



## Europe Looks for a New Narrative

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Barring any more surprises, Europe's four most powerful states are likely to change their leaders in the near future. At this writing, the outcome of the recent German elections is uncertain, with Chancellor Gerhard Schröder, who was narrowly outpolled by the Christian Democrat Angela Merkel, scrambling to retain power. In France, Jacques Chirac, whose health is an issue, is likely to become a lame duck president in 2006. In Britain, Tony Blair has promised he will finally pass the baton to Chancellor Gordon Brown in the middle of the current parliament. In Italy, Silvio Berlusconi, facelifts and hair transplants notwithstanding, is being superseded by smoother, younger politicians on the right and is expected to lose the 2006 elections.

The new generation of leaders that replaces these men will inherit a European Union still reeling from the rejection of its laboriously negotiated constitution by voters in France and the Netherlands. On May 29, 55 percent of the French electorate voted the constitution down. On June 1, 62 percent of the Dutch electorate said "*nee*," more than even the gloomiest opinion polls had predicted.

Brussels hastened to say that the votes did not represent a general rejection of the European project. But even the EU's president in the first semester of 2005, Jean-Claude Juncker of Luxembourg, had to acknowledge that "Europe no longer makes people dream." Writing in the *Financial Times*, the former EU commissioner Frits Bolkestein was franker still: "Europe has been oversold."<sup>1</sup> Despite the noisy rhetoric

of the EU's boosters, with their fervid picture of an emerging European superpower capable of counterbalancing the United States and representing an alternative model of Western values, it has long been obvious that the EU was facing fundamental questions about its future economic priorities and political purposes. The emerging new leaders of Europe will now have these questions on their plate.

The worst mistake Europe's leaders could make is to treat the referendum votes as simple manifestations of economic unease. Certainly, unemployment is high in the EU's heartland and young people, in particular, think they have restricted opportunities to find work and build a career. Certainly, Dutch voters seem to think that the euro is a poor substitute for the guilder. But the referendums have also represented a clear rejection, after what Chirac pronounced "*un débat démocratique exemplaire*," of some of the core principles that have underlain the EU's development from a West European club in the early 1980s to the continent-wide political union of today.

In France, the voters said "*non*" to the economic rationale of the EU. Since the 12 members of the European Community agreed in 1986 to create a single market in goods, capital, services, and people by 1993, the main thrust of EU policy has been to promote liberalization of markets within and between the member states. Enlargement of the EU to Central and Eastern Europe, moreover, has opened the single market to countries whose lower wage costs, younger populations, and lower tax rates

on business make them fierce competitors for investment. The May 29 vote showed that a protectionist backlash has begun in “Old Europe” against the dislocation these processes have instigated. The “Polish plumber” achieved iconic status in the “No” camp’s propaganda as a symbol of the threat posed by the EU’s policies to French jobs. More broadly, the constitution was demonized by both the far left and the Gaullist right as an “Anglo-Saxon” document that would consolidate the EU’s neoliberal agenda and lead to the erosion of the generous French welfare state.

As a sop to this current of opinion, Chirac blocked an EU directive liberalizing trade in services at the beginning of the electoral campaign, but his action failed to allay the electorate’s fears. After the result was announced, he reshuffled his government, making Dominique de Villepin, a former diplomat who as foreign minister in 2003 led French opposition to the U.S. invasion of Iraq, the new premier. De Villepin immediately announced that the struggle against unemployment and to protect the French welfare model would be the cornerstone of his government’s policy.

In the Netherlands, the electorate was rejecting some of the institutional consequences of the EU’s enhanced role. As the EU’s membership and responsibilities have grown in the last decade, it has had to find some way other than unanimity to make decisions. In the Dutch debate, the constitution was (quite accurately) characterized as a document that empowers the EU’s most populous states at the expense of medium-sized states like the Netherlands (Germany’s voting power in the EU’s crucial legislature, the Council of Ministers, will double if the constitution is adopted). Since the Eurozone’s “big three” (France, Germany, and Italy) have already disgruntled the thrifty Dutch by flouting the EU’s rules governing fiscal deficits, this fact made the task of selling the constitution to Dutch voters even more difficult than it might otherwise have

been. The EU’s cost was also an issue. The Dutch are the biggest contributors per head to the EU budget (almost €200 per person annually). At the moment, they plainly do not think they are getting their money’s worth.

