Cyril Foster Lecture 2014

Has European Integration Reached the End of the Road?

Loukas Tsoukalis

It is a great honour to be invited to give the Cyril Foster Lecture for 2014, and I should like to thank the Managers of the Cyril Foster Fund, Louise Fawcett in particular as Chair of the Committee, for the invitation. The list of lecturers who have preceded me in this role is long and very impressive. In my young and not so young days in Oxford, I attended several of these lectures and learned a great deal. But it never crossed my mind that one day I would be asked to rise to the challenge: the legacy is indeed awesome.

A Greek coming to Britain to talk about Europe: is it any better than having Greeks bearing gifts, some of you may wonder. After all, Greece was the black sheep when the big crisis of recent years broke out and she remains today the weakest link of the euro chain, while Britain appears to be the country least interested in European integration, judging from public opinion surveys. But, of course, Oxford is special and never comfortable with stereotypes.

Has European integration reached the end of the road, and if so, does it matter? Where do we go from here, if anywhere? This is the subject of my lecture this evening and I propose to start with a brief history.

Some history

We should not forget that Europe went through a remarkable transformation during the second half of the 20th century. Peace within and beyond national borders, the spreading and strengthening of democracy, ever growing prosperity and closer unity of a still highly diverse continent were the main components of this transformation.

From the dark continent, in the words of the historian, Mark Mazower, Europe turned into a model (or models) that many people in other parts of the world wanted to imitate: a social model, a model of open borders and shared sovereignty, even a model of civilian power in world politics, although the latter has never been terribly convincing.
European integration was part and parcel of this transformation. It established common institutions and rules, helped to reconcile old foes, created multiple networks of interdependence, provided an anchor and a strong reference point for new democracies as well as a vehicle for modernization. Last but not least, it helped to create a large internal market, a single market if you prefer, still the biggest in the world. And for many years, growth was coupled with economic convergence between countries and the reduction of inequalities within countries.

The European success story, as long as it lasted, was inclusive, and that was a key element in the creation of broad political consensus on which European integration rested for many years. It did not necessarily create Europeans out of proud citizens of old nation states, but it did help to create a large majority of pro-Europeans who were happy with an integration project widely seen as delivering the goods. According to the jargon, it was output legitimacy that European institutions had to rely upon, since loyalties remained mostly national and local.

In the beginning, as we all know, European integration was primarily about peace and reconciliation: a French initiative to deal with a German problem in the aftermath of the Second World War, employing economic means to achieve political objectives, and with little popular enthusiasm to start with. An elitist conspiracy, you might call it, but with good intentions and remarkable results after all.

Is there a better proof of success for the European integration project over the long period than its continuous expansion in terms of membership and functions? From six to twenty-eight members and from coal and steel to just about everything, albeit with varying degrees and kinds of integration from one policy area to the other, there must be surely something in it and not just the product of a conspiracy of some *illuminati* across borders. European integration fits perfectly with the general terms of reference for the Cyril Foster lectures.

It meant different things to different people in what used to be perceived for a long time as a positive-sum game. For the Germans, it was a major part of the rehabilitation process after the war, and German politicians were prepared to pay a price for it without always openly admitting that the post-war German economic miracle was very much dependent on access to a large European market without barriers. For the French, it was a way of extending their influence as long as the European interest continued to be defined more or less as the French interest. Italy’s weak political system needed the European anchorage, and so did Belgium’s increasingly virtual state.
Belonging to the EU confers respectability and status to countries that had for long been treated as objects rather than subjects of European diplomacy. Membership has also helped to consolidate democracy in countries with a turbulent and unhappy political past and helped them to open up to the rest of the world.

Most Greeks and Spaniards have learned that much from experience, and so did the Poles and others in central and eastern Europe later on. People in those countries have also greatly appreciated the inflow of large amounts of funds for development purposes, without always making the best use of them.

It has always been different with Britain, where the European story has been less convincing and local interest in listening seems to have faded further over the years. Slovaks and Finns, for example, have nowhere else to go, and they know it, while there are enough British (perhaps mistakenly) who think they do, and they continue to think in terms of ‘us’ and ‘them’.

