

LOUKAS TSOUKALIS

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The Crisis in Europe: A Catalyst for Change?

Europe is in deep crisis: the statement now sounds like a commonplace observation. It is the worst economic crisis for decades, with no end in sight as yet. It will shape Europe and European integration for years to come, but it also risks leading Europe down the road to disintegration.

The contrast with the mood prevailing at the turn of the new century, just more than ten years ago, is stark. Back then, Europe was riding on a wave of euro-enthusiasm, and many people were convinced that further integration was an unstoppable process. Three big and highly ambitious projects were expected to transform radically the economic and political scene in Europe: economic and monetary union (EMU), the biggest ever enlargement of the EU following the disintegration of the Soviet empire, and the turning of the European founding treaties into a constitution. It was going to be yet another round of deepening and widening, as the European jargon goes, but on a much bigger scale than ever before.

A decade later, we are of course much wiser – lynched by reality, one might argue. European citizens and international markets have taught us lessons which proved to be rather expensive. We have learned, for example, that European citizens were no longer ready to give their leaders a *carte blanche* on the future of European integration. A yawning gap had opened between elected politicians and their electors on things European: parliamentary ratifications

of the Lisbon Treaty (and its predecessor) were mostly comfortable, voted by large majorities, while referendum results revealed much unhappiness and also large amounts of ignorance on behalf of citizens. The elitist conspiracy of European integration, full of good intentions and with pretty remarkable results, probably reached its limits. The so-called permissive consensus was no longer.

We have also learned that although enlargement may be indeed the most successful foreign policy of the EU, it inevitably comes with a price in terms of internal cohesion. Numbers also make a big difference. With twenty-seven, European councils of different denominations are no longer a group. They have now come to resemble a mini-UN conference. And that makes a big difference on the way those councils are treated, especially by representatives of the bigger countries. On the other hand, more people now realize that the EU is not a modern incarnation of Saint Panteleimon, the all-merciful healer of all kinds of disease. The miracle of Europeanization has been cut down to size through experience.

The creation of the single currency has been undoubtedly the most important act of integration. We always knew that the construction was unbalanced, but that was all that was politically feasible at the time of creation. Before the crisis, I used to compare EMU to a postmodern construction that defied the laws of gravity. It did so success-

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fully for more than ten years, and there were those who were lulled into believing that the good times would last forever. Alas, the laws of gravity (and the market) finally began to take their revenge – and they did so with great force. The year 2010 became the year of the crisis of the euro area, with Greece acting as a catalyst. Was EMU a step too far in European integration? We are in the process of finding out the answer, and the stakes are very high indeed.

We live through a big crisis of the euro, which is part and parcel of a much broader crisis that has resulted from the bursting of the biggest bubble in the Western financial system for several decades. The crisis is the result of colossal failures in markets and institutions. It also marks a big failure for economic science and its prophets. The efficient market hypothesis, resting on the behaviour of rational actors armed with perfect information, which had provided the intellectual basis for financial deregulation in the West, was shown to bear little resemblance to real life financial markets in which greed and moral hazard met in an explosive mix, with the old herd instinct being added for extra effect.

When the crisis acquired a strong European dimension, many people began to bet on the disintegration of the euro area on the belief that Europeans had neither the instruments nor the political will to deal with the problem. They were mostly, although not exclusively, to be found in Wall Street and the City of London. They have not won their bet as yet, but the game is far from over.

Many things have happened since the outbreak of the crisis. The unthinkable has indeed happened in many ways, including fiscal consolidation measures and structural reforms in the most vulnerable countries together with big bail-outs that dare not speak their name (followed by a major restructuring of sovereign debt in the case of

Greece), new coordination procedures and the setting up of a new crisis mechanism at the European level. The unthinkable has therefore happened, but at every stage markets reached the conclusion that it was not enough. Political responses to the crisis have generally been slow, inadequate and poorly handled. Some critics go further: they argue that the overall strategy is deeply flawed. In the meantime, European voters have been punishing those politicians who had the bad fortune to manage the crisis and the austerity measures associated with it. Resistance to such measures has been gathering strength, thus making their sustainability increasingly questionable.

