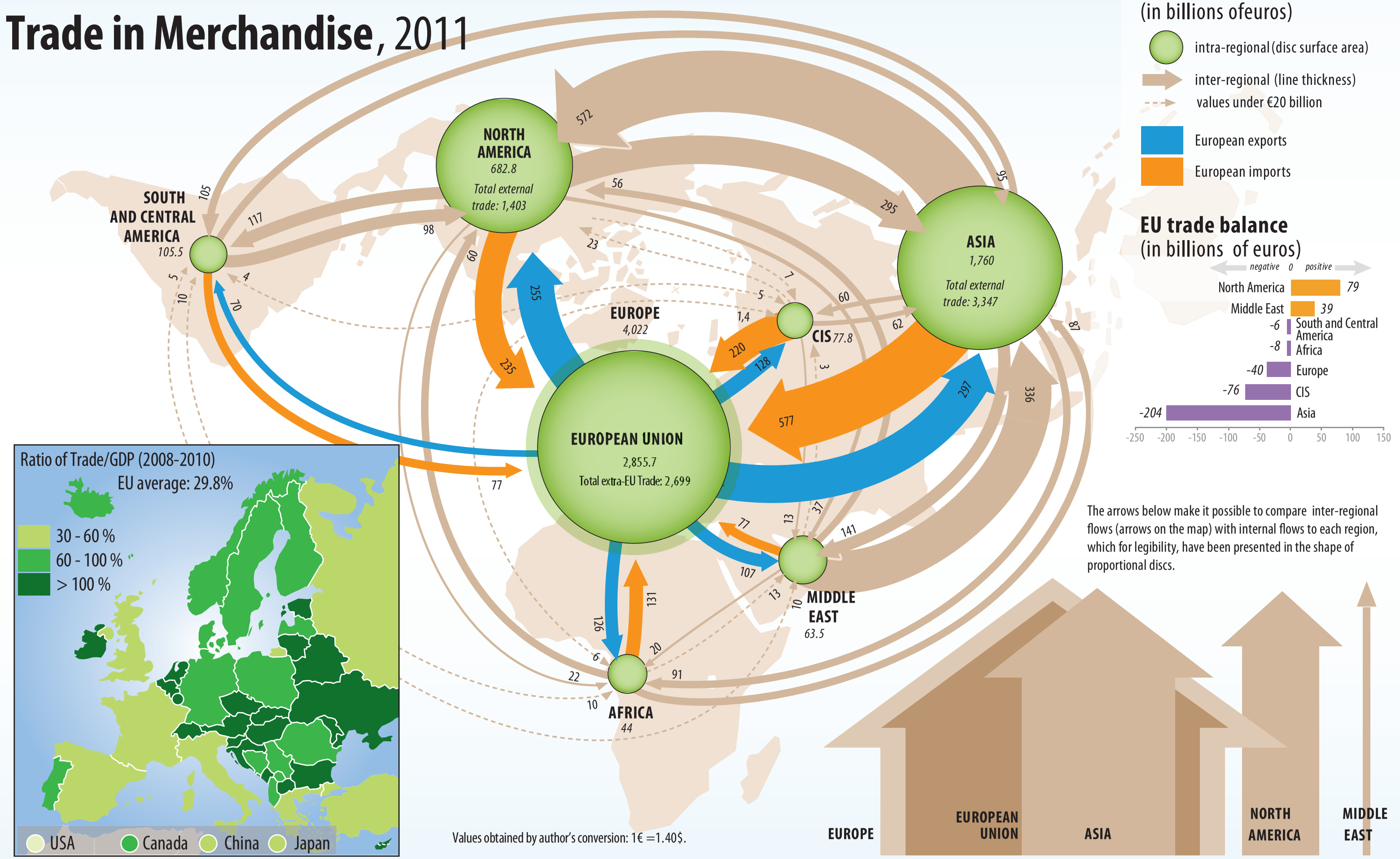


Source: Eurostat (http://epp.eurostat.ec.europa.eu)

Principle Intra-Community Trade flows

Only the largest trade flows (over 1 billion euros) are represented here. Cyprus only rises beyond this total in terms of its imports from Greece - the same applies to Malta with regard to Italy.

The EU and World Trade in Goods: Trade in Merchandise, 2011

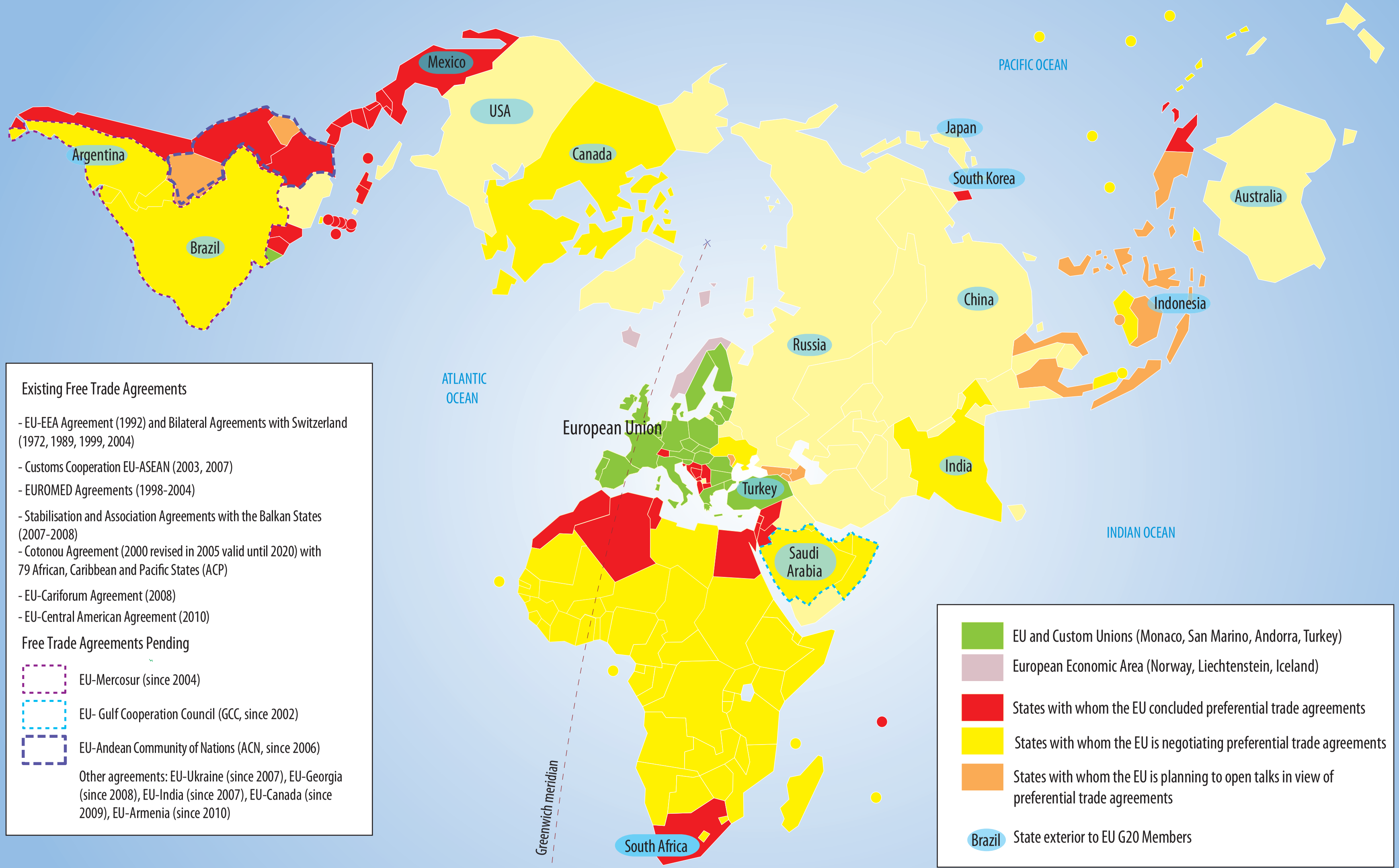


The arrows below make it possible to compare inter-regional flows (arrows on the map) with internal flows to each region, which for legibility, have been presented in the shape of proportional discs.

Values obtained by author's conversion: 1€ =1.40$.

Sources: World Trade Organization (WTO), *International Trade Statistics 2011*, www.wto.org.

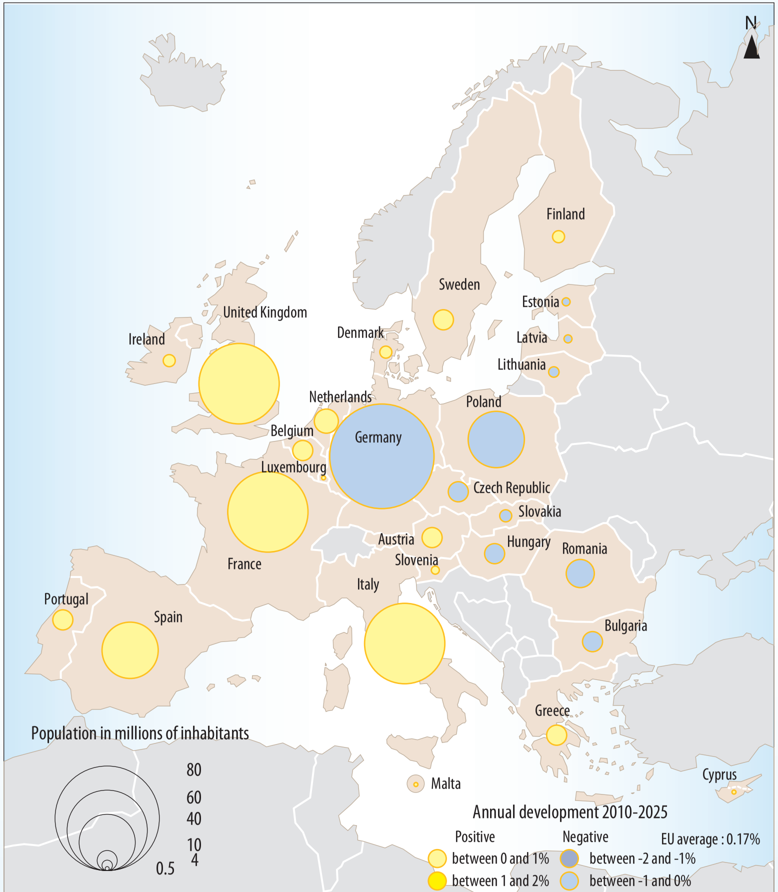
The European Union in the World : trade agreements



Sources: European Commission, GD Taxation and Custom Union, GD Trade, International Labour Organization (www.ilo.org).

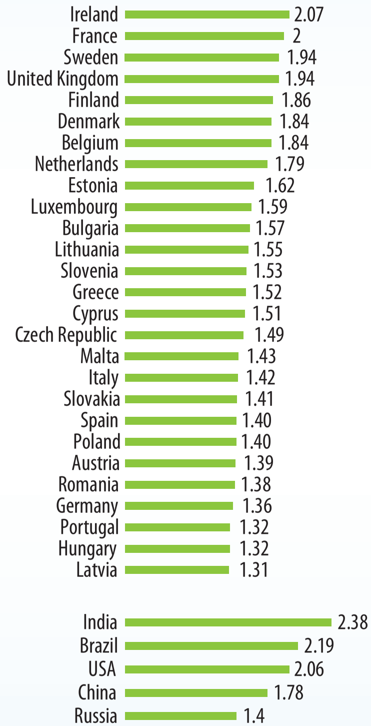
Population of the EU Member States

Population of the EU Member States



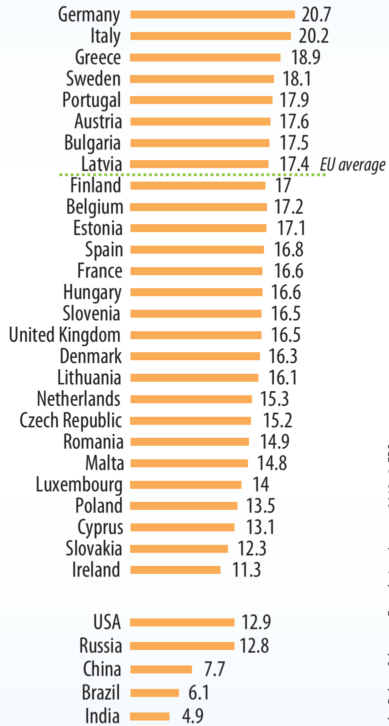
Sources: Eurostat, *Population Reference Bureau* .

EU States' Demographic Dynamics

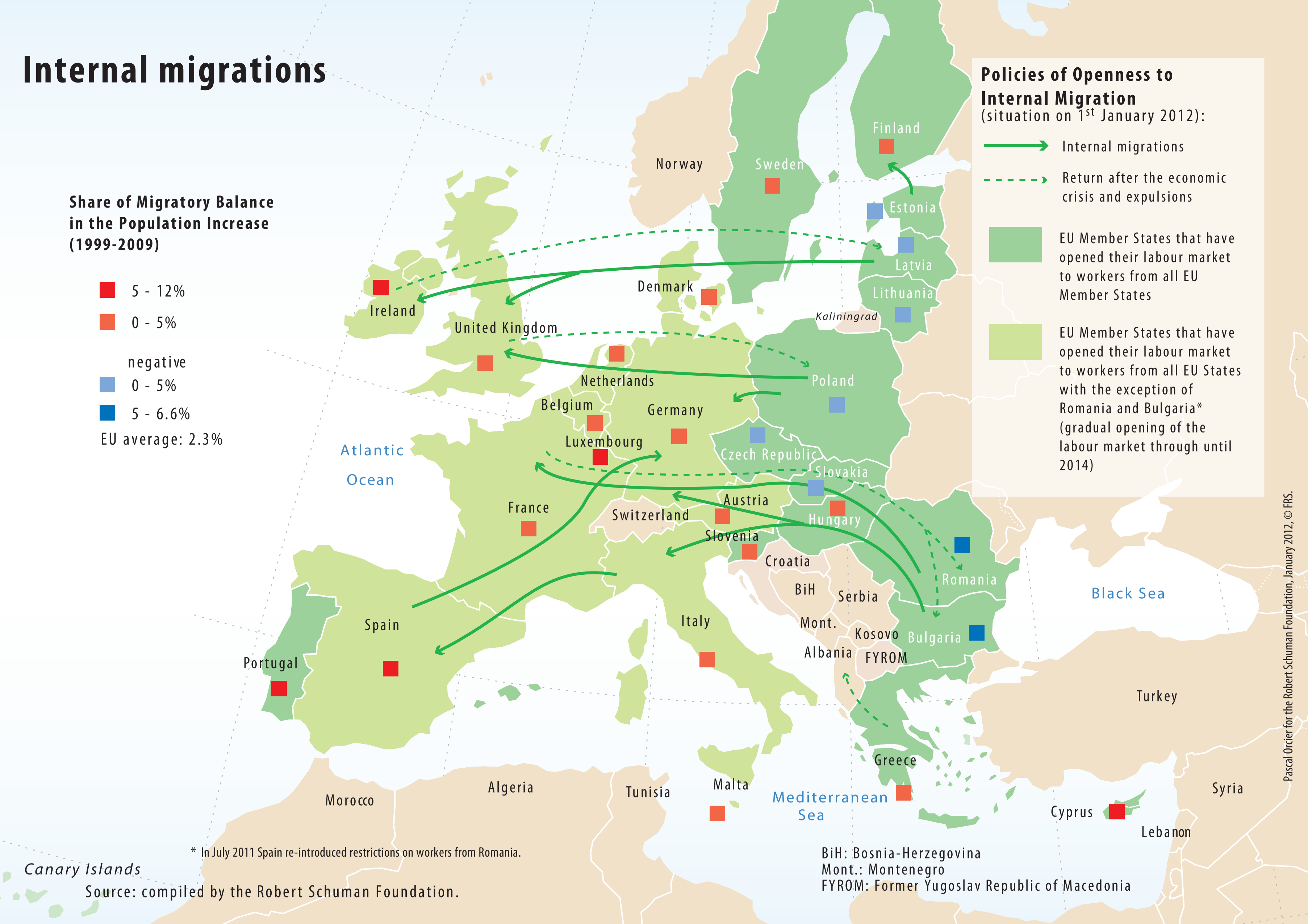


To ensure generation renewal the fertility rate must be over or equal to 2.1

* data 2008 for Italy



Internal migrations

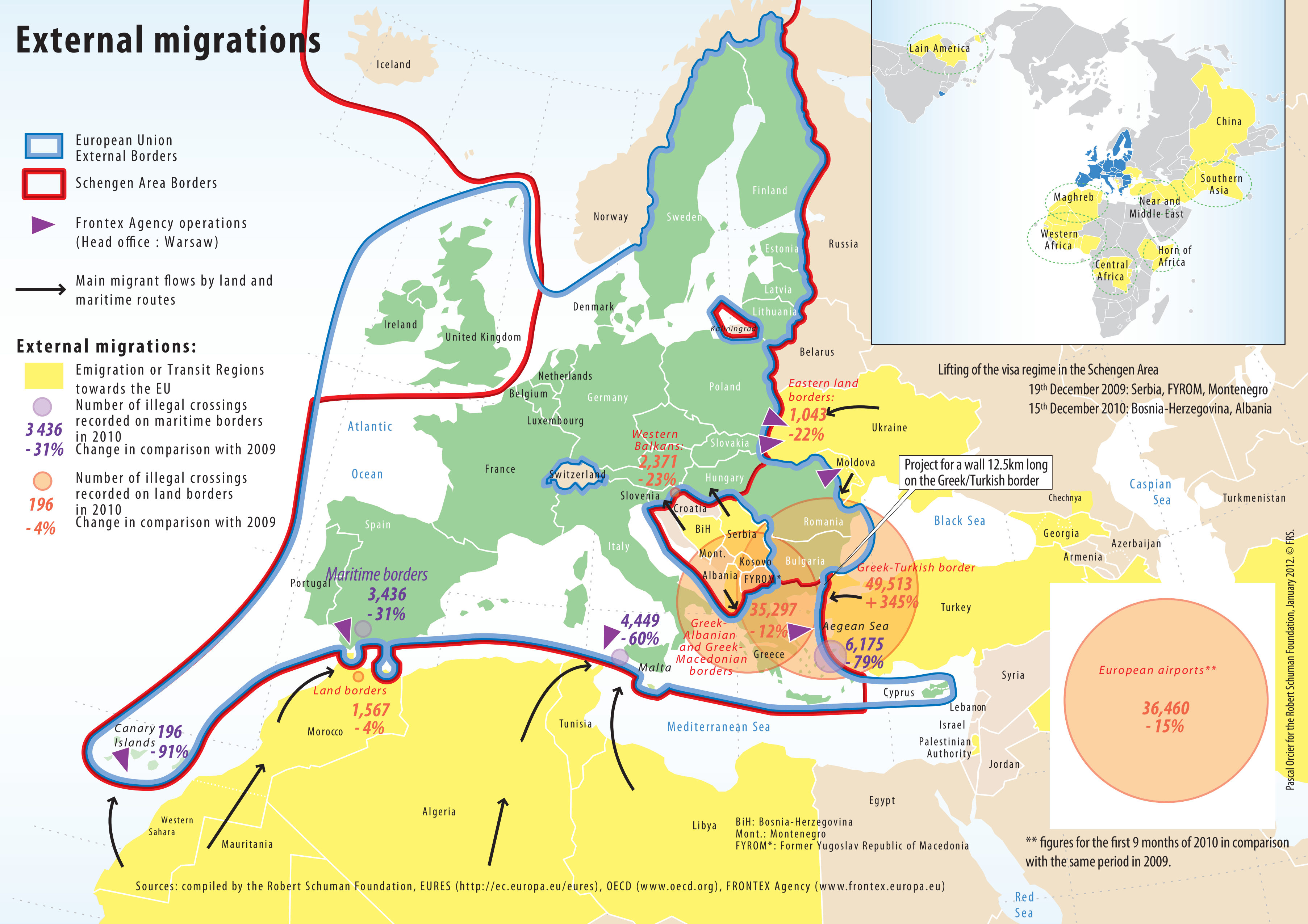


* In July 2011 Spain re-introduced restrictions on workers from Romania.

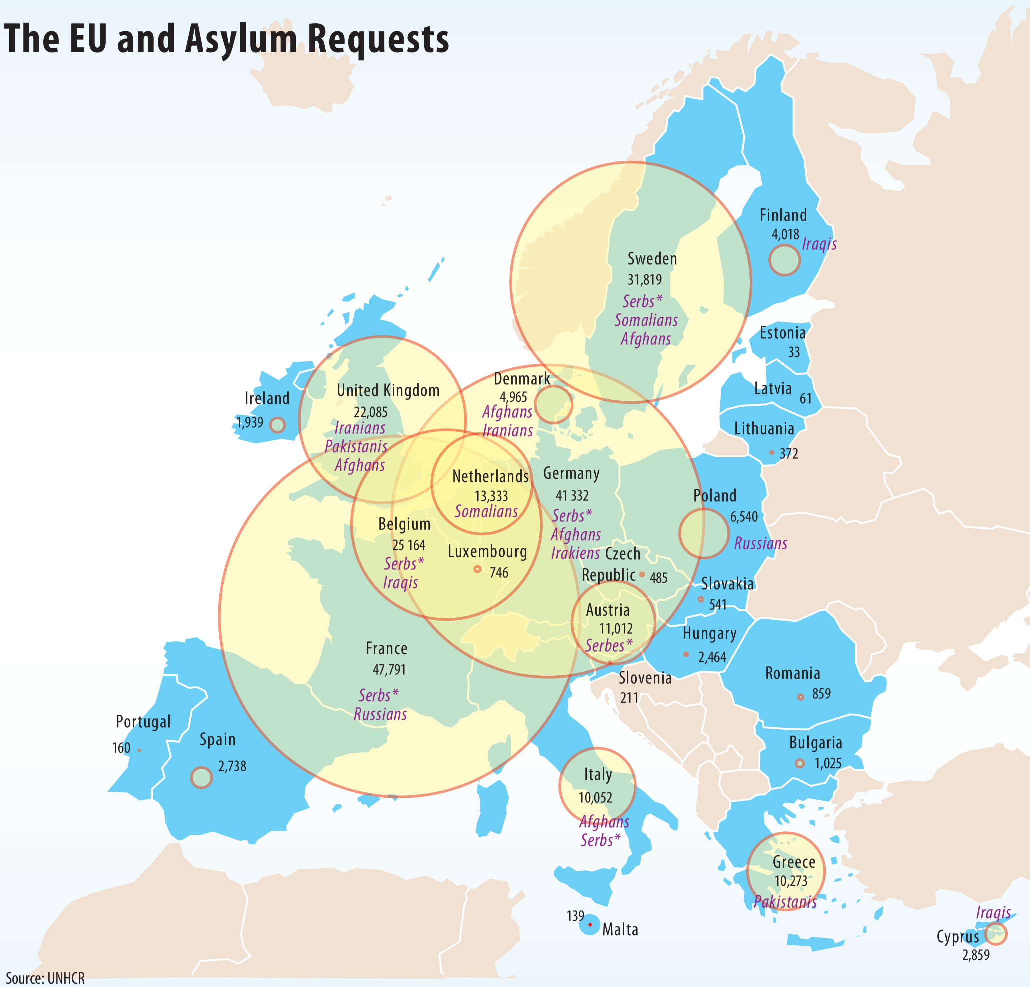
BiH: Bosnia-Herzegovina
Mont.: Montenegro
FYROM: Former Yugoslav Republic of Macedonia

Source: compiled by the Robert Schuman Foundation.

External migrations



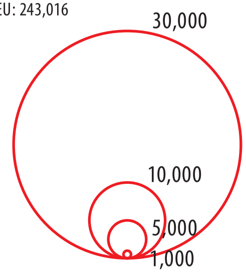
The EU and Asylum Requests



Source: UNHCR

Number of asylum requests in 2010

Total EU: 243,016

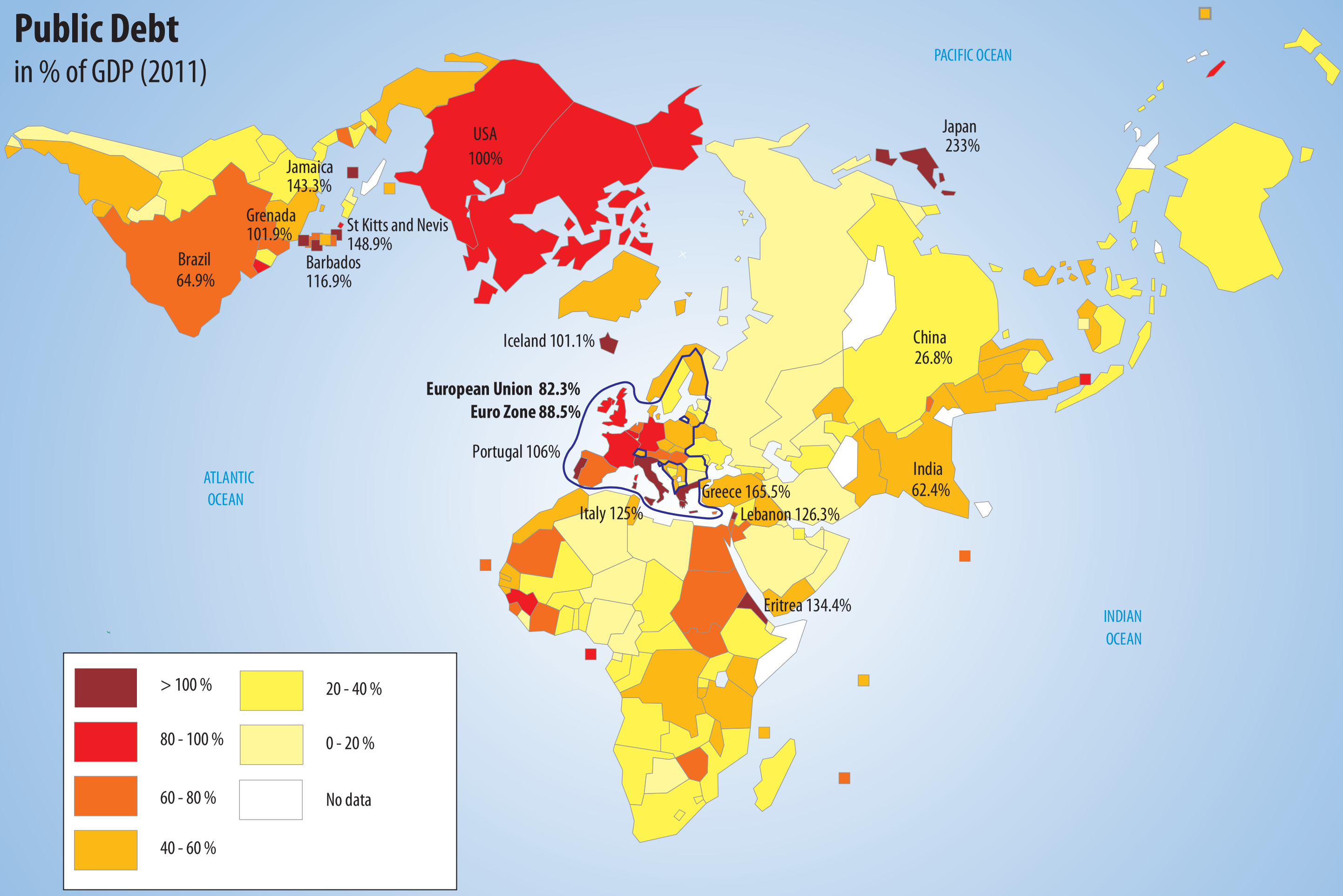


Afghans Main nationalities represented in the countries

*the name "Serb" selected by the HCR can include Yugoslavs, ie people from former Yugoslavia who still do not have identity documents that match their new citizenship.

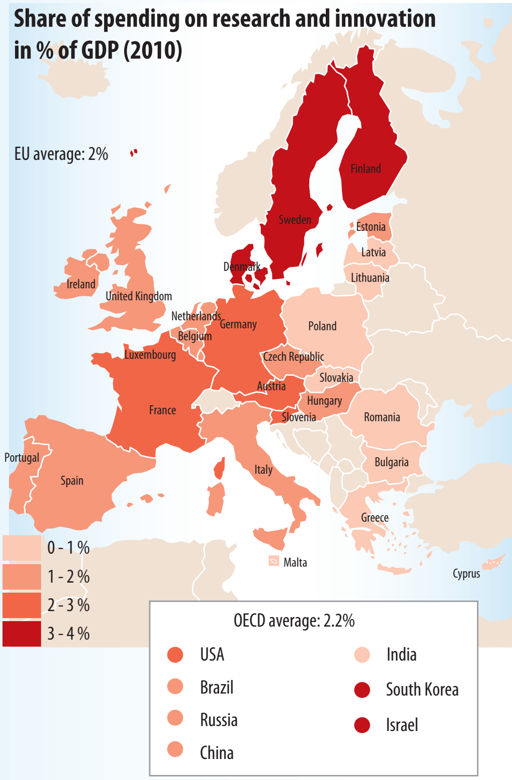
Public Debt

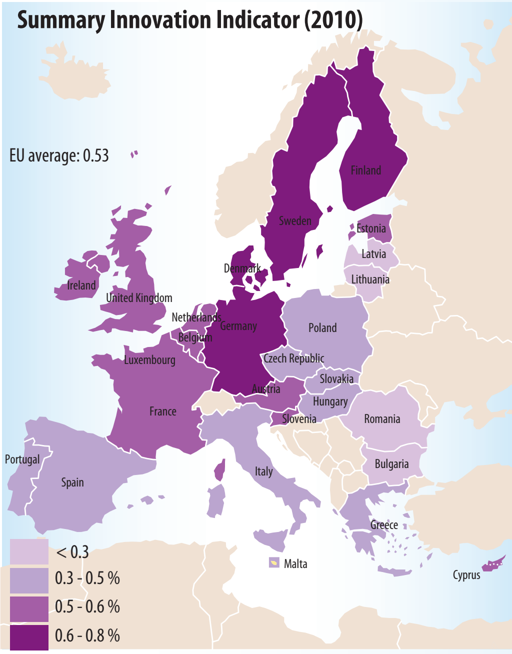
in % of GDP (2011)

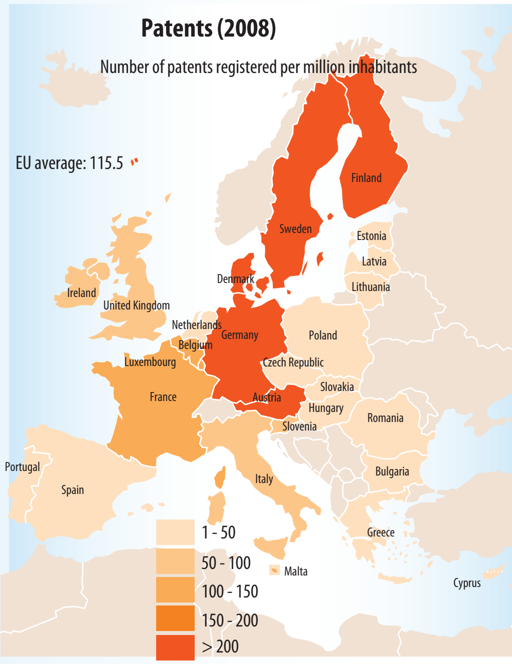


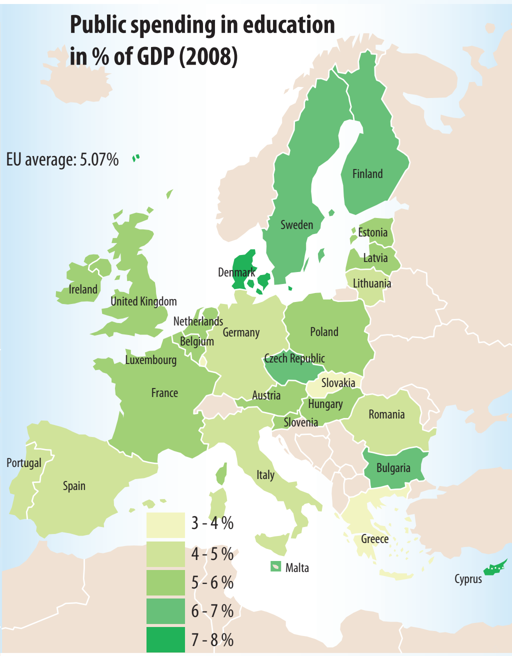
Sources: International Monetary Fund, *World Economic Outlook Database*, September 2011 ; CIA World Factbook

Research and Innovation in the European States





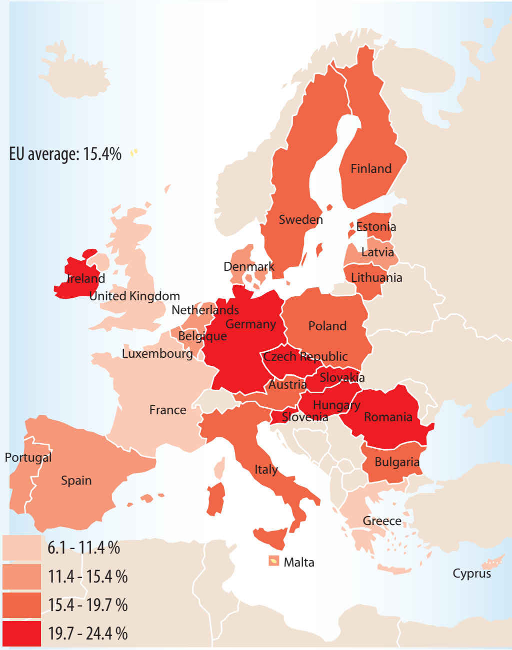




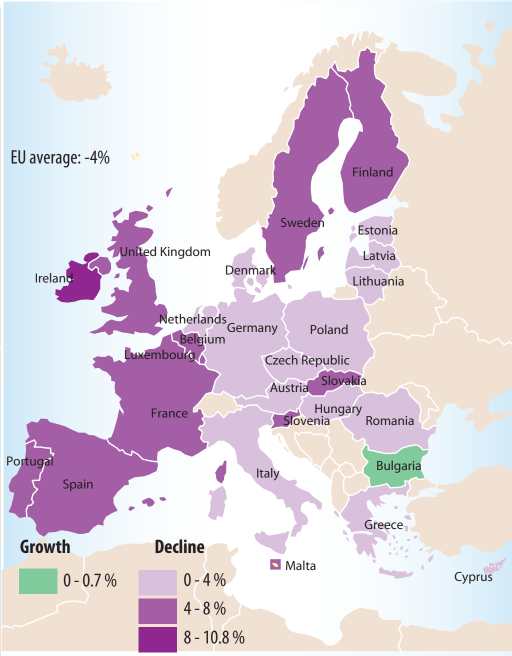
Source: Eurostat, EU GD Enterprise and Industry *Innovation Union Scoreboard*.

