

Paradigm Lost?
**The European Union
and the Challenges of a New World**



**Daniel S. Hamilton, Gregor Kirchhof,
and Andreas Rödter**
Editors

Paul H. Nitze School of Advanced International Studies
Johns Hopkins University

Hamilton, Daniel S., Gregor Kirchhof and Andreas Rödter, eds., *Paradigm Lost: Europe and the Challenge of a New World*.

Washington, DC: Foreign Policy Institute/Henry A. Kissinger Center for Global Affairs, Johns Hopkins University SAIS, 2021.

German edition: *Zeitenwende? Zur Selbstbehauptung der Europäischen Union in einer neuen Welt*. Tübingen: Mohr Siebeck, 2022.

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Distributed by Brookings Institution Press.

Supported by



Deutscher Akademischer Austauschdienst
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Funded by



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Foreign Policy Institute and Henry A. Kissinger Center for Global Affairs
Paul H. Nitze School of Advanced International Studies
Johns Hopkins University
1717 Massachusetts Ave., NW
Washington, DC 20036
Tel: 202.663.5882/202.663.5813
<https://www.fpi.sais-jhu.edu/>
<https://sais.jhu.edu/kissinger>

ISBN: 978-1-947661-12-7

Front cover images and book illustrations by Achim Greser and Heribert Lenz.
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Foreword

Is a new era dawning in the European Union and the Western world? The COVID-19 pandemic has rocked the global system, in which new forces are challenging the West, and in which Europe in particular has been challenged to assert itself in economic, security, political, and cultural terms.

In the midst of the pandemic, the member states of the European Union agreed for the first time to take up joint debt in order to enable the European economy to recover, as well as to launch long-neglected reforms. The Union seeks to become climate neutral in the next 30 years. Furthermore, digitalization is to be significantly advanced, and the EU's competitiveness and innovation are to be sustainably strengthened. Whether all this will be possible is an unanswered question. Also open is the question of whether the newly-created possibility of taking up joint debt will remain a one-off measure, as some claim, or whether the Union will become a state, as others hope.

The United Kingdom's exit from the EU has already made it clear that crises do not always lead to a deepening of European integration, as a popular European narrative claims. Today too, centrifugal forces within the Union appear to be gaining greater momentum. The conflict with Hungary and Poland is reaching a crisis point. Prior to that, the so-called "Frugal Five" formed a tangible counterweight to the European bodies and other member states in the discussion of how the economic impact of the pandemic is to be addressed. Despite these tensions, voices are becoming louder which call for the European Union to become a "potential superpower" in light of developments in Russia, China, the Middle East and the United States, as well as of shifts of power that are taking place on the global policy stage. These voices opine that the EU should take greater responsibility for its own security concerns, answer questions related to cyber security, and develop a joint foreign policy in the near future. Seen from a global perspective, it is therefore a question of reinforcing the influence of the West. The

central concerns of freedom and equality, democracy based on the rule of law, and modern statehood, appear to be losing ground.

These and other developments pose fundamental questions to which this volume devotes itself: Can Europe assert itself in the 2020s, both internally and vis-à-vis the outside world? How should and how will the Union develop? What are the relevant fundamental decisions and paradigms? The 16 essays brought together in this book deliberately eschew a joint approach in favor of opening up multinational, multidisciplinary perspectives, framed by three main focal points.

In Part I, authors grapple with internal EU debates about its future. Europeans live in some of the most highly-developed, most prosperous societies on the planet, yet as Stephen Green notes, the continent has visibly lost energy and ambition and hence its long-claimed centrality. In his view, Europe could regain its strength and influence if it were to revitalize fundamental Western values: the commitment to rationalism, democracy and the rule of law, economic effectiveness and fairness, as well as social compassion in caring for our planet.

Michael Hüther and Matthias Diermeier come to a similar conclusion in their observation of the increasing economic influence exerted by China, and the dwindling economic strength of Europe. They claim that the “modernization hypothesis”, according to which capitalist economies will automatically become renewed along Western lines, has failed to materialize. They see a need to revert to intrinsic values. In this vein, they would like to see a new transatlantic consensus being reached, along with better cohesion in Europe—without being naïve when looking toward competition from China.

Gregor Kirchhof speaks of a complementary character of the European Union, and recalls past European ambitions that were remarkably prescient. Security, digitalization, sustainable state finances, and a strategic partnership with Russia were urgent concerns two decades ago. Well ahead of the financial crisis, the EU set forth an ambition to create a transparent financial market that would be the “most dynamic and competitive knowledge-based economy in the world” (Lisbon Strategy, 2000), and later “a more resource efficient, greener and more competitive economy” (“Europe 2020”, 2010). The EU has clearly fallen short of achieving some of these goals. In order to avoid this for the 2020s,

the Union needs to take care of its three complementary sources of strength: the European bodies, the member states, and civil societies.

Andreas Rödder recounts three phases of European integration: the relatively loosely-bound economic union with twelve member states; the deepening and widening of the EU from the mid-1980s onward; and the subsequent changes that took place as a reaction to the financial crisis. The achievements here—in particular the manner in which Europeans deal with one another, the internal market, and enlargement to the East—contrast with sobering “liabilities”: unfulfilled and excessive ambitions; design flaws in monetary union, asylum and border policy; and Europe’s shrinking influence in the world. He therefore sees a need for a realism open to the future and focused on the core of the EU’s mandate: namely to create added value where the Union promises to do so.

Part II asks whether less, more, a flexible or a different Europe is the solution. According to Bence Bauer, people in Hungary, but also in other countries in Central Eastern Europe, are struggling with a European Union they consider to be too frequently patronizing that seeks to restrict the personal freedoms and national sovereignty it cost them so much to regain. These views are visibly distinct from those held in other member states and in EU bodies. If the European union of nations is to remain intact, and the centrifugal forces in Europe are not to be further amplified, different ideas need to be respected and appropriate responses need to be found. He argues that the EU must accept greater diversity in unity.

Gianni Bonvicini and Paolo Magagnotti also call for a new consensus to be established on European integration, although they reach a different conclusion. They consider the time to be ripe to take the next steps towards integration, after the pandemic: EU taxes; economic governance of the Union; and a real central government. If the substantial resources activated by Next Generation EU were used in a forward-looking manner, it should be possible to enable joint European debt to be taken up on a permanent basis.

Hélène Miard-Delacroix and Giorgio Maganza underline a similar goal in their call to establish a more tightly-knit community consisting of a small number of states, and to assign a larger number of sovereign rights to such a community. This long-overdue step towards deepening

is to be open to any member state wishing to take it. Maganza favors more stringent European fiscal rules, powerful European environmental, asylum and immigration policy, competitive industrial policy, and joint foreign policy. Miard-Delacroix calls for stepped-up cooperation on tax and social affairs. She links the urgent demand for the Union to address its own security concerns more emphatically to the communitization of areas within security, technology and the digital domain, trade and monetary policy, as well as energy, health, customs and space.

Also in the interest of closer integration, Benjamin Hartmann describes six ambitious priorities of the European Commission in the current legislative period. The European Union aims to become climate neutral in the next 30 years, and to make itself fit for the digital age. This also means strengthening the European social market economy so that it improves peoples' lives. The EU should do more to protect the "European way of life". It must push European democracy and develop a stronger global role.

Matthias Földeak, in contrast, is critical of the Union for having either lost touch with its citizens in many regards, or having failed to establish meaningful connections in the first place. A more vibrant Union could emerge from "clever" legal restrictions: limiting the EU's scope by doubling down on the principle of subsidiarity internally, while expanding EU-Turkey ties short of membership externally. Such limitations, Földeak argues, would offer an opportunity for the Union to admit the Balkans, Switzerland, Liechtenstein and Norway, to re-admit the United Kingdom, and to work together to build a new foundation with Russia, Belarus and Ukraine.

Part III is devoted to different political tasks accruing to the European Union in our changing world. Eric Brattberg and Daniel S. Hamilton call on the Union to work closer with the United States. They argue that EU must develop a strategy on how to deal with China. Brattberg calls for replacing approaches such as "Europe first" or "America first" with a new transatlantic agenda for resilience and competitiveness that also protects trade in a global perspective and leads to the establishment of joint industrial, research and development policies in key technological areas. Brattberg's analysis echoes some of the contributions in Part I, given that such economic measures would need to

be rooted in shared democratic values and in a mutual concern for the future of the multilateral order.

Entirely in this vein, Hamilton calls for the U.S.-EU partnership to finally become truly strategic in ways that meet the challenges of a world of more diffuse power and greater disruptive challenges. Clearly the priority task is to harness the U.S.-EU partnership to move our societies and economies from sickness to health. Climate change and energy transitions must be tackled with a view to creating new economic opportunities. Domestic self-renewal on each side of the North Atlantic is the key to a partnership that is more equal, more global, and more effective. Resilience has become a priority task for the transatlantic community as dangers to critical functions of our societies grow.

Peer-Robin Paulus agrees with Michael Hüther and Matthias Diemeier that the West must take a more decisive stance in terms of systemic competition with China. He maintains that China has taken a path that is highly successful in economic and geostrategic terms, and which tangibly reduces the influence of the West in the world. Not only does China fail to protect fundamental rights, it commits major human rights violations. At the same time, however, it has given sufficient scope to a market economy to attract major financial resources and release considerable forces for growth. Paulus claims that China is using market economy approaches in a time when étatist thinking is gaining ground in Europe. The West is being beaten at its own game, in part because it has forgotten how to play it.

In a transatlantic perspective, Benedikt Franke also focuses on the European Union's external security situation, which he sees as having worsened considerably in the last decade. What was understood as a "ring of friends" has now become a "ring of fire". He explicitly welcomes European security initiatives such as Permanent Structured Cooperation (PESCO). However, he sees an urgent necessity for Europeans to engage in further efforts beyond substantial increases in national defense budgets. Europeans should use the current "Machiavellian Moment" to enhance transatlantic relations by doing more for their own security.

Martin Wiesmann puts forward a proposal as to how European monetary union could be reformed, not in the sense of a "Next Generation Hamilton", but of a "Maastricht 3.0". The Union needs deeper

integration in some areas and greater subsidiarity in others—a theme echoed by many authors. The capital markets union would have to be supplemented by a real single market for financial services, greater labor mobility, more cross-border direct investment, capital-based old-age pensions, and further measures that would make the eurozone more productive in economic terms, but without expanding it to become a fiscal union.

Christopher Granville addresses relations with Russia, calling for a fundamental reset. He proposes two international agreements to this end. The European Union should conclude a new security treaty and a free trade agreement with the Eurasian Economic Union, also agreeing on measures for climate protection. Even if these agreements were not successful, the mere fact of carrying out negotiations on an equal footing would help to deescalate the situation and to slowly re-establish the trust that is missing. Granville joins Földeak in calling for a long-term strategy to involve Russia in Europe.

All in all, this volume of essays brings together the perspectives of 18 different authors, ranging from practitioners to researchers from five specialist disciplines, eight different countries, and from European bodies. The various chapters naturally cannot be pieced together like a mosaic to present a uniform picture of the European Union and necessary reforms it must advance. Our intent is to set forth a multi-perspective panorama of the EU's challenges and conflicts, lines of development, and aimed-for goals in the coming decade.

We are highly grateful to Achim Greser and Heribert Lenz, who provided us with the illustrations that illuminate the book. The images previously accompanied texts on the “State and Law” pages of the *Frankfurter Allgemeine Zeitung*.

This volume is being published in both English and German, in print form and with open Internet access. The English edition has been made possible through support from the German Academic Exchange Service (DAAD) with funds from the German Federal Foreign Office. We are grateful to both for their support of our postdoctoral program and related activities, including this project.

Our sincere thanks also go out to the *Forschungskolleg normative Gesellschaftsgrundlagen* and to the German Academic Exchange Service,

for overall support of the book, including the German edition, which is being published by the Mohr Siebeck publishing house. We would like to thank Tim Habereder and Laura Mähle from the University of Augsburg for their extensive editorial work. We would also like to especially thank Bernd Zimmermann, who translated the English texts, and Neil Mussett, who translated the German ones.

The views and opinions expressed are those of the authors, and do not necessarily reflect those of any institution or government.

*Daniel S. Hamilton, Gregor Kirchhof and Andreas Rödder
Augsburg and Washington, D.C., November 2021*

About the Authors

Editors

Daniel S. Hamilton, Senior Fellow at Johns Hopkins SAIS Foreign Policy Institute and at the Brookings Institution, Washington, DC; former Richard von Weizsäcker Professor and Austrian Marshall Plan Foundation Professor at SAIS.

Gregor Kirchhof, Chair of Public Law, Financial Law and Tax Law and Director of the Institute for Business and Tax Law, University of Augsburg; from October 2019 to September 2020, he was a fellow at the Forschungskolleg normative Gesellschaftsgrundlagen in Bonn.

Andreas Rödder, Chair for Modern and Contemporary History, University of Mainz, and Helmut Schmidt Distinguished Visiting Professor at the Henry Kissinger Center for Global Affairs, Johns Hopkins SAIS, Washington, D.C.

Authors

Bence Bauer is Director of the German-Hungarian Institute for European Cooperation, Mathias Corvinus Collegium, Budapest.

Gianni Bonvicini is former director and current scientific advisor at the Institute for International Affairs (IAI), Rome.

Erik Brattberg is Director and Fellow, Europe Program, Carnegie Endowment for International Peace, Washington, D.C.

Matthias Diermeier is personal advisor to the Director of the German Economic Institute, Cologne.

Matthias Földes practices law in Munich and Bratislava.

Benedikt Franke is Chief Executive Officer of the Munich Security Conference.

Christopher Granville, a former British diplomat in Moscow, is Managing Director, EMEA & Global Political Research, for TS Lombard, London.

Stephen Green is Baron Green of Hurstpierpoint, Anglican priest, former Minister of State for Trade and Investment, and former group chairman of HSBC Holdings plc.

Benjamin Hartmann is Legal and Policy Officer, I.D.E.A., European Commission, Brussels.

Michael Hüther is Director and Member of the Executive Board, German Economic Institute, Cologne.

Paolo Magagnotti is President of the European Journalists Association and Professor of European Communication, Faculty of Political Science, Western University of Timișoara.

Giorgio Maganza is former Director of the Legal Service of the Council of the European Union, Brussels.

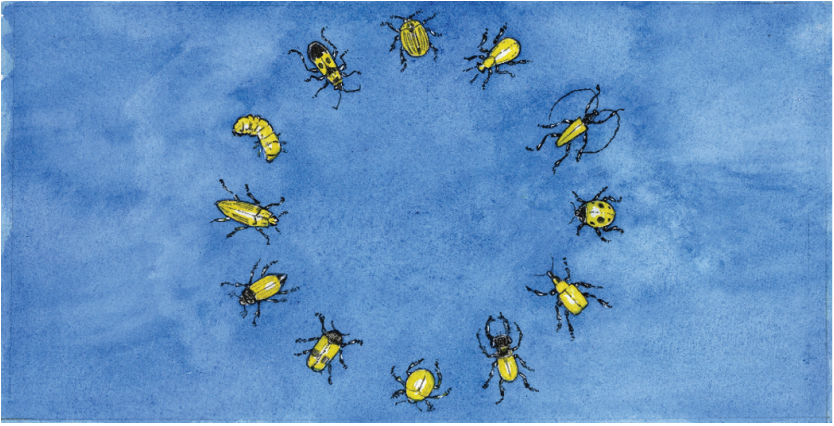
Hélène Miard-Delacroix is Professor of Contemporary German History and Civilization at the University Paris-Sorbonne.

Peer-Robin Paulus is Member of the Management Board of the German association of family-owned enterprises (*Die Familienunternehmer e.V.*).

Martin Wiesmann is Senior Associate Fellow at the German Council on Foreign Relations DGAP in Berlin and former Vice Chairman Investment Banking Europe, Middle East & Africa (EMEA), J. P. Morgan Securities.

Part I

The European Union in Search of Itself



Chapter 1

Europe in the Shadow of America and China

*Stephen Green**

We live at a dangerous moment in history. China has arrived on the world stage, and America is not about to leave it. These two countries will dominate geopolitics for the rest of this century at least. Their rivalry will be a challenge for us all—as individuals and as societies.

China is here to stay. But so is America. Some have depicted this great chess game as one which has already been lost and won. But they are wrong. It may look as though one of the players has a single mind looking several moves ahead all the time, while the other moves capriciously and without any apparent strategy. But we shouldn't be deceived by the dysfunctional short-termism of Washington politics. The incredible inventiveness and dynamism of American society will ensure that it is *the* counteracting force China has to reckon with for as far ahead as any of us can foresee. Most chess games result in a winner, but not all. This one is more likely to end in a stalemate.

We therefore live on the threshold of an era which will see two different perspectives on the human self-understanding contest for legitimacy on the world stage. They are the world views, the deeply rooted instincts, of these two great powers as they rival each other economically, technologically, militarily—and ideologically.

And for the rest of us—for those of us who share the Eurasian land-mass with China, for the Africans whose demographic trends will ensure that their weight will finally count for what it should in the next century, and even for the Latin Americans who are used to living in the American vortex—increasingly often we will find ourselves in the uncomfortable position of being pressed to take sides.

*The text draws on material from this book by the author: *The European Identity: Historical and Cultural Realities We Cannot Deny*, London: Haus Publishing, 2015.

The Vantage Point of History: The Rise and Fall of Empires

History gives us perspective. Down the ages, close encounters between peoples have all too often been violent: witness above all the centuries of wars between Greeks and Persians, both before and well into the Christian Era (a contest which in a sense mutated later on into the great struggle between Christendom and Islam). It is one of the oldest cultural fault lines in all of human history. This epic story is however only part of a broader pattern recurring throughout Eurasia. Over the millennia, empires and civilizations have waxed and waned, many leaving traces visible only to archaeologists and philologists. Nomads sometimes traded with and sometimes raided the settled communities: they were an age-old scourge of China, Iran, Russia and Europe. Above all there were the Mongols, whose incredible and terrifying explosion across the landmass brought them nearer than anyone else before or since to ruling the whole of Eurasia from the Pacific to the Atlantic.

Far more enduring than the Mongol empire was Islam—the most spectacular explosion created by a new idea in all of history up to that point. Islam reached the Pyrenees and the gates of China within its first century. Its control of the lands central to Eurasian communications ensured the emergence of the most sophisticated, cosmopolitan and creative culture the world had yet known. The cross-fertilization of ideas—Chinese, Indian, European, Persian—that took place under this Islamic aegis made it one of the greatest times for the development of the human spirit in all history.

Then there is China itself: though not the world's oldest continuous civilization, China is certainly the world's oldest continuous identity, founded on the bedrock of a holistic cosmological and terrestrial philosophy which saw its emperor as having the mandate to rule all under heaven. The most ambitious assertion of this mandate came with the now famous voyages of the Ming Admiral Zheng He in the early fifteenth century—at a time when Islam was in retreat in the west and just before the Europeans took to the high seas.

Europe's turn to dominate the Eurasian continent came next. When Europe was in the ascendant, Charles V ruled over domains which covered much of Europe as well as huge swathes of a new world in the

Americas and stretched all the way round to Manila. His motto was 'plus ultra'—there is more beyond.

Since then, others have sought dominant positions in various regions of Eurasia—notably the Turks, who built an empire on the ruins of Byzantium; the British, whose trade drew them into empire in India; the Russians, who moved into empty Siberia and into the central Asian vacuum left by Mongol destruction; the Japanese, who emerged from more than two centuries of near total isolation to erupt into Eastern Asia just when the Qing dynasty in China was losing the Mandate of Heaven; and lastly the Americans—the first non-Eurasian power to play a role (and a decisive one) in the landmass, at both ends of it, in the wake of the Second World War.

The 21st Century: A Precarious Global Balance

Yet what has emerged is not any kind of shared polity or common identity; growing connectivity and widespread urbanization have not—or at least not yet—produced any sense of shared interest or common purpose. Rather, all the jostling has produced a balance among a handful of dominant powers, each with its own identity rooted in its own history and self-understanding.

At the dawn of the new millennium, this global balance looks increasingly like what became known in the context of European history as the Westphalian order. Cultures differ, identities differ, governance systems, even values can differ: but in the absence of any universal ideal backed by a power able to compel it on peoples, the default option of human affairs is 'cujus regio, ejus religio'. Europe arrived at this position in 1648 by exhaustion. The world of the 21st century seems to be arriving at it through mutual recognition of realities.

But such a balance is not stable. The European system was always fragile and was repeatedly threatened during the eighteenth century, before being blown apart by the French Revolution and then by the unification of Germany. It was finally brought down in the first terrible decades of the 20th century. At that stage, the rest of the world was largely a playground in which European rivalries were fought out. Now China is resurgent, while Europe has exhausted its passions and is

preoccupied with its internal cohesion and its identity. So the new stage is global—not just European.

We all now recognize that a historic convergence is under way. In 1820 the size of an economy relative to the world total output was roughly equal to that country's share of world population. Then as now, China had the largest population, and its economy was the largest in the world. We all know what happened thereafter. The industrial revolution meant that for the first time in human history, some economies were able to produce consistently above subsistence level, thus creating a gap between relative economic strength and relative population size. First the Europeans, then the Americans, and later the Japanese, thus achieved enormous increases in world market share. China was left behind.

China Takes Its Place on the World Stage

The gap is now closing again, as China catches up with standards of living which Europeans have come to take for granted. China will soon be the world's largest economy again. This much we are familiar with. But this is just a milestone. The best forecast is that China will continue to grow relatively rapidly for another generation, in contrast with the sluggishness in the old economies of Europe. As its income per head gradually approaches European levels, China will not just be the largest, but by far the largest, economy in the world.

More and more, Europeans begin to fear that Chinese technical brilliance may overwhelm them in the very areas of strength they have prided themselves on. In fact, for several decades now, they have been fighting a rear-guard action in their own minds: ever since the Japanese (and then the Koreans, the Taiwanese, Hong Kong and Singapore, now mainland China) began to take on the West at their own game—exporting goods that were initially derided as being cheap, poorly designed would-be competitors of the real Western thing—Europeans have convinced themselves that there is always a remaining comparative advantage to which they can retreat. Whether it was primary research as opposed to 'mere application,' or artistic creativity as opposed to 'mere excellence in performance,' or elegance and originality of design as opposed to imitation and kitsch, or education which stressed lateral thinking as opposed to 'mere rote learning'—Europeans have

wanted to hang on to something distinctive that would not be swamped by the rising tide.

But no: With every passing year it becomes ever clearer that there are no European heights that the Chinese and other Asians will not eventually scale. The Americans face the same challenge, of course, but Europeans ruefully recognize how the much greater inventiveness, drive and flexibility of the American society and economy have enabled them to continue renew themselves in the most unpredictable ways. No European country has been able to match the spectacular successes of Silicon Valley, which few had even heard of a generation ago when China began to open up.

Europe in Retreat

All of this begs an obvious question: What about Europe, prosperous but struggling to achieve cohesion and unsure of what it stands for? The 21st century is not going to be Europe's age. Europe is now in long-term relative decline, both politically and economically. It is no longer the energetic, ambitious and aggressive continent it was when the Portuguese, the Spanish, the Dutch, the French and the British set out over the oceans to plunder, trade and colonize. Europe also is no longer the continent whose technical brilliance the Chinese Qianlong emperor so unwisely spurned when the British emissary Lord Macartney sought to open commercial dealings with China in 1793. Nor is it any longer the front line of the Cold War and thus one of America's highest strategic priorities. Europe has retreated from being the self-defined center of the world to being what it had been before the 15th century—a corner of the Eurasian land mass.

Modern Europe is of course one of the most sophisticated and prosperous societies on the planet. But the question about how it can sustain its prosperity and its intellectual stature in an age when the centre of gravity has moved away from it—the question about what it has to offer and on what basis it can expect to retain its influence—is becoming more and more insistent. The Chinese look at Europe and see a large and prosperous market with some attractive investment opportunities. But they also see a jaded and insecure society that has lost any sense of purpose. China and America are increasingly wary of each

other. As they watch each other, they both recognize what is happening and know that Europe is losing its historical significance.

There are some dangerous land mines on the road ahead. First, there are some worrying questions about the sustainability of Asia's models of economic development. In particular, it is widely recognized that China faces enormous challenges in the next few years. It has a seriously unbalanced economy, and also faces a unique demographic challenge as the population starts to age and the dependency ratio rises.

Second, there are the geopolitical risks, which are greater now than they have been for a generation. Europe's experience in the twentieth century is a reminder that there is nothing inherently stable about today's Westphalian world. Cultural nationalism of a potentially dangerous kind is taking on a new lease of life in China, India, Russia and several other Asian powers. We can see where the flashpoints are: the South China Sea, the Taiwan Straits, the Korean Peninsula, the Indo-Chinese border—and of course the cauldron of the Middle East.

Third, there is the common threat of environmental degradation and climate change—which may or may not produce an effective common response in time to avoid catastrophe by the end of the century.

A World Stage Dominated by America and China

So how will Europe make its presence felt on a world stage facing these challenges and dominated by two superpowers?

Those two superpowers have very different world outlooks. The American world view has much in common with a European perspective; after all, it inherited much from the Europeans. But from the start it was clearly distinctive. The American world view sets the inalienable subjectivity of the self at its core. It is what is encapsulated in those great watchwords of the founders of America: life, liberty and the pursuit of happiness. By contrast, the great alternative on the world stage of this century—the Confucian-infused culture which is the bedrock of the Chinese world view—is not primarily focused on the autonomy of the self. It sees the individual in a wider familial, social and even cosmic context; so it has less to say about rights but much to say about position, purposes and obligations in life.

This is not just an ideological contest: it is a fundamental question about human self-understanding. What matters to us all is how those two world views of the human self, each of which has a very long trail of history behind it, can be dovetailed into some kind of a synthesis as the human odyssey continues through this century. This question matters for the peace of nations; it matters for successful economic and social development; and it matters for the sustainability of life on our fragile planet.

How will Europe answer this question? The European project has some historic achievements to its credit. Not only has it kept the peace in Europe for over seventy years; it has enabled the modernization of states such as Spain and Ireland. It has also been the framework for postwar Europe's two great reunifications—that of Germany, and that of eastern Europe's reintegration into the mainstream of Europe's cultural and political life. These achievements are by any standards astonishing: far too often we take them for granted and overlook their huge significance. If, for instance, the EU had failed to embrace eastern Europe, it would have created a vacuum into which Russia would undoubtedly have moved.

Yet the European response to the new geopolitical realities has been underwhelming. It has been hobbled, first, by the complexity of a Union whose cumbersome structure seems all but impossible to reform; in the last few years, demographic pressure from Africa and instability in the Middle East have created a migrant challenge which has put huge strain on European societies; relations with its neighborhood—in particular with Russia—are tense; and, finally, Brexit is more than just an unwelcome distraction, because it calls into question the way the European project will be led going forward.

The European Identity: What Does It Stand for on the Global Stage?

All this points to an identity crisis which has now become acute. And we are a long way from seeing the emergence of a European identity with any real hold on the loyalty of the people. Over the last six decades the project has evolved, not according to a clear blueprint but in a general direction on which there has not always been complete con-

sensus, and with a considerable measure of improvisation. The future will see more of the same. Somehow, the Union is like one of those great cathedrals of medieval Europe: those who laid the foundation stones knew they would not live to see the completed building, and also knew that the design would evolve as the generations went by. Some of those cathedrals collapsed because they were just too ambitious; some remained incomplete for hundreds of years. Many of them came close to bankrupting the cities which undertook their construction. Yet many also became structures which were perhaps beyond even the boldest imaginations of those who laid their first foundations.

This reminds us of something about the European project. Will Europe be able to become a flexible, cohesive and strong economic and cultural presence on the world stage, alongside America and China? The answer is not clear. Might the cathedral fall down? Might it bankrupt its builders?

This question is not just about economic flexibility and competitiveness. The deeper question is about how Europe is to be effective in representing what it *stands for* on the world stage of the twenty-first century. For Europe is not just a big market. Europe is also the history of how it became a peaceful and prosperous union of peoples—a history which is both sublime and tragic, and endlessly moving. It is also a continent which is a treasure trove of beauty—for all the destruction it has seen. From its ice age art, through classical Greece and Rome, through the Renaissance to the Enlightenment and down to the present day: the fruits of European spiritual, philosophical and aesthetic exploration are, taken as a whole, as rich, diverse, vibrant, and searching as anywhere else on the planet.

As a result, Europe does have core values which have been hard won through history. These common values are the heritage of a tradition which has been shaped by such towering figures as Galileo, Luther, Erasmus, Descartes, Locke, Hume, Rousseau, Kant, Hegel, Darwin—and of course many others too. Out of their different perspectives, and out of the many and painful sins the Europeans have committed over the generations, has emerged something profoundly important for the whole world of the twenty first century: a commitment to rationalism, democracy, individual rights and responsibilities, the rule of law, economic effectiveness and fairness, social compassion, care for our planet.

All this represents Europe's 'soft power.' The question is: Will Europe learn effectively to deploy that soft power in the coming decades?

Further reading:

Stephen Green, *The European Identity: Historical and Cultural Realities We Cannot Deny*. London: Haus Publishing, 2015.

Stephen Green, *The Human Odyssey: The Search for Universal Values*. London: SPCK Publishing, 2019.

Chapter 2

A Turning Point in the Global Order: European Integration, Transatlantic Values, and the Chinese Path

Michael Hüther and Matthias Diermeier

There has been a tangible feeling for quite some time that the coordinates of our world order have changed, and that its equilibrium is becoming unstable as a result: the temporary denunciation of multilateralism by the United States under President Trump, the systemic rivalry with the transatlantic West brought about by China's state capitalism, and the dwindling ability of traditional narratives to convince and to act as a binding force for European integration. The European Union finds itself at a turning point in this web of economic, political and societal challenges, which offers major opportunities, if the topics are tackled in a constructive manner, but which also threatens to cause major losses if the only answer sought lies in clinging on to traditions and the status quo.

The message emanating from the historical transformation that took place in 1989/90 appears only now to be being read to its full extent: It was not only a victory of the transatlantic West over Muscovite communism, it was also the start of a crisis of the West, which is now reduced to itself and is associated with doubts as to identity and to a loss of commonality. It was furthermore a breakthrough of the Chinese model of economic opening, leading to a new normative conflict about the order of the world.

Multipolar Disorder in Times of Exhausted Globalization

In reality, it has been possible since 1989/90 for previously peripheral economies to move to the core of global value-added chains and into the advancing worldwide division of labor. Global trade has expanded in a spectacular manner; in global terms, it is particularly the lower end of the income scale that has benefited, with hunger and poverty be-

ing drastically reduced at world level.¹ The level of self-confidence in the liberal market economies of the West triggered by these successes equated to an *illusion of security*: the idea that ever-widening markets would not only seed per se more and more domestic growth, but at the same time would exert a pacifying influence in other regions of the world, and thus pave the way for security for the Western way of life.

At the same time, the evident prevalence of one's own system encouraged the proponents of the *modernization hypothesis*, in accordance with which capitalist economies would automatically—and inherently—revive politically in Western terms. In contrast to these expectations, economic growth did not lead to the People's Republic of China, or indeed the resource-rich Gulf states, developing to become something akin to liberal democracies, as had been hoped.

With China's global political aspirations becoming more and more apparent, the new systemic competition mutated into an aggressive systemic conflict. The West is hit by the new geopolitical escalation at a time when it is unusually preoccupied with itself. Transatlantic cooperation needs to be explored once more and redefined after four years of U.S. President Trump. The spectacle that was Brexit has questioned the complex structures of the European Union. The corona pandemic has both reactivated unthinkable political responses such as border closures and opened up new political dimensions along the lines of the NextGenerationEU Fund. A uniform normative core behind which the different players of the West could unite, and which could be interpreted as a joint democratic aspiration, is more a vision than a hope, also with Joe Biden's presidency.

Against this background, the view is becoming more common in Europe that globalization is directly or indirectly importing far-off, supposedly regional conflicts via overflowing migration pressures, in the shape for instance of conflicts over economic distribution. The U.S. military withdrawal from its hegemonial claim to constitute a global force for order, driven forward under Donald Trump but also not regarded fundamentally differently under Joe Biden—with the means to not permit regional conflicts to become tangible at supra-regional or even international level in a variety of ways—directly brings into the foreground the question of the security role that is to be played by European democracies in this new constellation. Most recently, the U.S.

withdrawal from Afghanistan hinted at the sensitive implications of the new global political void. Europeans, too, were forced to hurry out of the country after a two-decades-long mission. The military intervention did not leave behind any reliable institutionalized structures.

This chapter starts by setting forth the assessment that, in this constellation, coalition partners may change according to topics and situations, but may not become normatively arbitrary. It develops economic, political and societal positions of European aspirations at a time when it appears that globalization is exhausted.

Economic Aspirations: Systemic Rivalry with China in Times of Globalized Value-added Chains

Taking the networking of the world through trade in goods and services, the free movement of capital, the cross-border dissemination of knowledge and innovations, as well as the migration of people over countries and continents, the past few decades mark an impressive phase of globalization from a historical perspective. Despite the global financial crisis, world-spanning trade almost tripled between 2000 and 2011 alone as a result of China joining the WTO. The West exported its dogma of unchecked capital movement—with suitable institutions—to the rest of the world via the set of regulations enshrined in the Washington Consensus. Universal access to the Internet has minimized the costs involved in the global exchange of information, and new technologies can spread around the globe in real time. Finally, the EU's enlargement to the East created new prospects for legal migration on the European continent via the freedom of movement of persons within the European Union.²

To understand the economic implications of the COVID-19 pandemic, a look at the past period of globalization is crucial. This period was primarily characterized by an unprecedented degree of networking in global value chains. China's rise was also only conceivable due to the increased control competence resulting from the cross-nationally efficient digitalization of planning, production and delivery. The temporary shutdown of production in northern Italy and China, for example, in spring of 2020 put this system to the test. However, the orchestrated ramp-up of production a few months later caused surpris-

ingly few fundamental difficulties and formed the basis of the industrial growth engine of the pandemic. Accordingly, calls for the relocation of production (to Europe, for example) became increasingly muted as the pandemic progressed, despite a wide variety of lockdowns. On the one hand, the globally interwoven value chains showed unexpectedly high resilience. On the other hand, a political consensus emerged that largely prevented factory closures and kept borders open for the movement of goods. Nevertheless, various sectors are still feeling the repercussions of the early pandemic period. Logistics prices multiplied in places by 2021; anomalies in supply and demand have not yet been completely eliminated.³

Despite massive foreign investment in China, a country which characterizes the present era, investors have reservations when it comes to protecting their intellectual rights, given the ongoing difficulties; innovative manufacturing techniques as well as research and development departments are only relocating to the Far East extremely tentatively. This is also why China has not yet managed, despite all its efforts, to advance to the final development stage, that is to cease merely operating a global supermarket of industrial production and to form an independent hub for innovation in the nexus of industry and services. This is now to change with an industrial policy *tour de force* entitled *Made in China 2025*. Presumably as a response to the German *Industrie 4.0* strategy, China seeks to attain technological supremacy in various key technologies such as robotics, semi-conductors or artificial intelligence with this programme in the years to come. The *China Standards 2035* initiative, which is to build on this, furthermore, aims to see to it that Chinese standards become the norm in all important future-orientated technologies.

Analyses of import rivalry show very precisely, on a region-specific basis, that it is above all in the United States that employment has suffered; more than one million jobs have been lost in industry, and more than two million jobs overall. The impact in Europe has been much more differentiated: While industry in the United Kingdom and in France has suffered severely from the new Far Eastern competition, Germany as a whole has been able to benefit from the new markets on average due to the high competitiveness of its manufacturing-services clusters.