At the individual level, the typical supporter of Europe and the integration project is educated and well off, he or she belongs to the political mainstream, is middle-aged or older and willing to move. They are the people who have provided the core of support.

As for the young, they have never been attracted by Europe’s bureaucratic face, although the post-national narrative goes down more easily with them. They also tend to take the achievements of integration for granted, simply because they have never known otherwise.

**Bigger, more intrusive and less inclusive**

With time, it got more complicated. The European project became much bigger, more intrusive and less inclusive internally, while external competition intensified in a rapidly globalising world. Not surprisingly, it also became less consensual, but the process of widening and deepening of integration did not slow down.

The new century found Europe preparing for the next big transformation – and it was meant to be much bigger than ever before – including a European constitution, a big bang enlargement, the creation of a common currency, not to mention a common foreign policy. Political will was meant to massively transform the political and economic order on the European continent. Yet, when it came to the test, the will was found wanting and the preparations poor. We also discovered awkward trade-offs in the process that we were not ready to handle.
Difficult lessons had to be learned the hard way, and for many of Europe’s political leaders those lessons took time to sink in. On the way from the ill-fated European constitution to the Lisbon treaty, we learned that the benign conspiracy of the original founders was simply not repeatable with much bigger numbers, a very different political context and much higher stakes. A big gap was also revealed between national politicians and citizens on things European. The permissive consensus on European integration could no longer be taken for granted.

Successive enlargements have been indeed the most successful foreign policy of the Union. But inevitably, diversity multiplies with enlargement. Numbers also make a big difference. Councils of twenty-eight look like mini UN conferences, and big countries in particular are more tempted to look for agreements through informal channels. With 28, it is a very different Union.

We have also learned that the so-called process of Europeanization has its limits – and they are often uncomfortably narrow. The EU surely makes a difference for its new members, but it is not and cannot be the modern incarnation of Saint Panteleimon (or Saint Pantaleon) the all merciful heeler of all kinds of disease, and institutional failure I would add.

What about the common European foreign and security policy? Well, what about it? It is the peaceful revolution that never happened. In a world in which the tectonic plates of geopolitics are moving fast and the centre of gravity is shifting from the West to the East, size continues to matter a great deal in international relations and individual European countries, even the bigger ones, no longer count for very much.

The post of European High Representative was given new powers and resources by the Lisbon treaty but has not changed things all that much, with few notable exceptions. Perhaps, it was never meant to. As a result, Europe remains weak, often divided and increasingly irrelevant.

The euro hit by the crisis

However, the hardest and most expensive lesson of all we have had to learn was in relation to the new common currency, which remains to this day the most daring act of integration since the very beginning. The creation of the euro was strong in symbolism and with broad political ramifications. Geopolitics once again provided the driving force: it was the unification of Germany behind it all. Political will was meant to turn an economically heterogeneous group of national economies, those willing and able to join, into a workable currency area, although far from the optimum currency area much talked about in the economic literature.
I wrote my doctoral thesis on European monetary integration here in Oxford many years back. I tried to explain then why earlier attempts had delivered so little but also why monetary union would continue to figure prominently on the European agenda in the years to come. Unfortunately, when it did happen, it repeated several mistakes of those earlier attempts at European monetary integration.

The Maastricht construction for economic and monetary union was politically weak and structurally unbalanced. European leaders decided to create a new common currency, but they were clearly not ready to provide it with the necessary institutions and instruments to make it viable in the long run.

They were unprepared, but they were also unlucky. The first real test for the euro, after a ten-year long honeymoon period, came with the biggest international financial crisis since 1929, itself the result of colossal failures of markets and institutions that were certainly not confined to Europe. To their shock and horror, the international financial crisis soon transformed itself into a systemic crisis of the euro area revealing the weakness of the original construction and the incompatibility of policies pursued by different members.

The design was wrong, and so was membership. The crisis revealed all kinds of problematic children in the euro family, countries with increasingly unsustainable economic and social models in a rapidly globalizing economy, some with dysfunctional political systems, which had lived for years on borrowed time and money. Perhaps, just a bit more than others, you might think considering the amount of debt all around. I am afraid the best known example is my own country, Greece.

