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*Europe between Brussels and Byzantium: Some Thoughts on European Integration*

by

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**Abstract**

There is, in theory, a plausible role for the European Union as the partner of a militarily assertive United States: the peacekeeper that follows in the wake of the peacemaker. The war in Iraq, however, has raised the possibility of a diametrically different role for Europe: as a potential imperial rival to the United States. There is no need to invoke the memory of either Rome or Byzantium to make the case that Europe is capable of spoiling America's unipolar party. The successful conclusion of accession agreements with ten new member countries – not to mention the sustained appreciation of the euro against the dollar since Kennedy's article appeared – have seemingly vindicated this analysis. So too, in the eyes of some commentators, has the vociferous and not wholly ineffectual opposition of at least some E.U. member states to American policy in Iraq. If the U.S. has an imperial rival today, then the E.U. appears to be it.

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Europe between Brussels and Byzantium: Some Thoughts on European Integration

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## I

There is, in theory, a plausible role for the European Union as the partner of a militarily assertive United States: the peacekeeper that follows in the wake of the peacemaker. The war in Iraq, however, has raised the possibility of a diametrically different role for Europe: as a potential imperial rival to the United States. This is a role that Europe's political leaders would much prefer to play. The French President Jacques Chirac is said by a former adviser to want 'a multipolar world in which Europe is the counterweight to American political and military power'. The former German Chancellor Helmut Schmidt has declared that his country and France 'share a common interest in not delivering ourselves into the hegemony of our mighty ally, the United States'.<sup>i</sup> In a speech in October 2002, the E.U. Commissioner for External Affairs Chris Patten explicitly called for Europe to become 'a serious player ... a serious counterweight and counterpart to the United States'.<sup>ii</sup> And the Italian prime minister Silvio Berlusconi declared on the eve of taking over the E.U. presidency in July 2003 that 'Europe will only be able to look at the United States as something other than a subordinate if it becomes a great Europe.'<sup>iii</sup> Even that most subtle of British commentators, Timothy Garton Ash, has lately found himself yearning for a more globally assertive Europe. 'America,' he argued in the *New York Times* in April 2002, 'has too much power for anyone's good, including its own.'<sup>iv</sup>

In economic terms, China may conceivably catch up with the United States at some point in the next twenty to forty years. But for the present only the European Union comes close to matching the United States. The solution – presumably for everyone's good, but certainly for Europe's – must therefore be for the E.U. to become more politically powerful: to punch its economic weight. Such sentiments have been expressed with increasing frequency since the Anglo-American invasion of Iraq.

In the eyes of many commentators, that is precisely the aim of the new 'Treaty Establishing the Constitution' of the European Union, drafted by the former French President Valéry Giscard D'Estaing's European Convention, and submitted in June 2003 to the European Council in Thessaloniki. Consider what the treaty has to say on the subject of Europe's military power. Article I-11, clause 4, explicitly declares: 'The Union shall have competence to define and implement a common foreign and security policy, including the progressive framing of a common defense policy.' Article I-40, clause 3,

states ‘that Member States shall make civilian and military capabilities available to the Union for the implementation of the common security and defense policy’, and that they shall also ‘undertake progressively to improve their military capabilities’.<sup>v</sup> While British Euro-skeptics have focused, predictably, on the crypto-federalist aspects of the draft treaty, some American commentators have seen it as the latest manifestation of Europe’s ‘anti-American’ tendency. ‘There is only one rationale for such a proposal at this time,’ according to the journalist Andrew Sullivan, and that is ‘to check U.S. power.’ When Giscard d’Estaing himself says that he wants the E.U. to be ‘respected and listened to as a political power that will speak as an equal with the largest powers on the planet’, that does seem a plausible inference.<sup>vi</sup>

Of course, this kind of talk elicits nothing more than derision in some quarters. In his popular polemic on the subject, Robert Kagan has heaped scorn on the ‘relative weakness’ of Europeans, in contrast to the martial vigor of Americans. ‘Europe’s military weakness’, Kagan argues,

has produced a perfectly understandable aversion to the exercise of military power. Indeed, it has produced a powerful European interest in inhabiting a world where strength doesn’t matter. ... [But] Europe’s rejection of power politics, its devaluing of military force as a tool of international relations, have depended on the presence of American military forces on European soil.<sup>vii</sup>

One could in fact go further than Kagan. It is not just the searing experiences of two World Wars that have turned Europeans from Mars to Venus. It is also the fact that in relative terms their continent is much less important than it was in the nineteenth century. Its share of world population is half what it was in 1820. Its share of world output is down to a fifth, compared with over a third in 1870. And this relative decline seems almost certain to continue in the foreseeable future. To many Americans, Europe’s principal significance these days is not as a strategic rival but as a tourist destination.<sup>viii</sup>

Yet Kagan’s insistence on Europe’s weakness remains something of a minority view in the American academy. A substantial number of commentators have followed the lead of Samuel Huntington in seeing European integration as ‘the single most important move’ away from the ‘unipolar’ world of the post-Cold War hiatus towards a ‘truly multipolar’ twenty-first century.<sup>ix</sup> Charles Kupchan predicts that ‘Europe will soon catch

up with America ... because it is coming together, amassing the impressive resources and intellectual capital already possessed by its constituent states. Europe's political union is in the midst of altering the global landscape. According to Kupchan, 'a collective Europe' is 'next in line' to challenge American power.<sup>x</sup> Drawing an intriguing analogy with the ancient world, he portrays the E.U. as 'an emerging pole, dividing the West into American and European halves'.<sup>xi</sup>

The E.U. as the new Byzantium? Kupchan's views are less idiosyncratic than they seem at first sight. Classical analogies have also inspired the British diplomat Robert Cooper to call for 'a new kind of imperialism, one acceptable to a world of human rights and cosmopolitan values ... an imperialism which, like all imperialism, aims to bring order and organization but which rests today on the voluntary principle'. Significantly, Cooper saw not the United States but the European Union as the institution best able to become such a post-modern imperium:

The postmodern E.U. offers a vision of cooperative empire, a common liberty and a common security without the ethnic domination and centralized absolutism to which past empires have been subject, but also without the ethnic exclusiveness that is the hallmark of the nation state. ... A cooperative empire might be ... a framework in which each has a share in the government, in which no single country dominates and in which the governing principles are not ethnic but legal. The lightest of touches will be required from the center; the 'imperial bureaucracy' must be under control, accountable, and the servant, not the master, of the commonwealth. Such an institution must be as dedicated to liberty and democracy as its constituent parts. Like Rome, this commonwealth would provide its citizens with some of its laws, some coins and the occasional road.<sup>xii</sup>

There is, however, no need to invoke the memory of either Rome or Byzantium to make the case that Europe is capable of spoiling America's unipolar party. Joseph Nye, too, sees Europe as already America's equal in the economic sphere, where 'the United States is not a hegemon, and must often bargain as an equal with Europe'.<sup>xiii</sup> Though more perturbed by the rise of China, John Mearsheimer is also concerned by the two possible challenges to American power that he expects to emanate from Europe: 'Either the U.S. will leave Europe ... because it does not have to contain an emerging peer competitor, in

which case the region becomes less stable, or the U.S. will stay engaged to contain a formidable rival in what is likely to be a dangerous situation.’<sup>xiv</sup> The historian Paul Kennedy has added his voice to the chorus, emphasizing the demographic significance of European consolidation and enlargement. ‘Even now,’ he wrote on the first anniversary of the terrorist attacks of September 2001, ‘[Europe] has a substantially larger population than has the United States ... and a roughly similar or perhaps slightly higher share of total world product. With plans to add more members, and with the use of the euro deepening, here is a trend that clearly knows of no September 11 watershed.’<sup>xv</sup> The successful conclusion of accession agreements with ten new member countries – not to mention the sustained appreciation of the euro against the dollar since Kennedy’s article appeared – have seemingly vindicated this analysis. So too, in the eyes of some commentators, has the vociferous and not wholly ineffectual opposition of at least some E.U. member states to American policy in Iraq. If the U.S. has an imperial rival today, then the E.U. appears to be it.

## II

In what ways does the European Union genuinely represent a counterweight – let us avoid the overblown word ‘threat’ – to the United States?

### 1. Demography

As Kennedy rightly says, the population of the European Union is already more than a quarter larger than that of the United States. One effect of the impending enlargement of the Union will be to widen the demographic gap still further, increasing the E.U.’s population to just under 450 million, more than one and a half times that of the U.S.

