Rekindling the Spirit of Cooperation

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"I had voiced my recurrent concerns about pre-existing economic instabilities long before the fall of Lehman Brothers triggered the current economic crisis. These concerns began at the end of my presidency of the European Commission in 1995. In various meetings, bankers and other partisans of economic innovation explained to me that an increase in share prices meant the creation of additional wealth. This puzzled me, as it seemed to be a fictitious way of measuring increased wealth. The mirage could only be upheld with clever strategic tricks, for example, companies would reduce their numbers of shares so as to lower the dividends. For me, this was a sign that finance dominated the economy. It was also an indication of how different the growth of the past decades had been from the growth Europe experienced during les trente glorieuses*, which was based on real economic growth. I expressed this concern in the 1993White Paper to the European Commission, entitled "Growth, Competitiveness and Employment", which was accepted by the Commission but did not prompt a close scrutiny of the economic facts.*

"A second economic factor that puzzled me were the incredible rates of revenue generated in the financial industry each year. Even after the dot-com bubble burst at the end of the 1990s, which should – in theory – have affected revenues, the financial industry continued to measure annual growth rates of up to 15 percent. This was, of course, nearly impossible, as even those involved in this industry were forced to admit. Nevertheless, these rates were taken at face value by many and became false indicators of economic vitality.

"Once I had fully grasped these two structural irregularities, they prompted me to critique principles underlying the Washington Consensus. Of course, in my role as president of the European Commission, I also advocated competition and the free flow of financial traffic, as was illustrated by my endeavours to create a single European market. However, in pursuing this goal, I had foreseen very different outcomes than the unconditional embrace of free trade and deregulation that in fact emerged. This development illustrates a proverb from the political sciences: "Power devoid of regulation leads to abuse." This aptly captures what happened when the powerful instrument of breaking down trade barriers and deregulating markets was stripped of any form of control and turned into an unquestionable maxim.

"Whether Europe will emerge from the crisis very much depends on cooperation between member states on both economic and financial issues. I have always pledged for a true balance, inside the EMU, between the monetary side (the independent ECB) and the economic side (by a real coordination of national macro-economic policies). However, the spirit of open discussion and cooperation was rarely dominant in the Council of the Finance Ministers. This explains the fragmentation of the European reaction to the current crisis."

From growth to the creation of value

The roots of the crisis lie in a global paradigm shift in political economy which began in the early 1980s. This shift is expressed by three macro-economic changes. First, the traditional link between salary and productivity was broken. Up until the 1970s, the financial reward for work was based on real output. However, with the advent of neo-liberal economic principles, these factors were no longer necessarily linked. It should be noted that this trend was often politically encouraged; many countries established policies of reducing the cost of labour.

The effects of severing the link between salary and real output is most prominently visible in the financial sector, where the creation of inflated value by clever manipulation of new assets was rewarded with huge bonuses.

The welfare state has been a useful counter-force to the crisis

This trend was paired with a shift towards new growth drivers: the innovations in the financial industries and in real estate business. The ability to generate almost limitless wealth in these sectors was not explained by any notable economic theory.
Nevertheless, over time the practices became accepted in the writings of influential economists. From there, it was further legitimised, as these growth drivers were incorporated into conjectural analyses.
The third macro-economic shift is constituted by accommodating monetary policy and deregulation, which heightened the effects of the aforementioned trends. Normally, these three factors combined would eventually have proven unsustainable. However, an endogenous phenomenon gave them an extra lease on life, as a sudden increase in oil prices and the prices of other raw materials drove up both demand as well as speculation. This prompted yet another cycle of inflated profit-seeking. Given their radical effects in perpetuating this economic binge, the exact effects of the change in the price of oil and raw materials warrant further investigation.

This economic regime had various adverse effects. The gains that were possible under this regime were exploited to the fullest extent on both sides of the Atlantic. Most notoriously in the United States and the United Kingdom, but countries such as Ireland and Spain also reaped the short-term gains, leading to massive housing bubbles that recently have come to haunt them. At the same time, the astounding GDP growth measured during this period actually mostly benefited the higher income tiers.

The economic crisis compounds problems of European integration.

There are, luckily, also reasons for optimism. What immediately becomes apparent is that the welfare state (which was created before the war in Nordic states, but post-war in much of the rest of Europe) has been a useful counter-force to the crisis. Despite the fact that centrist and right-wing governments presently control many European states, this historical by-product of European social democratic governments remains strong and has saved Europe from further catastrophe in the wake of the crisis.

A lack of spirit of cooperation

The European project has always been driven by two central ideas. The first was the idea of reconciliation. After the war, it became imperative to bring European nations back together, and specifically to promise future generations of Germans that they would eventually be re-integrated into the European framework. These motivations were important drivers of the

European project in the beginning. However, with the passage of time and the influence of new generations, this initially pressing imperative has naturally declined in importance. The second factor, however, has continued to remain relevant; Europe, at many points in time, has been faced with a choice between downfall and survival. European integration was a means for the individual European countries to remain competitive with the various global economic and technological innovations over the past 40 years, most of which have originated outside of Europe.