Money was easy and cheap in the years of plenty that had preceded the crisis, and much of it was provided by German banks recycling the large current account surpluses accumulated in their home country. Meanwhile, Germany had set a standard in terms of wage and prices increases inside the euro area that would have been extremely difficult, even with the best of intentions, for other countries to follow. Some did not even try.

It has been the worst crisis since the beginning of European integration back in the 1950s, and the euro area is at the centre of it. Hence, a kinds of ‘unthinkables’ have happened to save the euro.
Trying to manage the crisis

The list is indeed long and impressive, ranging from big national ‘bail-outs’ that dare not speak their name because they were not supposed to happen, large packages of financial assistance that have set new records in international financial history, extremely painful adjustment programmes for the countries in trouble with the direct involvement of the IMF, and new stringent forms of fiscal and economic policy coordination for all euro members that have taken Europe’s joint management of interdependence into completely new territory.

Meanwhile, the European Central Bank, the federal institution par excellence, has been forced to stretch continuously the limits of the legal constraints imposed on it by the Maastricht treaty trying to act as the saviour of last resort of the euro.

And there is more. A banking union will be the next most important step after the creation of the common currency. It has been agreed upon and now being implemented, although the mutualisation of risk will take longer.

All in all, the crisis has already forced euro members into a new more advanced stage of policy integration.

The bad news, however, is that the price we have paid is very high in economic, political and social terms. European economies have been languishing, and some have indeed imploded. Real GDP of 2007 for the euro area as a whole will not be recovered before the end of 2015 at the earliest: a lost decade in other words. It has been only marginally better for the EU-28 as a whole.

Unemployment is high, and in the South of Europe it has reached levels that would have been unimaginable during peacetime. Youth unemployment has gone up to stratospheric levels in parts of Europe, and it is unlikely to come down fast, thus raising the spectre of a lost generation as well.

In a crisis that, remember, was US-born, any comparison with the United States in terms of macroeconomic performance is very unfavourable for the euro area. More recently, the same is also true if comparison is made with the UK.

In fact, the catalogue of ills is much longer. Economic divergence has grown a great deal between and within countries. On one end of the spectrum, the Greeks have lost one-quarter of their GDP during the crisis, other countries on the European periphery less. On the other end, for most Germans the crisis is still something terrible that happens to others.
Europe has been divided and the divisions run deep. Citizens in creditor countries resent risking their savings to save partners in trouble. Those in debtor countries see the EU as the policeman of austerity. They also realize that there is little democracy and sovereignty you can afford when you are on the verge of bankruptcy. As for the others in the rest of Europe, they feel marginalized in a Union where membership of the euro determines the core group, an unhappy group notwithstanding.

In last May’s European Parliament elections, anti-European parties registered a large increase in their share of vote, in some countries more than in others. Still, they represent about 25 per cent of MEPs. Meanwhile, support for European integration has sunk all around.

The politics of managing the euro crisis has been very much about who pays the bill, although most people directly involved have always pretended otherwise. Economics also got mixed up with morality. Remember that in German and other languages as well, debt and guilt are the same word. But are borrowers the only ones to blame when a bubble bursts?

During this long crisis, trust has been low, the economics flawed and the politics toxic. Not surprisingly, national stereotypes have returned with a vengeance.

The crisis has shifted the balance of power inside the euro area and the Union as a whole. Germany has emerged from the crisis as the indispensable country and the lender of last resort – and Chancellor Merkel as the undisputable leader of Europe in crisis. Thus, much of the politics of managing the crisis has been played out in Berlin, often more so than in Brussels. Of course, it was never meant to be like this.

President Mitterrand had insisted on monetary union precisely in order to prevent a strong, reunited Germany from dominating the European scene. It was the old logic employed by Robert Schuman once again: a French initiative to deal with a new German problem this time, again employing economic means to achieve political objectives. And Chancellor Kohl agreed, as his predecessors had done before him. Yet, if people had read the earlier history of European monetary integration more carefully, they might have thought differently at the time.