The promise of economic convergence and political and social cohesion, which had come to be taken for granted, is questionable when it comes to the European Union. Given that people have proven to be less mobile, resistance to migration more resilient, and linguistic barriers less porous, than anticipated not only by experts, the EU is now called upon to re-examine the promotion of cohesion. For a long time, the common growth of the internal market was a unifying element of European integration which radiated strongly towards potential accession candidates. The decline in this political and societal binding force has become as much of a challenge to European integration as has the drifting apart of entire regions in the wake of globalization, and in some cases dependence on Far Eastern investors with an unambiguous political agenda. Rejecting China's recognition as a market economy according to WTO criteria, introducing direct investment screening and suspending of the freshly negotiated investment agreement between the EU and China, the European Parliament has stressed its will to resist the increasing Chinese influence within various member states.

Political Aspirations: Normative Clarity in Times of Eroding Multilateralism

The disparate impact of the rise of China, as well as the different migration movements, has led globalization to become a political acid test for the transatlantic West. Dani Rodrik even goes so far as to characterize the opening of markets driven by globalization as being incompatible with democracy and the nation-state (the globalization trilemma).⁴ Categorizing these political vagaries of our time requires a realization that globalization is a normative project. It is however no longer only transatlantic values that are on offer; these are disputed by Chinese state capitalism, without democracy, human rights, press freedoms, and civil society. Globalization is only superficially the question of where and how capital is deployed in the most efficient and effective manner in global terms. This is a new systemic conflict where one can therefore less take it for granted that the interest of the transatlantic West will prevail.

The response of the transatlantic West to the systemic conflict can only be for economic activity to identify normatively with its own value foundation, without being naïve, for instance with regard to competi-

tion from China. The West is founded on the ideas of the French and American Revolutions as a normative project entrenched in the “shape of unalienable human rights, the rule of law, the separation of powers, the sovereignty of the people, and representative democracy.”⁵ The transatlantic West needs to reflect on this in both political and economic terms in order to be able to counter alternative models in normative terms, but without denying their legitimacy outright. Self-affirmation on the one hand, and acceptance of alternative models on the other, can be normatively categorized to different claims to power and geopolitical strategies. To a certain extent, the globalization paradox can thus be resolved. Democracies certainly have the chance to shape global institutions according to the will of their citizens. However, it is essential that the transatlantic West clarifies on what basis which goals are to be addressed.

That said, one should not be under any illusion that Chinese investment activities, as they are being pushed forward for instance in massive infrastructural projects in Xinjiang, Hong Kong or Tibet, via the New Silk Road Initiative, or specifically in Africa, operate within a pretext of development cooperation. In fact, they are a reflection of a nationalistic ideological, geopolitical or resource-policy flexing of muscles which also does not stop at the borders of the Western countries. The latest victim of the new Far Eastern self-affirmation was Australia, which was actually on the receiving end of China’s 14-point plan for the revision of its allegedly anti-Chinese policy.

The West—and Europe in particular—has little to offer the countries in question given its weak record in development cooperation to date, and in light of the lack of monies that could be privately mobilized. It has not been possible so far for the U.S.-led Blue Dot Network, the Three Seas Initiative, or the EU’s Connectivity Initiative to exert any lasting impact. A new G7 initiative is now intended to join forces. In the future, the focus must also be on supporting national self-empowerment (such as was developed as a matter of principle in the Global Compact for Africa under the German G20 Presidency in 2017): Incentives and institutional aid for capital-covered old-age pensions give rise to a pragmatic possibility to tackle foreseeable problems of demographic change in Southern Africa. Major opportunities lie in the difficult negotiations on the successor agreements to the Cotonou

Agreement with regard to development and trade policy between the EU and large numbers of African countries.

At the same time, the EU needs to go through a process of self-affirmation in terms of its domestic policy. In a speech at the Sorbonne on September 26, 2017, France's President Emmanuel Macron appealed for forward movement: "Only Europe can, in a word, guarantee genuine sovereignty or our ability to exist in today's world to defend our values and interests. European sovereignty requires constructing, and we must do it. [...] We have to rediscover the ambition of a Europe which allowed us to turn our backs on war."⁶

There has never been a convincing response forthcoming from the German government. Instead, new conflicts came to the fore which explain the belated search for identity of the nations in the Visegrád Group—especially Poland and Hungary, but also the Czech Republic. European integration also has a weaker historical foundation in these countries than it does in the founding states. There was at least no recognizable progress in the years leading to the outbreak of the COVID-19 pandemic in the spring of 2020. The 2019 European Parliament elections led to a distinction in the conceivable majorities, and the formation of the new Commission looked like it might fail in the coordination process between the Council and Parliament. But then a new program was launched with the election of the new Commission President, for instance in the shape of the European Green Deal.

The pandemic has caused stress and has led to a perception that Brussels has failed—especially in the procurement of vaccines—and that European integration itself is at risk. It however rapidly became recognizable that Europe needs more than ever to cooperate and function well in a crisis the response to which lies in national states of emergency and disaster protection. Europe's highly integrated economic area does not permit any nation to be permanently independent of the conditions in which the others find themselves. After initial confusion, considerable efforts were undertaken at European level in order to be able to counter the COVID-19 pandemic together. Various aid programs were concluded as early as April 23, 2020, with a total volume of €540 billion (funds from the EIB, Contingent Credit Lines of up to €240 billion from the ESM for *Pandemic Crisis Support* with no strings attached, and the SURE short time working scheme with €100 billion).

The NextGenerationEU Fund, which has been provided with €750 billion and is funded via Community loans, offers a broad spectrum of prospects for the future shape of the European Union. This is not a “Hamiltonian Moment,” as then-German Finance Minister Scholz claimed, but an outlook for the EU as an investment union. As the second pillar of the EU’s financial architecture alongside the established seven-year budget plan, facilitated via contributions and own funds, this adds a vehicle opening up new prospects for growth. The road to an investment union has thus been levelled. If this is accompanied by the courage to see joint security not only in partnership with the United States and NATO, but also in a European Defence Union—baby steps have been taken in joint procurement (PESCO) –, then the pandemic can go down in the annals of history as a catalyst for a turning point in Europe.

Societal Aspirations: European Integration in the Transatlantic West

Donald Trump’s presidency was a challenge for European partners. Particularly the rejection of joint institutions and alliances was new. What was not new was the turning away from Europe and re-evaluation of the U.S. role in the world. With President Obama’s “pivot to Asia” and the priority allotted to a transpacific free trade agreement in 2012 the United States had already embarked on a different course. President Joe Biden will follow on from this, even though he is a convinced transatlanticist and has revived multilateralism at various levels. Without a contribution from the Europeans beyond diplomatic activities and calls for defense capabilities, however, it will still be difficult to revitalize the transatlantic relationship.

Voices within Europe calling for isolated national solutions have become unmistakably louder. This is reflected in the increased proportion of EU-skeptics in the European Parliament since the 2019 elections. These political movements are particularly underpinned by people who do not feel or who no longer feel that they are suitably represented by their national representatives, and certainly not by supranational ones. This feeling of a lack of influence and of vulnerability has considerable potential for protest at international level.

There can be no doubt that a *tour de force* will be needed in order to build bridges between the widely separated parties and to restore a dialogue. A Herculean task awaits European civil society in particular. That said, a wide array of institutions has the opportunity to bring hosted discussion formats to life in which a real exchange is made possible. The situation appears to be particularly unfortunate if offers of dialogue are rejected outright. There is ultimately no alternative to the Europeanization of civil society, however. Only those who understand the problems of others, taking their communicative position as a starting point for the debate, are acting in support of the solidarity-based actions of the Community.

This is a matter of particular urgency for the European Union when it comes to efficiently combining its resources and qualities without breaching the principle of subsidiarity. The EU needs to engage in a strong capital commitment where cross-border innovations and investment create international added values. The successful Horizon 2020 and Erasmus projects are lighthouses of such promotion. More still can be done here by having language education in the member states of the Union follow common standards and goals (e.g., replacing only passive foreign language skills with active ones). At the same time, more resources for school exchanges are helpful as a preventive measure, as is topping up the Erasmus program. Greater comparability, as well as—where the quality so justifies—recognition of school-leaving certificates, would be helpful, as would simplification when it comes to changing between the different social systems.

Many areas remain with regard to infrastructure, digitalization, defense, the Capital Markets Union and deposit protection in which further steps towards integration can be taken with a good conscience in the years to come. That the EU can do justice to its aspirations in these areas is shown both by the prospects for an investment union that was seeded in 2020, and by the first steps that have been taken towards cooperation in defense with the initially controversial European General Data Protection Regulation (GDPR), which might gradually emerge as an international standard. Interestingly, the GDPR is currently being discussed in the United States in particular as a blueprint for a similar regulation.

The European Path in an Era of Exhausted Globalization

Decades of increasing global networking between people, capital, goods and knowledge have been followed by marked disillusionment. It has been increasingly revealed that a number of globalization's fundamental promises have not been kept, and this has led to a shift in the coordinates of the world order. Questions have suddenly arisen as to whether technological progress and open markets create economic prosperity for broad groups of the population. Principles of liberal democracy which have long been regarded as a value per se are being placed in doubt, and suddenly demand justification. Taken as a whole, globalization has lost considerable dynamism, and increasingly makes an exhausted impression.

Internally, the EU must contain the economic and political, but also legal (rule of law) regional divergence, whilst at the same time taking seriously the feeling of regional identities being in danger. A pluralistic European civil society can make a contribution here—provided that it is able to develop European dialogues whilst at the same time connecting them back to the regions. There can be no normative compromises: Both industry and policymakers must commit themselves to the values of liberal democracy ensuing from the ideas of both the French and the American Revolutions, so that the EU becomes in practice the most important pillar of the transatlantic consensus. The dispute over the principle of the rule of law in the EU must be engaged in. Violations of this lowest common denominator must be clearly addressed, but without playing into the hands of deliberate provocateurs.

Shaping inclusive globalization in future accordingly means for the European Union to ensure, first and foremost, that it is the medium for carrying the transatlantic consensus towards its core. A second step should consist of drawing up multilateral solutions to global problems towards the exterior. These considerations must always incorporate one's own interests, but these interests may not be addressed in exclusivity. It is only when many benefit to a considerable degree that the EU can take up its rightful position as a believable, honest broker. It has every potential to do so.

Notes

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Chapter 3

The Self-assertion of Europe and the Special Strength of Civil Societies

Gregor Kirchhof

The Complementary European Union

More and more people are feeling that a new era is dawning, both in Europe and in international relations. It is the latter which will determine whether this will be the dawn of a good or bad day for Europe and for Western nations.

The image of the new dawn comes together in an ensemble of mosaic pieces. Some of these will be taken up below, although the author is aware that this kind of selection is always open to challenge. The hope is to help bring about by these means a self-perception or a narrative for the European Union which, while not new, is at least renewed. European integration has led to historic achievements up to very recent times. The Union should align itself to these achievements and deliberately take care of its three sources of strength: EU bodies, the member states, and, above all, different civil societies.

It is in these sources and in their overall architecture that the complementary nature of the European Union becomes clear. The Union is characterized by seemingly contradictory developments and institutions that might appear to rule one another out, but which in fact are mutually complementary. Despite a number of contradictions, these should not however be played off against one another or resolved unilaterally; they should be accepted and developed to become a strength of the Union.

The Ambivalent State of the European Union

European integration has brought Europeans a previously unknown degree of peace, freedom, internal unity and prosperity. These historic

achievements are probably unique for a community of nations. The next generation will measure development by the extent to which this heritage was preserved and expanded. The European Commission is attempting to meet decisive political challenges, and has formulated these in six overarching goals. First, the Green Deal strives to make the European Union climate neutral in the next 30 years. This process aims—secondly—to enhance the “unique European social market economy.” This is however an ambivalent European concern. There is a need to resolve the old conflict of whether it is the social mechanisms or the market economy that needs to be emphasized. The answer that needs to be given to this question is already not simple in a country such as Germany, and even less so in a union of nations. Third, a European Union is to be created which is “fit for the digital age,” and which achieves “technological sovereignty” in some areas. The aim here is—fourthly—to protect the European way of life,—fifthly—to create a stronger Europe in the world, and—sixthly—a new push for European democracy.¹

It was not until after these goals had been put down on paper that the pandemic spread. The European Union, too, had to adjust to the new situation. After a start that was rocky in many respects, the EU soon had sufficient vaccine available. This was a vital tool to protect health and freedom. The process moving forward is to communitize further areas of health policy and establish a new European Health Emergency Response Authority (HERA).² Faced with the impact of the pandemic, the Commission was tasked in “NextGeneration EU” with taking up joint European bonds of up to €750 billion on the capital markets³ in order to rekindle the economy, push forward both the Green Deal and digitalization, and enhance social cohesion in Europe, as well as building up the role of the European Union in the world.⁴ These ambitions, and European integration as a whole, are ultimately to be placed on a new footing in the Conference on the Future of Europe.⁵

These European concerns meet a world that is changing. The economic strength of China, and the influence exerted by this world power, are growing. The European economy and the general significance of Europe appear to be waning in comparison. Relations with the United States are improving after the Trump Administration, but it is a long time since the security situation has been so delicate. The digital threat is also increasing. Confidence is crumbling that Western values

of freedom and equality, of the social state based on democracy and the rule of law, will continue to win through in the world. There is no certainty that attempts to agree on a new Universal Declaration of Human Rights or a European Convention on Human Rights would be crowned with success today. The Munich Security Conference speaks of “Westlessness.”⁶ The fall of the Iron Curtain has in fact not led to the much-heralded end of history,⁷ it has started a new chapter, and this chapter is open-ended.

Taking a look at the European Union also leads to a similar conclusion in some regards, given current ambitions. The Community has however become tangibly less attractive. There is a lack of trust and of a shared sense of Europeanness. It will take the Union a long time to deal with Brexit. This is the first time that a member state has left this union of nations. The conflict between the EU bodies and Poland and Hungary is reaching a crisis point. For the first time, the head of government of a member state—namely Mark Rutte from the Netherlands—publicly called on the head of government of another member state—this being Viktor Orbán from Hungary—to leave the Union.⁸ Iceland had already withdrawn its accession application,⁹ and Switzerland broke off its negotiations with the Union on the Institutional Framework Agreement.¹⁰ In sum, critical voices and opponents in the Union have now gained space.

These pieces of the mosaic are already coming together to form a picture: The European Union needs to renew itself. The question, however, is how?

Past European Strategies: A Sobering Stocktaking

It may help to answer this multi-layered question if we look back on past ambitions of the European Union. The Lisbon Strategy from 2000 was intended to create the “most competitive and dynamic knowledge-based economy in the world.” The European Union was to become a trailblazer of digitalization, and to create an “information society for all” in an “eEurope.” The prescient goal was set, seven years before the financial crisis, to make the financial market more efficient and more transparent. Research, innovation and ground-breaking companies were to be promoted. The concern was also to ensure “the

long-term sustainability of public finances,” strengthen the Common European Security and Defence Policy, and develop an effective partnership with Russia.¹¹

Parts of the “Europe 2020” Strategy from 2010 are also still highly relevant today. The crisis—referring to the financial crisis—is said to have exposed “Europe’s structural weaknesses.” “Business as usual” was not an option. This was “the moment of truth,” the time to be bold and ambitious and come out of the crisis stronger. Many projects run parallel to the Lisbon Strategy, such as the digital agenda or hopes of innovation. Parts of the Green Deal were anticipated. As early as in 2010, the stage was to be set for “a more resource efficient, greener and more competitive economy.”¹²

These two strategies are naturally political papers, and by their nature these tend to have ambitious goals. What is more, years and in particular decades were to be begun with too high ambitions rather than too low ones. Nonetheless, one is astonished how presciently the problems of the first two decades of the century were described, and how little has been achieved in some areas.

True, the common European security policy has made major progress, especially as a result of the EU defense initiative.¹³ Having said that, the core concerns of ecological development and digitalization have not been achieved to an adequate extent. The bureaucratic burdens for public projects and private enterprises are heavy, and tangibly hinder public and private projects, as well as innovation as a whole. State debt in Germany and the European Union is high.¹⁴ And it is a long time since relations with Russia have been at such a low.

This leads one to suspect that a retrospective of the 2020s might lead to a comparatively sobering stocktaking. That said, the milestones of European integration make it clear that the union of nations is able to achieve great things. We might therefore recall three of those milestones.

Three Milestones of Integration

The speech Winston Churchill gave in the assembly hall of Zurich University on September 19, 1946 can be regarded as one of the first

founding moments of European integration. A well-known photograph shows Churchill after giving the speech on a stage in the Münsterhof. He went on to speak in front of large numbers of people there. The enthusiasm triggered by what he had said is clearly recognizable, and Churchill found this inspiring. He put his hat on a stick and held it up high. His audience understood immediately: There should no longer be a “Gessler’s hat” in Europe.

Churchill called for the establishment of the United States of Europe. Because of its self-perception and of the special relationship with the Commonwealth, however, the United Kingdom was not to be a part of this community. Churchill went on to say something which has helped shape European integration: “There can be no revival of Europe without a spiritually great France and a spiritually great Germany.” Speaking about a spiritually great Germany such a short time after the profound horrors of the Second World War was a special signal for reconciliation that resounded in Europe and in Germany. Churchill went on to say that the unifying concerns of the European nations are people who wish to “dwell in peace, safety and freedom.” The United States, Russia and the United Kingdom were to be “the friends and sponsors of the new Europe.”¹⁵ This concern also rings true today.

The United States of Europe has still not been established. The decision was however taken to create an internal European market, a market which is still one of the historic achievements of European integration, and another milestone. Since then, the Community has stood for a freedom which no single state can guarantee. It enforces the fundamental freedoms of each citizen of the Union, freedom of movement of goods, services and capital, and freedom of establishment and movement of workers. The internal market remains a guarantor for prosperity in Europe today. This has meant as a rule the abolition of border identity checks in the Schengen area. Each time we have crossed a border since then has been an experience of European freedom and equality, even during the pandemic.

It took until the 1990s to set up the internal market. The end of the East-West conflict then posed a complete set of new challenges for the Community. In a new phase of integration, it was enlarged from 12 to its current number of 27 member states. At the same time, a large number of sovereign rights were transferred to EU bodies. The Union

has grown in terms of both breadth and depth. This development of a community of nations is probably unprecedented in the world, but it is not organic. Enlargement to the East in 2004, taking on ten more nations,¹⁶ is therefore regarded at times as one of the causes of today's problems. It is said that the EU bodies, the decision-making paths, and the whole architecture of the Union, should have first been adjusted to accommodate a community of more than 20 states. Such a mandate for reform is indeed designated. This kind of reorganization prior to the accession of these states would however have been highly time-consuming, and the historical window of opportunity would probably have closed. Enlargement to the East was not a mistake, but rather the greatest historical achievement of European integration since the 1990s¹⁷—and is counted here as the third milestone.

After the fall of the Iron Curtain, it was uncertain whether the nations in the East would take Russia as their orientation, might find their way to the West, or remain in an uncertain limbo. The accession of Poland, Slovakia, Slovenia, the Czech Republic and Hungary—followed by Estonia, Latvia, Lithuania, Malta and Cyprus becoming members of the European Union—then rendered the orientation unmistakable. Freedom and equality, constitutional democracy, and ultimately a modern social state, have been secured in these nations, despite controversies with Hungary and Poland.

Tangible European Freedom: A Key Concern of the West

These three milestones of integration—Churchill's speech in Zurich, the internal market along with the Schengen area and enlargement to the East—come together to form a smaller picture in the large mosaic, and this should be brought into the limelight. The fundamental concerns of European integration are reconciliation, peace, internal unity, prosperity as well as freedom and equality in a social democratic state based on the rule of law. These concerns remain highly contemporary. If one takes a closer look at the milestones, the European bodies have not directly enforced their own political agenda. In fact, they have set the stage so that freedom and equality over and above national borders can develop in a modern statehood. These achievements reach beyond the state. The state itself is therefore hardly in a position to guarantee them. This reveals unique, complementary mandates to the European

community of nations. This is where modern statehood develops if the community enters into international relationships as a matter of course and takes on both social and international responsibility. The Union does not act alongside the nations or against them, but promotes their respective statehood. What is more, it guarantees individual rights which only it can grant because they are not constrained by national borders. Finally, we come to freedom, equality and the modern state—and hence to the core concerns of the West. People within the EU continue to experience peace, the EU's fundamental freedoms, and the borderless Schengen area. Enlargement to the East secures constitutional democracies. European integration has no need to separately explain itself, or to ask for a narrative, because we can experience it directly.

Self-assertion, Self-perception and the Three Sources of the Union's Power

The three milestones of integration thus point to a renewed self-perception of the European Union and to a path to the future. The Union should re-focus on its particular task, namely to safeguard modern statehood and international rights. This would enable it to enhance its complementary character. The special strength of the union of nations stems from three sources: EU bodies, the member states, and different civil societies. The term 'civil society' here covers individuals as distinct from governments and the European Union. In a fundamental legal dichotomy, we see a society that is entitled to enjoy fundamental rights and needs to be distinguished from public authorities that are subject to fundamental rights. Today, EU bodies frequently focus on their own direct policy. This is not unusual for political institutions, but it places the Union at risk of thinking along lines that are too state-like, thus neglecting tasks at the very core of its mandate. In any case, the other two sources of strength, that is the member states and civil societies, are usually more important when it comes to achieving European goals. Today's pressing concerns regarding the Lisbon Strategy will not be achieved without the member states. Research and innovation will not be promoted, security and the strategic partnership with Russia will not be strengthened, and public budgets will not be consolidated. If the different civil societies in Europe take decisive action to counter

climate change and promote digitalization, integration and a competitive ecological economy, they will achieve more than would programs enacted by public authorities.

The three sources of the Union's strength frequently fail to amplify one another at present. At times they merely run in parallel, and sometimes also in different directions, or even against one another. The causes are manifold. They lie at times with the civil societies if they portray a distorted image of the European Union, but also with the member states if they play off their own interests against the Union and other member states, as well as with EU bodies if the latter fail to take adequate consideration of civil societies and member states, or to treat them with the respect that is their due. The development of European integration since the 1990s has also not been helpful. The European bodies have received large numbers of new sovereign rights. This has however constrained the scope of the member states to make decisions, and frequently also the special strength of civil society. The constraints and the overblown nature of European law, as well as the bureaucratic burdens which it imposes, have been the subject of criticism for years.¹⁸ That having been said, the conclusions of Alexis de Tocqueville remain relevant today: an excessively tightly-spun web of regulations weakens the freedom of people and civil societies.¹⁹

The Lisbon Strategy set goals with remarkable prescience, but has clearly failed to achieve some of them. Health policy is to be enhanced by the creation of a new European authority. This concern is very well-founded. But experience with the pandemic in Germany has shown that it is possible to move mountains if civil societies set their shoulder to the task. The first wave was broken because people took care of one another, helped one another, created a large number of social initiatives, and ultimately complied with the law before it even came into force. The Commission President has criticized Europe's dependence on high-performance computer chips from Asia. A new "European Chips Act" is to come to the rescue here.²⁰ But above all, those enterprises which are necessary for production should be enabled to operate more freely, being released from bureaucracy and encouraged by faster planning procedures.

Too little attention was paid to reason prior to the Enlightenment. The risk today is of placing too many hopes in the public sector, in

European and state bodies, in political plans, and in sets of rules. Major developments advance especially by people setting off into the unknown and unforeseen. It is not the plans of the global power that is China, but the decisive, far-sighted researching spirit of the few that have provided the world with the new vaccine against the virus. “Uniform causes have uniform effects. The more therefore”—according to Wilhelm von Humboldt—the public sector “is involved, the more similar is not only everything that exerts an impact, but also everything that is the object of such impacts.”²¹ Societal processes cannot and should not be precisely planned by public institutions, but given relevant support in establishing the requisite conditions. It is in this vein that the European Treaties stipulate that an area of freedom, security and justice should be provided.²² The point is to grant rights without national borders, to promote modern social statehood, and hence at times also to temper it, as well as to create European infrastructures spanning countries. A new set of rules, or a new agency or authority, does not guarantee success. If Europe and the West wish to stand fast in economic and cultural competition with China, they should focus on their own values, that is on Western ones. These are not plans and mapped out paths, but modern statehood and international freedom.

The Special Task of the European Union

This freedom-based approach may not be enacted against the European Union, and also not against the member states. Quite the contrary, the three sources of the Union’s strength are conditional on one another, and are mutually complementary.

If EU bodies operate their own direct policy, they should always examine—conscious of the milestones of integration—whether international freedoms and the states can be strengthened. Only then will it be possible to set accepted European standards which will then actually be able to gain global influence. Subsidiarity and proportionality, these core principles of the European Union, need rekindling.²³ This is, however, particularly not a rejection of European initiatives and laws. At times there is also a need for detailed, new European regulations when it comes to establishing climate standards, improving data protection, or unifying stipulations under the law on migration. Technical

areas such as uniform law on value-added tax, or plans to introduce a Europe-wide e-invoice, demand unambiguous European stipulations which at times need to be highly detailed. Having said that, there is then also a need to give greater protection to freedom once again. The General Data Protection Regulation is praised as a European achievement, but the hoped-for success in Europe, and ultimately also the aspiration to set a worldwide standard, has remained largely unfulfilled. The important protection of data when people use the Internet was not adequately promoted, while large numbers of consenting clicks are experienced as a tangible restriction on freedom in people's everyday lives. A new standard would have been more advantageous in terms of freedom which protected data while at the same time leaving companies sufficient leeway for their business models. It is only when this standard was deviated from that real consent would need to be obtained, and not simply a reflexive consenting click.

EU bodies should play a stronger role in specific areas. Additional sovereign rights for the Union are a pressing concern in the areas of security, in refugee and energy policy, as well as in the health sector. But tangible new scope for decision-making then needs to be opened up to the member states to enable all three sources of strength of the Union to develop their potential. It is about the principle of conferred powers, about subsidiarity, and ultimately about perceiving the Union as what it is: a complementary community of nations.

It is completely in this vein that the directive was to be rekindled. In the self-description of European law, it is the first regulatory tool of the Union²⁴ and a logical idea resulting from the European legal order. A goal is stipulated from the center, so that a uniform outcome is guaranteed. The member states can take account of the particularities of their own legal orders, countries, geography and culture in the implementing acts. Democracy and the necessary acceptance of the law are reinforced in the debates on implementation in national parliaments. That having been said, the European Union is currently enacting more than 25 regulations for each single directive.²⁵ And the few directives which have come into force are ultimately not directives. Concerned to ensure that the law is applied uniformly, they end up being so detailed that member states have virtually no scope to transpose them within parliamentary responsibility.

The Union far-sightedly undertook as long ago as in the 1990s to do something about harmful particulate matter. The health protection that was envisioned however did not take on decisive force until more than 20 years later. European law was better enforced especially on the basis of landmark rulings of the European Court of Justice.²⁶ But what had happened prior to that? The member states transferred the detailed stipulations under European law to national legal orders without adopting the goals as their own. If, however, as provided for by the Treaties, a real directive had been handed down in the 1990s in which the goal of reducing particulate matter loads had been stipulated in a few sentences, health would have been much better protected in the national parliamentary debates which would then have been necessary, and in the implementing acts, in particular due to the influence that this would have had on the population.

The European Union should go back to enacting real directives and smaller quantities of detailed law. It should reflect on its special responsibility across states. No nation can guarantee European security, or indeed bring about international infrastructures. It is a special task for the Union to initiate better European rail connections or a Europe-wide energy network in order to establish a corresponding internal market for energy and the necessary expansion of renewable energy sources. It would be possible to experience Europe in an immediate sense with sustainable electricity from the countries of the South, when travelling more rapidly by rail between cities, and in other international freedom projects.

New Trust in Freedom, Mutual Respect, European Role Models

All in all, the member states and the European Union should attempt to stimulate the innate, special strength of civil societies in the spirit of a new trust in freedom. This is an exacting aspiration. There are no patent solutions here. It is a matter particularly of respect, of European role models, and above all of increasing the trust that nations and individuals place in integration and in European projects.

The European Union is based on mutual respect. EU bodies respect the identities of the member states, the boundaries of integration, and the diversity of civil societies. The nations conserve the common Eu-

ropean values and European law. The civil societies bear their own responsibility for the statehood and the success of European integration. Anyone attempting to unilaterally undo the necessary respect misjudges the unique nature of the Union, and is placing European integration in peril. The current centrifugal forces in Europe have many causes which frequently lie with the individual member states. The fact of the United Kingdom leaving the Union, and the crises in Hungary and Poland, are largely a reaction to questions occurring in the member states themselves. However, the European Union needs to examine whether it has used up the necessary respect in its rules, conduct, aspirations and reactions, or whether it has exacerbated the crises, whether it has focused more on its own power or on the group of nations. Anyone expressing the hope that harm might be caused to the United Kingdom subsequent to Brexit, and anyone calling on a member state to leave the Union, is not acting in the spirit of integration, but is acting destructively—even in the light of all the justified criticism of Brexit, Hungary and Poland.

The European Union is a complementary structure manifestly distinct from a member state. European policy must take different paths than a national government. Initiatives in Europe will be successful if they take adequate account of the differences in the nations and civil societies, and if both sources of strength are left with their own respective space. On the one hand, compromises need to be found for uniform measures in the 27 member states, while on the other hand there is also a need to deliberately permit other paths to be taken. The Commission should act more as a mediator, and should argue in as nuanced and circumspect a manner as possible. The mere impression that the European bodies are acting from the top, or seeking first and foremost to increase their own power, is detrimental to European integration.

The Union and European concerns would be significantly revived were EU bodies and nations to set more of an example than has been the case up to now. European law needs to be complied with in the 27 member states. This aspiration, which is vital to the Community, starts with EU bodies. The bodies should comply with European law as precisely as possible, in an almost meticulous manner, in order thus to reinforce the state based on the rule of law and the necessary acceptance and trust, as well as to weaken the centrifugal forces in Europe. In accordance with Art. 6(2) TEU, the Union is to accede to the European Convention on Human Rights. This mandate needs to be

implemented, and not weakened.²⁷ The European Central Bank needs to align its policy of buying up bonds, and of low interest rates, much more closely to the law, and to give it much more nuanced reasoning, particularly when inflation starts to rear its head. The joint debts that are shouldered as part of “NextGeneration EU” are justified in political terms as aid given in a spirit of solidarity in order to come out of the crisis stronger. This major project must be placed on a clear legal foundation—otherwise doubts will be nurtured from the outset, critics will be strengthened, and the necessary trust will be lost. State debt can furthermore not be regarded as an act of generational justice. At best, the next generation may benefit from Next Generation EU, albeit past experience suggests that debt hardly engenders a benefit in the future. Be that as it may, coming generations will not reap the fruits, but they will bear the burden of repayment. These will be added to the debts and interest payments, the paralyzing burden of which is already piling up so high. This weight will be added to the encumbrances which are already being put off to some point in the future: modernization of infrastructure, permanent storage of nuclear waste, demographics, in particular in the social welfare systems and climate protection. Unlike as advertised,²⁸ the “generational treaty” shifts burdens into the future.

The hope is that the European examples will strengthen the Union from within and reinforce it externally in certain areas. The important goal of climate protection will fail if the European Union perceives itself above all as a trail blazer, but not as an example of carbon neutrality. Holding global warming in check is dependent on large numbers of nations doing their bit. Germany is responsible for roughly 2% of global greenhouse gas emissions, while the European Union contributes roughly 8%. China, the United States, India and Russia together account for roughly 50% of these gases.²⁹ It is only when all three sources of the Union’s strength are activated that there is a real chance of becoming a respected role model—for climate protection, as well as in terms of Western values.

The Special Strength of Civil Society and Western Values

Civil societies, that is people, are the most important source of the Union’s strength. This source is reinforced when EU bodies and member states act as role models, show respect, and seek to create trust. This

reveals a connection with Western values of freedom and parliamentary democracy. Had the Commission President and the various heads of state engaged in an open debate in the European Parliament and in national parliaments at the beginning of the pandemic on how to combat the virus, better measures would have been taken, but in particular they would have been readily accepted. Had comparable parliamentary general debates taken place on the financial crisis, the European Central Bank's interest rate policy, the refugee crisis, security, digitalization and climate protection, then better laws would have been enacted, and parliamentary democracy, and in particular the necessary trust, would have been enhanced.

Cohesion in Europe is confirmed by the law, but it is not created by the law. Unifying values, unwritten rules in our interactions, consideration and respect, as well as shared convictions, are more important than ever, especially in times of crisis, including of digitalization and of growing populism. Europe's answer to the crisis and to global competition should ring out more clearly: freedom in solidarity. This means that new differences in the nations and civil societies are not avoidable, but indeed should be welcomed. Freedom and equality in a modern state also mean being distinct from one another. The European Union is based on uniform law. At the same time, it is united in diversity. Both uniform law and diversity are essential for the sake of freedom and democracy.

Notes

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2. See Ursula von der Leyen, "State of the Union Address 2021," September 15, 2021, p. 4.

3. On this: Federal Constitutional Court (BVerfG), April 15, 2021—2 BvR 547/21, para. 3—Next Generation EU.

4. Ursula von der Leyen, Speech on the EU Recovery package, May 27, 2020; European Commission, "Commission welcomes political agreement on Recovery and Resilience Facility," press release, December 18, 2020.

5. Conference on the Future of Europe (<https://futureu.Europe.eu/?locale=en>, September 2021).

6. MSC, Munich Security Report 2020, *Westlessness*.
7. Francis Fukuyama, *The End of History and the Last Man*. New York: Free Press, 1992.
8. Thomas Gutschker, "Viktor, warum bleibst du in der EU?" *Frankfurter Allgemeine Zeitung*, June 26, 2021, p. 2.
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10. Johannes Ritter, "Schweizer Scherbenhaufen," *Frankfurter Allgemeine Zeitung*, May 29, 2021, p. 1.
11. European Council, Lisbon Strategy. Presidency Conclusions, 23/24 March 2000.
12. European Commission, *Europe 2020. A strategy for smart, sustainable and inclusive growth*, COM(2010)2020, March 3, 2010, pp. 2 et seq. and 5 et seqq., quotes: pp. 8, 2 and 5.
13. PESCO—Permanent Structured Cooperation (<https://pesco.Europe.eu>, September 2021).
14. Destatis, Europe. "Öffentliches Defizit 2020 in allen EU-Staaten gestiegen," (<https://www.destatis.de/Europe/DE/Thema/economyFinanzen/Eurozone.html>, September 2021).
15. Winston Churchill, "Let Europe Arise!" Zurich, September 19, 1946.
16. Romania and Bulgaria joined in 2007, and Croatia acceded in 2013.
17. Andreas Rödder, in Gregor Kirchhof, Hanno Kube and Reiner Schmidt (eds.), *Von Ursprung und Ziel der Europäischen Union*, 2nd edition. Tübingen: Mohr Siebeck, 2017, p. 11 (24).
18. The Mandelkern Report, in *Moderner Staat—Moderne Verwaltung*. Berlin: Federal Ministry of the Interior, 2002, pp. 10 et seqq., 18 et seqq., 24, 42, 47, 52 et seq. and 63 et seq.
19. Alexis de Tocqueville, *De la démocratie en Amérique*. Paris: Ellipses, 1835–1840, 1985, pp. 343 et seq. and 364.
20. Ursula von der Leyen, State of the Union Address, September 15, 2021, p. 4.
21. Wilhelm von Humboldt, *Ideen zu einem Versuch, die Grenzen der Wirksamkeit des Staates zu bestimmen* [1791]. Stuttgart: Reclam, 2006, pp. 30 et seqq., 201 et seqq., quote: p. 31.
22. Art. 3(2), first sentence, TEU.

23. Art. 5 TEU and Art. 23 para. 1, first sentence, of the Basic Law (GG); see on this the “Timmermans Task Force,” Report of the Task Force on Subsidiarity, Proportionality and “Doing Less More Efficiently,” 2018.

24. Protocol (No. 30) on the application of the principles of subsidiarity and proportionality (1997), OJ C 321, December 29, 2006, pp. 308 et seqq., No. 6.

25. Euro-Lex, Legal acts—statistics, 2021 (<https://eurlex.Europe.eu/statistics/2021/legislativeacts-statistics.html>, September 2021).