### 2. Output

In terms of total economic output, the European Union is indeed not far behind the United States, depending on which measure is used. According to the World Bank, the combined Gross Domestic Product of the fifteen pre-enlargement E.U. member states in 2002 was \$8.6 trillion, compared with a figure of \$10.4 trillion for the U.S. – in other words, the European economy is about 82 per cent the size of American. Adjusting on the

basis of purchasing power parity reduces the gap somewhat – on that basis E.U. output is still nearly six per cent less – but it does not eliminate it. Only when output is measured in constant prices (expressed in 1995 dollars) can European GDP be said to be higher.<sup>xvi</sup> The ten countries about to join the E.U. will not significantly add to its combined output.<sup>xvii</sup> But after they join, the GDP of the E.U.-25 will also be bigger than that of the ‘U.S.-50’ on the basis of purchasing power parity – though it will still be around fifteen per cent smaller in current dollar terms.

### 3. Productivity

The West European economies have spent most of the past half-century rapidly catching up with the United States when performance is measured in terms of productivity. In 1950 gross domestic product per hour worked in the U.S. was three times what it was in Germany; today German productivity is just 23 per cent lower, while French productivity is a trifling 2 per cent less than American. Between 1973 and 1998 US productivity grew at an average annual rate of just 1.5 per cent, compared with a French rate of growth of 2.4 per cent.<sup>xviii</sup>

### 4. Trade

The United States has large deficits on its external accounts, whether one considers just ‘visible’ trade or the balance of payments in its entirety. The same cannot be said of the European Union. Not only does the E.U. account for a slightly larger share of total world exports (20 per cent compared with 18 per cent); it also runs a small trade surplus.<sup>xix</sup> There is no question that in trade negotiations, the U.S. must treat the E.U. as an equal. Nor is the E.U. as dependent on inflows of foreign capital as the U.S. – a point to be examined more closely in the next chapter. It is in fact a net exporter of capital.

### 5. The single currency

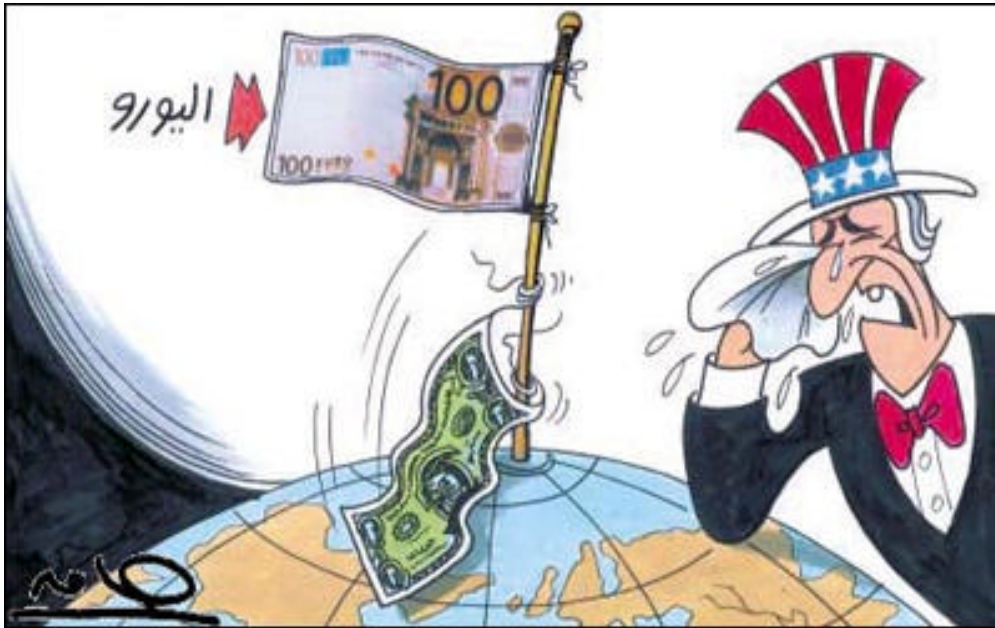
To an extent that is not widely appreciated, European Economic and Monetary Union has transformed the international capital market. The volume of euro-denominated government bonds was very large even before the single currency was introduced: in 1998 the outstanding volume of ‘Eurozone’ government bonds was roughly half the



outstanding volume of US government bonds.<sup>xx</sup> However, as the rapid convergence of Eurozone bond yields shows, monetary union has greatly reduced what investors call ‘country risk’, so that all Eurozone members’ bonds are now regarded as being (almost) as good as the old German bunds. E.M.U. has significantly boosted the market for European securities. According to the Bank for International Settlements, around 47 per cent of net international bond issuance has been denominated in euros since the first quarter of 1999, compared with 45 per cent in dollars. For the equivalent period of time before the introduction of the euro the respective shares were just 29 per cent for the currencies that merged to form the euro and 51 per cent for the dollar.<sup>xxi</sup> Moreover, for all its crudeness, the Stability and Growth Pact imposes tight constraints on the fiscal policies of the Eurozone countries – though whether or not the rule restricting deficits to 3 per cent of GDP will be enforced in 2003 remains to be seen. In theory, at least, the Pact should enhance fiscal and monetary credibility for the member states.

The possibility that investors may come to regard to the euro as being as good as the dollar when it comes to denominating low-risk securities cannot therefore be excluded. Indeed, they may already be doing so. Since February 2002 the dollar has declined against the euro by 27 per cent. U.S. long-term bond yields have been between 10 and 70 basis points higher than Eurozone yields since 1997, having been lower for all but two of the previous twenty years.<sup>xxii</sup> According to one projection, foreign direct investment over the next five years will be substantially higher in the E.U. than in the U.S.<sup>xxiii</sup> It was perhaps nothing more than a straw in a gust of wind, but an *Economist* poll of fund managers in April 2003 revealed that four out of seven were increasing their euro-denominated bond holdings and five out of seven were reducing their dollar-denominated bond holdings.<sup>xxiv</sup> When he urged his country’s state oil company to price its gas and oil in euros rather than dollars, the Malaysian Prime Minister, Datuk Seri Mahathir Mohamad, was doubtless aiming to score a political point at the expense of the U.S. But his proposal (made last June) was far from absurd. It is not without significance that Arab cartoonists have seized on the appreciation of the euro as evidence of American weakness.

Figure 1. The recent battle between the Euro and the dollar by Hamed, Alittihad, July 8, 2002



Source: [www.aljazeeraah.info](http://www.aljazeeraah.info)

#### 6. A federal constitution

Ostensibly, the European Convention's draft 'Treaty establishing the Constitution' does *not* create a European federation. We know this because the phrase 'United States of Europe' barely made it off the drawing board and because the word 'federal' was deleted from an early version of Article I-1, clause 1. The original version read as follows:

Reflecting the will of the peoples and States of Europe to build a common future, this Constitution establishes a Union ... within which the policies of the Member States shall be coordinated, and which shall administer certain common competences on a federal basis.

The final version was rather different:

Reflecting the will of the citizens and States of Europe to build a common future, this Constitution establishes the European Union, on which the Member States confer competences to attain objectives they have in common. The Union shall

coordinate the policies by which the Member States aim to achieve those objectives, and shall exercise in the Community way [*sic*] the competences they confer on it.<sup>xxv</sup>

The question is, of course, how far the draft treaty nevertheless remains in practice a federalist document. Some people certainly intended it to be. When the 105-member Convention was itself called into being at Laeken in December 2001, it was declared that its aim would be ‘the construction of a political union’ to complement the Economic and Monetary Union created at Maastricht nine years before. In a joint statement before the Laeken meeting, the French President and the German Chancellor expressed the wish that the Convention should transform the E.U. into a ‘federation of nation states’. In January 2002 the Greek premier went further, urging that ‘the enlarged European Union must evolve into a fully-fledged Political Union with strong governmental institutions and policies of a federal nature’.<sup>xxvi</sup>

In some respects, it should be emphasized, the E.U. already has a quasi-federal character. This is most obvious in the legal sphere. E.U. legislation now accounts for around half of all new legislation in Europe.<sup>xxvii</sup> Article I-10 of the draft treaty simply reiterates – though it perhaps also reinforces – what has long been an established principle, namely that E.U. law is superior to national law. Europe already has a Convention of Human Rights, which is upheld by the autonomous Court of Human Rights in Strasbourg. However, the draft treaty includes a new ‘Charter of Fundamental Rights’, which it would fall to the European Court of Justice to interpret, thus enhancing the standing of that court (which is based in Luxembourg) as Europe’s Supreme Court. The draft treaty also proposes the creation of a new category of cross-border crimes, which would become the purview of a European prosecutor, thus extending the E.U.’s competence into the field of criminal law.

If only on paper, the European Union already has many of the institutions that one would expect a federation to have: not only a Supreme Court but also what the Germans would call a *Bundesrat* (the Council of Ministers, representing the governments of the member states), a parliament, a central bank and a permanent bureaucracy. The principal institutional changes envisaged by Giscard’s treaty are partly designed to give this proto-federation not just legal but actual personality. Thus the presidency of the quarterly

European Council (of heads of state) will no longer be held successively by all the member states for six-month periods; it will be held by one individual, elected by the members of the Council, for up to five years. The President of the European Commission, by contrast, will be nominated by the European Council but will require a majority in the European Parliament to be confirmed in office. Which posts will emerge as the dominant one? Almost certainly the latter, given the much more frequent meetings of the Commission. There will also be a single Commissioner to play the part of Foreign Minister, a role currently and confusingly performed by two separate people.