I believe that the experience accumulated over several decades suggests that Germany enjoys a big structural advantage within a European system of fixed exchange rates. Its economic size and prowess, combined with a decades-long history of stability-minded policies and export-led growth, a corporatist tradition and largely consensual politics have ensured its position as leader.
As long as monetary union operates as a modern version of the gold standard, with the ECB making the difference but not enough and with Germany setting the policy priorities, several countries will continue to find it very difficult to cope having relinquished the right to devalue and the right to monetize their public debt.

Who paid the bill?

The economic strategy to deal with the crisis has centred on austerity and reform. It has been dictated by creditor countries as a pre-condition for the provision of financial assistance to debtors. But the trouble is that when fiscal contraction happens simultaneously in several countries while the private sector, including banks, is deleveraging after the bursting of a big bubble, you are likely to end up with a vicious circle of austerity and recession. And then, private and public debt becomes increasingly unsustainable.

This is precisely what happened, although in different degrees from country to country. Meanwhile, the loosening of monetary policy has always been late and not enough.

Structural reform constitutes the second pillar of the economic strategy. One problem with it is that it takes time to deliver, while the political costs are immediate. Furthermore, structural reform is like a big basket with so many different things in it catering for different tastes. Some reforms, notably in labour markets, imply difficult trade-offs and have broad distributional consequences.

For example, as a result of the labour reforms introduced by Chancellor Schröder, Germany has become more competitive but also internally more unequal. The trade-off between competitiveness and social cohesion is not an easy one to handle politically. Liberalization on its own is not always the answer to everything. At least, let us not pretend that all reform is for the best in the best of all possible worlds. It is also politically much more difficult, when at the same time you put your foot on the fiscal brakes.

Who paid the bill? The burden of adjustment has fallen almost entirely on the deficit countries, with the weaker and more vulnerable members of society being most affected.

Perhaps, rightly so, some people may think, since those countries had tried to live beyond their means. But now, they have been punished hard. They also had to borrow large sums of money and the debt accumulated will hang over the younger generations for years to come.
On the other end, taxpayers in the surplus countries have undertaken significant credit risks by lending to partner countries in trouble, and they are not at all sure they will get all their money back.

Private creditors, banks in particular, stand in the middle. With some exceptions, they have been protected with money and guarantees from national taxpayers and European institutions. Not surprisingly, many people are manifestly unhappy about the way pain has been distributed and which hardly corresponds to the way gain had been distributed before the crisis.

With the benefit of hindsight, we need to recognize that the euro was a terrible mistake, at least the way it was done. When the crisis struck, Europe’s political leaders showed a strong instinct of survival but also little sense of strategic vision.

The state we are in today in the euro area reminds me of the old joke about the man who loses his way in the Irish countryside and asks a local for the way to Tipperary. And the reply he gets is that ‘If I were you, I wouldn’t start from here’. This is where we are today, the options are limited and none is easy.

Proponents of the existing economic strategy have pinned their hopes on growth that will bring our economies out of a long recession. Instead, after a lost decade, the euro area is now courting with deflation and growth remains very slow and uneven at best. The large numbers of unemployed are not expected to find jobs anytime soon, public debt is now much higher than it was in the beginning of the crisis, private debt also remains very high and banks are still trying to deleverage.

No surprise therefore there is a great deal of public discontent, especially in the worst affected countries. Much of it is channelled through anti-systemic parties: Syriza in Greece, Podemos in Spain, and Sinn Fein in the Republic of Ireland. On Europe’s periphery, protest takes mostly a left-wing form with a populist background for sure. Cinque Stelle in Italy is arguably a category on its own.

Anti-systemic parties have been gaining strength in other European countries as well. The centre is being squeezed and the extremes grow bigger. In France and the UK, respectively in and out of the euro area, most of this anti-systemic vote seems to be driven mainly by popular concerns about immigration and the loss of sovereignty. Hence, it is more nationalist and right-wing.
Caught in the midst of a much bigger crisis

The crisis extends much beyond the euro area and also goes much deeper. There is growing disconnect between economics and politics. While economic reality has become increasingly global or European, politics has remained stubbornly national or local. How do we reconcile the two realities, and at what cost?

