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**Current Challenges
in EU Politics**

A Perspective from
North Rhine-Westphalia

Discussion Paper

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Current Challenges in EU Politics

A Perspective from North Rhine-Westphalia

I.

I would like to briefly recapitulate where Europe stands today, and what has been achieved. Because I maintain that in the EU's 27 Member States we have, despite the failings and shortcomings we all bemoan, reached a level of unity, prosperity and rule of law unheard of in the history of this continent, and possibly of the world.

As far as territory is concerned: the European Economic Community started out with six members. The late Bronislaw Geremek, former Foreign Minister of Poland and an eminent historian, used to point out that this, at the time, corresponded in size and shape roughly to the empire of Charlemagne, one of the greatest unified territories the continent has ever known. And yet, a mere 55 years after the Treaty of Rome we have gone far beyond that. Today's European Union encompasses 27 countries, more than 4 million square kilometers in territory and 500 million people.

When it comes to Europe's policies, at present, all eyes are on the Euro and the future of our common monetary and financial policy. But within our common space, we have achieved so much more than a common currency for a majority of Member States.

We have a developing common foreign and security policy, a functioning internal market, a high level of environmental protection and a common strategy on climate change, free movement of persons and a European

Charter of Fundamental Rights that is the envy of human rights movements everywhere.

And all these things are not just a matter of day-to-day politics, subject to modifications depending on how the political wind blows. Much rather, they are enshrined in European primary law, contained in the preamble to the Treaty on the European Union, and are therefore binding guidelines of fundamental relevance for the way we live and work together on this continent.

I also would like to maintain that, within the EU, Europe has developed a fundamentally new way of talking about common aims, and a new method of achieving results that are acceptable to all.

I am firmly convinced that the values I mentioned, combined with this unique approach to decision-making have contributed to the fact that the European Union is a force for innovation and human development in the world. Without it, we Europeans would be much less able to cope with the challenges of being an ageing continent in a fast-moving world.

So I think that, despite the occasional misgivings outlined above, we can probably also agree on one notion: what we have achieved on this continent over the past 60 years is much too good to give up, much too important to ignore, and far too valuable to throw away!

II.

This seems like a piece of information worth repeating – even several times over! Because as you all know, the European Union faces enormous challenges. And due to the fact that, over the past three years, these challenges have been dodged rather than tackled, they are now looming larger every day!

I am firmly convinced that, if Europe had acted decisively in the face of the Greek debt crisis in the beginning of 2010, by making it clear that we stand united behind our common currency, and if we had at the same time supported our partners in their efforts to regain competitiveness through growth-oriented public policy reforms, we would not be in this mess today!

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Today, two years later, nothing has been resolved, and it is no longer only Greece that is on the line! Utterly misguided austerity policies across the continent, behind which stands the same old tired neo-liberal rhetoric that has failed us for years, have propelled the continent into the doldrums of recession, with any prospects for sustainable growth seemingly light-years away!

Mind you, it would be bad enough if it *were* only Greece – a country whose citizens are now experiencing levels of economic hardship not seen in the EU for decades, with rising suicide rates and children fainting in school because their parents cannot afford to feed them properly.

But unfortunately, problems are no longer limited to Greece alone: a vicious circle has begun that threatens to drag country after country into the abyss.

However, I think we are at the same time reaching the end of the phony morality tale that we've been fed for the past two years: that decades of irresponsible public spending practices across the board are solely to blame for the crisis, and that extreme austerity alone can save us.

How this story jibes with the fact that Spain's public debt ran at a little over 35% in 2008, and that Ireland had been running a budget surplus hovering around 5% between 2000 and 2008, is, of course, anybody's guess...

At the same time, the myth of what US economist and Nobel Prize-Winner Paul Krugman sardonically calls "the Confidence Fairy" is finally beginning to unravel: according to that, if only governments and citizens tighten their belts sufficiently, "markets" will take heart. And – soothed by such virtuous behavior – they will all of a sudden see the light and invest prudently and in the real economy.