Industry in the EU Member States

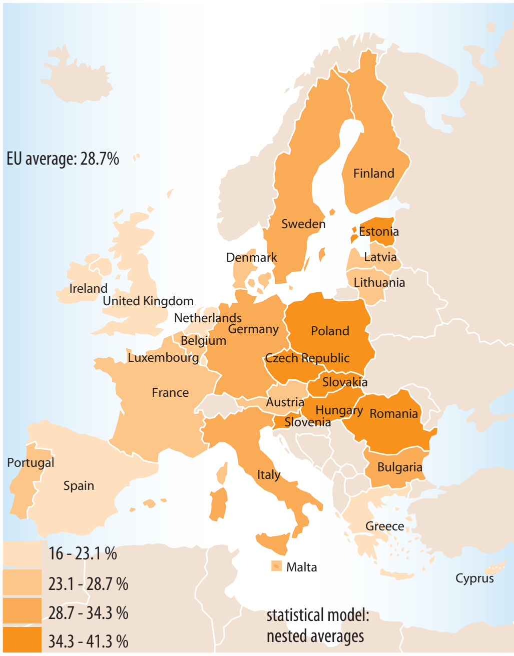
Share of industry in the GDP (2010)



Share of industry in the GDP Development 1995-2009



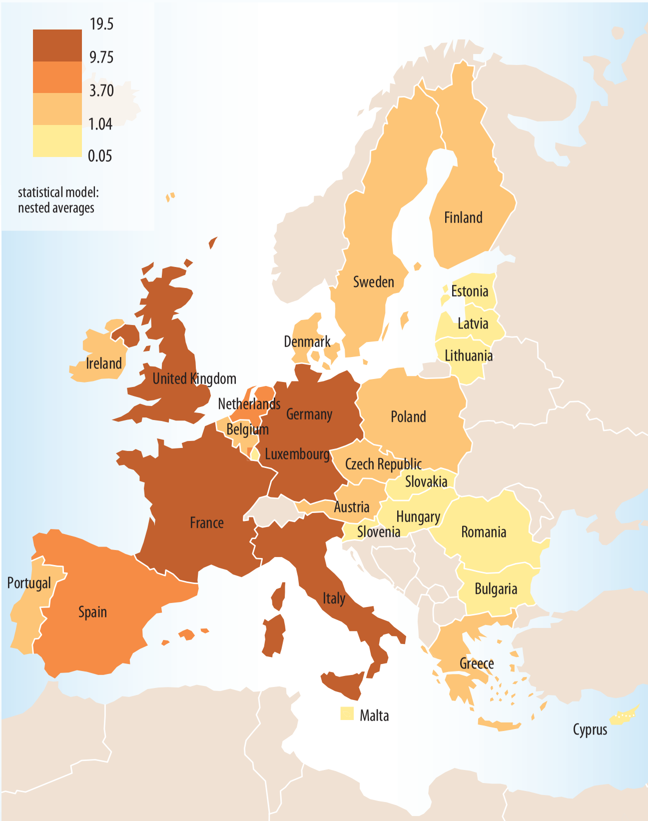
Share of industry in employment (2010)



Source: Compiled by Sebastian Paulo, from Eurostat.

EU Budget, 2011

Member States' Contribution to Community Budget, 2011 (as a %)



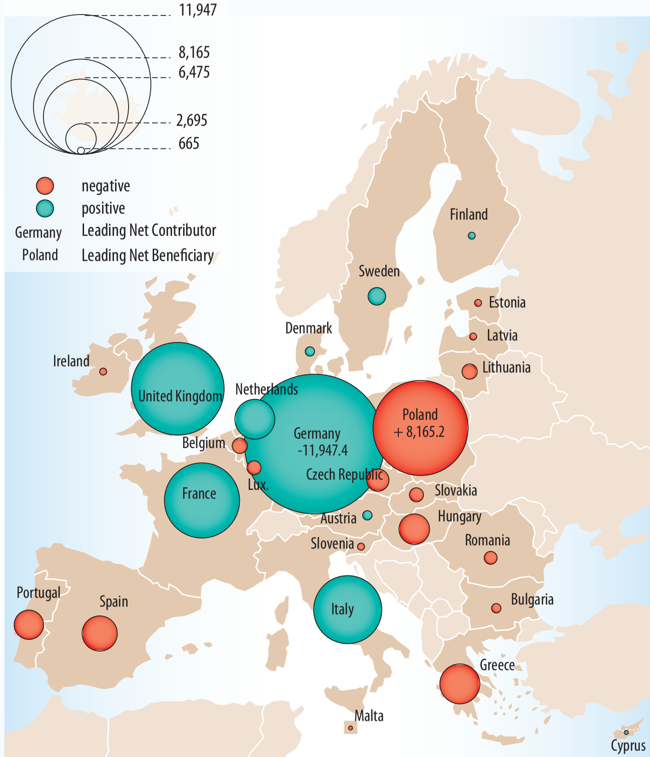
Source: EU portal (http://europa.eu/)

Total Commitment Payments 2007-2013 :
975.8 € billion

2010: 141 € billion

2011: 143 € billion

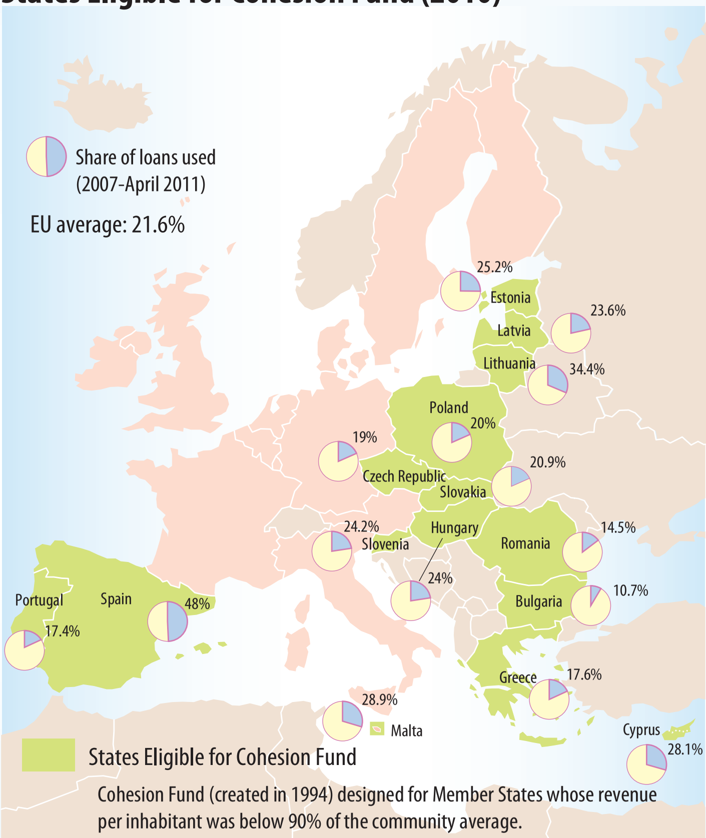
Net operational budgetary balance* 2009 (in millions of euros)



*This is the difference between payments made by a Member State to the EU budget and EU spending in the said Member State. Joint administrative spending is excluded from this calculation.

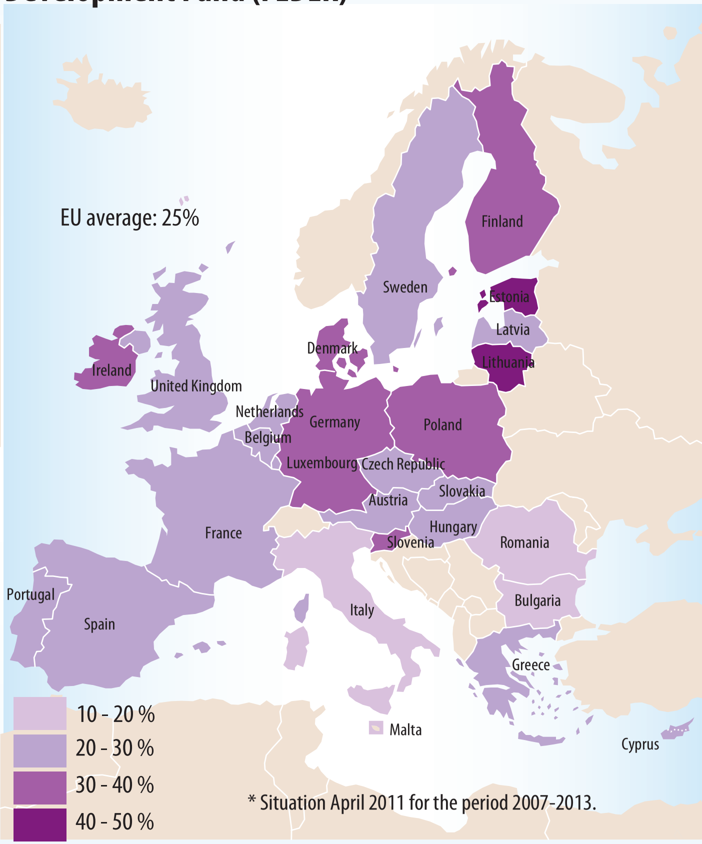
Use of Structural Funds by European Union Member States

States Eligible for Cohesion Fund (2010)



Source: EU GD Regio.

Consumption of Loans from the European Regional Development Fund (FEDER)



4

Interview

There Are More Reasons Today for Europeans to Unite Closely

Jean-Claude Trichet,
Former President of the European Central Bank

1. You have just left your position as President of the European Central Bank. As the euro faces the biggest crisis since its creation, how do you feel with regard to the eight years you have just spent as head of the ECB?

For me and for all my colleagues, these past eight years have been of capital importance. We have had to consolidate the credibility of the single currency during its first few years, ensure price stability – in accordance with the promises made to the peoples of Europe – and ensure that the real economic aspect of the Economic and Monetary Union (E.M.U) – namely the Economic Union in itself – was fully respected, which, unfortunately, has not been the case. In addition to this, over the past four and a half years we have had to deal with the most serious international crisis since the Second World War.

Within this exceptionally difficult and turbulent context, my colleagues on the Board of Governors and I have endeavoured to provide an anchor of stability and confidence to all our fellow European citizens.

2. In your opinion, what are the main lessons to be learned from the recurrent crises that have hit the euro zone since 2008? What do you have to say in terms of the action taken by the European Central Bank, and by other community and national players, in their attempts to respond to them?

For the European Central Bank the turbulent phase of the world crisis started in 2007. On 9th August 2007, the European Central Bank was the first central bank in the world to take the first "non standard" measure of the crisis, by providing limitless fixed rate liquidity to the commercial banks that asked for it, representing a total amount of 95 billion euros. It should be understood that what we have been experiencing for the past four and a half years is a worldwide crisis and not merely a European crisis. May I suggest the following three-phase analysis of how the world crisis developed?

Phase one: from August 2007 to mid-September 2008, that is to say from the beginning of turbulence on the money markets of developed countries through to the time when Lehman Brothers went bankrupt. This period was marked by a very high level of turbulence on the monetary and financial markets. The crisis was worldwide and its epicentre was in the United States.

Phase two: from mid-September 2008 to the end of 2009. A dramatic intensification of the financial crisis was observed in all developed countries. Almost all private financial institutions were directly or indirectly threatened with a major risk of knock-on bankruptcy and generalised economic depression. Throughout this phase, the epicentre of the world crisis continued to be in the United States.

Third phase: this began at the beginning of 2010 and continues today. After the financial institutions' position stabilised and the gradual recovery of economies was confirmed in the wake of the most acute recession since the Second World War, which did not turn into the threatened "great depression", the world crisis began to strike at "sovereign" risks, and indeed the signature of developed countries. The world crisis continues, but its epicentre has crossed the Atlantic and is now in Europe, and more specifically in the euro zone.

It must be understood that all developed countries, almost without exception, now need a major review of their economic strategy and the management of their public finances. This is true in the United States, in Japan and in Europe. No major economic zone amongst developed countries can do without this strategy review. From this point of view, the case of the euro zone is paradoxical in many respects. Taken overall its position is one of the best amongst industrialised countries, whether in terms of annual public deficits – about twice as small, in proportion to GDP, as those of the United States or Japan in 2011 – outstanding public debt in proportion to GDP or the equilibrium of the balance of payments. But in spite of this situation, which is overall very favourable, some economies in the euro zone are amongst the most vulnerable of all industrialised countries. The deficient functioning of the Economic Union and the lack of control or effective monitoring of Member States' economic and budgetary policies have played a major role in these vulnerabilities.

The situation can be summed up in four points:

– Firstly, all advanced economies are now facing the most serious economic and financial crisis since the Second World War

– Secondly, the world crisis is one of adaptation by developed countries to the new globalised world that has been gradually created over the past thirty years.

– Thirdly, within the euro zone, that is to say the Economic and Monetary Union, the "Monetary Union" itself has complied with what was expected of it: to ensure monetary credibility and stability.

– Fourthly, within the Economic and Monetary Union, the "Economic Union" requires very substantial improvement. The rules initially set, particularly in the Stability and Growth Pact, have not been followed. In any case they were vastly insufficient. Considerable reinforcement of euro zone governance is now essential.

3. The crisis would appear to have strengthened the ECB's role; its role as lender of last resort alone would appear to reassure the markets. What role would you like to see it play in the future? To what extent would you be favourable to an increase of its powers and, particularly, beyond the targeting of inflation using interest rates, an extension of its mandate to the monitoring of credit expansion and bubbles?

The ECB has been true to its primacy mandate which is to ensure price stability and issue a credible, stable currency. This is a necessary condition – but one that is not sufficient in itself – to sustainable growth and sustainable job creation. I say that it is not a sufficient condition on its own because a good budgetary policy is also necessary, along with close monitoring of competitive indicators and unit production costs and a policy of structural reform – all policies that do not depend on the central bank – in order to ensure optimal growth and to eliminate mass unemployment. However, price stability, as I said, is a necessary condition for lasting prosperity.

Over the course of the euro's first thirteen years, in spite of several oil crises and increases in the cost of raw materials, average annual inflation was 2%, in line with the definition of price stability given by the Board of Governors. All of the opinion polls carried out across the euro zone have always showed that our fellow citizens are extremely attentive to price stability, particularly the poorest and most under-privileged amongst them. Whilst remaining rigorously loyal to the first mandate given by our democracies and constantly confirmed by the popular feeling reflected in the polls, the ECB Board of Governors was always careful to take exceptional decisions required without delay, in order to face up to the new situations newly created by the crisis: as I have already said, our first "non standard" decision was taken as early as on 9th August 2007.

To ensure that it was clear that the quick, proportionate response to the crisis was never made to the detriment of the ECB's first objective, we instituted, right from the very beginning of the crisis, a principle of separation between "standard" decisions of monetary policy (mainly the interest rates level) and "non standard" decisions (mainly the granting of liquidities at fixed rate without limit, interventions on the secured bonds market or on the bonds market in general). "Standard" decisions are taken to ensure price stability in the medium term and therefore the credibility of the currency with a view to the medium and longer term. "Non standard" measures are taken so that transmission to the economy of "standard" measures happens in the most satisfactory conditions possible, taking account of the very serious dysfunctions seen in several markets – or market segments – caused by the crisis.

I believe that the ECB has always proved that it is daring, imaginative and reactive, whilst remaining true to its mandate. I believe that it would be counterproductive to change its mandate. The Central Bank can do a great deal. It has proved as much. If it had not been highly present, strong, lucid and quick, over the past four and a half years, including the last months, since July 2011, we would have witnessed still more serious events. But the Central Bank cannot substitute for the States themselves. It cannot substitute for either governments or parliaments.

4. The current climate is marked by a very high degree of uncertainty and disarray under the effect of a never-ending economic and political crisis. How can this "crisis of doubt" which is affecting both the euro zone and the European Union be overcome?

This is not the first serious crisis that European integration has had to face. Our history since the Second World War shows that periods of crisis have always been used by the Europeans to make further progress. I am sure that this will be the case again here.

The world crisis has acted like a revelation, showing up structural weaknesses in the various economies of developed countries. Europe has its weakness: economic governance that is highly insufficient. But all developed countries have their own weaknesses: it would be an illusion to believe that the world crisis is mainly a European one. This was clearly not the case during the first two phases of this crisis, when its epicentre was in the United States. It is not the case now either, even though the epicentre is now in Europe.

Europeans must be advised to use lucidity: the world crisis is not merely European. They should keep a cool head – we have our own strengths and weaknesses. But we also need courage and determination. Our weaknesses must absolutely be corrected and the crisis is a unique opportunity to do so. We now know what our weak points are. The ECB itself did not wait for the crisis before denouncing the abnormalities of our economic governance.

5. Reading the various speeches you made as President of the ECB shows that the current crisis highlights a certain number of challenges set for "governance" of the euro zone. What are these challenges and what are (or would be) the resources needed to face them?

In terms of budgetary policies, right from my arrival at the European Central Bank at the end of 2003-beginning of 2004, the Board of Governors had to combat a coalition of big States who had decided to weaken, not to say withdraw, all authority from the Stability and Growth Pact. France, Germany and Italy in particular were closely associated in this perverse and retrospectively absurd undertaking. On behalf of the Board of Governors I indicated our resolute opposition to this manoeuvre and I expressed publicly our serious concerns with regard to how the euro zone could operate under these conditions.

In terms of economic policies, over and above mere budgetary policies, the Board of Governors was convinced, right from 2005, that careful and rigorous monitoring of nominal developments in costs and prices in the various member economies was necessary, along with monitoring of their internal and external imbalances. The significant divergences in developments in unit production costs in particular, called for real multilateral supervision and, where necessary, precise recommendations in terms of economic policy. The idea that divergences in the development of costs and competitiveness would be gradually spontaneously corrected by the working of the market (by the "competition channel") did not appear to be right. These "spontaneous" corrections proved to be unworkable, particularly in economies where the export sector represented only a relatively small fraction of the economy as a whole and therefore had very limited influence on the formation of costs and prices. During the last seven years the monthly display by the European Central Bank of figures on national evolutions in costs and prices showed abnormally divergent nominal developments since the creation of the euro, in spite of the fact that the currency was the same. This was particularly visible in the field of salaries in the public services which, in some countries, systematically developed year after year more quickly than the average in the euro zone, whereas the country was suffering from a major deficit both internally (public finances) and externally (balance of current payments).

It was these observations that led the Central Bank to recommend the creation of a new additional framework for monitoring indicators of competitiveness and internal and external imbalances, in addition to the Stability and Growth Pact. We also constantly recommended very substantial reinforcement of the decision-making mechanisms within the Commission and the Council, such that the necessary corrections could be made as early and as automatically as possible: experience has clearly shown the exorbitant cost, both for the countries concerned and for the whole of the zone, of negligence, hesitation and delay.

6. The crisis would appear to be leading to a federalisation of the European economic policy. Nevertheless, can continued integration be content to move forward only under the demands of necessity, without any democratic debate, particularly with regard to budgetary federalism? If necessary, how could this kind of debate be started? Also, you have underlined several times – and notably at Humboldt University in Berlin – that for half a century European integration found its meaning in introversion and that it is now time to give it an external extension for the future. How could such a conversion be actually encouraged?

I have always demanded strict compliance with the Treaty in this regard, as well as strengthening of the economic Union, which is the essential counterpart of the monetary Union, as the acronym E.M.U. suggests.

That means that we must, in my opinion, go as far as possible in reinforcing the supervision of each economy by the Commission and by the Council. We must also go as far as possible in the establishment of the recommendations deemed indispensable, and in their effective implementation.

On this basis, I have suggested, in various speeches delivered in june and october 2011, three possible stages, which I can resume as follows:

First stage: use all the possibilities offered by the current treaty to supplement and reinforce the secondary legislation of economic governance. This first stage has already been accomplished. My wish, in the name of the ECB, was for the new texts that have been decided within the context of the "six pack", to be able to go further still. But even as they are they represent a significant improvement compared to the previous position. And I must say that the Commission on the one hand and, in particular, the European Parliament on the other, have played a very useful role in pushing the governments in the right direction, particularly that of reversing the burden of proof in terms of recommendations and sanctions. With regard to the democratic functioning of Europe, I would insist on the European Parliament which plays an essential role in our democratic institutions and looks to me really driven by the spirit of Europe.

Second stage: go further than that which is currently authorised by the treaty. I have pointed out that, in a monetary zone whose overall stability could be challenged by repeated misbehaviour by one of its members, the central authority has to impose decisions that are immediately enforceable on a member country. Of course this presupposes that this country repeatedly refuses to apply essential recommendations. Is it not legitimate, when we share the same currency, for the Council of governments, on proposal by the Commission, to be able to impose the wise decisions that avoid a risk of catastrophe in the whole of the euro zone? That, in my opinion, is the very heart of the concept of "governance" of the euro zone. What is real economic governance in the EMU? It is not an entity that is permanently and indiscriminately interfering and substituting for national authorities. But it isn't a "paper tiger" either, taking decisions that are never enforced.

Events over recent years in Greece as well as in other countries, demonstrate the relevance of this second stage. This naturally means a profound legal change and, therefore, either an amendment to the treaty or a new one. I suggested a change such as this in a speech given in Aix-la-Chapelle[1]. Things have progressed a great deal in the direction of this "second stage" and a new treaty is currently being negotiated. I sincerely hope that the results of these negotiations will be commensurate with the challenge facing Europe.

Third stage: within a much longer perspective, it is legitimate for a European citizen to think about how our institutions will develop. One thing is certain: we have not yet reached the definitive state of our institutional structure. In a speech given at Humboldt University[2], I imagined how European institutions could evolve very substantially in the future, with the Council becoming the upper chamber, the Union's Senate, the European Parliament having all the powers of the lower chamber and the Commission becoming an executive power, fully responsible to Parliament. With regard more particularly to the Economic and Monetary Union of the future, within this renewed institutional context, the Union's Finance Minister would have, amongst others, three main responsibilities: responsibility for the supervision of Members States' economic and budgetary policies and, where applicable, of the second stage "enforceable decisions" referred to above, responsibility, in terms of executive powers, for supervision and regulation of the financial sector and representation of the Union in international financial institutions.

1. Speech given at the Charlemagne Prize-giving ceremony, 2nd June 2011.
2. Speech given at Humboldt University on 24th October 2011.

7. At the Charlemagne prize-giving ceremony in 2011 you declared "It is essential that all nations demonstrate their total commitment in favour of the historic destiny followed by Europe, and look to the future with confidence". In your opinion what are the reasons for being confident about our future in the medium and long term?

All the previous thoughts are the personal remarks of a European citizen. Europe's future is in the hands of the European democracies, in the hands of our fellow citizens, who are our masters, the decision-makers. I am confident, in spite of all the difficulties that we have to face, for three main reasons.

Firstly because there are still more reasons today for Europeans to unite closely than there were just after the Second World War. 65 years ago we had only one model of a vast and continental "single market", the United States of America. In four years time the gross domestic product of China will exceed that of the euro area at purchasing power parity and the combined GDP of China and India will represent twice that of the euro area, again at purchasing power parity. We have to face an entirely new world, one that has been totally reconfigured over the past thirty years, with the generalisation of the market economy and globalisation.

Secondly, because the crisis experienced by all developed countries offers a unique opportunity to identify and correct our own European weaknesses. In the prospect of permanent adaptation to the new world economy, all developed countries must correct their imperfections. Ours have been identified, are visible and demand tremendous improvement to our governance. Those improvements are within our reach.

Finally, because the historic challenges are considerable, not only for European stability and prosperity, but also for stability and long term growth for all world nations. They are watching us, not only as a decisive partner in view of our economic, commercial and financial size, but also as the first continent to experiment a new kind of governance, which necessarily combines important elements of national sovereignty and today's necessary elements of sovereignty shared at multinational level.

5

A Summary of Political and Legal Europe

The Economic Crisis Rocks the European Governments but the Supremacy of the Right Continues to Grow.

Corinne DELOY

Ten European Union countries renewed their parliament in 2011, half of which did so early, notably because of the extent of their economic difficulties. The right continued to progress since it was re-elected in three States (Estonia, Latvia and Poland), as well as in Ireland and Finland (where it shares power however with Labour on the one hand and the Social Democrats on the other). Two countries swang from left to right: Portugal and Spain; Slovenia maintained its leftwing majority. In Cyprus the right also won the elections but due to the specific nature of the island's political system (the President of the Republic is also the Prime Minister), the left maintained power. Finally, Denmark, which had been under the right for the last ten years, chose political change and elected a new leftwing majority.

In all the right governs in 20 EU Member States, the left in four (in a coalition with the right in Austria)1. In every country the electoral campaign was mainly dominated by socio-economic issues. Further to this, at the end of 2011 the crisis brought down the governments in three countries – Slovakia, Greece and Italy – two of which will be returning to ballot early at the beginning of 2012.

1. Greece and Italy and to a certain extent Belgium – run by national unity governements at the time of writing – have not been taken into account in this analysis.

Governmental majorities in the EU on 31st December 2011

Countries governed by a leftwing majority	Countries governed by a rightwing majority
Austria (left-right coalition)	Germany
Cyprus	Bulgaria
Denmark	Spain
Slovenia	Estonia
	Finland (left-right coalition)
	France
	Hungary
	Ireland (left-right coalition)
	Latvia
	Lithuania
	Luxembourg (right-left coalition)
	Malta
	Netherlands
	Poland
	Portugal
	Czech Republic
	UK
	Romania
	Slovakia
	Sweden

In Northern Europe, the Right retains power in spite of the crisis

It was a real political earthquake that shook Ireland in the early general elections on 25th February. The electorate voted en masse for the parties who were against the rescue plan set for the country by the IMF and the European Union – in other words Fine Gael, which won 36.1% of the vote, the Labour Party, which came second with 19.4% of the vote and the far left nationalist party, Sinn Fein, which won 9.9%, its highest ever result. Finally Fine Gael leader, Enda Kenny formed a coalition government with Labour. Fianna Fail (FF), which governed Ireland for 55 of the last 74 years was deemed by many Irish responsible for the economic crisis and was severely punished. It won 17.4% of the vote (30 points less in comparison with 2007), i.e. the worst result in its history. Brian Cowen therefore became the first head of government in the EU to fall because of the international economic crisis. Seven Irish voters in ten turned out to vote on 25th February (70%). Ireland, whose growth was mainly based on the financial industry, was sorely tried by the economic crisis in 2008. This came due to the excesses of its banking sector which was oversized in comparison with the real economy and due to the collapse of the real estate bubble, which arose from the massive establishment of international businesses (mainly American) benefiting from the low company tax rates (12.5%). The result was a recession of 7% in 2009, a sharp rise in unemployment (+9 points between 2007 and 2011), significant public deficit (32%) and the collapse of the property market. After four austerity plans, Brian Cowen was forced to ask for international aid and had to accept the terms of an 85 billion euro rescue plan from the IMF and the EU.

In Estonia, the general election results on 6th March bore witness to the consolidation of the political arena. Prime Minister Andrus Ansip's Reform Party (ER) won the elections with 28.6% of the vote, ahead of his government coalition ally, Pro Patria Union-Res Publica (IRL), led by Mart Laar, which won 20.5%. Both parties, who together won an absolute majority, chose to continue their work in government. With 23.3% of the vote the Centre Party (K) is still the main opposition party but it was the only one to have lost seats whilst the Social Democratic Party (SDE), led by Sven Mikser won 17.1% of the vote and almost doubled its number of MPs. Turnout totalled 62.9%; nearly one quarter of the electorate (24.5%) chose to vote via internet. Estonia has the highest growth rate of the 27 EU Member States, its public deficit lies at 1.6% of the GDP and its debt is by far the lowest in the Union (9.5% againts 86.5% on average). The only negative point to this success: the unemployment rate is still over 10%. In office since 2005, Andrus Ansip can be proud of having enabled his country to join the Organisation for Economic Cooperation and Development (OECD) and especially for having joined the Economic and Monetary Union on 1st January 2011 with the adoption of the single currency.

The Latvians, who were called to ballot for the third time in a year, again put their confidence in the centre-right in the early general elections on 17th September. The new Zatlers Reform Party (PRZ), founded by former Head of State (2007-2011) Valdis Zatlers, won 20.8% of the vote and Unity (V) led by outgoing Prime Minister Valdis Dombrovskis, 18.8%. Harmony Centre (SC), a leftwing party, won the election with 28.3% of the vote. With 13.8% the National Alliance-All for Latvia was the other election winner. Six Latvians out of ten fulfilled their civic duty (59.5%). This election came after the referendum on 23rd July when the majority of Latvians approved (94.3%) the dissolution of their parliament decided by the then president, Valdis Zatlers, due to the refusal of MPs to lift the immunity of Ainars Slesers, who was under investigation for corruption and abuse of power. After the election, Valdis Dombrovskis took over a government formed by Unity, the Zatlers Reform Party and the National Alliance-All for Latvia. These three parties and the Harmony Centre are opposed to the austerity policy undertaken since 2007. The latter, which still inspires great mistrust in a country where the left is likened to a past marked by 50 years of Soviet occupation, is asking for the re-negotiation of the reimbursement terms of the loan totalling 7.5 billion euros granted to Riga by the IMF and for the application of more social measures. Further to this, the right is demanding that the leftwing party acknowledge the occupation of Latvia by the Soviet Union between 1945 and 1991 and accept Latvian as the country's only official language.

In Poland on 9th October Donald Tusk became the first Polish head of government to be re-elected to power since the collapse of communism in 1989. His party, Civic Platform (PO) won the election with 38.9% of the vote far ahead of its main conservative rival, Law and Justice (PiS) led by Jaroslaw Kaczynski, 30%. The surprise in this election came from the Palikot Movement (RPP), a pro-European, liberal, anti-clerical party founded in 2011 by businessman Janusz Palikot, a former PO member, which won 9.9% of the vote in a country where 99% of the inhabitants say they are Catholic. Finally the left, represented by the Democratic Left Alliance (SLD), suffered a severe defeat in the elections winning less than 10% of the vote (8.2%). Less than half of the Poles (48.9%) turned out to vote. During his first term in office, Donald Tusk succeeded in providing Poland with an image of a moderate, conciliatory country and distinctly improved relations with his German and Russian neighbours. Finally, he can be proud that his country is the only EU Member State not to have suffered recession in the wake of the economic crisis.

In Finland the populist party, the True Finns, made an impressive breakthrough in the general elections on 17th April. With 19% of the vote the party led by Timo Soini became the country's third political force. The True Finns, who mix a left oriented economic programme with a far right social policy, are the only ones to have increased the number of MPs they have in parliament, which has multiplied sevenfold. They almost did as well as the Social Democratic Party (SPD) which won 19.1% of the vote. Jyrki Katainen's Conservative Assembly (KOK), which made its first breakthrough in a general election, won 20.4% of the vote. Finally the Centre Party (KESK) led by outgoing Prime Minister, Mari Kiviniemi suffered severe defeat with only 15.8% of the vote. Turnout totalled 70.4%. The election comprised a real upheaval in Finland's political life, a country, in which there has always been a strong sense of consensus. The breakthrough made by the True Finns mainly finds its explanation in the euro zone and debt crisis in Europe, which the party succeeded in placing high on the agenda and which was the main focus of the campaign. The populists were against the emergency plan decided on by the EU to save Greece from bankruptcy, a position that found an echo in a country that managed to overcome the crisis (thanks to its discipline and the work done by its population) it experienced in the 1990's without help and where euroscepticism is still very much alive. The True Finns did however prefer to remain in the opposition and Jyrki Katainen formed a government coalition with the Social Democratic Party, the Left Alliance (VAS), the Greens (VIHR), the Swedish People's Party (SFP) and the Christian Democratic Party (SKL).

Under pressure due to the crisis, Southern Europe sanctions its leaders and takes a right turn.

In Portugal, the Social Democratic Party (PSD) won the general elections on 5th June with 38.6% of the vote; the Socialist Party (PS), led by outgoing Prime Minister José Socrates obtaining only 28%. He came out ahead of the Christian Democrats of the People's Party (PP) which won 11.7% of the vote. The far left lost ground, (13.1%). Less than six Portuguese in ten turned out to vote (58.1%), the lowest turnout in the country's history. The Portuguese therefore opted for political change. On 23rd March the Prime Minister José Socrates (PS) was forced to resign after parliament rejected his austerity programme. He then had no other choice but to accept the 78 billion € rescue plan offered by the IMF and the EU. The Portuguese economy that mainly relies on agriculture and tourism, has a low growth rate and the country suffers a major problem in terms of competitiveness. The PSD's victory (centre-right) sanctions the socialists, in office since 2005 and held responsible for the socio-economic crisis which the country is experiencing. Pedro Passos Coelho's government which was formed with the People's Party has the difficult task of balancing public finance and of implementing vital structural reforms to revive Portugal's competitive edge.