26. Fundamentally: ECJ, 25 July 2008, C-237/07, OJ C 236, September 13, 2008, p. 3—Janecek.

27. This is the direction pointed in by the ECJ, 18 December 2014—Opinion 2/13—ECtHR.

28. Ursula von der Leyen, Speech on the EU Recovery package, May 27, 2020.

29. Federal Ministry for the Environment, *Klimaschutz in Zahlen*, 2020, p. 12: China: 27.3%; U.S.: 13.7%; India: 6.3%; Russia: 4.6%.

Chapter 4

Transformations in European Integration: Historical Perspectives

Andreas Rödder

An “irregular body, and like some misshapen monster”—this was how German legal scholar Samuel von Pufendorf referred to the Holy Roman Empire of the German Nation in 1667. Three hundred and fifty years later, he could have also used this name for the complicated construction that is the European Union. Unlike the U.S. Constitution or the German Basic Law (*Grundgesetz*), it has come forth not from a planned act of creation, but grew without a path to follow, and without those who were involved, and who also changed in their composition, being able to agree on which port they were steering towards. Instead, European integration was and remains marked by ambivalence at all times: by supranational integration and intergovernmental cooperation, liberalization and regulation, centralizing tendencies and centrifugal forces, setbacks and progress. Three major stages can be made out here: first, the politically loosely-bound economic union of the European Communities, with initially six and ultimately twelve members; then deepening to become the European Union of Maastricht in 1992, with the monetary union as its centerpiece, accompanied by its enlargement to encompass 28 states in the two decades following the end of the Cold War; and as a third phase, finally, the gradual but fundamental changes that took place in the course of the existential crises of the 2010s.

35 Years of the *Méthode Monnet*: The European Community of Rome

The very first step taken towards European integration, namely the European Coal and Steel Community (ECSC) established in 1950/51, set the pattern and established the structures for future developments. First were the institutions consisting of a supranational High Authority (later to become the Commission), of an intergovernmental Council of Ministers (later in particular the European Council), and of a parlia-

mentary assembly which was initially made up of delegates, and which was directly elected for the first time in 1979. Second was the central significance of the Franco-German relationship. Third was the primacy of political motives over economic rationale and coherence. This also explains the juxtaposition established from the outset of free market access, above all for German industry, and protectionist isolation from the free market, above all for French farmers.

A further pattern lay in the “*méthode Monnet*,” named after the actual founder of the ECSC: Individual steps in one area led to further steps towards integration in other fields. “Laying the foundations of an ‘ever closer union’ among the peoples of Europe,” to quote the words used in the 1957 Treaties of Rome, was thus established as a process without a clearly-defined goal. This process was marked from the outset by a series of setbacks and progress, by crises and integration. The first step towards integration in the ECSC in 1950/51 was followed in 1954 by the failure of the European Defence Community, and this in turn by the first *relance européenne*, with the Treaties of Rome establishing the European Economic Community and the European Atomic Energy Community. The French blockade of the United Kingdom’s accession, and de Gaulle’s “empty chair” policy in the 1960s, led to the second *relance* and to the first enlargements in the 1970s, and from there in turn to the “Eurosclerosis” of the early 1980s, a period that was epitomized by milk lakes, butter mountains and calls from the United Kingdom of “I want my money back!” Helmut Kohl complained at that time that this European Community was “not any sort of free trade zone any more, it’s a bazaar!” But this crisis too did not last forever, and was replaced in the mid-1980s by an unexpected new thrust towards integration, which led to the European Union of Maastricht.

25 Years of Amendments to the Treaties: The European Union of Maastricht

The “Single European Act,” signed in February 1986, established the pattern for the second integration phase: amendments to the European Treaties, as had been carried out in Maastricht in 1992, in Amsterdam in 1997, and in Nice in 2001, were to be crowned by the 2004 Constitution for Europe. However, the process was brought to a tem-

porary halt with the 2007 Treaty of Lisbon, following the rejection of the Constitution in referenda held in France and the Netherlands. This essentially always related to institutional questions such as the majority principle in the Council, or the powers of the European Parliament, as well as areas of cooperation.

The core of the 1986 Single European Act was constituted by the Single Market, which eliminated those non-tariff trade barriers that had remained in place until the end of 1992, and which was intended to establish the four fundamental freedoms for the movement of goods, capital, persons and services. Commission President Jacques Delors, who had been in office since 1985, considered the logical further development to lie in the European monetary union, especially since the European Monetary System, which had been set up in 1979, had not proven itself able to withstand crises vis-à-vis the volatility of currencies in the wake of the collapse of the Bretton Woods monetary order. What was worse, from a French point of view, was that the economic strength of the Federal Republic, and the resulting high-interest-rate policy of the Bundesbank, weighed heavily on the other European economies, and there was thus a need to defuse “Germany’s atomic bomb” (François Mitterrand). In late 1987, the French Government therefore submitted a proposal for a European monetary union, which was greeted in West Germany by a broad willingness to become integrated, and was accepted in principle as early as in the summer of 1989. European monetary union was therefore not the price that Germany paid for unification, as is frequently claimed, but the price for Germany gaining economic might in Europe.

Instead, the price for German unity lay in the process with which monetary union was brought about. Germany forewent the “coronation theory,” according to which the economies were first to be made to converge, a process which would then be crowned by a common currency. Admittedly, this might have taken a while. Instead, Germany agreed to a process in line with the French “creation theory,” according to which the institutions were to be created first, and convergence would then follow pretty much as a matter of course (the German government, however, ultimately enforced a part of the German coronation theory in the shape of stability-orientated accession criteria).

The monetary union, which was adopted in Maastricht, was introduced in 1998 initially as bank money, and then as cash for circulation in 2002. It constituted an amalgam of highly-diverging principles. Monetary policy was communitized and assigned to an independent European Central Bank (ECB), the primary job of which was to maintain monetary stability, and which was banned from engaging in public monetary financing. Fiscal policy, by contrast, was left at the discretion of the individual member states, which were subject to a regulatory system of national debt limits. Mutual debt liability was contracted out, and it was also made explicit that no transfer union was to be established.

This construction admittedly brought with it a number of problems. Many countries were relatively unwilling to comply with the rules of the monetary union, in particular in economic crisis situations. At the same time, the monetary union had at its disposal neither binding sanctioning mechanisms nor effective sanctions that it could have applied as the last resort, such as the exclusion of a member. And finally, once the possibility of adjusting exchange rates had been abolished, the monetary union also did not have any mechanisms to compensate for imbalances between national economies. The German idea was that such compensation had to take place via competition-orientated structural reforms in the countries in question (as Germany did with the ‘Agenda 2010’). This logic was however neither clearly worded and unambiguously regulated, nor was it shared by all the members of the monetary union. Many of them in fact made German foreign trade surpluses and private financial movements out to be responsible for the problems. Political and economic as well as cultural divergence persists within Europe, such as between the German orientation towards competition and stability, and French economic and industrial policy. It was only compromises in the formulation between the different ideas—such as the “Stability and Growth Pact” of 1997—which made agreements possible at all. That having been said, such compromises laid the foundation for future conflicts.

“If the Euro fails, Europe will fail”—Angela Merkel’s entreaty from 2010 showed that the monetary union was the centerpiece of the European Union of Maastricht. Given that the Treaty relocated decision-making competences to the European level, and provided prospects for further steps towards integration and deepening with the

review clause, it meant a push towards the constitutionalization of a European Union, which at the same time established itself as the decisive political institution in Europe after the end of the Cold War.

It therefore also became the object of accession applications on the part of the post-communist countries in Eastern Central and South-eastern Europe, which expected NATO to provide security and the EU to primarily furnish economic support. This development posed a major problem for the EU of how to reconcile deepening and enlargement. It was against this background that in Copenhagen in 1993 the European Council adopted criteria for enlargement to the East, namely stable democratic structures, a competitive market economy, as well as the acceptance of rights, obligations and rules, namely of the European Union's *acquis communautaire*. In one fell swoop, the EU expanded from 15 to 25 members on May 1, 2004. As it turned out, however, willingness to adhere to rules and to reach goals to meet the conditions was much more widespread on the path to membership than after they had acceded (and this applied to the monetary union in equal measure).

At the same time, fundamental cultural differences came to the fore. The countries in Eastern Central and Southeastern Europe considered gaining freedom from communism in 1989 to be linked to regaining national sovereignty vis-à-vis the Soviet Union. Against this background, and despite having accepted the *acquis communautaire*, willingness to surrender this re-gained sovereignty to an “ever closer union,” or to a central European power, was not unlimited. Such criticism was confirmed by the judgment of the German Federal Constitutional Court on the Treaty of Lisbon and its unambiguous admonition that “European unification on the basis of a treaty union of sovereign states may not be achieved in such a way that leaves insufficient space to the Member States for the political formation of economic, cultural and social living conditions.”¹

Mark Gilbert writes of European “hubris” in the early 21st century, which saw excessive ambition going hand in hand with a lack of achievement.² The European Council’s 2000 “Lisbon Strategy” announced that the EU was to become “the most competitive and dynamic knowledge-based economy in the world” within ten years. Ten years later, in fact, the monetary union was teetering on the verge of failure. The second decade of the 21st century brought a series of five

concentrated crises. These crises exemplified a third phase of European integration during which the question arose of whether they would once more be the driving force of integration, or whether they were placing its continuation at risk.

Constitutional Change Through Crisis Management: The EU Since 2010

When the Fitch rating agency reduced Greece's credit worthiness on December 9, 2009, the U.S. sub-prime crisis came to contaminate European monetary union. The launch of the euro had led to a dramatic fall in interest rates on loans in the entire monetary union, and particularly in the South of Europe. This sparked a boom funded by credit. When the bubble burst and the heads of state and government of the Eurozone came together for a crisis summit on May 7–8, 2010, French President Nicolas Sarkozy invoked the spectre of an explosion of the European Union. The policy for saving the euro that was developed in the ensuing years affected everything—"whatever it takes," as ECB President Mario Draghi said in 2012.

Faced with the alternative that Greece might be forced to leave the monetary union (for which, however, there was no provision in the Treaties), and in light of the risk of a chain reaction, or monetary union being converted into an open transfer union, which would have been supported neither by the constitutional situation nor by the politically active public in Germany, the policy for saving the euro was based on crisis aid in return for conditions for budgetary consolidation and structural reforms. This made it possible to alleviate the crisis for a while. This came at a massive financial cost, enhanced the role of the ECB to become a central player, and stretched the Treaties to such an extreme point that the German Federal Constitutional Court opined in 2020 that the ECB had disregarded the principle of proportionality with the program to purchase government bonds, thereby overstepping its powers. Be that as it may, European monetary union, the centerpiece of the Treaty of Maastricht, had become a hybrid construction made up of a deficient system of rules and situational crisis measures with neither a recognizable goal nor an overall design.

Even before the euro debt crisis came to a head in 2015, the EU was at least indirectly involved in a new trouble spot flaring up. The “Eastern Partnership” was launched in 2009 to bring about the political association and economic bonding of post-Soviet countries, including Ukraine. When Ukrainian President Yanukovych announced at the end of a four-year negotiation process that he would not be signing the Association Agreement out of consideration for relations with Russia, the “Euromaidan,” that is the second Ukrainian Revolution, broke out, and turned violent in February 2014. This provided Russia—which in any case felt threatened by an “expansion” of the EU and/or of NATO—with an excuse to annex the Crimea and to infiltrate Eastern Ukraine both militarily and politically. In Marc Gilbert’s judgment, the Eastern Partnership had accidentally ignited a war.

In the meantime, the number of asylum applicants setting off for Europe increased in the wake of civil wars, in particular in Syria, of poverty and overpopulation in Sub-Saharan Africa, and of cuts in many countries’ donations to the United Nations’ Refugee Agency. They travelled over the Mediterranean or through the Balkans, with the attendant humanitarian tragedies that this again and again caused. More than one million migrants caused the European border regime to fail in 2015: the Schengen Agreement, which replaced the internal European borders with a single external frontier, and the Dublin Regulations according to which the first country of reception was responsible for the asylum procedure. Faced with the sheer pressure of numbers, Italy and Greece meanwhile permitted migrants to pass who were attempting to reach Northern Europe, and Germany in particular. While other countries were closing their borders, Germany kept its frontiers open, even when national law, European rules and humanitarian international law overlapped in a dysfunctional manner. Germany lobbied in the Council of Ministers instead for a majority resolution to be passed on the distribution of migrants within the EU, which in turn met with bitter resistance among the Eastern European countries in particular, which were unwilling to receive asylum applicants, and especially Muslim migrants. A temporary détente did not take place until the EU had reached an agreement with Turkey in March 2016—thus giving that country a means to pressure the EU to open up its borders.

Three months later, voters in the United Kingdom voted by a narrow majority in a referendum to leave the European Union. “Brexit”

was the first case of a member state leaving the European Union, and thus ran counter to the narrative of an “ever closer” union that could only go in one direction, namely towards “more Europe.” At the same time, in the laborious exit negotiations which ensued, Brexit made sure that the remaining member states came together for a time, thus at least obviating any chain reactions among them.

Simultaneously, tensions increased between centralizing and centrifugal forces within the EU. While the “Green Deal” of the Commission that was formed in 2019 under Ursula von der Leyen had unmistakable leanings towards centralization, the differences with Hungary and Poland regarding the question of the rule of law, and with the four Visegrád states in general, grew. This revealed both political and cultural differences on the West-East axis, as well as the disputes with the “Frugal Four” (Austria, the Netherlands, Denmark, Sweden, and later also Finland) regarding the EU’s multi-annual financial framework in the spring of 2020, as they came to light over the North-South axis. While a new degree of fragmentation appeared to become manifest, which made the decision-making processes more difficult, it emerged once the pandemic had broken out that decisive importance continued to attach to the Franco-German axis, when Emmanuel Macron and Angela Merkel agreed in May 2020 to a debt-financed Solidarity Response Fund to combat the consequences of the pandemic. A record financial framework of more than one trillion euros over seven years was adopted at an extraordinarily long and difficult summit that was held July 17-21, 2020. In addition, a seven-year, €750 billion “Next Generation EU” fund was set up, funded for the first time by joint debt, almost half of which was to consist of non-refundable subsidies, the other half being made up of refundable loans to particularly badly affected regions and areas. While the EU, after a rocky start in the pandemic, had proven to be more effective in the summer of 2020, the joint purchasing of vaccines led in the following year to shortages and delays, which were likely to undermine trust in the Commission and in the Union, and to lead to a situation in which individual members looked for cooperation beyond the EU’s borders.

The consequence of having overcome major crises since 2010 bears witness, on the one hand, to significant resilience on the part of the European Union. On the other hand, critical observers identified a problematic pattern which became constitutive for the third phase of

European integration in terms of overcoming crises: Problems were ignored, and then followed by improvised, unsustainable emergency measures with no overall design, leading to the establishment of unplanned new structures and to a de facto change in the constitution without any amendment being made to the Treaties.³

European Integration: Taking Stock

If we draw up an interim balance sheet of European integration, we have on the assets side the manner in which Europeans deal with one another. Luxembourg and the Netherlands, Poland and Latvia are no longer territories for the armies of neighboring major powers to invade, they provide leading representatives of the European Union. And even if crisis summits lead to laborious or unsatisfactory outcomes, they nonetheless bear witness to an elementary willingness to reach joint solutions at all, in striking contrast to the European governments that steered a course through the crisis of July 1914 to war. The historical difference is also marked by a second asset: the contribution made by European integration to the stabilization of Central and Eastern Europe after the end of the Cold War. All new members of the EU were spared the outbreaks of potential violence that took place in the post-Yugoslavian wars or in Ukraine. Instead, they too benefited from a third major asset, namely that of the prosperity of the EU and of its Single Market.

These assets admittedly also face up to liabilities: a characteristic link between rhetorical overambition and de facto underachievement. Instead of becoming the “most competitive and dynamic knowledge-based economy in the world,” a European monetary union built on deficits stood on the verge of failure ten years after its inception. And the communitization of the borders and of migration policy also did not meet the criteria that are expected of well-functioning statehood. Finally, despite all the reforms, the European Union has failed to become a global player; instead, it has lost the power which was closest to being a global player, namely the United Kingdom, when this country ceased being a member.

All this confronts the European Union in the 2020s with its constitutive aspect: an ever-increasing degree of ambivalence. While the

European Parliament obtained for itself a supranational parliamentary right to nominate the Commission in 2014, once again via a *de facto* precedent instead of by adopting an amendment to the constitution, the heads of state and government went on to cancel it in 2019. The Commission is enhancing the centralizing tendencies via the Green Deal, the multi-annual financial framework and the Next Generation EU Fund, and has formed a hybrid of its own between individual governments and the Commission, while the centrifugal forces are increasing with the shoring up of the four Visegrád states and the Frugal Five. The summit that was held in July 2020 however documented that it is becoming more and more difficult to reach any agreement at all, while it created the precedent for joint debt, which Germany above all had long rejected. In the same way, the joint purchasing of vaccines, outside the EU's competence under the Treaties, spoke of even greater communitization, and given its failings at the same time created the potential for the delegitimization of the Union.

Centralizing tendencies *and* centrifugal forces in the face of the unresolved fundamental problems of monetary union and ongoing institutional rivalries are the benchmarks of the EU after the pandemic. Was this and is this a recent dialectic of the *méthode Monnet* on the path towards an ever closer union? Or are increasing tensions being created that can lead to cracks in the foundation? Historical experience suggests that ambivalent hybrids are long lasting. It also shows, however, that there are no automatic mechanisms, either towards collapse or towards a final condition. And above all, historical experience permits one to anticipate the future to be open. European integration is therefore helped neither by painting pictures of doom and gloom, nor by looking at things through rose-colored glasses, or by any ideology, but by realism that is open to the future of a flexible, self-reflexive, self-critical Union focussing on the core of its mandate, namely to create an added value where it promises to do so.

Further reading:

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Notes

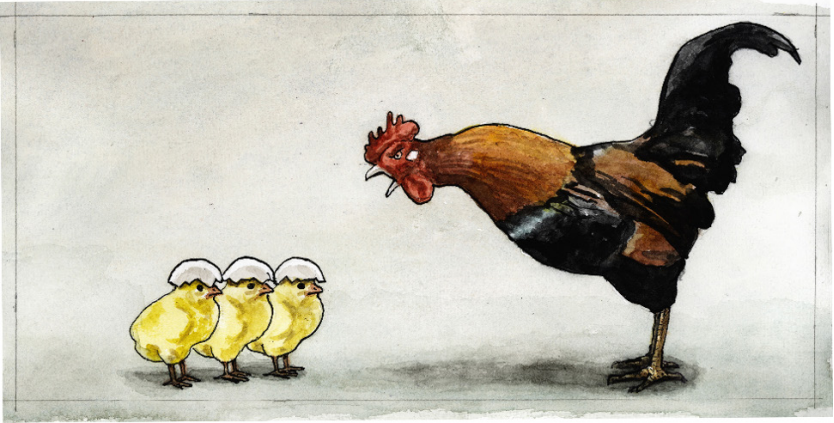
1. Federal Constitutional Court, “Headnotes to the judgment of the Second Senate of 30 June 2009,” https://www.bundesverfassungsgericht.de/Shared-Docs/Entscheidungen/EN/2009/06/es20090630_2bve000208en.html

2. Mark Gilbert, *European Integration. A Political History*. Lanham: Rowman & Littlefield, 2021.

3. Agustín José Menéndez, “La crisis existencial de la Unión Europea y la radicalización de su mutación constitucional,” in *Jueces para la democracia* 99 (2020), pp. 28–38.

Part II

**Less Europe or More Europe?
Flexible Europe or a Different Europe?**



Chapter 5

Understanding Hungary: Perspectives from Central Eastern Europe

Bence Bauer

“We want to be one of the five best countries in the EU in 2030.”

—Prime Minister Viktor Orbán, November 2018

A question mark has been hanging over Hungary’s democratic reputation in recent times among a section of the media in Europe, as well as among many political opinion-leaders. While the country stood *pars pro toto* among the peoples of Central and Eastern Europe for the push for freedom and for an upward drive towards democracy and Europe during the transformational years 1989/1990, after a good one-and-a-half decades of European Union membership, an extensive process of disillusionment has set in on both sides. There is no question in Hungary as to “whether” the country should be a member of the EU. Approval rates in this regard are still high. There is however a considerable need for debate when it comes to “how.”

Many Hungarians are increasingly concerned about a development which would be detrimental to them, which would place a question mark over the life plans that they have made, and the “European way of life” they have come to appreciate. They are therefore particularly struggling with a European Union they consider to be seeking to restrict the personal freedoms and national sovereignty which cost them so much to regain, and to be highly patronizing towards the population. Representatives especially of Western European countries, by contrast, regard the country’s actions as a world that is alien to them and far removed from the realities that they experience in their lives. They therefore react to it with a lack of understanding. This then frequently finds expression in a general allegation that politics in Hungary are no longer in line with “European values.” The discrepancy in perspectives makes it necessary to seriously address the “phenomenon of Hungary” in order to understand the motivations and goals of its political leadership in a Europe which is becoming increasingly complex. The question

thus arises as to whether Hungary, with its idiosyncratic politics, might not be able to nonetheless make a constructive contribution towards a European Union that is engaged in a process of change and renewal.

Hungarians' History, Language and Mentality

Many observers in Western Europe find Hungary's culture of remembrance, which they feel to be over-dimensioned, its robust anti-communism, which is a legacy of the experience with dictatorship, and the general status enjoyed by history in public life in Hungary to be disconcerting. That said, public and political debate in other countries in Central and Eastern Europe is characterized by a living image of history, by a strong national identity, and by a narrative on the role of the state, citizens and the nation which has become indispensable. A *sine qua non* of being able to shape Europe together is therefore to accept this framework, as it arises from historical circumstances, and to get under the skin of the country and its population in its entire spectrum. It is not only the naked facts that play a role here, but also attitudes, sensitivities, mentalities, modes of conduct, and recurring action patterns. This is the only way in which understanding and communication can be promoted. Policy-makers in particular need to be able to appreciate this fundamental societal understanding in their day-to-day work, to respect it and to implement it in a measured fashion in their systems of political leadership, decision-making and communication. The foreign observer therefore absolutely must be aware of these factors, must understand them and, using such stepping stones, must evaluate the country, its people and its politics. The different historical experiences, the different discussions, the diverging political culture, a different language, communication which is not always easy to follow, and Hungarians' "popular soul," of which Western European observers are often almost entirely ignorant, make this process more difficult. Gaining an understanding of these circumstances demands constant attentiveness, as well as a willingness to immerse oneself in the country.

The Land of the Ten Million Freedom Fighters

A well-known Hungarian politician is said to have remarked that it was very difficult to govern Hungary because the country had ten

million freedom fighters. This description characterizes a fundamental feature of Hungarians, namely a constant struggle and rebellion against threats which frequently came from outside. Deeply rooted in the country's history, people learned that they were often left to their own devices. The thing under Communism was ultimately to use cunning and skill to outsmart the authorities, and to cheat on others. This background also helps us to understand aversions, and in some instances loudly-voiced reservations, against "decisions from above" or "decisions from outside." This also goes some way towards explaining why measures from the EU are looked at first and foremost through a lens of sovereignty and freedom fighting, and the conclusion is almost always jumped to that the other side is pursuing devious aims, and has an ulterior, malign motive. This attitude has become pervasive, given that Hungarians' daily lives consist of a defensive reflex against anything that might endanger this freedom: an inconvenient tax, an unpleasant duty, a rule that is regarded as nonsensical. But beyond these small-scale struggles for freedom there is a world that Hungarians are willing to defend. A threat from outside is immediately recognized and repelled because of historical influences, a reflex which many in Europe have perhaps already lost. Hungarians are marked by a seismographic sixth sense for daily changes in the world. Their historical experience has taught them to always recognize the dangers early, and to choose the right time to take action in order to defend themselves against them.

Hungarian Refugee Policy: A Bone of Contention Between East and West

Virtually no other topic has defined the debate in Europe in the past decade as international refugee and migration movements. The heightened interest in the electoral campaign for the European Parliament, and the rise in voter turnout, indicate that EU citizens have at least partly discovered a common public awareness, and to some degree also a united public, in this regard. Even enthusiastic proponents of the concept of European unification could presumably not have imagined that this process would be fuelled by such a contentious issue as refugee and migration policy. As recently as early 2015, political commentators would hardly have thought it possible for Hungarian Prime Minister Viktor Orbán in particular to play a central role in these debates, and

that he would even be elevated to the “antagonist” of Angela Merkel at the height of the refugee crisis.

Not only the gathering developments of 2015 were decisive for the formation of Hungarian migration policy, but also large numbers of other factors, most of which had deep historical roots. Foreign rule, invasion and occupation brought major suffering, and were recurring experiences of Hungarian history. After the Mongol invasion, followed by 150 years of Ottoman occupation, it was the House of Habsburg which both liberated and simultaneously assimilated the country. Hungary had previously been divided into three, with the Turks in the middle (Budapest’s villa district hosts the uphill winding Törökvész utca or “Turkish Downfall Street,” only one kilometer away from the restored tomb of Gül Baba, which Viktor Orbán and Recep Tayyip Erdoğan reopened in October 2018, this being no contradiction whatsoever to Hungarians who know their history), Habsburgs in the North West, and the autonomous Principality of Transylvania in the East. Separated from Europe, a very special kind of Hungarian spirit developed in Transylvania, where Calvinism and identity formation were decisive. The focus here was on defending the security of Hungarian statehood as a holy grail against interlopers and evil-doers, against foreigners and strangers, against absolute monarchs and rich foreigners: “*Cum Deo pro Patria et Libertate*” was the motto of the Transylvanian freedom movements. The role played by the Reformation cannot be overstated in this context. It therefore also comes as no surprise that the Reformed Church of Hungary, which is only medium-sized in terms of its membership (accounting for roughly 20% of the country’s faithful) continues to play such a significant role in politics and in public life down to the present day and reaching into government circles. After the traumatic experiences of the 20th century, with the mass-murdering Nazi ideology and the catastrophe of the Second World War, followed by decades of tyranny under the Communist regime—secured by the “Red Army temporarily stationed in Hungary”—the long-awaited Hungarian dream of freedom, national identity and self-determination was finally realized.

Against the background of historical experience, Hungarians therefore react in their own way to the challenges of the “modern migration of the peoples.” The defensive strategy that was adopted by the political leadership on the issue of migration meets with broad acceptance

across the political spectrum in Hungary. One aspect which amplifies this trend is the view taken by many Hungarians that the European Union constitutes a new “Giant Empire,” with its capital in Brussels. Many Hungarians find themselves unable to accept the fact that sharing sovereignty at European level ultimately leaves it up to bureaucrats in Brussels to decide with whom the country’s population is to share space. The Hungarian government has repeatedly stressed that it accepts the national migration policy of any EU member state. In reaction to the immigration experience of the Western European countries above all, the governing coalition however decided to implement its own migration policy. The Hungarian argument is that this should in turn be accepted by the other EU states.

Not only German-Hungarian relations hit rock bottom in 2015; so did those between Hungary and the European Union. Hungary’s political leadership involuntarily set itself up as a counterpoint to the “welcome culture” in Germany, or was pushed into such a position. By shoring up the external Schengen border, Hungarians proved that it was possible to carry out the duty to protect national borders which classically emerged from the state’s definition of sovereignty. No one in Hungary anticipated the societal and political dynamic that led to a “welcome culture” in Germany in the late summer of 2015. After this hiatus that was reached in the reception of refugees, the German government however rediscovered an approach which was also acceptable to other European countries—a refugee agreement with Turkey, a ceiling for refugees, “2015 must not happen again,” and the like. The reception and above all the distribution of refugees and migrants however remains a difficult question for the EU, to which it has not yet been possible to find a generally accepted answer.

Being in the right and obtaining justice are two entirely different things. This is a concept which Hungarians too have come to understand in the interim period. Other countries have pursued Hungary’s strict border policies and its rigid rejection of illegal migration; this appears to have been merely communicated differently. Already as Foreign Minister, Austrian Federal Chancellor Sebastian Kurz was consistent in his attempts to close the Balkans route, and yet it was not he but Hungarian Prime Minister Viktor Orbán who bore the brunt of massive attacks by the proponents of porous external EU borders. The Hungarian government became increasingly aware of this fact. It took

on the role, stepped up the rhetoric even further, and declared itself to be as a captain defending the outer castles of a Fortress Europe, the guardian of Europe, or indeed the guarantor of the Judeo-Christian world order. As a consequence of the migration crisis, polarization in Europe became worse, as did in particular the contradiction between East and West. The discussion has focussed since then on the hypothesis of Krastev/Holmes that the “light has failed.” It appears that the political radiance of the West has faded considerably, and that the countries in Central and Eastern Europe are orientating themselves more closely towards their own traditions, beliefs and national identities.

The Joint Narrative of Central and Eastern Europe

People in the countries of Central and Eastern Europe have very similar attitudes towards history, culture and politics, as well as in terms of their rejection of mass immigration. They want to live the way they have lived up to now, and to develop their societies on this foundation. They accept the types of society as they exist in the old EU member states, but for their part they are asking the European club to show greater respect for and to acknowledge their ideas. Many felt that it was akin to a change in the European foundation for business when the mandatory distribution of refugees was adopted in the European Union with a qualified majority in the autumn of 2015. It is a truism that the European Union has developed further since the major round of enlargement took place in 2004. Many Central and Eastern Europeans are however increasingly wondering whether they are still able to live their lives autonomously and in a self-determined manner in their countries, or whether the institutions in Brussels have largely taken this over. Against this background, the question of self-respect has increasingly arisen in Poland, the Czech Republic, Slovenia, Hungary and Slovakia. The desire to reflect more on one’s own strengths has continually increased. People in these countries are realizing with dismay that efforts to gain self-determination in Europe are not to be taken for granted, given that no one would for instance doubt that it is Germans, and no one else, who should decide how life is to be lived in Germany. The “new” EU member states can still hear the echo of the words of French President Chirac that these countries had “missed a great opportunity to shut up.” Bringing Europe back together here,

creating trust, and shaping “politics on an equal footing,” will be just as much of a challenge for the 2020s as is also finding the right balance between East and West, North and South, small and large.

As distinctive symbols, the arguments currently being put forward in politics in Hungary are at times a lonely voice in the desert, and encounter indignation and mistrust among many in Europe. But these political decisions are largely based on simple, fundamental convictions borne by the will of the majority: Not more immigration, but less. Not fewer children, but more. Not a ban on detached houses, but support for home ownership. Not a welfare state, but a society built on work. Not high taxes, but low ones. Not redistribution, but investment in growing prosperity. Not marriage for all, but marriage for men with women. Many of these goals are also shared by citizens in other countries within the region. That this kind of policy meets with rejection in the Europe of today in many cases also stems from the fact that these topics hit the nail on the head in many countries with regard to the ongoing discussion on the future orientation of society.

Hungary and Visegrád

The Visegrád Group, which was founded on February 15, 1991 by what at that time were still only three countries, consists today of the four countries Poland, Hungary, the Czech Republic and Slovakia. Its historical forerunners can be found in the treaty concluded between three kings in the Hungarian town of the same name in the autumn of 1335. At that time, the three Kings of Poland, Hungary and Bohemia agreed to expand their trade and military relations, and to also take joint political action. The Group which was rekindled 30 years ago initially pursued the goal of supporting one another on the path to Euroatlantic structures. After successful integration, the project was at risk of going adrift in terms of its content. But then things changed. The massive upheavals of 2015 showed once more how important it is for the countries in Central and Eastern Europe to speak with one voice. In political terms, they are united by a common language—beyond party politics, given that they have had governments of different party-political colours since the late autumn of 2015. With a consistent policy particularly with regard to migration and the conservation of the continent’s Christian values, they are playing an ever-growing role in

the polyphonic European concert. They have become a power factor, not only politically, but also economically.

The V4 currently understand themselves to be a dynamic region in Europe. As early as 2015, the volume of their trade with Germany was 50% greater than that of Germany with France. This figure had increased to as much as 70% by 2019. They reject state debt policy, and have learned from their historical experience that they cannot spend more than they earn.

They are making demands in an increasingly self-confident manner, and hope to become, together with Germany, the driving force of a European Union that is renewing itself. They are in agreement with Germany with their ideas of fiscal and climate policy, of a sustainable, innovative, high-performance economy and rapid digitalization, as well as with the expansion of military capacities, including in the European alliance. The V4 have transformed into a region willing and able to stand on its own two feet, and able to courageously make a contribution for Europe. “The unity of multitude and multitude in unity. This is Europe’s secret,”¹ as Prime Minister Orbán stated in February 2021 on the occasion of the celebrations marking the 30th anniversary of the establishment of the alliance formed by the Visegrád countries. He called for strong nation-states with political decision-makers who had the courage to also address uncomfortable issues. Recognizing the potential of the V4, and putting this to greater use in order to shape the future of the continent, is one of the major challenges of German policy on Europe moving forward from the 2021 Bundestag elections.

Europe Today

This chapter was not intended to make clear the subtle ramifications of Hungarian policy on Europe, or to subject individual specialist EU policies to criticism or to an assessment. Rather, it aims to show a perspective of Europe not sufficiently well known in Germany today. Hungary has its roots and its long-established place in Europe. It very much pains Hungarians that Western critics repeatedly place this in question. The orientational decision to cast this country’s anchor in Europe was taken for Hungary by Saint Stephen more than one thousand years ago. This decision remains the guiding line for Hungarian

policy on Europe. The Hungarian Government continues to aspire to a “Europe of Fatherlands,” and the vast majority of Hungarians want to remain in the European Union. They want democracy, rule of law, prosperity, and security based on a pluralist value system. It is above all the nuances which make the difference in Europe. It is tolerance of and respect for these differences, expressing different opinions in an open, controversial debate with courage and a brave spirit, and facing up to the urgent questions of the future, that should mark Europe in the 2020s.

The Hungarian Prime Minister said several years ago: “We believed that Europe was our future; today we feel that we are the future of Europe.”² In this sense, Europe should be re-thought from a living center and reinvigorated. Hungarians are ready for this.

Notes

1. Viktor Orbán, “To answer our calling -- on the V4’s thirtieth birthday,” February 17, 2021, <https://rmx.news/article/to-answer-our-calling-on-the-v4s-thirtieth-birthday/>.

2. “Full speech of V. Orbán: Will Europe belong to Europeans?” *Visegrad Post*, July 24, 2017, <https://visegradpost.com/en/2017/07/24/full-speech-of-v-orban-will-europe-belong-to-europeans/>

Chapter 6

A New Accord Among the Member States, the European Union, and Its Citizens

Gianni Bonvicini and Paolo Magagnotti

Optimists regard every serious crisis confronting the European Union as an opportunity to deepen the “political” integration of our still incomplete Union. This was the case during the serious crisis of the euro and the financial crisis in 2008 to 2012, and with the migration crisis in 2015. We also find such descriptions now during the pandemic.

These proponents of European integration believe in the theory of a “great leap forward” towards “economic governance,” as Carlo Azeglio Ciampi¹ put it in the mid-1990s. He realized back when the euro was introduced that a common currency was not sufficient by itself to guarantee monetary and fiscal stability. Only a common fiscal policy is able to cushion shocks triggered by financial crises. In other words, what is needed is an independent European government equipped with competences in the economy, investment and taxation.

In 2012 too, it was considered sufficient to call a disorderly bundle of measures into life in the shape of the European Stability Mechanism, which is the subject of dispute today, or the European Fiscal Compact. We have, however, still not achieved a joint economic government. Only the logical decision of ECB President Mario Draghi protected us in the ensuing years from the potentially disastrous consequences of the euro crisis. He flooded the markets with liquidity and kept the base rate low. It is, however, probably evident that the continuation of these measures by his successor Christine Lagarde will not do enough to counter today’s much more serious crisis. People in some EU states are asking what the long-term consequences of this strategy will be. The impact has proven to be positive so far. Interested states are concerned to develop an effective economic policy in order to prove that the measure will have durable clout. A European economic government would nonetheless very probably also anticipate the ECB’s maneuver.