However, the most implicitly federal clauses of the draft constitution are those that spell out the respective competences of the E.U., its member states and their regions and localities. Only a limited number of spheres of policy – thirty-four to be exact – have up until now been subject to the weighted system known as ‘qualified majority voting’ on the E.U. Council of Ministers. Decisions in other fields have required unanimity – in other words, they have been subject to veto by as few as one of the member states. The draft treaty does not eliminate the national veto, but it confines its use to decisions concerning foreign policy, defense and taxation. Qualified majority voting would now apply in seventy areas, including immigration and social policy. In perhaps its most sweeping articles, the draft treaty asserts E.U. competence not only over foreign and defense policy, but also over the ‘coordination of the economic and employment policies of the member states’ (Articles I-10 and I-14) as well as over ‘common commercial policy’ (Article I-12). It also authorizes the E.U. to raise whatever funds it regards as ‘necessary to attain its objectives and carry through its policies’ (Article I-53). The sops to national sovereignty – ‘the principle of conferral’ and ‘the principle of subsidiarity’ – seem rather nebulous by comparison with this bald assertion of fiscal power. Crucially, the right to propose E.U. legislation would remain the monopoly of the Commission. According to one assessment, the extension and modification of qualified majority voting on the Council of Ministers would significantly increase the chances of draft bills becoming directives.<sup>xxviii</sup>

For all these reasons, there is at least a *prima facie* case that the European Union would become, in practice, something close to a federal United States of Europe, were the Convention’s draft treaty to be accepted by its members.

## 7. Culture

There is little doubt (indeed it is almost a cliché) that Europe’s political culture is becoming more self-consciously different from – and hostile to – the United States. The most recent survey by the Pew Research Center shows that substantial majorities in France, Spain, Italy and Germany now favor a more independent (less American-influenced) European foreign policy (see table 1).<sup>xxix</sup> This is undoubtedly a consequence of widespread public disapproval of the American-led war against Iraq. In 1999–2000 no fewer than 83 per cent of Britons surveyed had a ‘favorable’ view of the United States; by March 2003 the figure had fallen to 48 per cent. In France over the same period the pro-American proportion halved, from 62 to 31 per cent. In Italy it went from three-quarters to a third; in Germany from more than three-quarters to barely a quarter; in Spain from half to just 14 per cent.<sup>xxx</sup> The brief duration of the war and the post-war revelations about the viciousness of Saddam Hussein’s regime have brought a partial but not a complete reversal of these trends.<sup>xxxi</sup>

**Table 1. Pubic Views of the U.S. – European Alliance, 2003**

	<i>U.S.-Europe alliance should remain as close</i>	<i>Our country should be more independent</i>
France	23	76
Spain	28	62
Italy	37	61
Germany	42	57
Britain	51	45
U.S.	53	39

Source: Pew Global Attitudes Project, ‘Views of a Changing World’, June 2003.

Nor is this the only evidence of a divergence of political cultures. Assumptions still commonly made by Americans about the fundamental unity of ‘Western civilization’

look increasingly questionable in view of Europe’s precipitously declining religiosity (see table 2). In the Netherlands, Britain, Germany, Sweden and Denmark less than one in ten of the population now attend church at least once a month, a dramatic decline since the 1960s. Only in Catholic Italy and Ireland does more than a third of the population worship on a monthly basis or more often.<sup>xxxii</sup> In the Gallup Millennium Survey of religious attitudes (conducted in 1999), 49 per cent of Danes, 52 per cent of Norwegians and 55 per cent of Swedes said that God did not matter to them at all. In North America, by comparison, 82 per cent of respondents said that God was ‘very important’ to them. Nor is this a peculiarity of Western (or ‘old’) Europe. According to Gallup, 48 per cent of people living in Western Europe almost never go to church; the figure for Eastern Europe is just a little lower at 44 per cent. Six out of ten North Americans believe in God as a person, but the ratio in Eastern Europe is just four out of ten. Nearly two thirds of Czechs regard God as not mattering at all in their lives – a higher proportion even than in Sweden.

**Table 2. A Tale of Two Civilizations? Religious Attitudes in North America and Europe**

	<i>North America</i>	<i>Western Europe</i>	<i>Eastern Europe</i>
Percentage attending religious services once a week or more	47	20	14
Percentage regarding God as important or very important	83	49	49
Percentage who don’t think there is any sort of God, spirit of life force	2	15	9
Percentage agreeing that there is no essential truth in religion	6	17	11

Source: Gallup International

The corollary of this widening transatlantic cultural rift is a growing European self-consciousness. Only one in ten Europeans now regards E.U. membership as an unequivocally ‘bad thing’. Even in Euro-skeptical Britain, the proportion of people in this camp has fallen from 34 per cent in 1973 to just 21 per cent today. Nearly half of Europeans want the E.U. to play a bigger role in their lives in five years’ time. And

almost third of Europeans surveyed in 2002 saw the E.U. as standing for ‘a stronger say in world affairs’.<sup>xxxiii</sup>

#### 8. External relations

Finally, we should not underestimate the European Union’s potential power on the international stage. Although there is no question that the European countries lag far behind the United States in terms of arms technology, their military capability is far from negligible. The U.S. defense budget is nearly double the combined defense budgets of the fifteen E.U. members.<sup>xxxiv</sup> In financial terms, the American contribution to NATO exceeds that of the E.U. members of NATO by around 30 per cent.<sup>xxxv</sup> But that still makes the E.U. countries’ combined military expenditures substantially more than those of Russia, Japan or China. Indeed, in terms of crude manpower, the E.U. countries are now ahead of the U.S. (around 1.8 million to 1.5 million service personnel) and second only to China, which has around 2.5 million. Of course, Europe’s armies are less well trained and much less well equipped than America’s; only a tiny fraction of enlisted men can be regarded as ‘combat effective’. But there is an obvious and important role for European troops which does not require them to possess the full range of American weapons technology: as peacekeepers in the growing number of ‘post-conflict situations’. In the years 2000 and 2001, around seven times as many troops from E.U. countries took part in United Nations peacekeeping operations as troops from the U.S.<sup>xxxvi</sup>

The E.U. countries also outstrip the U.S. significantly in terms of aid to developing countries. If official aid budgets are adjusted to take account of a variety of relevant factors, it emerges that the combined aid budgets of the E.U. members are nearly three times larger than that of the United States.<sup>xxxvii</sup> When these indicators are combined with a variety of others – openness to international trade, investment in developing countries, openness to legal immigration and adoption of ‘responsible’ environmental practices – the United States ranked an ignominious twentieth out of twenty-one developed economies in its ‘commitment to development’.<sup>xxxviii</sup> It is not without importance that fifteen of the nineteen countries ranked ahead of the U.S. are members of the European Union.

Of course, the Europeans' 'commitment to development' needs to be attributed to the altruism of national governments rather than to the E.U. itself. Nevertheless, the fact that the E.U.'s member states do so much more in these fields than the U.S. must have some geopolitical implications. Moreover, the E.U. is playing an increasing role in its own right through the Commission's Humanitarian Office, the European Agency for Reconstruction and the European Bank for Reconstruction and Development. It is not without significance that in U.N.-occupied Kosovo the Banking and Payments Authority and the Central Fiscal Authority are under E.U. control; indeed, the province now has the euro as its official currency.<sup>xxxix</sup>

Recent global surveys have tended to focus on the increasingly negative attitudes of people in developing countries towards the U.S. It seems likely that their attitudes towards the European Union are more positive. Whatever 'soft power' means, the E.U. seems intent on accumulating it.

For all these reasons, it does not seem irrational for the United States to consider the European Union a potential if not yet an actual rival.

### III

Yet there is another side to this balance sheet, which tends to be ignored by those who would posit a nascent transatlantic competition, if not antagonism. When the debit side of the European Union's account is examined, it becomes clear that Americans have little, if anything, to worry about. Far from being a rival empire in the making, the introverted character of the E.U. suggests that it is better understood as an 'impire' – an entity which directs most of its efforts toward the preservation of its own inner equilibrium rather than towards the exercise of power beyond its borders.