Although these two historical driving forces of European integration differ radically, they were underpinned by the same spirit of cooperation and solidarity. Within this framework of cooperation and solidarity, competition between European states – joined together by a single market – is the final premise of European dynamics. Europe functions best on the basis of this tripartite structure: competition which stimulates, cooperation which reinforces, and solidarity that unites. Presently, however, cooperation and solidarity are sorely lacking, and as a result, competition is all that remains.

This implies that, in retrospect, European integration has not played out as was hoped. Among the protagonists of the European integration, the hope was widely shared that economic and monetary union would be conducive to cooperation and solidarity. It was hoped that economic and monetary cooperation would naturally be followed by social dialogue. Unfortunately, this latter stage never emerged. From this perspective, the European Union has not been a success.

The economic crisis now compounds these problems of European integration. Once again, this juncture brings Europe to a choice between downfall and survival. In order for the outcome to be survival, cooperative and unified anticrisis measures must be undertaken. Take, for example, the measures to aid Europe's struggling automobile industry. Ideally, member states should have ensured that car premiums were the same across borders, but even such minimal cooperation seems unattainable. In addition, the crisis should be used as an opportunity to enhance cooperation and cohesion between the European finance ministers, but they too seem reluctant.

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The crisis, in fact, reveals another limitation of European integration: the emphasis on the technocratic over the political. The challenges the crisis brings cannot be met with the purely technical instruments provided by Europe's institutions. Enhancing the political dimension is direly needed. This calls for an increasing the role for the European Parliament, and an important role for the general affairs council in close cooperation with the European Commission. That means that the Commission's right of initiative must be respected and enhanced.

This imbalance between technocracy and politics is the result of maintenance long overdue. To use a blunt analogy: Europe is like a car with splendid design, but once the hood is lifted it is revealed that the motor does not work. Many had expected that a political Europe would automatically follow an economic and monetary Europe, but such a process cannot occur by itself. A politicisation of Europe is something that requires inspired and visionary politicians that believe in the benefits of an integrated Europe. Alas, such foremen seem presently in short supply.

This said, it would be wrong to attribute Europe's shortcomings solely to a lack of leadership. Public opinion is no longer favourable towards Europe, and the number of people who consider themselves 'European' is dwindling. To a large extent this is due to the fact that Europe has not taken the time to redefine itself as it grew larger. In other words, Europe has gone through a process of enlargement without deepening. This lack of a pronounced identity has, for many citizens, made Europe a rather frightening entity. Looking back, Europe squandered many opportunities to redefine itself, choosing instead to plunge forward into the next round of enlargements – with the accession of Britain, the former Mediterranean dictatorships, and finally the countries previously behind the Iron Curtain.

This does not mean that Europe completely lacks substance and identity. In fact, Europe is one of the few places in the world that has created a set of adequate institutions in answer to the processes of globalisation. It has a sophisticated combination of both nation-states and supranational institutions to deal with these challenges. Indeed, it is telling that, for example, southeast Asian countries and MERCOSUR look to Europe as an institutional model. Yet this comparative advantage could certainly be communicated more vividly to the European public. It is a pity how little Europe has managed to rally its assets in the face of the current crisis.

Thinking beyond gdp

For Europe to maintain its status in a globalising world, there are a plethora of challenges that must be met. First of all is the task of redefining the indicators that are used to judge the quality of society. The crisis has made it clear that the focus on GDP and added value is not sufficient. This does not mean that the indicator of GDP should be discarded as a whole, but that it should be supplemented with social indicators and stock statistics on capital, wealth, and the environment.

Embracing these different indicators would imply a move towards economy of lower growth and smaller salaries, which would nevertheless be presented and perceived as successful, because of its wealth in other areas such as the environment and leisure. While such a shift may be desirable even for its own sake, it may also have become unavoidable. The great burden of public debt and shifts in the global allocation of labour may make a shift to a more sober economy the only alternative.

The problem of public debt – the inevitable consequence of the crisis – is augmented because of demographic pressures. Between 2007 and 2030, the European Union will see its working population decrease by at least 20 million people, while the number of Europeans aged 65 and over will increase by 40 million. These demographic upheavals are likely to severely hamper growth from reaching its pre-crisis levels. In addition, this will further complicate European cooperation and solidarity as each country will experience slightly different consequences of this demographic shift. Also, the unwinding of public debt puts cooperation under further pressure. With, for instance, Germany adopting a more rapid debt-reduction program than the others, tension within the economic and monetary union is increased. Europe runs the risk of experiencing a rift between those countries that will just 'let go' and those who practice more budgetary restraint.

In order to meet these challenges, Europe must go beyond mere monetary and economic union. Despite hopeful claims to the contrary, this much needed politicisation should not be expected to come solely from Germany and France. The idea that these two countries can single-handedly lead Europe to lift itself by its own bootstraps is, quite simply, irrational. Specifically, the early member states should step up to share this leadership role, most notably the Benelux countries. While this may, on the surface, appear to be euro-nostalgia, in fact it may be the only way to revitalise the European vision.