

EUROPE'S COMING OF AGE: A FEW THOUGHTS¹

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Resilient, but ready for change?

Most Europeans share the use of a sturdy vehicle which has been tried on very difficult terrain for many years. It is called the EU: a strange vehicle indeed, unlike any other on the roads of the world, surely not a flashy vehicle, rather slow and not easy to drive either. However, it has been able to accommodate ever-increasing numbers of passengers and covered a remarkably long distance, often in adverse conditions and with accidents on the way. Resilience is the key word.

Only one passenger, the UK, has so far decided to leave the communal vehicle and look for its own independent means of transportation at a juncture where the road gets much rougher. All other passengers have stayed on, although bickering most of the time about the direction they take and the speed they travel while jostling with each other for access to the wheel and the best seats. They are all meant to have equal rights. In practice, everybody knows that some passengers have more rights than others – they are after all so much bigger in size. And those usually confined to the back seats know only too well it is still much better than having to walk by themselves. It is not always fun – sometimes it gets ugly inside the bus – but strangely enough the bus keeps moving on, and outsiders marvel how.

The large European single market still constitutes the cornerstone of European integration. It is a great achievement that allows for the free movement of goods, services, people and capital across a very large space with no national borders – almost no borders, to be precise, because they tend to reappear in times of crisis. The single market contributes significantly to economic prosperity and ensures free choice for European citizens in terms of where they want to live and work, and how to spend their money. All twenty-seven EU members are part of the single market while several countries outside, including now the UK, are linked through all kinds of custom-made agreements.

The existence of a common trade policy has turned the large single market into a powerful negotiating weapon in the hands of the EU. No outside country and no foreign company, however big they are, can be relaxed about losing access to a market of 450 million relatively prosperous consumers. This makes the EU a trade superpower. It has also become a regulatory superpower with high standards for the protection of the worker, the consumer and the environment, usually among the highest

¹ This paper contains long extracts from Loukas Tsoukalis, *Europe's Coming of Age*, Polity 2022.

in the world. But it is a continuous uphill struggle against free market zealots and powerful organized interests, not to mention institutional failures in a highly decentralized system. Naturally, it also leads to excesses. Opponents of European integration concentrate on the latter.

The European single market is also underpinned by structural policies mostly directed towards the less developed parts of the Union. Thus, the free movement of goods, services, people and capital inside the EU is tied to development and redistribution policies through the common budget. This is still a mild version of what happens inside most European countries, where redistribution and social protection operate on a much larger scale through the welfare state. Social policy remains today mostly in the hands of national governments.

European integration as a convergence machine reducing the economic gap between more and less developed parts of the Union has worked less well in recent years. Regional disparities remain; in some parts of Europe, they have become worse. Those in the forgotten regions protest with their votes, albeit diminishing in numbers as more and more people leave in search of better prospects, usually outside their national borders.

The freedom to leave one's country has become a key attraction of EU membership for new and prospective members. If in doubt, ask people in the western Balkans who are desperate to join the EU and emigrate. They want to follow the example of many others who have already left their countries in search of better opportunities in the more developed parts of the Union. Join and leave: it may sound like an oxymoron. Free movement of people has turned at best into a mixed blessing for both home and host countries inside the Union. It may not be politically correct to say so because it challenges the official mantra about the fundamental freedoms of the EU. And yet it is an undisputable fact that also serves as fodder for nationalist and populist movements in several countries.

Free markets and technological change combined have strong agglomeration effects. If anything, such effects have been accentuated during the recent phase of globalization. Corrective action is therefore needed unless our societies are prepared to live with ever larger urban concentrations, wide regional disparities and more deserted areas in the hinterland. Or will the problem be at least partially solved through digitalization and teleworking? There are idyllic places with very few inhabitants in many parts of Europe. The digital revolution could turn them into small paradises for people who enjoy the luxury of distance working.