#### 1. Ageing populations

Europe is getting old. The median age in Germany will rise from 40 today to 47 by 2050; the median age in France from 28 to 45; the median age in Hungary from 38 to 50. (America too is ageing, of course, but not so fast. In the next fifty years the median age in the United States will rise from 35 today to 40.) The implications are sobering. According to the European Commission, the rising dependency ratio could reduce annual growth by



up to three-quarters of a percentage point by 2040 – no insignificant reduction in view of the E.U.’s recent low rate of growth (see below).<sup>x1</sup> That calculation may even understate the problem. According to estimates of the generational imbalances in the fiscal systems of the world’s economies, the majority of E.U. members urgently need to increase taxation or to cut government transfers if they are to avoid imposing unprecedented peacetime tax burdens on the next generation. In the case of Austria, Finland and the Netherlands, cuts in government transfers would need to be of the order of 20 per cent to achieve generational balance.<sup>xli</sup> It is no coincidence that wrangles about pensions currently take up so much of the time of German and French politicians. The reforms needed to avert a collapse of the European states’ welfare systems require immediate sacrifices by powerful vested interests.

## 2. Economic performance

Ever since the 1940s, European integration has consistently been marketed to voters in terms of its economic benefits. The coincidence of the first wave of European integration and the *Wirtschaftswunder* of the 1950s and 1960s seemed to bear this out, though the causal relationship between the two was actually quite weak.<sup>xlii</sup> Recently, however, the claim that integration enhances growth has become much more obviously implausible. No one could dispute that the Single European Act (1986) and the Maastricht Treaty (1992) increased the integration of the West European economy. Non-tariff barriers to trade in goods and services have been significantly reduced. The creation of a single currency has, if nothing else, made it much easier to compare prices across the borders of twelve out of the fifteen E.U. states. Yet Europe’s economic performance since these measures came into force has been disappointing, to say the least. Between 1950 and 1973 the average annual growth rate of per capita GDP in Western Europe (broadly defined) was 4.1 per cent. Between 1973 and 1998 it slumped to 1.8 per cent. In the latter period, there was no significant difference between the growth experienced by the ‘first wave’ members of European Economic Community, the new members that joined after 1973 and the non-members.<sup>xliii</sup> What is especially striking is the poor performance of the countries that have participated in monetary union since 1999. According to the International Monetary Fund, the ‘output gap’ has widened in all the Eurozone

economies between 2000 and 2003 and currently lies somewhere between –2 and –3.5 per cent of GDP.<sup>xliv</sup>

By comparison, the American economy has fared better. In every year but one in the last decade (that year was 2001) the annual growth rate of the E.U. economy has been below that of the U.S. economy.<sup>xlv</sup> The real growth rate of U.S. GDP averaged approximately 3.6 per cent per annum between 1995 and 2001, according to the Organization for Economic Cooperation and Development. The figure for the E.U. was a meager 2.1 per cent. Between 1970 and 1983 unemployment in Europe was consistently lower than in the U.S. Now it is substantially higher. In the second half of the 1990s, E.U. unemployment rose above 10 per cent, while U.S. unemployment fell below 5 per cent. Even in the past three years of American job losses, European unemployment has remained between two and three percentage points above the American rate. In seven out of fifteen E.U. countries, unemployment was in excess of seven per cent in 2002.<sup>xlvi</sup> Nowhere is this underperformance more striking than in Germany, formerly the pride and the powerhouse of the European economy. Since 1996 the German economy has been, in the words of *The Economist*, the ‘sick man of Europe’, with an average growth rate of just 1.1 per cent, half the Eurozone average.<sup>xlvii</sup> Nor is relief in sight. German unemployment stood at 4.5 million in mid-2003 (10.6 per cent of the workforce); the economy contracted by 0.2 per cent in both the first and the second quarters of 2003.

Finally, European productivity growth may have been more rapid than American for most of the post-war period, but in the last seven years the tables have been turned. According to the Conference Board, American GDP per hour worked grew at an average annual rate of just under 2 per cent in the period 1995–2002, whereas for the E.U. the figure was closer to 1.2 per cent. Only one E.U. country – Ireland – achieved higher productivity growth than the U.S.<sup>xlviii</sup>

### 3. Europe’s ‘leisure preference’

Europe’s poor economic performance *despite* measures designed to enhance economic integration begs the obvious question: why? One widely held explanation is that Europe’s labor market is insufficiently flexible, not just because of the obvious linguistic barriers,

but also because of regulations introduced over the years in response to the demands of trade unions.

A recent study by the International Monetary Fund considered the evidence from the period 1960 and 1998 and asked a simple question. What would the effect on European unemployment be if the E.U. labor market were Americanized? To be precise, the study envisaged:

- Increasing the participation rate (the proportion of the population in the labor force)
- Reducing the replacement rate (the ratio of benefits to past earnings)
- Reducing employment protection
- Reducing the tax rate on labor (introducing fiscal reforms to eliminate poverty traps)
- Weakening trade unions
- Decentralizing wage bargaining (where nationwide collective agreements demonstrably cause big differentials in regional unemployment rates).

Table 3 summarizes the projected short-, medium- and long-term impacts of three of these policies. Its message is clear: only by doing all three would European unemployment come down to American levels – and that only in the ‘long term’. This suggests that labor market reform is bound to be difficult: very radical reforms are necessary, but the pay-offs would be slow manifest themselves.

**Table 3. Effects on Eurozone unemployment of ‘Americanizing’ the labor market**

	Impact on Eurozone unemployment		
	Short-term	After 3 years	Long-term
Reduction in replacement rate from Eurozone to U.S. level	-0.26	-0.62	-1.24
Reduction in employment protection to U.S. level	-0.35	-0.83	-1.65
Reduction in taxes on labor to U.S. level	-0.08	-0.20	-0.40
Combined effect of three policies	-0.69	-1.65	-3.29

Source: International Monetary Fund, *World Economic Outlook* (date?, 2003).

A further difference between the E.U. and the U.S. not captured in such calculations – nor, indeed, by standard measures of productivity – is the widening gap between the amount of time Americans work and the amount of time West Europeans work. According to a recent OECD study, the average American in employment works just under 2,000 hours a year (1,976). The average German works just 1,535 – fully 22 per cent less. The Dutch and Norwegians put in even fewer hours. Even the British do roughly ten per cent less work than their transatlantic cousins. The extraordinary thing is how much of this divergence has occurred in the past twenty years. Between 1979 and 1999 the average American working year lengthened by fifty hours, or nearly 3 per cent. But the average German working year shrank by 12 per cent and the average Dutch year by 14 per cent.<sup>xlix</sup> It is a relatively new state of affairs that Americans get ten days of holiday a year, and Europeans thirty.

In fact, these figures understate the extent of the European ‘leisure preference’, since they take no account of the fact that a much larger proportion of Americans actually work. Between 1973 and 1998 the percentage of the American population in employment rose from 41 per cent to 49 per cent. But in Germany and France the equivalent percentage fell to, respectively, 44 and 39 per cent. The overall employment rate for the working age population in the U.S. is 73 per cent; in the E.U. it is just 64 per cent.<sup>1</sup> Unemployment rates in most North European countries are also markedly higher than in the United States – over 10 per cent in Belgium and Spain, more than twice the American rate. And then of course there are the strikes. Between 1992 and 2001 the Spanish economy lost, on average, 271 days per thousand employees as a result of industrial action. For Denmark, Italy, Finland, Ireland and France the figures lie between 80 and 120, compared with less than 50 for the U.S.<sup>li</sup>

This, then, is the main reason why the U.S. economy has surged ahead of its European competitors in the past two decades. It is not that Americans are markedly more productive. It is not about efficiency. It is simply the fact that Americans work *more*. It is the fact that Europeans take longer holidays and retire earlier. It is the fact that so many more European workers are either unemployed or on strike. Europe’s political

leaders are belatedly waking up to this problem. In June 2003 a German politician took his career in his hands by daring to suggest that if his countrymen took slightly fewer holidays the German economy might grow faster. Such views are no longer taboo in France either. But a century of European Social Democracy has created habits of mind that are extremely hard to break. From almost its very inception in the late nineteenth century, the German Social Democratic Party campaigned for shorter working hours and, more recently, shorter working lives. For their French counterparts, securing a maximum working week of 35 hours was one of the great achievements of the recent past. This tradition dies hard. A striking feature of the draft treaty establishing the E.U. constitution is that it seeks to enshrine as 'fundamental rights' a number of the things that make the European population so much less active than their American counterparts. It alarms British business leaders that Article II-27 enshrines the right of workers to be consulted by the management about the running of the companies that employ them. But just as significant is Article II-31: 'Every worker has the right to limitation of maximum working hours, to daily and weekly rest periods and to an annual period of paid holiday.'<sup>lii</sup>

#### 4. The Common Agricultural Policy

Europe may be running a trade surplus, but part of the reason for that is the relatively slow growth of domestic demand. Another relevant factor is the European Union's continued protectionism, which is most evident in the agricultural sector. At the time of writing (June 2003), an agreement had belatedly been reached to reform the Common Agricultural Policy, which at present accounts for nearly half the E.U. budget. The system whereby the subsidies paid to farmers are linked to the volume of production is to be partly though not wholly dismantled.<sup>liii</sup> The prices at which the E.U. commits itself to buy farm produce are to be reduced though not entirely scrapped. C.A.P. payments to farmers in the ten new member-states will be paid at just a quarter of the level paid to existing members.<sup>liv</sup> But these reforms do nothing to reduce the tariffs currently imposed on agricultural imports to Europe. American proposals to the World Trade Organization prior to the abortive Cancùn conference included the phasing out of agricultural export subsidies over five years as well as the reduction of subsidies to five per cent of the value

of farm production and of tariffs to a maximum of twenty-five per cent. Before Cancùn the E.U. indicated its willingness to reduce subsidies, which prior to last year's reforms were around 33 per cent of the value of production, compared with around 21 per cent in the U.S. Without a global trade agreement, however, these subsidies will continue.<sup>lv</sup> This state of affairs is simply indefensible – and politically almost incomprehensible given that barely 4 per cent of the E.U. workforce is now employed in agriculture.