In Spain the People's Party (PP) easily won the early elections on 20th November with 44.6% of the vote, i.e. the highest absolute majority in its history. The Socialist Workers' Party (PSOE) led by outgoing Prime Minister José Luis Zapatero suffered severe defeat taking 28.7% of the vote and losing one third of its MPs. The "small" parties benefited from the collapse of the PSOE. They won 26.7% of the vote, an unprecedented result. Seven Spaniards in ten fulfilled their civic duty (71.7%). The collapse of the property market, which had guaranteed growth for several decades together with the international economic crisis, led to a major recession in Spain. Unemployment reached its highest point since 1996 and now affects nearly 5 million Spaniards (21.5% of the working population, and 45.8% of the under 24's). The average household income has declined by 4.4% over the last twelve months and around 22% of families live under the poverty threshold.

The PP's victory was more due to the rejection of José Luis Rodriguez Zapatero's government than the Spanish acceptance of the rightwing or the personality of Mariano Rajoy. He continued to be vague about his programme during the campaign but is bound to ask further sacrifices of the Spanish to revive growth in a country which harbours a great mistrust of politicians as well as the emergence of new kinds of political organisations.

In Cyprus the Democratic Assembly (DISY) won the general election on 22nd May with 34.2% of the vote ahead of the Progressive Workers' Party (AKEL) led by President of the Republic Demetris Christofias, 32.6%. With 15.7% of the vote the Democratic Party (DIKO), AKEL's government partner, lost ground. Demetris Christofias chose to lead the outgoing government coalition again but in July DIKO broke away after the death of 13 people in a fire in the country's main power station after the explosion of a munitions depot. It is obligatory to vote in Cyprus but turnout declined by 10.3 points (78.7%).

The general election was a defeat for Demetris Christofias, criticised for the concessions he is said to have made in the peace negotiations between the two parts of the island and more generally, for his lack of efficacy during these talks. The authorities in office were also sanctioned because of the island's alarming socio-economic situation. The rightwing opposition victory is a threat to Demetris Christofias's re-election to the presidency of the Republic in 2013 and conversely increases DISY's chances. Developments in the peace negotiations between the two parts of the island will influence this upcoming election.

Will the Danish swallow bring success for the Left?

The leftwing opposition – the Social Democratic Party (SD), the Social Liberal Party (RV), the People's Socialist Party (SF) and the Unity List (E) - won the general elections on 15th September in Denmark with 50.2% of the vote, pulling ahead of the right – the Liberal Party (V), the Danish People's Party (DF), the Liberal Alliance and the Conservative Party (KF) – which won 49.7% of the vote. The Liberals of outgoing Prime Minister Lars Lokke Rasmussen did however retain their position as the country's leading political force ahead of the Social Democrats, who achieved their lowest results since 1906. With 12.3% of the vote the Danish People's Party, a far right populist movement, lost ground slightly, the first time in its history. The Danes turned out in number, 87.7% of them voted. Somewhat diminished after ten years in power, the government coalition comprising the Liberal Party and the Conservative Party, supported by the far right, was sanctioned by the Danes who are extremely concerned about their country's economic situation (almost zero growth, a rising budgetary deficit and unemployment). Unlike the three other elections, (2001, 2005 and 2007) which focused on immigration (but which took place whilst the Danish economy was flourishing), socio-economic issues were at the heart of this campaign. The changeover should not modify Copenhagen's policy significantly. Helle Thorning-Schmidt, the first woman to lead a Danish government, formed a coalition with the Social Liberal Party – centrist and liberal, which made a breakthrough with 9.5% of the vote – and the People's Socialist Party, which clearly lost ground in this vote.

Finally in Slovenia, the new left wing party, Positive Slovenia (PS), founded by Zoran Jankovic, created a surprise when it won 28.5% of the vote on 4th December. It came out ahead of the Democratic Party (SDS), which won 26.2% of the vote. The Social Democratic Party led by outgoing Prime Minister Borut Pahor, lost ground significantly (10.5%). 64.7% of Slovenians turned out to vote. For many years one of best performers amongst the States that entered the European Union in 2004, Slovenia has been seriously affected by the international economic crisis due to its dependency on foreign capital and exports. The country's debt rose from 22.5% to 43.3% of the GDP between 2008 and 2010 and unemployment has more than doubled (12%). For the first time ever the average Slovenian income fell in comparison with that of the oldest EU Member States. Borut Pahor's government, which introduced an austerity policy to stimulate economic growth, was also shaken by the defection of its three coalition partners in 2011. Finally in June he failed to pass his draft retirement reform in a referendum which planned to extend working life. To emerge from the crisis the Slovenians chose to trust an entrepreneur, who can boast some good results as Mayor of Ljubljana, which he has governed since 2006. Positive Slovenia's leader, who has transformed the capital which he claims to run like a business, now intends to manage the country in the same way.

***

Year after year the right continues to assert its political domination over Europe. The left, which fell victim to the economic crisis in the countries where it was in office in 2011, was thrown out in Portugal and Spain and has been placed in a difficult position in Cyprus, and in all likelihood, it should be beaten in the Spring in the election in Greece. Even though they are implementing major austerity policies, the rightwing governments withstand far better the test of the ballot box as in Estonia, Latvia and even in Ireland. The elections that will be taking place in 2012, notably in Slovakia and France, may however disrupt this long standing domination of the right in Europe. But for the time being, nothing indicates that this rightwing supremacy is about to come to an end.

Summary of the general elections results 2011 in the European Union (in %)

Country	Turnout	Far Left	Leftwing government	Rightwing government	Far right	Others
Ireland	70	12.1	19.4	53.5		15
Estonia	62.9		40.4	49.1		10.5
Finland	70.4	8.1	26.3	40.2	19	6.4
Cyprus	78.7		41.6	50.1	5	3.3
Portugal	58.1	13.1	28.1	50.4		8.4
Denmark	87.7	6.7	43.6	36.6	12.3	0.8
Latvia	59.5		28.4	42	13.9	15.7
Poland*	48.9		8.2	87.5		4.3
Spain*	71.7	5.2	28.7	44.6		21.5
Slovenia	64.7		40.4	37.9	1.8	19.9

** Only the results of the elections of the lower chamber of parliament are taken into account in this table.*

Three new Heads of State in Europe

Three new Presidents were elected in 2011 in the European Union and two were re-elected to office. Amongst the newcomers, two were appointed by universal suffrage, the third was elected by Parliament.

On 23rd January Anibal Cavaco Silva (Social Democratic Party PSD) did not prove tradition wrong – which has it that Heads of the Portuguese State are appointed in the first round of voting: he was re-elected for a second five year term in office with 52.9% of the vote, a higher result than that of 2006, ahead of socialist Manuel Alegre, who won 19.7% of the vote. The Portuguese, who are suffering a serious economic crisis, used the presidential election to punish the Socialist Party in office. Moreover, the left stood divided during this election.

On 2nd June Andris Berzins (Farmers and Greens Union, ZZS) was elected president of the Republic by Latvian MPs (53 votes). His rival, outgoing Head of State Valdis Zatlers, supported by the government coalition led by Prime Minister Valdis Dombrovskis won 41 votes. In the main, the result can be explained by the upheaval caused by the decision taken five days prior to the vote – Valdis Zatlers, who was then the favourite in the election, decided to dissolve parliament in protest against the MPs refusal to lift the immunity of Ainars Slesers, leader of Latvia's First-Latvian Way (LPP-LC), under investigation for corruption and abuse of power. Valdis Zatlers, who was the first President to use his power to dissolve parliament, became a hero in the eyes of some, whilst others accused him of having taken the risk of plunging a country into a political crisis, which after having been severely disrupted by a violent economic crisis, is finding it difficult to recover its growth path.

On 29th August outgoing Head of State Toomas Hendrik Ilves was re-elected by Parliament to lead Estonia. Supported by Prime Minister Andrus Ansip's Reform Party, the Pro-Patria Union-Res Publica, also a member of government, and the Social Democratic Party, he won 73 votes, i.e. 5 more than in comparison with the obligatory minimum to be elected by MPs. His rival Indrek Tarand, supported by the main opposition left party – the Centre Party (KE) won 25 votes. Toomas Hendrik Ilves is the first Head of State to be elected by Parliament (the previous presidents were appointed by the Electoral College that brought together 101 MPs and the members of the representative assemblies of the 227 local authorities in Estonia).

On 27th October the Irish favoured experience as they elected Michael Higgins (Labour Party, Lab) as President of the Republic with 39.6% of the vote, ahead of Sean Gallagher who won 28.5% of the vote. Sinn Fein (SF) candidate, Martin McGuinness, Deputy Prime Minister of Northern Ireland came third with 13.7% of the vote, enabling the far left nationalist party to go some way to removing its image as a terrorist organisation and position itself more as a real opposition party.

On 30th October the candidate representing the Citizens for the European Development of Bulgaria (GERB), Rossen Plevneliev, was elected president of the Bulgarian Republic with 52.5% of the vote, pulling ahead of Ivaïlo Kalfin (Socialist Party, BSP), who won 47.4% of the vote. Rossen Plevneliev largely benefited from the popularity of Prime Minister Boïko Borissov (GERB). He entered office on 22nd January 2012.

Electoral movements in Europe in 2011

	Previous Elections	2011 Election
Ireland	Right	Right (left/right coalition)
Estonia	Right	Right
Finland	Right	Right (left/right coalition)
Cyprus	Left	Left
Portugal	Left	Right
Denmark	Right	Left
Latvia	Right	Right
Poland	Right	Right
Spain	Left	Right
Slovenia	Left	Left

2012 Elections in the European Union

22nd January and 5th February: Presidential Finland
10th March: General Elections Slovakia
April: General Elections Greece
22nd April-6th May: Presidential France
10th and 17th June: General Elections France
October: General Elections Lithuania
October: Presidential Slovenia
November: Parliamentary Elections in Romania

Gender Balance, a European Model

Pascale JOANNIN

Just as Europe is being criticised on all sides, we should recall some basic facts, and the first of these is the position of women in our society. Indeed if we look at this more closely, where is the quality of a woman's life best if not in Europe? Where are there more women in government and in parliament in the world, even if the situation still has to be improved, if it is not in Europe? Finally where has the rise of women's position in business been strongest in 2011 if again it is not in Europe?

Of course it is not easy to be satisfied with the present situation which still leaves far too many women in a state of gross inequality. But a trend is emerging that will bring leaders, whoever they are, to promote greater inclusion of women in positions in the hierarchy that until now have been held almost exclusively by men. Soon it will no longer be acceptable to have a management board or a campaign or government team that comprises only men. Those who lag behind would do well to wake up otherwise they find themselves forced to take action or be badly considered.

It may be true that Europe is experiencing difficulties but many world players who think it still has some assets and advantages, watch it closely. Of course these would stand out more if Europe promoted in a self-regulating or regulated way - as planned by European Commission Vice-president Viviane Reding[1] by March 2012 - a European model of gender balance in which women occupy the real place they deserve, based on their abilities.

In this time of crisis the "women's" issue is now more relevant than ever before. It does not lie in "a return to the home", as some dare to imagine, but in greater involvement of women in the business world. Women are equally, and often more qualified than their male counterparts. Better qualified, women are also better equipped in times of crisis because they are often experienced managers and organisers. It would indeed be a pity not to involve them at this difficult point in time. But these vital developments are struggling to emerge naturally; stumbling blocks still exist and maintain a "glass ceiling" that is becoming increasingly difficult to bear. Change is occurring rather according to incentive and force. Many laws were adopted in 2011 in Europe to overcome reticence and to speed things up on companies' boards. The effects were felt immediately. France alone is catching up with the US. Moreover French women produce more children than other European women. Are there any other specific features about France as yet unnoticed?

1. http://ec.europa.eu/commission_2010-2014/reding/multimedia/news/2011/03/20110301_fr.htm

Feminisation is still progressing too slowly in some countries but it is occurring. All of Europe is experiencing this phenomenon. According to management training specialists, future female managers are preparing for their new posts with surprising energy because they want their capabilities to be acknowledged. They will force men's involvement and oblige them to review the way they think and organise things. It was about time the situation changed. But can it last?

More and more women are involved in business

More and more women are going out to work; in the European Union, 62.5% of women work. However 31.4% of them work part time, this is four times the figure of part-time male workers. Moreover women with equal qualifications are far too often less well paid than men; the average wage gap in the Union is 17.5%, which is true discrimination.

Women are also more qualified than men; they hold 58.9% of the degrees delivered by European universities. Although they are highly qualified and arriving in ever greater numbers on the labour market, they are still in the minority in positions of responsibility in companies, notably at the highest levels. But things are changing.

The quota effect

Norway set the example in 2005 by establishing quotas for the presence of women on company boards. Hence it is the country where women are represented the best: 36%. But many other, notably European, countries (Spain, France, Belgium, Italy, the Netherlands etc.) have followed suit by taking similar legislative measures to bring about radical change to old habits of strictly masculine co-optation. At the end of 2011 the first results of the implementation of these quotas show significant progress in the number of women who have one or several mandates as an administrator and everywhere there as been an increase in the number of companies who have included women on their boards. 68% of companies in Europe now have at least two women on their boards against 74% in the US.

Progress is particularly strong in France, for example, where after the law of January 2011, the number of women appointed to company boards, indexed on the stock exchange rose to total 20.8% amongst CAC 40 companies. Since the law is being applied progressively this trend should gather pace.

Towards true gender balance

However these encouraging results must not hide the reality of a situation that is far from ideal. This is for the simple reason that although legislative measures have led to significant progress with regard to gender balance on company boards, this is not true as far as executive committees are concerned. Women are not so well represented on the latter. In Europe for example only 20% of companies have an executive committee on which at least two women sit against 50% in the US.

Yet it is within executive committees that the most strategic decisions are taken. Therefore a great deal has to be done to move into these realms of power. The quota principle that is criticised for so many reasons, has a positive, highly influential effect, takes opinion forward, and disrupts the established order and the way people think and so it takes women's cause forward in business. It is certainly unfortunate to have had to use this legislative tool, but the masculine representatives of society would not have spontaneously taken the initiative to move things forward. The time of single sex company management seems now to be over.

Women directors in stock market-listed companies

	Countries	Number of companies studied	% women managers
	Norway	25	35.6 (40.1)
1	Sweden	40	27.3
2	Finland	28	24.5
3	Latvia*	33	23
4	Slovakia*	10	22
5	Romania*	10	21
6	The Netherlands	30	14
7	Denmark	24	13.9
8	Lithuania*	28	13
9	France	101	12.7 (CAC40: 20.8)
10	Germany	81	11.2
11	Poland	15	10.8
12	Bulgaria*	15	11
13	Slovenia*	17	10
14	Ireland	19	9.5
15	Spain	43	9.3 (IBEX : 11.2)
16	United Kingdom	398	9.1 (FTSE 100 : 14.3)
17	Greece	24	8.8
18	Czech Republic	3	8.3
19	Belgium	24	7.7
20	Austria	22	7.5
21	Estonia*	14	7
22	Hungary	4	6.1
23	Cyprus*	19	4
24	Luxembourg*	10	4
25	Malta*	18	4
26	Italy	52	3.7
27	Portugal	11	2.3
	TOTAL EU	**1093**	**11.32**

*Source : GovernanceMetrics International, Catalyst, European Commission**

Still too few women in politics

As a comparison the situation is stagnating, and is even worsening, as far as women in political life is concerned. The crisis is leading to the formation of governments comprising technocrats in which women are poorly served (Greece, Italy) and, it has to be admitted, rightwing governments do not do as well in terms of parity as their leftwing counterparts, even when they succeed them as in Spain. Often then, political will crumbles as cabinets are reshuffled, invariably revealing a trend whereby a man is appointed in place of a woman if she is leaving her seat. For example in France when Christine Lagarde was appointed as head of the IMF, her previous job was not taken over by another woman.

In parliaments which are supposed to represent all of the population women are still under-represented: according to the Interparliamentary Union (UIP)[2] on 30th November 2011, of the 44,984 members of parliament in the world (upper and lower chambers together), only 8,710 are women i.e. 19.8%.

The European Union (24.62%) is ahead of the Americas (22.6%), other European countries (20.5%), Sub-Saharan Africa (20.4%), Asia (18.3%), the Arab countries (13.5%) and the Pacific States (12.9%).

With regard to the number of women MPs the European countries occupy 7 of the top 10 places in world ranking. Of these 7 countries, four are EU Member States (Sweden, the Netherlands, Finland, Belgium).

With regard to the number of women who lead one of the chambers of Parliament, of the 41 women recorded by the UIP, 16 are European, 13 of whom come from EU Member States (Austria (both chambers), Belgium, Bulgaria, Estonia, Latvia, Lithuania, Netherlands, Poland, Portugal, Czech Republic, United Kingdom, Romania), 10 represent African states, 7 the Caribbean, 6 Asian states and 2 the Americas. Women represent only 15.6% of the leaders of parliament.

As of January 1st 2012, the average number of women in parliaments in the EU stands at 24.62%.

In the EU countries' governments women represent on average 24.15% of ministers, against 26.07% last year! One European government has no female ministers: Hungary.

On January 1st 2012, 9 women are the Prime Minister of their country, including four in Europe – 3 in the EU (Germany, Denmark, Slovakia) and Iceland – 1 in Australia, 1 in Bangladesh, 1 in Trinidad and Tobago, 1 in Peru and 1 in Thailand.

10 women are President of their country, including 4 in Europe – Finland, Lithuania, Swiss Confederation, Kosovo-, 1 in Argentina, 1 in Brazil, 1 India, 1 in Liberia, 1 in Costa Rica and 1 in Kyrgyz Republic.

2. http://www.ipu.org/wmn-f/world.htm

Women ministers in the 27 governments (Lower or single chambers)

	Member State	Parliament	Election Date	Total number seats	Num-ber of women	%	
1	SWEDEN	Riksdag	2010	349	157	44.99	
2	FINLAND	Eduskunta	2011	200	85	42.50	
3	NETHERLANDS	Tweede Kamer	2010	150	59	39.33	
4	BELGIUM	La Chambre	2010	150	59	39.33	
5	DENMARK	Folketinget	2011	179	70	39.11	
6	SPAIN	Congreso	2011	350	124	35.43	
7	GERMANY	Bundestag	2009	622	204	32.80	
8	SLOVENIA	Zbor	2011	90	29	32.2	
9	AUSTRIA	Nationalrat	2006	183	51	27.87	
10	PORTUGAL	Assembleia da Republica	2011	230	61	26.52	**average (%)**
11	POLAND	Sejm	2011	460	110	23.91	**24.62**
12	CZECH REPUBLIC	Poslanecka Snemovna	2010	200	44	22.00	
13	UNITED KINGDOM	House of Commons	2010	650	143	22.00	
14	ITALY	Camera dei Deputati	2008	630	134	21.27	
15	LATVIA	Saeima	2011	100	21	21.00	
16	BULGARIA	Narodno Sabranie	2009	240	50	20.83	
17	LUXEMBOURG	Chambres des Députés	2009	60	12	20.00	
18	ESTONIA	Riigikogu	2011	101	20	19.80	
19	LITHUANIA	Seimas	2008	141	27	19.15	
20	FRANCE	Assemblée Nationale	2007	577	109	18.89	
21	GREECE	Vouli	2009	300	52	17.33	
22	SLOVAKIA	Narodna Rada	2010	150	24	16.00	
23	IRELAND	Dáil Éireann	2011	166	25	15.06	
24	ROMANIA	Camera Deputaţilor	2008	334	38	11.38	
25	CYPRUS	House of Represen-tatives	2006	56	6	10.71	
26	HUNGARY	Az Orszag Haza	2010	386	35	9.07	
27	MALTA	Kamra Tad Deputati	2008	69	6	8.70	
	TOTAL			**7123**	**1754**	**24.62**	

Women ministers in the 27 governments

	Member State	Election Date	Ministers members of government	Number of women	%	
1	FINLAND	2011	19	9	47.37	
2	SWEDEN	2010	24	11	45.83	
3	AUSTRIA	2008	14	6	42.86	
4	DENMARK	2011	23	**9**	39.13	
5	BELGIUM	2010	13	5	38.46	
6	GERMANY	2009	16	6	37.50	
7	SLOVENIA	2008	19	6	31.58	
8	SPAIN	2011	14	4	28.57	
9	LATVIA	2011	14	4	28.57	
10	LUXEMBOURG	2009	15	4	26.67	
11	CYPRUS	2008	12	3	25.00	
12	NETHERLANDS	2010	12	3	25.00	average (%)
13	MALTA	2008	9	2	22.22	24.15
14	POLAND	2011	19	4	21.05	
15	UNITED KINGDOM	2010	24	5	20.83	
16	FRANCE	2007	25	5	20.00	
17	ITALY	2008	18	3	16.67	
18	PORTUGAL	2011	12	2	16.67	
19	BULGARIA	2009	18	3	16.67	
20	ROMANIA	2009	18	3	16.67	
21	SLOVAKIA	2010	14	2	14.29	
22	IRELAND	2011	15	2	13.33	
23	LITHUANIA	2008	15	2	13.33	
24	ESTONIA	2011	13	1	7.69	
25	CZECH REPUBLIC	2010	16	1	6.25	
26	GREECE	2009	18	1	5.56	
27	HUNGARY	2010	10	0	0.00	
	TOTAL		**439**	**106**	**24.15**	

Source : Robert Schuman Foundation ©
** N.B.: The Prime Minister is counted but not the Secretaries of State.*

There are more women in the European Parliament (34.26%) than in the National Parliaments (24.62%). With the Lisbon Treaty the number of MEPs rose from 736 to 753. But of the 17 new members there are only five women. 1 Member State (Malta) has not sent any women.

Women within the European Parliament

	Member State	Number of MEPs	Number of women	%	
1	Finland	13	8	61.54	
2	Estonia	6	3	50.00	
3	Slovenia	8	4	50.00	
4	Denmark	13	6	46.15	
5	Sweden	20	9	45,00	
6	France	74	33	44.59	
7	Netherlands	25	11	44.00	
8	Slovakia	13	5	38.46	
9	Germany	99	37	37.37	
10	Spain	54	20	37.04	
11	Belgium	22	8	36.36	
12	Hungary	22	8	36.36	average (%)
13	Portugal	22	8	36.36	24.15
14	Romania	33	12	36.36	
15	Latvia	9	3	33.33	
16	Bulgaria	18	6	33.33	
17	Cyprus	6	2	33.33	
18	Ireland	12	4	33.33	
19	United Kingdom	73	24	32.88	
20	Greece	22	7	31.82	
21	Austria	19	6	31.58	
22	Lithuania	12	3	25.00	
23	Poland	51	11	21.57	
24	Italy	73	15	20.55	
25	Czech Republic	22	4	18.18	
26	Luxembourg	6	1	16.67	
27	Malta	6	0	0.00	
	TOTAL	**754**	**258**	**34.26**	

Women within the European Parliament

***

Women should harbour no illusions. They will achieve nothing if they do not fight a daily battle against red-tape, habits, stereotypes and other clichés that are still rife at the beginning of this, the 21st century. It is not a question of bringing women into conflict with men; they are complementary – on the contrary it is a question of ensuring that there is a better balance between the two sexes. Given the challenges that await us it will certainly take two to face and overcome them.

There are many hurdles, mentalities change slowly. But if nothing changes then incentives, and even binding measures will win through. Several instruments now exist and some have already been implemented. Others are set to be developed in the near future. In Europe for example, the Citizens' Initiative established by the Lisbon Treaty gives European citizens an opportunity to have their say as of 1st April 2012. Women could use this to ask for the real application of the equality principle which is included in the treaties. The Robert Schuman Foundation has already met many European women who would like to be involved in a Citizens' Initiative to take European legislation forward[3]. European women cannot be satisfied with the present situation.

3. http://www.femmes-europe.eu/

Moderate Legislative Output, Marked by Financial Governance and the Internal Market

Pierre-Antoine MOLINA

After two years of transition that corresponded with the start of a new legislature and the implementation of the Lisbon Treaty, the Union's normative production resumed in a quantitatively moderate manner, in a context that was marked by some inter-institutional controversies. From a qualitative point of view the economic and financial regulation of the euro zone take front stage of course, whilst the internal market is still a privileged area of the Union's legislative output.

Progressive recovery or long term reduction in legislative output?

Around 60 legislative acts were adopted in 2011, i.e. nearly as many as in 2010 and considerably less than in 2009. The cyclical nature of each legislature might have led us to think there would be more given the progressive rise in the Commission's initiatives output as of 1st February 2010. In the previous legislature, normative output rose sharply between 2005 and 2006, increasing from 120 to 180 legislative acts, i.e. an output that was clearly higher than that of today. The next few years will now enable us to see whether the present, relatively moderate rate, reflects a simple delay in the legislative cycle – resulting from the Commission's late entry into office or a long term slowing in the Union's legislative output. We should note in this respect that although the Commission's pace in terms of adopting legislative proposals is growing, (165 in 2009, 204 in 2010, 228 in 2011), it is still below that of 2005 and 2006 (243 and 249 proposals respectively [1]).

1. The figures quoted in this paragraph are drawn from the European Parliament's legislative observatory (www.europarl.europa.eu/oeil).

"Debate over the instruments used for better law making"

This reduction does not necessarily find explanation in the will to control legislative output, according to the idea of "better lawmaking", the recommendations of which are still being discussed.

For instance the controversy over impact assessments continues. Attempts to systematise and institutionalise the use of these assessments in the Council gave rise to hot debate in 2011 since many Member States believe it preferable to use national expertise and doubt the proportionality of a systematic procedure given the restrictions that this would set on the legislative process[2].

The question of the "correlation tables" also proved to be quite controversial until a solution was outlined in the autumn of 2011. Whilst the inter-institutional agreement on "better lawmaking" limited itself to encouraging Member States to draw up these tables, for several years the Commission had been in the habit of stipulating its draft directives that it was obligatory to communicate these. This approach, supported by the Parliament, caused increasing irritation amongst some Member States since they faced a requirement that went beyond the demands of the treaty, and in their opinion, this would lead to excessive administrative burden and legal uncertainty. The controversy ended in stalemate over several texts[3] and in the occasional compromise[4] in other cases. In the autumn however an agreement was reached[5] whereby the Commission would assess, on a case by case basis, and under the supervision of the legislator, the need to complete the communication of transposition measures with that of "explanatory documents", that could take the shape of correlation tables or other documents serving the same purpose. In this instance the Member States committed to providing these documents.

As for the slowing in the codification process (only three acts were adopted in 2011), although this can account for a part of the decrease in legislative output, it is hard to see it as a success in terms of "better lawmaking", which had made this a priority in a bid to guarantee access to law and a reduction in the number of texts in force.

Ongoing establishment of the new institutional framework

Another explanation for this relatively moderate legislative output might lie in the ongoing establishment of the new inter-institutional framework in the wake of the Lisbon Treaty. In 2011 for example the regulation on the exercise of the Commission's implementing powers[6] came into force, which replaced the "comitology" decision. The application of the new framework defined by articles 290 and 291 of the TFEU, which distinguishes between delegated acts and implementing measures, did not occur without some inter-institutional "friction". The choice to use one or the other of these acts that are subject to extremely different adoption procedures, has become a recurrent bone of contention in legislative procedures. This is all the more understandable since this

2. On this subject see the conclusions adopted by the "Competitiveness" Council on 5th and 6th December and the ECOFIN Council on 30th November.

3. Directives relative to the fight against sexual abuse, sexual exploitation of children and pedopornography, directive on off-road mobile machinery for example.

4. Directive 2011/76 the so-called "eurovignette", 2011/89 on financial conglomerates, 2011/82 cross-border cooperation with regard to road traffic offences for example.

5. V. OJEU of 17th December 2011, p. C 369/14 and 369/15.

6. European Parliament and the Council's regulation (EU) no 182/2011 dated 16th February 2011 laying down the rules and general principles concerning mechanism for control by Member States of the Commission's exercise of implementating powers, OJEU dated 28th February 2011.

choice, which is purely objective and totally void of any scope for discretion in view of the treaty, is based in fact on arguable judgements. This kind of controversy impeded or disrupted the adoption of several legislative acts in 2011[7].

However, in spite of this friction the legislative process continued to work effectively on the whole. Three quarters of the co-decision texts were adopted at first reading, including legislation as important and sensitive as the regulation on implementating measures, referred to previously, or the "governance" package[8].

From a qualitative point of view legislative output showed the same characteristics as the previous years since financial regulation and the internal market are again the main features, along with the environment, energy and transport.

Normative output and the challenge of economic and financial regulation

After the intense legislative output observed since 2008, which led to many legislative reforms that were applicable both to players on the financial markets (new supervisory framework, greater own capital[9]requirements, the control of some remunerations made to managers etc ...) as well as to activities (regulation of "hedge funds", the ban on short selling[10]), in 2011 the theme of euro zone governance dominated.

Of course in the light of this we should note the adoption of "the governance package"[11], comprising five regulations and a directive that aim to make the procedures included in both the preventive and the corrective arm of the Stability and Growth Pact faster and more binding. As part of this a new "macro-economic imbalance procedure" was introduced and earlier sanctions were planned for the euro zone States. The regulations setting out these sanctions are based on article 136 TFEU, which enables the adoption of certain measures specific to the euro zone, giving the latter a new dimension. As for the directive on national budgetary frameworks, which obliges the Member States to adopt "numerical fiscal rules and "medium-term budgetary frameworks", this heralds the start of intervention by Union law in national budgetary procedures.

Many texts relative to economic and financial regulation are still being examined[12], and this theme should be one of the main fields of the Union's legislative work over the next few years.

In addition to this, normative developments go beyond the simple legislative field, as seen by the revision of article 136 TFEU, which explicitly aims to introduce a stability mechanism[13] and the signature in July 2011 of the intergovernmental treaty that established such a mechanism, designed to take over from the European Financial Stability

7. Amongst many examples we can mention the draft regulation on new foodstuffs that aims to revoke regulation (CE) n° 258/97, which failed in conciliation in March 2011, or the three regulations relative to external aid financial instruments, which were finally adopted in 2011 after being reviewed by the Conciliation Committee.

8. Cf infra.

9. Cf Our presentation of normative output of the Union in 2010 in "The State of the Union 2011". Schuman Report on Europe, Paris, Lignes de Repères, 2011.

10. A political agreement between the Parliament and Council came on the Commission's draft regulation in October 2011.

11. Directive 2011/85 and regulations 2011/1173 to 1177.

12. See the draft proposal on the UCITS, draft regulation on market abuse (together with a draft directive involving penal sanctions for these operations) or the draft modification to the EMIR regulation on market infrastructures as well as the two draft regulations adopted on 23rd November 2011 by the college in the area of governance, leading to a series of measures that were designed to complete the "six pack".

13. Council decision of 25th March 2011, which involved the simplified revision procedure

Facility (intergovernmental mechanism) and the European Financial Stability Mechanism (community mechanism) adopted as a matter of urgency in May 2010[14].

Moreover the heads of State and Government decided on 9th December 2011, after the British refusal to revise the European treaties, to start negotiations for an intergovernmental treaty designed to improve the functioning of the euro zone. The content of such an instrument and how it would work with Union law was discussed at the beginning of 2012.

Several texts important to the internal market

2011 was also marked by the adoption of several major texts that aim to strengthen the "freedoms" of the internal market.

This applies firstly to the directive[15] on patients' rights in terms of cross-border healthcare, which aims to clarify the rights of patients who receive healthcare in another Member State. It notably consolidates the Court's jurisprudence in this field, whilst protecting Member States' right to organise their own healthcare system.

Secondly we should also note the adoption of the directive on consumer rights[16], which aims to adapt legislation in this field to the digital environment, and which establishes a harmonised framework for distance selling (by internet, telephone or catalogue) and off-premises sales (door-to-door or a place that is not designed for sales).

Moreover major progress has been made with regard to the patent dossier, even though negotiations were not completed in 2011. After it proved impossible to come to a unanimous agreement on the extremely sensitive issue of the linguistic regime to be used for the future unitary patent[17], an enhanced cooperation agreement was launched in 2011 and two legislative texts that aimed to implement it – with one creating the unitary patent and the other establishing its linguistic regime – were the subject of agreement between the Council and the European Parliament[18]. But the entry into force of these measures is subordinate to that of the intergovernmental agreement that creates a unified litigation system to settle disputes over patents[19], whose text has not been accepted by all Member States at the end of 2011.

The area of Justice and Home Affairs was extremely dynamic with many ambitious proposals remaining under discussion in the area of civil justice, such as, for example, the draft regulation on inheritance, and also in the area of criminal justice (proposals on lawyer access rights, on the right to information and on the right to an interpreter and translation services in the context of criminal proceedings). We should also note the Commission's adoption of a draft regulation on the common rules governing the temporary re-introduction of internal border controls in exceptional circumstances[20], as part of the debate over the governance of the Schengen Area. As far as achievements are concerned, reference can be made, amongst others, to the adoption of the directive on

14. At present this treaty is being reviewed to facilitate its entry into force as well as the decisions taken when attributing aid to one Member State or another.

15. Directive n°2011/24 dated 9th March 2011.

16. Directive n°2011/83 dated 25th October 2011.

17. Spain and Italy refused to accept the regime in force at the European Patents Office that is based on German, English and French.

18. The texts were adopted by the European Parliament's Legal Affairs Committee on 20th December 2011.

19. The use of this kind of system aims to learn the lessons from the opinion 1/09 of the Court of Justice, delivered on 8th March 2011, whereby the latter deemed that the system that was planned based on a mixed agreement, was contrary to the treaty.

20. See the dossier 2011/0242(COD).

the European Protection Order[21], which enables the victims of violence based on gender, harassment, kidnapping, stalking or attempted murder, to benefit from protection in one Member State and obtain the extension of that protection to another.