What we are in fact seeing is that rating agencies (of all people!) are assuming that austerity will lead to a lack of growth, and collapsing tax revenues will make public debt explode. They are therefore downgrading entire countries, effectively telling enterprises to stay away!

And then there is the story of how the private sector must be freed from the shackles evil European welfare states have put on it, because only when

fully deregulated will it hire people and create wealth – all this in the face of collapsing demand, I wonder?

I trust that people like you have long been able to see through these fairy tales, and I am beginning to hope that the European public (and yes, I believe that we are now for the first time beginning to see a European public!) is, albeit slowly, coming to the same realization.

The fact is that, on the one hand, the Maastricht Treaty has been much better than its reputation inasmuch as it has led to a decrease in public debt in nearly all EU Member States.

On the other hand, it has been clear for some time now that parameters like public debt and annual deficits are insufficient when it comes to measuring the health of a country's national economy: they were unable to prevent a housing bubble in Spain, they were unable to prevent the backfiring of lax banking regulations in Ireland, and they were equally unable to address Greece's lack of competitiveness and good governance.

And this highlights, in fact, one of the monetary union's fundamental flaws: it was perceived first and foremost a monetary union, and not an economic, let alone a fiscal one.

Because at the time of its inception, too many Member States – Germany amongst them – wanted to have their cake – i.e. full sovereignty in all things economic and fiscal – and eat it, too, meaning: reap all the benefits that a true single market and a unified currency had to offer.

It has been clear for some time now that things just don't work this way. And finally, Europe's politicians seem to be willing to snap out of this paradigm: true coordination of economic policies within the European Union now seems within reach.

However, this will not suffice!

If we want to succeed, we must be prepared to slaughter a few more "sacred cows":

First and foremost, we must urgently abandon the misguided idea that austerity in a recession leads to growth – this has never been the case, and

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it never will be! A recession is not the time for belt-tightening! And a look at economic history gives us numerous scenarios to prove this: from the negative example of Reichskanzler Brüning's austerity politics in 1931 to the positive example of countries like Belgium whose debt shrank from 133% in 1992 to 83% in 2007 – but under conditions of robust growth!

And for those who are not inclined to look at such ancient history, a mere look at the evening news might do the trick: not a single country imposing extreme austerity measures has managed to overcome its economic crisis, on the contrary! Which is not surprising, as this result would contradict basic mathematics: if your economy shrinks, the debt ratio increases. The continued claim that austerity leads to growth is what some call voodoo economics, and it is proving to be about as successful when put into practice.

You as true Europeans are surely able to look beyond the narrow perspective of national politics that is still being promoted all too often, and see the European value of a common approach.

But at this point, it should at last become obvious to everyone that Europe's interests and the national interests cannot be separated: the economies of our nation states are so intricately linked that the welfare of one cannot be achieved without the welfare of the other.

This is the true morality play we are witnessing at present: how problems with good governance in a small state on the periphery, amounting – at the best of times – to 3% of the EU's GDP, combined with a lack of solidarity in trying to handle this crisis, have not only led this particular small state to the brink of economic collapse. Far beyond this, we are witnessing how present events develop repercussions with the potential to shake the European Union in its foundations, and threaten the welfare of states all over the continent.

And this should make it clear to all of us that Europe cannot be played as a zero-sum-game, in which one state's loss is another state's gain!

Europe's leaders must finally say out loud that on this small continent, individual states can only prosper in the long run if Europe thrives as a whole.

That is the meaning of European solidarity: in helping their neighbors, Member States are helping themselves! In promoting the EU's economic, social and ecological welfare, they are ensuring a future not just for "Europe" as an abstract notion, but for their own citizens. And this applies to all Member States, not just to those that are being judged – justly or unjustly – as being economically and financially less robust:

German exports to EU-Member States dropped by 3.6% in April 2012, and incoming orders in the machine building industry are down by 4% in the first quarter of 2012. So people in this country are finally beginning to ask themselves: how we will sell our products, if our neighbors can no longer afford to buy them?