The EU and its member states have developed instruments to deal with large regional disparities, but resources and administration are inadequate. A European single market needs an appropriate mix of liberalization measures and accompanying policy instruments to make it a positive-sum game for the large majority among European citizens. This is, after all, what the European model of mixed economy and welfare state with its different national variations has always been all about. It was challenged by the (neo)liberal revolution and now the pendulum is swinging back.

Politics remains mostly national while markets have become increasingly European and global. This creates an inherent asymmetry. In a half-baked political system

trying to catch up with market integration, which is the case of the EU and unique in the world, there is an inherent liberal bias in economic terms, hence the initial scepticism of many social democrats and socialists vis-a-vis the European project. But is political ideology the key factor in European politics? An economic liberal from Greece is still much more likely to support EU structural policies and transfers than a German social democrat. Guess why!

This inherent liberal bias of European integration has been increasingly challenged by changing facts on the ground. They include greater inequalities between and within countries, the financial crisis and its aftershocks, Europe's technological dependence and the climate crisis, not to mention the return of industrial policy in the developed world as a key instrument for guiding the allocation of resources. The emphasis has gradually shifted away from liberalization towards empowerment policies and the provision of public goods. It has also shifted from austerity to macroeconomic expansion. EU institutions have been trying to adjust to this new reality by fits and starts and most often in response to crises. One such example was the pandemic, which brought about a true game changer in the form of an ambitious recovery programme with a strong redistributive bias between members and the issue of common debt. It also brought about a coordinated effort in public health, in which the EU had very little competence before. Such developments would have been simply unthinkable only a few years earlier. The energy crisis that soon followed has further reinforced this trend.

One of the big questions for the future will be whether the recovery programme serves as precedent for more joint borrowing to finance large investment programmes or whether it remains a one-off response to an extraordinary crisis. And the answer will depend to a large extent on the use made of these new resources by member states and the kind of domestic reforms they help to bring about. Can the EU drag along laggards within its borders with the use of common rules, financial incentives and conditionality? The record has been mixed so far. To achieve better results, it will need more power at the centre and more money.

Demands on the public purse have been constantly rising. Where will the money come from? Borrowing at close to zero interest rates is now a thing of the past and debt levels are already too high for comfort in several countries. New and better taxes are needed. A more effective, environmentally friendly and socially fairer system of taxation would go a long way in restoring legitimacy and trust in our democratic systems.

Unconstrained national sovereignty in tax matters no longer makes any sense in an economic space where capital particularly is very mobile and can easily arbitrage between different national tax regimes. Multinational digital platforms have been very active in this game and made large gains. The EU has the size and collective bargaining power that individual countries do not have. It could therefore provide the right framework for tax cooperation among member states. It could also selectively raise common taxes to finance common policies. The fight against climate change is the most obvious example. Taxation has a political and symbolic value as well. If this battle is waged successfully, it would help a great deal to bolster the legitimacy of the European project among broader sections of society. They may not include, though, nationalists, tax evaders and free riders all fighting in the name of (what else?) national sovereignty.

Most EU members share a common currency, a common monetary policy, and a common framework for fiscal policy which remains in the hands of national governments. Members of the Eurozone belong to the most advanced tier of integration. They have committed themselves to sharing the main levers of economic policy. But European monetary union has had anything but a smooth ride, which may suggest that the project had been flawed from the beginning or that some members had not been ready for it – most probably both.

Be that as it may, almost everybody now agrees there is no way back. No possibility of divorce in other words – never say never? – even when this polygamous arrangement looked at its most unhappy. Being left with no realistic alternative, members of the Eurozone have endeavoured to strengthen the common arrangement and make it more liveable for all concerned. And in so doing, integration has gone further and deeper. The apotheosis of functionalist theories or the conspiracy of the *illuminati*?