Normative output in the area of CFSP was again marked by the issue of sanctions. 2011 witnessed the adoption of new sanction regimes autonomous to the Union because of the situations in Tunisia, Libya, Syria and Egypt[22]. Moreover many, sometimes major, modifications were introduced into existing regimes (Côte d'Ivoire, Belarus, Iran, Guinea, Sudan, Burma, Afghanistan as well as the regime targeting people associated with al Qaeda and the Taliban).

***

Perhaps more than in the previous legislatures normative output in the Union seems to be marked by financial and international emergencies. The Union's institutions are confronted by the need to respond to these without postponing the application of the priorities they set themselves in the EU "2020 strategy"[23] or the "Single Market Act"[24] and which respond to their long term objectives. These challenges demand a great mobilization of the institutions, just as the second half of the legislature is already about to start.

21. Directive n°2011/99 dated 13th December 2011, OJEU L 338 of 21/12/2011.

22. See respectively the Council regulations n°101/2011, 204/2011, 270/2011 and 442/2011.

23. See the Commission's communication "A strategy for sustainable, intelligent, inclusive growth" (doc. COM 2010/2020 dated 3rd March 2010), and the European Council's conclusions dated 17th June 2010 (doc. EUCO 13/10).

24. See the doc. COM(2011) 206 final dated 13.4.2011.

European Opinion and the Crisis

Bruno AGUILERA-BARCHET

A feeling of disquiet is gradually taking hold of European public opinion as the crisis becomes part of our daily lives. Although it started in the US in September 2008, its effects were felt quite rapidly in Europe. The European Parliament's Eurobarometer undertook its first survey on the effects of the crisis on public opinion at the beginning of 2009. Since then three other surveys have followed on the same subject: in September 2010, April/May 2011 and in September 2011.

The decline of solidarity in Europe

The mood is pessimistic. In the most recent Eurobarometer dated 21st October 2011, when asked whether they think the crisis will last for a long time, 77% of Europeans interviewed believe that on average it will take a long time for growth to recover in their respective countries. The most pessimistic are the Greeks (95%) followed by the Spanish (92%) and the Portuguese (90%). The French follow not far behind with 86%, followed by the Dutch (84%), the Danes (83%) and the Finnish (81%). The most optimistic are the Austrians (64%), followed by the Germans (57%). At best, more than half of European public opinion is pessimistic about the duration of the crisis.

The most striking result of this mindset is that at present more and more Europeans are starting to think that European integration is not the answer to everything as we had been led to believe in the past. The time is ripe for rising Euroscepticism based on the feeling that the European Union may damage Member States' economic stability. The fact that ten years after its introduction, the euro, the flagship of integration, its best success, is no longer seen as a guarantee of economic stability, is the most glaring evidence of this. To the question "has the euro attenuated the negative effects of the crisis generally?" 54% of those interviewed respond in the negative against 34% who rather agree. These percentages increase significantly in the countries where the economy is bearing up best. 62% of the Germans believe that the euro has not moderated the intensity of the crisis (against 58% five months ago). 65% of the French and 71% of the Swedes believe the same. 56% of the Greeks agree with this, likewise 58% of the Spanish and 61% of the Portuguese. The biggest surprise comes from the British in that only 36% show their mistrust with regard to the euro.

The most worrying consequence of this rising Euroscepticism is the doubt thrown over the solidarity principle, by virtue of which the States that are the strongest economically should come to the aid of the most distressed economies. This principle, which no one dared challenge just a few months ago, is now increasingly being questioned.

In February 2010 a survey by the German newspaper *Bild am Sonntag* revealed that 53% of the Germans wanted Greece to be excluded from the euro zone; 66% did not want the German State to continue paying for the Greeks. Nearly two years later an Ifop study undertaken for *Le Journal du Dimanche* and *Ouest France*, published on 6th November last, showed that 89% of the French were convinced that the money that had been lent was lost for ever because the Greeks would never be able to pay it back. The survey also revealed that 63% of the French did not support an increase in the aid plan to Greece.

This challenge to the solidarity principle clearly emerges in the most recent European Parliament Eurobarometer. When asked whether it was necessary to pool a part of the Member States' debt in the name of solidarity, 61% of Europeans respond in support. But clear differences appear. 56% of Germans agree with this kind of aid policy to needy States, but only 52% of the Austrians and 35% of the Finnish. On the other hand 84% of the Greeks support solidarity, likewise 75% of the Portuguese and 72% of the Italians. It is also quite revealing to see that 55% of the Germans do not believe that pooling a share of the Member States' debt will lead to a reduction in the cost of the crisis.

More seriously still, we see a clear increase in the number of Europeans who believe that their countries should not provide financial help to another EU Member State experiencing major economic and financial difficulties. In five months (from May to September 2011) European public opinion on this point rose from 39 to 44% on average.

The average number of those who support taking and implementing coordinated measures has decreased over the last five months from 56% to 55%. The most enthusiastic are the Finnish 68%, closely followed by the Spanish 66% (although with a four point decrease in five months). The most Eurosceptic are of course the British; 60% of whom say that it should be every man for himself – although it is true that the number who think this way has decreased from 64% five months ago.

Europe and the crisis: the danger of a return to the past or an opportunity to continue integration?

Whilst Europe finds itself on the verge of recession, in an extremely difficult global economic situation, we may wonder whether a major share of public opinion, especially in the countries that are faring better, might not be starting to consider the possibility of returning to the past instead of seeking closer Union. We have forgotten that the same problem arose in 1929 and European Nation States responded by exalting nationalist feeling instead of standing together, which finally led to the Second World War and the collapse of a Europe already weakened by the First World War.

It is true that in 1929 European integration had not even started, whilst Europe is now 61 years old already. It is not surprising that when it comes to including early debate between the European institutions and national political authorities in the drafting of national budgets, most Europeans were in favour when asked this in September 2011: 67% on average. This percentage rose to 78% in Germany and 82% in the Netherlands.

It is clear that at present the main challenge is not just about convincing European public opinion that it is, to say the least, unwise to abandon the European ship mid-crisis, as we also have to show that we will not recover without reforming significantly the mechanisms of "European governance". The stakes are so high that to succeed we shall necessarily have to reckon with the Europeans. The Greek referendum, which will not take place after all, would not have come at the right time, because in the present circumstances it would have seriously damaged the joint work that has been accomplished to emerge from the crisis. Although there was an undeniable share of irresponsibility in Greek Prime Minister George Papandreou's approach, it is certain that his initiative brought us back to the debate, initially started in 2005 in France and the Netherlands, and reminded us that it is possible to ask citizens whether or not they are willing to accept the consequences that result from integration.

From this point of view the crisis provides an excellent opportunity to recover our vital critical capacity and re-discover the values of our culture and democracy which may lead to the emergence of a feeling that we belong to the same European "community". Nevertheless, we have to convince the majority of our fellow citizens that a united Europe is not a luxury but a necessity.

The need for democracy

Europe's integration has not, until now, been an example in terms of transparency. Maybe in the beginning it was necessary to move forward in the dark of the initiative of European governments for consolidating the basis of the union. However six decades later we may have reached a dead end unless citizens take the lead. The hour of a Europe of States is possibly over and must give way to a Citizens' Europe. This is a vital preamble for a tightening of political Union which is necessary to break the present deadlock.

For ten years the USA was a loose union of States governed by the Articles of the Confederation, however, a fear of anarchy caused George Washington and Alexander Hamilton to launch a national debate about the need to create a Federal State. This fear came about when a farmer named Daniel Shay formed a rebel army and wanted to destroy the banks of Massachusetts. The banks had foreclosed on his farm and he lost the property. This debate ultimately resulted in the Federal Constitution of 1787. From this greater Union, the USA became the world's leading power in spite of a series of crises like the 1861-1865 Civil War.

***

The crisis is the signal in Europe that the time has come for greater union, but it cannot be done without convincing public opinion. This means greater citizen participation in the decision-making process. Europeans must start to feel as though they are playing a role in European integration, they must realise that they can influence the European institutions. This will not be possible unless the system is gradually simplified and becomes more transparent. Without this United Europe will just be a soulless administrative instrument and the European vessel may keel over every time it will face an obstacle in its way to a closer union.

6

The European Union in Statistics

Schuman Report on Europe 2012

Franck LIRZIN – Sebastian PAULO[1]

This statistical annex contains a series of commented charts, tables and maps. Covering a wide range of socio-economic indicators, it sketches the contours of the European Union. It uses the latest data available at the time of writing this book, mostly compiled in 2010 and at the beginning of 2011. As far as data sources permit, we have provided elements of comparison with the United States, Japan and major emerging economies (Brazil, Russia, India, China).

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, Spain, Sweden and the United Kingdom.

PPP: purchasing power parity. According to the French National Institute for Statistics and Economic Studies (INSEE), PPP "is a money conversion rate used to express the purchasing powers of different currencies in common units. This rate expresses the ratio between the quantity of monetary units required in different countries to purchase the same "basket" of goods and services." The rate used for PPP standardisation is calculated by the statistics institutes that provide the data. The rate varies from one year to the next, which explains certain differences with previous editions of the Schuman Report.

R&D: Research and Development.

n.a.: indicates that data is not available.

***:** indicates that the data is not available for the given date and has been replaced by data of a 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	EA	Euro Area		
FR	France	PL	Poland	EU	European Union		

Contents of the Statistical Appendix

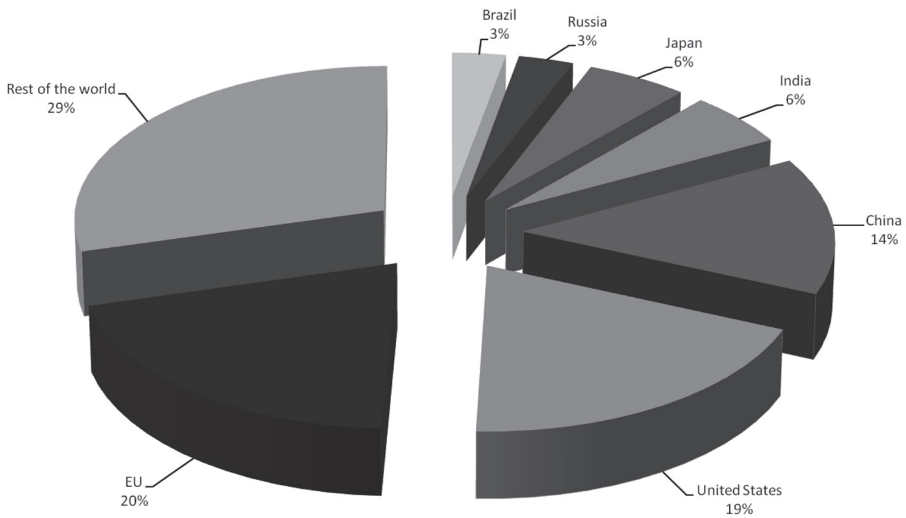
III.3. Social Challenges

III.4. The EU Budget

I. The European Union in the New World Order

I.1. The Economic and Financial Weight of the EU and the Member States

I.1.1. Distribution of global GDP, at PPP (2011)



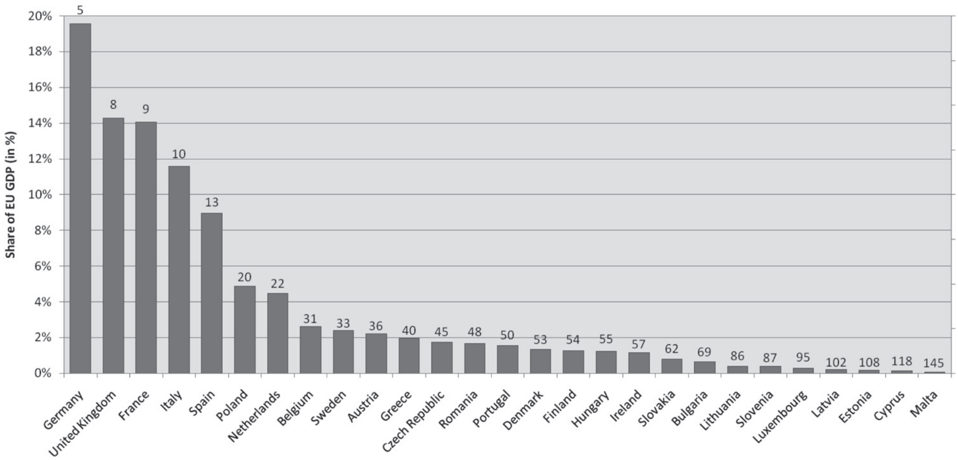
Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

In 2012, the European Union (EU) celebrates its 62nd anniversary. From its beginnings as the European Coal and Steel Community (ECSC) to the entry into force of the Treaty of Lisbon on 1st December 2009, it has become a global economic power of comparable size to the United States. Together, the two economies account for 39.1% of global GDP in terms of purchasing power parity (PPP). As partners and competitors, they have been the main shapers of globalisation for a long time.

The rise of emerging economies like Brazil, Russia, India, and, above all, China, redraws the map of the world economy. In 2011, the “BRICs” together accounted for 26% of global GDP. The economic crisis, which started in 2007 in the American subprime mortgage sector, contributes to the shift in economic power. While it has severely hit Western economies, emerging economies have fared much better and accelerated the process of catching-up with advanced economies. Emerging economies, however, still have a long way to go to reach the level of the Western economies. In particular, they need to put their growth models, which are mostly very dependent on exports, on a more sustainable growth path by strengthening their domestic markets.

Nevertheless, this overview should not obscure the fact that globalisation has been of significant benefit to the EU, contributing to more efficient product specialisation, a restructuring of industrial value chains and connection with new consumers.

I.1.2. GDP of EU Member States at PPP and world ranking (2011)



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

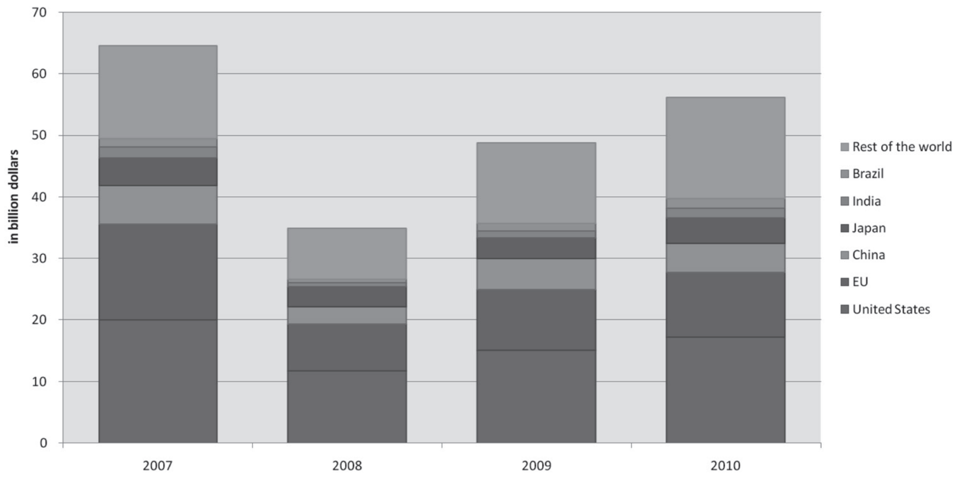
Germany, the United Kingdom, France and Italy together account for 60% of the EU's GDP and are individually among the ten largest economies in the world, though smaller than the economies of the United States, China, India and Japan. The EU as a bloc, however, is the largest economy in the world, underlining the importance for European countries to join forces if they are to preserve their influence on the world stage.

It has to be noted that this ranking is based on GDP in terms of purchasing power parity; when GDP is valued in nominal terms, European countries are better placed. This difference is due to the difference in living standards that would be experienced in different countries for someone with the same salary. Consumers in advanced economies can usually afford internationally traded goods more easily than consumers in developing countries, but pay more for their daily living expenses. In short, life is more expensive in Europe.

The EU is composed of economies of very different sizes. This makes governance in the EU complex: a country like Malta, with an economy that is only 1/283rd the size of Germany's, would have the same political weight when decisions are taken by unanimity. In contrast, when decisions are taken by qualified majority (which takes into account the demographic weight of each country) the relative power of each country is better considered. But this also implies that Member States might have to accept decisions on which they do not agree.

This structure of the EU also plays a major role in the solution of the current economic crisis. After all, it is the Member States which are the most powerful economically that can shoulder the huge financial assistance for the countries in trouble and, hence, are able to keep together the EU and the euro area.

I.1.3. Stock market capitalisation of the world's main financial centres (2007-2010)



Source: World Development Indicators database, World Bank
Data collected and collated for the Robert Schuman Foundation, © FRS

European and American financial centres account for about half of the world's stock market capitalisation. Capitalism developed early in Western countries and was facilitated by the spread of stock markets for the exchange of bonds. The name 'bourse' (stock exchange) stems from the Van der Buerse family from Bruges (in modern Belgium) where the first stock exchanges were established in the 13th century. Today, Western economies are the direct heirs of this long legacy. The largest stock exchanges in the world are NYSE Euronext (United States and continental Europe), NASDAQ OMX (United States and Europe) and, to a lesser extent, the London Stock Exchange.

Stock exchanges were established much later in other countries. The Tokyo Stock Exchange was created in 1878. The exchange in Shanghai was established in 1866, but was closed for much of the 20th century before re-opening in 1990.

The differential in the timing of the creation of stock exchanges provides a good illustration of the important position of the United States and the EU in developing the international financial system, though today a slight decrease in the share of European financial centres can be observed. New York, London and Frankfurt are first-rate financial centres enabling economies to attract capital and investment from other parts of the world.

I.1.4. Distribution of GDP between different sectors and change between 1990 and 2009

	Agriculture		Industry		Services	
	% of GDP in 2009	Change since 1990	% of GDP in 2009	Change since 1990	% of GDP in 2009	Change since 1990
Austria	1.5	-58.7%	29.2	-9.4%	69.3	8.1%
Belgium	0.7	-67.5%	21.7	-30.9%	77.6	16.7%
Bulgaria	5.6	-66.9%	30.3	-38.4%	64.1	89.7%
Cyprus*	2.1	-69.6%	19.6	-24.4%	78.3	16.5%
Czech Republic	2.3	-63.4%	37.2	-23.7%	60.5	34.4%
Denmark	0.9	-77.0%	22.5	-12.1%	76.6	8.8%
Estonia*	2.9	-82.8%	29.1	-41.3%	68.0	101.5%
Finland	2.7	-58.1%	28.2	-16.1%	69.2	15.1%
France	1.8	-58.1%	19.0	-29.8%	79.2	15.3%
Germany	0.8	-45.9%	26.5	-29.1%	72.7	18.9%
Greece	3.2	-66.3%	17.8	-31.9%	79.1	22.5%
Hungary*	4.3	-70.4%	29.4	-24.6%	66.2	42.8%
Ireland	1.0	-88.8%	32.0	-7.4%	67.0	18.3%
Italy	1.8	-47.4%	25.1	-21.8%	73.1	13.4%
Latvia	3.3	-85.0%	20.6	-55.3%	76.1	138.1%
Lithuania	3.4	-87.6%	26.9	-12.7%	69.7	65.7%
Luxembourg	0.3	-78.9%	13.1	-51.9%	86.6	21.4%
Malta	1.8	-47.1%	33.0	-40.5%	65.2	58.4%
Netherlands	1.7	-60.5%	23.9	-18.8%	74.4	80.7%
Poland	3.6	-56.0%	30.5	-39.2%	65.9	58.2%
Portugal	2.3	-74.0%	22.7	-20.6%	75.0	19.9%
Romania	7.2	-69.9%	26.0	-48.0%	66.9	154.1%
Slovakia	2.6	-64.8%	34.5	-41.6%	62.9	87.9%
Slovenia*	2.4	-58.2%	33.9	-20.2%	63.8	22.8%
Spain	2.6	-52.4%	26.1	-22.5%	71.3	17.2%
Sweden	1.8	-53.4%	25.3	-18.0%	72.9	11.6%
United Kingdom	0.7	-60.4%	21.1	-38.2%	78.2	22.0%
EU	**1.5**	**-58.9%**	**23.9**	**-28.2%**	**74.6**	**18.2%**
Euro area	**1.5**	**-56.7%**	**24.2**	**-25.8%**	**74.3**	**16.3%**
United States*	1.2	-39.9%	21.4	-23.2%	77.4	10.4%
Canada**	1.6	-42.9%	31.8	1.6%	66.5	1.1%
Japan*	1.5	-40.5%	28.0	-28.4%	70.5	20.8%
Russia*	4.7	-71.7%	32.8	-32.1%	62.5	78.3%
China	10.3	-61.9%	46.2	11.9%	43.4	37.7%
India	17.8	-39.3%	27.0	0.3%	55.3	26.1%
Brazil	6.1	-24.9%	25.4	-34.3%	68.5	28.7%

* Data of 2008; ** Data of 2006

Source: World Development Indicators database, World Bank

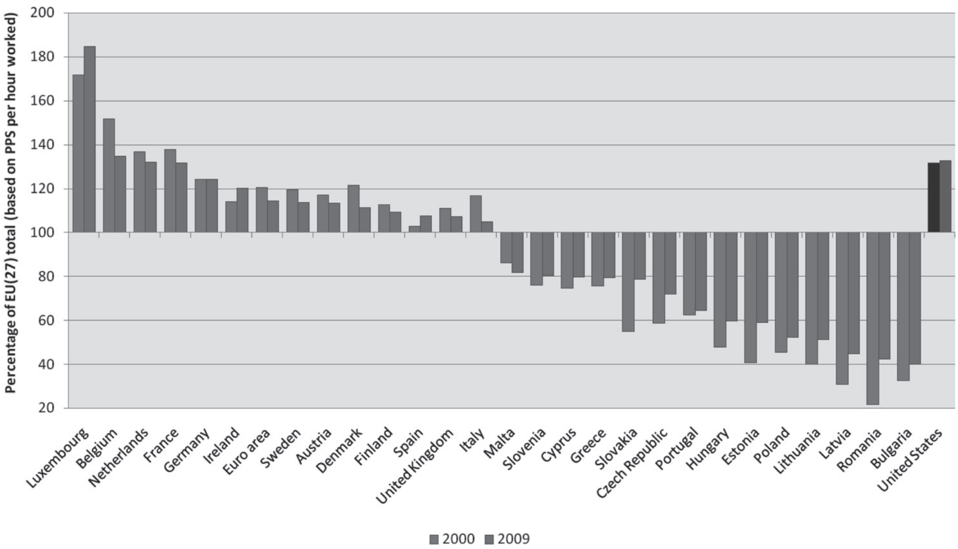
Data collected and collated for the Robert Schuman Foundation, © FRS

Today, agriculture accounts for only a marginal share of European economies, representing less than 2% of GDP. In the past 20 years, the share of agriculture in GDP has diminished by 59%; Ireland has had a particularly remarkable decline of 88%. Central and Eastern European countries experienced dramatic changes in the structure of their economies: though agriculture still represents a considerable share of GDP in some of these countries, especially in Hungary, Romania and Bulgaria, it has been diminishing rapidly in favour of the industrial and, especially, services sectors.

Since the 1970s, industrial production has no longer been at the core of the European economy. In the past 20 years, its share has diminished by 28% and now represents 24% of GDP. Deindustrialisation concerns all EU countries, but some more than others. Ireland, Finland and Austria, for instance, have kept the share of industry in their GDP relatively stable, while the United Kingdom, France and Greece have undergone a process of substantial deindustrialisation.

Today, it is the services sector that accounts for the biggest share of European GDP. "Services" include a variety of sectors: finance, transport, trade, real estate and information and communication services. These sectors are all, in one way or another, connected to industrial activities. Therefore, deindustrialisation does not necessarily mean "the end of industry" but is the expression of a major reconfiguration of global value chains: while production is located in economies where labour is cheap, the services related to this production are situated in economies like the EU. However, the current crisis has revealed the vulnerability of economies that are not in control of certain segments of the value chain. The EU is increasingly aware that it is not only important to promote the development of a knowledge economy, but also one in which production has a place.

I.1.5. Labour productivity (2000 and 2009)



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

Re-industrialisation can only be achieved if European workers are sufficiently productive: the cost of a good – which in part determines the competitiveness of an economy – depends on the time needed to produce the good and on the salary of the workers who produce it. The more productive a country's workforce becomes, and the more it is able to produce large quantities of goods with a high added-value, the stronger its position will be on the international markets. On the whole, labour productivity in the EU lags behind the United States by one third, though the EU average masks substantial disparities within the EU.

Central and Eastern European Member States are less productive than those in Western Europe despite their low salaries. In 2009, labour productivity in Bulgaria was 42% of the EU average; in Lithuania it was 56% and in Poland, 54%. In contrast, labour productivity is very high in Luxembourg (189% of the European average), in the Netherlands (136%), in France (132%) and in Germany (127%).

The economic crisis has had a negative impact on productivity in the countries that are most hit by the crisis. In particular, layoffs have been detrimental to human capital and have reduced potential growth. These countries need to undertake a considerable effort to improve their productivity or risk being left behind indefinitely.

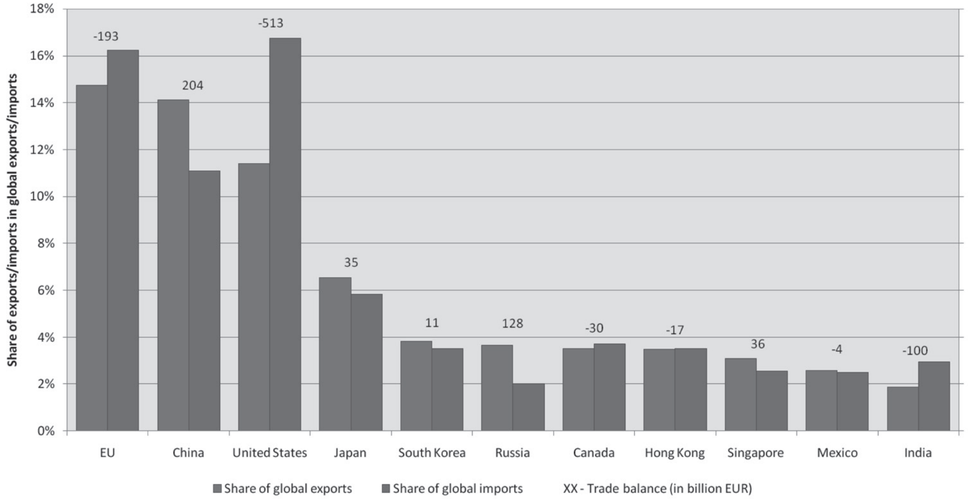
I.2. The European Union in International Trade

I.2.1. Development of world trade (2005-2011)

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

In the space of one year, between mid-2008 and mid-2009, international trade plummeted by 33%; annual exports fell from \$4 357 billion to \$2 698 billion. International trade regained pre-crisis levels only at the beginning of 2011, which amounts to three lost years. This massive decline in trade, of a magnitude unseen since the crisis of the 1930s, was due to the sharp economic slowdown caused by the global financial crisis.

I.2.2. The EU in international trade (2010)



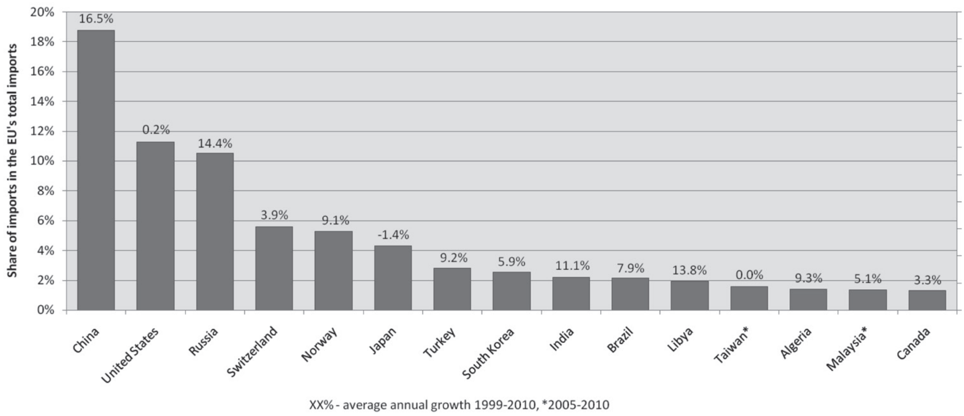
Source: IMF
Data collected and collated for the Robert Schuman Foundation, © FRS

The share of the EU in international trade is considerable, ahead of North America (13% of all exports) or Asia (30%). However, it has continuously declined for the last five years, from 44% to 37% of global exports. It is intra-EU trade, particularly, that has taken a blow (from 28% of global exports in 2005 to 22% in 2011). Hence, the decline of the EU share of international trade can be explained by a slowdown in trade among European countries. At the end of 2011, intra-EU trade still had not regained pre-crisis levels.

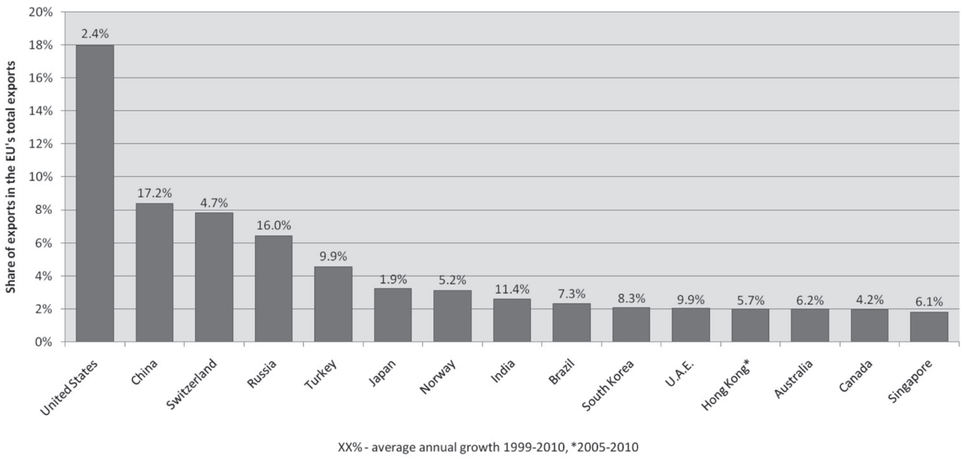
Excluding intra-EU trade, the EU has retained second position in global trade throughout the crisis, behind Asia and, in contrast to the United States, its trade deficit remains moderate (approximately €193 billion in 2011). The European economy thus remains competitive and an important player in global trade.

The fundamental problem is to be found in the growing imbalances between the United States and China which have led to the accumulation of a huge external debt by the United States and of a big trade surplus by China. These imbalances are considered to be the underlying cause of the destabilisation of the financial system in 2008. As far as the EU is concerned, the importance of these imbalances needs to be put into perspective: the EU's trade deficit corresponds to just 1.5% of its GDP.

I.2.3. Where do European imports come from? Where do European exports go? (2010)



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



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

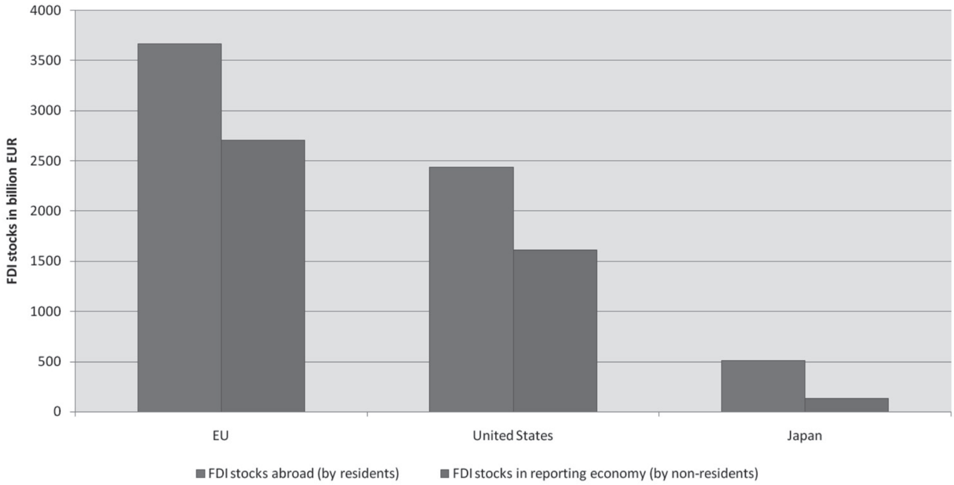
The EU's main trading partners are the United States (18% of exports) and East Asia (China, Japan, and South Korea together account for 26% of European exports). Other important trading partners are located at the borders of the EU, such as Switzerland, Norway, Russia and Turkey. The EU thus constitutes one part of a triangle comprising Europe, North America and East Asia which dominates international trade.

The EU's trade relations are not balanced: the EU has a trade deficit of €169 billion with China, but a trade surplus of €73 billion with the United States. Trade deficits exist especially with countries that export raw materials, such as oil and gas exporters Russia and Norway. The EU has a trade surplus with Switzerland and Turkey while EU trade is relatively balanced with India and Brazil.

Trade deficits are an expression of product specialisation that occurs in the process of globalisation. Each economy has progressively specialised in the sectors at which it is relatively more productive than other countries: raw materials from Russia, manufactured goods at low labour and assembly costs from China, high-tech products from Japan, etc. With policy initiatives like the Lisbon Strategy and Europe 2020, the EU is attempting to position the European economy in highly innovative sectors such as biotechnology and nanotechnology.

Currency exchange rates should reflect these trade balance situations and adjust in order to reduce imbalances. However, the functioning of the international monetary system is flawed, in particular with regard to the undervaluation of the Chinese Yuan.

I.2.4. Foreign direct investment of the EU and international comparisons (2009)



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

The interdependence of economies causes companies to invest outside their home countries, often by buying factories or establishing joint-ventures with other companies to enter new markets. These activities are known as foreign direct investment (FDI).