Right now we are at a critical juncture. We must stop wasting time with half-baked solutions rooted in the outdated understanding that any State on this continent can isolate itself from political, social and economic developments playing out beyond its borders. We must overcome the gridlock this kind of thinking has caused, and we must explain to our citizens what the developments of the last three years have made plainer than ever: in Europe, as Martin Schulz recently put it, we either all win, or we all lose. Only through cooperation in the spirit of European unity, respect and solidarity we will overcome the challenges that lie before us.

III.

What is to be done?

I believe that the decisions we make now will determine Europe's role in the 21st century. So we should take a hard look at what we want this future to be like!

- Do we want a continent where people earn living wages or one where it is acceptable that people who weren't born with silver spoons in their mouths spend their lives in poverty?

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- Do we want to live in knowledge-based societies with strong industrial bases, or do we accept that young people cannot find jobs which enable them to climb the social ladder, because schools are not teaching them the skills they need and a university education is financially out of reach?
- Do we want banking systems in the service of the real economy, or a financial industry composed of “Masters of the Universe” running amok every few years?
- Do we want to live in economies that are on track to a future of ecologic sustainability, or do we want to continue spending precious resources on fossil fuels purchased from doubtful regimes, essentially forcing us to look the other way when they commit human rights abuses and wreak environmental havoc?

Now is the time to decide!

And I think once we abandon the two greatest myths I described above – that austerity will lead to growth, and that individual European states can quarantine themselves against the fallout of problems in other European countries – we will see our options much more clearly:

I think our goals are clear:

We have to stop the downward spiral that is affecting the real economy of more and more EU Member States, by creating sustainable growth and lasting employment.

Similar to initiatives like the Marshall Plan, a program to tackle this challenge can be designed in such a way that it leads to a win-win situation: it must be geared towards innovation, ecological renewal and investment. Investments should therefore be targeted towards technical innovation and higher public and private investment in education, research and development, development of renewable energies and the creation of modern trans-European infrastructure networks, in particular smart energy grids.

In this context, special attention must be paid to combating youth unemployment. It is simply not acceptable that one in two Spanish people

under 25 is unemployed! The misery this creates is compounded by the terrible waste of economic and human potential this represents: as numerous studies show beyond doubt, youth unemployment has a strong tendency to leave permanent scars in a person's biography. These manifest themselves not only in a person's level of happiness, but also in a significant decrease of life-long earnings and the skills acquired over a lifetime. Given our aging populations, this is not a thing that we can afford!

To facilitate a recovery, a European investment and reconstruction fund ought to be created, preferably within the remit of the European Investment Bank, thus benefiting from the large amount of expertise this institution has acquired in particular during the pre-accession phase before the 2004 EU-enlargement.

Equally urgently, we must get serious about undoing the deregulation of the financial sector. Because this is what led to the disastrous crisis of 2008, which marked the infamous beginning of the development we are trying to tackle today.

Financial services must function as a derivative of the real economy, and not take on a zombie life of their own! I am glad to see that, after much prompting from the opposition, the German government has finally agreed that a financial transaction tax would not only be a useful tool for harnessing runaway markets, but also an excellent source of income, ensuring that the costs of the crisis are at least partly borne by the financial sector from whence the crisis originated. We can only hope that this newfound realization now actually leads to results, and doesn't just dissipate like hot air!

Make no mistake: even if we manage to overcome our present blinkered state and start tackling our difficulties in earnest, a fundamental overhaul of the European Union will still be necessary.

We need to put our money where our mouth is:

- behind a union firmly wedded to the principle of solidarity,
- behind a union that is committed to common values, and that puts them into practice no matter where,

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- behind an ever closer economic and financial union,
- behind a union that subscribes to good governance, the rule of law and functioning public institutions with modern administrative practices.