Is this not the right time to recommence deliberations on a European “economic government”? The logical answer is “yes.” Most member states, however, remain unconvinced, or they do not have an appropriate long-term vision. They currently seem to consider it too risky to take the step towards an economic government. Each state would like to set its economic and fiscal policy itself, and to meet the expectations of its own taxpayers and voters. This view is, however, too much directed towards the states, and in this regard towards the next elections, and gives too little thought to Europe and the next generations.

A central European government would be able to act directly and in a targeted way in the interest of the whole Union, and this would also enable the interests of the member states to be better realized. The COVID-19 pandemic has laid bare the difficulties that had already arisen during the financial crisis in 2008. Better coordination of economic policy within the European Union could have mitigated the consequences of the crisis, and would have been able to limit or even prevent the violation of the Stability and Growth Pact.

A joint European economic government would also be able to counter the centrifugal forces within the Union more effectively. Particular problems for the integrity of the Union are caused by the formation of communities of interest such as the Mediterranean countries, the Visegrád states, or more recently the frugal countries.

A central European government would also be able to recognize situations of structural economic weakness. It could examine whether the cause lies outside the country, or whether the reasons lie rather in a lack of willingness to reform, inefficient administration, or even misuse of public funds. Were these shortcomings to occur, such a European government would have to rethink the solidarity of the other member states vis-à-vis those who only seek help.

The Program of the New Commission

It was already evident at the end of 2019 that there was a need to rekindle the European integration process. The new President of the European Commission, Ursula von der Leyen, has made this the key component of her five-year period of office. It remains to be hoped that the good intentions will actually become reality. The President

of the Commission reaffirmed these plans in her first speech on the state of the Union since COVID-19. It therefore comes as no surprise that the “Book of Dreams” from Brussels is highly ambitious and forward-looking.

The bundle of measures that has been put together by Ursula von der Leyen offers considerable diversity: from more pronounced action on the part of the EU in international affairs—a geopolitical Union—through to acting as a role model in climate protection up to 2050. Human rights protection, advocacy of European values, the fight against inequality, digitalization, and a common defence policy, are also not missing.

As a result of the COVID crisis, health and social policy are also gaining in significance, as unemployment figures in Europe are going up. It is therefore gratifying to note that the concerns of the European public are also finally being taken seriously by EU bodies. The thoughts and proposals of the Commission President prove that she is concerned about the increasing level of worldwide interdependence. This is all the more significant given that shrinking governability in Europe contrasts starkly with this growing interdependence between nations.

The Conference on the Future of Europe

Given that most similar proposals were not implemented in the past, von der Leyen has proposed, full of determination, a Conference on the Future of Europe, aiming to name not only the political priorities, but also the requirements to the institutions making such a program plausible and implementable. The President immediately received support in early 2020 from the tried-and-tested Franco-German tandem, which submitted a two-page document containing proposals for implementation and the schedule for the Conference.

It feels like 2002, when the then 15 members of the EU drew up a Treaty establishing a Constitution for Europe in order to agree on new rules for a European government. The story is well known: After the Treaty had been solemnly signed in Rome on October 29, two referenda in France and the Netherlands rejected the proposal that was intended to form a new foundation for our coexistence.

That said, the EU appeared to be at the peak of its success at that time. This period remained characterized by strong economic growth—the crisis was not to strike it until 2008; the period shortly before that had seen the courageous experiment of a common currency being launched, and the greatest enlargement of the EU to date took place in 2004 when ten new states, largely from Eastern Europe, joined the core of the Union.

But public opinion, also in founding states such as France and the Netherlands, shrank back from taking the great leap forward that was proposed in the Treaty that had been inspired by Giscard d'Estaing. The danger unfortunately persists today, in the midst of the corona pandemic, that the Conference on the Future of Europe will falter. This can only be prevented if individual, willing countries take decisive steps forward. A door should be kept open for hesitant countries in order to give them time to advance to the European vanguard once more.

Such a decision, however, predicates a willingness to assume a leadership role in this difficult, highly risky endeavor. Germany and France appear to be predestined to do so, but the weakness of President Emmanuel Macron on the domestic stage, and the ending of Angela Merkel's tenure as Chancellor, cast doubt on this scenario.

Italy should also decisively join the Franco-German couple. Other willing parties are doubtful. There is, however, no alternative. The EU has been standing still for too many years, paralyzed by an obsolete, inefficient system of management.

The Multiple Crises of the European Union

Today's conditions for making the European Union more effective are much more difficult than in the times of the European Convention. The Union is confronted not only with the corona crisis, but also with the departure of an important member, namely the United Kingdom. A disorderly Brexit with serious consequences for trade relations with the EU cannot be ruled out at present. The economic crisis has become much worse, especially in some Southern European countries such as Italy. The COVID waves have unfortunately made the situation worse still.

This will be the real “test case” of European governments’ plans for a common policy. A fresh debate will be needed on the institutional side, similar to the Treaty in 2002, as to whether to introduce a qualified majority with all ballots and in all institutions. This proposal was rejected at that time, and it was also not taken up once again in the Treaty of Lisbon. The financial crisis of 2008 then considerably enhanced the role of the European Council in *de facto* terms. Constructive abstention, an artificial term that had been put to copious use prior to that time, was replaced by obligatory unanimity, not only with regard to decisions that were of considerable strategic significance, but also relating to secondary details.

The insistence on the principle of unanimity in the European Council is leading the European integration process into a dead end, and creates an uncertain future for millions of Europeans. There is a need for decisiveness to take decisions within a suitable window of time so that the course of history does not hand down judgments that do not permit of any subsequent appeals. The Treaties need to be amended so that the EU has agile institutions which can act preventively and do not always need to run for cover in the face of a *fait accompli*.

It would perhaps also be possible without a major amendment of the Treaties to bring a certain vigor into the acts of the Union within a specific framework: A provision could be added to the Treaties replacing the unanimity requirement for all ballots with a call for a qualified majority: a kind of reverse “Luxembourg compromise.”

Foregoing unanimity should also apply to the ratification of the European Treaties. Article 48 of the Treaty on European Union reads as follows: “The amendments shall enter into force after being ratified by all the Member States in accordance with their respective constitutional requirements.”² Should this goal not be achieved, Altiero Spinelli’s draft treaty establishing the European Union might serve as an alternative. According to his draft, which was accepted by the European Parliament on February 14, 1984, an amendment to the treaty was to enter into force if it was ratified by a qualified majority of the member states. Other states were to have the opportunity to agree to the amended treaty at a later date.

A Major Opportunity: NextGenerationEU

The Conference on the Future of Europe, which was opened on Europe Day 2021, has unfortunately almost disappeared from the agenda of the debate among policy-makers and journalists. Only the specialist press is following its slow, difficult development. The pandemic is dominating the debate. The Conference has, however, not been completely forgotten: It can also be recognized in the name of the Fund that was chosen by the Commission and its supporters: NextGenerationEU. The focus in the draft of the Conference on the Future of Europe is also reflected in the NextGenerationEU Fund. One might mention digitalization, environmental protection, artificial intelligence and infrastructure. If our interpretation is right, there is still hope that the Conference can somehow be reanimated and the Commission's program supported. In other words, the very joining of the Conference and the recovery fund could lead to new positive results for the EU, at both political and institutional levels.

We all know what a difficult birth the compromise reached between heads of state and government on taking up joint debt was to make an aid package to the tune of €750 billion available for the NextGenerationEU program in the time after COVID-19. True, the European Council did manage to adopt the program, but a great degree of skepticism remains in some member states when it comes to consenting to the permanent communitization of debt.

The beneficiaries of the billions of euros in the aid program will have to show how they use the funds. This will determine whether or not the communitization of debt can be continued within the Union. If the aid granted is used sensibly, regardless of whether as a non-repayable subsidy or as a loan, and if it leads to social and economic progress benefiting the EU as a whole, then one might well presume that this measure can be continued. The program is currently planned to end in 2023 if the funds are not spent in an expedient manner.

The European Union must definitely require the beneficiary states to use the funds provided to them according to jointly-agreed criteria, and it must subject the use of the funds to rigorous supervision. Any misuse of the monies must be strictly punished. A *sine qua non* for the disbursement of the aid must be compliance with rule-of-law princi-

ples, values and rules which form the bedrock of the European project. The recovery fund is therefore an important test for the functioning of economic governance.

The Link Between the Recovery Fund and the Conference on the Future of Europe

Let's hope that the development of the recovery fund can invigorate the Conference. The connection between the two initiatives is closer than it might appear at first sight. The NextGenerationEU plan contains specific elements which may lend substance to the Conference: the issuance by the Commission of joint bonds on the international finance market; the outlook for repayment funded by European taxes, that is by *de facto* EU funds; and the confirmation that a qualified majority is sufficient in ballots on the implementation of the measures of the Funds as a rule, which can only be cancelled by an "emergency brake."

All these initiatives require better governance than is possible at present if they are to be implemented. It comes as no surprise that the greatest conflicts within the European Council relate to the question of the qualified majority in the Council of Ministers, when the debate was ongoing on funding national measures via the Joint Fund.

An "emergency brake" was built in out of consideration for the sovereigntists, who were rejecting a majority ballot. This can block the disbursement of the funds, and have the plans revised at national level. This speaks volumes with regard to the difficulties facing EU institutions if they need to respond to challenges quickly and effectively.

True, the "emergency brake," which is a delaying veto, is not new: It is possible to refer to the European Council for an assessment of the state of the respective programs. This, however, contradicts the need for the Fund to be managed by the European Commission and the European Parliament, as provided by the Community's classic rules.

If one takes a look at the significance of the European Council, which has been growing exponentially and irrevocably since the Treaty of Lisbon, it becomes evident that a Union consisting of 27 members cannot react efficiently to the problems of the present age. The recov-

ery fund is not the only example. All this permits one to hope that the Community's integration process can make further progress. If these approaches are intentionally included in the Conference as it continues, they may indeed lead to a new start, which appears to be more necessary than ever after this phase of uncertainty.

This proves the significance of the Conference on the Future of Europe: The institutional channels for decision-making in the Union have to be adapted to the times. The very question of a partial revision of the Treaty of Lisbon has unfortunately led to the first differences of opinion regarding the Conference.

Even before the Conference was officially opened, the ambassadors of the 27 stated that no amendments to the Treaties would be needed since the existing rules left sufficient scope to guarantee that the EU is capable of taking decisions. Where this scope is allegedly to be found is a justified question. As long as only one member state is able to cast a delaying veto or an emergency veto, there can hardly be any progress in the EU. One only needs to consider foreign policy, which takes on a core role in the von der Leyen programs: Even decisions taken with a qualified majority can be blocked by a single country and transferred to the European Council, the latter having to decide unanimously within three months whether or not to continue (Article 31 No. 3 TEU). The rules therefore need to be revised more urgently than ever, also so that the Conference does not become less credible. Instead, it will be given valuable support by the experience from the NextGenerationEU program.

The point of view represented by the 27 ambassadors should not therefore be overvalued. Such bodies frequently attempt to avoid obstacles. And diplomacy sometimes has a characteristic which has come to the attention of the far-sighted Austrian Foreign Secretary Alois Mock: It may act more to curb progress than to accelerate it.

In order not to remain caught up in the logic of the ambassadors and the sovereigntist governments, the Conference on the Future of Europe must do effective public relations work. It must involve the administrative levels of the Union, from the joint institutions through to the territorial authorities and the representatives of civil society, in its own future bodies—so to speak a mobilization of future generations.

The Goal: Efficient Leadership of the Union

Citizens' growing mistrust vis-à-vis European institutions is further amplified by a feeling of uncertainty which has crept in as part of the health emergency and mis- and disinformation in European social networks. There is a danger that such mistrust could lead to a system crisis. Euro-skeptical and nationalist forces could become more popular. There are unfortunately not insignificant segments of the fans of "social networking" for whom fake news is "food" to shore up their convictions against European unity—a dangerous situation. One might see other states leaving the Union after the United Kingdom. The overall outcome might shake the foundations of the Union and question the ability of European institutions to ensure that citizens partake of the benefits that ensue from the Union and to guarantee unity in diversity. Such unity in diversity can be guaranteed if a differentiation among member states is anchored in joint rules.

"Unity in diversity" is a matter of course; it is the core structure of the European project, and destroying it would create a minefield around the stability of the European Union. Nonetheless, after a group of states has decided to join together and to act in a Union on the basis of principles, values and rules, they must presume that it is not possible to always only have joint rules at European level that mirror the separate national ones. Adjustments may need to be made to EU rules without breaching national construction codes. Member states need to be convinced that the common good created by the EU is a "service value" which also benefits their peoples. It is already possible to list large numbers of appropriate examples. It would otherwise make no sense for them to remain in the Union. Furthermore, as the world-renowned social scientist Oswald von Nell-Breuning repeatedly emphasized, the principle of tying and identification between the individual and the Community applies in a Union.

We ourselves need to become convinced, as well as convincing others, that the European integration process needs to advance, and that the Union needs joint "governance" and an efficient leadership. Anyone who would prefer to withdraw into their sensitive national shell in view of epochal crises should remain at the side of the road, but should be enabled to revise their decision at a later time.

Regaining Citizens' Trust

The Conference on the Future of Europe is now open and everyone can participate. Unfortunately, media are not very instrumental in promoting it. We can only hope that the manifest connection to the NextGenerationEU plan provides good reasons not to place such an important Conference on the backburner, or to undermine its significance. The EU needs the Conference in order to be credible in the eyes of its citizens. Too many citizens place no trust, or hardly any trust, in the EU in its current form. They are skeptical or indifferent towards it. They see it as a structure hovering high in the air, but having little to do with the reality of people's lives.

In addition to this, many of those who have benefited from European programs, such as from the generous structural funds, do not appreciate the Union, and do not feel that they belong to it. There is a need for a Europe that arouses citizens' passion, as it did back in the days of the first European Communities. What we therefore need is a Europe with a heart. We need a Europe that kindles enthusiasm, that awakens citizens' hope and trust, and that gives them the feeling that they are receiving attention. The expression the "people's Europe" was coined back in the 1970s. This name was increasingly used in the ensuing decades as a contrast or addendum to the "Europe of merchants," in reference to the common internal market.

The European Council of Fontainebleau, which met June 25-26, 1984, considered it to be essential "that the Community should respond to the expectations of the people of Europe by adopting measures to strengthen and promote its identity and its image both for its citizens and for the rest of the world."³ It therefore devoted a separate paragraph in its conclusions to a "people's Europe," and resolved to set up an ad hoc committee. This committee was later to become known as the "Adonnino Committee," named after its chairman.

The Treaty establishing a "Constitution for Europe" failed in 2005. In the following year, the European Parliament and the Council approved the Commission's proposal to carry out the "Europe for Citizens" program in the period from 2007 to 2013 in order to promote the active participation of the people of Europe. The Council approved the proposal put forward by the Commission on April 14, 2014 to also

include the ‘Europe for Citizens’ program in the budget plan for 2014–2020 in a slightly modified form. This was brought about by the positive result of an interim assessment of the ‘Europe for Citizens’ program from 2010. The goal pursued in this continuation, among other things, was “to raise awareness of remembrance, the common history and values of the Union ... [and] to encourage the democratic and civic participation of citizens at Union level, by developing citizens’ understanding of the Union policy making-process.”⁴

In April 2018, the European Commission presented a report on the interim evaluation of the ‘Europe for Citizens’ program from the period 2014–2020. The outlook at the end of the report states: “While most EU funding programmes directly relate to specific EU policies, the Europe for Citizens programme fills a gap by addressing the Commission’s overall objective of bringing citizens closer to the EU. By working directly with citizens, the programme provides a unique forum through which to involve people in the EU via a grassroots approach. The programme has demonstrated its added value at EU level both in its impact on participants and its role as a complement to other EU funding instruments and policy initiatives.”⁵

The general view held in civil society and among the population, however, appears not to share the Commission’s optimistic evaluation. Opinion polls are always prone to statistical errors, but the alienation between the Union and the people has obviously not been remedied.

The ‘Europe for Citizens’ program is also drawing to an end; a proposal for a European Commission regulation on the interim evaluation of the implementation of the 2014 ‘Europe for Citizens’ program, published on May 30, 2018, provides for it to be replaced by other measures for greater participation on the part of citizens. The European Parliament is still debating the regulation. It is said that only a small number of programs are being discussed at this point as being particularly significant, able to involve citizens in the process of European unification, and enabling citizens’ voices to be heard. There have, however, also been other initiatives over time and down to the present day.

If, however, citizens’ mistrust vis-à-vis the European Union takes on the dimensions that are revealed today—the “democratic deficit” changes nothing in this regard—then we must presume that the initiatives that have been taken to date have not been sufficient, that they

have only briefly flared up, or that good intentions have been implemented to an inadequate degree. These are questions which require serious consideration. The utmost effort needs to be engaged in so that the worthwhile future programs and projects created so far by the European Union and—at least in the view of the authors among several policy-makers—are also not foiled, given that they have brought us peace and better living conditions.

In order to change course, there is a need to really reactivate the prospects for European integration. Even the best conceivable institutional architecture would not be able to prevent alienation which could destabilize the process of European integration if citizens did not regard themselves as forming a part of it. Considerable numbers of doubters would slow down and question its progress. There is a need for a passionate, tenacious commitment, so that the words “Europe of/for citizens” does not remain a “Europe without citizens.” We need an enhanced, effective communication strategy. “Information is a precondition for participation.”: it is a kind of construction code for democracy which should be lifted to become a dogma. This is now primarily a task for policy-makers who are to prepare and adopt provisions that are useful to citizens.

The member states bear, at national level, the prime responsibility for disseminating correct information on the ability of European institutions to act and their decisions. They are to let their citizens know what an organization of which they are “shareholders” is doing, the profits of which are to be divided up for the good of its citizens.

A major responsibility certainly also attaches to the media, who are to provide prompt and mostly complete and generally comprehensible information. Unfortunately, it isn’t often the case.

Without a courageous change of course in many respects, the EU is at risk of becoming like a highly-advanced aircraft, which, however, only the pilots find interesting. Citizens do not even cast their gaze up to the skies when the plane flies by, but remain in their seats, and just keep on drinking their national brew. It is, however, citizens’ participation that fuels the plane. Once this fuel starts running low, the plane can crash. We must do our utmost to set the stage for Europeans, and young generations in particular, to feel safe when flying in the plane that is Europe, up on high in a stormy world.

Notes

1. Governor of the Bank of Italy (1979-1993), Chairman of the Committee of Governors of Central Banks in the European Economic Community and of the European Monetary Cooperation Fund (1982 and 1987), President of the Italian Council of Ministers (1993-1994), Minister of the Treasury, Budget and Economic Programming (1996-1999). As Minister of the Treasury and Budget Minister in the Prodi and D'Alema Governments, Ciampi made a major contribution towards achieving the goals of the Treaty, as well as towards the introduction of a common European currency. President of the Italian Republic (1999-2006).

2. Art. 48(4) subparagraph 2 of the TEU.

3. European Council Meeting at Fontainebleau, Conclusions of the Presidency, (https://www.consilium.europa.eu/media/20673/1984_june_-_fontainebleau_eng_.pdf, September 2021).

4. Art. 2 of the Council Regulation (EU) No 390/2014 of April 4, 2014 establishing the 'Europe for Citizens' programme for the period 2014-2020, OJ L 115, 17.4.2014, p. 3.

5. Report from the Commission on the mid-term evaluation of the implementation of the Europe for Citizens programme 2014-2020 of April 6, 2018, COM(2018) 170, p. 11.

Chapter 7

EU—Europe's Europe

Matthias Földeak

Were there to be any need for proof of the scope of the ambitions connected with the European Union at the inception of this very Union, we need only take a look at the Robert Schuman Declaration:

“World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it. The contribution which an organized and living Europe can bring to civilization is indispensable to the maintenance of peaceful relations. [...] The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany.”¹

The European Union has achieved remarkable successes on the path Robert Schuman mapped out with these words, and for which it was awarded a Nobel Peace Prize in 2012. The Union's then European Council President Herman Van Rompuy affirmed the task of the EU in the acceptance speech that he gave on behalf of the Union as follows:

“At a time of uncertainty, this day reminds people across Europe and the world of the Union's fundamental purpose: to further the fraternity between European nations, now and in the future.”²

It is therefore the essential mission of this Union to continue to work untiringly to carry out this noble task which is inherent to the Union, because it is not *a* European union, but *the* European Union. Its actions must be aligned to this main purpose, which is not to be placed in question, and the consequences of its actions must be measured by the yardstick of this noble objective.

Extraordinary significance attaches to Brexit in this regard. Brexit raises the question of whether the mission with which the states of Europe entrusted the Union that they created should not be regarded as having been placed at acute risk if a political and economic heavyweight such as the United Kingdom removes itself from this very Union.

There is no disputing the right of any member state to withdraw from the Union, in accord with the valid Treaties. Things never should have reached this juncture in practice, however, given the goals of this Union. A member actually leaving runs fundamentally counter to the purpose for which the Union was founded. “Fraternity” can in the final analysis hardly be brought about if the nation-states no longer wish to sit together as main players at the same table.

The need for the Union and its remaining members to engage in a critical examination of the events therefore appears indispensable against such a background. If a majority of the citizens of a European country decide that their country is no longer to belong to an alliance the main *raison d’être* of which resides in maintaining and strengthening this very alliance, then it is high time to now fundamentally question the manner in which the European integration project is being engaged in, and how it is to be engaged in in the future. If not now, then when?

It is questionable whether the Conference on the Future of Europe that the Union launched in May 2021 may be interpreted as a sign of a re-thinking process in this regard, notwithstanding the fact that the greater inclusion of citizens in the European project to which it aspires undoubtedly sends out a positive signal. Given not insignificant stipulations as to content, one may however hardly anticipate an open-ended dialogue that can facilitate a critical, fundamental debate on the European project.

One major insight is however certain today without any need for a Conference, namely that the EU has become disconnected from its citizens in many ways, or indeed never became connected in the first place. However, if such a bond is not created and/or maintained, the European project is at risk of failure, at least in its present form. This amalgam of moods that is so dangerous in its destructiveness, which tipped the scales in the Brexit referendum, is no isolated case related to the United Kingdom. Moreover, this is reflected in the success achieved by similarly-minded political parties in different manifestations in virtually all member states of the Union. The past 30 years have had their share of alarming signs, starting with the rejection of the Treaty of Maastricht in Denmark, through to the low point in the history of European integration so far, when the United Kingdom left.

This referendum, too, must ultimately be regarded as a kind of Conference on the Future of Europe. The recommendation with which Peter Sloterdijk then encouraged the Union to simply get on with business as usual regardless of this vote, along the lines of “The journey is the destination” looks like a recipe for the self-destruction of the Union.³ Brexit in particular demonstrates that there can be no reasonable doubt, that, as Graf Kielmansegg put it in 2016, Europe “has no future as a luxury of enlightened political elites, who at least regard themselves as enlightened,”⁴ or at least that it has no sustainable future.

I will hence attempt below to put forward potential solutions for the Union, in a quest for a new outlook for European efforts towards integration in accord with and taking account of its original mission.

On the Architecture of the Construction of Europe

There have been quite different ideas and discussions as the history of European integration has unfolded regarding how the construction of Europe is to be achieved, and above all of how big it is to be, depending on the perspectives adopted. Konrad Adenauer opined in 1961 that the goal was for “Europe one day to be a great home for all Europeans, a home of freedom.”⁵

30 years after the fall of the Iron Curtain, we are still a long way from this home. If, for instance, we look back on the past decade from this point of view, the balance sheet is a disappointing one. Not a single one of the EU's accession states standing in line has been admitted to the Union since 2012.⁶ At the same time, Iceland officially withdrew its accession application in this period, the United Kingdom's withdrawal meant a member state leaving the Union, and a non-member, namely Switzerland, unilaterally discontinued negotiations on a framework agreement with the Union after seven years.

The Union in its present form thus not only does not cover all of Europe, Brexit has even made it smaller, and it has sacrificed significance as a player on the global political stage. The extent to which this is the case is made clear for instance by the fact that France is now the only remaining EU member with a permanent seat on the UN Security Council. It is virtually impossible at present to forecast the extent of the damage that this will do to Europe. The periodically-escalating

dispute about reduced vaccine deliveries to the Union from the British-Swedish AstraZeneca company in the spring of 2020, and the still unresolved future of the Northern Ireland Protocol that was negotiated as part of the Brexit deal, certainly give us a foretaste of the depths to which the level is falling in the discussions between partners, the political climate is becoming poisoned, and wounds once thought to have been healed may be re-opened. A rekindling of the Irish civil war, which cost more than 3,000 lives between 1969 and 1998 in Northern Ireland alone, where a decisive role was played in the arbitration by the fact that both the United Kingdom and Ireland were members of the EU, can no longer be considered impossible.⁷ Further instability could arise if the United Kingdom were to break apart in the event of a fresh independence referendum in Scotland. The incomplete integration of the continent also serves to permanently weaken Europe with regard to its foreign relations. While the EU is dawdling and dragging its feet, China and Russia in particular, but also the United States, are gaining impact, and are securing future influence for instance by funding significant infrastructure projects. One example here is the expansion of the Silk Route project that China has been doggedly pursuing in the Balkans for years.⁸

One might counter this development simply by dealing with the accession candidates in a more generous manner, as well as by making the accession process considerably more flexible. This would enable the states to choose between different levels of integration. This was also what David Cameron was ultimately trying to achieve in his “wish list” which he wrote to Donald Tusk in November 2015, after announcing the EU referendum: “Our concerns really boil down to one word: flexibility. And it is in this spirit that I set out the four main areas where the United Kingdom is seeking reforms.”⁹

The Union would be well advised, if it considers itself to be a global player, to pursue a longer-term strategy that does justice to the noble intentions enshrined in the Preamble of the EU Treaty. This strategy should aim to implement consistently the mission described above not only by aiming to admit the entire Balkans region, Switzerland, Liechtenstein and Norway, and to re-admit the United Kingdom, but also by aspiring in the longer term to also include Ukraine and Belarus, even if this idea may appear somewhat daring given the ongoing conflict in Ukraine and the tense situation in Belarus. The decisive point here is to

ascertain the ideas underlying the definition of Europe. If for instance one takes the perspective of Austrian politicians, whose concept of Europe has always been more open, based on their inherited familiarity with the territories located to the east of Vienna, the Central Europe that has been reawakened since the fall of the Iron Curtain covers the entire area between Germany and Russia.¹⁰ From this point of view, it appears to be only a matter of course that this Central Europe must be given unambiguous prospects to accede to the EU. The realization that this will only be achievable in close coordination with Russia is one of the bitter experiences of the EU's diplomacy in recent years. There is little hope that the deadlocked situation will change in the near future. This should not however lead to us giving up this vision. One might point out in this context that it was Russian President Gorbachev who spoke in 1990 of the "Common European Home" in which Russia, too, would take its place.

These considerations naturally need to be contrasted with the question of the degree to which, and the manner in which, the accession process could be made more flexible. There already are differently-structured integration formats with non-members which differ in qualitative terms and could just as easily be converted to membership, were this status to be given a somewhat broader definition that allowed for nuances of membership. The power to define what constitutes membership, or what the preconditions for membership are, lies with the EU. Making active use of this power in the abovementioned manner would align with the predefined purpose of the Union, which would hence help the "E" to become stronger than the "U."

Only such a more generous approach would also do justice to the realization that Europe, and indeed not only today's Union, constitutes a shared destiny. Europe will be better equipped to face the future if it tackles it with united forces and in a coordinated manner. Options need to be offered enabling the states of Europe to decide on the degree to which they are able and willing to become integrated into the Union, subject to the proviso of compliance with the defined accession criteria. When establishing these criteria, today's member states should take as an orientation the leitmotiv of seeking what unites them with their European neighbors, and not what divides them. Compromises will also have to be found here, and it is only if they are found that it will be possible to escape from the dead-end streets and from the polarization

to which this inevitably leads, and in which European citizens in the United Kingdom suddenly found themselves: in is in, out is out.¹¹

The citizens of the United Kingdom remain part of Europe, however, and were to be given their permanent place in the Common European Home, clearly recognizable to the outside world, via their membership. The same applies to the other European countries still waiting to be let in. Agreeing on such a formula within the Union, doing justice to this need for a more generous membership structure, but without this very membership at the same time losing its contours and becoming arbitrary, should be one of the priorities of today's Union. The details of the energy balance, the question as to whether to install a solar roof, and what type of heat insulation is to be used, should be subsidiary in cases of doubt since a really sustainable environmental policy will only be successful in Europe if it enjoys the equal support of all those who share in a European destiny. Agreeing on the lowest common denominator would hence be the goal here, regardless of the fact that each of its members would be free to pursue more ambitious objectives over and above the common minimum standard.

How to Deal with Europe's Citizens

More than ten years have passed since Hans Magnus Enzensberger referred to Brussels as a "gentle monster."¹² It appears out of the question that he would choose a more flattering term were he to re-write his book today, given that very little worth mentioning has changed in the political practices of the bodies of the Union.

Hope of a more positive observation is only likely to arise if the Union were to embrace the idea of a "*clever restriction*"¹³ in a comprehensive manner that was clearly comprehensible to its citizens as the leitmotiv for its future actions. In addition to considering the concept of the European legal community, and linked to this strict adherence to the principle of subsidiarity, this also signified a restriction in territorial terms. This would mean tying the Union vis-à-vis its citizens in terms of where its external borders are to run in future. This would be of particular relevance with regard to Turkey, where EU accession is also not likely to win over a majority in the near future. Instead of continuing this sheepish accession process, which has been pursued half-heartedly

for more than 15 years, relations with Turkey, which after all is a member of NATO, should be extensively expanded in terms of a neighborhood policy with a long-term strategic orientation, aligned with the mutual needs and dependencies. As Konrad Liessmann already put it back in 2012: "The EU project lives to a great degree on the pathos of the falling borders, while it is gradually becoming clear at the same time that this project only has a political future if boundaries are created."¹⁴

In order to be optimally prepared for the storms that will rain down on the shared European destiny in the future, the Union should, however, make one especial exception to the restraint which it has imposed on itself in line with the above. Its ambition should apply to developing a strategy that aims to ideally make the creation of a European Agency for the Protection of Democracies, which has been repeatedly proposed by French President Macron¹⁵, completely superfluous. This would require the adoption of a kind of long-term vaccination strategy which would include a massive increase in support for educational and training programs for young people, above all in order to promote linguistic and historical skills, as well as for instance a visionary expansion of cross-border cooperation between the European border regions as the seams at which the Great Europe is sewn together.¹⁶ A European Community thus internally rooted will also give rise to the unity which it needs vis-à-vis the outside in order to enable it to successfully face together the challenges that await it. It is only if the Union and the member states that are responsible for it are willing to engage in constant new creative efforts, as Robert Schuman demanded in his 1950 Declaration, that the European Union will also be able to carry out the mission entrusted to it for the coming generations. A Union where an awareness of the needs and sensitivities of its citizens has been created will be able to count on their support in these efforts, and the longing for a Europe united in peace and freedom will continue to exercise an uninterrupted attraction on them in future.

Notes

1. The Schuman Declaration of May 9, 1950 (https://europa.eu/european-union/about-eu/symbols/europe-day/schuman-declaration_en, September 2021).

2. H. van Rompuy, "From war to peace: a European tale," Speech on the occasion of the acceptance of the Nobel Peace Prize awarded to the European Union on December 10, 2012, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_12_930, September 2021.

3. Peter Sloterdijk, "Europa hat es nicht nötig, populär zu werden" (Europe has no need to become popular), *Handelsblatt*, July 14, 2016.

4. Peter G. Kielmansegg, *Wohin des Wegs, Europa?* Baden-Baden: Nomos, 2015, p. 32.

5. Speech by Konrad Adenauer at the national meeting of Silesians in Germany in Hanover on June 11, 1961, <https://www.konrad-adenauer.de/quellen/zitate/polen-and-osteuroopa>, September 2021.

6. In addition to North Macedonia, Serbia, Montenegro, Albania and Turkey, which have officially been granted accession status by the EU, Bosnia and Herzegovina and Kosovo have also applied for membership.

7. Kevin O'Rourke, *A Short History of Brexit*. London: Penguin, 2020, pp. 116 et seqq.

8. According to a study by Unicredit Bank of April 27, 2021, loans from China in 2020 as a percentage of the respective GDP were 3.4% in Bosnia and Herzegovina, 7% in Serbia, 7.5% in North Macedonia and 20.7% in Montenegro (https://www.research.unicredit.eu/DocsKey/emergingmarkets_docs_2021_179967.ashx?EXT=pdf&KEY=l6KjPzSYBBGzROuioxedUNd-Vqq1wFeRoBg8dvzn51cwXIFTj0Rbl4w==&T=1, September 2021).

9. Letter from David Cameron to Donald Tusk of November 10, 2015 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/475679/Donald_Tusk_letter.pdf, September 2021).

10. Erhard Brix/Emil Busek, *Mitteleuropa Revisited*. Vienna: Kremayr & Scheriau, 2018, p. 13.

11. Quoting Wolfgang Schäuble in a *Zeit* interview of June 10, 2016, <https://www.zeit.de/politik/2016-06/eu-brexit-wolfgang-schaeuble-folgen>, September 2021.

12. "[...] a mixed creature seeking to enforce its friendly intentions, which it pursues with cunning and patience, with unbending authority and pedagogical

pressure.” [translated from original: „(..) ein Mischwesen, das seine menschenfreundlichen Absichten, die es mit List und Geduld verfolgt, mit unbedingter Autorität und erzieherischem Druck durchsetzen möchte“] H. M. Enzensberger, *Sanftes Monster Brüssel oder die Entmündigung Europas*, 2011, p. 59.

13. D. Grimm, quoted in Gregor Kirchhof, Hanno Kube and Reiner Schmidt (eds.), *Vom Ursprung und Ziel der Europäischen Union*, 2nd edition. Tübingen: Mohr Siebeck, 2017, p. 192.

14. Konrad Liessmann, *Das Lob der Grenze*. Vienna: Paul Zsolnay Verlag, 2012, p. 93.

15. Cf. the letter written by Emmanuel Macron to the citizens of Europe: “Pour une renaissance européenne” of March 4, 2019 (<https://www.elysee.fr/emmanuel-macron/2019/03/04/pour-une-renaissance-europeenne>, September 2021).

16. For more detail see the author's article in Gregor Kirchhof, Mario Keller and Reiner Schmidt (eds.), *Europa: In Vielfalt geeint*. Munich: C.H. Beck, 2020, pp. 19 et seqq.



Chapter 8

The Priorities of the Von der Leyen Commission, at Almost Mid-Term

*Benjamin Hartmann**

Five-year plans presented immediately before the disaster of the century have a habit of shrinking to five-day plans, and of being replaced by a new agenda that is dictated by the immediate needs of the disaster. Critics had prophesized that the political guidelines that Commission President Ursula von der Leyen presented in 2019, and which were immediately confronted with the unrelenting realities of the COVID-19 pandemic, would meet with such a fate. Back in 2019, before the pandemic broke out, Commission President von der Leyen placed her period of office under the motto: “A Union that strives for more.” She set six priorities in her political guidelines:

- A European Green Deal
- An economy that works for people
- A Europe fit for the digital age
- Protecting our European way of life
- A stronger Europe in the world
- A new push for European democracy

The worldwide COVID pandemic also reached the shores of the European Union with full vigor during the first 100 days of her period of office. The pandemic led to a complex worldwide crisis which still has yet to end, and the future upheavals of which we can more guess at today than identify in concrete terms.

*The content of this article does not necessarily reflect the official position of the European Commission. Responsibility for the information and views expressed lies entirely with the author.