The United States is not significantly more virtuous in these respects.<sup>lvi</sup> But Europe's addiction to agricultural subsidies and tariffs nevertheless needs to be borne in mind when judgments are being made about the E.U.'s positive contributions towards developing countries. Europe may be more generous in its aid policy than the United States. But so long as the Common Agricultural Policy remains in existence – even in its reformed incarnation – the E.U. will be giving with one hand while taking away with the other. Worse, it will be offering dependence on aid as a substitute for economic development based on agricultural exports. Were the E.U. to break the stranglehold of what are now numerically weak protectionist lobbies, the benefits – not least for developing countries around its Mediterranean and Slavic periphery – would be immense. There would be real benefits for West European consumers too. Only a relatively small number of inefficient farmers, notably in France, would lose out. And those who protest that the French countryside benefits aesthetically from subsidized agriculture should think again: if what is at issue is the look of the Gallic landscape, then farmers can quite easily be paid to act as glorified gardeners, charged with the task of keeping France pretty, but not paid to produce food that could come more cheaply from outside the E.U.

##### 5. The European Central Bank and German disinflation

The Common Agricultural Policy also makes food expensive for European families, reducing their disposable income twice: by taxing their incomes and inflating their food bills. But it is not the principal cause of Europe's recent economic under-performance. Of far more importance is the mismanagement of Eurozone monetary policy since the creation of the single currency in January 1999.

The success of the euro as a substitute for the dollar in some international transactions masks a deeper failure. This failure has consisted in systematically

underestimating the disinflationary and perhaps even deflationary pressures on the German economy of a monetary policy devised to achieve price stability in twelve quite different economies.<sup>lvii</sup> Between 1999 and 2001 Economic and Monetary Union meant higher interest rates for Germany, compensated for by exchange rate depreciation.<sup>lviii</sup> In 2002 and 2003 it meant belated and insufficient interest rate cuts and a real monetary tightening through exchange rate appreciation. Some symptoms of deflation have already manifested themselves in Germany. Although the official consumer price inflation rate remains (just) positive, there is reason to think that this may conceal actual deflation. The main producer price index fell in 2002 and agricultural prices have been falling since mid-2001.<sup>lix</sup> Uniquely among the major Western economies, Germany's real estate prices have fallen – by as much as 13 per cent in real terms – over the past decade.<sup>lx</sup>

The problem has been compounded because German fiscal policy is also circumscribed by European rules. The misnamed Stability and Growth Pact – ironically, demanded as a *sine qua non* of monetary union by the Germans themselves – implies that Germany could be fined by the E.U. if, as seems likely, Berlin runs deficits in excess of 3 per cent of GDP for three years running (2002–4). In large measure, these deficits merely reflect the operation of 'automatic stabilizers' in a recession or near-recession. The idea that they could be made larger by the imposition of fines (a mechanism which was designed to elicit good fiscal behavior from the Italy and other historically profligate member states) is among the most grotesque of the unintended consequences of monetary union.

One way of seeing where the European Central Bank has gone wrong is to ask where German interest rates would be today if the German central bank, the Bundesbank, had not been emasculated. Give the Bundesbank's record – which includes at least five episodes when rates were cut quite steeply in response to a recession (in 1967, 1975, 1982–3 and 1987 and 1994–6) – it seems reasonable to assume that rates would be lower. Were it not for the E.C.B.'s need to target inflation not just in Germany but also in Greece and Ireland, German base rates would very probably be closer to American rates, i.e. nearer to 1 per cent than to 2 per cent.<sup>lxi</sup>

Under the circumstances, it is scarcely surprising that – after much circumlocution – the British government has avoided committing itself to joining the Eurozone in the

near term. Although one study in the voluminous June 2003 Treasury report on the subject suggested that euro membership might boost British economic growth, it was only by a modest amount – at best, 0.25 per cent of GDP per annum, at worst, 0.02 per cent.<sup>lxii</sup> Even these calculations (which assumed that switching to the euro would boost cross-Channel trade and that this in turn would raise productivity) must be viewed with skepticism in view of the dismal performance of the Eurozone since its creation.<sup>lxiii</sup> The ten countries just about to join the E.U. should also think twice about converting to the euro. They could lose more than they gain if, in order to qualify, they are required to spend two years of purgatory in a second-generation Exchange Rate Mechanism, given the volatile flows of speculative capital such a system would tend to attract.<sup>lxiv</sup> Nor is it at all clear how economies which have so recently endured the trauma of ‘transition’ from Soviet planning could easily abide by the rules of the Stability and Growth Pact. The general government deficits of Poland, Hungary and the Czech Republic were all in excess of 4 per cent in 2002; indeed, the Hungarian deficit was close to 10 per cent, more than three times the Stability and Growth Pact’s maximum.<sup>lxv</sup>

If enlargement turns out to mean that the low-productivity economies of Eastern Europe acquire both a West European welfare system and a West European currency, its macroeconomic effects could conceivably be like a slow motion replay of German reunification, which threw millions of East Germans out of work. Productivity levels in the Czech Republic, Poland, Slovakia and Hungary are around a third of the French level. Put crudely, what this means is that unless wages in those countries are set at around a third of French levels, their workers will not be able to compete with their West European counterparts. Unfortunately, European Union labor legislation is designed to prevent what the West Europeans disingenuously label ‘social dumping’ – a pejorative term for competition from low-wage economies. East Europeans are currently able to compensate for their low productivity by working longer hours even than Americans. The average Czech worker does more than 2,000 hours of work a year, a figure that has been steadily rising since the collapse of Communism, even as working hours in Western Europe have been declining. E.U. accession is likely to reverse that tendency, obliging Czechs to work less or not at all by giving them legal entitlements to shorter working week, longer holidays, stronger unions, higher minimum wages and, of course, generously funded



unemployment when their employers go bust because of all this. Joining E.M.U. would remove the last vestige of economic flexibility: the possibility of currency depreciation.

#### 6. The rescue of nation state, continued

What then of Europe's steps towards a federal constitution? Here, as always, there is a need to distinguish between rhetoric and reality. Some French and German politicians have been using the language of European federalism for years. Yet the reality has always lagged far behind, for the simple reason that the very same politicians – when it comes to actions rather than words – have consistently defended their countries' respective national interests. Alan Milward's dictum that first phase of European integration had more to do with 'the rescue of the nation state' than the construction of a federation still applies today.<sup>lxvi</sup> There is little reason to think it this will cease to be true even if Giscard's draft treaty is adopted. Indeed, a close reading of the draft treaty – and of comments made by the Convention's president during its deliberations – suggests that the real point of the exercise is to prevent an irrevocable swamping of the big European countries by the smaller states in the wake of eastward enlargement.

A cynic might say, for example, that the new offices of President of the European Council and E.U. Foreign Minister are the perfect jobs for a certain kind of French elder statesman – not unlike the post of president of the constitutional Convention. Giscard envisages freezing the number of European Commissioners at fifteen, in other words scrapping the rule that gives each member state at least one Commissioner. If that does not happen, so his argument runs, the seven smallest countries in an enlarged E.U. – accounting for less than two per cent of the Union's GDP – would provide more Commissioners than the six largest countries, despite the fact that the latter group's share of total E.U. output exceeds eighty per cent. Giscard has also raised the idea of making representation in the European Parliament more proportionate to national population sizes. 'You have to take the populations into account because we operate in a democracy here,' he declared in April 2003.<sup>lxvii</sup> Perhaps most importantly, changes to the system of qualified majority voting on the Council of Ministers mean that E.U. legislation could be passed if it had the support of just half the member states, provided they represented at least 60 per cent of the European Union population.

Giscard has a point. E.U. institutions as presently constituted do substantially over-represent the smaller countries, as table 4 shows.