Europe has for a long time tried to produce an innovative answer to this question through the joint management of interdependence and shared sovereignty, and it is far ahead of any other region in the world in this respect. However, judging from popular reactions today, the European answer leaves much to be desired. Of course, the EU also provides an easy scapegoat for populist attacks. After all, it is run by foreigners, isn’t it? Alas, this is a trick also frequently employed by mainstream politicians in our countries who should have known better.

European integration has reached the nooks and crannies of our societies. In several instances, it has clearly gone too far with little regard to the so-called principle of subsidiarity. There is arguably too much bureaucratic meddling from Brussels, although critics often conveniently ignore the need for market regulation and all that it implies. Europe has also become a lucrative profession for too many, and there is considerable waste.

People feel increasingly cut off from decisions that directly affect their everyday lives, decisions taken by institutions they do not identify with or feel able to influence in any way.

To put it in a nutshell, it has been European policies without European politics. We may have gone too far in this direction.

But there is also a growing disconnect between political elites and citizens in many of our societies in times when the private increasingly trumps the public. Trust in national politicians, as well as national institutions, has reached an all-time low in several countries, while the vacuum created by diminishing support for traditional parties has been largely filled by populists and demagogues.

Big political failures of recent years, of course, have contributed, be they the bursting of the big bubble as a result of an ideologically loaded and basically naïve approach as to how financial markets are supposed to function or the way our governments have managed or mismanaged the crisis after that. Prolonged economic stagnation and high unemployment do not help, nor does large scale corruption in several countries.
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The political system is no longer seen as delivering the goods, at least not enough. To what extent this is due to policy failure or to tight constraints imposed on political power by a borderless economy that sets the pace and often dictates the rules is, however, a moot point. There is a difference between democratically regulated markets and market driven democracies. We may have veered too much towards the latter as a result of free capital movements and the liberalization of financial markets.

Many young people are angry. They have inherited a heavy debt burden from their parents’ generation, while their job prospects are poor in several parts of Europe. No surprise again, many prefer to vote with their feet, while others begin to throw stones. There is, however, an even bigger category of losers in the long economic transformation we have been going through during the last two or three decades linked to technological innovation and globalization.

Inequalities have been growing within our societies. Domestic social contracts have come under challenge. In those countries worst hit by the crisis, they are being literally torn apart. This is the age of uncertainty and precarious jobs for an increasing number of people in the developed world, not only in Europe, while others continue to enjoy the benefits from open borders and a shrinking world. Because of the crisis, the number of losers keeps rising.

What I want to stress here is that these underlying trends predate the crisis, but they have become much stronger because of it. They are directly related to developments above or below the European level. Thus, to a certain extent, the effects on European integration look like an epiphenomenon. If this is Greek to you, perhaps you can also call it collateral damage, which is not exactly the same.

But only up to a point, because European integration is now perceived by many people as being part of the problem and no longer part of the solution. Those who identify themselves as losers turn anti-establishment. In their eyes, the EU is part and parcel of the establishment they have come to resent.

Fear (and more) that keep us together

In the circumstances, you may then wonder how the European project has survived for so long. In the words of Luuk Van Middelaar in his book Passage to Europe, it is because of the unique political glue created after many years of close cooperation and interdependence. Surely, he has a point, although I suspect that fear has been a more important factor. I mean fear of the alternative.

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The majority of Europeans, including those in the beleaguered South, still believe that the break-up of the euro would entail much bigger losses than the ones we have already suffered, or still suffering. If the euro was indeed a big mistake, most people including myself, believe that trying to undo it now would be an even bigger one. Fear of the alternative, or just fear of the unknown, can be the glue for many things, not just for the euro. But it may not work for ever.

We are therefore in a bind in Europe today. The survival of the euro requires more policy integration, but we are told there is no appetite for it among our fellow citizens. Political leaders are not keen on embarking on yet another ambitious integration initiative, and there is wide divergence of interests and perceptions that would be difficult to bridge. To complicate matters further, the UK is now asking for repatriation of powers, for more differentiation and flexibility. Otherwise, the UK threatens to leave.