The experience of recent decades shows that this kind of crisis, on a scale that was previously unknown, would put paid to any sort of planning on the part of a so recently appointed European Commission, and lead to crisis-management politics attempting to respond to the direct challenges. Strangely enough, it was different this time, also according to independent observers.¹ The six priorities adopted by the von der Leyen Commission had obviously been chosen so aptly that the urgency of these very priorities came to the fore all the more clearly in the face of the horrors of the pandemic.

It was not therefore that the rudder had to be pointed in completely the other direction, but efforts had to be redoubled in order to reach the goals, recognized as important and right, with two-fold decisiveness. A seventh priority was added to this, and this was particularly urgent: The fight against the COVID-19 pandemic, and containing the damage that it was causing. The various initiatives von der Leyen had announced at the start of her work have now come on rather well. Some 400 new initiatives were announced, roughly half of which have already been presented.² The observations below are devoted to these seven priorities, and investigate the form in which challenges arise and the stage is set.

Lessons Learned from the COVID-19 Pandemic for Future Health Policy

The COVID-19 pandemic currently hangs over the planet like a thick cloud, also overshadowing life in the European Union. In times when the debate is still ongoing on the current Delta variant and on the curved form of a fourth wave of the pandemic, it seems premature to release the “Owl of Minerva” to fly away and to seek to learn the first lessons. The challenges, however, are so massive, and the suffering is so painful for us all, that there is no putting off drawing the first lessons as to how to ensure better protection in future. The Commission already presented an initial interim report³ under the leadership of President von der Leyen in June 2021, and this will be supplemented by further analyses and extensive studies in order to significantly improve the way in which we deal with pandemics and similar risks in future.

The first stocktaking in this interim report is a sober one, given the situation, and shows a very mixed picture:

Health Policy

It is obvious in health policy that the situation would have taken a much worse turn without the self-sacrificing, selfless efforts of many people working at the very front to protect people. An honest stocktake includes the painful admission that the EU and the EU member states were insufficiently prepared for a pandemic on this scale. Crisis prevention was underfunded and underdeveloped. Coordination among the member states was difficult at the outset, and too much time was needed before it was working smoothly. This cost valuable time, particularly in the initial phase. However, it is true at the same time that the EU's response to the unfolding pandemic led to novel measures, such as the joint procurement of vaccines, which worked impressively well after the much-reported teething troubles had been overcome. The EU was not the fastest when it came to distributing vaccines to its own citizens, but it was among the leaders. And if it took several weeks or months longer than in other countries from which no vaccines were exported, while at the same time the EU supplied vaccines to more than 100 countries around the world, the altruistic time-lag of the EU has also made some of the EU's citizens proud to a certain extent, and has instilled respect vis-à-vis the principled multilateralism of the EU among third countries, which received vaccines from the EU in times of extreme crisis. As between people, real character is frequently revealed in emergency situations, and the fact that third countries were also able to continue to count on assistance from the EU in a worldwide emergency does throw a good light on the political wisdom of the EU and its citizens.

Economic Policy

An interim conclusion can be drawn in economic policy, which is much more positive than for health policy. No economic shock in the history of the EU has hit the European economy harder than the COVID-19 pandemic. That having been said, the risk of a recession that would have shaken Europe's foundations has so far been successfully averted. The fight against the economic impact of the pandemic has worked much better in the EU so far than the struggle against the pandemic itself in terms of health policy.

Three Lessons Learned

The European Commission has drawn three lessons for health policy from the successful fight against the pandemic as part of economic policy. The struggle with the economic impact of the pandemic has been successful to date because it has covered three consecutive steps.

The first step consisted of the EU promptly mobilizing considerable financial resources from the EU's budget (more than €82 billion). The general escape clause of the Stability and Growth Pact was furthermore activated at the same time, and it was made easier for the member states to grant state aid.

In the second step, known as the “repair phase,” solidarity-based EU tools were used in order to somewhat cushion the effects of the crushing economic impact of the pandemic. €540 billion were mobilized for this, including a short-time work program (“SURE”).

At the same time, the recovery phase was already being prepared by very quickly adopting a powerful economic program, the “NextGenerationEU” Fund, which mobilizes €750 billion in support of investment and reform over the next six years.

This process took lessons on board from the financial and economic crisis more than ten years previously. Unlike then, the EU's response was extremely quick this time. The direct crisis investment tool was available after approximately only one month. This time too, the ambition was much greater. Agreement had not been reached in the previous crisis on a tool on the scale of NextGenerationEU. And the EU's response was coherent this time. NextGenerationEU was developed in accord with the EU's environmental goals, making the digital transformation easier, and was conditioned on social equilibrium.

The Commission has drawn three lessons from the successful economic measures for future responses in health policy:

(1) EU coordination can play a decisive role. Coordination in crisis management is to ensure in the member states' fiscal policy that the asymmetric damage caused by the pandemic is compensated for and the EU grows in unison. This EU coordination is paralleled in the joint procurement of vaccines. At the same time, differences have been revealed: The joint vaccine procurement stumbled very badly in the

initial months because it was as yet unable to look back on years of joint experience. The rapid successes of later months have shown at the same time how it is possible to improve coordination through joint effort.

(2) The second lesson is how important it is to have built-in resilience elements. Economic policy has such elements, for instance in the shape of the banking union or of the general escape clause of the Stability and Growth Pact. Health policy did not yet have comparable resilience elements to an adequate degree.

(3) The third lesson that can be drawn from the successful economic policy measures lies in the significance of the international dimension. The size of the European economy, as well as the existence of the euro, were vital for the EU to cushion the economic consequences of the pandemic. International intertwinings, for instance in the shape of international supply chains, have shown themselves to be highly significant in order to be able to sustainably deal with the economic consequences of the pandemic. The international dimension is also decisive for a successful EU health policy, and it is in need of reform.

First Steps in Putting the Lessons into Practice

The initial reactions to the pandemic in 2019 were still typified by uncoordinated border closures, which led to undesirable side-effects, for instance by interrupting supermarkets' supply chains. Coordination of the measures already improved within the first few months. For instance, "Green Lane" border crossings were set up where freight transports were processed very quickly to maintain security of supply in the EU.⁴ The need for quarantining was decided all over the EU, according to criteria which were much better harmonized. What is more, an EU-wide vaccination certificate, developed at short notice, serves as a model all over the world, and is regarded as exemplary even by many experts in the United States, although the United States otherwise traditionally has much better institutional pandemic preparedness. The core of the EU strategy was formed by the EU-wide vaccine strategy, which promoted the development and production of vaccines, and prevented member states snapping up the few available vaccines from under one another's noses. This made it possible for each of the 27 member states to be given fair access to vaccines. At the same time, not

only the EU benefited from this, so did more than 100 other countries worldwide. Almost half the vaccines produced in the EU were exported all over the world, out of the solidarity-based realization that a pandemic is a worldwide challenge affecting everyone.

A European Green Deal

Europe was the first continent to announce its intention to become climate neutral by 2050.⁵ At the same time, the Europeans were the first to put forward a concrete plan for achieving this. The European Commission considers that this decade will be decisive when it comes to overcoming the crisis in the climate and in biodiversity. The Commission has remained on course with regard to this goal, despite and indeed because of the COVID-19 pandemic. Roughly 37% of the funds from the “Recovery and Resilience Facility” have been reserved for investment and reforms in order to protect the climate. In the view of the Commission, the transition to a decarbonized economy needs to be climate friendly, fair and competitive.

Climate Friendly

The European Commission submitted a highly-extensive, ambitious package of proposals in July 2021 in order to achieve decent jobs, as well as growth in the EU which does not harm our nature. The efforts will affect all sectors and all the member states in order to act together and enable joint climate-friendly growth. The package aims to reduce net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels. The measures aim to ensure that greater use is made of renewable energies, as well as to improve efficiency. They are to enable low-emission means of transport to be brought into operation more quickly, as well as to improve the corresponding infrastructure.

Fair

Issues related to justice are very closely linked to climate issues. Perhaps one of the greatest challenges of the Green Deal is how to ensure that the growth strategy for a decarbonized economy favors all citizens equally. The problem also has a time-related dimension: The advantages of new jobs and technologies, of clean air and greener towns and cities, better health and a more friendly climate for the next generation,

will exist for everyone—but will these advantages reach us all at the same time?

True, the advantages of the EU's climate policy clearly outweigh the costs of this transition as a matter of principle and in general. In the short term, however, the danger exists that the transition will entail special economic challenges for the vulnerable, as well as for micro-enterprises. It is therefore necessary to ensure that the costs caused by the climate protection measures are divided equally. This is the orientation pursued by the strategies contained in the European Commission's package. What is more, there is to be a special Social Climate Fund to help citizens finance investments in clean heating and cooling systems, and clean mobility. According to the Commission's proposal, a total of more than €144 billion are to be mobilized for this, to be co-funded by the EU member states.

Competitive

The European Green Deal is the European growth strategy for a decarbonized economy. There is a danger, however, that the effectiveness of the climate protection goals could be undermined by foreign *firms subject to more lax environmental requirements*. This would not be ultimately beneficial to the environment, but could mean that production and emissions would simply be transferred from the EU to other countries. The Commission is therefore proposing a carbon border adjustment mechanism *that will align the carbon price on imports with that applicable within the EU*—equal competition without distortions emanating from climate protection for all products on the European market.

An Economy That Works for People

Commission President von der Leyen stresses her view that justice and prosperity are part of the European founding promise.⁶ We in Europe are currently enjoying one of the highest standards of living, the best working conditions, and the most effective social protection in the world.⁷ The green social market economy is something unique and characteristic of Europe. It combines the growth of the economies

with social justice and social welfare. 241 million people currently have a job in the EU—this is a historic high.

Nonetheless, inequality persists. These positive developments are not benefiting everyone equally. Many citizens have empty bank accounts days before the end of the month. Educational opportunities continue to depend much too frequently on the level of education of people's parents and on their bank balances. Many older people still have no access to long-term care services. It is a European task to guarantee generational justice to children and grandchildren, and to give them optimum chances to have a fair, prosperous, climate-friendly future.

This is the goal pursued by the European Pillar of Social Rights, which was proclaimed by all the EU bodies in 2017. It is intended to enable equal rights and jobs for all; it is to create fair working conditions, and improve both social protection and social inclusion. The Commission submitted an Action Plan on this topic in March 2021, in which the Commission proposes three core EU targets to be achieved by the end of this decade:⁸

- At least 78% of the population aged 20 to 64 should be in employment by 2030.
- At least 60% of all adults should be participating in training every year by 2030.
- A reduction of at least 15 million people at risk of poverty or social exclusion.

A Europe Fit for the Digital Age

Digital technologies are not only changing the tools and means of communication that we use, the digital transformation is so profound it can be best compared with the fundamental changes triggered by the Industrial Revolution in the 19th century. Commission President von der Leyen stressed in 2019 in her political guidelines that Europe must assume leadership both in the transition to a healthy planet, and on the path towards a new digital world.

There is a need to build a bridge between advantages and risks. New communication systems, artificial intelligence and quantum technologies provide promising opportunities if they are used responsibly. At

the same time, however, dangers also lie here, for instance the risk of a loss of control of one's own data, or of hostile cyberactivities or attacks on critical infrastructures.

The Commission under President von der Leyen has defined three main goals here:

- *Technology that works for people.* A competitive economy is to be enhanced in Europe using technologies in concordance with European values.
- *A fair and competitive economy.* Consumers should be able to trust that their rights are enforced. The Single Market is to work so smoothly that enterprises of all sizes can strengthen their global competitiveness through digital technologies.
- *An open, democratic and sustainable society.* Digital change is to take place by European means: Democratic values are to be enhanced, and fundamental rights respected.

It is, however, also clear that Europe's influence on digital solutions worldwide can only be strong and effective if the European Union is able to be a strong, independent player. This requires a clear framework to be created by enabling digital communication that can be trusted. The European Union prioritizes the trustworthiness of the system. The von der Leyen Commission has already put forward more than 70 different initiatives for achieving these goals, and has already translated more than half of these into concrete proposals.

Protecting Our European Way of Life

The European Commission has also taken stock of migration and asylum policy in a way that is very honest and sober. The refugee crisis of 2015–2016 showed how great the shortcomings in migration and asylum policy are. The complex nature of the task is further exacerbated by the fact that different member states are affected to varying degrees. 1.82 million illegal border crossings were recorded at the EU's external borders at the height of the refugee crisis in 2015. This number had fallen to 142,000 by 2019.

The European Commission put forward a new package in September 2020 aiming to ensure that no member state has to shoulder

a disproportionate responsibility, and all member states make a continuous contribution towards solidarity.⁹ The New Pact on Migration and Asylum entails robust, fair management of the external borders, as well as proposals for fair, efficient asylum rules, and provides for procedures on asylum and return to be streamlined. The Commission is also proposing a new solidarity mechanism for situations of search and rescue, pressure and crisis. Stronger foresight is intended for crisis preparedness and response. A core element of the Pact is an effective return policy and an EU-coordinated approach to returns. The Pact also contains proposals for developing sustainable legal pathways for those in need of protection and to attract talent to the EU, as well as supporting effective integration policies.

A Stronger Europe in the World

The COVID pandemic has underscored the importance of multilateral solutions, even though there has been little public awareness of this, probably due in part to the unwieldy abbreviations: The global crisis response was most efficient in multilateral fora such as the “Access to COVID-19 Tools Accelerator” (ACT-A), the associated COVAX facility, or the G20’s Response Plan to the pandemic. The multipolar world is, however, undergoing change, and in the view of both the European Commission and the European External Action Service, the EU needs to take two conditions into account in order to be able to successfully meet the challenges of the multipolar world in future.¹⁰

First, the global system is characterized more and more by short-term transactional thinking, while the EU tends to think in the long term and in systems and values. The EU must act more self-confidently in a transactional system. At the same time, it must conclude coalitions with like-minded partners in those areas which are essential for them. Multilateralism remains the fundamental principle for the EU, but the EU has come to recognize that multilateralism must also produce results that serve both global interests and values as well as the interests and values of the EU.

In their February 2021 joint communication,¹¹ the Commission and the European External Action Service detailed their goals for the multilateral system. The EU wishes to strive for greater peace and security in

the world, and to defend fundamental rights, universal values as well as international law. The efforts go hand in hand with a more interest-orientated approach. The EU can achieve these goals by actively supporting the UN Secretary General in his reflection process on the modernization of the United Nations and making efforts to modernize the World Trade Organization as well as the World Health Organization.

Internally, the EU must develop more efficient cooperation mechanisms between the EU and its member states to take advantage of the united forces of the EU in asserting its values and priorities vis-à-vis the outside world. This must also involve ensuring coherence between the EU's actions towards third parties, and its internal policy areas.

The EU must also deepen its partnerships with third countries and other partners, in particular with those who share European values and priorities.

A New Push for European Democracy

This brief chapter is only an outline of a number of topics. The discussion needs to be continued, controversially and incisively. The “Conference on the Future of Europe” is a suitable forum for this. It is a conference in which all European citizens can participate in order to discuss the challenges and priorities for Europe. Voter turnout at the 2019 European Parliament elections was the highest for 20 years, with more than 200 million voters. At the same time, the questions that are being discussed at European level are now perceived as being so important that many citizens would like to get much more intensively involved than merely casting their vote at a ballot box every five years. The “Conference on the Future of Europe” is currently underway at present with this aim in mind. As Commission President von der Leyen stressed at the start of the Conference, democracy lives on commitment and on citizens having a say, not only every four or five years when it is time to vote, but at all times.

The European Parliament, the Council and the European Commission have undertaken to listen to Europeans and to follow the recommendations within their portfolios. The Conference stands on four different pillars: (1) A multilingual Digital Platform; (2) local events; (3) European Citizens’ Panels; (4) and the Conference Plenary. The

Conference is planned to draw up conclusions with guidelines for the future of Europe by the spring of 2022.

The contributions compiled in this book show all in all the degree to which the framework has changed in which the European Union is moving. The Conference on the Future of Europe is a major opportunity to give new responses to these changed conditions. We are all under an obligation to find answers, and above all to indeed implement them, since as John Ruskin already knew: “What we think, or what we know, or what we believe is, in the end, of little consequence. The only consequence is what we do.”

Notes

1. The six policy priorities of the von der Leyen Commission, April 2021 ([https://www.europarl.europa.eu/RegData/etudes/IDAN/2021/690584/EPRS_IDA\(2021\)690584_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2021/690584/EPRS_IDA(2021)690584_EN.pdf), September 2021).

2. Ibid.

3. Communication from the Commission of June 15, 2021, Drawing the early lessons from the COVID-19 pandemic, COM(2021) 380 (<https://ec.europa.eu/info/sites/default/files/communication150621.pdf>, September 2021).

4. Communication from the Commission on the implementation of Green Lanes, OJ C 96/I, 24.3.2020, p. 1.

5. Press Release of the European Commission of July 14, 2021, European Green Deal: Commission proposes transformation of EU economy and society to meet climate ambitions (https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541, September 2021).

6. Ursula von der Leyen, A Union that strives for more. Political Guidelines for the next European Commission 2019-2024 (https://ec.europa.eu/info/sites/default/files/political-guidelines-next-commission_en_0.pdf, September 2021).

7. Communication from the Commission of January 14, 2020, A Strong Social Europe for just Transitions, COM(2020) 14, p. 1 (https://eur-lex.europa.eu/resource.html?uri=cellar:e8c76c67-37a0-11ea-ba6e-01aa75e-d71a1.0002.02/DOC_1&format=PDF, September 2021).

8. European Commission, The European Pillar of Social Rights Action Plan (<https://op.europa.eu/webpub/empl/european-pillar-of-social-rights/downloads/KE0921008ENN.pdf>, September 2021).

9. Communication from the Commission of September 23, 2020, on a New Pact on Migration and Asylum (https://eur-lex.europa.eu/resource.html?uri=cellar:85ff8b4f-ff13-11ea-b44f-01aa75ed71a1.0002.02/DOC_3&format=PDF, September 2021).

10. Joint Communication to the European Parliament and the Council on strengthening the EU's contribution to rules-based multilateralism of February 17, 2021, JOIN(2021) 3 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021JC0003&qid=1633077082848&from=DE>, September 2021).

11. Ibid.



Chapter 9

Europe and COVID-19: A Wake-up Call

*Giorgio Maganza**

Will 2020 Go Down in History as Europe's Turning Point?

The year 2020 saw the global outbreak of an unprecedented world public health crisis, as people got to know the acronym COVID-19 (which stands for “Coronavirus disease 2019”). The pandemic hit the European continent in February, leaving a deadly toll and stretching public health capacities to the limit. European states reacted, first, individually and in an uncoordinated fashion in order to stop the spread of the disease: state lockdowns were imposed and national borders closed. Member States of the European Union then tried to join forces to counter the virus and, with the assistance of EU institutions, to maximize their joint efforts. By July, they had successfully managed to take bold financial decisions in order to help Member States cope with the economic and social implications of the crisis, mainly due to the prolonged spring lockdowns. The scale and the nature of such decisions, which mobilized €750 billion, encouraged some to consider that the EU had reached a turning point.

By the beginning of fall 2020, however—and while the decisions of July were still waiting to be implemented—the pandemic surged again, leading to more lockdowns and more economic and social pain. The expected marketing of new vaccines might disclose more encouraging prospects. It is true that, every time it is confronted with a crisis, the EU performs at its best to overcome it. Hopefully, it will also do so this time around. The question remains, however: when it does, will 2020 be regarded as a turning point in the European integration process? In other words, can one say that the EU is now facing a new era?

*Former Director, Legal Service, Council of the European Union. The views expressed are the author's alone and do not in any way commit either the Council or its Legal Service. The text was completed on November 29, 2020 and slightly updated before its publication.

The answer is no, at least for the time being. How can an “era” be defined, when looking at the process of European integration? That process is punctuated by mirroring highs and lows. A *supranational era*, which can be dated back to the European Coal and Steel Community’s High Authority of the early 1950s, proceeding to the Rome Treaties and into the early 1960s, was followed by a *consensus era*, which opened with the “empty chair” crisis and, in spite of the so-called Luxembourg compromise, forced majority decision-making to make room for a systematic search for consensus, thus turning one of the supranationality symbols into its nemesis. The *Political Union era*, which began in the mid-1980s with the Single European Act and the inception of the Single Market, stretched into the 1990s with the signing of the Maastricht Treaty—as of today the highest achievement of the European integration process. That period was followed in turn by a *nationalist fallback era*, which peaked with the French referendum on the Constitutional Treaty. Although the latter could be rescued at Lisbon by the treaty named after it, we are still living in times of nationalist fallback. Meanwhile, the European integration process had crossed, almost unnoticed, the watershed of its biggest enlargement ever, as EU membership almost doubled overnight, on May 1, 2004, without any prior preparation. The result was a more diverse EU, with a lesser political ambition and weaker institutions (with the notable exception of the European Central Bank). At that moment, a new era, if any, had just opened. That is the era in which we still live.

Is it possible to identify a prospective *post-COVID era*? That would imply to describe its features, in order to characterize it with respect to the present and past ones. One could say that the European integration process is facing a new era if the EU seized the COVID-19 moment to take a leap forward and get stronger. Judging from the recent past, however, that does not seem to be the case. The EU is still divided: there is no political appetite for any political initiative. It is true that the institutional picture is brighter since 2019: citizens’ turnout at the European Parliament elections was the highest in twenty years and the outcome was comforting for the supporters of European integration; further, the persons chosen to lead the European Central Bank and the Commission were two high-profile, committed European women. And indeed, European political leaders such as Wolfgang Schäuble and Ursula von der Leyen called for a unifying surge.¹ None of this however

can signal the starting of an era. It is safer to assume that the pandemic has not changed the way in which the EU operates; and that the opportunity to take a leap forward in European integration has been missed.

Might 2020 Be Regarded in Time as a Wake-up Call?

Throughout the 2010s, the EU relentlessly struggled to cope with major crises: Euro and sovereign debt, immigration, Brexit, Islamist terrorism, climate change. In the next decade, it will continue to do so—hopefully, after passing the COVID-19 divide—and mainly deal with the same issues. The EU will need to find a fair and lasting answer to flows of migrants and asylum seekers; it will have to assert itself as a global player; it will need to settle the eurozone on solid economic ground; and it will have to secure a safe environment for the generations to come. Whether it is successful is a matter of political will, trust and leadership. In the process, it might as well have redefined itself, and started on a new, more cohesive basis. If the EU is successful, the COVID-19 experience might then be regarded, in retrospect, less as a missed opportunity than as a timely wake-up call, helping member states—or some of them—to realize that action needed to be taken to restore ambition to the European project. But that will only happen if they—or some of them—share a vision and a narrative for the future of Europe; if they are ready to stand for its values and enforce them; and if they are backed by EU citizens.²

An Ambitious EU or A Pragmatic EU: Which EU Do We Want?

What does European Union mean? For some, a supranational entity serving the integration of European states; for others, an area where European states may cooperate. Are we satisfied with a pragmatic European Union to best manage European interests or do we want the Union to have ambition and operate like a political actor? It is an old debate. It will have to be settled if Europe is to move on, rather than paddle through the next decade.

COVID-19 was one more illustration of a paradoxical, though recurrent aspect of Member States' relationship to the EU: the latter was

accused of not doing enough, in the spring 2020, even though it has hardly any capacity to act because its creators wished to retain powers in public health policy. Learning from experience, the Commission has submitted proposals to improve the European capacity to anticipate (for instance, by declaring a European health emergency) and react to a pandemic; it has however to play with the toolkit of the existing competences, which are set out in the EU Treaties and only allow the EU to make non-binding recommendations. The same goes for other areas: the EU is often criticized for not acting, even though it does not have enough power to act; and, when it does, it is prevented from acting by an institutional system not geared to meet the challenges of a larger Union. A new approach to governance is needed if ambition is to be restored to the EU: it should be more focused on Member States, represented within the European Council and the Council, although none should be able to block decisions. A stronger role should be reserved to national parliaments, in order to enhance the legitimacy of the European action in sensitive areas such as fiscal policy or immigration.

Should the EU be a political union or a common area of free exchanges? Thirty years ago, the answer was clearly given in Maastricht. Things are far less clear today. The Single Market certainly remains as important as it was thirty years ago. Yet, Maastricht Europe is far more than that: the euro was launched; justice and home affairs cooperation and a common foreign policy were established. It is still worth joining forces at European level, for instance by committing to deeper economic integration through tightened fiscal rules, in exchange for increased solidarity; by pooling the management of admissions to the Schengen zone; or by implementing more stringent environment protection standards.

More ambition is also needed in foreign affairs, if the EU is to be a truly geopolitical actor. Hopefully, transatlantic relations will take a new turn, now that the shameful Trump administration is gone; but things are not going to be reset overnight. The world is changing and so are the roles played by the main actors. The EU should rely first and foremost on itself, even within a renewed transatlantic relationship. Having struggled to forge a foreign policy of its own for thirty years now, the EU cannot continue to see important decisions blocked by one national veto. Continuing to live by the “one state-one vote” rule in foreign affairs would only be self-defeating.

In the next decade, the contradictions of a pragmatic Europe are likely to be laid bare. The critical issues which have been left half-settled will need to be faced and addressed. Constantly seeking the lowest common denominator will not always do. Other paths will have to be explored, should obstacles persist to any decision. Seventy years after its inception, it is time to accept that European integration is not forever frozen within the boundaries of the existing Treaties. If the European project cannot be developed further by all the Member States, a smaller number of them must do it on their own. They might do so by setting out, in a separate treaty, bolder objectives to be jointly attained.³ Thus, a streamlined, and more cohesive “political” Europe would be created within, and at the core, of the present one, which would continue to exist. The Conference on the Future of Europe might wish to revive debates on the scope of European integration. Before the turning of the century and before Laeken, a few attempts were made—like Lammers and Schäuble in 1994 and Joschka Fischer in 2000—to show an alternative way to European architecture, although in both cases France proved unable to match the German clairvoyance. “How can we ensure that ‘more’ does not lead to ‘less’?” was the question posed almost thirty years ago by the Delors Commission Report to the European Council on *Europe and the Challenge of Enlargement*,⁴ at a time when the European Union counted twelve members. Undeniably, diversity has been a distinctive feature, and a source of strength for Europe: that is what the motto *United in Diversity* implies. The risk is now that it becomes a liability, delaying action and preventing European integration from moving forward. That should not be allowed to happen.

A Narrative for European Integration—Why Do We Want to Be Europeans?

European integration is a choice. It was a choice seventy years ago; and that choice was renewed several times over these seven decades. A choice needs to be accepted. It can be reversed, as the British people did. Why did our predecessors choose to go for European integration; and why do we want to remain a part of that?

In the beginning, it was peace. European integration was the vehicle for peace among ancient foes and turned them into partners in promoting the well-being of their peoples. That remains true: peace

and prosperity in Europe should never be taken for granted; new generations should therefore continue to be told that narrative, and learn from history.

Seen from outside, Europe is regarded as a haven of relative prosperity, social equity, environment, consumer protection and security: a place to which other peoples and states are yearning to belong, and rightly so. Seen from outside, the “European way of life” is a pole of attraction; something that, unfortunately, European citizens often seem to forget.

Today, however, another reason should be advanced to stand for European integration rather than for nation states: sovereignty, which is not to be found where it used to be. In today’s globalized world—where size, population and GDP matter—the concept of sovereignty can only be appreciated at regional level. The calls for “repatriation” of sovereignty, recently used by populist parties in Europe, can only lead to delusion, as the United Kingdom will show. No European country taken individually, however big it may be, can stand up to the United States or to China (not to mention the newly created Regional Comprehensive Economic Partnership, uniting fifteen Asian and Pacific countries representing more than a quarter of world trade and of world GDP and almost a third of the world’s population). The European Union, the world’s second largest consumer market, can. As a strong economic and political ensemble, European states can remain sovereign. Together, they can face a pandemic, envisage to redress their economies and act as a global player. That is the hard, although often underscored, evidence which pleads for European integration. Europe should cease to be narrated as the problem and begin to embody the solution instead.

A Matter of Values and Principles: Can Europe Protect Its Heritage?

Europe has a secular tradition of protecting individual rights. The signing of the European Convention on Human Rights (Rome, 1950) predates that of any European Union Treaty. The European Union itself is based upon values and principles, such as respect for human dignity, freedom, democracy, equality and the rule of law. As they are the foundations on which European integration rests, it should be only normal that compliance with those values be cherished and enforced.

Today however that is less the case. The rise of racism, anti-Semitism and xenophobia, although generally condemned, does not create shock waves, as if moral standards had lowered across Europe.

Today self-defined “illiberal democracies” are left unchallenged, while they undermine the independence of the judiciary, muzzle the press or allow violence and LGBT discrimination. Hungary and Poland—neither of which would probably qualify for joining the European Union today according to the rule of law criteria—have been under scrutiny by the Commission for a few years. Together with Slovakia, they have challenged European law and criticized the European Court of Justice for ruling against them. At the European Council in July 2019, the Czech Republic, Hungary, Poland and Slovakia vetoed the candidacy of vice-President Frans Timmermans to lead the new Commission for the stated reason that he had fought to enforce the application of the rule of law on them (which was his duty to do, according to his mandate). In July 2020, when the European Council agreed on the €750 billion Recovery Fund, Hungary and Poland tried, alongside with Slovenia, to block any link between funds disbursement and compliance with the rule of law. Weeks later, they threatened to veto the multiannual budget and the Recovery package, due again to the mechanism linking European funding and respect of the rule of law by the recipient country.

Can the European Union protect the values which constitute its heritage? Hopefully, the 2020 experience will be a timely wake-up call. Member States, as collective owners of the European project, cannot afford to let some of them disregard the European Union’s founding values. If the present Treaty rules to sanction Member States in “serious and persistent breach” of those values are not sufficient, a more robust mechanism must be built and enforced. Whatever the redress mechanism, political will is what is needed to ensure that no violation of the rule of law is allowed. After all, how can the EU be critical of Trump’s undemocratic stance and of racial injustice in the United States if it cannot even enforce the rule of law at home and deal with its own racism?

As a supranational entity, Europe enacts common rules which must apply in the same way across the borders: by its nature, European Union law has primacy in national courts. If need be, it is interpreted by the

European Court of Justice, the rulings of which are binding for national judges. Such is the European legal heritage that Germany's Federal Constitutional Court decided to challenge by its ruling of May 5, 2020 on the legality of a European Central Bank bond-buying program. By setting aside a previous judgement of the European Court of Justice on the same issue—hence disregarding the principle that any such rulings are binding on all national courts—the Karlsruhe court launched an unprecedented and dangerous attack on the European legal order, which lies at the heart of European integration. The European Central Bank stood firm by its mandate; and the Commission President issued a statement in her own name recalling that “the final word on EU law is always spoken in Luxembourg. Nowhere else.”⁵ Sadly, no infringement procedure was opened.⁶

Whether ambition can be restored to the EU is also a matter of values and principles and of the extent to which they are protected in all circumstances and wherever the challenge comes from.

A Union to Trust or a Union to Blame: How Do We Relate to the European Union?

In the long run, the EU will not be able to meet its own challenges without the backing of EU citizens. But is support possible without trust? And can we trust somebody we do not know? For too long, the European Union—what it does and how it does it—has been regarded as a matter for insiders only. “The peoples of Europe”—those whom Treaty Preambles kept putting up front for decades—did not need to bother: others were in charge and would take care of everything, in Brussels and in the member states. That suited national interests, as the Union was easier to blame for whatever happened to malfunction. One can hardly imagine how much nonsensical information (today's fake news) might have rapidly vanished into thin air, or how many European referenda could have turned a different way, if only EU citizens had known more about how the EU functions. Unfortunately, though, they never actually claimed ownership of the EU, not even when they could have mostly felt entitled to it, starting with the first European Parliament direct election in 1979. They actually may never have felt represented by a parliament which, in spite of ever-increasing powers, kept losing legitimacy and the electorate's attention. EU citizens never

claimed ownership of the EU because, even when they started to move freely across borders to study and seek jobs, they were actually not educated to understand the EU. Seventy years after it was born, European integration still has no official place in school curricula, which continue to be nationally oriented. Yet, European school children and students deserve to be taught, on top of their ancestors' stories, about the 21st century Europe they live in.

The fact remains that, in the long term, the EU cannot be successful without the backing of EU citizens, who cannot in turn trust Europe as long as they do not relate to it. How to relate to the EU, though? A good start could be to think of Europeans as “us” rather than “they.” The European Union is the citizens who live in it, more than the institutions which make it work. Relating to the European Union is becoming informed and having a reasoned opinion about it; it is being curious and feeling concerned; it is refusing to be lectured about it and making one's own responsible judgement; it is to vote, as EU citizens did in 2019, and to commit. More than ever before, the EU's capacity to act and react in the decade to come depends upon our perception of it.

Will Europe Be Saved from Itself by 2030?

Europe is its own worst enemy. It is not the only one: many tried to counter the European integration process, from its very inception. Some, like the United Kingdom, did so by joining it and working from the inside; others resorted to diplomacy or, more recently, to propaganda. Europeans, however, are by far the greatest danger to European integration. Their self-deprecating attitude, their constant tendency, whenever the EU is concerned, to shoot first and think afterwards, are recurrent burdens for the EU, sometimes turning into own-goals. If, seen from outside, the European Union continues to be a pole of attraction for applicant states, it looks like, once inside, anyone can start criticizing, while enjoying the rewards and disregarding the constraints. For how long will the choice for Europe be made on mere self-interest? While EU politicians continue to blame Brussels for the poor weather, EU institutions have lost their appeal with the public. For too long, the EU has confined itself to a reacting mode, as if it had lost any capacity to shape its own future. It is not helping itself.

There are reasons why things have evolved the way they have. The EU has grown more diverse; a former unity of intent has given way to a multitude of national interests that is hard to reconcile. The EU is divided, between North and South, East and West. Decisions are harder and harder to make, even when the stakes could not be higher. It took the European Council four days and three nights to make the most defining decision of the year 2020: while all the elements on the multi-annual budget and the recovery fund had been on the table for weeks, a deal could only be reached thanks to the stubborn determination of Chancellor Merkel and President Macron. Mutual trust among members of the Council, and between them and the Commission, is low.

There are lessons to be learned in the COVID-19 experience. They could help save the EU from itself. The EU could have learned, for instance, the importance of an established coordination power, with the related capacity to issue timely guidelines, in areas, such as public health, where core competences still remain at national level. Hence, the interest of sharing larger powers; hence, the inspiration to be bolder in other areas, where powers are already shared, like economic policy or immigration. Europe could also have learned that, when the stakes are high, it is still able to pull itself together and work out plans of unprecedented scale and nature. And it could have learned the necessity to detect and resist blackmail by autocratic leaders holding European citizens and economies hostage on the rule of law issue. Hence, the importance of upholding the values upon which European integration was built. If the EU learns those lessons, for the EU the decade to come might look more promising than the outgoing one.

Although this might not look like the best time for the EU to show political ambition, there are steps that need to be taken to:

- bring on the same page both faces of the almost thirty-year old economic and monetary union, by committing to a deeper economic integration through tightened fiscal rules, so that the euro area is settled at last on solid economic ground;
- address the climate change issue and take the concrete decisions required to implement the new 2030 climate target plan, assuming the EU's share of the collective burden to save the planet;

- set out once and for all a credible EU asylum and immigration policy that can also manage migrant flows, which are not going to disappear any time soon, in a way compatible with EU values;
- redefine the priorities for a competitive industrial policy and build a digital future for the EU;
- give the EU the means to play an effective role in foreign affairs, corresponding to its size, history and economic strength, which includes letting it be responsible for its own defense; and
- last but not least, explain the rationale of the above to European citizens, without whom it will not be done, and in particular to younger generations, who have the right to know what and why, as in the end it is all about their future.

It is far from certain whether all the current members of the European Union are willing to commit. Some, if not the majority, might actually refrain from the idea. But that should not represent an obstacle for those which have the ambition and the capacity to do it. The European Communities moved forward for over twenty years with less than ten members; and the European Union was signed off by twelve. “How can one ensure that ‘more’ does not lead to ‘less’?” was the question, thirty years ago. Six, for a start, could be the answer.