**Table 4. The European Union in percentages**

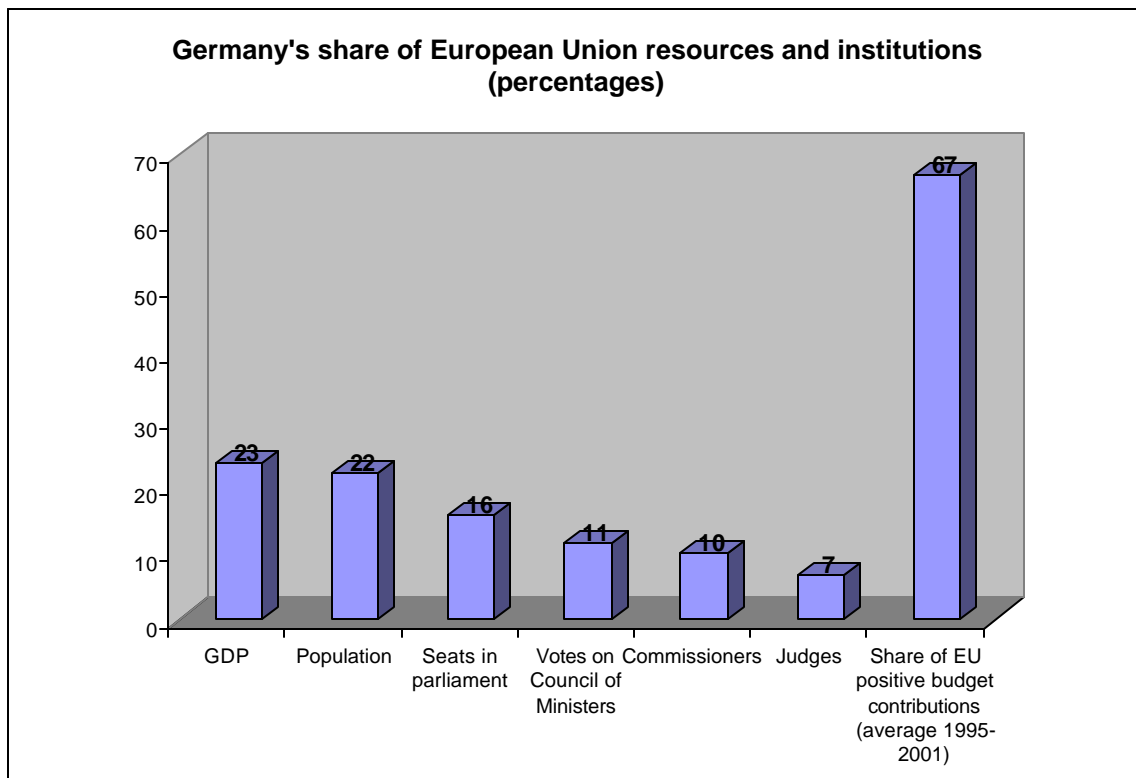
	<i>GDP</i>	<i>Population</i>	<i>Seats in European Parliament</i>	<i>Votes on Council of Ministers</i>	<i>Commissioners</i>	<i>Judges on European Court</i>	<i>Population per Council of Ministers</i>
Germany	23.4	21.8	15.8	11.5	10	6.7	8,219,300
United Kingdom	18.0	15.9	13.9	11.5	10	6.7	5,983,200
France	16.6	15.8	13.9	11.5	10	6.7	5,952,100
Italy	13.8	15.3	13.9	11.5	10	6.7	5,784,400
Spain	7.4	10.5	10.2	9.2	10	6.7	4,936,250
Netherlands	4.8	4.2	5.0	5.7	5	6.7	3,196,600
Belgium	2.9	2.7	4.0	5.7	5	6.7	2,052,400
Sweden	2.7	2.4	3.5	4.6	5	6.7	2,220,750
Austria	2.4	2.2	3.4	4.6	5	6.7	2,030,250
Denmark	2.0	1.4	2.6	3.4	5	6.7	1,783,000
Greece	1.5	2.8	4.0	5.7	5	6.7	2,102,200
Finland	1.5	1.4	2.6	3.4	5	6.7	1,727,000
Portugal	1.4	2.7	4.0	5.7	5	6.7	2,004,600
Ireland	1.3	1.0	2.4	3.4	5	6.7	1,273,333
Luxembourg	0.2	0.1	1.0	2.3	5	6.7	220,500

Source: McCormick, *Understanding the European Union*; OECD.

For many years, this over-representation of the small and under-representation of the large has had a fiscal dimension too. Almost from its genesis in the European Coal and Steel Community (1951), the European Union has been predicated on transfers of resources from the larger, wealthier countries to the smaller, poorer countries. In the 1950s the inefficient Belgian coal industry received tens of millions of dollars from the other members of the E.C.S.C., principally Germany. After the Treaty of Rome, France's former colonies (which the French ingeniously managed to slip into the Common Market) received \$380 million in development assistance from the other five signatories, again principally Germany. The Common Agricultural Policy – which by 1969 accounted for 70 per cent of the European Economic Community's budget – also effectively obliged

German consumers to pay for dearer French and Dutch produce.<sup>lxviii</sup> According to German budgetary data, the total amount of unrequited transfers from Germany to the other member states some years ago exceeded in nominal terms the celebrated 132 billion marks demanded of Germany by the victorious powers after the First World War.<sup>lxix</sup>

**Figure 1**



Source: As table 4.

Yet it is inconceivable that this system can survive for very long. Apart from anything else, E.U. enlargement brings into the fold a number of countries markedly poorer in relative terms than any previous new members. In past enlargements the per capita GDP of the richest existing member – invariably Luxembourg – has been roughly two or two and a half times that of the poorest new member (Ireland in 1974, Greece in 1981, Portugal in 1986 and Finland in 1995). But the accession of the former Communist economies of Eastern Europe is an altogether bigger challenge. The average

Luxembourgeois is roughly five times better off than the average Lithuanian. At Copenhagen it was agreed that the ‘maximum enlargement-related commitments’ for the ten new states would not exceed 40.8 billion euros in the three years 2004–2006. But who exactly is going to finance these transfers? It is very hard to see how German politicians can continue to justify paying the largest net contributions to the E.U. budget – especially if the E.U. itself is simultaneously threatening to fine Germany for violating the Stability and Growth Pact. Clearly, German altruism has played an important role in the history of European integration since 1945. Still, there must be limits to how much more ‘tacit reparations’ German taxpayers are willing to pay to the rest of Europe.

One little-noticed finding of recent Eurobarometer surveys is that there are significant discrepancies between the numbers of people who think the European Union is a ‘good thing’ in general and the numbers who think it is good for their own country. The data in tables 5 and 6 suggest that there may be a connection between these discrepancies and the workings of the E.U. budget. In countries which are net recipients of substantial sums – Greece, Ireland and Portugal, all of which received sums greater than two per cent of GDP between 1995 and 2001 – the proportion of voters who regard the E.U. as good for their specific country is significantly larger than the proportion who regard it as a good thing generally. Conversely, a larger number of voters in a number of the big donor countries – Germany, Belgium and Luxembourg – regard the E.U. as a good thing generally than regard it as good for their own country.<sup>lxx</sup> If nothing else, that suggests a recognition on the part of voters in some if not all member states that there is a distinction between the European interest and the national interest.

**Table 5. Average net budgetary contributions to the European Union as a percentage of Gross Domestic Product, 1995-2001**

<i>Recipients</i>		<i>Small donors</i>		<i>Large donors</i>	
Greece	3.86	Finland	-0.02	Austria	-0.31
Ireland	3.18	France	-0.07	Luxembourg	-0.40
Portugal	2.68	Italy	-0.07	Netherlands	-0.40
Spain	1.31	Belgium	-0.08	Sweden	-0.41
Denmark	0.11	UK	-0.15	Germany	-0.48

Source: [http://europa.eu.int/comm/budget/agenda2000/reports\\_en.htm](http://europa.eu.int/comm/budget/agenda2000/reports_en.htm)

*Table 6. Eurobarometer responses: 'The EU is good for my country' minus 'The EU is a good thing generally', 2002*

<i>Better for us than good generally</i>		<i>Good generally and not much worse for us</i>		<i>Better generally than good for us</i>	
Greece	12	Finland	1	UK	-5
Ireland	8	Sweden	-1	Netherlands	-5
Portugal	8	France	-1	Belgium	-5
Denmark	8	Spain	-2	Germany	-9
		Austria	-2	Italy	-11
				Luxembourg	-11

Source: *Eurobarometer, 57* (2002).