EMU has become a make or break issue for Europe. We have clearly reached a new integration frontier, and we are not at all sure what lies ahead. The measures required to deal comprehensively with the crisis form a tall order, arguably one that may be well beyond the capacity of member states and EU institutions to deliver. The banking and sovereign debt problems need to be dealt with jointly, and half measures are unlikely to stabilize markets that exhibit simultaneously signs of panic and the behaviour of carnivores that smell blood. The financial firepower required will be huge, while national adjustment programmes are already stress testing political stability at home, the flexibility of the economy as well as social endurance. A new balance urgently needs to be found between stabilization and growth.

The stakes are very high indeed. The crisis is acting as a powerful catalyst for further integration in Europe. Admittedly, the appetite is not there. But necessity has often been a more powerful driver than good intentions or even desire. The alternative facing us today is disintegration at a very high cost. But what if there are real misfits in the euro area? And what if the economic measures required to deal comprehensively with the crisis prove to be beyond the political capacity of member states to deliver?

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While trying to manage the crisis, we should not, however, lose sight of the broader picture. The crisis that began in 2007, and has already gone through different phases, arguably marks the end of an era. It was an era of globalization that created many new opportunities for growth, while permitting a shift of production and economic power of an unprecedented scale from the West to the East, together with the integration of hundreds of millions of people into the world capitalist system, people who had been living until recently in subsistence conditions. It was an era of major innovations and rapid change. But it was also one characterized by growing inequalities and the squeeze of the middle class in the West, especially in the US and the UK where the finance dominated model of capitalism was the most developed. And last but not least, it was an era marked by two very big market failures which led to the bursting of the financial bubble and to global warming. Growing consumption had been largely paid through rising debt and with deleterious effects on the global environment.

If this is indeed the end of an era, we are not sure as yet what will succeed it. We find ourselves in an intermediate stage when the old is dying and the new has not yet been born. According to Gramsci, this is precisely the time of monsters. In today's world, the monsters are taking the form of populism. Populism is trying to fill the vacuum created by the collapse of neo-liberal ideology. And this has major implications for national as well as European politics and policy-making. It would be dangerously naive to think that the European dimension of the crisis can be dealt with independently from the rest.

Many people pretend, and have good reasons for it, that the crisis was an unfortunate accident of the kind that can happen all the time ('stuff happens', as Donald Rumsfeld would have said). We should therefore deal with the damage as well as we can and go back to life as usual, they

say. After all, there are vested interests to defend, as well as intellectual idleness and well-worn habits to contend with.

Crises provide opportunities, including opportunities to change the terms of the debate. Surely, our European economies need to become more dynamic – the economic prospects are not good and the demographic trends are even worse. Yet while doing so, we need to rethink our model of economic development: redefining the boundaries of financial markets, proposing policies that are more environmentally friendly, more socially inclusive, and with more emphasis on qualitative growth. We need to renegotiate the social contract catering more for the interests of the economically weak, as well as the interests of the younger generations who are now expected to foot a large part of the bill. European welfare systems surely need to be reformed, but in order to better preserve their essential features in changing conditions. After all, it is not the European social model in its different national incarnations that has brought Europe close to bankruptcy, but rather a particular variety of capitalism that had been advertised for years as the only way forward. And we need to revise our ways of managing European (and global) interdependence, while deciding how far we want to go in trying to defend jointly common interests and values in a world where size still matters a great deal. Many of the old style diehards of national sovereignty, apparently gathering strength as a result of the crisis, seem to inhabit a world of their own. It would be a dangerous world to go back to, and this needs to be clearly explained.

Europe is better qualified than other parts of the world to adopt such new ways of thinking and eventually even providing a model for others to follow. It has democratic traditions with strong roots, deeply ingrained notions of social justice and environmental concern, a long history of a mixed economy,

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and a healthy scepticism (of the large majority so far) of so many ‘-isms’, including crude forms of nationalism, a scepticism earned through bitter experience.