All these objections to the constitution were foreseeable. Yet both Brussels insiders and national leaders seemed unable to counter the worries of the “No” camp with anything more than vapid appeals to the European ideal. French voters anxious about their jobs presumably cared less that one prominent European statesman thought France should back the constitution “*parce que elle a été la mère fondatrice de l’Europe unie.*”<sup>2</sup>

#### *What Should the EU Do?*

France’s opposition to the EU’s liberalizing agenda has opened up a long overdue debate over what the EU’s economic priorities should be. When the referendum blows struck, the EU was just beginning to discuss the budget package for the six-year period 2007–13. At the June meeting of the European Council, the Luxembourg presidency, backed by Jacques Chirac, led a concerted effort to reduce Britain’s automatic “rebate” on its budget contribution. The rebate, which was won by Margaret Thatcher in 1984 after a series of exhausting diplomatic battles, is given to Britain alone because the structure of EU spending, with its traditional bias toward agriculture and regional aid, has left Britain with very little when the pot is shared out. Even after the rebate, Britain was the second-largest contributor to the EU budget in 2003, chipping in €3.8 billion. Without the rebate (€5 billion in 2003), Britain would overtake Germany as the largest contributor and would rival the Netherlands in per-head contributions.

On the other hand, the demands on the EU’s purse will be substantial in the coming decade, and Britain is no longer one of the Union’s poorer member states. There is

obviously a fundamental injustice in rich Britain dipping its bread in what should be Poland's gravy. At the summit, Britain nevertheless could not be coaxed into giving its rebate away.

In the following days, the British prime minister took the moral high ground. Taking advantage of the fact that Britain was taking over the presidency of the EU, Blair shifted the debate over the rebate into a broader issue about what the EU's spending priorities should be. Blair's eloquent speech to the European Parliament on June 23 won the rueful admiration of even the most critical members of that assembly and has unquestionably altered the language of the budget debate.

In substance, Blair argued that the referendums had proved that "the people are blowing trumpets around the city walls." Europe was asking for leadership to make its economy more dynamic and better able to resist the challenges posed by competition from the United States, China, and India, and by the strains and upheavals of modern life. The budget debate, Blair argued, should not be "abstracted" from this wider context. It had to become "part of the answer" to Europe's problems.

In particular, as Blair had already told the House of Commons on June 20, it simply did not make sense for the EU to spend 40 percent of its budget on subsidizing farmers for the next six years (over the 2007–13 time period, EU largesse to farmers will amount to over €300 billion). Blair estimates that the EU will spend seven times more over the budget cycle on aid for agriculture than it will on investment in research and development, technology, and support for innovation combined. He thinks that the EU has manifestly got its priorities wrong. According to him, the EU should use the next budget cycle to promote the goal set at Lisbon in March 2000 of making Europe "the most dynamic and competitive knowledge-based economy in the world" by 2010. Blair pledged that if

the EU shifted its budget priorities in the way he had indicated, Britain would not object to making a large net contribution to the budget.

By evoking the Lisbon Agenda, Blair was putting France, Germany, and Italy on the defensive. In November 2004, a commission chaired by a former Dutch prime minister, Wim Kok, had berated the member states for "failing to act on much of the Lisbon strategy with sufficient urgency."<sup>3</sup> Cutting red tape on business, especially start-ups, investing in scientific research and development, implementing the single market in services and financial products, modernizing labor markets, and raising participation in the labor market are all goals to which the EU's member states have pledged themselves. Yet, in the spring, France blocked the commission's proposals for a freer market in services in the spring, Italy's central bank has interfered to obstruct the takeover of two poor-performing and undercapitalized regional banks by healthier EU competitors, labor market reform is moving at glacial speed across the continent, and the "transposition" of Lisbon Agenda directives into national law is lagging woefully behind. Most worrying of all, Europe has only a handful of the world's leading universities (most of which are in Britain or the Scandinavian states), and many of the EU's brightest scientists, researchers, and innovators are fleeing to the United States to find work.