The European monetary union is still a highly imperfect construction. It is also asymmetrical, with Germany as the leader who wields strong veto power and occasionally makes concessions having previously exhausted all other alternatives. Moreover, the euro remains today the most extreme manifestation of the gap between economic and political integration in Europe. Some of its architects had thought of monetary union as the most effective lever for political union. But in times of big crisis, it became a hugely divisive factor that threatened to blow apart the whole European construction.

As the aftershocks of the pandemic begin to fade away, we may prepare for a partial return to the old ‘normal’, albeit only partial because other causes of the overall policy shift are unlikely to go away as well. New fiscal rules need to be agreed to replace those suspended during the pandemic and the energy crisis that followed also accompanied by a big rise in inflation. European economies now have even more debt than before, they also need large amounts of private and public investment. The ECB and national treasuries will have to steer a hazardous course between stagnation and inflation. Banking union is still incomplete and capital union a (slow) work in progress. Let us also not forget that the euro could serve as a powerful instrument to strengthen Europe’s strategic autonomy, if only the political will were there.

The Green Deal is Europe’s big new project. It is a long-term project with a target date almost thirty years from now for the decarbonization of the economy. EU institutions are trying to set guidelines, coordinate action between member states, adopt common rules and policy instruments and provide a large part of the finance required. If the Commission had not existed, it would have had to be invented if only to help with the green transformation of European economies. The EU is also a key player in international negotiations. If successful, the Green Deal will radically transform not only the economy but also the politics of Europe. The good news is that Europe is trying better and harder than most of its international partners. The sobering news, though, is that we are still at the early stages and implementation will be rendered ever more difficult by high energy costs and a confrontational international environment. But we simply cannot afford to go slow on climate policy. It is a matter of survival.

Looking back to what happened during the last decade and more, it has been a truly transformational change of the domestic economic agenda in Europe. Agendas

shape policies, and policies eventually transform institutions – or is it the other way round? Many European political leaders may not have yet fully digested the nature and scale of change.

The world outside

The EU has the experience and the capacity in managing the ever-growing interdependence between its members through a mix of liberalization, regulation, stabilization and redistribution policies. It is surely far from perfect, but still much better than anything else in today's world. In contrast, the prospects for global cooperation do not look promising and multilateral rules are too often ignored. WTO rules proved too weak in the past to ensure conditions of fair trade and led to justified complaints that China, as the foremost example, has exploited loopholes to the full.

Moreover, security considerations increasingly take precedence over economic objectives. If anything, this tendency was reinforced by the pandemic and even more so with war returning to Europe and the unprecedented sanctions levied against Russia after the invasion of Ukraine. While the process of global interdependence slows down, if it does not altogether shift into reverse gear, which is no longer an implausible scenario, the forces pushing for further integration in Europe are likely to persist. European integration and globalization are parting ways.

As one of the big economic blocs in the world, the EU is faced with the hard task of reconciling the benefits of international interdependence with its own economic and social priorities. To put it bluntly, the EU and its member states will need to reconcile economic openness with social justice and the ballot box, an exercise that has become increasingly difficult with time as the number of losers at home has grown. Economic liberals will call such talk protectionism, but they will first have to explain what went wrong with globalization before. Attempts to draw a clear line of division between free trade and protectionism by squeezing everything under one or the other category have little relevance for the world today. They are political slogans rather than fact-based analysis.

A major task of the EU in the years to come will be to help member governments find a better *modus vivendi* between global markets and domestic social contracts. This is absolutely crucial although not widely understood. Economic interdependence can and should proceed faster between countries with compatible economic structures and priorities. But given Europe's close integration into the world economic system, it would make little sense for Europeans to turn economic interdependence into a weapon to be used in a political and ideological war with China. Europeans will have good reasons to view their relations with China differently from the United States.