For a long time, European integration had been like a car moving uphill: the French usually provided the driver, the Commission the map, the Germans paid for the petrol, and the British oiled the brakes. In more recent years, it looked like a car without a driver, the map was replaced by a GPS, going on and off, the Poles insisted on taking an insurance policy with God, nobody wanted to pay for the petrol (and some clearly cheated), while those inside had an argument about how many more could fit into the car.

We have been for some time moving downhill at an accelerating speed. In order to avoid a crash, we desperately need a driver who can read the map now written mostly in German. We also need a GPS that functions, a sense of direction, a minimum of order inside the car and an agreement about how to share the bill. It is crucial that European integration turns once again into a positive sum game, which has not been for some time.

The European political scene has become more pluralistic, with a wide range of opinions and interests. The interplay of national interests has always determined the course of European integration, the famous Community method notwithstanding. But as integration deepened and widened, national interest became more relative as a concept, and more directly shaped by partisan preferences. Other interests have begun to raise their pretty or ugly heads. There is no single European narrative, as constructivists would have said. If it ever existed, it has surely suffered several deaths as a result of successive rounds of widening and deepening. And that is not necessarily a bad thing, just another sign of the European political

system becoming more pluralistic and hence more mature.

Europe needs political oxygen to breathe. Otherwise, it may suffocate, or die from boredom. True, interminable council meetings conducted through interpreters in search of the long-winded compromise is not the stuff that is likely to attract the old-style politician full of adrenalin. The nature of European politics is indeed different, but no less real. It often looks dull and introverted. There is something stale in the European world of Brussels. But we also know from experience that a few personalities can make a big difference, and we desperately need them today. Politics is about choices, and choices need to be clearly articulated and explained to citizens. In European countries today, political choices must have a strong European component. European security and prosperity depend on it.

There is a role for individual countries and for European institutions to play in giving concrete form and shape to the new era. The division of labour between the nation state and the EU needs to be protected both from the missionary zeal of bureaucrats and judges keen on bulldozing all kinds of national particularities and idiosyncrasies in the name of the four fundamental freedoms of the treaties, but also from the illusions propagated by ‘sovereignists’ in a highly interdependent, congested and pretty small, yet highly diverse, continent. There should be enough room for differentiation in order to cater for internal divergence, as well as flexibility for those who may want to stay (temporarily?) out of common policies. And more emphasis should be placed on policy innovation and measures that work in a complementary fashion with those at national and local level.

In some policy areas, however, Europe will require more not less coordination and integration. Financial markets are a prominent example, because interdepend-

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ence in the market place has already gone very far. Interdependence needs joint management, and this has to be explained to people: there is an educational role for politicians as well. The same applies to the environment, the governance of the euro and also parts of the internal market.

Solidarity should remain an integral part of the overall European bargain. But it needs to be explained and defended against all kinds of populists and narrow nationalists. It also needs to be connected to common projects and common goods, in which most if not all see tangible benefits for themselves; and it has to be subject to conditions and rules. No free lunch, in other words. This surely applies to the governance of the euro, and it should increasingly apply to immigration and free internal borders. Solidarity does not enjoy ample space in our increasingly atomized societies – and this is more true across borders. We shall need to rediscover the meaning of society and the value of public goods in the years to come, thus partly reversing a trend that has lasted for long and has gone too far.

European integration has survived many crises before and came out stronger. Yet, there is no inevitability in the process of integration, and this time it looks more difficult and dangerous. These are indeed interesting times: an opportunity for change hopefully, not the beginning of the end.

This paper was prepared for the Europe Day Conference held at the Fundacao Getulio Vargas, Rio de Janeiro, on 9 May 2012. The author is Professor at the University of Athens and President of the Hellenic Foundation for European and Foreign Policy (ELIAMEP). E-mail: Tsoukalis@eliamep.com