The EU's prominent position is illustrated by its share in global FDI stocks: almost half of global FDI comes from EU Member States (43.8%). Apart from the United States (23.7%), there is no other economy that comes close to the EU's level of investment. Contrary to common wisdom, China has relatively few companies or shares outside of its own territory, with outward FDI 30 times less than the EU.

The EU is also an important destination for FDI: approximately one third of global FDI is invested here. The United States is the second most popular destination.

Only three economies have a positive FDI balance, i.e. they invest more in foreign countries than foreign countries invest in them: the EU, the United States and Japan. Hence, these economies have become the main shapers of globalisation by developing partnerships beyond their borders, opening up new markets and diffusing new technologies. Emerging countries have a negative FDI balance and a considerable part of their growth has been achieved thanks to investments that foreign countries are making in their economies.

Map – Intra community Trade, 2010

Map – The EU and World Trade in Goods: Trade in Merchandise, 2011

*Map – The Europ*ean Union in the World: trade agreements

I.3. The Demographic Weight of the EU and its Member States

I.3.1. The population of the EU and international comparisons (1950-2030)

	Population (in million inhabitants)			Share of world population (2010)	Share of EU population (2010)	Fertility rate (2005-2010)	International migrant stock (as % of population)		Net migration (2005-2010)
	1990	2010	Projections for 2030				1990	2010	
Austria	7.7	8.4	8.6		1.7%	1.38	10.3%	15.6%	160,000
Belgium	9.9	10.7	11.2		2.1%	1.79	8.9%	9.0%	200,000
Bulgaria	8.8	7.5	6.5		1.5%	1.46	0.2%	1.4%	-50,000
Cyprus	0.8	1.1	1.3		0.2%	1.51	5.7%	14.0%	44,166
Czech Republic	10.3	10.5	10.8		2.1%	1.41	4.1%	4.3%	240,466
Denmark	5.1	5.6	5.9		1.1%	1.85	4.6%	8.7%	90,316
Estonia	1.6	1.3	1.3		0.3%	1.64	24.3%	13.6%	0
Finland	5.0	5.4	5.6		1.1%	1.84	1.3%	4.2%	72,634
France	56.7	62.8	68.5		12.5%	1.97	10.1%	10.3%	500,001
Germany	79.1	82.3	79.5		16.4%	1.36	7.5%	13.2%	550,001
Greece	10.2	11.4	11.6		2.3%	1.46	4.1%	10.0%	154,004
Hungary	10.4	10.0	9.6		2.0%	1.34	3.3%	3.7%	75,000
Ireland	3.5	4.5	5.4		0.9%	2.10	6.5%	20.1%	100,000
Italy	56.8	60.6	60.9		12.1%	1.38	2.5%	7.4%	1,998,926
Latvia	2.7	2.3	2.1		0.5%	1.41	24.2%	14.9%	-10,000
Lithuania	3.7	3.3	3.1		0.7%	1.41	9.4%	3.9%	-35,495
Luxembourg	0.4	0.5	0.6		0.1%	1.62	29.8%	34.2%	42,469
Malta	0.4	0.4	0.4		0.1%	1.33	1.6%	3.7%	5,000
Netherlands	14.9	16.6	17.3		3.3%	1.75	8.0%	10.6%	50,006
Poland	38.1	38.3	37.8		7.6%	1.32	3.0%	2.2%	55,644
Portugal	9.9	10.7	10.3		2.1%	1.36	4.4%	8.6%	150,002
Romania	23.2	21.5	20.3		4.3%	1.33	0.6%	0.6%	-100,000
Slovakia	5.3	5.5	5.5		1.1%	1.27	0.8%	2.4%	36,684
Slovenia	1.9	2.0	2.1		0.4%	1.39	8.9%	8.0%	22,000
Spain	38.9	46.1	50.0		9.2%	1.41	2.1%	13.8%	2,250,005
Sweden	8.6	9.4	10.4		1.9%	1.90	9.1%	13.9%	265,649
United Kingdom	57.2	62.0	69.3		12.4%	1.83	6.5%	10.4%	1,020,211
EU (27)	**471.0**	**500.4**	**515.8**	**7.3%**		**1.55**	**5.6%**	**9.3%**	**7,887,689**
United States	253.3	310.4	361.7	4.5%		2.07	9.3%	13.9%	4,954,924
Canada	27.7	34.0	39.8	0.5%		1.65	16.2%	21.1%	1,098,444
Russia	148.2	143.0	136.4	2.1%		1.44	7.8%	8.7%	1,135,737
China	1145.2	1341.3	1393.1	19.5%		1.64	0.0%	0.1%	-1,884,102
Japan	122.3	126.5	120.2	1.8%		1.32	0.9%	1.7%	270,000
India	873.8	1224.6	1523.5	17.8%		2.73	0.9%	0.5%	-2,999,998
Brazil	149.7	194.9	220.5	2.8%		1.90	0.5%	0.4%	-499,999
World	5306.4	6895.9	8321.4			2.52	3.0%	3.1%	

Source: United Nations, World Population Prospects, the 2010 revision

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

In 1950, the countries which today belong to the EU accounted for 14.7% of the world's population. By 2010, this share had dropped to only 7.3%, and is projected to further decrease to 6.2% by 2050. In contrast, India's share in the world population – which was similar to that of the future EU countries in 1950 – is expected to be 18.3% in 2050. As with the United States, Japan and Russia, the EU's relative share in the world population is expected to decrease substantially, whereas the share of India and, especially, Africa will increase.

The weak growth of the European population is due to a low fertility rate, which is below 2.1 children per woman, the rate considered necessary to keep the size of a population stable through natural population growth. However, this negative trend is partly balanced by a positive net migration rate. The influx of foreign labour is particularly important as part of a strategy to compensate for the ageing of societies in the EU, which have a shrinking proportion of young people in the population relative to older people.

In 2010, 48 million migrants lived in the EU, about as many as in the United States. This number corresponds to 9.3% of the EU's population. In 1990, it was only 5.6%. Immigration has become the main engine of population growth. The EU attracts migrants with its prosperity and the high level of protection it provides, especially to refugees. In return, migrants are an indispensable source of labour, particularly in sectors where there is a shortage of labour.

Only a small number of EU Member States have a negative net migration rate (Bulgaria, Romania, Lithuania, Latvia). It is noteworthy that some countries which used to be important sources of emigration in the 1950s, such as Spain and Italy, have recently become destinations for immigrants, although the current crisis reverses this trend again.

The countries with the largest migrant stocks relative to the size of their population are Luxembourg (mainly Belgians, French and Germans for obvious geographical reasons), Austria and Ireland.

I.3.2. The ageing of the population in the EU and international comparisons (2010)

	Median age (2010)	Old-age dependency ratio* (2010)	Share of the population aged			Life expectancy (2005-2010)
			under 15 years	15 to 64 years	65 years or over	
Austria	41.8	26.0	14.7%	67.7%	17.6%	80.2
Belgium	41.2	26.5	16.9%	65.7%	17.4%	79.8
Bulgaria	41.6	25.5	13.7%	68.8%	17.5%	72.7
Cyprus	34.2	16.4	17.8%	70.7%	11.6%	78.9
Czech Republic	39.4	20.9	14.0%	71.1%	14.8%	77.0
Denmark	40.6	25.1	18.0%	65.5%	16.5%	78.3
Estonia	39.7	25.5	15.3%	67.5%	17.2%	73.9
Finland	42.0	26.0	16.5%	66.2%	17.2%	79.3
France	39.9	25.9	18.4%	64.8%	16.8%	81.0
Germany	44.3	30.8	13.5%	66.1%	20.4%	79.8
Greece	41.4	27.7	14.6%	66.9%	18.6%	79.5
Hungary	39.8	24.0	14.7%	68.8%	16.5%	73.6
Ireland	34.7	17.4	21.2%	67.1%	11.7%	79.7
Italy	43.2	31.0	14.1%	65.6%	20.4%	81.4
Latvia	40.2	26.0	13.8%	68.4%	17.8%	72.3
Lithuania	39.3	23.2	14.9%	69.1%	16.1%	71.3
Luxembourg	38.9	20.4	17.7%	68.4%	13.9%	79.4
Malta	39.5	19.8	15.0%	71.0%	14.1%	78.8
Netherlands	40.7	22.9	17.7%	67.0%	15.3%	80.2
Poland	38.0	19.0	14.8%	71.6%	13.6%	75.5
Portugal	41.0	26.8	15.1%	66.9%	17.9%	78.6
Romania	38.5	21.3	15.2%	69.9%	14.9%	73.2
Slovakia	36.9	16.6	15.1%	72.8%	12.1%	74.7
Slovenia	41.7	23.6	13.9%	69.6%	16.5%	78.6
Spain	40.1	24.9	15.0%	68.1%	17.0%	80.5
Sweden	40.7	28.0	16.5%	65.2%	18.2%	80.9
United Kingdom	39.8	25.1	17.4%	66.0%	16.6%	79.6
EU	**40.9**	**26.0**	**15.6%**	**67.0%**	**17.4%**	**79.1**
United States	36.9	19.5	20.1%	66.9%	13.1%	78.0
Canada	39.9	20.3	16.4%	69.5%	14.1%	80.5
Russia	37.9	17.7	15.0%	72.2%	12.8%	67.7
China	34.5	11.3	19.5%	72.4%	8.2%	72.7
Japan	44.7	35.5	13.4%	64.0%	22.7%	82.7
India	25.1	7.6	30.6%	64.5%	4.9%	64.2
Brazil	29.1	10.4	25.5%	67.5%	7.0%	72.2
World	29.2	11.6	26.8%	65.6%	7.6%	67.9

* Number of persons aged 65 years or over per 100 persons aged between 15 and 64 years

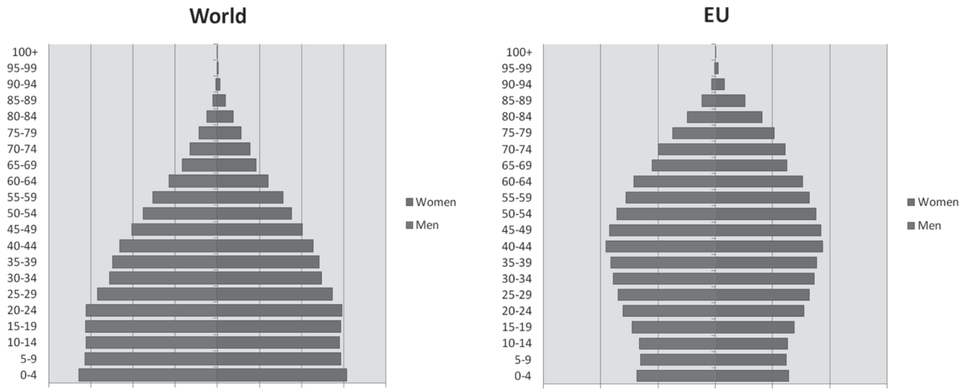
Source: United Nations, World Population Prospects, the 2010 revision

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

The median age in the EU is 40.9 years, while it is 25.1 in India, 29.1 in Brazil and 36.9 in the United States. 17.4% of Europeans are older than 64 years and therefore statistically considered as dependent on the working population which finances the retirement and health systems. The old age dependency ratio (i.e. the ratio between the number of people aged 65 or older and the working age population) is less favourable only in Japan (26 in the EU compared to 35.5 in Japan). In the EU, no country completely escapes this trend towards the ageing of populations, although countries like Ireland and Slovakia are much less affected.

Economies and societies must adjust to this trend. For instance, an increasing number of elderly people will require an expansion of special services such as home care. The ageing of the population will also pose enormous challenges for the funding of pension systems. Two basic models can be contrasted: on the one hand, public pay-as-you-go schemes involve the direct financing of current retirees by today's workforce; on the other hand, fully funded pension schemes require that citizens save money throughout their entire working life which they invest in pension funds and draw upon when they retire. Existing systems are generally mixtures of these two models, seeking to find a compromise between inter-generational solidarity and the financial sustainability of pension systems.

I.3.3. The age pyramid of the EU compared to the world (2010)



Source: United Nations, World Population Prospects, the 2010 revision
Data collected and collated for the Robert Schuman Foundation, © FRS

The comparison of global and European age pyramids provides a glaring illustration of the ageing of the population in the EU. While the world's population is young on average, the European age pyramid is out of shape, especially due to the high number of 40 to 55 olds relative to the young population. This is the result of two phenomena: first, the "baby-boomers" (1946-1964) are reaching the end of their careers, leading to a "daddy boom". In the 2010s, the generation of "baby-boomers" will thus occupy high-level posts in the economy and progressively leave the job market while, at the same time, the young generation is not sufficiently numerous to replace them. This situation is already critical for certain companies that have not recruited and trained sufficient personnel with adequate skills. As a consequence, enterprises risk losing know-how and productivity.

In the end, the younger generation might benefit from a larger capacity to act as participants in the economy, with considerable capital available. But they will also increasingly depend on the older generations which retain this capital.

Map – Population of EU Member States

Map – Internal migrations

Map – External migrations

Map – The EU and Asylum Requests

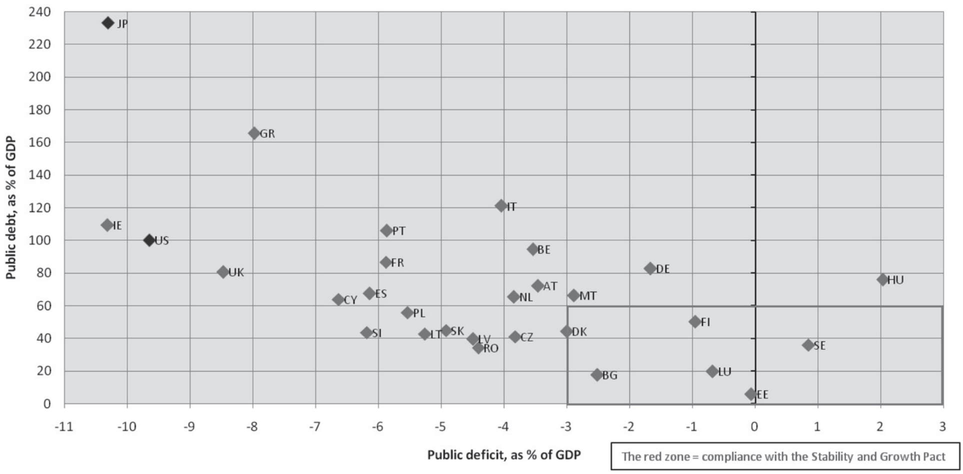
II. The European Union in the Face of the Crisis, at the Crossroads

II.1. From the Financial Crisis to the Crisis of Public Finances

The financial crisis of 2008-2009 started in the US subprime mortgage market. Subprime mortgages were designed to facilitate access to housing by those American households which did not have the necessary guarantees to be eligible for ordinary loans as made in the prime mortgage market. Subprime mortgages are high yield mortgages entailing a considerable risk of default on the part of the borrower. This risk was to be compensated for by rising real estate prices, a strategy that imploded when the real estate bubble burst.

The rise in interest rates in the United States between 2004 and 2007, spurred by the American central bank, the Federal Reserve, drove a considerable number of households holding subprime loans into bankruptcy and caused the value of subprime mortgages to plummet. The collapse of the subprime market caused considerable losses for the banks holding these assets and led to a banking crisis which led to the default of Lehman Brothers, an investment bank, on 15 September 2008 and subsequently spread globally. Banks could not lend money to enterprises which, as a consequence, had to slow down their activities. The banking crisis turned into an economic crisis.

II.1.1. Public deficit and debt in EU Member States, Maastricht criteria, and international comparisons (2011)



Source: IMF

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

If 2008 was the year of the subprime crisis, 2011 was the year of public debt. In 2009, governments made the choice to tackle the economic crisis by taking up large amounts of debt in the form of stimulus packages and through the working of automatic stabilisers which involve increases in social spending at the same time as public revenues fell sharply. Between 2007 and 2011, public debt in the EU increased by 32%.[2] It is projected to stabilise at around 70.5% of GDP in 2013, clearly above the debt ceiling set by the Maastricht criteria of 60% of GDP.

When considering some Member States individually, the situation is much more alarming. Gross public debt reaches 165% of GDP in Greece, 109% in Ireland, 86% in France and 80% in the United Kingdom. As a consequence, debt servicing costs have increased considerably. The French

2. Source: IMF.

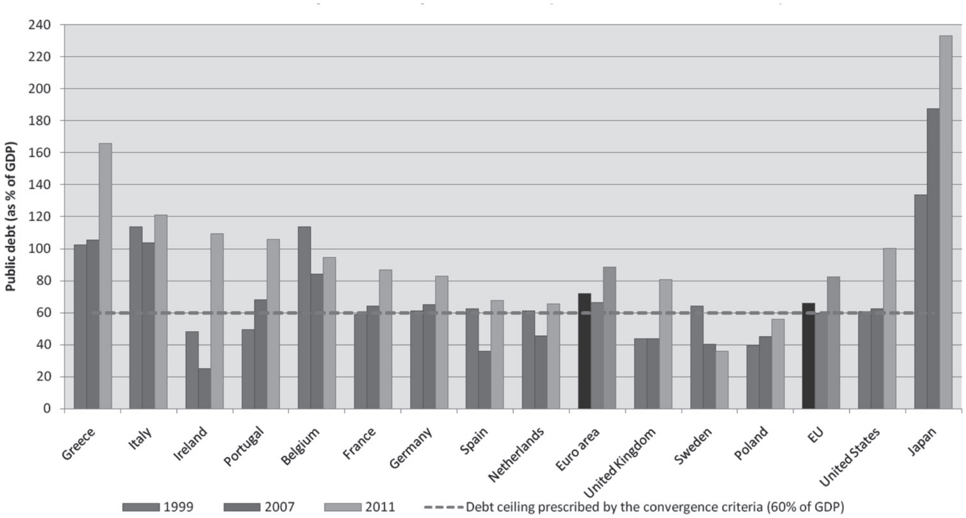
government expects to pay €48.8 billion in interests in 2012.[3] Interest payments are thus the second largest budget item, second only to education (€60 billion).

There is a real danger that as economic growth slows fiscal revenues can become insufficient to cover debt servicing costs: public debt then increases and public finances enter a downward spiral. This is already the case in Greece. Some countries, considered safe havens, benefit from the confidence of the markets and the ensuing of “race to quality”: in times of uncertainty, the demand for reliable assets increases and reduces the interest rates that safe havens pay on their debts.

In contrast, the most fragile countries are exposed to the – sometimes exaggerated – mistrust of the markets, causing an increase in the interest rates they have to pay to service their debts. They are caught in a vicious circle of indebtedness. Italy and Spain would have been victims of such a downward spiral in the summer of 2011 if the ECB had not decided to buy part of their debt in order ease the pressure on them.

3. Source: Agence France Trésor, with regard to the draft budget for 2012.

II.1.2. Development of public debt (1999, 2007 and 2011)



Source: IMF

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

Public debt differs greatly within the euro area. Yields for German bonds, considered the safest in the euro area, are practically negative in real terms since interest rates decreased to around 2%. In contrast, interest rates for Greek government bonds spiked to around 16%. The Portuguese and Irish rates remain high but have eased off slowly due to the efforts made in both countries to stabilise their budgets. The situation of big economies like France and Italy is the most alarming. The spread, i.e. the difference between the interest rates these countries have to pay compared to Germany's, keeps growing, illustrating the different trajectories that their economic development has taken. The growing divergence between the main economies of the euro area is an important factor contributing to the aggravation of the crisis.

In any case, public deficits remain significant and governments have been compelled to adopt austerity measures including tax increases or reductions in public spending, depending on the prevailing political context in each country.

The lack of a federal (or community) debt places Member States in a position of weakness with regard to the markets. The markets can speculate against the debt of single countries within the euro area, intensifying the parallel trends of growing mistrust, on the one hand, and the race to quality, on the other. The European Financial Stability Facility (EFSF) was set up to mitigate these problems by jointly guaranteeing public debts.

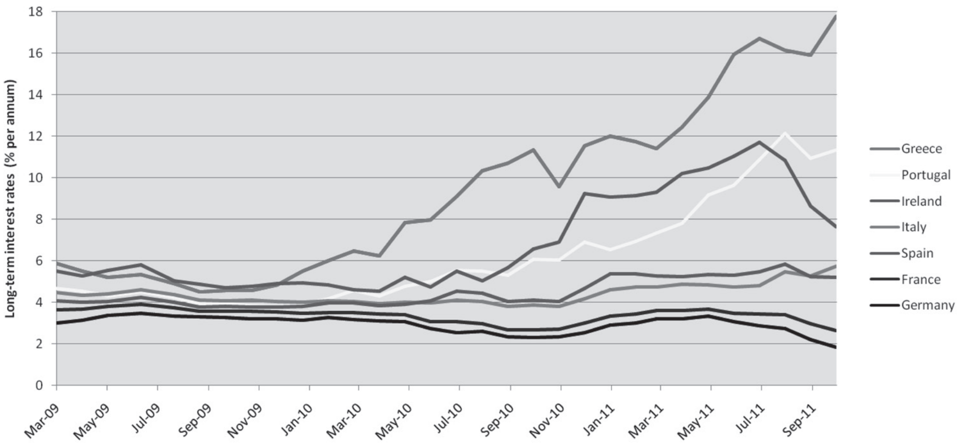
Although the launch of the EFSF lagged behind the reactions of the markets, it helped, in collaboration with the ECB, to stabilise the situation in the euro area and to win some time to find a more comprehensive and long-term solution.

The Greek debt has reached unsustainable levels and it is very likely that part of it cannot be repaid. The main creditors, which are German and French banks, have to prepare for a substantial haircut. European banks, still weakened by the global financial crisis, have to recapitalise if they are to absorb these losses, either directly on the markets or with the help of governments and the EFSF.

In this way, the financial crisis turned into a sovereign debt crisis, which is first and foremost a political challenge. The question that arises now is how to build common tools to help avoid the collapse of a country which could trigger a chain reaction in the euro area? In other words, how to create a system of European solidarity?

Map – Public Debt

II.1.3. Divergence in market interest rates in the euro area (2009-2011)



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

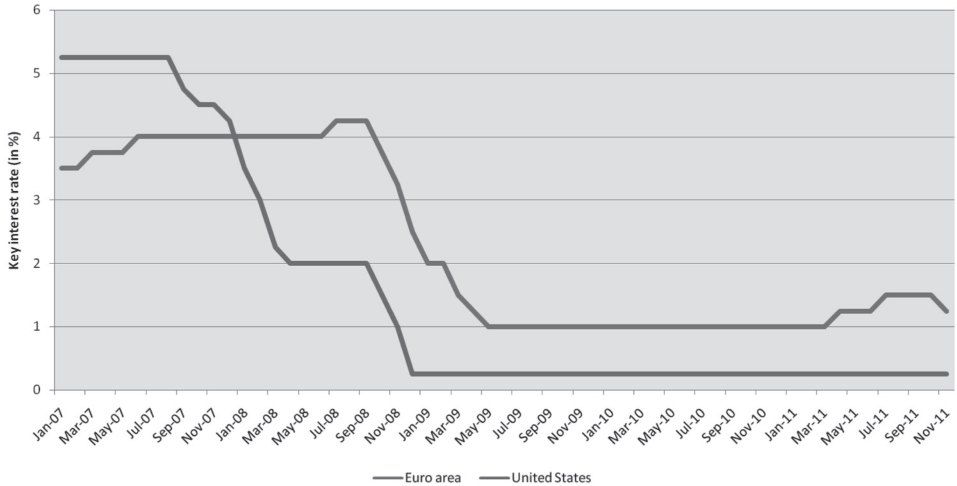
The interest rates at which governments borrow money on the markets are a measure of the confidence that investors have in their ability to repay their debt. The more a country is considered a risky investment, the higher the interest rates that investors demand and the more they will insure themselves against a potential default via credit default swaps (CDS).

When the euro area was created, interest rates converged, putting countries like Greece or Italy, which had difficulties in borrowing, in a comfortable position. Investors perceived the euro area as a united and coherent bloc sharing common risks.

In the current sovereign debt crisis, this is no longer the case. Each country of the euro area faces a different set of problems but no longer has the option to use monetary policy instruments such as currency devaluation or monetisation of debt as measures of last resort. Starting in 2009, markets no longer considered the euro area as a single, coherent bloc and interest rates began to diverge.

The long-term interest rates of countries like Greece increased to more than 17% – two-year interest rates even reached 50% in September 2011! An indicator that is followed with more and more interest is the spread, i.e. the gap between the interest rates of euro area countries, especially between the French and German interest rates which has reached unprecedented levels. Measures at the EU level, such as the creation of the EFSF or market interventions by the ECB, have not helped to reverse this trend.

II.1.4. Key interest rates of the ECB and the Fed (2007 – 2011)



Source: ECB, US Federal Reserve
Data collected and collated for the Robert Schuman Foundation, © FRS

The ECB has played a crucial role throughout the crisis, compensating for the inability of governments to react quickly to the developments on the markets. First, the ECB decided, like its counterparts in the United States and the United Kingdom, to support the banking system by reducing the key interest rate and by providing liquidity directly to financial institutions. In fact, the turbulence in the inter-bank market in 2008 made normal functioning of the banking system impossible, invoking the spectre of a new credit crunch which could freeze lending to the economy as a whole.[4]

The rapid intervention of central banks helped to dampen the recession. As a consequence, money supply increased spectacularly. Paradoxically, neither inflation nor the money supply measure M2[5] have really increased as the consequence of central bank policies. As in Japan in the 1990s, the Western economies are caught in a "liquidity trap":[6] uncertainty about the future makes households and enterprises cling to their cash as they refrain from investing it into assets with an unpredictable return. In other words, the money issued by central banks remains in the pockets of citizens instead of being used to stimulate the economy. This situation is even more astonishing when considering the historically low interest rates: the real interest rates of American bonds were even negative in 2010!

Central banks had to engage in unconventional measures in order to respond to an exceptional situation. These measures included, for example, unlimited access to liquidity granted to banks in 2008-2009[7], and the purchase of sovereign debt in 2010-2011. These measures, although only temporary, place central banks as "lenders of last resort" at the core of crisis management and confer on them an increased role in the supervision of financial markets. The ECB plays a pivotal role in the EU's recent reforms in financial supervision and regulation, which created new European regulatory authorities and a European Systemic Risk Board.

---

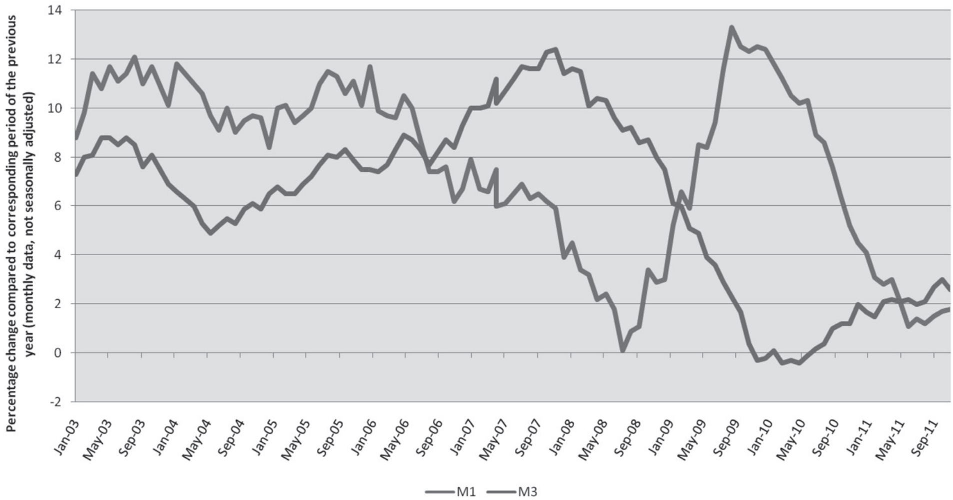
4. J. Stark, *The global financial crisis and the role of central banking*, Speech at Institute of Regulation & Risk, North Asia, Hong Kong, 12 April 2011.

5. M2 refers to all means of payment in circulation (bank notes, giro accounts, short-term loans).

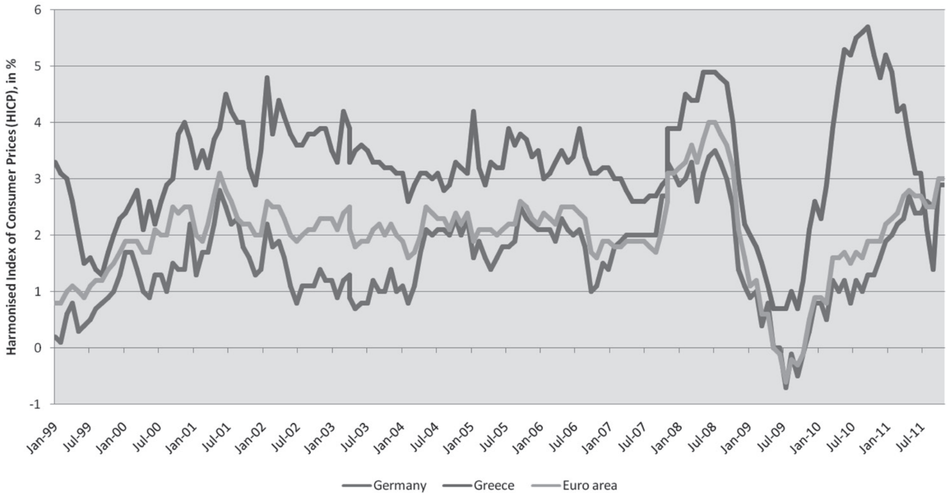
6. P. Krugman, *Yes, We're in a liquidity trap*, Blog The conscience of a liberal, 16 March 2011.

7. Collaterals are financial assets that banks can use as guarantees in exchange for liquidity from the central bank.

II.1.5. Money supply change in the euro area (2003-2011) and inflation in the euro area (1999-2011)



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



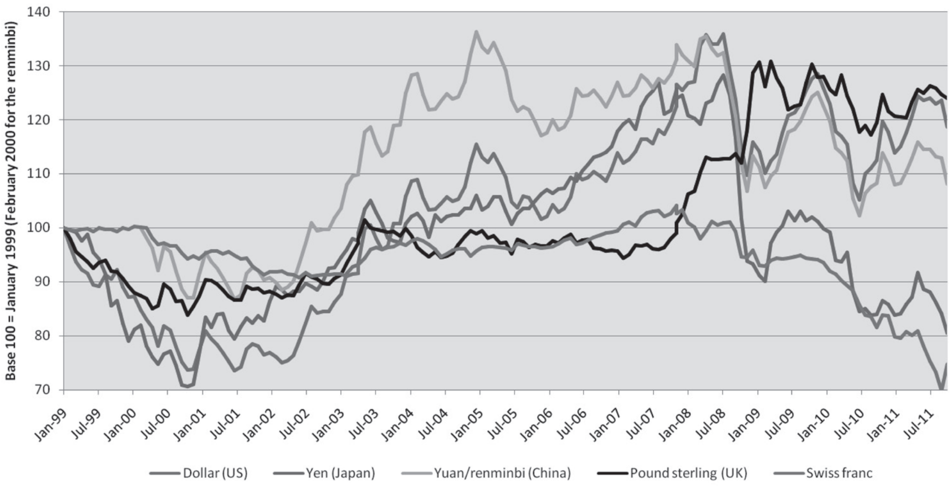
Source: ECB
Data collected and collated for the Robert Schuman Foundation, © FRS

The monetary aggregates M1, M2 and M3 comprise the whole range of means of payment, including cash, bank accounts or short-term loans. The subprime crisis has led banks to cut credit supply to enterprises. This is reflected in a marked slowdown of the growth in money supply. The ECB, like other central banks, has reacted by intervening on the inter-bank markets and by lending extensively to financial institutions in order to maintain a minimum level of liquidity in the euro area.

Since January 2010, money supply growth has again slowed substantially. At the end of 2011, it reached levels similar to those of 2008 when the global financial crisis was at its height. Two factors contribute to this trend: first, the implementation of the Basel III rules according to which banks have to increase the capital they hold; second, the uncertainties surrounding public finances in the EU. Both factors cause banks to tighten conditions of credit. At the same time, the ECB is buying sovereign debt.

Inflation currently remains limited, but the consequences of the monetary disarray will make themselves felt in 2012. Will inflation increase? Will there be new financial bubbles? Will European economies remain in a liquidity trap?

II.1.6. The exchange rate of the euro against main currencies (1999 – 2011)



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

Since its creation, the exchange rate of the euro has followed a volatile trajectory; parity with the yen, for instance, varied by 50% since 2002. More important than the question of whether a currency is weak or strong, wide fluctuations in the exchange rate are detrimental to industrial enterprises, which hesitate to make important investments when they are unable to anticipate future revenues.[8]

Despite a shaky start, the euro rapidly established itself as an international currency, considered a safe value.[9] Central banks all over the world revert to the euro to diversify their reserves. The tight monetary policy conducted by the ECB has strongly contributed to the credibility of the new currency. As a consequence, its exchange rate consistently increased after the initial drop.