If we are to succeed, we must take measures few would have thought possible a few years ago:

- We must seriously think about a European debt repayment fund and a true European Banking Union.
- We must insist on taxing financial markets, thereby ensuring that they contribute to the costs of the crisis.
- We must make significant changes to the EU budget, away from agricultural subsidies and toward investment in education, employment and employability, research and development and infrastructure catering to sustainable development.
- We also need to strengthen the idea of a Social Europe – focusing on what makes this continent special: solidarity, mutual support, and equal opportunities.

IV.

You may all be asking yourselves now what Germany's role in all this is.

Over the past two years, we have frequently heard calls for German leadership on the European stage, and from the most unlikely places, too! To name but one example: think of Radosław Sikorski, who noted last year that he might well be the first Polish Foreign Minister to fear German power less than German inactivity.¹

And unfortunately, I cannot deny that Mr. Sikorski's perception is correct. So far, Ms. Merkel's government has excelled in procrastination, in the apodictic drawing of imaginary red lines, (which were then jumped over only a few days later), in secret talks with one partner to the exclusion of

1 November, 28th, 2011.

all others, in a consistent resistance to accepting basic economic principles, and in a general unwillingness to approach this crisis from a joint European perspective. This is not what I call leadership!

Leadership in Europe, to my mind, presupposes a mindset informed by the understanding that the principle of solidarity is what makes Europe work. We neglect this principle at our own peril. Because failure to think in these terms will take us back to the bad old days, where European countries thought only of themselves, and believed themselves immune to developments occurring beyond their borders.

Apart from that, leadership in Europe first and foremost requires respect for all European partners, be they big or small, and a willingness to take their opinions and needs into account. It also requires the ability to recognize when a position is capable of securing a majority. It helps, too, to be aware of the fact that arm-twisting one's partners while boasting of one's own alleged superiority is less than conducive to positive results... Last not least, a certain amount of shrewd diplomacy in working for a consensus acceptable to all would certainly seem superior to blunt threats, displays of chauvinism and the public drawing of horror scenarios.

Real leadership also requires acknowledging some unpleasant truths with a view to one's own electorate. Namely noting that, while Germany is certainly a wonderful country, it is not the centre of the earth, its policies are not by nature superior to other countries', and its people are not necessarily the only ones working hard for the money.

Owning up to these basic truths does not mean condoning irresponsible spending habits and unsustainable policies. It would, however, have meant for example urging a stop to the appalling Greek-bashing in the German tabloid press by publicly pointing out the indecency of such statements.

Failure to come clean has led to a deplorable loss of political culture. Moreover, it has hurt Germany's standing in Europe and the world. It has also been conducive to a continuing lack of self-reflection on certain parts of the German political class. Feeling that they could get away with uttering stereotypes, many politicians have felt for a long time that they

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were not actually required to confront the facts and consider their likely ramifications for Europe as well as for Germany itself.

This kind of behavior, however, comes at a high price, because it has now become much harder to explain to people in Germany and Europe that the problems that must be tackled are not “Greece’s problems”, “Ireland’s problems” or “Spain’s problems”. And there is a considerable risk that the outrage caused by ever-bigger rescue facilities that come without explanation and in contradiction to earlier pronouncements will lead to even more political apathy. Combined with growing anti-European sentiment across the continent, this could endanger Europe as a project, thus turning popular fears into self-fulfilling prophecies.

V.

Far be it from me to join the ever-present chorus of “doom and gloom!” when it comes to Europe’s future. Times of crisis have always also been times of growth and development for the European Union. I therefore see this crisis as a chance for bringing us all closer together, and letting us go forward on the way to greater unity.

But bringing this about requires a sustained effort not only from the political elite, but from of all of us.

I remain convinced that the European idea will prevail, because it is a necessity: without it, Europe would be a place of less promise, less ideas, less hope and less future for its citizens.

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