### 7. The limits of 'European-ness'

While it is tempting to represent 'European' attitudes as increasingly 'anti-American' and more self-consciously European, this is at best a caricature. First, as the Pew Center data clearly show, most Europeans draw a sharp distinction between Americans in general and the Bush administration. No fewer than 74 per cent of French people with a negative

view of the U.S. regard 'the problem' as being 'mostly Bush', compared with just 21 per cent who think it is 'America in general' and 4 per cent who blame both. The proportions are very similar in Germany and Italy. Secondly, and somewhat ironically, there are at least some aspects of President Bush's foreign policy which Europeans support. Three-quarters of French, Italian and German respondents to the Pew survey agreed that the Iraqi people are better off without Saddam Hussein. Clear majorities in all the major European countries continue to favor the U.S.-led war against terrorism. More generally, there are no real transatlantic differences in attitudes towards economic and cultural globalization. It should also be noted that anti-American sentiment is not deterring young Europeans from learning the English language. Excluding Britain and Ireland, 92 per cent of secondary-school students in the E.U. are studying English – nearly three times the number studying French and seven times the number studying German.<sup>lxxi</sup>

At the same time, Europeans remain far less 'European' than French, British, German, Italian and so on. Nine out of ten Europeans feel 'fairly attached' or 'very attached' to their country. But fewer than five out of ten – 45 per cent – feel as 'attached' to the E.U. In some countries – Sweden, Holland, Britain and Finland – between two thirds and three quarters of citizens describe themselves as 'not very attached' or 'not at all attached' to the E.U. Only a tiny proportion of Europeans identify themselves exclusively as 'European'; nearly half see themselves primarily as members of a traditional nationality, and only secondarily as European. Moreover, the popularity of E.U. membership within the fifteen current members is in decline: in 1990 more than 70 per cent of Europeans thought membership a good thing; the most recent surveys show a drop to just 55 per cent. Just under half of Europeans regard E.U. membership as having 'as many advantages as disadvantages'. In the light of these figures, European identity seems less than securely established.

Moreover, the impact of immigration to Europe – which will almost certainly need to continue and indeed increase in scale to counter the rising dependency ratios discussed above – is tending to reduce rather than increase European cultural cohesion. Millions of people have moved into the European Union in the past decade, whether as economic migrants, asylum seekers or ethnic Germans. These migrants are following previous influxes, notably of former subject peoples from the defunct colonial empires in

the 1960s and 1970s. According to recent estimates, between 3 and 4 per cent of the populations of Holland, Germany and Britain are now Muslims; in France the proportion is nearly double that: 7.5 per cent.<sup>lxxii</sup> Recent trends in applications by asylum seekers and their success rates suggest that some countries are likely to end up with larger immigrant populations than others. In the years 1990 to 2000, Denmark, Germany, the Netherlands, Austria and Sweden admitted the largest numbers relative to their respective populations. For the foreseeable future there is certain to be a profound tension between the economic need to attract more legal immigrants to Western Europe and the political antagonism towards newcomers which tends to be felt most acutely in (or close to) the relatively poor neighborhoods where they settle.

It would be an exaggeration to depict recent successes by politicians with explicitly anti-immigrant platforms as manifestations of a revival of extreme nationalist or racist politics in Europe. The politicians concerned – ranging from Jean-Marie Le Pen to Jörg Haider to the late Pim Fortuyn – have too little in common and have achieved such ephemeral successes that it would be more accurate to speak of a rash of protest votes with xenophobic overtones. Still, hostility to immigrants is widespread. A survey conducted in the year 2000 found that more than half of Europeans think that ethnic minorities abuse national welfare systems and that immigrants increase unemployment. Nearly two-fifths think that even legal immigrants should be sent back to their countries of origin.<sup>lxxiii</sup> It is hardly surprising that unscrupulous populists are tempted to pander to such sentiments. The implications for those who dream of a federal Europe are dispiriting. Asked by Eurobarometer pollsters what the E.U. meant to them, more than a fifth of European voters checked the box marked ‘Not enough border controls.’ Whatever restrictions are initially left in place, enlargement seems certain to heighten the perception that the E.U. encourages migration by creating new opportunities for young men in Eastern Europe and the Mediterranean to move westwards. A few demagogues are already linking hostility to immigration and hostility to European integration. More in this vein seems almost inevitable.

And then there is the Turkish question. The Turks first applied to join the European Union as early as [date]. Hitherto their advances have been rebuffed, mainly on the ground of Turkey’s somewhat checkered political, civil and human rights record;



implicitly (and sometimes explicitly) because Turkey is overwhelmingly a Muslim country. The economic case for membership has, however, been growing stronger. According to some estimates, per capita income in Turkey is in fact higher than in Hungary, Latvia or Lithuania, all of which are poised to join the E.U., and more than double that of most of the Balkan states. The religious argument, by contrast, has become a politically incorrect embarrassment, as Giscard himself discovered when he injudiciously advanced it last year. The notion that Europe is by definition Christian will no longer hold water: as we have seen, there are just too few observant Christians and too many non-Christian immigrants. Nor can it any longer be claimed that Turkey is not a functioning democracy. A moderately Islamist party came to power there in free and fair elections; the army has not intervened as it might have done in the past. Meanwhile the strategic arguments for binding Turkey to the West by new institutional ties are compelling. The Turkish parliament's refusal to facilitate a U.S. invasion of Northern Iraq demonstrated that its members, if no one else, have read and understood the North Atlantic Treaty, which does not have a clause justifying preemptive war. By overthrowing Saddam Hussein, the U.S. has clearly demonstrated the perils of being a 'rogue regime' in the Middle East. But what better way could there be to signal the rewards of being a democratic and religiously moderate regime than to admit Turkey to the E.U.?

Here is the only way in which Charles Kupchan's notion of Europe as a new Byzantium might be seen as (unintentionally) prescient. Were Turkey to join the E.U., and were the Muslim communities in Western Europe to continue growing, there might one day be good reason to draw parallels between Brussels and Byzantium – or rather, Ottoman Constantinople.

#### 8. 'The hour of Europe'

Though immigration to France has not been especially high compared with other E.U. countries, the presence of large Muslim communities in France – now into their third generation – may help to explain the success of the National Front leader Jean-Marie Le Pen in the first round of the French presidential elections of 2002. To be certain of victory in the second round, Jacques Chirac had to distance himself from Le Pen's stance

on immigration; and that in turn may help explain why he was so reluctant to be associated with military action against Iraq in 2003.

Such domestic political considerations – or to be precise the diversity of domestic political constellations – are the principal reason why it has proved so difficult to coordinate the diplomacy of the E.U. member states. In theory, a Common European Foreign and Security Policy is an appealing idea; in practice, it has proved exceedingly difficult. Over Bosnia, as we have seen, the ‘hour of Europe’ manifestly failed to strike; the disagreements between the E.U. states led to a kind of political paralysis. Over Iraq even deeper fissures opened up within the E.U. Would the creation of a European Foreign Minister change that? It seems highly unlikely.

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Europe’s, in short, is a curious kind of union: a confederation that fantasizes about being a federation without ever quite becoming one. It has an executive, a legislature, an upper house, a supreme court, a central bank, a common currency, a flag and an anthem. But it has only a tiny common budget and the barest bones of a common army. Many more decisions than its architects intended are still taken by the national governments at meetings of the Council of Europe or Inter-governmental Conferences. The E.U. lacks a common language, a common postal system, a common soccer team – even a standardized electric socket. To some critics – perhaps most famously the late Conservative Cabinet Minister Nicholas Ridley – it threatens to become a ‘Fourth Reich’: not only dominated by Germany, but German in its institutional structure. To others – notably the Oxford professor of politics Larry Siedentop – it is the French who really run the Union in the style of their own less than accountable bureaucracy, preventing its evolution into an American-style United States.<sup>lxxiv</sup> Siedentop’s E.U. is more like a third Bonapartist empire than a Fourth German Reich.

A better analogy than either of these might be with Switzerland, a country where economics tends to count for more than politics and where the cantons and provinces are more powerful than the central government. Yet even the idea of a super-Switzerland understates the importance of the two glaring democratic deficits that characterize the

E.U. The first is well known, namely the weakness of the European Parliament relative to the Commission, an institution which glories in its lack of transparency and seems barely accountable to anyone. The E.U. may not be Byzantium, but its inner workings are certainly Byzantine. The second democratic deficit is the less obvious but perhaps more important deficit that condemns the individual German voter to a far smaller say in European affairs than his fellow-European in Luxembourg or Ireland. It may well be that both these deficits are necessary to the existence of the E.U., since an authentically democratic system might unleash the xenophobia felt by many ordinary Europeans, or revive the long-dormant German question in the minds of both the Germans and their neighbors. But under these circumstances the E.U. seems unlikely to achieve that increase in its legitimacy without which a common foreign and security policy is inconceivable.

Already significant moves have been made in the direction of what is known, euphemistically, as 'variable geometry'. Only twelve E.U. members have thus far adopted the euro; shortly before this book was completed, a second Swedish referendum went decisively against E.M.U. membership, further reducing the odds of an imminent British referendum on the subject. Britain and Ireland have not signed the Schengen Agreement to relax border controls within the E.U. Between 1989 and 1997 the British also opted out of the Social Charter, one of the three 'pillars' of the E.U. proclaimed at Maastricht. In a similar fashion, the new members of the E.U. will not immediately implement all the terms and conditions of membership. The concept of 'constructive abstention' introduced in the Amsterdam Treaty and the concept of 'enhanced cooperation' in Giscard's draft constitutional treaty (Article I-43) point the way to more such *à la carte* arrangements. No one can seriously expect this to strengthen the E.U. The more opt-outs there are, the less coherent the Union is bound to become. A multi-speed Europe can hardly achieve the Treaty of Rome's goal of 'ever closer union'. On the contrary, union will tend to become more remote. Instead there will be a multiplicity of petty unions: from the Treaty of Rome, in short, to a political spaghetti junction of partially overlapping 'coalitions of the willing' – with the mission in each case defining the coalition.