Whether the bizarre year 2020 and the experience of the pandemic will have helped Europe to realize that it cannot continue to paddle through as it has done for too long now, only history can tell. When it does, 2020 could indeed be recorded as the timing of the wake-up call.

Surely the time for action is now, if the best success story of the 20th century is not to fade away as a nice memory from the past.

Notes

1. See the article by Wolfgang Schäuble, “Aus eigener Stärke,” *Frankfurter Allgemeine Zeitung*, July 6, 2020, no. 154, p. 6 and Ursula von der Leyen, State of the Union speech, September 16, 2020.

2. On this issue, Giorgio Maganza, “Wie Europa vor sich selbst zu retten ist,” in Gregor Kirchhof, Mario Keller and Reiner Schmidt (eds.), *Europa: In Vielfalt geeint*. Munich: C.H. Beck, 2020, p. 125 (not published in English).

3. See Giorgio Maganza, “Making a New Start on a Smaller European Basis: An Alternative to Differentiation,” in Thomas Giegerich, Desirée C. Schmitt and Sebastian Zeitzmann (eds.), *Flexibility in the EU and Beyond*. London: Bloomsbury Publishing, 2017, p. 479.

4. 25 E.C. Bull., no. 3, supp. (1992).

5. “Lagarde ‘undeterred’ by German ruling,” *Financial Times*, May 8, 2020; Statement by European Commission President Ursula von der Leyen, May 10, 2020.

6. Since the writing of this text, in November 2020, the German Federal Constitutional Court has somehow “redressed” its position (Order of the Second Senate of April 29, 2021); and the Commission has belatedly opened, on June 9, 2021, an infringement procedure due for a long time against Germany for breaching the principle of the primacy of EU law. This cannot unfortunately remedy the damage caused by the Karlsruhe decision of May 5, 2020, conveying a message that other supreme judges in Europe were only too eager to follow suit: the latest evidence is the decision of the Polish Constitutional Tribunal of July 14, 2021, according to which interim measures ordered by the European Court of Justice to protect judicial independence in Poland, do not need to be complied with. More than a year after the Karlsruhe decision, the hard fact is that another opportunity will have been missed in 2020 to send a clear message to all member states that the EU will under no circumstances allow the authority of EU law to be questioned.

Chapter 10

More, Not Less: Prospects for a Turning Point in Europe

Hélène Miard-Delacroix

The history of the construction of Europe has gone through at least as many crises and blockades as it has successes. The talk in the early 1980s was of Eurosclerosis. Some contemporaries repeatedly had the impression that the joint endeavor had run into a dead end. . Pessimists and skeptics went so far as to forecast that the project might in fact come to an end. There have been multiple voices over the past decade calling—for a variety of reasons—to reduce or even withdraw from what has been achieved in Europe. Europeans are now faced with a new dimension of challenges, 70 years after Schuman's declaration on May 9, 1950. If the EU27 take a sober look around, they realize that they have reached a tricky spot: After Brexit, in the midst of the corona crisis, and faced with the challenge from China, Russia and the United States, the uncertainty factors have never been so numerous. What is the way forward? Can above all the European Union arm itself against two dangerous developments at once which only dreamers do not wish to see? One is an inner paralysis caused by too great differences of opinion and diverging goals among the member states, at the same time as forfeiting the fundamental values, which in addition to the project of prosperity in freedom make up the identity, indeed the very *raison d'être*, of the construction of Europe. The other dangerous development is the drift into provincial meaninglessness, which entails the risk of becoming vulnerable in trade relations vis-à-vis other up-and-coming world powers, and hence possibly waiving self-determination, which ultimately would mean the opposite of security.

Few options are available for the present if the Union wishes to escape from these two dangers in the near future. The scenario on how to exit from the situation has taken on an internal aspect with the introduction of new game rules for the development of the Union, and an external aspect with the resolute promotion of joint security in the sense of a more broadly-interpreted definition of sovereignty.

How Many Development Options Does the Union Really Have?

The European Commission published a “White paper on the future of Europe”¹ in March 2017. This stocktaking and the reflections regarding possible alternative developments led to five scenarios for the EU27 in 2025. Before even the current problems came to a head or arose at all, such as the health crisis and the economic crisis that came in its wake, the stocktake led to the conclusion that there were other paths that could be taken rather than simply “carrying on.” The reflections are more relevant than ever.

The shaping of a common future by ramping up cooperation among all, but only in specific areas, with only selected priorities—according to the principle of “doing less more efficiently”—certainly has the power to convince. It is not however up to the challenges of the time. Thus, the most recent developments in 2020 have also dug the foundations for a more ambitious scenario. At the beginning of July 2020, the European Commission proposed on the basis of a Franco-German initiative a European recovery plan to the tune of €750 billion in order to remedy the damage that had been done to the economy and society by the corona pandemic. The agreement that was reached on this was a tour de force. Its joint debt sounds in an unexpected U-turn for several countries such as Germany, which realized that their own interest lay in saving everyone. This agreement on the biggest package of economic measures of all time, known as NextGenerationEU, as well as the Multiannual Financial Framework 2021–2027 in the autumn, was difficult. However, it created not only real possibilities for economies to recover and modernize, but also hope for the future. Several arguments suggest that Europeans will not be able to satisfy themselves in the ensuing period with anything but a full commitment, and that they should not rely on old recipes.

Three Arguments in Favor of a Turnabout

The first argument. Given the exceptional situation of the pandemic and the impact that it will still have in the future, the member states may also be glad of the less negative consequences of Brexit: The withdrawal of the United Kingdom from the Union, decided on by a refer-

endum and long negotiated, has entailed the departure of a net contributor with considerable economic clout, but also of an anti-progressive player. Having said that, the tiresome wrangling on the 2020 recovery plan has shown that players known as the “Frugal Five” have taken over that role, so that major new difficulties have come into view with regard to future joint projects. It is not for this chapter to reach a judgment with regard to the lack of solidarity that the Five have displayed, acting out of purely national egotism, among other things, because they are directly benefiting from the lack of a uniform taxation system in Europe. It is certainly a bad omen for subsequent attempts to remedy the competition-distorting effects of the fiscal system of the EU with all states, and hence to come closer to the goal of a complete economic union. Other laggards in the East then dared to break cover. The whole project was at risk of failing during the final phase of agreement on the recovery plan in the autumn, amongst other things because of the blockade by Poland and Hungary. The shameful spectacle of the tug-of-war caused by major differences in fundamental questions related to the rule of law revealed the weakness of the decision-making system in the Union. The principle of unanimity which still applies to decision-making in some areas is a remnant of the battles waged in the 1960s, where France put up a blockade in the Europe of the Six against the possibility that it might be outvoted. With 27 member states and the current reform agenda, the continuation of common policies, not to speak of any decision on ground-breaking bundles of measures, is simply impossible unless the Union wishes to exhaust itself in endless nerve-wracking acrobatic compromises. A reform of the decision-making processes is therefore indispensable.

The second argument. It would be possible for the member states to focus on nothing but the internal market. They could do without common policies in other policy areas where new challenges come up. This option, however, overlooks the extent of the coming crisis in the Union, where the economy has only just recovered from the 2008 global financial crisis. Even this recovery did not take place evenly. Above all, it fails to meet peoples’ expectations as to greater protection, given that both the weak migration policy, and a lack of coordination in the fight against the pandemic, dragged the limits of national solutions into the cruel light of day. The goal of completing economic and monetary union and enhancing the convergence between economic performance

and the social domain is becoming more distant as national reflexes cause hands to shake. There is therefore an urgent need to expand the policy domains in which the Union exerts a major influence.

The third argument. The decisive step towards taking up joint debt in order to support the economy of the Union in its reconvalence, while at the same time launching necessary structural reforms, is in itself such a profound, radical turnaround that it cannot be short-lived, either for practical or ideological reasons. Were the proponents of a one-off measure to wish to subsequently withdraw, arguing that it had been an emergency situation, the practice and the priority of the commonalities could cause a change in Europe that could no longer be reversed. The reasons why Germany considered the historical departure from the in-house orthodoxy and the taking up of debt as being in its interest are also political in nature, and will not become a thing of the past any time soon. Germany, a country where 60% of foreign trade is carried out with the internal market, is concerned not only to maintain its European customers, and hence conserve its own domestic product. The new stance stems not only from the fact that the crisis situation is caused by a virus, and not by mistakes and culpability on the part of those in need of assistance. The pandemic rapidly grew from an initially purely health-related crisis to become an unprecedented economic and social crisis with an extremely high potential for political destabilisation. Even Germany, which so far appeared to have done relatively well in the crisis in comparison to Italy or France, is confronted with the rise of populist and anti-democratic forces. The idea that these good reasons for acting together can be quickly discarded is adventurous.

Those Who Want More Do More

These three major arguments (the ability of certain states to form a blockade, the level of expectations among peoples, and the long-term validity of the reasons for greater solidarity) create a scenario of closer cooperation among those member states willing to do considerably more and to create special tools with which to do so. Such “coalitions of the willing” agree on specific legal and budgetary arrangements to deepen their cooperation in chosen domains. In this model, the enjoyment of some advantages, however, depends on active participation in the projects. Just as the disbursement of EU funds was linked to com-

pliance with rule-of-law standards in 2020, others may join those who go further, on condition that they keep to the rules of the game. Such a model of a Europe operating at several speeds was regarded as a taboo in the past twenty years, given the intoxication unleashed by Eastern enlargement. The degree of divergence, for instance in areas such as the rule-of-law, climate policy and the distribution of migrants, now favors a realistic, more relaxed approach to this option.

Areas in which there is closer cooperation could be taxation and social matters. Back in 2017, the White Paper specified the goal of access to increasingly similar labour rights and social protection: “Greater harmonisation of tax rules and rates reduces compliance costs and limits tax evasion. Agreed social standards provide certainty for business and contribute to improved working conditions.”² They can also fight against the virus of populism in 2021.

Can Europe Assert Itself on the Global Political Stage in the Coming Decade?

This is the second major challenge for the future.

The concern to safeguard free markets and fair global trade is shared by all the member states of the Union. The global consequences of the pandemic over and above the health crisis cannot yet be foreseen in this area. That said, the first signals confirm a trend which it was already possible to observe in recent years. It is characterized by a relative fall in multilateralism, taking refuge in national solutions, and with some states weaponizing global interdependence. The European Union is trying to protect itself in light of intensifying competition between the United States and China in the domains of technology, trade, financial influence and control of data. As a result of this understandable reaction, “in cooperation with like-minded partners,” they “will mostly shoulder the responsibility of preserving the rules-based order” as a supplement to protective measures.³ Whether this is to be interpreted as a search for the European Union as a potential superpower would remain unanswered. The pandemic has however lent a different quality to the term “strategic independence.” In a speech given before the European Parliament on July 8, 2020, Angela Merkel referred to them

as one of the five priorities of the Union with which Europeans are to take on worldwide responsibility.

The aspiration to assume greater control of one's own security concerns refers to an enhanced ability of the EU to act and shape in several areas such as security and technology, as well as in the digital domain and in trade or monetary policy. It is possible to recognize terms of security and sovereignty formulated more broadly than the classical connection between security and military protection, and between sovereignty and maintaining national decision-making capacity. A new understanding of sovereignty has become prevalent in recent years in the speeches made by several European politicians in the sense that "only Europe is able to ensure real sovereignty, in other words our ability to survive in today's world and to defend our values and our interests in it."⁴

The consequence of a more vociferous demand for greater security—security of borders, security against aggression and terrorism, security against pandemics, cyber security, a coherent immigration policy, and the like—is for Europeans to come closer together. The alternative to this has been shown by recent experience in the confrontation with such challenges: They have revealed the inadequacy of national defense measures, and even their corrosive effect on the survival of the Union. There will consequently be a need to decide whether—if all do not wish to participate—individual states in Europe also consider it possible to work together much more closely in security and defence. Back in 2017, the European Commission wrote that enhancing European security is a must.⁵ Initial approaches are "Permanent Structured Cooperation" in the military domain, and the establishment of the Center of Excellence for Civilian Crisis Management in Berlin, which can be regarded as a supplement to military interventions.

Enhanced European Defense in NATO

In their long common history, Europeans have developed a special ability to mistrust one another, and for one to assume that the other is harboring dishonest intentions. The same applies to the alleged dispute on the structures of Europe's future defense and to the formula of "strategic independence." French President Emmanuel Macron, who used

the strong word “brain dead” in 2019 to point to the danger of a slow but sure Atlantic disengagement on the part of the United States, is frequently regarded as an irresponsible agitator. There was however no misunderstanding of the words he used in his speech at the Sorbonne on September 26, 2017: “[...] our goal must be to preserve the ability of Europe to act in an autonomous manner as a complement to NATO.”⁶ He quoted as stages on the path to achieving this goal “permanent structured cooperation” to improve coordination among the states, a “European defence fund” to provide resources for infrastructures and research, and the establishment of a “joint (military) strategic culture.” Had the Commission’s White Paper not outlined six months prior to this a possible project which includes a “strong common research and industrial base, joint procurement, more integrated capabilities and enhanced military readiness for joint missions abroad?”⁷

The answers to the shifts of power that are taking place on the global policy stage today include a stronger orientation of the United States towards the Pacific. Europeans should not give in to the illusion that Joe Biden’s victory in the U.S. Presidential elections means that the tendency for Americans to withdraw from Europe under Donald Trump was only an episode and that the old days of boundless U.S. commitment in and for Europe are coming back. Without wishing to predict a return of the historically long-term American trend towards isolationism and the worst of scenarios, defense cooperation among the European states—or among some of them—as a complement to their lasting commitment in NATO, and free of any martial tone, is a sensible decision. There are already different scenarios for a common policy, ranging from simple cooperation in developing several new joint capabilities with the aid of the European Defence Fund, through shared responsibility when it comes to bundling specific financial and operative resources and enhancing the security dimension of energy, health, customs or space policy, to a shared responsibility involving the gradual establishment of a joint defense policy.⁸ All variants, but the third one in particular, must be based on a joint foreign policy of the Union, which also, as in the other areas, at least means coordinating the national policies which otherwise persist.

Is Europe approaching a turning point? The challenges as well as the development potential of the European Union in the next decade clearly suggest such a development. Racking one’s brain or indeed fighting

about the question of whether the Union is to actually become a state, or whether this is at all desirable, borders on ideological escapism. Recognizing the dynamic will be more vital to shaping reality. Europeans have missed a few opportunities in the past, but they have also repeatedly recognized their chances and taken them up. It is now a matter of defining European interests, instead of always thinking in the category of nation versus integration.

Notes

1. European Commission, White paper on the future of Europe: Five scenarios, March 1, 2017 (https://ec.europa.eu/info/sites/default/files/white_paper_on_the_future_of_europe_en.pdf, September 2021).

2. *Ibid.*, p. 20.

3. European Parliament, At a glance, Foreign policy consequences of coronavirus, June 2020 ([https://www.europarl.Europe.eu/RegData/etudes/ATAG/2020/651960/EPRS_ATA\(2020\)651960_DE.pdf](https://www.europarl.Europe.eu/RegData/etudes/ATAG/2020/651960/EPRS_ATA(2020)651960_DE.pdf), september 2021).

4. Speech given by President Emmanuel Macron, “Initiative for Europe—for a sovereign, united, democratic Europe” at the Sorbonne in Paris, September 26, 2017 (<https://www.dfa.ie/media/English-version-transcript---Initiative-for-Europe---Speech-by-the-President-of-the-French-Republic.pdf>, September 2021).

5. European Commission, Reflection paper on the future of European defence, June 7, 2017 (https://ec.europa.eu/info/publications/reflection-paper-future-european-defence_en, September 2021).

6. Speech by President Emmanuel Macron (see note 4).

7. White Paper (see note 1), p. 20.

8. European Commission (see note 5).

Part III

European Politics in a New World



Chapter 11

European Sovereignty Versus Transatlanticism Amid a Rising China

Erik Brattberg

In recent years, the debates over European ‘strategic autonomy’ and ‘sovereignty’ have been heavily influenced by the growing European concerns about China’s global rise, prospects for unrestrained Sino-American competition and a global multilateralism in peril. As a consequence of these broader geopolitical trends, traditional EU economic approaches towards areas like the internal market, industrial and competition policy, and free trade are rapidly being reconsidered with an eye toward the need for greater European assertiveness. Approaches that may have been unthinkable only a few years back are now part of the mainstream thinking as leaders double down on efforts to shore up the European market, bolster European champions, enforce global trade rules and diversify critical supply chains.

While the dawn of a more assertive Europe is here to stay and will shape the future direction of the EU itself, it is not yet clear where the balance will fall. For instance, differences between traditionally export-oriented northern member states such as Sweden and the Netherlands and more protectionist-oriented southern ones such as France are still quite considerable though narrowing in some areas. At the same time, the combination of Brexit and the departure of the UK as a strong voice in the EU for free and open global trade, the evolving Franco-German consensus on the need to strengthen European sovereignty, and the impact of the COVID-19 pandemic in highlighting risks associated with vulnerable supply chains from China have all been instrumental in further tipping the scale firmly in the direction of a more assertive Europe.

The newfound European realism about the strategic challenge posed by China offers opportunities for enhanced cooperation with the United States. However, the growing emphasis on European sovereignty may also complicate an already fragile transatlantic relation-

ship. As Washington doubles down on long-term strategic competition against Beijing and seeks to rally its allies and partners to take part in this effort, the evolving European approach focuses on protecting Europe's economic interests, avoiding picking sides in the deepening U.S.-China competition, and bolstering the EU's own global role. As we look ahead, how will the China challenge continue to impact the future orientation of the EU and its approach toward the transatlantic relationship?

European Sovereignty and the China Challenge

In contrast to only a few years ago when China's rise was still mainly viewed through a commercial lens as a growingly important export market for European companies, the EU has rapidly woken up to the strategic challenge posed by China. This new more realistic European approach was encapsulated in the official EU strategy document "EU-China—A strategic outlook" in March 2019 which labeled China a "partner, competitor and systemic rival."

Underpinning this shift is a combination of several factors. Among them is the growing European skepticism about China's orientation under President Xi Jinping's leadership toward becoming even more politically repressive and economically closed at home and more assertive abroad. Moreover, Europe's own experience in dealing with China has also become more negative in recent years with growing concerns about unfair Chinese economic practices and political influence efforts in the EU and its neighborhood. On top of this is the bipartisan reorientation of U.S. foreign policy around strategic competition with China and the ensuing pressure from Washington on European capitals to take a firmer stance on many matters related to China.

Though there is still hardly any coherent EU strategy for China in place, the evolving European approach can best be described as a combination of pursuing pragmatic engagement with Beijing—as exemplified by the conclusion of the negotiations on the Comprehensive Agreement on Investment (CAI) in late 2020—with additional efforts to strengthen Europe's own defense against adverse aspects of China's rise. In fact, changing European perceptions of China have served as a clarion call for promoting a stronger EU, giving additional impetus to

the concepts of European ‘strategic autonomy’ and ‘sovereignty’ especially in economic and technology policy areas.

As a result, those voices advocating a more robust interventionist and protectionist approach have gained the upper hand in the European debate. Crucially, there appears to be an emerging Franco-German shared understanding around the notion of European sovereignty—a concept Ursula von der Leyen has also embraced as a leitmotif for her European Commission. This trend is further amplified by Brexit and the departure of the UK as a leading advocate for a more liberal and open outlook, further tipping the European balance away from the traditional outlook of “frugal” Northern European free traders and more toward the more protectionist vision of President Emmanuel Macron. This rethink is manifesting itself in a growing appetite for bolstering the EU’s trade defense measures, boosting European economic champions vis-à-vis their Chinese and American competitors, and rethinking the EU’s traditional approach to global free trade.

For example, to better shield itself from strategic Chinese investments aiming at syphoning off technologies and know-how or gaining control over critical infrastructures in Europe, the EU finalized in April 2019 a landmark pan-European investment screening mechanism.¹ The initiative, which was supported by France and Germany, entered into full force in October 2020 despite previous skepticism from some mostly northern European member states. The European Commission is also considering ways of upgrading the EU’s export control framework to impose additional limits on technology transfers to China. Another initiative aimed at leveling the uneven economic playing field European companies face on the Chinese market is the international procurement instrument, which demands reciprocity for foreign access to the European public procurement market. Backed by France and the European Commission, Germany, which had previously been skeptical, eventually came around to supporting the initiative. A similar effort is the Dutch proposal for overhauling the EU’s competition policy to allow Brussels to block acquisitions of European companies by state-supported foreign companies.

Moreover, industrial-driven competition policy—a topic that was previously considered taboo and associated with protectionism—is today part of the mainstream thinking in the EU. Driven in part by

the need to ensure that European companies are not falling behind their U.S. and Chinese competitors especially on emerging technologies (such as semiconductors, cloud computing, and batteries), the EU has taken steps to upgrade its own industrial policy and to promote the creation of European giants by loosening up competition policy restrictions. Though there are still crucial differences between France and Germany, their respective outlooks are becoming increasingly like-minded. At the same time, some smaller member states remain more skeptical and fear that their companies could become absorbed by their bigger French or German competitors. Similarly, when it comes to the concept of EU “digital sovereignty,” some such as France and internal market Commissioner Thierry Breton favor something more akin to a European “third way” approach against the United States and China whereas some other actors like Estonia prefer to emphasize the need for openness and cooperation with likeminded partners on digital and technology issues.

Finally, the EU’s traditional approach to global free trade is giving way to a new trade strategy centered around the notion of “open strategic autonomy.” As part of this shift, the EU will, on the one hand, continue to push for free trade agreements, more robust enforcement of global rules (here the EU seems to have moved closer to the U.S. position on how to reform the World Trade Organization) and to ensure equal market access for European companies in China. On the other hand, the EU is enhancing its efforts to diversify strategic supply chains and reducing overreliance on certain key dependencies. In particular, the Covid-19 pandemic revealed vulnerabilities with dependence on China for critical medical supplies and has turbocharged discussions in Brussels about reshoring some of these supply chains back to the EU or at least diversifying them closer to Europe’s own neighborhood. Another sign that the EU intends to be more assertive in the area of international trade is the Commission’s consideration of an anti-coercion mechanism that would allow the EU to more strongly push back against countries (such as China or the United States) that threaten “coercive” actions such as trade restrictions or tariffs against an EU member.

In sum, the EU is combining economic engagement with China with embracing a more assertive economic stance toward China as its new *raison d’être*. Even so, the concepts of strategic autonomy and sov-

ereignty remain poorly defined and frequently mean different things to different member state capitals. How this debate plays out in the coming years and where the equilibrium will eventually stabilize will significantly shape the EU and have major implications for the transatlantic relationship.

The New China Factor in Transatlantic Relations

Over the past decade, China has emerged as one of the key topics on the transatlantic agenda. This trend gradually started during the Obama administration, when there was a shared understanding between the EU and the U.S. that the Transatlantic Trade and Investment Partnership (TTIP) negotiations were at least in part motivated by the need for the transatlantic partners to jointly set global trade standards in order to provide credible alternatives to China. At the same time, the Obama administration's "pivot to Asia" was interpreted by many European leaders as a sign of the U.S. down-prioritizing relations with Europe in favor of prioritizing China and Asia. However, as strategic competition with China became Washington's new overarching foreign policy objective during the Trump administration, the transatlantic agenda on China became even more pressing and challenging.

On the one hand, there are encouraging signs of transatlantic convergence when it comes to recognizing the strategic challenges posed by China's global rise. American and European politicians and business leaders share similar concerns about China's predatory trade practices such as intellectual property theft, forced technology transfers, excessive state subsidies, and uneven market access. The hardening of the European view of China in recent years has also translated into constructive transatlantic conversations on various China-related issues. Moreover, toward the end of the Trump administration, then-Secretary of State Mike Pompeo and EU High Representative Josep Borrell managed to reach agreement on establishing a new EU-U.S. Strategic Dialogue on China which holds promise to help improve policy coordination between Brussels and Washington on China. At the same time, the Trump administration's unilateralist approach to foreign policy and several harmful policies against the EU was deeply damaging for transatlantic relations and the potential for forging a common strategy toward China. While the Trump administration had some limited suc-

cess in getting European countries to adopt tougher positions on issues like 5G and investment screening, all too often its diplomatic approach was too heavy-handed and lacking in credibility.

The Biden administration shares many of the Trump administration's basic assumptions about the China challenge but wants to pursue a far more multilateral approach by working more closely with U.S. allies and partners. By restoring trust in the transatlantic partnership and reversing some of Trump's most harmful policies toward the EU, Biden is expected to be able to have more productive conversations with European leaders about China. Even so, transatlantic cooperation on China is unlikely to prove to be straightforward even under the leadership of a more benign U.S. administration. Illustrating this point is the EU's willingness to move forward with a Comprehensive Agreement on Investments (CAI) with Beijing in late 2020 just before the new Biden administration assumed office and despite a request for consultations by the incoming U.S. National Security Advisor Jake Sullivan. This decision was perceived by many in the Biden team as disappointing and in contradiction of the EU's earlier calls for stronger cooperation with the new U.S. administration.

While there is still significant potential for forging robust U.S.-EU dialogue and cooperation on a plethora of challenges related to China—including on trade and investments, technology, security, climate, and human rights—the EU will likely remain wary about picking sides in the deepening Sino-American competition or about becoming a mere instrument of U.S. foreign policy. Even after Biden's inauguration, both Chancellor Angela Merkel and President Emmanuel Macron have signaled skepticism about taking part in a U.S.-led campaign to confront China. Both leaders were the driving forces behind the conclusion of the CAI negotiations with China and share a desire to maintain commercial ties with China and in the belief that the Chinese model can be transformed through greater economic and political engagement—a notion that few policymakers and experts in Washington any longer share. Moreover, the EU's trust in U.S. leadership is severely damaged after the turbulent Trump presidency. Even though President Biden is regarded as a far more likeminded and trustworthy interlocutor by European leaders, lingering doubts about U.S. commitment to free trade after Trump—such as Biden administration's domestic “Buy

American” agenda—also mean that transatlantic trade relations themselves will remain quite uncertain.

Still, it would be a grave mistake if the EU embraced multipolarity as the organizing principle of international affairs and attempted to position itself equidistantly between Washington and Beijing. If anything, President Biden—who has referred to the transatlantic alliance as a cornerstone for U.S. engagement in the 21st century—offers the EU the best possible partner for defending and reforming the rules-based multilateral system and holding China accountable. European leaders should pay close attention to Biden administration officials’ emphasis on the need to shape the international environment from a common position of Western strength and pay heed to President Biden’s repeated calls for democratic countries to form a common front against authoritarianism and “long term strategic rivalry with China.” The risk otherwise is that Washington may turn to other partners in the Indo-Pacific and that the transatlantic relationship will gradually become less relevant over time.

The Way Forward: Balancing European Sovereignty and Transatlanticism

Responding to the 21st century China challenge will have a transformative impact on future direction of the EU itself as well as the transatlantic partnership. While several crucial differences between Washington and European capitals over how to best address China will not easily go away, the trick for the transatlantic partners will be to engage in a robust dialogue to manage these differences in a constructive way and to capitalize on opportunities for deepened cooperation. In this regard, both the European and the U.S. side have homework to do.

The Biden administration should be careful about framing the debate in terms of zero-sum competition against China as this will likely backfire when it comes to bringing European partners on board. It should instead focus on practical issues where the U.S. and the EU generally see eye-to-eye and emphasize more neutral democratic values and human rights. The U.S. should also clarify that it does not seek containment of China and that it remains fully committed to an open multilateral order. Nor should the United States try to block the EU

from ratifying the CAI agreement with China, as this would likely be counter-productive and may trigger a European backlash.

At the same time, European leaders must avoid over-emphasizing terms like strategic autonomy and sovereignty, recognizing that Beijing is keen to drive a transatlantic wedge, and instead stress the EU's continued commitment to openness. A key test for European leaders will be how to combine the growing desire to be more "geopolitical" and assertive with strengthening partnerships with likeminded democratic partners such as the United States. In fact, if the EU can develop a more open version of what a stronger Europe would look like, there is no reason why Washington should not only tolerate but also actively support such an initiative.

In conclusion, rather than a "Europe first" or "America first" approach, the EU and the United States should jointly seek to develop a new transatlantic resilience and competitiveness agenda that combines trade defense measures such as investment screening, export control and the diversification of supply chains with a joint industrial and R&D policies for key emerging technology areas and combined efforts at shoring up and reforming the global trading order. Such economic measures must be rooted in shared democratic values and a joint concern for the future of the multilateral order.

Notes

1. The FDI screening regulation was adopted in March 2019 and formally entered into force in April 2019 (https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867, September 2021).

Chapter 12

Are We Witnessing a “Zeitenwende” in European Security?

Benedikt Franke

There are many, including this author, who believe that the efforts to create a functioning European security architecture have (once again) reached a watershed moment. The history of European security cooperation, however, is long and full of perceived *Zeitenwenden*. From the (failed) attempt to create a European Defence Community in 1954 to the (unfulfilled) St. Malo Declaration of 1998, high hopes were always quickly squashed in the throes of reality. The question must thus be, what, if anything, makes this *Zeitenwende* different from its many inconsequential predecessors.

It is easy to be unsure about the current state of European security and confused by the many parallel, overlapping, and competing debates about it. The 2020 clash between Germany’s Minister of Defense Annegret Kramp-Karrenbauer and French President Emmanuel Macron over whether, following the election of Joe Biden, the future of Europe’s security lay with the United States (Kramp-Karrenbauer) or with the European states themselves (Macron) is only the latest episode in a rich history of strategic disagreements. To make matters worse (and even more complicated), these disagreements are both compounded and obfuscated by an increasingly detached terminology. With an undue focus on ever more abstract concepts such as “European sovereignty” or “strategic autonomy,” the debate is increasingly losing track of the fundamentals.

The current buzzwords bingo and meta-debating hide the fact that today’s key questions on the state of European security are actually not all that different from those of a decade or five ago.

Such key questions can be clustered in three distinct buckets: first, metaphysical questions on Europe’s role in the world and the capac-

ities needed for it; second, questions on the nature and resilience of the current alliance structure and, in particular, the role of the United States; and third, somewhat more practical questions on the feasibility of available alternatives.

Questioning the State of European Security

The first bucket is full of questions on the kind of role the European Union wants to play in world affairs and the capabilities required to fulfil that role (the more ambitious the role, the more capabilities are needed). It is not surprising that 27 widely heterogeneous member states (ranging from small island states like Malta or Cyprus to central powers like Germany or France) have a hard time agreeing on one clear vision for the EU's role in the world. While some member states wish for a Union ever more firmly embedded in a broad alliance of multilateralists that only acts in concert, others hope for a Europe increasingly able and willing to act alone when the need arises. Both visions raise further important questions, including on whether the EU has a moral responsibility or even an obligation to engage in the defense of its values across the world or whether it suffices to protect its own citizenry at home.

The second bucket of questions relates to the uneasy co-existence of the overlapping security arrangements of NATO and the European Union. Popular (and highly relevant) questions include whether an independent European security project will eventually undermine NATO cohesion or the continent's special relationship with the United States and, as part of this question, whether the envisioned EU structures are duplicating (as Americans or Brits fear) or strengthening (as many Germans and French argue) existing NATO structures. The question whether the United States can be relied upon indefinitely to cover for European capability shortfalls also belongs into this basket. From de Gaulle's fury about the inclusion of a reference to the United States in the 1963 Franco-German Elysée Treaty to Merkel's famous speech in a beer tent in Trudering in May 2017, doubts about the durability of the *Pax Americana* and the wisdom of relying on it have come and gone. They have provided a constant background noise to the somewhat detached reality in which the United States has simply marched on to shoulder ever more of Europe's security burden.

The third bucket of questions is the least abstract. Could Europe, if it wanted to, actually provide for its own security? What would be needed and how would it have to be organized? Should the EU look into highly controversial topics such as a collective nuclear arsenal, joint European aircraft carriers or even an entire European army? How much would it all cost and where would the money come from? Who would control the capabilities and who would make the political decisions whether to use them or not? Would such decisions always have to be taken by unanimity (as is the case now) or could there be cases in which a qualified majority would suffice?

Even though many of these questions are specific to the unique context of the European Union, the underlying strategic predicaments are not new. On the contrary, they have been at the heart of virtually every alliance ever formed. Take the current debate about the Wales Commitments (that is, the promise by all NATO member states to spend two percent of GDP on defense and thereby share fairly in the defense of the alliance) for example. It has a historical precedent in the anti-Persian Delian League (478–404 BC) and the Athenians' increasingly ardent call on other city states to pay their fair share of recent campaign costs. While this debate ended with the requisition of the common treasury by Athens' Pericles and the subsequent outbreak of the Peloponnesian War, the outlook for the EU is somewhat more positive, but only a little. Here is why.

The Outlook for European Security

First, the security situation around the European Union has deteriorated significantly over the last decade. What has once been described as a "ring of friends" has become a "ring of fire." Further crises loom on the horizons, both in the near vicinity (such as the Balkans, Russia's periphery, Northern Africa, or the Middle East) and afar (China, Iran, or North Korea). Aside from these rather specific crises, Europe also faces the more abstract challenges of what we at the Munich Security Conference have termed "Westlessness" (that is, the increasing contestation of the West from within and without and the subsequent weakening of multilateral institutions). While national threat perceptions vary widely across the continent (from the near panic of the Baltics

to the current self-preoccupation of Central Europe), it is clear that challenges abound.

Second, the United States cannot be expected to return to the role of omni-present security provider. Even though the Biden-Administration is likely to be more forthcoming and committed to the transatlantic alliance than its predecessor, there will be no return to the status quo ante. While some of Trump's most controversial decisions, such as a reduction of U.S. troops stationed in Germany, have already been overturned, the pressure on Europeans to shoulder more of the burden will not be relieved. On the contrary, President Biden is unlikely to forego the windfall profit of and positive momentum generated by Trump's rants over the past four years. He knows full well that he needs to keep pushing if the United States is to turn Europe from a bit of a liability to a clear asset in its strategic rivalries with China and Russia.

Third, European defense capabilities have decreased (!) substantially over the last 30 years, both in an absolute and relative sense. From whatever angle one looks at the issue, more than 550 million Europeans still depend on less than 330 million Americans for their security. All shiny new initiatives of the last decade, from the European Defence Agency to the European Defence Fund, have not yet compensated for the over-eager reaping of the perceived peace dividend of the early 1990s. Despite recent increases in defense budgets across the continent, Europe is still far short of the military capabilities it had at the end of the Cold War. To make matters worse, both Russia and China have invested heavily in the meantime. They have significantly modernized their armed forces, expanded their arsenals, and developed new technologies and tactics that, following Sun Tzu's timeless advice, target the inherent weaknesses of their opponents rather than try to match their strengths.

Fourth, Brexit has dealt a heavy blow to EU defense capabilities. Even though a way may yet be found to retain parts or even all of the United Kingdom's military capabilities for certain EU functions, the basic truth is that the EU has lost a significant chunk of its most useful (and needed) power projection assets, particularly in the areas of naval operations, air transport and intelligence.

Finally, despite the clear need and wide-spread popular support for the basic idea of Europeanizing European security, many national gov-

ernments are dithering at the edge of inaction. Confronted with difficult choices for limited resources, they often hide behind ever grander terminologies and the announcements of new initiatives rather than taking the necessary hard investment decisions. The economic impact of the COVID-19 pandemic will not make these decisions any easier. Germany is a case in point: With a record €53 billion earmarked for defense in 2021, Berlin is spending significantly more than in previous years. In fact, the defence budget has increased by an astonishing 43% since 2014. Still, this is far from enough. Germany remains dozens of billions short of what would be needed to fulfil its Wales Commitments or to significantly boost its operational and deployable capabilities. And Germany is not alone. Cumulatively, the EU is well over €100 billion per year short of the defense investments needed to seriously move towards anything like European sovereignty or even strategic autonomy. And even if the money could be found, questions regarding absorption capacities (that is, whether all that money could actually be usefully spent) and priorities (hardware vs. software) abound.