The competition and regulatory arms of the European Commission regarding new technologies have been put to good use. But the key question remains whether European companies will be able to play global championship games in the future, instead of the Commission just trying to referee games played by others. Continued technological dependence on companies, and indirectly also on governments, beyond Europe's borders would severely reduce the capacity of Europeans to define independently their interests and defend their freedoms and way of life. To avoid this,

Europe will need to complement an effective competition policy with industrial strategies fit for purpose in the new technological era and try to reconcile the two. The key priority for Europeans should be to think strategically and collectively. They should invest in a big way in innovation and help mobilize large amounts of resources. They will also need institutions that think outside the box.

Because of its long-accumulated experience of cooperation and compromise, Europe would be ideally suited to trying to inject a healthy dose of reason and moderation into the management of global interdependence. This could apply to the design of new and better multilateral rules and institutions to govern international economic exchange. It could also apply to the greening of the global economy, with Europe playing a leading role in the creation of an international climate club that will combine incentives and sanctions to achieve this crucial goal for humankind. The European model has indeed valuable things to export to the rest of the world. Instead of imperial conquests in which they specialized in the past, Europeans might try instead to export the logic of cooperation and the defence of global commons. It would be a most welcome change.

Such arguments should apply even more to broader issues of peace and security. In a world in transition, with growing strategic rivalry and rising nationalism, Europe can be the quiet power that does not think and act in Manichean terms, is patient with negotiations, acts in moderation and seeks compromise solutions. But let us have no illusions. The force of persuasion of a European Venus will depend not only on her beauty and the intrinsic value of her arguments. It will also crucially depend on the kind of power she can project. Such power will need to include trade instruments, economic sanctions, and military weapons as the ultimate means of persuasion. Europe needs credible means to defend its interests and values.

It is high time Europeans begin to face up to some fundamental questions. Can matters of European security and relations with a revisionist/revanchist Russia be decided in their absence, and if not, how should they handle an aggrieved and aggressive neighbour, a declining power yet heavily armed? And should European countries continue to free-ride on US security protection? Objections to free riding can come as a matter of principle. But there are also legitimate questions about how reliable such protection may be in the future and at what price it may come.

The long history of isolationism and exceptionalism in US foreign policy, the US pivot to Asia, the painful experience with the Trump administration, and the extreme views aired by several US politicians today should make Europeans think about what may be in store for them in the future. They may also not forget the almost unlimited urge in Capitol Hill to apply US laws extraterritorially through a dollar-based international financial system. Sometimes, Europeans too find themselves on the wrong side of US extraterritoriality.

The alliance with the United States of course remains crucial for the security of Europe, especially when faced with a revisionist and trigger-happy Russia. But Europeans need to take greater responsibility for their collective security inside the Atlantic alliance and face up to the costs. Excessive dependence on an external protector, even though usually benign, is not a healthy state of affairs. Taking more

collective responsibility for their security would also give Europeans less excuse to blame others when things go wrong. It is all about becoming a political adult.

Many people believe Europe will never make this transition from an economic to a political power, from soft to hard power. They are probably the same who in earlier times were entirely convinced that a common European currency was a pipe dream and preparations for it a kind of tribal rain dance. They were the same who later predicted that the European project would never make it through the financial crisis, the migration crisis and more recently the pandemic and the energy crisis. Admittedly, this new transition required of Europe will be even more difficult.

Big events and big crises have indeed been the catalysts for major new initiatives in European integration. Should Europeans wait for Trump or his new incarnations to return to the White House? Should they wait for a major new conflagration in the Balkans, the Middle East or Africa, or for China's resurgent nationalism and malign use of new technologies, before they begin to forge a common foreign and security policy worth the name? And most important of all, has Putin's Russia given them a loud enough wake-up call? Even unintentionally, Putin may have rendered a great service to European unity. The radical change in German policy could help to usher in a new era in European defence cooperation.