Competitiveness, in short, is becoming a security issue for Europe. If Europe cannot compete, it will not be able to generate the wealth necessary to protect and preserve its generous social model, especially as its population ages. If "extremes" are not to gain "traction" in the political process, Blair told the European Parliament, the EU's social model would have to change. Europe cannot afford to go on cossetting privileged sectors of the population at the expense of investment in the young and in the industries of the future. Blair, in short, is arguing that Europe's leaders should respond to the

referendum votes by intensifying the liberalizing policies that French voters made a conscious decision to reject.

Most European politicians regard Blair's drum beating for the Lisbon Agenda as both simplistic and opportunistic. As Dominique de Villepin quickly pointed out, it is not true that Europe is divided into "old Europeans committed to the CAP [Common Agricultural Policy]" and "modern Europeans defending the Lisbon strategy."<sup>4</sup> France is a big investor in high technology, with many cutting-edge firms. Germany, by forcing down unit labor costs, has just restored its position as the world's largest exporter and in the year preceding April 2005 enjoyed a trade surplus of almost \$200 billion, despite the handicap posed by the strong euro. Britain's trade deficit, by contrast, was over \$100 billion. There are eight EU countries in the top 20 nations listed in the World Economic Forum's competitiveness index for 2004, although it is true that most of them are paladins of the supply-side reforms Blair wants.<sup>5</sup>

Blair is also closing an eye to the fact that much of Europe's sluggish economic performance can be attributed to the Eurozone's relatively high savings rates. Thrifty Belgians, Italians, and Germans have not embraced the record levels of personal debt that Americans, Australians, and Britons seem to take for granted. If Europeans spent more on private consumption, unemployment rates would fall and investment would rise, thus increasing productivity. The problem, in other words, is not just about efficiency but about slack demand.

There is even something (though not too much) to be said in defense of the EU's Common Agricultural Policy. In July, French agriculture minister Dominique Bussereau accused Blair of turning the EU's spending on agriculture into a "scapegoat," and pointed out that the CAP provided Europe with virtual food self-sufficiency. Europe need not fear "droughts in Brazil, eco-

nomics crisis in Argentina or swine fever in Australia."<sup>6</sup> Agricultural protectionism has also enabled Europe to keep food standards high. Bussereau might have added that the CAP does provide a useful service in maintaining rural communities and their traditional ways of life, though it must be said that it is not obvious why British, Dutch, and German taxpayers should featherbed *la France rurale*. The case for "nationalizing" much agricultural subsidy is overwhelming.

Despite these caveats, Blair is surely right to urge change. The EU does need to shift its spending priorities over the coming decade; its member states, especially the Latin ones, do need to pursue the supply-side reforms advocated by the Kok Report; Europe does need to invest more in research and higher education. Will the EU tack toward the priorities identified by the British prime minister?

The answer to this question will depend upon electoral politics. Blair is currently in the same position as the German Social Democrat Helmut Schmidt was in 1978. Schmidt was reluctant to launch his ideas for a European monetary system until he was sure that his comrades, the French Socialists, had been defeated by the Right in the 1978 elections. Blair, nominally a man of the center-left, must be dismayed by the inconclusive result in the Germans elections on September 18 and praying that Nicolas Sarkozy, the emerging figure on the French right, beats both Jacques Chirac and any of the likely candidates of the French left for the presidency of France in 2007. Relations with a rejuvenated center-right in Germany and France still will not be easy, but any other outcome is guaranteed to polarize the debate over the EU's economic direction.