Against this backdrop, pressure is mounting on Europe's leaders to do three things. First, acknowledge that current challenges and current ambitions do not match current capabilities and current plans to increase them. Second, either reduce ambitions or revise plans. And third, find ways to make the most out of the current Machiavellian Moment to accelerate progress across the bench if the European security project is not to end like the Delian League.

Europe's Machiavellian Moment

According to the historian J.G.A. Pocock, a Machiavellian Moment is the time when a republic realizes its own mortality and the urgent need to act to save the institutions it is built upon. In such a moment, Pocock argues, states and their leaders grasp the imperative of swift and determined action in order to save their legitimacy and assure their continued existence. It is a cataclysmic make-or-break moment. From the Florentine Republic in the 16th century and the English Civil War to the American Revolution such moments have always led to epochal changes (that is, *Zeitenwenden*).

The chaotic Trump years, the increasingly open rivalry with China and Russia, Brexit, and the growing arc of instability around the European continent have added up to a critical mass of good reasons to speed up European security initiatives. While the overall impact of the election of Joe Biden and the COVID-19 pandemic are yet to be felt, the basic point of this Machiavellian Moment is simple: Rarely has there been such a conducive combination of external pressure and internal support for the European project. Despite the EU's botched COVID response, it has become obvious even to the most fervent EU-skeptic that a reliance on nation states will not suffice to tackle the challenges out there. And it has become obvious to even the most optimistic believer in Europe's current capabilities that they are neither enough to fulfil the EU's ambition to become a geopolitical actor nor to protect its citizens effectively. Whether these parallel realizations will lead to a *Zeitenwende* in European security depends on the readiness of European leaders to capitalize on them and take a couple of difficult decisions in the near future.

Among those decisions are substantial increases in national defense budgets as well as further support for promising European initiatives such as the Permanent Structured Cooperation (PESCO). That difficult budgetary decisions can be taken and sold to the public with great success, even in the midst of a pandemic-induced economic downturn, has been shown most recently by Sweden and Great Britain; each announced major increases in defense investment over the next four years. Sweden has increased its budget by 40%, while the UK has made an additional €18 billion available for spending on shipbuilding as well as space and cyber capabilities.

Other European countries need to follow suit, and coordinate their investments, if the continent is to emerge from its current Machiavellian Moment both more secure and more capable to play a constructive role on the world stage. Such coordination, however, requires a shared assessment of threats and challenges. It remains to be seen whether the recent decision to introduce a so-called Strategic Compass can help foster a common strategic culture and shift national paradigms towards meaningful continental cooperation. As with a real compass, the strategic one will only be useful if it is calibrated properly, used constantly, and followed ardently.

However, no matter how well the EU does over the next couple of years, at the end of the day, we will witness a true *Zeitenwende* in European security only if increases in national defense budgets, the strengthening of pan-European initiatives, and agreement on key challenges and strategic direction come with a clear plan to resolve the remaining conflicts with NATO over the use and control of key capabilities. If a way could be found to ensure that the strengthening of national and European capabilities and the realization of political ambitions such as European sovereignty or autonomy would lead to a simultaneous reinvigoration of NATO rather than its erosion, the West would be back—not only as a concept, but as a force to reckon with.



Chapter 13

Europe–Russia Relations: A Twin Track to Superior “Peaceful Coexistence”

Christopher Granville

An atmosphere of crisis is far from ideal for making strategic plans with positive aspirations. It calls instead for careful management to prevent further deterioration and, potentially, disaster. This point may seem obvious or even banal; but I start with it as a usefully precise description of what has happened in the dire breakdown of normal relations between Europe and Russia.

This latest downward spiral has come on top of the effects of the 2014 Ukraine crisis (things can always get worse), and began with two shocks in August 2020: the stolen presidential election in Belarus, spurring that country’s long-suffering people to mass peaceful protests met with harsh and cruel repression; and the poisoning of Russian opposition leader Alexey Navalny during an election campaign trip to Siberia.

To return to the “useful description” point: a regular meeting of EU foreign ministers in October 2020 was to have been devoted to a discussion of strategy on policy towards Russia. That discussion had to be shelved in favor of crisis management in the form of agreeing new sanctions on Russian officials in response to the determination of the German authorities that Navalny, since medically evacuated to Berlin, had been poisoned by a nerve agent. Eight months later saw an exact repeat. Once again, the EU Foreign Ministers were due to deliberate on Russia strategy only to see their meeting (on 24 May) diverted into drawing up new sanctions—this time round on Belarussian officials in response to the latest outrage by the Minsk regime in forcing down a Ryanair flight from Athens to Vilnius to arrest a leading Belarussian opposition activist who was on board.

Limitations of Crisis Management

To be fair, the EU has managed in this turbulent period to articulate a three-point approach to Russia. This development followed the stormy visit to Moscow in January 2021 of Josep Borrell, the EU's High Representative for Foreign Affairs and Security Policy, amid nationwide protests over the jailing of Navalny on his return to Russia. The three stated principles are "deterrence, push-back and engagement." This approach is hard to fault as far as it goes. The first point—deterrence—is self-explanatory, and consists largely in the "forward positioning" of NATO forces in Poland and the Baltic states. "Push-back" refers in particular to the outing and neutralization of Russian propaganda and cyber activity. As for constructive "engagement" where possible, particular areas that officials in Brussels and national capitals appear to have in mind are cooperation on climate change policies and promoting 'horizontal' contacts between citizens in scientific and cultural exchanges.

This sensible agenda nevertheless lacks ambition. It is for the most part passive and opportunistic. Again, the deep crisis in relations with Russia provides a perfectly respectable reason to stick to a limited agenda of this kind. Another apt saying, however, runs that "a crisis should not go to waste." I see two ways in which the present situation could be turned to the long-term advantage of both Russia and Europe. Both proposed tracks aim to get beyond the present reactive and managerial mode and, instead, actively address root problems.

The U.S. Gets More 'Strategic': So Should Europe

Before getting to these two proposals, a digression is necessary—to consider an important turn in U.S. policy towards Russia. The Biden administration initiated the Summit meeting that took place in Geneva on June 16, 2020, and used that meeting to launch a new "strategic stability" dialogue with Russia. The planned agenda intentionally omits subjects—such as Ukraine and Belarus—where the two sides have irreconcilable differences and is focused instead on areas with perceived scope for some progress such as nuclear arms control and disarmament in areas both traditional (nuclear weaponry) and new (cyberspace), along with the Arctic and regional conflict zones like Afghanistan and Syria.

Russia’s motives and incentives are clear-cut. It desires peer dealings with counterpart great powers. This would mean Russian national interests being admitted as legitimate and taken due account of by other great powers, whose interests Russia itself would in turn seek to accommodate in a process of give and take. On the U.S. side, by contrast, there is a basic reluctance to deal with Russia as an equal. From the administration’s viewpoint, this risks unpopularity—at least among the mainstream U.S. political class, which regards Russia as a hostile and declining power fit only to be contained and degraded. The best clue to the U.S. interest in trying to stabilize the adversarial relationship with Russia lies in President Biden’s own account of Russian incentives: “Russia is in a very, very difficult spot right now. They are being squeezed by China. They want desperately to remain a major power.”¹

Biden made these remarks just before leaving Geneva in answer to a journalist’s question about why anything constructive could be expected to come from Russia. The tone of the remarks—disparaging towards Russia—may have been meant to deflect disapproval from politicians back home; but the key substantive point still came out clearly, and in one word: China. The paramount strategic goal of the Biden administration’s Russia project is to halt and even reverse the alignment of Russia with China that has been a side effect of the confrontation over Ukraine. A hostile alliance of the two powers dominating the Eurasian landmass is viewed in Washington as a threat in the struggle for global mastery against China.

One further detail of this new tack in U.S.-Russian relations is particularly relevant to Europe. To have any chance of making progress, this new “strategic stability” dialogue requires the most fraught questions to be quarantined. A good example of this was Biden’s neat deflection in his post-Summit press conference of a leading question about Ukraine joining NATO (an absolute ‘red line’ for Russia) by referring to the absence of the necessary unanimity about this question within NATO. Principle was thus preserved behind the convenient façade of the likely Franco-German veto on further NATO expansion (recalling that very same veto at the NATO Summit in Bucharest in May 2008 when the Bush administration had unwisely pressed for Ukraine and Georgia to be admitted onto a definitive track towards membership in the alliance).

It is noticeable here how the United States is sheltering behind Europe for its own (American) purposes of harnessing its Russia strategy to the overarching rivalry with China. It would seem time for Europe to adopt its own, more far-reaching strategy towards Russia.

Track 1: A Revamped CFE Treaty

What I just described as the “unwise” policy of NATO enlargement is the focus of my first proposal. I have no illusions about how controversial this will sound in many quarters. The core problem is the zero-sum game, reflected also—and as crucially demonstrated by the Ukraine crisis of 2013–14—in the alternative between the EU’s Eastern Partnership and the (Russia-dominated) Eurasian Economic Union (EEU). At stake in this game, as it has unfortunately taken shape in the post-Soviet period, is whether the former Soviet republics that became sovereign countries upon the collapse of the USSR in 1991 should end up in the Western or Russian camp in military, economic and geopolitical terms.

The Western position on this question has always been that this is entirely a matter for the countries concerned. Their sovereignty cannot be compromised by external powers’ purported spheres of interest. In reply, and specifically as regards the military sphere, Russia invokes the “indivisibility of [European] security.” This fundamental Russian objection to NATO expansion—already very vocal in Boris Yeltsin’s time (before Vladimir Putin had ever been heard of)—boils down to the famous ‘security dilemma’ that arises when steps taken by one or more states to enhance their security make another country feel more insecure and compel it to prepare for the worst.

The formal Western retort is that Russia has no rational grounds for feeling insecure as a result of NATO enlargement and therefore that the security dilemma does not apply to this case. But this retort is belied by Western actions. The West implicitly recognized that the security dilemma did arise after all when it prepared the ground for the first NATO expansion in 1999 by drawing up the NATO-Russia Founding Act of 1997, in which NATO committed to refrain from the “permanent stationing of substantial combat forces” on the territories of the former Warsaw Pact states. This was a delicate area, however.

Acknowledging too readily the security dilemma might have implied that Russia enjoyed some kind of *droit de regard* in its neighborhood. An important political goal from the outset was to guard against any position or action that might indicate, however inadvertently or obliquely, that Russia had a sphere of interest. The public rhetoric of Western officials around the signing of the 1997 Founding Act therefore emphasized that this was a political agreement rather than a binding treaty, and that the resulting consultative forum (the NATO–Russia Council) did not give Russia a veto. In short, compared to the new NATO members, Russia was to have a second-class partnership.

Europe should now take the lead in breaking out of this vicious circle by reviving the spirit of harmony between the West and the USSR in the Gorbachev period that peaked in November 1990 with the signature in Paris of the Treaty on Conventional Armed Forces in Europe (CFE) under the auspices of the Conference (now “Organization”) for Security and Cooperation in Europe (CSCE/OSCE). That treaty set symmetrical limits on the overall quantity and, equally important, regional concentrations of ground forces that could be deployed by NATO and the Warsaw Pact. It also enshrined elaborate verification mechanisms, including mutual on-site inspections (both routine and “challenge” inspections) and satellite surveillance.

However, by the time the treaty entered into force in mid-1992, it had become outdated—since not only the Warsaw Pact but the Soviet Union itself had ceased to exist. After successive waves of NATO enlargement, Russia announced in 2007 that it was suspending implementation of the treaty. The official NATO position, reiterated in the communiqué released after its latest Summit on June 15, 2020, is that Russia must return to compliance with the CFE Treaty. This position is absurd in the context of NATO having already expanded to Russia’s borders and remaining formally committed—as again reaffirmed in that same communiqué—to admitting Ukraine and Georgia. The CFE Treaty should be completely revamped.

Serious Gain, Illusory Pain

From the Russian point of view, this new European security treaty would achieve the status for which it has craved—namely, that of an

equal contracting party whose interests were accommodated in a formal and binding agreement. It would transcend the NATO expansion problem by prioritizing a renewed military and security settlement for the whole of Europe (“whole” in its geographically correct, and politically realistic, sense of including Russia).

The obvious objection would be that any such new treaty would sacrifice the interests of Russia’s sovereign neighbors. To this objection there is a practical answer, and also an answer of principle.

On the practical front, a CFE Mark II would not mean abandoning the buffer states to Russian military aggression since the new treaty would ban armed-force concentrations or exercises near any of the relevant borders, as seen in the build-up of Russian troop concentrations near the border with Ukraine in early 2021 and the regular NATO and Russian war games in, respectively, the Baltic states and Belarus; and, in the last resort, if the accompanying inspection and surveillance regime revealed Russian violations of these treaty provisions, the Western governments could denounce the treaty and roll out counter deployments.

The answer of principle takes us back to the question of self-determination. The countries neighboring Russia have communities and/or territories with contrasting identities. Western insistence on the ‘validity’ of a NATO membership application backed by a bare parliamentary majority or a president elected by simple majority is reckless. Continuing down that path will result in those countries being torn apart—in fact, as seen in Georgia and Ukraine, has already had this result. The standard reply to this—that nothing of the kind would have happened but for Russian aggression—is complacent and disingenuous. These countries would have been riven by competing ethno-nationalisms in any case, making then highly problematic new partners for Europe.

Track 2: Climate Cooperation Leading to an EU-EEU FTA

Overcoming the zero-sum trap in the military and security sphere by means of such a new treaty with Russia should be accompanied in parallel—and here is my second proposal—by a similar initiative in the economic sphere. This boils down to negotiating a Free Trade Agreement (FTA) between the EU and EEU. Objections concerning the rights of small sovereign states in Russia’s neighborhood may be an-

swered in the same way as just discussed in relation to the “CFE Mark II” proposal. There is also, however, a more serious objection that has both a practical and a principled aspect.

The present crisis in Europe–Russia relations is incompatible with the level of confidence required in practice for any such a complex and ambitious negotiation; and to the (considerable) extent that this crisis stems from increasing domestic political repression along with unremitting corruption in Russia, the result is a serious barrier in principle (typically referred to these days in foreign policy circles as the “values agenda”).

It follows that it is worth seeking out a realistic and gradual entry path towards an eventual FTA negotiation. One such path stems from perhaps the most realistic and urgent area of “engagement” envisaged by the EU’s recently stated approach to Russia. The area in question is climate-related policies. Serious negotiations are in any case unavoidable in relation to the EU’s planned introduction of a ‘Carbon Border Adjustment Mechanism’ (CBAM), which has material implications for key Russian exporting sectors such as ferrous metals and bulk chemicals (fertilisers) that must in turn play a crucial part in the smooth diversification of the Russian economy away from fossil fuels. These negotiations would focus on agreeing standards and procedures for measuring the carbon content of Russian manufacturing exports.

An important parallel discussion in this area of carbon accounting, and one of equal or greater value for Russia, would aim to agree similarly precise standards for scientific measuring, hence pricing, of the carbon offset credits in which, as stated by President Putin in his keynote address to the St Petersburg International Economic Forum on June 4, 2020, Russia aspires to create one of the world’s major markets based on its vast Siberian forests. By this means, patterns of cooperation and confidence could be steadily established that would create the longer-term potential for the deeper economic relationship that is clearly desirable and desired in principle by both sides.

A Tailwind for Russia’s Own Smooth Development

Pursuing this long-term strategy of forging military and economic agreements that included Russia in the European space would also

have the potential to help generate a virtuous circle as regards what might be reckoned the most decisive factor of all—namely, Russia’s domestic political and institutional development. In the present crisis, senior Russian officials like Foreign Minister Sergey Lavrov have wondered aloud about whether any kind of relations with Europe are now possible. Underlying such statements is the perception of the present ruling establishment in Russia that Europe (and the wider U.S. alliance system) seeks to destabilize and weaken Russia. European officials would counter that, on the contrary, Russia would be more stable and prosperous if it had a more open and competitive political system and stronger rule of law.

The future welfare and security of both Russia and Europe depends to an important extent on whether Russia can find a smooth path of internal development. Some political instability may even be beneficial and in any case is virtually inevitable (take, for example, the unrest that accompanied South Korea’s transition from authoritarianism to democracy in the 1980s–90s). But prolonged and systemic destabilization could be disastrous, given Russia’s size and military power which, unlike that South Korean case, is not already anchored in a stable alliance system.

Pursuing the two tracks proposed here would be one way of mitigating such risks. The phrase “peaceful coexistence” in the title of this paper is a conscious reference to the Cold War-era notion of avoiding catastrophic conflict between irreconcilable systems. The adjective “superior” refers to this strategy of getting beyond that ‘irreconcilable’ stage and moving towards a relationship between Europe and Russia that is akin to a challenging but rewarding friendship.

Notes

1. Remarks by President Biden Before Air Force One Departure, Geneva Airport, June 16, 2021, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/06/16/remarks-by-president-biden-before-air-force-one-departure-4/>.

Chapter 14

Forging a Truly Strategic U.S.–EU Partnership

Daniel S. Hamilton

For decades, NATO has been the institutional expression of the transatlantic link. Yet NATO only encompasses the political-military aspects of transatlantic partnership. There is no equivalent bond between the United States and the European Union (EU), even though the U.S.-EU relationship is potentially the second anchor of the transatlantic community and the EU will be America's essential partner on a wide range of issues that are beyond NATO's purview.

The U.S.-EU relationship is among the most complex and multi-layered economic, diplomatic, societal and security relationship that either partner has, especially if it is seen to encompass the relationships the United States maintains with the EU's member states as well as EU institutions. In a world of deepening global connections, the transatlantic relationship remains the thickest weave in the web. The \$ 6.3 trillion transatlantic economy directly supports 16 million jobs on each side of the Atlantic. Networks of interdependence across the Atlantic have become so dense that they transcend "foreign" relations and reach deeply into our societies, affecting a wide range of domestic institutions and stakeholders.

Despite the travails of the Trump years, the U.S.-EU relationship remains close. But it is not strategic in the sense that partners share assessments about issues vital to both on a continuous and interactive basis; are able to deal with the daily grind of immediate policy demands while identifying longer-term challenges to their security, prosperity and values; and are able to prioritize those challenges and harness the full range of resources at their disposal to advance common or complementary responses.

The EU remains best understood as a carefully negotiated and continuously evolving framework by which its member states can live together and advance common interests and protect values, rather than as a unitary actor with the operational capacity to shape international events

in real time. The operational effectiveness of the U.S.-EU relationship is thus heavily contingent on the evolving nature of the EU itself. Obstacles to effective transatlantic coordination often have less to do with American reluctance to engage or support the EU as a strategic partner than with the limits of European capability, consensus and political will.

Of course, political and economic actors in both the United States and in EU member states are often tempted to bypass formalized U.S.-EU structures and advance their interests bilaterally. The Trump years were an extreme example of this. The George W. Bush administration also developed a strategy of “disaggregation” to play EU member states off against one another on a number of issues. Yet the United States is not the only actor to play this game. Many—if not most—EU member states want the United States to take their side on issues they are debating within EU councils. To take one recent example, despite official EU support for the German-Russian Nord Stream 2 gas pipeline project, some EU member states asked Washington to help scupper the deal. Another example relates to the term “strategic autonomy.” It is billed as an EU objective blessed by all EU member states, yet its meaning remains unclear. Its potential implications have so unnerved some EU member states that they want Washington’s support to ensure that a more “autonomous” EU is not a less Atlanticist EU.

These dynamics create a partnership that punches below its weight. Priorities are often mismatched, as the U.S. looks for efficiency and concrete outcomes, European institutions seek legitimacy and symbolic U.S. and global validation of the ongoing process of European integration, and EU member states oscillate between scrambling to secure U.S. favor for their own particular national interests and banding together to resist American influence. Given these realities, the first and most important step toward a more effective and strategic U.S.-EU relationship is to rebuild a sense of common cause by reconciling Europe’s integration with a strategic transformation of transatlantic relations. The goal should be a resilient Atlantic partnership that is more effective at enhancing our prosperity; protecting our societies; advancing our values, and working with others to forge global responses to global challenges.

In this regard, the advent of the Biden administration represents a rare and potentially fleeting opportunity to recast the U.S.-EU partnership. Joe Biden says that “Europe remains America’s indispensable

partner of first resort” and “the cornerstone of our engagement with the world.” European Union leaders have echoed these sentiments.

Fresh Start

Within the first six months of the Biden Administration the two parties undertook a series of initial actions to reinvigorate the relationship after four turbulent years under Donald Trump. As core partners within the G7 and at their own U.S.-EU summit in June 2021, the two parties agreed to provide vaccines to two-thirds of the world’s population by the end of 2021. They agreed to rewrite global tax rules on corporate income that could overturn a century of established tax practice. And they agreed to an ambitious climate partnership, anchored by a U.S.-EU High-Level Climate Action Group and a Transatlantic Green Technology Alliance.

The two parties have also made some progress on trade, investment and technology cooperation. First, they demonstrated a commitment to remove bilateral irritants that Trump left on Biden’s doorstep. They agreed to suspend for five years mutual tariffs related to the ongoing Boeing-Airbus dispute, as they seek an ultimate resolution to the matter. They also agreed to work to lift U.S. tariffs on European steel and aluminum, which the Trump administration imposed for “national security” reasons, as well as countervailing European tariffs on U.S. goods.

Second, they agreed to the EU’s proposal to create a Transatlantic Trade and Technology Council to grow the bilateral trade, investment, and technology relationship; to avoid new unnecessary technical barriers to trade; to facilitate regulatory cooperation; and to cooperate on compatible and international standards development.¹ Working groups have been launched on climate and green tech cooperation, strengthening critical supply chains and cybersecurity, and on technology standards cooperation, including on artificial intelligence, the Internet of Things, and other emerging technologies.

To the surprise of many pundits, Washington and Brussels have also come together more closely on how to deal with China. There is general agreement that both sides want to work with China where it is in their interest, for instance on climate change, non-proliferation, and in many areas of trade. There is also agreement to address areas where

both sides view China as a competitor, such as forced technology transfers, massive subsidization of domestic industries, and Beijing's failure to meet its WTO commitments. And there is greater alignment that China seeks to be a systemic rival, for instance by contesting democratic norms and adherence to standards of human rights and rule-of-law norms. Debates continue on each side of the Atlantic over the proper balance that might be struck among these different approaches. There are as many differences on these issues within the European Union as there are between Europe and America. Yet there is now a transatlantic frame through which both sides can address the China question.

These initial actions promise a fresh start. A renewed sense of common purpose is likely to start quickly—although not necessarily easily—in the foreign policy realm. The two parties will want to ensure that U.S.-EU-UK relations remain strong and sturdy. They share a common interest in a more capable Europe, including in defense and security. They are likely to look for ways to harness their capabilities to counter instabilities in many world regions generated by domestic conflicts or malign external influences. The EU and the Biden administration want to control Iran's nuclear ambitions, strengthen democracy around the world, fight corruption, authoritarianism and human rights abuses, support workers' rights, enhance coordination in the use of sanctions in pursuit of shared objectives, and strengthen the multilateral system. There are greater prospects for enhanced U.S.-EU cooperation in the Western Balkans, Eastern Europe, and the Mediterranean. The two parties will certainly differ on various details, but they share many common perspectives on these issues.

If the United States and the European Union want to make their partnership more effective and strategic, however, they will need to move beyond traditional foreign policy issues and address interrelated challenges of health, resilience, climate and energy, digital transformation, and revisionist assaults—from within and from without—on democratic principles and institutions.²

From Sickness to Health

COVID-19 will be a high-priority health security threat for years to come. Even after vaccination becomes routine, it is likely that the virus

will remain endemic and continue to evolve, requiring vaccine adjustments and constant vigilance.

Beyond COVID-19, transatlantic cooperation will be an essential motor behind multilateral efforts to improve global health security and governance, including support and reform of the World Health Organization, and prioritization of “One Health,” an approach that recognizes that the health of people is closely connected to the health of animals and our shared environment. One Health is not new, but it is becoming more important as more humans live in close contact with animals, as animals become more susceptible to diseases due to disruptions in their environmental conditions and habitats, and as greater cross-border movement of people, animals and animal products accelerate the spread of known and emerging zoonotic diseases that spread between animals and people.

There is also need to improve security responses to future health security threats. The COVID-19 experience is dramatic evidence that pathogens can kill and sicken many millions of people, damage economies, exacerbate inequalities, and degrade security readiness and military assets. The United States and the European Union share common interest in exploring how these events have changed our vulnerability to accidental or deliberate threats from biological agents and determining whether preparedness is sufficiently in line with those dangers. This could include a joint assessment to the Biological Weapons Convention (BWC) of how biological threats have changed, how the states parties can address them, and how the BWC should be funded and organized to meet expanded challenges.

The COVID-19 pandemic has been accompanied by what the WHO calls a global “infodemic” of mis- and disinformation that has undermined public health measures and led to additional loss of life. Groups spreading disinformation about COVID-19 are coordinating and highly organized. The EU and the United States must mobilize international efforts to address this infodemic, including through public education efforts that reach beyond COVID, and through more rigorous vaccine diplomacy that showcases how democracies are addressing the challenge.

Meeting the Climate Challenge Through Energy and Economic Opportunities

The EU has welcomed the U.S. return to the Paris Climate Agreement and President Biden's goal of carbon neutrality by 2050, which mirrors the EU's own target. The more difficult reality is that few countries are on pace to cut emissions at the scale and pace needed to meet the 2015 Paris Agreement goals, much less reach global net zero. The sober truth is that the Conference of the Parties (COP) process itself is proving to be sluggish and unwieldy, crowding out opportunities for major emitters to align and advance policies that make global net zero a realistic goal. A reinvigorated transatlantic climate partnership will need to facilitate multiple policy pathways, beyond and alongside the COP26 process, that can take the world to net zero emissions.

The two parties have pledged to work more closely to develop clean and circular technologies, and will want to explore how to advance a transatlantic green trade agenda. The most immediate challenge will be U.S.-EU consultations on carbon border adjustment mechanisms (CBAMs)—taxes on imported goods based on their attributed carbon emissions—given that the European Commission is moving ahead with such plans without adequate prior consultations with the United States, and it is questionable whether such plans are compatible with WTO rules. Because the EU and the United States are each other's largest commercial partners, driven by significant mutual investments forming dense interlinkages across both economies, it will be important for the parties to work together to devise WTO-compatible CBAMs. Transatlantic alignment could set a global template for such measures; transatlantic divergence could further disrupt the transatlantic economy and derail cooperation on a host of other issues.

Promoting Jobs and Growth, Including Through Trade and Investment

On the economic front, if the two sides are able to address the lingering irritants they have agreed to tackle first, this could clear a pathway to a more ambitious agenda. Reform of the World Trade Organization (WTO) is near the top of the list. This includes restoring dispute settlement by reforming the Appellate Body, intensifying U.S.-EU-Japan

work on level playing field issues, and bringing forward WTO e-commerce negotiations.

The United States and the EU must also reframe the goals of their economic cooperation. The pandemic-induced recession has swelled economic insecurities on each side of the Atlantic, amplifying popular concerns about jobs and equitable growth. The climate change crisis and the digital revolution are challenging industrial-age patterns of production and consumption, innovation and regulation. Intensified global competition, driven in part by China's model of authoritarian state capitalism, is challenging the attractiveness of democratic market-based systems. These factors compel the United States and Europe to focus transatlantic cooperation squarely on creating jobs, boosting sustainable growth, and protecting our values by ensuring that North Atlantic countries are rule-makers, rather than rule-takers, in the global economy. Transatlantic trade and investment initiatives should be advanced as means to these ends, not as ends in themselves.

Despite dense transatlantic commercial interlinkages, the two parties have struggled to harness the full potential of the transatlantic economy to generate jobs and growth. Their most ambitious initiative, the Transatlantic Trade and Investment Partnership (TTIP) negotiations, made respectable progress, but ultimately ran out of gas when the Obama administration ended in January 2017. Given the multitude of bilateral irritants that have accumulated since then, there is temptation to keep transatlantic negotiations in the deep freeze. Currently, the obstacles seem too high, and the incentives too low, for either side of the Atlantic to invest much political capital in any major transatlantic economic initiative.

Nonetheless, an ambitious transatlantic trade and investment agenda is important to the ability of the United States and the EU to build a broader agenda, because if they prove unable to resolve bilateral frictions and clarify the terms of their own extensive commercial relationship, it will be difficult to find common ground on other issues. Standing still means losing ground.

The two parties must recommit to a positive trade and investment agenda, even as they focus that agenda on effective ways to render both economies stronger, promote better jobs and sustainable growth. They should start by separating regulatory cooperation from market access

negotiations. Negotiating mutual recognition of essentially equivalent norms and regulatory coherence across a plethora of agencies rendered TTIP enormously complex. It gave the impression that trade negotiators might be prepared to bargain away basic rules and standards that societies on each side of the Atlantic had devised through their respective democratic procedures. TTIP's complexity created a deep gap between the aims of the partnership and what ordinary citizens believed it would produce. Any new transatlantic initiative must be grounded in a fundamentally new narrative and approach. Bilateral regulatory cooperation should be about helping regulators become more efficient and effective at protecting their citizens in ways that are democratically legitimate and accountable, not about removing or reducing non-tariff barriers to trade. It must help regulators do their job; positive economic gains that might result would be important, but secondary.

Ultimately, the United States and the European Union should seek a Transatlantic Zero tariff agreement that would eliminate all duties on traded industrial and agricultural goods and services. Given that most U.S.-EU tariffs are low (1–4%), a tariff-free agreement could be achieved relatively quickly, would translate into millions of new jobs across the North Atlantic space, and improve both earnings and competitiveness for many companies, particularly small- and medium-sized enterprises. Because the volume of U.S.-EU trade is so huge, eliminating even relatively low tariffs could boost trade significantly. And because since a substantial portion of U.S.-EU trade is intra-firm, i.e., companies trading intermediate parts and components among their subsidiaries on both sides of the Atlantic, eliminating even small tariffs can cut the cost of production and potentially lower prices for consumers. Transatlantic Zero should exclude sanitary and phytosanitary (SPS) measures such as GMOs, chlorinated chicken, beef hormones, which should be addressed by those responsible for food/plant safety. It should also exclude investor-state dispute settlement (ISDS) provisions.

Bridging Transatlantic Digital Disconnects

The United States and the European Union bear particular responsibility to define the digital world, because the transatlantic theatre is the fulcrum of global digital connectivity. Transatlantic flows of data continue to be the fastest and largest in the world, accounting for over one-half

of Europe’s global data flows and about half of U.S. flows. North America and Europe generate about 75% of digital content for internet users worldwide. Transatlantic cable connections are the densest and highest capacity routes, with the highest traffic, in the world. The United States and Europe are each other’s most important commercial partners when it comes to digitally-enabled services. Moreover, as the EU has noted, the digital revolution is about more than hardware and software: “it is also about our values, our societies and our democracies.”

Instead of building on these dense transatlantic interconnections, the two parties have allowed a series of digital disconnects to roil U.S.–EU relations. These include the collapse of the U.S.–EU Privacy Shield regulating personal data flows across the Atlantic, as well as broader differences over privacy rules, digital services taxes, antitrust laws, efforts to address dis- and mis-information through digital channels, contrasting approaches to 5G regulation, and the EU’s proclaimed ambition to strengthen its “technological sovereignty,” which aims in part to reduce European dependence on U.S.-based cloud operators. In addition, the European Commission has advanced major initiatives through its Digital Services Act and Digital Markets Act that could create additional complications for the Biden administration. If the two sides of the Atlantic are to form the core of a wider coalition of like-minded democracies on issues of data governance that can prove more vibrant than autocratic alternatives, they must address these issues.

Enhancing Resilience

The COVID-19 pandemic, cyberattacks, dis- and mis-information through digital channels, terrorist threats, and disruptions to supply chains are grim examples of how essential flows of people, goods, services, transportation, energy, food, medicines, money and ideas that power our societies are increasingly susceptible to disruption. There is pressing need to implement operationally the concept of resilience—the ability to anticipate, prevent, protect against and bounce forward from disruptions to critical functions of our societies.

Ensuring the resilience of one’s society is foremost a task for national governments. Resilience begins at home. Nonetheless, no nation is home alone in an age of pandemics, potentially catastrophic terrorism,

networked threats and disruptive hybrid attacks. Country-by-country approaches to resilience are important but insufficient in a world where few critical infrastructures are limited to national borders and where robust resilience efforts by one country may mean little if its neighbor's systems are weak. Moreover, not only are European and North American societies inextricably intertwined, no two economies are as deeply connected as the two sides of the North Atlantic. If Europeans and Americans are to be safe at home, national efforts must be coupled with more effective transatlantic cooperation.

A vigorous transatlantic and international resilience effort should be a core priority for the U.S.-EU partnership. The two parties should issue a joint political declaration that they shall act in a spirit of solidarity—refusing to remain passive—if either is the object of a terrorist attack or the victim of a natural or man-made disaster, and that they shall mobilize instruments at their disposal to assist at the request of their respective political authorities. The UK and Canada should be invited to join that declaration. A political pledge would create key preconditions for advancing overall resilience, give political impetus, bureaucratic guidance and spur operational mechanisms toward that shared objective. An EU-U.S. Resilience Council could operationalize this initiative and serve as a cross-sector forum for strategic deliberations about threats, vulnerabilities and response and recovery capacities. This group would ensure coordination across existing work within established but sector-focused and often stove-piped bureaucratic agencies.

A key element of this agenda is more effective cooperation on cybersecurity capacity building, situational awareness and information sharing, including possible restrictive measures against attributed attackers from third countries. Data-sharing and mutual assistance for real-time responsiveness to cyber-threats will be increasingly essential in a world characterized by the growing use of sophisticated artificial intelligence (AI) to penetrate often vulnerable systems. It would be a concrete expression of a Transatlantic Solidarity Pledge. A coordinated approach to strengthening the resilience of critical infrastructures would not only benefit the transatlantic economy, it can ensure that our shared values are the engine powering the upcoming transition from a world of “openness at all costs” to one in which trusted infrastructures protect critical flows from disruption and attacks.

Effective resilience also requires engagement by the private sector, which owns most transnational infrastructures and movement systems critical to essential societal functions. U.S.-EU efforts in this area have been uneven at best. One model might be Information Sharing Advisory Councils, which are sector-based entities established by critical infrastructure owners and operators to foster information sharing, situational awareness and best practices about anticipating and addressing physical and cyber threats and disruptions.

On all of these issues and more, the United States and the European Union have been presented with a rare moment of opportunity. The next few years will tell whether Europeans can muster the will, and Americans the patience, for the nuanced and painstaking work required to make the U.S.-EU partnership more effective and strategic.

Notes

1. The EU-US Trade and Technology Council (TTC) met for the first time on September 29, 2021 in Pittsburgh (https://ec.europa.eu/commission/press-corner/detail/de/STATEMENT_21_4951, September 2021).

2. Some specific recommendations draw on Daniel S. Hamilton, *First Resort: An Agenda for the United States and the European Union*, Washington: Wilson Center/Transatlantic Leadership Network, 2021 (<https://transatlanticrelations.org/publications/first-resort-an-agenda-for-the-united-states-and-the-european-union/>, September 2021).

Chapter 15

A Divine Comedy: Systemic Rivalry Between the West and China

Peer-Robin Paulus

The Challenge

Europe is at risk of falling behind in terms of its status as the determining factor in the global economy. This comes after centuries of dominance. Its position as one of the most important industrialized areas in the world, and as a region of the world with an outstandingly high level of technological development, is in jeopardy.