The external environment is hardly more favourable. The transition from a unipolar to a multipolar world is proving to be much less smooth than we had hoped or wished, the risk of a new cold war with Russia is on the cards (and we are not entirely blameless), while our immediate neighbourhood has turned much more unstable and hence a source of serious tension and problems. Brussels Europe remains painfully short of strategic thinking and the rest of the world becomes more aware of our collective limitations and acts accordingly.

Is it really the end of the road? Some people already talk about disintegration, and they are not all among the usual suspects. For example, Jan Zielonka thinks the EU is doomed. At best, it may survive in modest form, he argues. But he does not seem to be much concerned about this prospect, because he envisions a Europe of numerous complex networks and circles, a neo-medieval Europe as he calls it.

The problem I have with this concept is that today’s world is anything but neo-medieval: global power politics played by continental powers and global markets that bear little resemblance to those perfect competition models we still read about in economics textbooks. In today’s world, you need institutions and organized political power to be able to deal with this kind of reality.

A new European grand bargain?

Let me now come to the last part of this lecture. In an essay I wrote a few months ago, I tried to sketch out a new European grand bargain that could help to break the existing deadlock and turn European integration again into a positive-sum game. I shall spare you here the details. Allow me, however, to present briefly the main working hypotheses.
Number One: When I hear that there is no appetite for further integration, my immediate response is that my appetite at least very much depends on what is on the menu, unless I am starving. The choice between more or less Europe is often terribly misleading. The more relevant question should be about what kind of Europe, although I recognize that we have not yet developed the right political mechanisms to give answers to such a question.

The European project is caught in the midst of a much bigger crisis. There are legitimate causes for popular discontent. Instead of trying to lump together all kinds of protest as populist and just dismiss them, we should perhaps try to deal with the causes directly. And let us not pretend that the problem lies only with Europe, or that purely national solutions can be effective.

Number Two: Given the heterogeneous nature of EU-28, and perhaps more tomorrow, there is no one-size-fits-all model of integration. We shall therefore need more differentiation and flexibility to cater for different needs and tastes, even controlled closure when necessary. You may call it multiple speeds, multi-tier, variable geometry or anything else you like.

As a legal instrument, the so-called fiscal compact treaty that came into force in 2013 can serve as a useful precedent in the future. This means no vetoes, while each country decides whether it joins or not a new initiative or a new treaty, without having the right to stop others from doing so. This should not, however, imply that Europe is like a restaurant where each customer chooses from a long menu à la carte.

I strongly believe we should do everything possible to keep the UK under the common EU roof, even if it is mutually agreed that the UK stays out of some of the common activities. I believe it is important for Europe and it is important for the UK.

Having lived many years in this country – and I have always had great respect and admiration for it – I shall venture an opinion on a sensitive domestic issue. The way things have gone, I think that the holding of a referendum on UK membership may indeed be desirable, irrespective of who wins the next elections. Otherwise, the issue of membership will continue poisoning domestic politics while also tying Britain’s hands in relation to its European partners.

A referendum on EU membership will force a proper debate with facts and arguments, thus going beyond the mere exchange of prejudices and stereotypes. It should also help to bring out of the closet all those who believe that the UK is an essential part of Europe and has a vital interest in the European project without necessarily sharing the vision of the illuminati.
Number Three: The euro has become a make or break issue for European integration. Returning to national currencies would certainly not be a smooth operation. We know that adjustment would be painful for all countries in terms of output and trade. It would be accompanied by bank failures, a large number of litigations across national borders and the recrimination that is bound to follow, not to mention the possibility of one or more sovereign defaults.

Would the financial system be able to withstand such a shock? What would happen to the European internal market? And would democratic institutions in the weaker countries be able to survive another large fall in standards of living and the vicious circle of devaluation and inflation?

We enter the territory of unknown unknowns. Yet, what we should know is that if and when we decide to undo multiple ties of close interdependence across national borders, we will be taking a huge gamble and stand to lose a great deal, especially when populism and nationalism are on the rise.