Europe is essentially a regional bloc with limited global ambitions, albeit sometimes pretending otherwise. Its neighbourhood broadly defined is neither stable nor peaceful. Soft power is not enough when it comes to wars in the Middle East or Africa which directly impact on European security. And the choice between engagement and containment is never easy when dealing with bullies outside. Those inclined to a more muscular approach to foreign policy are usually tempted to dismiss most forms of engagement as appeasement.

Finding the right mix between engagement and containment is one thing; recognizing that the right mix should be defined at European rather than national level is another. A divided Europe can hardly play an effective and stabilizing role in its neighbourhood, or anywhere else for that matter. It becomes an object rather than a subject of international diplomacy as outside powers play one European country against another. Even France, Germany and the UK should have learned this lesson from experience.

An advanced form of engagement has been the well-tried method of Europeanization. Bringing countries of the European periphery into the EU fold has been indeed the most powerful tool of common foreign policy. But we now know it has limits. How many more new and weak members can the EU take before the Brussels machine grinds to a halt? The stabilization role of the EU in its immediate neighbourhood, including notably the western Balkans and now Ukraine and other countries in the former Soviet space will require a stronger and more political European centre, more money, and ways to associate countries much more closely with the European project but still short of full membership for several years to come. It could all be part of a more united yet more differentiated Europe in the making. If you think this is a contradiction in terms, you may need to delve more into the history of European integration.

Many people from nearby countries and further afield want to come and settle in Europe. It is a paradise of peace and prosperity compared to conditions they experience

at home. With a declining and ageing population, Europe indeed needs immigrants. But not in the form of large unregulated inflows which provoke a political backlash on the receiving end. Europe's humanitarian values – and international conventions created under very different conditions years back – have been repeatedly sacrificed for the sake of political stability and social peace at home. Let us admit it will be difficult to reconcile supply with demand for immigrants in the years to come and even more difficult to reconcile humanitarian values with political realities. It would greatly help, though, if European countries can agree on the essentials for a common migration policy and try to better integrate immigrants who are already in.

A political adult?

For many years, the EU has kept acquiring more functions and members. Good old functionalists point with glee to the inherent expansive logic of economic integration and the reduced capacity of member states to handle problems on their own. On the other hand, those who believe in the primacy of politics stress the importance of big political events such as the fall of dictatorships in southern Europe, German unification and the dismantling of the Soviet empire as key factors that have shaped the course of European integration – the war in Ukraine being the next one? Meanwhile, fans of conspiracy theories keep denouncing the role of the *illuminati* and the Brussels cabal in this everlasting plot against proud European nation states fighting to protect their sovereignty.

Believe what you want: the simple truth is that the EU has been constantly growing albeit not in a linear fashion. Brexit constitutes the main exception to the rule. Slowly but surely, the EU has been acquiring more functions, some of which are normally associated with a federal state, notably the common currency, while new members have added considerably to internal diversity. Trying to reconcile the two, the EU has relied more on differentiated integration among its members and less on common institution building. The latter requires treaty revisions and treaty revisions require unanimity, which is more than one can hope for in today's political context. The rule of unanimity for all big decisions in the EU has morphed into the tyranny of minorities.

The result has also been more intergovernmental cooperation and more ad hoc arrangements. It is extremely messy for sure, but this is not all. Responsibilities grow but the capacity to deliver does not follow suit. The widening gap between expectations and capabilities leads to disappointment and weakens the legitimacy of the European project. EU institutions are being constantly judged on delivery. They have a much smaller reservoir of legitimacy to draw from than national institutions. As new functions are being constantly added in a bigger and more diverse EU, European treaties become like a legal straitjacket. It is often difficult for common institutions to breathe in it and hence deliver what is expected from them.

Europeans will need to take some difficult and bold decisions in the months and years to come. And the rest of the world is unlikely to sit around and wait for Europeans to agree among themselves and then act. Europe needs to become an economic and political adult and urgently so to be able to defend effectively collective fundamental interests and values. The why and how have been discussed more extensively elsewhere².

² *Europe's Coming of Age, op.cit.*