#### *How Should the EU Be Governed?*

Given the institutional character of the EU, ideological polarization in the principal member states means zero progress on controversial issues. In the 1990s, the EU has enormously expanded the responsibilities of

Brussels (at the expense of national parliaments) and greatly increased the number of its member states without significantly changing its legislative processes. To understand what this means, imagine proposed federal laws on most issues having to be agreed upon by almost two-thirds of the states *before* reaching Congress, and every state, even the smallest, having a veto on such delicate issues as taxation, foreign policy, or the federal budget.

The EU's ruling elites long assumed that the democratic issues raised by this situation would be resolved by a shift to a parliamentary system in which the national governments were superseded in the legislative process by a bicameral parliament (the current European Parliament, plus a senate of national parliamentarians) and a president, nominated by the European Council, who would set the legislative agenda. This solution was always anathema to Britain (but also to France and others) and strikes no chord with the member states admitted in 2004, most of whom have become free nations too recently to abandon their national sovereignty lightly. But how can the EU function if 25 or 27 states claim the same prerogatives as the member states in the original European Community?

The blunt answer is that it can't, which is why the hard-fought institutional changes proposed in the constitution are so important. But the constitution is theoretically dead in the absence of its unanimous ratification by all the member states. In political fact, it is in limbo. EU treaties have been voted down before. Denmark blocked the Maastricht Treaty in June 1992, and Ireland repudiated the Treaty of Nice in June 2001. In both cases, the two countries were required to vote again.

Before France and the Netherlands voted this time, the constitution had already been ratified by the parliaments of several member states and by a plebiscitary referendum in Spain (77 percent in favor) in February. It has since been approved by Cyprus, Latvia,

Luxembourg, and Malta. The immediate reaction of the Luxembourg presidency and of most of the member states, notably Germany, was to state that the ratification process should proceed until all member states had expressed their views. At its June 16–17 meeting in Luxembourg, the European Council decided to prolong the ratification process past the official deadline of November 2006. The transparent hope of the constitution's supporters is that enough momentum will build up to allow France and the Netherlands to vote again.

The problem with this strategy, of course, is that France and the Netherlands are too prickly to be humbled in this way. Moreover, many member states, including Britain, the Czech Republic, Denmark, Poland, and Sweden, are acting as if the constitution were a dead letter and have suspended planned referendums or parliamentary votes until and unless France and the Netherlands vote again. Ireland and Portugal will likely vote in 2006, months later than expected.

The probability, therefore, is that the constitution will not be accepted in its present form. Sometime in 2006, the member states will bow to reality and extract from the constitution a limited package of essential institutional changes. The crucial issue is whether they will stick to the deal they finally made in June 2004. If each state tries to cherry pick the institutional reforms it prefers, the ensuing row will cause the EU to grind to a halt.

This is not a hypothetical danger. The EU's more federalist-minded states, not to mention the European Commission and the European Parliament, want to ensure that the constitution's provision for a charter of fundamental rights, with its very liberal emphasis on social rights, is a core part of any package of measures. They also want to keep the EU foreign minister and preserve the enhanced status accorded to the European Parliament in the constitution. Germany certainly wants to retain the increased

voting power it would have gained had the constitution passed. At the same time, the federalists regret having conceded precise constitutional restrictions on the scope of the EU's "competences" and having allowed member states to retain veto power on so many key issues. For Britain, Scandinavia, and some of the new members, by contrast, these are the constitution's chief attractions. The Nordics will also want to retain, or even strengthen, the consultative powers over EU legislation given by the constitution to the national parliaments of the member states.

It is no exaggeration to say that the EU's ability to reach agreement over institutional reform is a litmus test of its capacity to act as a coherent whole in the future. If it can't agree on how to govern itself, it won't agree on any other controversial issue.