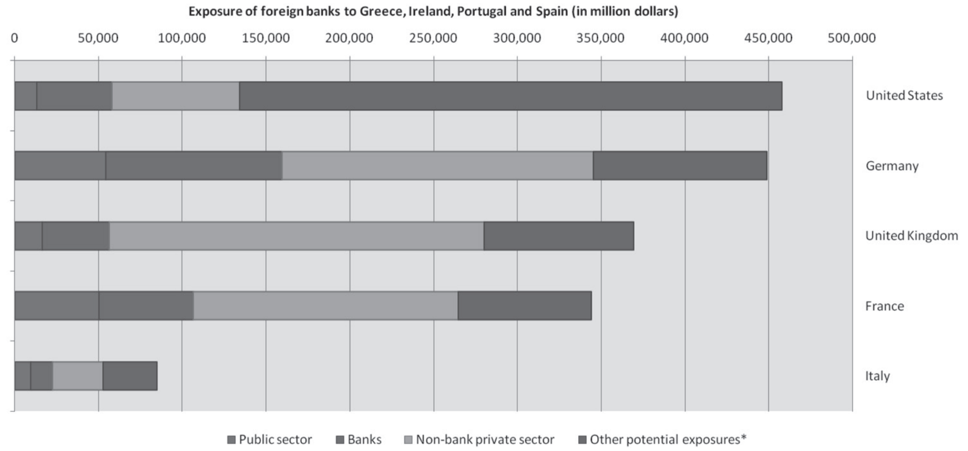
This increase accelerated with the intensification of the financial crisis in the United States, but stopped abruptly when Lehman Brothers defaulted. Since then, a hierarchy of currencies has emerged: the Swiss Franc, considered as one of the safest currencies in the world, has gained substantially in value. Investors are looking for assets in which they can have complete confidence: neither sovereign bonds nor company assets seem to offer this certainty anymore. Therefore, raw materials and strong currencies, such as the Swiss Franc and the Japanese Yen, are coveted as a safe alternative.

In this hierarchy, the euro positions itself as an intermediate currency, weaker than the Yen, but stronger than the dollar. This may seem unexpected given the gravity of the crisis that is currently unfolding in the euro area. However, contrary to the situation in the United States, public and trade deficits remain limited and the ECB conducts a conservative policy. Viewed from outside, the euro area still appears to be balanced and stable.

8. M. Didier, A. Bénassy-Quéré, G. Brandsbourg et A. Henriot, *Politique de change de l'euro*, Rapport du Conseil d'Analyse Economique, 20 December 2008.

9. F. Lirzin, "Quelle "diplomatie" pour l'euro ?", *Questions d'Europe* n°92, policy paper of the Robert Schuman Foundation, 10 March 2008.

II.1.7. Cross-exposure of banking systems in the euro area (2nd quarter 2011)

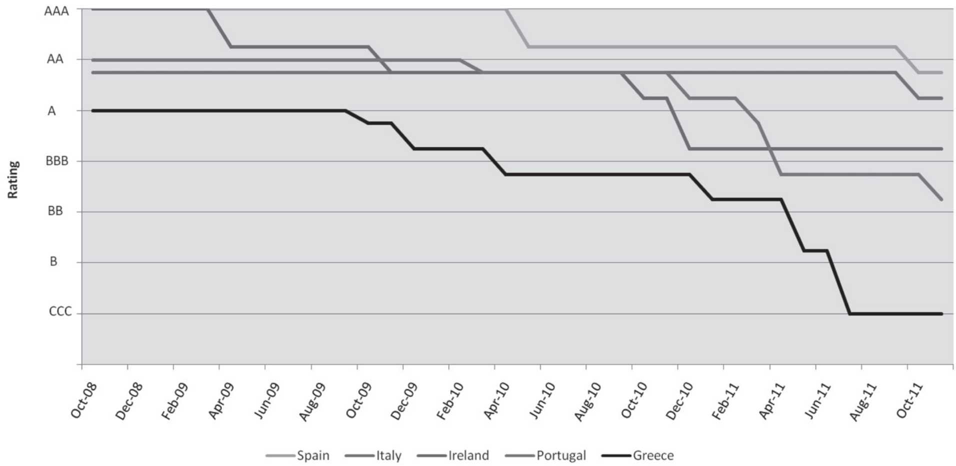


*Other potential exposures include, for example, derivatives and guarantees

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

The sovereign debt crises in Greece, Spain, Ireland and Portugal are not confined to their national economies: foreign banks are also affected by this situation. The creation of a common currency provided an incentive to financial institutions to invest in other Member States and, in particular, to buy part of their sovereign debt. For instance, German banks hold €14 billion of Greek sovereign debt and French banks hold €32.6 billion of Spanish sovereign debt. In total, foreign banks hold €207 billion in sovereign debt which they risk losing in the case of sovereign default by countries at the periphery of the euro area.

II.1.8. The continuous downgrading of the countries in crisis by the credit rating agencies since 2008



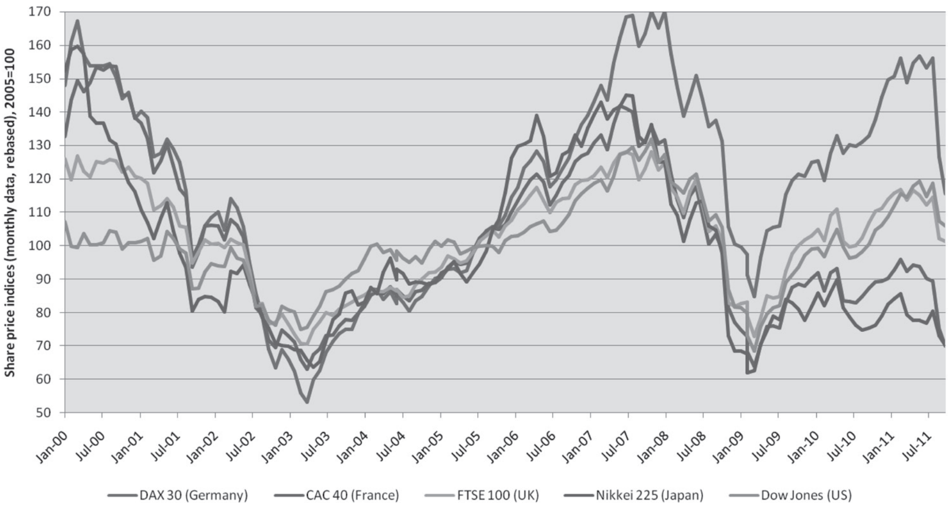
Data collected and collated for the Robert Schuman Foundation, © FRS

Although credit rating agencies have existed for a long time, it was especially during the last decade that they have gained a prominent place in the world of international finance, and an important influence on the economic policies of states. The increasing sophistication of financial markets made the evaluation of the quality of financial products by independent rating agencies necessary. What is more, current financial regulations are largely based on the ratings provided by these agencies.

With the deterioration of public finances, investors have become increasingly sensitive to the quality of sovereign debt. The more the rating of a country is downgraded, the less confidence markets have in its ability to service its debt and the more interest rates increase. Although the ratings initially only reflect and inform the opinion of the markets, ratings can also play a role in triggering self-fulfilling crises: the downgrading of a country, though at first a mere reaction to weakening fundamentals, can subsequently become itself the cause of exaggerated mistrust by the markets.

II.2. The Financial, Economic and Social Situation of the EU in Crisis

II.2.1. Developments on stock markets (2000-2011)



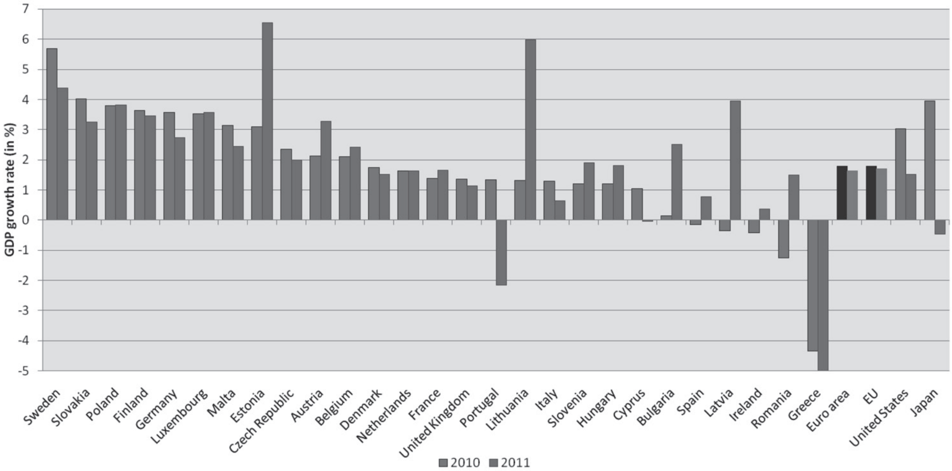
Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

Stock indexes reflect the confidence that markets have in the future of companies. While the 1990s were characterised by a constant increase in the stock exchange values, the decade since 2000 was marked by strong volatility. At each crisis – be it the popping of the "internet bubble", the subprime crisis or the crisis of the euro area – share prices dropped massively.

This situation is detrimental to enterprises – which suffer a loss in the value of their equity and a reduced capacity to borrow – as well as for their workers, whose income is partly invested in pension funds on the stock markets. Far from being like casinos, stock exchanges are a place where economic actors find the resources they need to finance their projects and to build their future. Hence, volatile stock markets introduce a considerable degree of uncertainty into the economy. This situation is true for most financial markets.[10]

10. M.-H. Grouard, S. Lévy, C. Lubochinsky, *La volatilité boursière : des constats empiriques aux difficultés d'interprétation*, study of the Bank of France, June 2003.

II.2.2. Real GDP growth in EU Member States and international comparisons (2010 and 2011)



Source: IMF

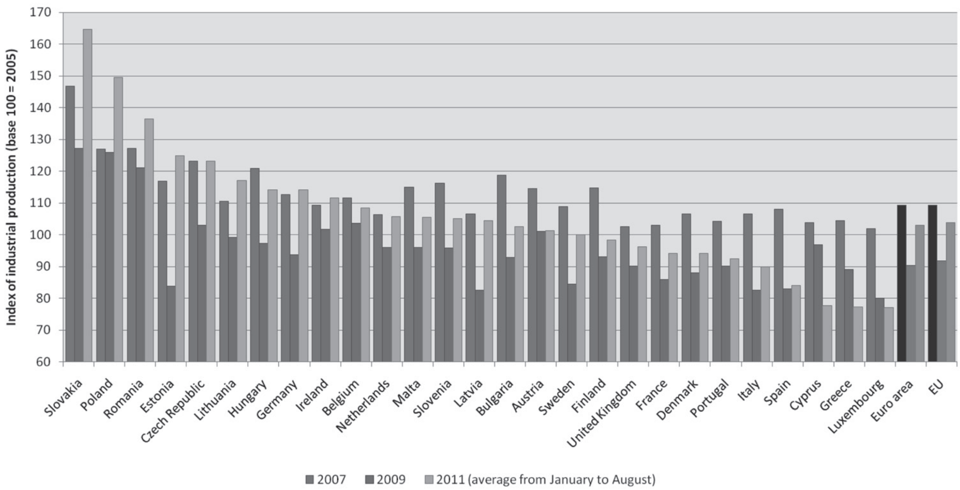
Data collected and collated for the Robert Schuman Foundation, © FRS

GDP growth slowed in 2008 in the EU before falling 4.2% in 2009 and recovering again in 2010. Japan (-6.2%) and the United States (-3.4%) were also hit hard in 2009; half the world economy was in recession. The EU was not expected to reach its level of pre-crisis GDP before 2012; three years of growth have been lost.

In 2011, the world economy was propped up by strong growth in the BRICs (9.6% in China, 8.5 % in India, 5.0% in Brazil and 4.1% in Russia), while growth was low in the EU (1.6%). Some countries, like Greece and Portugal, even entered into double-dip recessions. The financial crisis was thus not simply a passing slowdown, but probably reduced potential growth in the EU: layoffs had a negative effect on human capital, the decrease in investments has reduced the capital stock of enterprises, and the turmoil in the financial system has weakened banks. The policies of austerity, adopted by governments with the aim of balancing public accounts, have had detrimental effects on consumption and production, and hence on GDP growth. All this indicates that the EU, as well as the United States and Japan, have entered a period of weak growth while some emerging countries are close to completing their process of catching up economically. In this regard, the crisis has accelerated the ongoing shift in the international balance of economic power.

The crisis of the euro area and the persistent difficulties of the US economy cause a great deal of concern among companies and markets. The world economy is at the crossroads: either solutions are found quickly and growth picks up again, supported by an increased rhythm of innovation, or no solution is found and the situation gets worse.

II.2.3. Index of industrial production (2007, 2009 and 2011)



Source: Eurostat

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

The sectors which are based on business models that involve high levels of household indebtedness, such as construction and automobiles, were hardest hit by the crisis. Industrial activity slowed in the EU, decreasing by 20% between January 2001 and April 2009. At the end of 2011, it still had not regained its pre-crisis level.

In some countries, industrial activity fell particularly sharply during the crisis, as, for instance, in Latvia (-35%), Italy (-26%) and Slovenia (-26%), but trajectories diverge widely. Industrial production in Germany, which fell by 24% during the crisis, has already surpassed pre-crisis levels by 1.5% in 2011. The situation worsened in Greece (-14.5% since April 2009), Cyprus (-14%), Spain (-0.5%) and Portugal (-0.5%).

II.2.4. Investment, consumption and savings in the EU and international comparisons (2007 and 2010)

	Savings		Investment		Household final consumption	
	as % of GDP					
	2007	2010	2007	2010	2007	2010
Austria	16.3	13.5	21.4	20.5	52.9	54.5
Belgium	16.4	16.2	21.7	20.2	51	52.9
Bulgaria	n.a.	n.a.	28.7	23.5	69	61.2
Cyprus	6.9	11.6	22.1	18.6	66.6	68.8
Czech Republic	10.3	10.3	27	24.4	47.7	50.3
Denmark	4.3	7.7*	21.7	16.6	48.4	49
Estonia	-1.8	9.6	35.5	18.8	54.1	52.1
Finland	7.2	11.3	21.3	18.8	50.4	54.6
France	15.1	15.6	20.9	19.3	56.5	58.2
Germany	16.8	17.1	18.4	17.5	55.9	57.5
Greece	n.a.	n.a.	24	16.6	69.9	74.5
Hungary	8.4	8.2	21.8	18	55	53.3
Ireland	7.6	13.4	25.5	11.5	47.7	50.8
Italy	14.8	12.1	21.5	19.7	58.6	60.5
Latvia	-5.8	4.2	34.1	19.5	62.4	63
Lithuania	-4.2	7.9	28.1	16.3	64.3	64.4
Luxembourg	10.9	13.6*	20.7	18.4	32	33.5
Malta	n.a.	n.a.	21.7	16.9	62	61.7
Netherlands	13.0	10.9	20	18.2	46.2	45.4
Poland	8.5	9.9*	21.6	19.9	60.5	61.4
Portugal	7.0	9.8	22.2	19	65.3	66.7
Romania	n.a.	n.a.	30.2	22.7	66.9	62.5
Slovakia	7.2	11.3	26.2	22.2	56.1	58.3
Slovenia	16.2	15.7	27.8	21.6	52.4	56
Spain	10.7	18.1*	30.7	22.9	57.4	57.7
Sweden	11.6	13.4	19.6	17.8	46.7	48.5
United Kingdom	2.6	6.0*	17.8	14.9	63.8	64.3
EU	**11.0**	**12.3**	**21.2**	**18.4**	**57.1**	**58.3**
* 2009						
Source: Eurostat						

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

Investment is the motor of growth, but for investments to be made, an economy needs to accumulate the corresponding savings. The money that households do not spend on consumption is used by enterprises to buy new machines or by public institutions to construct new infrastructure.

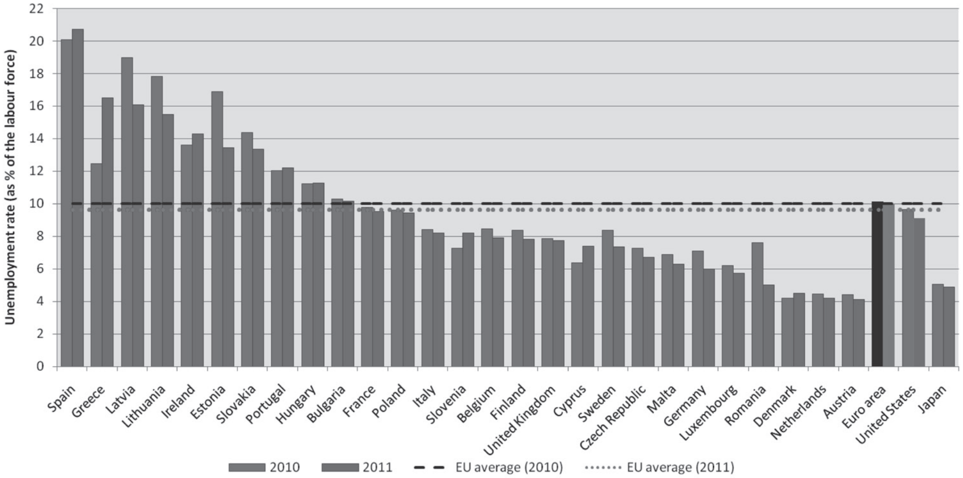
The EU has a stable savings rate of around 12%, which increases slightly with each crisis when households save more to hedge against future risks. Household behaviour depends on many factors, including the interest rate at which they can lend their money to financial institutions (the higher the interest rate, the more advantageous it becomes to lend). A propensity to save can also be culturally rooted. The Nordic countries, for instance, save relatively little (6% on average in Denmark during the last decade), while Germany, France or Belgium save more (about 16%). The crisis has caused some impressive changes: the savings rate in Ireland went up to 13.4% in 2010, three times higher than the 2002 rate of 4.6%.

With roughly similar levels of investment across all countries (20% of GDP), European countries have to “import” savings to make up for the difference between domestic savings and investment. The United States and Japan have savings rates that are even lower than in the EU. Therefore, the financial system channels savings from emerging countries in Asia to developed countries, especially from China where the savings rate is estimated at 50%.[11]

The economic crisis has caused a reduction of investment in the EU, dropping from 21.2% of GDP in 2007 to 18.6% in 2011. This decrease has been particularly severe in Ireland where investment fell by 60% between 2007 and 2011, as well as in Estonia (-42%), Greece (-40%) and Latvia (-39%). The decrease has also been strong in the United States (-20%). The lack of investment is a liability for the future as it negatively affects the potential growth of a country. France and Germany have not been significantly concerned by this problem so far.

11. M. Guonan et W.Yi , *China’s high saving rate: myth and reality*, Monetary and Economic Department, BIS Working papers, n°312, June 2010.

II.2.5. Unemployment in EU Member States and international comparisons (2010 and 2011)



Source: IMF

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

The economic slowdown has prompted enterprises to downsize. First, companies often reverted to reduced working hours, before laying off temporary workers and, finally, reducing their permanent staff. This explains the time lag between the onset of the crisis and the rise in unemployment. Between 2008 and 2009, the unemployment rate increased rapidly across many EU Member States, and then stabilised at around 9.5%.

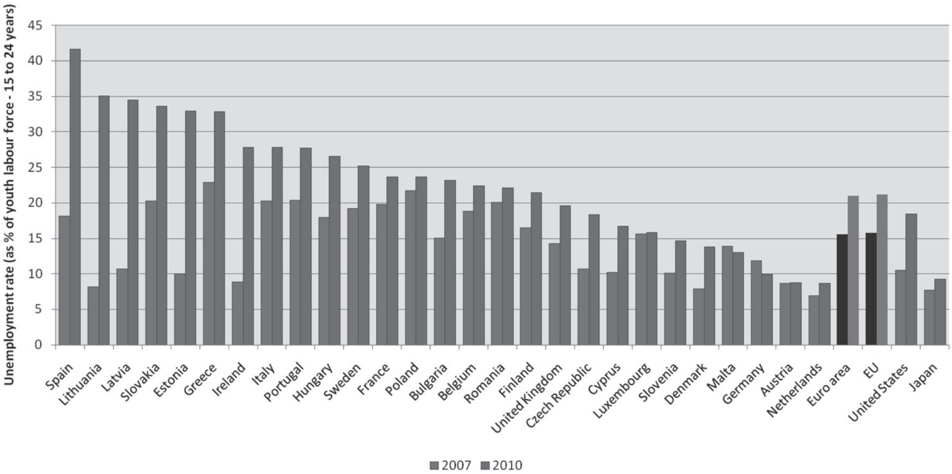
This number masks very different realities in Member States. For instance, unemployment only increased moderately in Germany between 2008 and 2009 (+0.1%), as a blip in a longer trend of decreasing unemployment, dropping from 11.2% in 2005 to 6.0% in 2011. The competitiveness of the German economy, which is export-oriented and capable of regaining momentum very quickly, is related to the reforms adopted during the early 2000s. Other "Northern" European countries, such as the Netherlands and Denmark, as well as South Korea, Japan and Switzerland are in similar situations.

In contrast, unemployment is very high in Spain (20.7% in 2011), Greece (16.5%), Ireland (14.3%), Portugal (12.2%), Hungary (11.2%) and Bulgaria (10.2%). Similarly, the Baltic countries have suffered a massive increase in unemployment, although their situation was slightly improving by the end of 2011.

Other countries, such as France (with 9.5% unemployment in 2011), Italy (8.2%), the United Kingdom (7.8%) and the United States (9.0%), have been facing rising unemployment. Given existing weaknesses of their economies at the end of 2011, a further increase in unemployment cannot be excluded.

The economic downturn has thus accentuated social tensions within countries and divergent performances between countries, with stronger Member States reluctant to help the weaker ones. Governments are weakened by the situation and rising unemployment provides fodder for the growth of populist and extremist political parties.

II.2.6. Youth unemployment in EU Member States and international comparisons (2007 and 2011)



Source: Eurostat

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

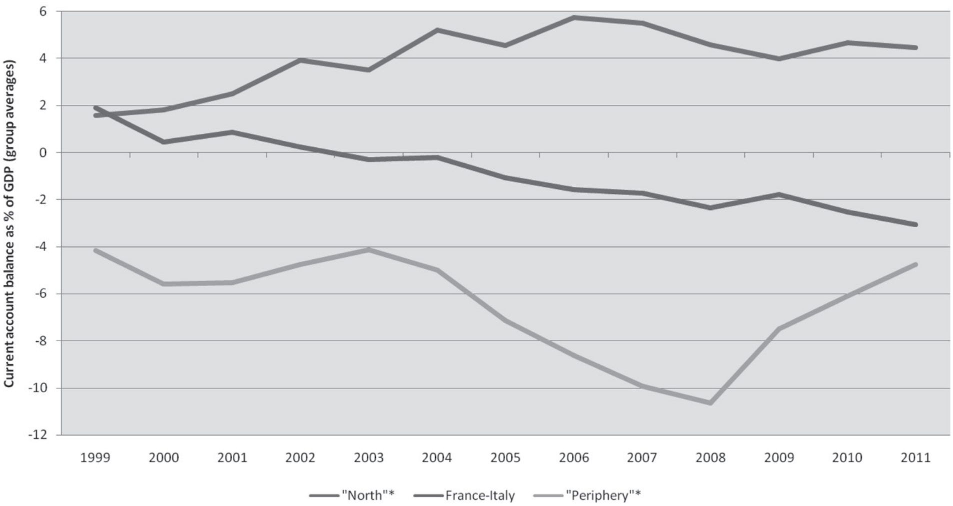
In Europe, more than anywhere else, young people (aged below 25 years) have difficulties inserting themselves into the labour market. Employers are often hesitant to give contracts for an unlimited period of time with a good salary to an inexperienced person they do not entirely trust. In Europe, youth unemployment has traditionally been high due to structural shortcomings of the labour market. As a result of the economic crisis, youth unemployment now hits record heights. The young generation was the first to be sacrificed in the economic downturn as temporary workers and the youngest employees are the least protected from being fired. However, the most senior workers are also concerned by the increase in unemployment. Considered less productive, but more expensive, enterprises lay them off. Having difficulties in finding a new job when the economy recovers, many of them undergo a period of long-term unemployment before being able to retire.

Youth unemployment is particularly high in the Mediterranean countries where the crisis and the subsequent austerity measures have reduced job opportunities and exacerbated poor conditions in the labour market. The youth unemployment rate is especially high in Spain (41.4%), Greece (32.8%), Italy (27.8%) and Portugal (27.8%). Similarly, the Baltic countries are in a very difficult situation. In Austria, the Netherlands and Germany, however, young people seem to have no significant problems finding a job.

The meagre job prospects for young people, in combination with a rising sentiment among young people of being "sacrificed", are at the origin of the current wave of social movements, such as that of the "indignados" in Spain. However, protests have not yet led to meaningful changes in national or European policies. The resulting feeling of frustration leads many to emigrate in order to try their luck in other European countries or elsewhere in the world.

II.3. Towards a Better Coordination of Macro-Economic Policies

II.3.1. Current account balances of the Member States of the euro area (1999 – 2011)



*The "North" includes Austria, Finland, Germany and the Netherlands; the "Periphery" includes Greece, Ireland, Portugal and Spain.

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

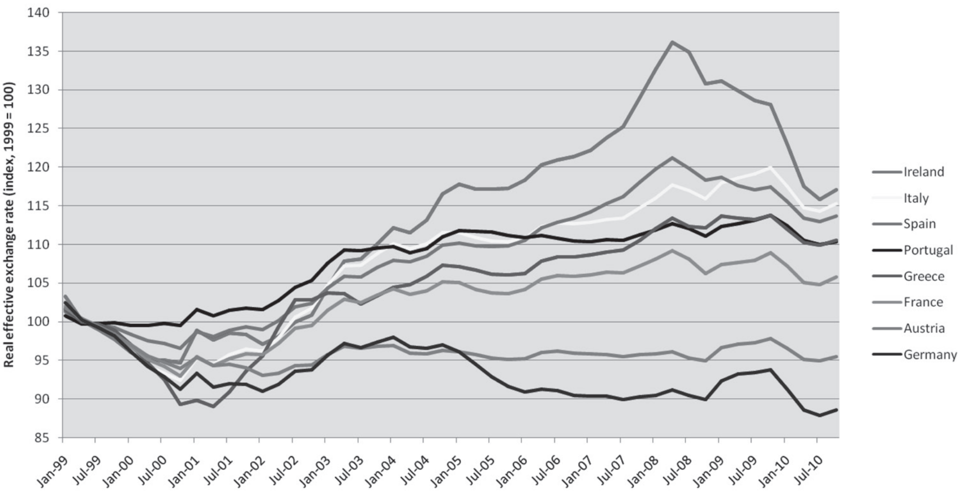
The current account balance is the balance between monetary flows resulting from the exchange of goods and services, income and current transfers. After 2001, current account balances in the euro area diverged markedly. On the one hand, the trade balances of Germany and the Netherlands turned highly positive due to their strong export performance, made possible by a policy aimed at reducing costs and supporting export-oriented industries. On the other hand, countries like Italy, Spain and Portugal, with growth strategies focused on non-exporting activities like services and construction, experienced large drops in their current accounts.

The divergence in current account balances creates significant financial flows from surplus countries in the "North" to deficit countries in the "South". This relationship between surplus and deficit countries is highly unsustainable since the latter have to repay the former and the flows will have to be reversed at one point. No current account imbalance is sustainable in a monetary union where currency devaluation is no longer an option.

This structural weakness of the euro area – which is a considerable source of concern for the markets – is the underlying cause of the crisis in the euro area. In the long term, a solution can only work if it includes the rebalancing of the euro area. This rebalancing implies a reinvigoration of export-oriented industries and a reduction of domestic consumption in deficit countries (including the austerity measures that the countries in crisis are currently required to adopt), but also a reduction of exports and an increase in domestic demand in surplus countries. However, countries like Germany and the Netherlands are reluctant to agree to curb their economies in favour of a rebalancing of the euro area, fearing that this would cause rising unemployment in their countries. Instead, they prefer a greater effort on the part of the deficit countries to balance their budgets and to increase their competitiveness. Growing political tensions might arise from these fundamentally opposed perspectives on how the burden of adjustment should be shared.

By hitting the construction sector in particular, the crisis has paradoxically contributed to reducing current account deficits in most of the Southern European countries, with the exception of France and Italy where the situation has become worse in 2011.

II.3.2. Divergence in real effective exchange rates (1999 – 2010)



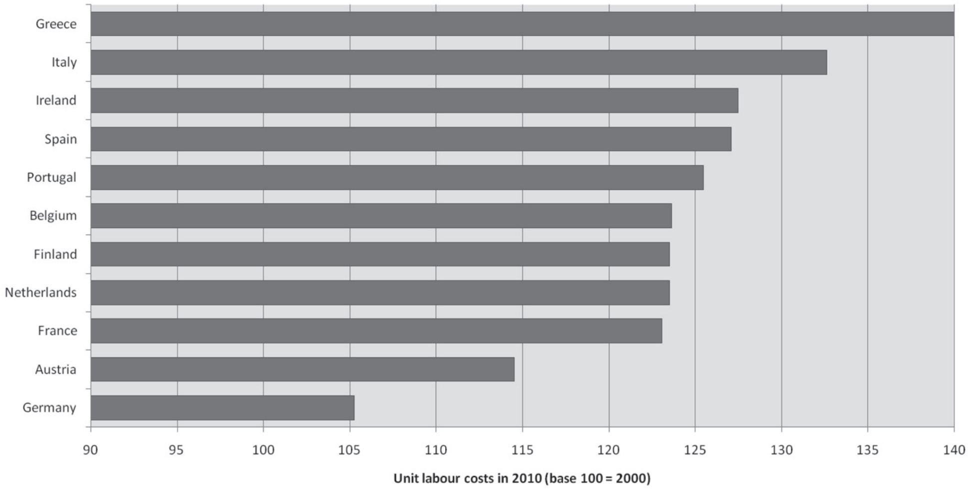
Source: Eurostat
Data collected and collated for the Robert Schuman Foundation, © FRS

Real effective exchange rates take account of price level differences between trading partners. An increase in the real effective exchange rate implies a deterioration of a country's aggregate external price competitiveness.

After its creation, the euro's exchange rate against the other major currencies plunged by about 15%. Subsequently, the euro grew stronger, reaching an exchange rate that was 23% higher in 2009 than in 1999. More recently, the euro exchange rate followed a downward path caused by the uncertainties surrounding the crisis of the euro area.

Germany has adopted deflationist policies (keeping wages low) which have allowed it to have a real effective exchange rate 25% lower than that of the euro area as a whole: even if the exchange rate of the euro is high, prices in Germany remain competitive. German industry is therefore in a good position to export to the rest of the world. This is not the case for Belgium, Portugal, or Italy where it has become more difficult to export due to increased real effective exchange rates. As a consequence, the trade balances of these countries have deteriorated.

II.3.3. Unit labour costs (2000 – 2010)



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

During the past decade, labour costs in the EU have followed very different trajectories across Member States: while they have increased by more than 30% in Italy and Greece, unit labour costs have risen less than 6% in Germany. It is rather normal that labour costs increase faster in economies which are going through a catching-up process due to productivity gains, but countries like Greece and Spain have not been able to control wage increases and have lost cost competitiveness as a consequence.

In contrast, Germany, under Chancellor Gerhard Schröder, adopted a reform programme, dubbed Agenda 2010, which included a number of measures aimed at reforming the labour market. That is why German industry was able to keep production of goods with high added value in Germany while production at the lower end of the value chain was relocated to Eastern Europe and other parts of the world.

At the same time, French industry concentrated its activities on the middle segment of the value chain while the production of more sophisticated products was shifted outside the country. France is thus more directly exposed to competition from Asian countries without having the competitive advantage of low wages.

While Germany maintained the share of industry in its economy, France de-industrialised heavily. A long-term solution to the crisis will need to include a European rebalancing of industrial policies and a readjustment of labour costs according to the type of industry existing in each country.

II.3.4. Taxation in the EU (2009)

	Implicit tax rate on consumption	Implicit tax rate on labour	Implicit tax rate on capital
Austria	21.7	40.3	27
Belgium	20.9	41.5	30.9
Bulgaria	21.4	25.5	20.7*
Cyprus	17.9	26.1	n.a.
Czech Republic	21.6	36.4	19.3
Denmark	31.5	35	43.8
Estonia	27.6	35	14
Finland	25.7	40.4	29.9
France	18.5	41.1	35.6
Germany	19.8	38.8	22.1
Greece	14	29.7	17.5**
Hungary	28.2	41	18.8
Ireland	21.6	25.5	14.9
Italy	16.3	42.6	39.1
Latvia	16.9	28.7	10.3
Lithuania	16.5	33.1	10.9
Luxembourg	27.3	31.7	n.a.
Malta	19.5	20.2	n.a.
Netherlands	26.2	35.5	15.4
Poland	19	30.7	20.5
Portugal	16.2	23.1	33.8
Romania	16.9	24.3	n.a.
Slovakia	17.3	31.2	17.1
Slovenia	24.2	34.9	21
Spain	12.3	31.8	27.2
Sweden	27.6	39.4	33.5
United Kingdom	16.8	25.1	38.9
EU	**18.9**	**36**	**n.a.**
Euro area	**18.5**	**38.2**	**28.6**

* 2007; ** 2005

Source: Eurostat

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

Taxation plays an essential role in the functioning of democracies and the dynamism of economies. On one hand, taxation finances public spending, especially in health and education. On the other hand, it needs to be carefully calibrated in order to avoid choking consumption or stifling the private sector. The challenge is to keep the golden mean between social justice and economic efficiency.

In the EU, as in other parts of the world, the tax burden is shared by different parts of society: the tax rate on consumption averages 20%, the one on labour averages 36%, and capital is taxed at an average of 30%.

Some countries have adopted fiscal policies that diverge substantially from the European average: in Ireland, the tax rates on capital (14.9%) and labour (25.5%) have been very low until the crisis, while the tax rate on consumption was above average (25% in 2007). This strategy helped Ireland to attract foreign companies, but these differences may intensify tax competition at the expense of public services.

Furthermore, imbalanced taxation can be disastrous in the case of a crisis. It was the decrease in fiscal revenues that has contributed to an explosion of Ireland's public debt. There are thus reasons to think about tax harmonisation in Europe in order to avoid detrimental competition and to reduce the risk of a collapse of fiscal revenues during times of crisis.

