

A Last Chance For Europe

Forget the breast-beating. All the EU needs is a dream.

BY CLAUDE SMADJA

COULD WE STOP THE CROCODILE tears? The French *non* and the Dutch *nee* are the best news Europe's had in years. They give the EU a last chance to shift gears and get back on track.

Europeans are not morons, confused by the issues. The reality is simpler: if you've been told for years that "ever-closer union"—the process of integration—is the best medicine for Europe, and instead you get sicker and sicker, with unemployment and anxiety growing, you have to conclude at some stage that (a) the prescription is wrong, (b) the doctor is incompetent or (c) that he's fooling you.

Rejecting the European constitution is best read as a strong act of defiance. It should come as no surprise. Europe's man in the street understands only too well what the establishment has long ignored: that for more than a decade European integration has been conducted in a way that misses the only question that counts—how to generate growth, jobs and *hope* across the continent. Instead, Europe's leaders have offered only so much gargle—visions of a common foreign policy, a European foreign minister, and so forth. Ordinary Europeans dismiss such talk for what it is: an irrelevant distraction.

As one whose family immigrated to Europe from Tunisia 40 years ago in search of a strong civil society, a system where the voice of the people would really count, I am distressed by the political autism of European leaders. Almost every time a major question of European integration has been put to the people in a popular vote, their answer has either been "no" (as previously in Denmark and Ireland, and now in France and the Netherlands) or a tepid "yes" (as in the French referendum on the 1992 Maastricht Treaty). Participation in Europe-wide elections has steadily dwindled; polls show a growing alienation. Yet political, business and opinion leaders are besotted by the notion that they, the elites,



THE VOICE OF THE PEOPLE: Hello out there, Eurocrats: Time to wake up—and listen to voters.



A GLOBALIZED WORK FORCE?
French workers just said 'non'

MARTA INSCHENKO—REA

somehow know best—and that ordinary people should just follow along.

Time to wake up. Europe today is paying for three major mistakes. The first is that European integration has for too long been a top-down, one-way street. The establishment has never listened to the people, let alone attempted to involve them to such a degree as to make integration *their* project. Yes, in the beginning Robert Schumann and Konrad Adenauer played for public support to create the European project. Had they not, it would never have come to life. But as Europe became a reality, over the decades, it also became more and more remote. After the referendums I heard one of my friends who is part of this establishment complain that “we have failed to sell Europe.” Here in a nutshell is the problem. It is not a question of “selling” Europe through some well-rounded argument or PR gimmick. It is a question of *creating a dream and keeping it alive*.

Because Europe has remained so much of a top-down, technocratic exercise, there is no European dream. The American Dream is alive and kicking. A Chinese dream is emerging, and an Indian dream. But a European dream? An abiding sense that an individual can shape his future, that tomorrow will be better than today, that opportunities are opening rather than closing? I don't hear this from young people in Europe today. They are glad to have so-called diploma equivalence so that they can spend a year in some other European university. They appreciate being able to travel throughout Europe without having to show a passport. But these are technicalities—not the stuff dreams are made of. Where are the will and the way to reinvent the future? Where is the kind of unbridled optimism that helps people think big, and achieve

great things? Nothing is more alien to a genuine dream than discussions about feta cheese or rules of origin.

Perhaps Europeans (or at least their leaders) have grown too complacent to dream. New candidates for membership keep knocking on the European Union's door, pleading for admittance—and reinforcing the sense in Brussels that we have created a paradise on earth. Let's get real: of course East Europeans and others aspire to join the EU. We're wealthier than they, and can confer subsidies. (Or, in Eurocratese,

Where are the will and the way to reinvent the future?

“solidarity mechanisms.”) And while we're at it, let's stop congratulating ourselves that, thanks to the EU, Europe has known 60 years without war. Yes, well, great. But this is the here and now. Only ignorant people think history repeats itself.

Is it too late for Europe to create a genuine dream, suited to the considerable demands of a fast-changing future? Presumably not. But it could be, if Europe's leaders fail to see Europe as their people do—a perspective from which the benefits of Europe have been dwindling steadily. To rekindle confidence in the future, to build a new European dream, requires a wholly new political approach to Europe. It means, among other things, launching a wide-ranging public discussion about

what Europe is and what it should become. It requires taking account of the continent's hugely divergent social orientations, economic capabilities and demographic prospects. This means also learning to speak in real language, genuinely meaningful to real people—and abandoning the declamatory mumbo jumbo of Euro-speak, which has come to clothe the hollowness of Brussels's ambitions for itself.