#### *How Big Should the EU Be?*

Will any imaginable institutional arrangement be sufficient to incorporate Turkey in the EU? Opposition to Turkish entry swayed relatively few votes during the referendum campaigns, but Turkish membership loomed as a background issue. If French and Dutch leaders had made a spirited defense of Turkish entry, it would have immediately become a hot topic capable of mobilizing voters. Right now, Turkey is too big, too poor, and too Muslim to enter the EU without there being a backlash among the electorates of the existing member states.<sup>7</sup> Hostility to Turkish entry unites right-wing xenophobes (the French National Front, Italy's Lega Nord, Belgium's Vlaams Blok), with the many Catholics who see the EU as the political expression of Christian values, and liberals who increasingly regard Islamic values as incompatible with Europe's secular political culture.

Nevertheless, negotiations with Turkey will begin this fall, slightly more than 42 years after the first president of the European Commission, Walter Hallstein, proclaimed that "Turkey is European...and one

day will become a full member of the European Community." However, the referendum results seem already to have weakened the EU's resolve. The "framework" for the entry negotiations proposed on June 29 by the commissioner for enlargement, the Finn Olli Rehn, was openly described as "tough." Senior politicians in some EU states have since gone out of their way to make it tougher still. Both Angela Merkel and the Austrian government have revived the idea that Turkey should be offered a "privileged partnership," not full membership. The Turks, for their part, insisted on July 29 that their decision to begin negotiations with the EU did not amount to diplomatic recognition of the Greek Cypriot government in Nicosia. Dominique de Villepin promptly argued that it was "inconceivable" that Turkey should begin talks while denying recognition to a member state. The planned date for Turkish accession is 2014, after the next budget agreement but one. One cannot but suspect that the EU will have wriggled out of its commitments to Turkey long before then.

Rejecting Turkey, however, would undercut another vaunted aspect of the role the EU has actively sought to win for itself since the early 1990s: as an international actor able to promote democracy and human rights, and to spread regional stability. Turkey is a test case of the EU's utility in this regard. As the EU's December 2004 summit was advised, Turkey is a country of great strategic importance that stands athwart the Middle East and Central Asia and which is "going through a process of radical change, including a rapid evolution of mentalities." Turkey could be "an important model of a country with a majority Muslim population adhering to such fundamental principles as liberty, democracy, respect for human rights...and the rule of law."<sup>8</sup>

The argument advanced for Turkish membership is thus the same as that underpinning enlargement to Central and Eastern

Europe in the 1990s. The EU consolidates democracy by offering would-be members the powerful incentive of joining the club. Who can dispute that the prospect of EU membership eased the transition to democracy in states such as Slovakia and Hungary? Or that it was a decisive factor in helping Greece, Portugal, and Spain modernize in the 1980s?

The corollary of this argument is that it would be a disaster if the EU now reneged on its promises. It might generate political instability and a nationalist and cultural backlash. The consequences of Turkey turning its back on democracy and economic modernization are so dire that they ought to preclude European politicians from taking a parochial attitude to its political future. The same can be said, *mutatis mutandis*, for the Balkan states, Ukraine, and Moldova.<sup>9</sup> But if these countries were also to join—say by 2020—what would the EU have become? A 35-member free trade association with supranational trappings? This outcome is scorned by intellectuals and politicians who are loyal to the original vision of Jean Monnet and Robert Schuman, and who hanker after a political union that transcends the European nation-state.

### *Searching for a New Narrative*

This article has taken a more pessimistic line on the EU's future than has been fashionable of late. This does not mean, however, that I am skeptical of the vast benefits that the EU has brought and brings. The single market has facilitated economic growth and opened mental, as well as physical, barriers across the continent. The euro, which suffered a tremor of apprehension in the wake of the “no” votes, is an indispensable protection from the capricious power of the global money markets. In foreign policy, the EU states do have common interests in promoting peace and prosperity in the Balkans and the North African shore, and can probably act more efficaciously together than singly. In global trade talks, the EU is

far more potent as a bloc than the individual member states ever could be. Above all, the EU has diffused the practice of putting the search for common solutions ahead of the unilateral imposition of national ones. These are all historic gains.