Number Four: Europe needs growth and jobs. If they do not come soon, the political and social tensions will become increasingly unmanageable especially in the more vulnerable countries.

Critics of the prevailing orthodoxy, to be found more in debtor countries and on the left of centre of the political spectrum, believe we need a different policy mix in Europe today in order to boost demand, especially through public investment, and thus create the conditions for growth and moderate inflation. We also need a more symmetrical adjustment between deficit and surplus countries and a bolder approach towards debt.

Until we manage to restore some balance between the two sides of the political and intellectual divide in Europe, trying to combine national reforms with a better mix of fiscal and monetary policy, European economies may continue to languish and the politics will certainly not improve. As we are today, the rules of euro governance are in collision course with economic and political reality.

But what if Europe has entered a period of slow growth, a ‘new mediocre era’ that Christine Lagarde, managing director of the IMF, has warned us about? I fear I have no answer for that, but I would be really worried if it were to be the case.
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Number Five: As it stands today, euro governance is neither effective nor legitimate. It is also a system operating on the borders of legality as set by the existing treaties. Euro governance will therefore need more effective policy instruments, stronger common institutions, and an executive with well-defined competences, democratically accountable and able to act with discretionary power. Of course, all this is not for tomorrow.

I am sure some of you now think I am daydreaming. These things lie beyond the realm of the politically feasible, you will say. And you could be right judging from the mood prevailing today, a state of denial for some, frustration or impotence for others. The odds are against a new grand bargain for Europe, I agree. But the cost of failure may also be very high. Have we thought about it?

The driver and the car

Some years back, I wrote about European integration being like a car moving uphill. The French used to provide the driver, the Commission the map, the Germans paid for the petrol and the British oiled the breaks.

In bad times, it looked like a car without a driver, the map being replaced by a GPS that went on and off, the Poles insisted on taking an insurance policy with God, nobody wanted to pay for the petrol, some clearly cheated, and those inside disagreed loudly on how many more could fit into the car.

The road has become much rougher and dangerous in recent years. But many people believe we now have a driver and she is German, although there are doubts whether she, or anybody else, has a good sense of direction or the skills required for driving in such adverse conditions. Some also wonder whether the vehicle is fit for purpose, while the British seem to be getting ready to jump out.

Leadership has been thrust upon Germany more by default than by design. Germany is economically bigger and stronger than its partners – and it is also more successful than most. Berlin has tried to buy time during the big crisis while insisting on austerity and reform as the way to cure Europe’s ills.

Do it like we did, has been the underlying message that Germany sends to its partners in trouble. But it also refuses to recognize, among other things, that it would be impossible for all European countries to run large current account surpluses like Germany has done for years – unless, of course, the United States and China were ready to oblige, which does not seem very likely.
Germany seems not willing to budge, because of a different view of how the economy works, because it thinks or hopes that there is no imminent danger of a break-up, or simply because of lack of trust that Germany’s partners would be willing or able to deliver their side of the bargain.

I believe there is indeed a bargain that needs to be struck today rather than tomorrow concerning the economic policy mix, and all parties should commit themselves to delivering their side of the bargain. And there is another bargain that will need to be struck further down the road on reform of euro governance and European project in general.

The initiative can only come from the strong, not from the weak. If and when it does, a new European bargain will require a broad coalition of countries and the main political families in Europe recognizing both the value of the European project and the need to give it new shape and form in a rapidly changing world. Can we do it? The honest answer is I don’t know, but I think I know that the present unhappy state may not sustainable for long.

Let me conclude. It will not be the United States of Europe anytime in the foreseeable future. And it will not be a European superpower throwing its weight around in a multipolar world. Foreign policy will most probably be one of the last things that the nation states of Europe will be willing to throw into the melting pot.

What it can be, however, is a Europe with a healthy economy and a common currency that has made real progress in resolving the contradiction of a currency without a state, a Europe with open borders, democratic institutions and inclusive societies, a Europe confident in its diversity and proud not only of its past. This is what European integration, I believe, should be all about. I trust the game is not lost.

Oxford, 13 November 2014