Speaking from a clear-eyed sense of reality brings us to Europe's second big mistake: failing to recognize how ordinary Europeans are poised to become the big losers of globalization. By breaking the link between high technology, high productivity and high quality on the one hand, and high salaries on the other hand, globalization has deprived Europe's middle class of the comparative advantage upon which the past five decades of prosperity were built. Of course, the United States' middle class has also been largely deprived of its monopoly. But there's a big difference: change and mobility are part of the American culture. Americans do not share Europeans' sense of entitlement; they move freely across a continent, without barriers of language or law. They are able to adjust and reinvent themselves in a way that Europeans, by culture and condition, find much more difficult.

Thus over the last 15 years most European countries have been fighting one rear-guard battle after the other—and losing. Growth is anemic, structural unemployment is rising, pensions are increasingly at risk. Across Europe, people are disoriented, frustrated and deeply anxious about their lives and the future of their children. They feel cheated. But instead of telling the truth, and making a full and strong case for the need to completely review an entitlements system that has outlived its day, their



BERNARD BREDERHOF—POLARIS

PAST AS PRELUDE: Berliners flock to the unemployment office

leaders spout bogus reassurances about recovery around the corner. Whether in Germany or France or Italy, official forecasts of economic growth have been relentlessly readjusted downward. Fifteen years ago European and U.S. growth rates trended along the same lines—about 2.5 percent a year. Now they've sharply diverged: 3.8 percent for America versus 1.7 percent for Europe. Over time, these small annual increments will produce staggering differences in living standards.

The life-or-death question for Europe is how to regenerate high growth. This presumes more far-reaching structural reforms in the labor market and social welfare than most political leaders have been willing to contemplate. To the extent they speak of reform, they do so while calculating their chances of re-election. The relevant issue today is not how to protect the European social model but, rather, which social model is compatible with increasing Europe's economic growth.

At bottom, we're talking about the need for a genuine cultural revolution here. Yet perversely, most Europeans prefer the easy fantasy that they can somehow find a "third way." Europeans don't need to obsess over growth the way Americans do, they say; Europeans know how to "balance" things. Why not settle for much slower growth and maintain a nice European quality of life? The only problem with this strategy is that it's a losing one. In the winner-take-all environment of globalization, there is no "calibrated," half way to economic leadership. The "so-so" approach to growth is just a recipe for higher unemployment and economic mediocrity.

This links into the third historical mistake for which Europe is paying the price today—enlarging the union to 25 before un-

dertaking needed social and economic restructuring. Most European leaders knew full well that the EU was not ready to absorb the shock of new entrants representing a 20 percent increase in population yet only a 3 percent increase in European GDP. But having promised the former Soviet satellites that they could join, the EU's leaders had little choice but to follow through. That's praiseworthy, perhaps—but it also went against widespread public sentiment.

The upshot is that continental Europe's middle class is now squeezed between its

We're talking about the need for a cultural revolution.

competitive new neighbors, on the one side, and the emerging global titans of China and India on the other. That puts double pressure on Europe's traditional labor markets, industrial productivity and fiscal resources. Yes, enlargement is expanding the strategic reach of many large European corporations, especially German ones. But at the same time it has strained the link between the prosperity of a corporation and the well-being of its employees. German companies are logging record exports and profits, for instance—yet that does not guarantee the jobs of their employees in Stuttgart or Frankfurt. No wonder then that EU enlargement is feeding into this gnawing sense of anxiety about the future. One doesn't need treasures of imagination

to think about the kind of reactions the prospect of Romania's and Bulgaria's admission in 2007 could provoke.

The high-handed way that Eurocrats have handled these matters only exacerbates the anxieties of ordinary Europeans, who understandably feel that they are losing control over their lives. It is no consolation that these worries are as much linked to globalization as to the process of European integration. But after so many unheard warning signals in the past, the events of the last two weeks may well represent Europe's last chance to put things on the table—to engage in a real discussion of its economic and social future, of what needs to be done and its likely social and political costs. It's a last chance, too, for Europe's leaders to connect genuinely with their people.

The failure, so far, to do that has created a vacuum into which the extreme right and the extreme left have stepped with full force. They know an opportunity when they see one. By its condescending attitude, the political elite bears a major responsibility for the rise of populism. There is no underestimating the deterioration of the political, social and psychological climate in Europe and the major danger it represents. The situation has never been so bad. Of course some political leaders in France or Germany might draw the wrong lessons from the results of the referendum, and be tempted to slow reforms even further. It would be foolish to think that this will solve Europe's problems. The frog in the pot may decide that although the water is becoming warmer it is still bearable, and it will continue like that until it boils to death. Or it can jump out. Europe has a similar choice.

SMADJA is president of Smadja & Associates, Strategic Advisory.