Nevertheless, the French and Dutch referendums have exposed the flaw in the conduct of the EU's leaders since the early 1990s. They have gone too far, too fast, and have not taken their people with them. But having overreached, the EU cannot now go back. The new generation of leaders that should emerge over the next two years urgently needs to find a narrative that can bind the EU together and provide the disconcerted citizens of “Old Europe” with a justification for the colossal changes that have been implemented on their behalf.

Tony Blair, that consummate politician, has grasped this. But he will likely fail to find a wide audience. He is too British, too overt a supply-sider, and much too pro-American to persuade people to sing from his hymn sheet. On the other hand, the federalist ideology rife in the glass palaces of Brussels and Strasbourg looks increasingly like dogma. The goal of a federal European state, with parliamentary institutions and a supranational executive controlling the core competences of the nation-states, is a relic of a time when 99 percent of Europeans were white and Christian; when Europe was divided into two ideologically opposed and hermetically sealed camps; when China was about to take a great leap forward into the Maoist nightmare; when electric typewriters were regarded as high-tech consumer products; and when Western Europe was a tiger economy with high growth rates and burgeoning consumer demand. The European project, if it is to regain the faith of European public opinion, needs to find a justification in today's problems and today's realities (or risk further damaging rejections).

What Europe needs right now are politicians from “Old Europe” who can act as what the MIT political scientist Richard

Samuels calls *bricoleurs*.<sup>10</sup> That is to say, it needs individuals identified with the European project who can delve into the history of European integration to refashion a convincing new interpretation of what the European project is about and set an agenda that wins public backing for the overambitious objectives embarked upon in the last decade. In the absence of such leadership, the EU's problems are likely to get worse, not better, in the next decade. ●

—September 20, 2005

## Notes

1. Frits Bolkestein, "France's Verdict Tells Us That Europe Has Been Oversold," *Financial Times*, May 31, 2005.

2. José Luis Rodríguez Zapatero, "L'Europe, aujourd'hui, plus que jamais," *Figaro*, May 23, 2005. This article was one of a series by Europe's great and good; they were all content-free and rhetoric-rich.

3. Wim Kok, et al., *Facing the Challenge: The Lisbon Strategy for Growth and Employment* (Luxembourg: European Communities, November 2004), p. 6.

4. Dominique de Villepin, "United Way to a New Political Europe," *Financial Times*, June 29, 2005.

5. The rankings were: Finland (1), Sweden (3), Denmark (5), Britain (11), Netherlands (12), Germany (13), Austria (17), and Estonia (20). France ranked only 27th, and Italy 47th, two places behind Botswana.

6. Dominique Bussereau, "CAP Is an Inexpensive Way to Guard Our Future," *Financial Times*, July 15, 2005.

7. According to the latest Eurobarometer poll (no. 63.4), only 10 percent of Austrians and 21 percent of the French are in favor of enlargement to Turkey. Seventy-four percent of Germans, and similar numbers of Greeks, are opposed to Turkish entry. Twenty-nine percent of polled Germans said they would have regarded Turkish membership as a reason for voting against the European Constitution in a referendum. Opposition is especially strong among young people. In only three countries (Hungary, Poland, and Slovenia) is support for Turkish membership over 50 percent. By contrast, Norwegian or Swiss membership is typically approved by 80 percent or more of respondents.

8. European Commission, "Recommendation of the European Commission on Turkey's Progress toward Accession," COM (2004) 656 final, October 6, 2004, p. 4.

9. For an eloquent plea against Europe becoming "angry and introspective," see Philip Stephens, "Europe Cannot Afford to Retreat from the World," *Financial Times*, June 10, 2005. Stephens nonetheless believes that the EU needs to find a new narrative to justify its existence.

10. Richard J. Samuels, *Machiavelli's Children: Leaders and Their Legacies in Italy and Japan* (Ithaca, NY: Cornell University Press, 2003), pp. 7–8.