#### IV

The conclusion of this chapter is straightforward. The U.S. has nothing much to fear from either the widening or the deepening of the E.U. – not least because the two processes stand in contradiction to one another. Talk of a federal Europe emerging as a ‘counterweight’ to the United States is based on a complete misreading of developments. The E.U. is populous but senescent. Its economy is large but sluggish. Its productivity is not bad but vitiated by excessive leisure. It is a successful but still insufficiently liberal customs union. It contains a monetary union which has depressed rather than enhanced its members’ economic growth. It is certainly a legal union, but too much of its law emanates from an un-elected and unaccountable Commission for it to enjoy legitimacy. And as a political entity it seems likely to remain confederal for the foreseeable future. What de Gaulle said in 1962 remains fundamentally true today: ‘At the present time there cannot be any other Europe than a Europe of States, apart, of course, from myths, stories and parades.’ And even these myths do not command much respect. Although there are traces of a common European culture which is distinct from the amorphous, American notion of ‘the West’, national identities still predominate and immigration is doing little to diminish them. For all these reasons, a common foreign and security policy seems a remote and perhaps unattainable ambition.

Who needs a counterweight anyway? In the final analysis, both the U.S. and the E.U. have far more to gain from cooperation than from competition. The bottom line is that they need – even depend on – one another. This is most obvious in the economic sphere. Very nearly a quarter of E.U. exports go to the U.S, while a fifth of E.U. imports come from there. The U.S. accounted for 65 per cent of foreign direct investment into the E.U. in 1999; the same proportion of E.U. FDI went to the U.S. No less than 45 per cent of the stock of U.S. FDI is in the E.U.<sup>lxxxv</sup> A substantial share of the United States federal debt as well as the debts of American corporations are held in the portfolios of European investors and institutions. There is, then, something to be said for Richard Rosecrance’s characterization of the relationship as a partnership between ‘Caesar and Croesus’.<sup>lxxxvi</sup> But Euro-American common interests are cultural too: those who grumble at the ubiquity of McDonald’s throughout Europe overlook the immense number of French and Italian restaurants in the United States. As Disney chief executive Michael Eisner has been heard

to remark: '*Sleeping Beauty* is culture, and that's French; *Peter Pan* is English, *Pinocchio* Italian, *Snow White* German.'<sup>lxxvii</sup> Above all, there can be no question that Americans and Europeans have a common interest in combating terrorism. The efforts of a small number of zealots to cause murder and mayhem, whether in Manhattan or Mombassa, will only be defeated if the intelligence agencies and police forces of the United States and Europe work together.<sup>lxxviii</sup> Nation-building projects in Bosnia, Kosovo, Afghanistan and Iraq are more likely to succeed if there is meaningful transatlantic cooperation.

Those in the United States of America who fret about the 'rise' of a United States of Europe should therefore relax. And those in Europe who fantasize about precisely the same thing should get real. Brussels is still – both literally and metaphorically – a very long way from Byzantium.

[Bibliography to come]

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## Notes to chapter 7

<sup>i</sup> Glennon, 'Why the Security Council Failed'.

<sup>ii</sup> Chris Patten, 'The State of the Euro-Atlantic Partnership', The Trilateral Commission, October 20, 2002.

<sup>iii</sup> George Parker and Daniel Dombey, 'Berlusconi Eyes Bigger E.U. Role on World Stage', *Financial Times*, July 1, 2003.

<sup>iv</sup> Timothy Garton Ash, 'The Peril of Too Much Power', *New York Times*, April 9, 2002.

<sup>v</sup> 'A European Armaments, Research and Military Capabilities Agency shall be established to identify operational requirements, to promote measures to satisfy those requirements, to contribute to identifying and, where appropriate, implementing any measure needed to strengthen the industrial and technological base of the defense sector, to participate in defining a European capabilities and armaments policy, and to assist the Council of Ministers in evaluating the improvement of military capabilities': European Convention, 'Draft Treaty Establishing a Constitution for Europe', CONV 850/03, Brussels, July 18, 2003.

<sup>vi</sup> See e.g. Andrew Sullivan, 'The Euro Menace: The USE vs. the USA', *Sunday Times*, June 16, 2003.

<sup>vii</sup> Robert Kagan, 'Power and Weakness', *Policy Review* (2002). Cf. Kagan, *Of Paradise and Power*

<sup>viii</sup> France is, by a considerable margin, the world's most popular tourist destination, accounting for more than ten per cent of all international tourist arrivals in 2000: World Tourist Organization. The second most popular is the United States; but the third, fourth and fifth places go to E.U. members: Spain, Italy and the United Kingdom.

<sup>ix</sup> Huntington, 'Lonely Superpower'.

<sup>x</sup> Kupchan, *End of the American Era*, pp. 119, 132.

<sup>xi</sup> 'Washington today, like Rome then, enjoys primacy, but is beginning to tire of the burdens of hegemony ... And Europe today, like Byzantium then, is emerging as an independent center of power, dividing a unitary realm in two': *ibid.*, pp. 131, 153.

<sup>xii</sup> Cooper, 'Postmodern State'.

<sup>xiii</sup> Joseph Nye, 'The New Rome Meets the New Barbarians: How America Should Wield Its Power', *Economist*, March 23, 2002. See also Nye, 'Lessons in Imperialism', *Financial Times*, June 16, 2002. Cf. Bergsten, 'American and Europe'.

<sup>xiv</sup> Mearsheimer, *Tragedy*, p. 385.

<sup>xv</sup> Paul M. Kennedy, 'What Hasn't Changed Since September 11<sup>th</sup>', *LA Times*, Sept. 11, 2002.

<sup>xvi</sup> Calculated from the figures in the World Bank's *World Development* database.

<sup>xvii</sup> Depending on the measure used, E.U. output will rise by between 3 and 9 per cent.

<sup>xviii</sup> Figures from Maddison, *World Economy*.

<sup>xix</sup> According to figures for 1999 from Eurostat.

<sup>xx</sup> Danthine *et al.*, 'European Financial Markets after EMU', table 2.2.

<sup>xxi</sup> Figures from the Bank for International Settlements. This was in fact predicted by the B.I.S.: McCauley and White, 'The Euro and European Financial Markets'.

<sup>xxii</sup> Figures from Economagic, OECD.

<sup>xxiii</sup> *Economist*, April 12, 2003, p. 100.

<sup>xxiv</sup> *Ibid.*

<sup>xxv</sup> European Convention, 'Draft Treaty establishing a Constitution for Europe', CONV 850/03, Brussels, July 18, 2003.

<sup>xxvi</sup> Michael Pinto-Duchinsky, 'All in the Translation', *Times Literary Supplement*, June 13, 2003.

<sup>xxvii</sup> 'Snoring while a Superstate Emerges', *Economist*, May 10, 2003, p. 42.

<sup>xxviii</sup> Richard Baldwin and Mike Widgren, 'Europe's Voting Reform will Shift Power Balance', *Financial Times*, June 22, 2003.

<sup>xxix</sup> Pew Global Attitudes Project, 'Views of a Changing World', June 2003.

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<sup>xxxi</sup> The pro-American percentages currently stand at 70 in Britain, 43 in France, 60 in Italy, 45 in Germany and 38 in Spain.

<sup>xxxii</sup> 'Contradictions', *Economist*, April 12, 2003.

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- xxxiv Calculated from figures in the C.I.A. *World Factbook*.
- xxxv Calculated from figures published by the Stockholm International Peace Research Institute.
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- xlii See Milward, *European Rescue*.
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<sup>lxx</sup> Britain is the exception that proves the rule: voters there seem not to have noticed that their country ceased to be a significant net contributor in 1984, when Margaret Thatcher secured an on-going rebate of a substantial proportion of Britain's payments.

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<sup>lxxii</sup> Hitchcock, *Struggle for Europe*, p. 419.

<sup>lxxiii</sup> *Ibid.*, p. [to come].

<sup>lxxiv</sup> See Siedentop, *Democracy in Europe*.

<sup>lxxv</sup> Figures from Eurostat.

<sup>lxxvi</sup> Rosecrance, 'Croesus and Caesar', pp. 31-4.

<sup>lxxvii</sup> Epitropoulos *et al.* (eds.), *Americanization*, p. 5.

<sup>lxxviii</sup> Bobbitt, *Shield of Achilles*, pp. 677-95.