III. Reviving the European Economic Project: From an Obligation of Results to an Obligation of Means

At the beginning of the 1990s, the European economy was in a bad shape: unemployment was high and growth was low. In June 1993, the president of the European Commission, Jacques Delors, presented a special report on unemployment. According to the report, the high unemployment rates in Europe could neither be attributed to the shortcomings of the European Monetary System (EMS), the forerunner of the euro, nor to the rigidity of labour markets. Instead, the lack of competitiveness of European economies was pinpointed as the main cause of Europe's malaise.[12] Ill-prepared to compete with the United States and Japan for the production of manufactured goods, the EU became aware of the necessity to adopt a community policy promoting competitiveness.

Delors suggested implementing large investment programmes in infrastructure and high technologies. This approach was formalised in the Lisbon Strategy, launched at the European Council in March 2000. The over-arching objective was to make the EU "the most competitive and dynamic knowledge-based economy in the world" and to reach full employment before 2010. It was agreed to increase spending on R&D to 3% of GDP and the employment rate to 70%.

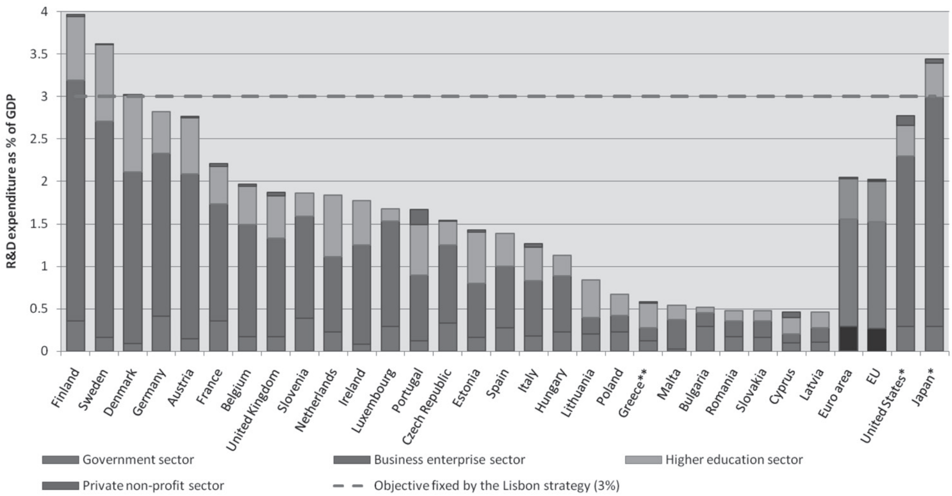
The governance mode used to implement the Lisbon Strategy was the Open Method of Coordination (OMC). According to this method, common objectives are agreed on at the European level, but Member States are free to decide on how they want to achieve these goals. Results would then again be jointly monitored and assessed with the help of the European Commission. Policy change would be encouraged through peer review and peer pressure. The structural funds (European Regional Development Fund – ERDF, European Social Fund – ESF, European Agricultural Fund for Regional Development – EAFRD) were mobilised to support the strategy.

Europe 2020, which was adopted on 17 June 2010, has replaced the Lisbon Strategy. It pursues three main objectives expressed in quantifiable indicators to be achieved by 2020:
– Innovation: increase investment in R&D to 3% of GDP;
– Environment: reduce greenhouse gas emissions by 20% compared to 1990 levels;
– Inclusiveness: raise the employment rate to 75 %, improve the level of education of the population, and reduce poverty.

12. P. Krugman, "Competitiveness – A dangerous obsession", *Foreign Affairs*, Volume 73, Number 2, March/April 1994.

III.1. The Innovation Challenge

III.1.1. Spending on R&D in the EU, the United States and Japan (2009)



*Data of 2008; **Data of 2007

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

There is no avoiding the fact that the objective of spending 3% of GDP on R&D has not been achieved in the EU, with the exception of a few Member States such as Denmark (3.02%), Sweden (3.62%) and Finland (3.96%). As a whole, the EU (2.02%) lags far behind the United States (2.77%) and Japan (3.44%).

This suboptimal performance can be explained by two factors. First, the EU comprises countries which are at very different stages of economic development. The investment levels for R&D range from 0.46% of GDP in Latvia to 3.96% in Finland. The Central and Eastern European countries are in the middle of their catching-up process, with industry that is still focused on traditional and small innovative sectors. On average, the level of investment in R&D in the former communist countries is about 1% of GDP. For the "Northern" European countries it is about 3% (Germany, the Scandinavian countries and the Netherlands).

A second important reason explaining why the EU failed to achieve its target is the lack of R&D investment in the private sector, which is 1.25% of GDP in the EU, compared to 2.01% and 2.70% in the United States and Japan respectively. Since the level of public investment is approximately the same, it is sound to assume that the lack of private investment is the main cause of the EU's underperformance in R&D spending. Since 85% of R&D investments are made in manufacturing industries,[13] the difference can partly be explained by different industrial structures: the ITC sector, in particular, occupies a much more prominent place in Japan and the United States. This sector happens to be one of the most intense in terms of investment in R&D. There is a relationship between the difficulties of European industries in positioning themselves in sectors with high added value, and the lack of investment in R&D, although it is difficult to identify the direction of causation.

This situation is alarming; in the long run, the EU risks being left behind in a number of technology-intensive sectors and becoming a laggard in the global race for innovation. In this case, the European economy would have to reposition itself on the markets for medium technologies and would be directly exposed to the competition of emerging countries.

13. Rapport intermédiaire des Etats généraux de l'industrie, Ministry of Industry, 2010.

III.1.2. Summary of competitiveness and innovation indicators (2011)

	Global competitiveness indicator (2011)	Ranking according to the ease of doing business (2011)	Summary innovation index (2010)	Patent applications by residents (2007)	European high-tech patents (2007)	Share of high-tech exports in total exports (2009)
	ranking out of 142 countries	ranking out of 183 countries	on a scale from 0 to 1	per million inhabitants	per million inhabitants	in %
Austria	19	32	0.591	274.2**	33.6	11.7
Belgium	15	28	0.611	42.7	32.1	8.8
Bulgaria	74	59	0.226	27.6	0.2	4.6
Cyprus	47	40	0.495	3.5	3.9	20.1
Czech Republic	38	64	0.414	69.3	1.6	15.2
Denmark	8	5	0.736	304.0	40.1	12.3
Estonia	33	24	0.466	32.8	10.7	6.9
Finland	4	11	0.696	341.1	86.4	13.9
France	18	29	0.543	238.6	30.5	19.7
Germany	6	19	0.696	581.7	38.9	14.0
Greece	90	100	0.364	69.0	1.2	6.6
Hungary	48	51	0.327	68.5	3.8	22.3
Ireland	29	10	0.573	194.0	17.7	22.1
Italy	43	87	0.421	155.9	7.3	6.8
Latvia	64	21	0.201	49.8**	1.5	5.3
Lithuania	44	27	0.227	18.4	1.0	5.8
Luxembourg	23	50	0.565	31.3	13.7	41.8
Malta	51	n.a.	0.351	24.4	3.5**	43.8
Netherlands	7	31	0.578	126.9	45.1	18.4
Poland	41	62	0.278	62.8	1.0	5.7
Portugal	45	30	0.436	23.6	3.5	3.7
Romania	77	72	0.237	38.4	0.8	8.2
Slovakia	69	48	0.269	44.3	0.8	5.9
Slovenia	57	37	0.487	164.0	8.5	5.5
Spain	36	44	0.395	72.8	4.5	4.7
Sweden	3	14	0.750	276.2	84.0	14.8
United Kingdom	10	7	0.618	284.8	19.0	18.2
EU	**n.a.**	**n.a.**	**0.516**	**n.a.**	**20.2**	**16.9**
United States	5	4	0.672	800.2	27.9	22.6*
Japan	9	20	0.641	2610.1	45.0	17.4
Canada	12	13	n.a.	151.6	27.0	8.0
China	26	91	n.a.	116.1	n.a.	29.2
India	56	132	n.a.	4.79**	n.a.	6.2
Brazil	53	126	n.a.	20.1**	n.a.	3.0
			* 2008; ** 2006			
Sources:	World Economic Forum	World Bank	European Innovation Scoreboard	WIPO, World Bank	Eurostat	

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

For companies to be productive, they need a business environment conducive to economic activity. They have to be innovative in order to develop new products and offer them at the lowest price possible. Public authorities can contribute a lot to improving the business environment and attracting companies: they can build infrastructure, develop research and training facilities, or improve the tax regime, the labour market and access to finance.[14]

The Global Competitiveness Index takes into account all of these factors. Northern European countries are generally well placed. Sweden and Finland even surpass the United States. The list is headed by Switzerland and Singapore. The Central and Eastern European, as well as Southern European, countries perform less well. Greece is ranked 90th out of 142 countries. The World Bank's Ease of Doing Business Index yields similar results.

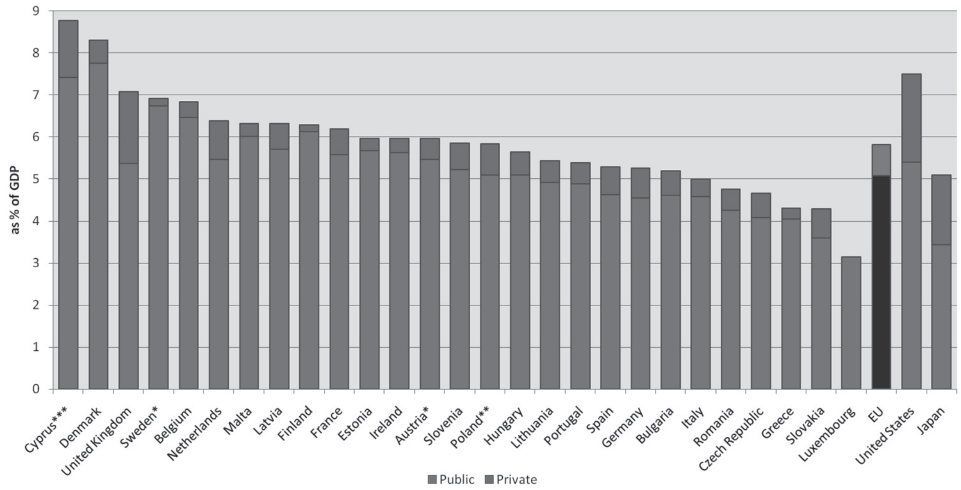
14. See M. Porter, *The competitive advantage of nations, states and regions*, conference in Malaysia, 7 July 2011. And more recently, the work done by the *Institute for strategy and competitiveness*, Harvard Business School, available at www.isc.hbs.edu/

A good business environment is necessary for innovation to flourish. For the European economy, it is vital to build a knowledge-based economy which remains at the forefront of technological progress. Otherwise, falling behind in the race for innovation would have serious social repercussions.

In the framework of the Lisbon Strategy and Europe 2020, the EU has compiled an "Innovation Scoreboard" comprising several indicators such as the share of R&D spending in GDP and the number of patents. It allows comparison between EU Member States and other important economies. According to the Scoreboard, only Denmark, Finland, Germany and Sweden are more innovative than Japan and the United States. Naturally, the economies in the EU that are least economically developed are the least innovative.

One can consider a range of different innovation indicators, including the share of human capital employed in sciences and technology, the number of patents, or the share of high-tech products in total exports, but the conclusion remains the same: the EU is not as innovative as it would like to be or as it should be. A profound innovation gap has emerged between EU Member States, especially between the "Northern" European countries and the less innovative Member States, including France, Italy, and Spain. While the former have adopted reforms necessary to develop and maintain a highly innovative industrial base (Germany, Ireland, Denmark, the Netherlands), the latter have not succeeded in positioning their economies in the most innovative industries and are more directly exposed to competition from emerging countries like China.

III.1.3. Public and private expenditure on education (2008)



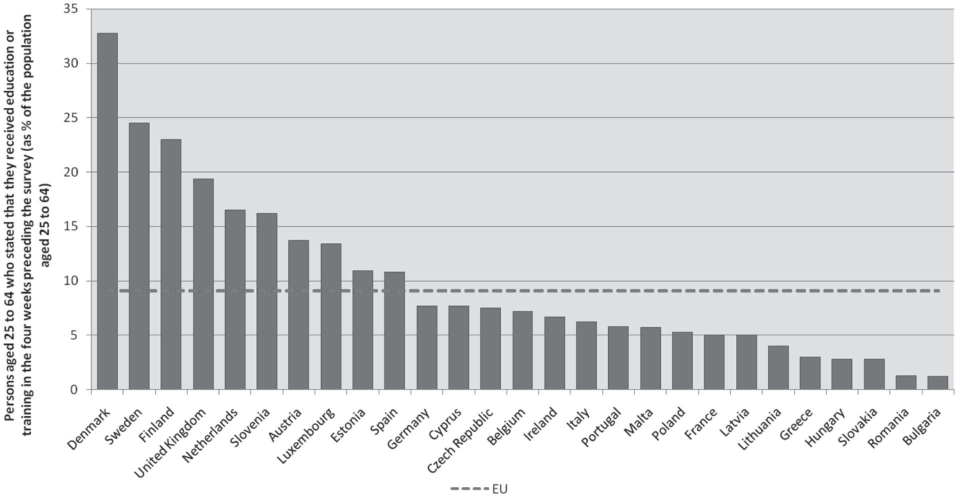
* Data of 2007, ** Data on private expenditure of 2006, *** Data of 2005
Data for Luxembourg does not include private expenditure on education.

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

The level of education of an economy's workforce is a major element of its competitiveness. Work processes have become more and more complex, often involving the operation of robots and computers. Skills, therefore, must constantly be upgraded. The ability to adapt quickly and to take the initiative is crucial in a fast-changing working environment.

In general, efforts to improve education in the EU have intensified (+3.65% since 2004 in higher education). However, increasing spending on education does not automatically lead to a straightforward improvement of competitiveness and the creation of jobs.

III.1.4. Life-long learning (2010)



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

In a rapidly changing world, skills need to be adapted and upgraded constantly. Within 20 years, almost the entire workforce has had to learn how to operate a computer. Life-long learning plays an essential role in the adaptation of the workforce to new work conditions. It also helps workers to orient themselves in a job market that is increasingly complex.

In the EU, the importance of life-long learning differs greatly across Member States.[15] While it is almost part of daily life in countries such as Sweden and Denmark, it is completely absent in countries such as Romania and Bulgaria. On average, one person in ten declared having attended training in the four months preceding a regular survey conducted by Eurostat. Some countries, like Belgium, Luxembourg and Spain, have made important efforts to improve the image of life-long learning and to make it more accessible and adapted to the realities of the job market. But establishing life-long learning more firmly in the professional lives of European citizens is a long and difficult process.

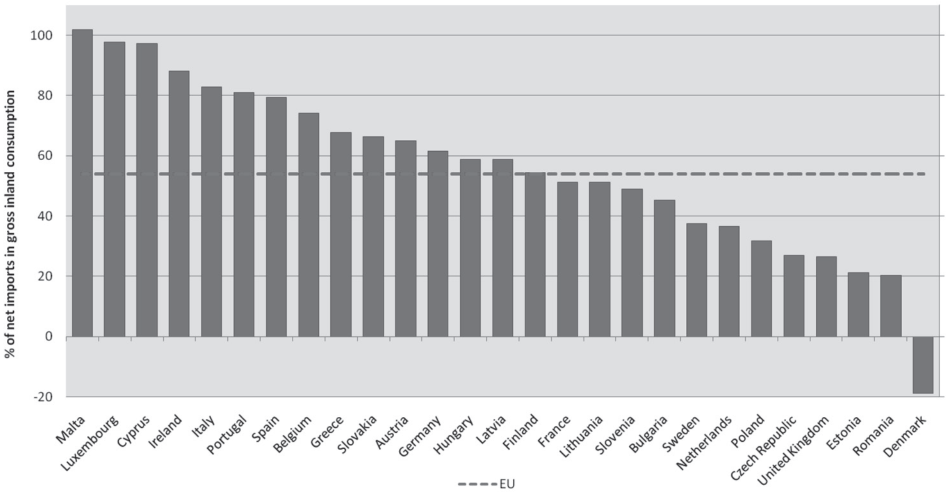
Map – Research and Innovation in the European States

Map – Industry in the EU Member States

15. See http://www.centre-inffo.fr/En-Europe.html to learn more about the different national systems of continuing education and training in EU Member States.

III.2. The Challenge of Resource Scarcity and Climate Change

III.2.1. Energy dependence of EU Member States (2009)



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

Without energy, everything comes to a halt. Households, as much as enterprises, depend on the energy they buy. Until the beginning of the 20th century, coal was the principal source of energy, followed by oil in the middle of the century and, later, nuclear energy. Apart from oil-producing United Kingdom and Norway, Europe is a continent without substantial energy resources. Inevitably, the EU must import energy, more than half of its energy needs in 2009 (53.9%). This figure is still misleading since it does not include imports of uranium or fissile materials for the production of nuclear energy. Energy dependence might thus be even higher, especially for the countries using nuclear energy on a large scale, like France.

Energy security is not only an economic challenge, but also a geostrategic one. A full 45% of oil imports to the EU come from the Persian Gulf.[16] The EU can improve its energy security by securing these supplies through diplomatic relations with producer countries, constructing pipeline networks through the Baltic Sea, Caspian Sea, and Turkey and protecting strategic sea lanes. Volatility of energy prices can have a detrimental impact on economies, and price surges can lead to a sharp increase in inflation. At the moment, however, the danger for this to happen is limited by the value of the euro and the deflationist effect of the crisis which attenuates any price increases.[17]

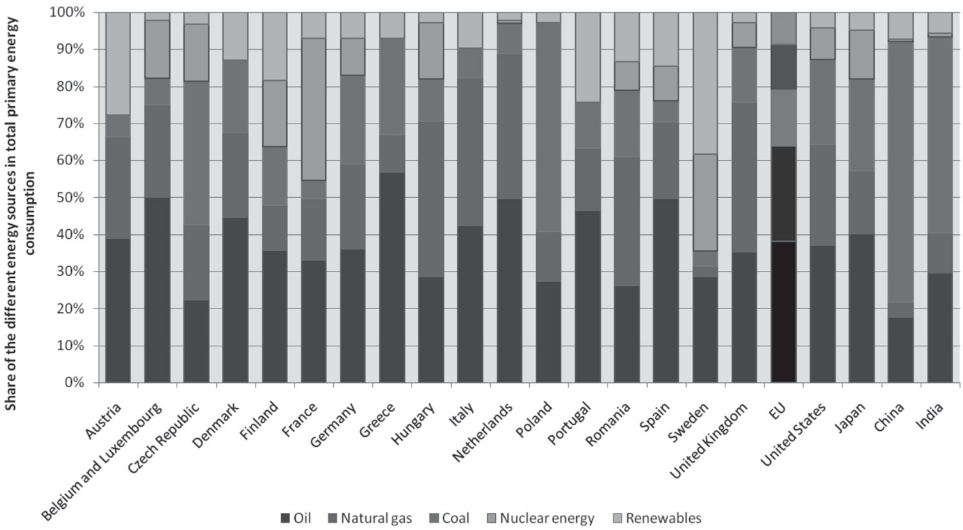
Reducing energy dependence goes hand in hand with the objective of limiting greenhouse gas emissions and the production of radioactive waste. The development of renewable energies is at the core of this effort for EU Member States. Some traditional forms of renewable energy, such as hydroelectric power, already provide an important share in total energy production. New hydro locations, however, are harder to find and more likely to encounter opposition from local populations. Newer technologies such as solar and wind energy still have considerable potential.

---

16. C.-A. Paillard , "Union européenne et pétrole", *Supplement to the Newsletter n°186*, Robert Schuman Foundation, 2 November 2004.

17. J.-F. Jamet, "L'impact des prix du pétrole sur la croissance de la zone euro", *Questions d'Europe* n°85, Robert Schuman Foundation, 7 January 2008.

III.2.2. Energy mix in EU Member States and international comparisons (2010)



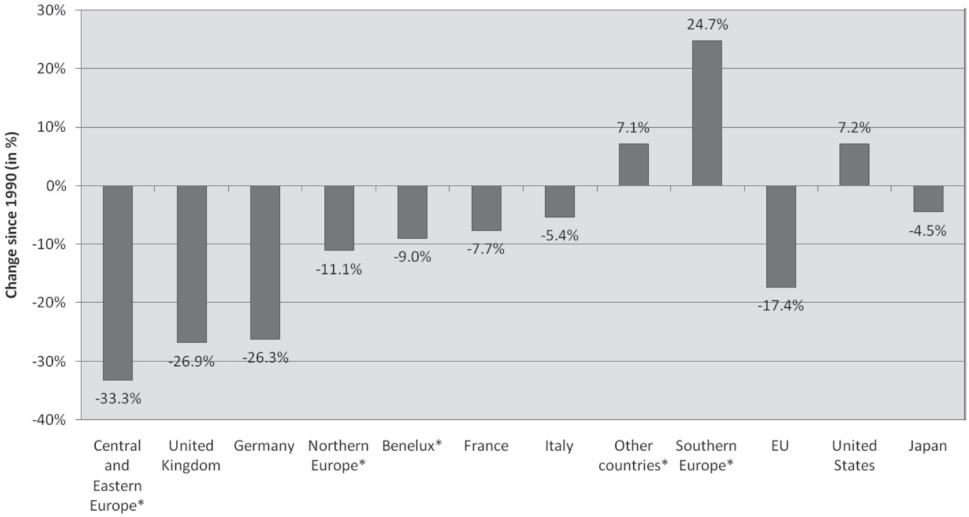
Source: BP Statistical Review of World Energy, June 2011
Data collected and collated for the Robert Schuman Foundation, © FRS

80% of primary energy consumption in the EU comes from energy sources that produce CO2 and other greenhouse gases (40% oil, 25% natural gas, and 15% coal). The remainder is generated by nuclear (12%), hydroelectric (5%) and other renewable energies (4%). This picture differs only marginally from the energy mix in the United States, which relies on fossil fuels for 90% of its energy needs.

However, the energy mix within the EU differs considerably from one Member State to the other. The share of nuclear energy, for instance, varies from 0% in a majority of European countries to 26% in Sweden and 38% in France. Mountainous countries, such as Austria, Sweden and Norway, have actively developed hydroelectric power. Others place more emphasis on renewable energy and take advantage of their coastal areas to build offshore wind parks, or use their sunny climates to produce energy from solar plants.

The EU has set the objective of increasing the share of renewable energies in gross final energy consumption to 20% by 2020. It is currently 10.3%. However, increasing the use of renewable energy technologies is fraught with problems. First, it takes energy to build the facilities that are then supposed to produce energy. Only in the last few years have solar collectors been able to produce more power during their life span than had been used to produce them in the first place. Second, the production of renewable energy installations is often located in China or Germany (for solar collectors) or in Denmark (for wind turbines); hence, in countries where there is no domestic production capacity for such technology, energy dependence, which is reduced by relying more on renewable energy, is replaced by a new industrial dependence on the main producing countries. Therefore, EU Member States have adopted policies to support the development of local production capacities, so far with mixed results.

III.2.3. Greenhouse gas emissions (1990-2009)



**Central and Eastern Europe:* Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia; *Northern Europe:* Denmark, Finland, Sweden; *Southern Europe:* Greece, Malta, Portugal, Spain; *Other countries:* Austria, Ireland.

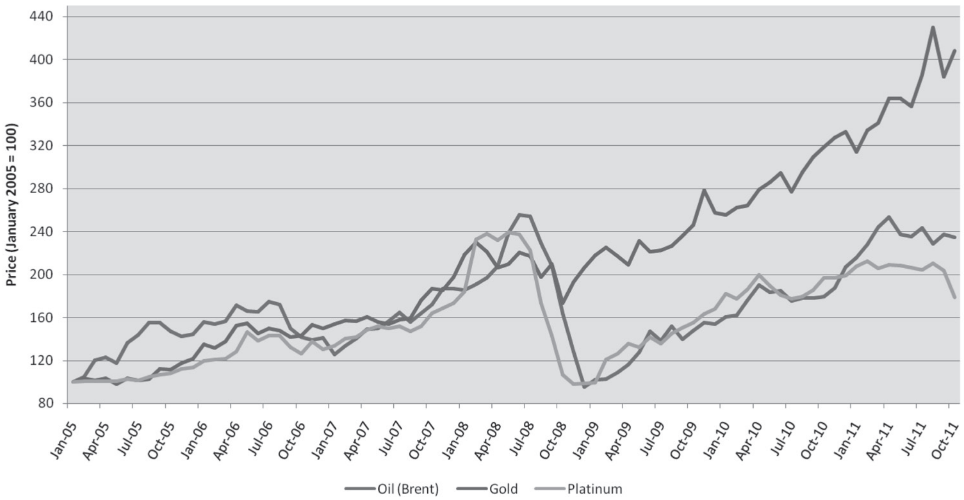
Source: UNFCCC
Data collected and collated for the Robert Schuman Foundation, © FRS

Apart from reducing the economic constraints imposed by the progressive exhaustion of fossil fuels, the use of renewable energies also helps in pursuit of another objective: the reduction of greenhouse gases and, thus, the limitation of global warming. At the 2009 United Nations Climate Change Conference in Copenhagen, the 194 countries that had ratified the Framework Convention of the United Nations on Climate Change from 1992 reaffirmed the objective of limiting global warming to a 2°C rise. Although not all countries have signed the document that was supposed to provide the successor framework to the Kyoto Agreement, European countries have committed themselves to implement it. Since 1990, CO_2 emissions in developed countries have, on the whole, stagnated, while they have strongly increased in emerging and developing countries.

The EU has developed the EU Emission Trading Scheme (EU ETS) as one important tool to reduce greenhouse gas emissions. According to this scheme, businesses can buy and sell emission quotas which give the right to pollute. Thereby, the costs of pollution are internalised for producers who change their operations due to the new costs. The EU ETS is the first international system for emission trading in the world. It encompasses more than 11,000 installations, which together are responsible for more than half of the CO_2 emissions in Europe.

Since 1990, the EU has reduced its CO_2 emissions by 17.4%, while emissions have increased by 7.2% in the United States. The Eastern and Central European countries have substantially reduced their emissions due to the transition process of de-industrialisation following the end of the Cold War. In contrast, emissions in economies which have undergone a process of economic catch-up, like Spain, Ireland and Greece, have risen sharply. Germany has considerably reduced its emissions (-26.3%), partly because of the collapse of the East German industry after reunification.

III.2.4. Change in commodity prices (oil, gold and platinum) (2005 – 2011)



Source: ECB, World Gold Council, Platinum Today
Data collected and collated for the Robert Schuman Foundation, © FRS

The world has experienced three oil crises: two in the 1970s as a consequence of the decision of the Organisation of the Petroleum Exporting Countries (OPEC) to increase prices (1973) and of political events in the Middle East (1979), and most recently the surge in oil prices between 2005 and the onset of the current global financial crisis. Between 2005 and 2011, the price of oil multiplied by 2.7 but it is difficult to determine whether this increase is primarily caused by constraints on the supply side or by rising demand from fast-growing emerging countries. So far, the impact of high oil prices on growth and inflation has been limited. The share of energy costs in the total production costs of manufactured goods has decreased and European economies are less dependent on fossil fuels than they used to be.

Rapid economic development in large emerging countries, along with the growing demand for rare and precious materials such as platinum and rare earths for industrial production, has led to a general increase in the prices of raw materials. For instance, the gold price has quadrupled in the last six years. Along with the price increases has come a shift in the geostrategic position of producer countries. China, for instance, produces approximately 95% of the world's rare earths, which are used in the production of many goods such as computers, batteries and neon tubes.

Finally, the rise in the price for gold can be explained by the fact that gold is considered a safe haven of investment during times of economic stress. During crises, gold – or in the words of J.M. Keynes, the "barbaric relic" – constitutes a value refuge that investors revert to when other assets are perceived as unsafe and they want to hedge against sharp increases in inflation.

III.2.5. The impact on production costs (gas and electricity prices) (2011)

	Gas price (industry)		Gas price (households)		Electricity price (industry)		Electricity price (households)	
	EUR/Giga Joule				EUR/kWh			
	2011	Change since 2000*	2011	Change since 2000*	2011	Change since 2000*	2011	Change since 2000*
Austria	n.a.	n.a.	14.22	82.2%	0,09**	62.2%	0.14	51.9%
Belgium	8.58	94.0%	12.69	70.6%	0.10	33.1%	0.16	34.2%
Bulgaria	7.98	127.9%	9.96	77.0%	0.06	56.0%	0.07	68.2%
Cyprus	n.a.	n.a.	n.a.	n.a.	0.16	82.8%	0.17	104.9%
Czech Republic	8.36	177.8%	12.60	253.0%	0.11	134.9%	0.12	159.4%
Denmark	9.43	105.3%	16.47	84.1%	0.09	73.6%	0.13	75.9%
Estonia	7.31	151.0%	9.07	131.1%	0.06	32.4%	0.07	54.0%
Finland	9.34	106.1%	n.a.	n.a.	0.07	82.0%	0.11	67.6%
France	9.86	129.7%	13.43	92.1%	0.07	27.3%	0.10	7.1%
Germany	11.58	142.2%	12.08	74.4%	0.09	33.3%	0.14	18.1%
Greece	n.a.	n.a.	n.a.	n.a.	0.09	64.4%	0.10	77.5%
Hungary	8.95	227.0%	12.46	319.8%	0.09	82.7%	0.13	114.6%
Ireland	9.90	175.5%	11.69	60.7%	0.11	69.3%	0.16	99.2%
Italy	8.24	99.0%	12.25	39.3%	0.12	68.3%	0.14	-5.7%
Latvia	8.12	133.7%	9.59	168.0%	0.10	128.3%	0.10	96.5%
Lithuania	9.74	131.6%	9.98	116.0%	0.10	90.0%	0.10	87.7%
Luxembourg	11.58	134.5%	12.72	124.1%	0.10	35.4%	0.15	37.4%
Malta	n.a.	n.a.	n.a.	n.a.	0.18	166.7%	0.16	165.2%
Netherlands	7.49	84.4%	11.57	105.8%	0.08	25.7%	0.13	38.6%
Poland	9.11	62.6%	10.46	97.9%	0.10	95.7%	0.11	61.3%
Portugal	9.38	36.2%	15.75	15.1%	0.09	40.4%	0.10	-15.0%
Romania	4.23	84.5%	4.14	2.8%	0.08	98.3%	0.08	29.5%
Slovakia	9.22	73.1%	10.78	76.3%	0.12	80.5%	0.14	34.0%
Slovenia	11.19	134.1%	14.23	158.0%	0.09	47.2%	0.11	30.0%
Spain	8.09	99.8%	12.62	37.9%	0.11	70.1%	0.16	78.4%
Sweden	11.75	131.8%	18.35	140.4%	0.09	136.5%	0.14	116.0%
United Kingdom	6.47	83.2%	11.24	69.1%	0.09	41.4%	0.14	29.3%
EU	**8.84**	**47.0%**	**11.95**	**41.3%**	**0.09**	**39.3%**	**0.13**	**25.9%**

* Change since 2001-2005 for countries for which data from 2000 is not available; ** 2008

Source: Eurostat

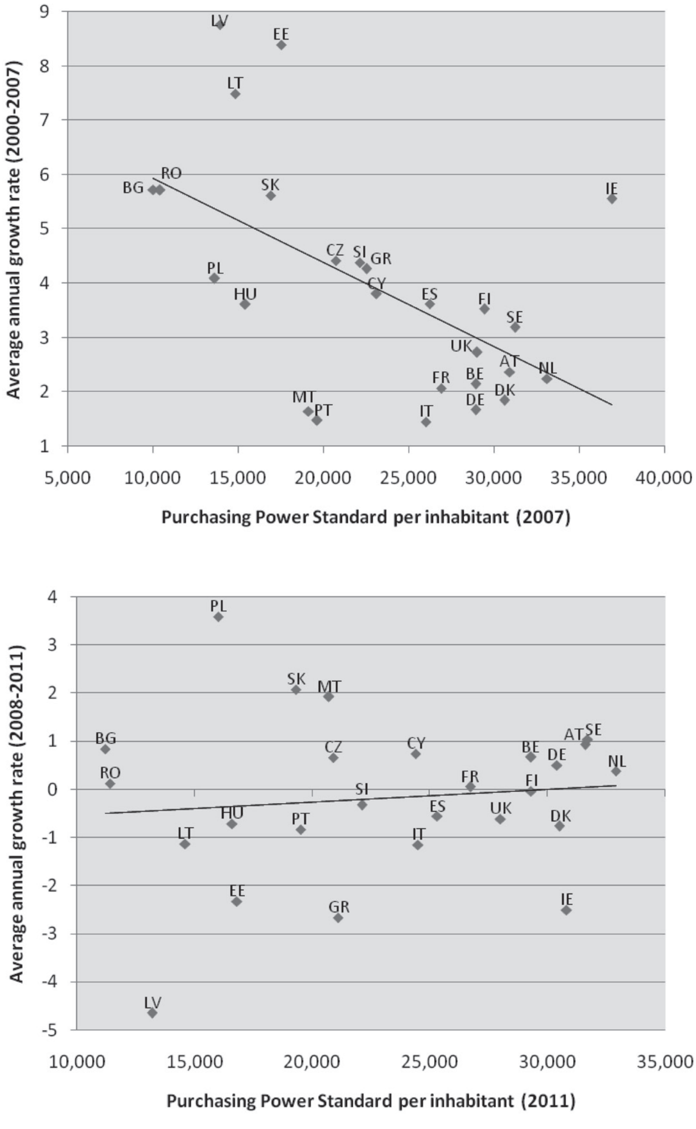
Data collected and collated for the Robert Schuman Foundation, © FRS

The rise in raw material prices has also led to higher energy costs, but to a lesser extent than could be expected. Industrial electricity prices, for example, depend on many factors other than raw material prices, such as taxes or an economy's energy mix. Finally, the price increase varied a great deal within the EU between 2000 and 2011, from 25% in the Netherlands to 136% in Sweden. The same variability is valid for household prices.