Germany in particular has continually been one of the strongest industrialized nations in the world over the past 150 years or so. But what may one expect to happen in the next 15 years? Many people who are at the heart of German industry are asking themselves this very question, including among the many technological leaders in Germany's small and medium-sized enterprises, known as the "hidden champions." Many of these have been run by families for generations, and each has a leading position to defend as part of the world's economy. They represent innovation, economic power and fiscal revenue as well as jobs, but also the opportunity that this entails to set the standards within their industries. A company can hardly dominate a market or its market niche if it is no longer setting, or at least having a word in the setting of, the standards that apply there. But who will be the defining power in the global economy in the years to come? China is currently engaging in a broad, highly-successful investment offensive. This offensive relates to advanced (IT) technology, but also to transportation, intercontinental infrastructure, and parallel to all this the foundations of research fields related to applications. The key players in the EU, in the United States, and above all elsewhere, have so far gazed at this in wonder, and are largely in a state of shock in many cases. Will China become THE economic power as early as in the first decades of the 21st century, and thus THE standard setter and arbitrator?

This would mean that the “Cold War,” from which the free West was initially thought to have conclusively emerged victorious in 1989/91, might be lost after all. “Don’t count your chickens before they hatch,” as some might say who were there in November 1989 celebrating in Berlin on the Wall at the Brandenburg Gate.

We thus come to the question of what happened in China, what continues to happen, and what that means for the group of countries concentrated around the old democracies. China has invested a lot of money, and will continue to mobilise capital. But other regions, too, are reaching deep into their pockets. The Biden Administration is launching major spending programs. The European Commission is by no means lagging far behind. The European Central Bank has been doing nothing else for years by continually buying up government bonds from EU countries. There is a lot of money on the move, all over the place. But the successes differ widely. The reasons for this find expression in two questions in particular, and the answers to these questions are astonishingly hybrid.

Two Questions

1. Who is investing, and who decides about the investments?
2. How are the investments funded?

It is possible to answer both questions with Answer A: The state sector decides, the state and—in Europe—the European Union. The public sector is taking up debt in order to do so, raising a variety of taxes, and inventing new charges. The public funds this brings in can be spent in a variety of ways. There is more than one major challenge. The funds could be invested in the economy, or in conserving the global climate, as well as in “greater justice” and “social cohesion,” for instance in guaranteed pension levels, a guaranteed minimum level of social security, protection for tenants, or a basic income with no strings attached.

These answers are referred to as “Big Government,” a “New Deal” or a “Green Deal,” as “system renewal” or “active industrial policy,” as “intelligent design,” or (the great) “socio-ecological transformation.” The spotlight quickly falls on the need to retrain ten million or even

twenty million people in Germany alone. The drawing board is filled with a large, even historic picture which is drawn by architects of “active industrial policy” who regard themselves as linked to the future and as representatives of a modern age who can see this future better than others can.

That having been said, there is also a possible “Answer B” to the two questions. It is not the state and the EU, but private investors who decide on the investments, and who make them. There are many of them, and they therefore operate in decentralized structures. They have no headquarters. Everything is decided in the field, i.e. where the money can actually work usefully, within established legal framework conditions such as a CO2 price. This admittedly necessitates leaving said decentralized players air to breathe. Red tape also needs to be reduced in order to facilitate opportunities within fiscal policy to rebuild equity capital, after a pandemic which has tended to eat up this very capital. This is conditional on confidence in freedom, within a clearly-defined legal framework. Then it is not the public sector, but many different stakeholders who attempt to shape the future. The answer is shaped by an awareness that the future cannot be precisely planned, and that it is possible to set goals, but that the tools cannot be defined via which the goals are to be achieved, that progressive technology and further innovations are uncertain and cannot be pre-defined by the State—these are the crucial differences vis-à-vis Answer A. Answer B leaves the public sector with the tasks of only creating good framework conditions, building up the necessary infrastructure such as a fast Internet, and using all this to invite stakeholders to invest.

A Comedy

One might think that a strong state will generally opt for Answer A, while a society with a decentralised structure will choose Answer B. *Étatists* would generally prefer the path towards a central planned economy. Liberals and individualists are thought by contrast to prefer the path that leads to Answer B. The course of world history however follows its own laws. The result is therefore something different, to wit:

One-party rule in China leaves scope for a market economy to boost major growth energies and foreign investment in China. This

enables the country to successfully engage in a rapid race to catch up in terms of technology which has presumably never been seen before at any time in history. This process entails accumulating so much capital that the Chinese state—worldwide, and hence beyond its own national borders—decides on investment in transport links, infrastructures and company acquisitions. China continues to be subject to the dictatorship of a Communist Party, and this situation is stable. The actions of this Party remain largely motivated by the politics of power. It aspires to worldwide dominance, and aims—reasoned in ideological and nationalistic terms—to achieve a historic victory. That said, the tendency here is to aim for control exercised by a state aiming for the whole, but with “decentralized” means, which hence are market economy in nature to some degree. This is the second time in the world that a *transformation* has been attempted on a grand scale in order to be victorious, as well as to stabilize Party rule. It is another “Perestroika,” but one of a very different kind. It is not the media which are being liberated (on the contrary!), but parts of the market forces, albeit they are subject to continual controls. The dictatorship avails itself of the possibilities offered by the markets, and hence of a bourgeoisie that is rendered domesticated by these means.

A different play is being performed in the former old “West”—the presumed victor of the Cold War. The means open to a strong state are to be used to work towards a society that is relieved of a great number of burdens. The goal is to bring about a civil society which is free of violence and controls, granting maximum freedom to each citizen in a protected environment. The “market” does not enjoy trust in such a process. It is considered that the public sector must control the market in order for it to achieve specific goals intended for it. The state and the EU claim here to know a lot about future technologies and innovations, for instance. Lip service at best is paid to the free market, embedded in terms which are no longer open-ended, such as currently that of a “socio-ecological market economy.” In order to achieve its goals, the liberal West employs étatist, Big Government methods in order to arrive at a definitive anti-authoritarian society by these very means. China’s one-party rule, aiming as it does to create comprehensive, global state dominance, by contrast makes use of the market economy. We might therefore also refer to it as a comedy, but one on a world scale.

Presuming That One Were to ...

As strangely as the characteristics and methods are indeed mixed, we are left with a “system rivalry” in which the systems compete against one another. As a hybrid contender for global technological dominance, China is challenging the West, which is equally hybrid and is no longer all that Western, with a sheer mass of investment of all kinds. But this challenge is hardly recognized, or at least large sections of the elites evidently fail to a considerable degree to take it very seriously. There are however important realizations to be made, if one takes a closer look.

Goliath

China is openly threatening to leave the Western nations behind and to take up its place as a leader on a world scale. Comparable constellations have repeatedly emerged in former times, either in the run-up to the First World War by the German Reich, or by Japan in the 1980s and early 1990s. The challengers at that time were however more productive in many fields, and altogether on a broad level. China, by contrast, is a technological leader in individual, tentative areas, but remains relatively unproductive in a comparison among the industrialised nations, something which is regularly pointed out by the Mercator Institute for Chinese Studies (MERICS).

But how can China then rise to the heights of global leadership? To start with, China’s approach is skilful in terms of power policy. If we were to take as an example Robert Greene’s guide entitled “The 48 Laws of Power,” which was published at the turn of the century, China has done many things in a very clever, correct way. The country has been following Laws 3 “Conceal your intentions,” 14 “Pose as a friend, work as a spy,” 23 “Concentrate your forces,” as well as 30 “Make your accomplishments seem effortless,” in an exemplary manner for decades. China however benefits above all things from its two-fold opportunities for scaling.

A Gigantic Internal Market

China's giant market, which is continuing to grow, is an advantage for the Chinese economy, not only in the manner in which Germany, too, has benefited from being part of the EU, or the United States has benefited in the world for many years. A large market first and foremost helps those companies which do business on it. The second advantage, which may well be greater, lies in the fact that—if the other circumstances are more or less right—such a large market sucks in investment like a vacuum cleaner, and thus leads to technology transfers—something that is made much easier by virtue of deliberately-imposed conditions for market entry.

The Tiered, Dual Concentration of Capital

The second advantageous scaling lies in capital that can be deployed in a concentrated manner. First, the country got rich quickly, which as a rule entails an increased concentration of riches. Communist China in fact has a comparatively high “GINI coefficient,” which reflects the differences in income distribution. This coefficient is higher there than in the United States or in any of the member states of the EU. China also only has minor concentration losses caused by ongoing re-distribution, for instance in contexts such as the organization of old-age pensions. This already higher accumulation of capital that can be deployed is additionally grouped by the state, given that the public sector continues to have considerable state property at its disposal, acting as “means of production,” as well as being subject to virtually no serious legal boundaries. The steering mechanisms are dictatorial in parts, lead to grievous encroachments on fundamental rights, and as a rule are exempt from any obligation at all in terms of considerateness. Decision-makers in China can take investment-related decisions on a completely different scale in comparison to their counterparts in the United States, in the EU, or even in Japan.

What is more, money is spent very differently in China. The figures in this regard have not yet been combined and ordered. That having been said, we may briefly speculate: Were one to compare the spending priorities in China and the EU with one another, where C stands for spending on protecting the global climate, S for spending on the social

welfare state, and I for investment in new technology, the following weightings would emerge: The EU would clearly show a noticeably strong priority attaching to its S spending, and at least a medium-level priority when it came to C spending, but only a low level of I spending. Priority in China, by contrast, would fall quite pronouncedly on I spending, this having been the case for quite some time.

The Chinese model is underpinned by a one-party dictatorship. Deprivations can be imposed for an extended period of time on citizens who live in societies that are subject to such dominance, and so closed. And this is not only a matter of, for instance, less environmental protection, data autonomy or indeed protection in old age. Societies with such a structure may reveal themselves to be at least temporarily more effective—this being at the expense of major sections of the population. The Soviet Union, and up to the present day Russia, has long lived beyond its means—particularly in military terms—a superpower as a country with a gross national product that is comparable with that of Italy—the No. 3 in the EU. In other words, a continued tendency towards low productivity is compensated for via deprivations and suppression that are imposed on parts of the defenceless population. There is no doubt that Chinese people today are already largely living more prosperous lives than only one generation ago. But they could certainly already be living much better today. Long-term sacrifices imposed on China's masses in order to continually focus investable capital, and the further concentration of such investment—through generous state aid for Chinese companies, including on the world markets—repeatedly make it possible for China to clean up on whole markets all over the world, and this despite the fact that their productivity is not consistently high. They can thus take over entire markets the world over, and eliminate previously dominant competitors at short notice: Non-Chinese innovators are either bought up or pushed out, or are displaced via state aid.

The Chinese leadership has recognized in light of all this that an open-ended “market economy”—conceived from the outset without democratisation and real freedom—is likely to be a tool for beating the competition at its own game. Meanwhile, however, the old democratic, urban, academic elites of the West have re-orientated themselves, turning away from an open-ended market economy, towards ideas of

an economy that is controlled from supposed knowledge hubs and of a somewhat diffuse central allocation.

David

What can the societies of the “West” (today likely to also include a variety of islands and peninsulas in the Pacific Region) do in order to stand up to Goliath and his advantages of scale before it is too late?

Market Size

First of all, one might naturally attempt to achieve comparable market sizes. This would necessitate enhancing free trade, also and in particular over and beyond China. The European Commission is putting an impressive amount of effort into projects of this nature, while meeting a certain amount of resistance even within the EU. The agreement between the EU and Japan has been concluded.

The CETA agreement with Canada still needs to be ratified, whilst still no consensus has yet been reached with regard to the TTIP agreement with the United States. Negotiations on an agreement between the EU and India have been interrupted for the time being. A successful free trade policy is one of the tools that imperatively need to be deployed if a region, or indeed the entire “West,” does not wish to be left behind in economic terms, simply in view of the market sizes that have accumulated there.

Such connections are seldom recognized, however. The Greens in Germany, for instance, not only do not want a TTIP agreement, they do not even wish to ratify the CETA agreement with Canada. The post-Trump Republicans too are no longer in favor of free trade. Completely disparate camps in the West are actively working to counter the opportunities offered by scaling.

Scaling Deployable Capital

The EU is also not doing well when it comes to activating larger sections of private assets (these account for roughly €15 trillion in the EU) for investment, and in advanced technology in particular. It is not only the various left-leaning parties in Germany (the Greens,

the SPD, *Die Linke*) who are threatening to very quickly fiscally bleed dry the country's owner-run companies after 2022. What is more, for instance the publicly up-and-coming Greens in Germany are pushing for an even greater expansion of the social welfare state. Their manifesto for the 2021 Bundestag elections aims to save the climate without requiring any sacrifices, i.e. redemption with virtually no discomfiture. Hand-in-hand with this, the EU's "Stability and Growth Pact" is to be eased, parental benefit is to be expanded, and the minimum wage is to go up immediately; there is to be a right to work from home, and modular working hours are to be introduced for employees, whilst the debt ceiling that the German government imposed on itself in 2009 in order to bring about mandatory financial consolidation is to be restricted. Private assets are still only to be activated for the social welfare state.

By contrast, the West sets little store by freedom, adopting a softly-softly approach at best. Societies and the economy in Europe, as well as those of other Western countries, will presumably not be full of strength, integrative and develop for the good of all again until there is once more a widely-shared desire to develop new solutions, as well as to take risky paths. The EU is constituted as an area of freedom, security and justice (Art. 3(2) TEU), and should remain so. It does not need to become a controlled market economy merely because of coming under pressure once more on several fronts, after quite a long pause.

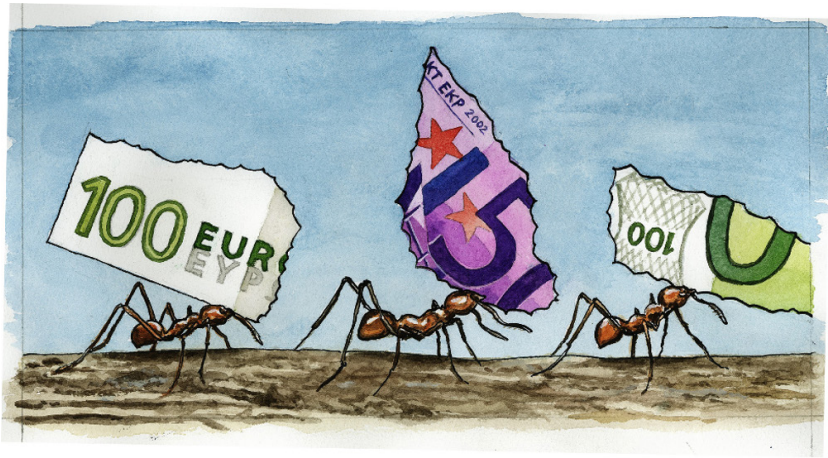
Europe in Purgatory

Further expansion of the German social welfare state, and the "socio-ecological transformation," might be justifiable in another world and time. A problem however sometimes lies in the fact that not all and any challenges are overcome by adopting one single approach only. The expansion of the social welfare state, for instance, does not help combat climate change, nor does it do anything to prevent—economic—global dominance being assumed by totalitarian powers. The establishments in the United States and in the EU have not yet found a course to steer in this regard. They are even turning away from their old formulae for success, and strangely and madly consider that they will nonetheless be victorious, somehow, sometime.

What is the verdict of the court of world opinion in such cases? What happens to those countries where those in government have lost their compass and do not rely on their societies' own strengths? How do those fare who have their strengths copied, without however wishing to recollect them themselves? What happens to those who lose their orientation and stray from their clear-cut course? Can the countries of the old "West," and of the expanded West, prevail in the system rivalry by instrumentalising a one-party dictatorship, which for its part instrumentalizes the market economy, confronting them with industrial policy and state control, and where less and less free trade is brought about? The way Dante tells it, the indecisive and indifferent do not go to Heaven, and neither do they go to Hell, or not only, but they do go to a kind of Purgatory that is set up specially for them.

In the third canto of the *Divine Comedy*, Dante finds another solution for the group of indifferent and half-hearted people, which has presumably always been large. This solution was completely innovative at the time: Those who always, and somewhat quietly, avoid the (above all presumably moral) decisions do not quite belong in Hell with those who are deliberately evil, but neither do they get to Heaven, or even into a precursor to Heaven. And what should be done with them in Paradise? The great Dante calls them "This miserable way [...] who lived without disgrace and without praise." "They now commingle with the coward angels, the company of those who were not rebels nor faithful to their God, but stood apart. The heavens, that their beauty not be lessened, have cast them out, nor will deep Hell receive them—even the wicked cannot glory in them." They are the ones "who made, through cowardice, the great refusal," the "cowardly, hateful to God and to His enemies," the "wretched ones, who never were alive." Dante therefore invents Purgatory for all of these.

Americans in the United States, Europeans in the EU, or indeed their common allies, do not necessarily have to end up in Purgatory or in Hell. Both of the West's main powers have recently accepted the situation, each for itself, that there is a challenge to engage in "system rivalry." The time has now come to examine ourselves as to how we intend to deal with this, and whether there is a will to compete here on a serious basis.



Chapter 16

The Future of the Euro

Martin Wiesmann

Between Voluntarism, Vision and Revision

The decision that was taken on January 11, 1999 to introduce the euro as a common currency, initially for eleven members of the European Union, is certainly the most unusual among the steps taken towards European union, and at the same time the most consequential. After it had been the subject of intensive conceptual work in countless commissions for decades, a political consensus developed in Germany towards the end of the 1980s that a common currency could only result from a political union.

As we know, this is not what happened. Given that the vision of a political union on which France and Germany were after all negotiating never took on clear contours in the political debate, it was relatively uncomplicated to withdraw from it after it had only briefly been the subject of a heated discourse. Even the resignation of a highly respected President of the Bundesbank was not able to halt the wheels of history. Helmut Kohl's mantra of German unity as the driving force for the unity of Europe became the probably most powerful political narrative of its time. It also caused us to forget that contemporaries considered the transaction costs, which a common currency might help to save as a numerable economic advantage according to its defenders, as small change in comparison to the fateful step towards the renunciation of autonomous monetary policy.

This story has been told many times over. Why does it still remain relevant? Because monetary union has not been completed, and its everyday presence in the lives of citizens in Europe has only in a superficial sense become a matter of course to the same degree as have the internal market and freedom of movement in the Schengen area.

The Ambivalence of Success and Failure

The builders of the euro need to be defended here against cheap criticism. They can be presumed to have made the best out of what could be done between political constraints and the various concepts aimed at creating a better structure in the European Community's currency area. Contrary to the highly critical Anglo-Saxon academic mainstream, *The Economist* was respectful in comments which it made in a 1998 special edition on the launch of monetary union:

Europe has barely got round to discussing the international effect of the euro; yet this will be huge, and may cause some concern in America. Once again, there is no past experience to go on. The international financial system is bracing itself for something entirely new on January 1st next year: the arrival in one bound of a major international currency, and one that was created by not just one sovereign government but by many.¹

The common currency became a success on the capital market as soon as it was introduced. Apart from some teething troubles that were encountered in the first months in which it was traded, the currency changeover was noiseless. It was with justified satisfaction that Jean-Claude Trichet commented on its success with the following words in a speech that he held in Osnabrück on the occasion of the 10th anniversary: "The promise that 'the Euro will be as strong as the Mark' has been kept."²

The common currency advanced in quite a short time to become the second most important means of payment in the world, accounting for roughly 35% of international payment transactions, coming in behind the dollar, with roughly 45%. Given that it is a European Community institution, the member states' representatives in the European Central Bank were obliged to strictly adhere to responsibility for the currency area, and were not beholden to their countries of origin. Designed to be the most independent among the principal central banks, it has brought a variety of criticisms down on itself at different junctures, and continues to do so. This however also previously applied to the Bundesbank, and it still applies to the Federal Reserve and to other central banks to the present day.

There are two fundamental reasons why the common currency nonetheless receives a consistently ambivalent verdict after roughly twenty years of its existence: It is a common currency of democratic member states who, defend their sovereign budgetary rights, and whose lack of economic convergence has not diminished, but in fact increased, over time.

It would admittedly be naive to believe that everything would have been better without the euro: recall the political infighting between Germany and France over the revaluation of the deutschmark against the franc or the pressure regularly applied to German Federal Chancellors to show European responsibility as a sort of “lender of last resort” for Italy: It was unmistakable long before the start of the precursor to European economic and monetary union that Germany would not be able to simply cast off its role as the country exercising economic leadership at the center of Europe. Anyone who believed that the divergences in Europe would resolve themselves when the euro came along was equally naive. There was little foundation for Georges Pompidou’s optimism that a kind of “European gold standard” would not only spare France the ignominy of recurrent devaluations of the franc against the deutschmark, but also eliminate the reasons causing them in the first place. The same was true of the promise that was made to German taxpayers that they would never be asked to pay up for the Community area, and that this was adequately shored up by rules on debt and deficits.

Free convergence for the South, free stability for the North: This unity of illusions that dominated the first decades has resulted in the explosive potential to which the currency area is exposed today. The first of these cannot be remedied by calling for joint liability in the shape of eurobonds, while the other cannot be obtained by appealing to the Federal Constitutional Court.

Those who have already given up on the euro area for this reason are perhaps not naive, but they are certainly short-sighted. New institutions such as the European Stability Mechanism ESM, as controversial as they may be, and new structures like the Banking Union, as little as they may be regarded as completed, document the willingness of the euro countries not to permit their fates to be taken out of their hands, to learn from mistakes, and to remedy shortcomings. There are good

reasons why this widespread willingness to effect repairs is favorably approved of in qualifying the European Union as a “learning system in a state of flux.”³

A less complementary, but nonetheless realistic categorization of the governance of the eurozone was carried out by a clever British observer, who referred to it as “fuzzy, but stable.” In light of the level of debt, which has now increased dramatically, and of the sobering economic verdict on the eurozone, as presented warts and all by *Le Monde*,⁴ today’s realist must amend this dictum in a vital aspect, despite the considerable reform efforts that have been undertaken in recent years: “Fuzzy, AND fragile” would probably be a more accurate description today. Monetary union is “fuzzy” because European budgetary rules have tended to develop a life of their own rather than coming together, and because it remains unresolved, should the next crisis of solvency occur, according to which rules the euro system would be governed when it came to dividing up the burdens caused by such a crisis. And it is “fragile” because confidence on the capital markets today rests on the presumption that infinite resources of the European Central Bank would be brought into play, as well as that interest rates will remain permanently low, and that the economically successful countries in monetary union will provide unwavering support.

The Right Reasons, but the Wrong Paths

A “learning system” can naturally also stray onto the wrong path for the right reasons. The current debate on the euro is a derivative of two developments. The first of these rests in the new geostrategic confrontation between the United States and China, in which in the words of President Macron the Union is seeking to lend substance to the ambition of “strategic autonomy.” The second lies in the economic implications of the pandemic, to which the European Union has responded with the “NextGenerationEU.”

To regard the euro as a major factor for the geo-economic survival of the EU is, as obvious as it is, correct. In addition to European trade policy, the euro is currently the only lever with which the European Union is able to operate globally as a player aiming to be taken seriously. It lends it weight in the global monetary system, and it is a strong indica-

tion that the EU is also a force to be reckoned with in political terms, as the largest economic area in the world. What is more, the world of currencies is in a state of flux. The prediction that the “decline of the dollar” is imminent does not become more accurate if it is repeated more frequently. It is, however, right that the global financial system is more dependent than ever on the U.S. government, together with the Federal Reserve Bank, pursuing a rational, far-sighted, successful financial policy. And it is also comprehensible that the strategy of U.S. administrations since George W. Bush, namely to instrumentalize the dollar in geostrategic conflicts by way of “weaponization of the currency,” has far-reaching consequences. It kindles China’s aspirations towards expanding the reach of that country’s own currency; it led the Russian Central Bank to divest itself of dollar reserves on a massive scale, and it enlivens a European debate from the ECB via the ESM through to the “Greens” in the German Bundestag all regarding an enhanced international role of the euro as the silver bullet for escaping Europe’s self-inflicted lack of maturity. Having said that, this geo-economic optimism overlooks the fact that such an ambition is contingent on the very thing which the euro area does not yet have, namely a common idea of the nature and extent of the political integration that is to be aspired towards.

This shortcoming is also revealed in the European response to the COVID crisis. It pursues both the right motive, namely the need for “European solidarity,” as well as the right analysis, according to which the COVID crisis is threatening to increase the economic asymmetries within Europe up to a level that is no longer viable. It started off, however, with a demand emanating from the South of Europe to forgive what were referred to as “COVID debts,” as if it were only possible to combat a health crisis and its economic consequences by taking a leap towards financial policy integration. This would entail throwing all the principles to the wind by which the European Union, and with it the euro currency area, functions. In comparison to previous standards, the “Recovery Plan” deployed in its place is both a great leap and the smallest common denominator: a transfer mechanism for substantial structural funds, and one which also provides for subsidies and which is financed via joint debt, but which is planned as a one-off measure and is therefore not intended to entail any long-term institutional reforms of the European financial architecture. Nonetheless, the political narra-

tives come thick and fast: German Minister of Finance Olaf Scholz was conjuring up a “Hamilton Moment,” recalling the creation of the monetary union in the United States. The ESM welcomes the enlargement of the pool of “safe assets” in the shape of the new Commission bonds, which are indeed desirable in terms of the functioning of European financial markets, and some economists are evoking the breakthrough to European “fiscal capacity.” This is accompanied in both of these cases by the expectation that this tool will become permanent. There is no question that the very announcement of the Fund helped to shore up confidence in the European economic area, and it can also certainly make a contribution towards economic recovery and to the modernisation of the economies of the EU. It is, however, not an institutional reform, and nor does it leave behind well-trodden paths of European structural aid with which national projects are financed but no genuine “European common goods” are created. Instead of this, it levels the path towards a transfer union which has particularly good prospects for becoming permanent in a vertical form.

Maastricht 3.0, Not “Next Generation Hamilton”

It is nothing new to see the European debate oscillating between blackmail, vision, goodwill and pragmatic crisis management. The eurozone, however, is not the single market, for which the fact of the United Kingdom leaving is a major loss, but does not constitute a threat. It is, as the late economist Henrik Enderlein said in 2016, “inherently unstable.”⁵

We note with astonishment that the eurozone’s structural problems, as exacerbated once more by the COVID crisis, do unleash all sorts of political energies, but they do not trigger any convincing initiative for a fresh set of reforms. In the interest of financial stability, tax money was used to save a medium-sized German bank in 2007, and only a few years later Greece was protected from state insolvency by pumping in hundreds of billions of euros. The markets, at currently historically low interest rates, appear to define a new level of tolerance for how high state debt can go. There is also much to suggest that the current swings in the inflation rate will be short lived. That said, there is no reason to believe that the present state will last, nor that it could be shielded by the central banks with concepts such as yield curve control against

what might come as a sudden increase in long-term interest rates. In its response to last April's downgrade of Italy by the Fitch rating agency to one notch above "Sub-Investment Grade," the then Italian Finance Minister expressed his disappointment that the rating agency had not adequately accounted for the support received by the European Central Bank.⁶ Anyone reading Fitch's report of July 2020 must wonder what the rating would have been if the ECB's PEPP programme, which has now been extended, had never existed.⁷

There are no shortcuts on the path towards an economically more successful, shock-resistant monetary union. The debate on potentially forgiving debt is currently being continued in market and academic circles. A more detailed analysis, however, shows two things: Forgiving of obligations within the euro system would also have to be paid for by the latter, and it would tear a major hole in the ECB's balance sheet. There is no such thing as a "free lunch" here, as attractive as supposedly pain-free easing measures deployed via "financial engineering" may appear to be. Central banks operating with negative equity is not without its precedents, but the debate on this for the eurozone tends to be a major distraction that may one day actually turn into an uncovered cheque instead of reinforcing much needed confidence in the euro.

The veil of the alleged "Hamilton Moment" also conceals the fact that the euro reform debate has suffered for quite some time from the deceptive deployment of false precedents. It would have been possible to prevent, or at least hedge, the 2011 and 2012 crisis, had there been European banking supervision and better risk diversification in the eurozone. A federal budget of the euro countries could not, however, have achieved this. The assertion which is always raised that the eurozone needed a "fiscal capacity," and that this would require it to expand to form a fiscal union in order to be able to work in a stable manner, can be traced back to a conventional view and to an inadequate understanding of the manner in which monetary union operates in the United States. In his 2017 analysis for the European Parliament's Economic and Financial Committee, American political scientist Jonathan Rodden demonstrates in detail that the much-quoted automatic "fiscal stabilizers" of the U.S. system only serve to compensate for mechanisms at the level of the individual states, which must reduce spending in order to meet their obligation to operate balanced budgets in an absolutely uncompromising manner in a crisis. This is inconceiv-

able in a federal system made up of democratic states, which regard their budgetary rights as sacrosanct. Doubts might moreover arise as to whether a European fiscal union could in any way serve as an effective counter-cyclical stabiliser in the member states, given the high level of correlation of cyclical economic factors.

The path to sustained governance in the eurozone must start from two fundamental conditions: Neither the eurozone, nor indeed the European Union, is going to become a federal state any time soon. Nor would reverting to a confederation be an adequate foundation for a well-functioning monetary union. In fact, there is a need for a new understanding of the fact that the complex system that makes up European monetary union requires both more integration and greater subsidiarity.

“More” integration enhances the resistance and competitiveness of the Union by deepening the internal markets, as well as via more effective diversification of financial risks. The concept of the capital market union is a good start for this. If capital markets are better interlinked and investment risks are spread over the currency area, “shock absorbers” develop, which according to estimates are able to cushion up to 50% of the risks in an integrated currency and financial area such as the United States. A real single market for financial services enabled by completing the Banking Union, greater mobility on the labour market, a larger share of cross-border direct investment, as well as capital-based old-age pensions, and everything that makes the eurozone more economically productive, form part and parcel of this.

“Greater” subsidiarity is first and foremost an institutional safeguard of what is at the core of the Maastricht idea: In accordance with the “no bail-out” clause, the member states are responsible for their own financial actions. The so-called “Fiscal Compact” constitutes an attempt to minimize the “moral hazard” problem that is inherent to any monetary union by means of rules as well as of checks and balances. But the system is at risk of falling foul of misincentives in the absence of structures or credible mechanisms allowing it to actually enforce rules. Well thought-out proposals have been put forward for such mechanisms for years. These would enable the ESM to be expanded from a stabilization fund to form a European monetary fund which makes provision for unambiguous rules in case of crises of liquidity and solvency of member

states, borrowing from those of the IMF. A direct consequence would be that these could also break up the previously unresolved “bank/sovereign nexus,” that is the high degree of vulnerability of the financial system that results from the mutual risks entailed by the large share that banks in Europe account for in the state bonds of their respective home countries. The dissolution of this interrelationship is a measure inconvenient for state funding in Europe, but a necessary one if the eurozone is serious with its aspirations of financial stability and crisis resilience.

As a result of the hesitant, contradictory manner of proceeding in the Greek crisis, the German government managed at that time to ensure that state bonds in the eurozone were provided with so called “collective action clauses,” which regulate the mechanisms that investors can use to defend themselves against the restructuring of state bonds, and which conversely define the degrees of freedom available to countries negotiating with investors on loss participation when restructuring state debt. These rules have led a very lonely existence so far in the governance of the euro as tender offshoots of a new thinking. With the proposals for an effective European monetary fund, prominently put forward for the first time in the *Financial Times* in 2010 by the then German Federal Minister of Finance Wolfgang Schäuble, it became part of a logic of reform which at that time made a both vital and courageous start with the “bail-in” rules for unsecured bank bonds. According to these rules, it is not only investors participating in the equity capital who may have to bear the banks’ losses, but also the owners of unsecured, repayable debt titles. Given the extent to which the financial system is vulnerable to banking crises, both unsecured bank bonds as well as state bonds were for a long time a sacrosanct building block of the financial system for which taxpayers regularly became liable. Today’s financial market has completely dealt with the regime change, which originally appeared as revolutionary, and which was set in motion by the G20 in 2008. Deadlines which are transparent and sufficiently long for their introduction, as well as a favorable capital market environment, were major factors for success that could be replicated today in the Euro area state bond markets. The bail-in rules are not yet perfect for banks, nor are they consistently implemented in Europe. But it’s a start. Applied to euro governance, this would mean that investors, as well as policymakers in the countries in question, must anticipate the concrete possibility for the capital market to contribute

towards the cost of crises. As such nothing other than fleshing out the Maastricht “no bail-out” principle, its institutionalization would help focus the debate in the member states: on the primary competence and responsibility for the trust capital among voters, partners and economic actors resulting from forward-looking and reliable public governance.

There is a tendency towards pointing the proponents of more market-orientated governance towards Argentina, where debt restructuring has failed many times, as a deterrent example. But to what degree is Argentina similar to the member states of the eurozone? The concept of a state bond from a currency area which aspires to assume a reliable leadership role in political and economic terms naturally includes that investors are repaid what they invested in such state bonds. However, the European Union is both: leading and reliable, but politically unfinished. We therefore need to address the question of the possibility of restructurings of state bonds. Even in the United States, the need may arise to use such tools. Anyone interested in exploring this further could, for instance, study the continued debates on the finances of the state of Illinois. The euro countries are integrated members of the European Union and recipients of substantial structural aid. They are protected against market risks by a central bank, which in the view of many oversteps its role in this regard. In crises they can fall back on stabilizing resources if they are willing to respect the basic rules of conditionality. A European monetary fund would not establish the capital market, and with it the so-called “bond vigilantes” (investors who are active and through their dealings make the risks of state bonds transparent), as the new lords of their members’ financial fates. In fact, it would help to strike a balance for which central political institutions within the European monetary union are out of their depth for the time being.⁸

The energy for reform needed to embark on such a path should, finally, provide for three further steps in order to set up the “learning system” of the European Union for the decades to come in the sense of a “Maastricht 3.0.” First, enhancing decentralized governance as part of the regional “fiscal boards” that support the work of the Fiscal Compact, as well as simplifying budgetary supervision with a straightforward debt rule.⁹ Second, this would entail orientating the EU’s finances towards genuine “public goods” such as border protection, security and defense, research and European infrastructure. And third, completion of the Banking Union.

The German Interest

From a German perspective, it is ostensibly easier to live with the “fuzzy and fragile” status quo than is generally presumed to be the case. The fact that we would have to accept a much higher exchange rate if we did not have the euro has now become a common place. That does not make it incorrect. But Germany equally benefits in financial terms from the fact that the German 10-year bond, the “bund,” has the status of a “safe haven” for the monetary area. Thanks to a complex interplay between this “safe haven” status and the market’s liquidity preferences, since the beginning of the financial crisis in 2008 the conditions for financing in particular have not been as attractive anywhere in Europe as they are in Germany. But what characterises the status quo becomes more accentuated still when crises come to a head in the eurozone. When Italy’s Conte/Salvini government deliberately breached European budget rules in October 2018, and Matteo Salvini once more declared his intention to do battle with the EU, the risk premium on Italian state bonds tripled. The capital market thus helped to ensure that the Italian government ultimately gave in.

International investors look in such situations not only at the Italian bond itself, but also at what is referred to as its “spread” to the German 10-year bunds, as a relevant crisis indicator. This could also be described as a kind of “euro fever thermometer,” the level of which may rise very rapidly. Very few people are aware that, in most cases where crises bring things to a head, the bund runs counter to Italian bonds, so that the thermometer reading is driven not only by rising Italian interest rates, but also by falling German ones. Were the Germans financial speculators, they could therefore certainly find this fragile state of monetary union appealing. However, it is not advisable. The cost of monetary union falling apart would certainly be higher than the amount of the much-cited “target balances” showing the Bundesbank as the largest creditor of the euro system.

Germany’s economic clout and its political responsibility are those of a leading European power—a task which can be neither rejected nor accepted free of charge. The European Recovery Fund, which was launched with France, is an expression of this. It was unfortunately launched without a connection to a broader idea of a viable institutional reform of European monetary union. This may be the understandable outcome of special circumstances. Time has come, however, to remedy this.

Further reading:

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Notes

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8. For an excellent analysis of drivers for government spreads, see Stéphanie Pamies, Nicolas Carnot and Anda Pătăraș, “Do Fundamentals Explain Differences between Euro Area Sovereign Interest Rates?” European Commission Discussion Paper 141, June 2021, https://ec.europa.eu/info/sites/default/files/economy-finance/dp141_en.pdf.
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