III.3. Social Challenges

Objectives such as the promotion of economic growth or the protection of the environment ultimately follow the same rationale: to ensure that European citizens can enjoy a high standard of living. Inclusiveness is central in this regard as it aims to enable as many citizens as possible to benefit from growth and prosperity. It involves reducing poverty and inequality, creating jobs and improving education and training.

III.3.1. GDP per inhabitant and average annual GDP growth before and after the crisis



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

Although living standards in the EU are among the highest in the world, inclusiveness remains an important issue given that large disparities exist within the EU.

A cursory glance at the GDP per inhabitant (i.e. the proportion of a country's income that each citizen would have if income was distributed equally) reveals a high inequality between Member States. GDP per capita ranges from €11 500 in Romania to €39 900 in the Netherlands (expressed in purchasing power standard). These differences stem from the different historical development of each country: GDP per inhabitant is highest in the founding members of the EU, Germany, France and the Benelux countries, in the Northern European countries, Finland, Denmark and Sweden, and in Austria and Ireland.

It is part of the ambition of European integration that participation in the single market will allow poorer Member States to catch up with the economies of richer countries, thereby leading to a harmonisation of living standards in the EU. The reality is much more complex: some countries have been able to take full advantage of their participation in the European market and the monetary union. Ireland, for example, has developed within the last few decades from an economy that was largely poor and agricultural to one of the richest EU Member States. The current crisis, however, has hit economies that have always been considered successful in closing the gap to richer EU Member States – such as Ireland and Spain – particularly hard.

Others did not succeed in adjusting their economies to competitive pressures arising from the opening of their economies to the single market and globalisation. Economic development in Portugal, for example, has made little progress. In short: there is no automatic convergence arising from EU membership. In the end, successful catching up depends on the capacity of new Member States to reform and proactively to take advantage of the possibilities offered by European integration.

Roughly speaking, three groups of countries can be distinguished: first, the Member States which form the core of the euro area (Germany, France, Benelux and Italy) which had only moderate economic growth during the last decade; second, new Member States which achieved high growth rates in their process of catching-up (Czech Republic, Hungary, Poland); finally, countries in an intermediate position experienced a high-growth period based on flawed fundamentals which were exposed by the crisis (Greece, Spain, Ireland).

III.3.2. Poverty and inequality in EU Member States and international comparisons (2009/2010)

	Inequality of income distribution			Poverty	
	Gini coefficient (2010)	Ratio between the income of the richest and the poorest 20% of the population (2010)	Gender wage gap (2009)	At-risk-of-poverty rate (threshold: 50% of the national median equivalised disposable income) (2010)	People at-risk-of-poverty or social exclusion (threshold: 60% of the national median equivalised disposable income)
Austria	26.1	3.7	25.4	6.2	16.6
Belgium	26.6	3.9	9**	7.9	20.8
Bulgaria	33.2	5.9	15.3	15.2	41.6
Cyprus	28.4*	4.2*	21	8.8*	22.2*
Czech Republic	24.9	3.5	25.9	5.2	14.4
Denmark	27.5	4.7	16.8	7.6	18.3
Estonia	31.3	5	30.9***	9.4	21.7
Finland	25.4	3.6	20.4	5.5	16.9
France	29.9	4.5	16	7.4	19.3
Germany	29.3	4.5	23.2	9.2	19.7
Greece	32.9	5.6	22**	12.4	27.7
Hungary	24.1	3.4	17.1	6.0	29.9
Ireland	28.8*	4.2*	15.7	7.3*	25.7*
Italy	31.2	5.2	5.5	11.6	24.5
Latvia	36.1	6.9	14.9	14.8	38.1
Lithuania	36.9	7.3	15.3	14.5	33.4
Luxembourg	27.9	4.1	12.5	8.0	17.1
Malta	28.4	4.3	6.9	7.7	20.6
Netherlands	25.5	3.7	19.2	4.9	15.1
Poland	31.1	5	9.8	10.5	27.8
Portugal	33.7	5.6	10	11.3	25.3
Romania	33.3	6	8.1	15.0	41.4
Slovakia	25.9	3.8	21.9	7.8	20.6
Slovenia	23.8	3.4	3.2	7.3	18.3
Spain	33.9	6.9	16.7	14.4	25.5
Sweden	24.1	3.5	16	7.0	15
United Kingdom	32.4*	5.2*	20.4	10.2*	22*
EU	**30.5**	**5**	**17.1**	**10.0**	**23.4**
Euro area	**30.2**	**4.9**	**17.1**	**9.8**	**21.5**
United States	37.8	n.a.	20.1	17.3	n.a.
Japan	32.9	n.a.	30.7	15.7	n.a.
Canada	31.9	n.a.	20.4	11.4	n.a.
*2009, **2008, ***2007					
Sources: Eurostat, OECD					

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

The EU is one of the richest and most egalitarian regions in the world. The Gini coefficient, which measures income inequality (a coefficient of 0 indicates perfectly equal distribution of income and a coefficient of 100 indicates that all national income is controlled by one person), is 30.5 in the EU, compared to 37.8 in the United States.

Despite this relatively favourable income distribution, poverty is a reality for many citizens in the EU. Nearly one quarter (23.1%) of the population is at risk of poverty or social exclusion. The situation is especially dire in the poorest Member States (46.2% in Bulgaria, 43.1% in Romania). Almost one tenth (8.1%) of the population is even threatened by material deprivation, including in the richer Member States (5.4% in Germany). The economic crisis has certainly contributed to an aggravation of social problems, especially in the Baltic countries.

Finally, the wage gap between men and women is another dimension of inequality; on average, men earn 17.1% more than women. This gap is partly due to the fact that men and women work in different kinds of jobs. In northern European countries, for instance, women are more likely to work part-time than women in other countries and, therefore, earn less. Cultural reasons also play a factor.

III.3.3. The social challenge of ageing societies in the EU (2009/2010)

	Life expectancy at 65 years (2010*)	Average exit age from the labour market (2009*)	At-risk-of-poverty rate for retirees (2010*)	Public expenditure on pension systems (as % of GDP)	
				2010	projections for 2050
Austria	19.8	60.9	13.6	12.7	14
Belgium	19.5	61.6	16.1	10.3	14.7
Bulgaria	15.4	64.1	30	9.1	10.8
Cyprus	19.5	62.8	47.8	6.9	15.5
Czech Republic	17.4	60.5	6.6	7.1	10.2
Denmark	18.4	62.3	16.6	9.4	9.6
Estonia	17.3	62.6	17.9	6.4	5.3
Finland	19.7	61.7	17	10.7	13.3
France	21.2	60	7.6	13.5	14.2
Germany	19.5	62.2	13.4	10.2	12.3
Greece	19.7	61.5	19	11.6	24
Hungary	16.5	59.3	4	11.3	13.2
Ireland	19.7	64.1	15.5	4.1	8
Italy	20.2	60.1	12.3	14	14.7
Latvia	16.3	62.7	21.2	5.1	5.8
Lithuania	16.4	59.9	13.3	6.5	10.4
Luxembourg	19.6	59.4	5.4	8.6	22.1
Malta	19.9	60.3	18.7	8.3	12
Netherlands	19.5	63.5	5.7	6.5	10.3
Poland	17.6	59.3	12.8	10.8	9.1
Portugal	18.9	62.6	18.5	11.9	13.3
Romania	15.8	64.3	12.8	8.4	14.8
Slovakia	16.3	58.8	6.7	6.6	9.4
Slovenia	19.2	59.8	18.3	10.1	18.2
Spain	20.8	62.3	16.3	8.9	15.5
Sweden	19.8	64.3	15.6	9.6	9
United Kingdom	19.6	63	24	6.7	8.1
EU	**19.1**	**61.4**	**13.8**	**10.2**	**12.3**
Euro area	**19.8**	**61.2**	**12.3**	**n.a.**	**n.a.**
*or data for the most recent year available					
Sources:		Eurostat		Economic Policy Committee	

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

Life expectancy has been consistently increasing, jumping from 82.9 years in 2002 to 84.1 years in 2011 for people currently of age 65. As a result, societies in Europe are growing older. This trend holds for the entire EU without exception and poses new challenges. For example, 13.8% of retirees are at risk of poverty due to inadequate pensions. The situation has improved since 2000, but remains critical in countries like Bulgaria, Greece and Latvia. Pension systems, whether based on pay-as-you-go systems or fully funded pension schemes, differ greatly in generosity and efficiency across EU Member States. However, the relatively good standard of living that retirees enjoy today in countries like France and Hungary cannot be taken for granted in the future.

Public spending on pensions, which accounts for 10.2% of GDP today, is projected to increase to 12.3% by 2050. In some EU Member States, it will reach considerably higher levels: 15.5% in Spain, 14.7% in Italy and 14.2% in France. Will governments be able to maintain current levels of generosity, or will private pension funds replace public systems? The volatile nature of financial markets puts the efficiency of pension funds into question. In many countries, the amounts saved are not sufficient to pay future pensions.

III.3.4. The labour market in EU Member States (2010)

	Employment rate (15 to 64 years)				Employment rate (15 to 24 years)	Employment rate (55 to 64 years)
	Total	Change since 2000	Men	Women		
Austria	71.7	4.7%	77.1	66.4	53.6	42.4
Belgium	62	2.5%	67.4	56.5	25.2	37.3
Bulgaria	59.7	18.5%	63	56.4	22.2	43.5
Cyprus	69.7	6.1%	76.6	63	33.8	56.8
Czech Republic	65	0.0%	73.5	56.3	25.2	46.5
Denmark	73.4	-3.8%	75.8	71.1	58.1	57.6
Estonia	61	1.0%	61.5	60.6	25.7	53.8
Finland	68.1	1.3%	69.4	66.9	38.8	56.2
France	63.8	2.7%	68.1	59.7	30.3	39.7
Germany	71.1	8.4%	76	66.1	46.2	57.7
Greece	59.6	5.5%	70.9	48.1	20.4	42.3
Hungary	55.4	-1.6%	60.4	50.6	18.3	34.4
Ireland	60	-8.0%	63.9	56	30.5	50
Italy	56.9	6.0%	67.7	46.1	20.5	36.6
Latvia	59.3	3.1%	59.2	59.4	26.4	48.2
Lithuania	57.8	-2.2%	56.8	58.7	19.2	48.6
Luxembourg	65.2	4.0%	73.1	57.2	21.2	39.6
Malta	56.1	3.5%	72.4	39.3	44.8	30.2
Netherlands	74.7	2.5%	80	69.3	63	53.7
Poland	59.3	7.8%	65.6	53	26.3	34
Portugal	65.6	-4.1%	70.1	61.1	28.5	49.2
Romania	58.8	-6.7%	65.7	52	24.3	41.1
Slovakia	58.8	3.5%	65.2	52.3	20.6	40.5
Slovenia	66.2	5.4%	69.6	62.6	34.1	35
Spain	58.6	4.1%	64.7	52.3	24.9	43.6
Sweden	72.7	-0.4%	75.1	70.3	38.7	70.5
United Kingdom	69.5	-2.4%	74.5	64.6	47.6	57.1
EU	**64.1**	**1.1%**	**70.1**	**58.2**	**34**	**46.3**
Euro area	**64.2**	**4.1%**	**70.4**	**57.9**	**33.8**	**45.7**
United States	66.7	-10.0%	71.1	62.4	n.a.	60.3
Japan	70.1	1.7%	80	60.1	n.a.	65.2
Source: Eurostat						

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

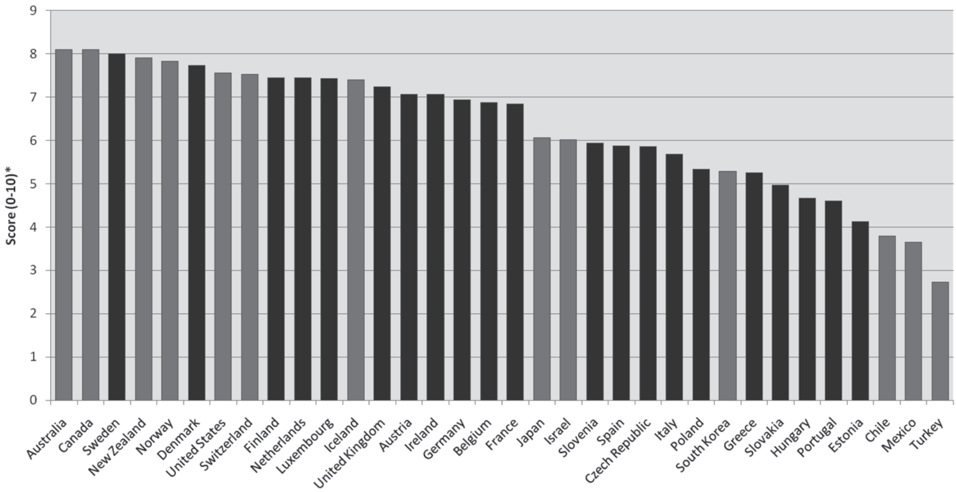
The current economic crisis has affected the labour market in the EU, but this market had already lacked dynamism before the economic downturn. Since the year 2000, the average employment rate in the EU has been 64.5%, compared to 69.4% in Japan and 71% in the United States. This figure indicates that over a third of the people of working age do not work, either because they do not find work or because they do not want to work. Structural unemployment is very high in the EU because of rigid labour markets which make it difficult to fire and hire. Minimum wages, though providing protection against large numbers of working poor, also increase unemployment as the job market excludes those whose qualifications and productivity do not justify a wage above the legal minimum.

Some countries have adopted strategies to improve employability of workers. These include, for example, having more recourse to part-time work like in the Netherlands where almost half of the workforce is employed part-time.

The low employment rate in the EU can be explained by the exclusion of certain categories of the population from the labour market, especially the young and the old. Only 34% of young people in the EU have a job (compared to 40% in 2000). The numbers look much better for certain countries like the Netherlands (63%), Switzerland (62.5%) and Germany (46.2%), but worse for countries like Greece (20.4%), Italy (20.5%), the Baltic countries (between 20 and 25%), the Central and Eastern European countries and Spain (25%) which have "sacrificed" the young generation the most.

Similarly, the employment rate for seniors (55 years or older) was only 46.3% in the EU compared to 60.3% in the United States and 65.2% in Japan. On average, EU workers leave the labour market at the age of 61.4 years. The EU finds it difficult to integrate its senior citizens into the job market, while the ageing of the population weighs heavily on public budgets and the labour supply. However, the situation has improved; the employment rate for seniors has increased from 37.8% in 2000.

III.3.5. The OECD's Better Life Index (2011)



*The index is composed of indicators sorted by 11 topics which have an impact on the well-being of individuals (for example, education, housing and the environment). The graphic depicts the total score assuming that all topics have an equal weight, 10 being the best score.

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

There is an old saying that, "money doesn't buy happiness, but it certainly helps". The Better Life Index is a composite indicator that summarises a range of fundamental parameters having an influence on the quality of life of individuals, including health, education, security, life expectancy and income. Launched on the occasion of the 50th anniversary of the OECD in 2011, the index stands in the tradition of the recommendations made by the Stiglitz-Sen-Fitoussi report to focus more on the actual well-being of citizens instead of on traditional measures of GDP. The GDP per inhabitant in Equatorial Guinea, for example, is similar to the one of Greece, but infant mortality in Equatorial Guinea is 30 times higher than in Greece. The Better Life Index is thus not just about measuring wealth, but also about how wealth is used.[18]

The "Northern" countries score highest in the index. The quality of the education and health systems, as well as housing, contributes the most to the well-being of citizens. The score with regard to working conditions and income varies from country to country with, for example, remuneration being a weak point in Finland and working conditions in Ireland.

Southern and Eastern European countries score much lower in the index, particularly Greece, Portugal, Hungary and Estonia. Past and ongoing economic crises have certainly contributed to this result by negatively influencing income and working conditions. In addition, a general discontent with public services in exists in these countries.

The only factor which is rated positively across all EU Member States in the Better Life Index is the environment.

18. Boarini Romina, Asa Johansson et Marco Mira d'Ercole, "Alternative Measures of Well-being", *Statistical Brief* n°11, OECD, September 2006. Voir aussi : www.oecdbetterlifeindex.org/

III.4. The EU Budget

By constructing the EU, Member States have not simply chosen to coordinate their policies, but have created tools to conduct common policies on the European level. The budget devoted to these tools is €147.5 billion in 2012. This is a sizeable sum, but, in reality, it represents only around 1% of EU GDP, whereas the American federal budget amounts to 31.9% of GDP.[19]

In contrast to the United States, the EU is not a federation. Bar certain exceptions, it does not have the authority to levy taxes. Only the European Commission can issue bonds guaranteed by its own budget – this was done, for example, when financial aids were accorded to the countries that were most hit by the crisis in 2010, but remains rather exceptional.

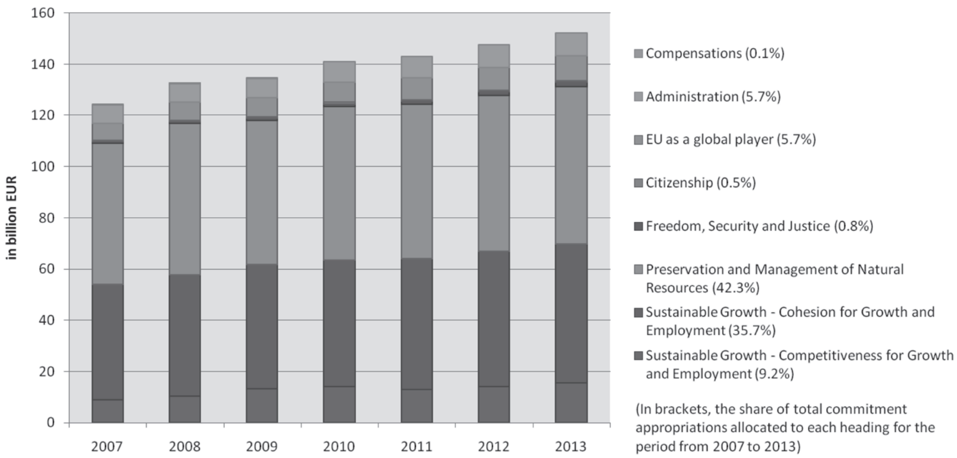
The limited federal character of the EU is clearly shown by the fact that a considerable part of its budget is managed, according to the principle of subsidiarity, at the national or regional levels. While the broad guidelines for instruments such as the European Regional Development Fund and the European Social Fund are set at the European level, their budget is directly administrated by national governments or authorities on the sub-state level.

The small EU budget also reflects a deliberate choice by Member States to retain the management of public policies which are closely linked to the exercise of their sovereignty. Apart from the Common Agricultural Policy (CAP) and some large research programmes, there are only a few budget items whose management is delegated entirely to the European level. It is hardly imaginable, for example, that France would delegate the administration of the budget for social policy to the European Commission.

Nevertheless, the idea of fiscal federalism now takes centre stage as part of the solution to the crisis of the euro area. So far, however, neither the Treaties nor the EU budget allow for fiscal transfers between Member States. The lack of any such possibility makes the euro area very vulnerable to asymmetric shocks, i.e. sharp economic downturns that only affect a limited number of countries but not the entire currency area. The European Financial Stability Facility (EFSF) provides a solution for liquidity crises, but not for problems of solvency in which case fiscal transfers would be necessary. This question is at the heart of the debate about aid that could be made available to Greece.

19. Y. Bertoncini and A. Barbier-Gauchard, *Tableau de bord des dépenses publiques de l'Union européenne et de ses Etats membres*, Rapport du Centre d'Analyse Stratégique, 8 June 2009.

III.4.1. The financial framework of the EU (2007 – 2013)



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

The financial framework of the EU for 2007 – 2013 determines the general guidelines of the European budget for the concerned period. In particular, it defines the ceilings, i.e. the maximum amount that can be spent each year for the different budgetary items. In total, the EU budget for 2007-2013 amounts to €975.8 billion.

The financial framework is structured around three main objectives which correspond more or less to the targets of the Europe 2020 strategy:
– Employment (European Social Fund, ESF)
– Competitiveness (European Regional Development Fund, ERDF)
– Environment (European Agricultural Fund for Rural Development, EAFRD, and the Common Agricultural Policy, CAP)

These funds are applicable in different ways to different EU countries, depending on their level of economic development.

In addition to these expenditures, the financial framework also includes funding for the promotion of citizenship, for “freedom, security and justice”, for external policies, and for the administrative costs of the European institutions.[20]

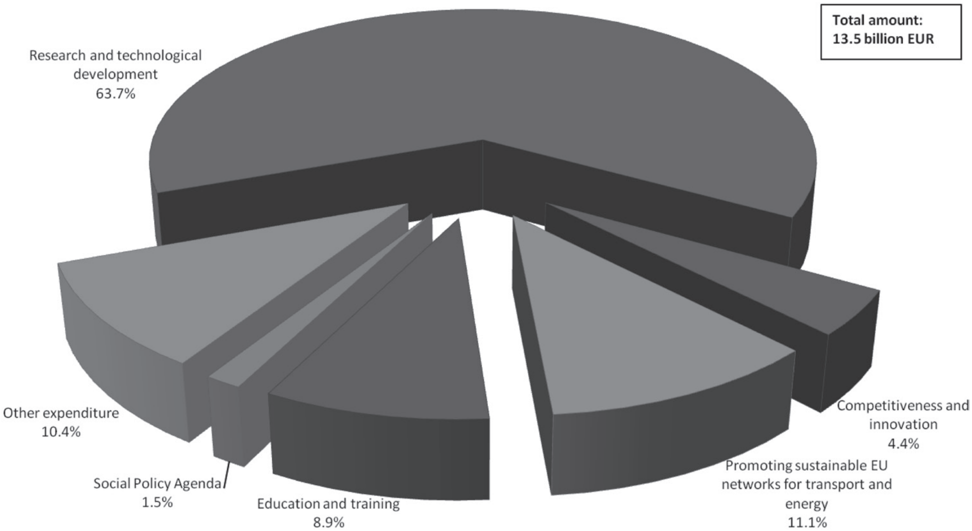
The revenues come primarily from direct contributions from the Member States and differ according to the size of their economies. These contributions make up 75% of the total budget; the remaining part comes primarily from customs duties and a standard share of the harmonised value-added tax base of each country.

The EU budget is an important means of redistribution between Member States. The net contributors to the budget, i.e. those who pay more into the budget than they get back from it, are France, Germany, the Netherlands, Austria, Sweden and the United Kingdom.

Map – EU Budget, 2011

20. For more information on the budget see: http://ec.europa.eu/budget/

III.4.2. EU budget allocated to improving competitiveness (2011)



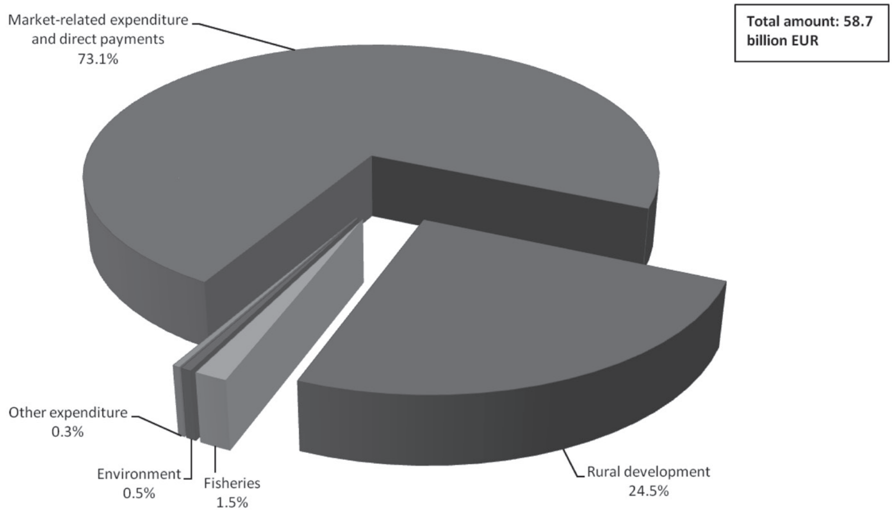
Source: European Commission
Data collected and collated for the Robert Schuman Foundation, © FRS

The Europe 2020 strategy builds on the objectives set by the Lisbon and Gothenburg strategies, particularly the goal to increase investment in R&D to 3% of GDP. In its effort to increase competitiveness, the EU concentrates on three areas in particular:
– The creation of an internal market in which goods, services, capital and people can move freely;
– the funding of innovation projects through the ERDF;
– the funding of research projects through the Framework Programmes for Research and Technological Development (currently the 7th framework programme).

The Framework Programmes for Research and Technological Development are managed at the European level, coordinating projects involving enterprises and research institutions from different countries. In contrast, the ERDF supports projects at the local level that are directly administered by national governments or local authorities. ERDF projects are not entirely funded by the ERDF, which only tops up public and private funding. It therefore works as a lever to stimulate other funding in innovation. Funding in competitiveness is primarily focused on R&D, but also supports sustainable transport and energy networks, training and inter-territorial cooperation. The ERDF aims both at achieving convergence for new Member States and competitiveness for all Member States.

The ERDF draws on different financial instruments such as venture capital, development funds, and guarantee funds which share a number of characteristics: first, they are not managed by public administrations, but by specialised funds; second, it is possible to use the funds more often than once since they are loans and not subsidies. It is very probable that the next generation of European funds in the period from 2014 – 2020 will be designed according to this type of financial instruments.

III.4.3. EU budget allocated to the common agricultural policy, the environment and rural development (2011)



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

The agricultural policy is one of the EU's oldest policy areas and traditionally the one with the largest budget: 42.3% of the current budget is allocated to it, with most of it (73.1%) dedicated to the Common Agricultural Policy (CAP).

Created by the Treaty of Rome in 1957, the CAP was established in 1962 with the objective to feed a continent that had suffered years of privation following the Second World War. With the help of the CAP, the EU achieved self-sufficiency in food by isolating European agriculture from world markets. Prices for agricultural products were set at the Community level, above world market prices, in order to guarantee stable incomes to farmers and to encourage productive investments. Competition was shut out by controlling imports and exports.

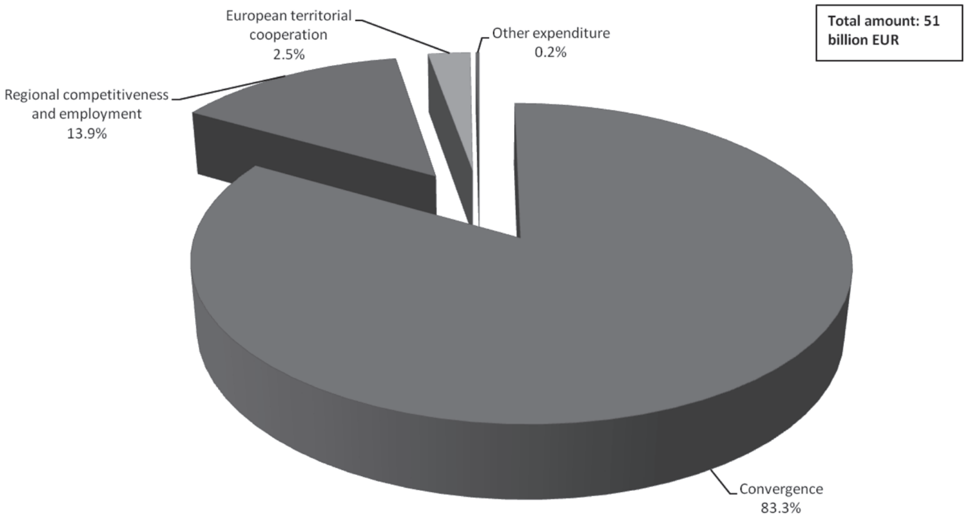
However, from the 1980s onwards, the CAP caused substantial over-production, which created downward pressure on prices. At the same time, the CAP was increasingly criticised in a context of progressive liberalisation in international trade. The CAP became unsustainable in its original design and has been the subject of several reforms.

Since the 1st of January 2007, the creation of two new funds – the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) – has made possible a clear distinction between the CAP's different objectives: EAGF, administered by the European Commission, is employed for market interventions through direct payments to farmers which are subject to certain environmental and health standards; the EAFRD, administered by the Member States, is used to improve the competitiveness of the agricultural sector, while promoting at the same time the protection of the environment and the rural landscape.

The successive reforms of the CAP have been made in response to criticism expressed by non-European countries who considerer that the CAP distorts competition to the detriment of farmers, in particular in developing countries, who do not benefit from generous state subsidies. The EU has proposed abolishing export subsidies by 2013 as part of a broader agreement to be reached in the Doha trade talks.

A tool similar to those for agriculture also exists for the EU's fisheries policy: the European Fisheries Fund.

III.4.4. EU budget allocated to cohesion policy (2011)



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

The EU is characterised by large economic disparities between Member States. The crisis in the euro area shows that convergence is not automatic and that too much divergence within the single market and the monetary union weakens economic and political cohesion.

The structural funds aim at promoting a harmonious development of all European regions, permitting new Member States to catch up economically with the richer Member States while improving competitiveness across the entire EU.

The policy relies on three funds:
– the European Regional Development Fund (ERDF): infrastructures, innovation and investments;
– the European Social Fund (ESF): training and employment;
– the Cohesion Fund: environmental and transport infrastructures and the development of renewable energies. It is reserved for Member States with a GDP per inhabitant below 90% of the EU average (Portugal, Greece, Spain, and Central and Eastern European countries).

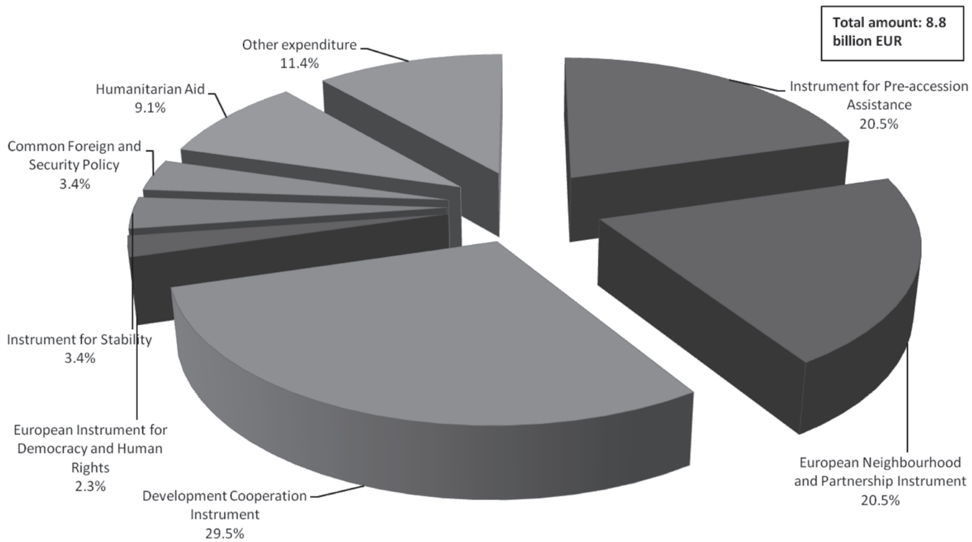
Additional funds promote territorial cohesion in the framework of the Programmes of Community Action such as INTERREG which is designed to stimulate cooperation across borders of EU Member States.

In November 2010, the European Commission published its fifth report on economic, social and territorial cohesion.[21] The disbursement of cohesion funds is generally well received and efficient and should be renewed in 2013. The consistency of the intervention strategies of these funds should be strengthened, both between regions and between funds, and the process of monitoring results and performance is to be encouraged. In particular, the conditions for obtaining funds could be negotiated with the Member States; for instance, the respect of the Stability and Growth Pact could become a condition for receiving funds. On the sub-state level, this is a cause for concern since regions could be punished for policy failures at the national level. Finally, financial tools, such as those already established within the framework of JEREMIE and JESSICA should be multiplied: investments should take precedence over subsidies.

Map – Use of the Structural Funds by the European Union Member States

21. European Commission (2011), *Quelle politique de cohésion après 2013 ? Eléments sur l'état des discussions*, Note stratégique, Edition May 2011.

III. 4.5. The EU as a global player (2011)



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

Even though the budget allocated to the EU's external policies makes up only a small part of the total budget (9%), the financial instruments funded through this budget line are an essential tool for the EU to develop its sphere of influence.[22] The EU's sheer size and the nature of its competencies confer on it important responsibilities on the global level. Although the ambition of the EU is not necessarily one of a "global power", it still needs to defend its economic and commercial interests while seeking cooperation with other countries and regions in order to promote peace and growth.

An important share of this budget is allocated to developing the EU's relations with its neighbourhood, whether for countries preparing their accession to the EU or for the countries in the Southern Mediterranean. The Arab Spring shows how important it is for the EU to build constructive, open and long-term relations with its neighbours.

Humanitarian aid is also an important aspect of the EU's external action. For instance, the Commission is strongly engaged in Haiti and is a main contributor to projects involved in the reconstruction of the two main road transport corridors.

Finally, the Common Foreign and Security Policy (CFSP), is included in the EU's external budget line. Catherine Ashton is the first High Representative in charge of the CFSP since the entry into force of the new provisions laid down in the Lisbon Treaty. She represents the EU and is responsible for coordinating the EU's external policies, including international crisis management. To that end, she is supported by the newly established European External Action Service (EEAS), which now constitutes the core of EU diplomacy.

22. European Commission (2004), *A World Player. The European Union's External Relations*, July 2004.

Page layout by Nordcompo at Villeneuve d'Ascq
this work was printed in XXXXX 2012 by
Printed in France
Dépôt légal : xxxxxxxx 2012 - N° d'impression : XXXXXXXXX