

THE EU AFTER THE ELECTIONS: WHAT STRATEGY FOR GLOBALISATION?

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This Tribune is based on speeches held by Pascal Lamy at the Gulbenkian Foundation (Lisbon – 15 July 2014) and at Macif (Paris – 1st October 2014). After taking stock of the European elections, Pascal Lamy addresses Europe’s three-pronged deficit (growth, governance, sense of belonging) and globalisation issues. He then calls for a new meaning to Europe and boost to Europe’s growth potential.

The last European elections have raised a number of interesting points to think about: before examining the role that Europe can play in globalisation, it is important to discuss and take stock of the elections that we experienced this year.

1. What do the European elections tell us?

1.1. A silent institutional shift

First, they tell us that we have undergone a silent institutional shift, which has been discreet in many ways, but ultimately major because, for the first time, the Spitzenkandidaten system was implemented and achieved the results its authors intended: it was the candidate of the political party who obtained the most members of the European Parliament who became president of the Commission. It was in many ways something very new.

In this, some people, and particularly our British friends, saw an institutional coup d’état forming. I believe that it was rather one event in a long evolution, which, if we look at history over the long term, concerned our parliamentary systems. They have all, to a lesser or greater degree, begun with an upper house with which sovereigns agreed to deliberate a number of decisions that they used to make alone. We know that throughout history, lower houses have ended up becoming upper houses and vice versa. To some extent, this is what is happening at a European level: the Senate or the upper house, essentially the Member States, represents the territories and has had an institutional upper hand over the lower house, which represents the peoples. However, the balance is changing. What is certain, and what I think we need to keep in mind, is that there will be no going back.

In five years, at the time of the next European elections, everyone will know that these elections are mainly about the distribution of power at the European level, and as such, there will be a clearly new articulation of what European elections had traditionally been: primarily national elections to send national parliament members to the European Parliament.

For the first time, we are introducing a genuine European dimension and I think it is important to remember who was behind that idea: Jacques Delors. He was the one, 15 years ago, to put this idea on the table: if we want to see Europeans increasingly feel that we are in a supranational democratic space, then without changing treaties, political groups simply need to decide to appoint their champions. The champion who ultimately wins this electoral combat will be the president of the European Commission. I am saying this explicitly because, generally speaking, today’s journalists no longer have the same background information about issues in the press as their predecessors making it harder for them to go back in time. Render unto Caesar the things that are Caesar’s.

1.2. A majority of pro-European forces

I think that it is the main thing to learn from this episode, even if there are other elements of a more political nature to be interpreted in citizens’ votes in these elections. We can sum them up in two observations. First, the traditional European political forces of the centre-right and the centre-left (centre-right: European People’s Party, EPP, and the liberals/centre-left: Party of European Socialists, PES, and the Greens) won a very comfortable majority. Some 25% of European voices went to the centre-right, 25% to the centre-left, roughly 7 to 8% to the liberals and 7 to 8%

to the Greens. Therefore in the end, 66% of voices, or 2/3 of votes, went to pro-European voices. I think that it is necessary to state this explicitly if we are to accurately consider Europe.

Of course, there is another element as well. A substantial portion of European votes went to parties that are, on the contrary, against European integration. This is, no doubt, what explains the good news: that voter turnout, which had been on the decline since 1979, stopped dropping. That is quite good news, but the reason for it is, from my point of view, a bit less positive, since this halt in the drop of voter turnout was due to parties and voters who mobilised against European integration with a protest vote. We know that this protest vote varied greatly from country to country (for example we can look at the difference between France and the United Kingdom, and or Denmark, on the one hand, and countries such as Portugal, Germany and Italy, on the other).

Thus, we now have two co-existing forces: one extremely clear majority in the European Parliament and a minority. I believe that is how we need to interpret these elections, if we agree to take a global view, apart from the large number of national political interpretations, which are obviously diverse.

Looking to the future, I believe that European outlooks more closely resemble risks than opportunities for the years to come, even if both can be included in a forecast for Europe over the next ten years. I believe that Europe is very gradually exiting a crisis that has weakened it. Unlike José Manuel Barroso, I think that these problems existed before the crisis. Without question, the crisis has made them worse, but we could see them forming before the crisis. Moreover, I think future problems will be based on three deficits: a growth deficit, a governance deficit and a sense-of-belonging deficit.



2. A three-pronged deficit for Europe

2.1. The growth deficit

Let's take the growth deficit first. If we look at the global economy over the next ten years, Europe is expected to grow 1.5% a year, the United States 2.5 to 3% a year, and emerging countries 5 to 6% a year. In other words, and to explain simply: four times more growth is expected in emerging countries than in Europe and twice more in the United States than in Europe. That means Europe is lagging behind.

Why is Europe lagging behind? For different reasons, the essence of which is structural. There are certainly economic reasons, and particularly the need for European economies to address the huge debt overhang that they accumulated before and during the crisis. It is inevitably a difficult time for economic expansion, but I think that most of the problem is structural. This 1.5% that is forecast, all things being equal, for the next ten years, corresponds to 2% growth in productivity, which is the middle- to long-term trend for growth in productivity in Europe, minus a half percentage point a year in terms of the labour force population. This 2 minus 0.5 leaves 1.5; the negative 0.5 is due to the fact that Europe as a whole has a decreasing population. For the time being, it only shares this problem with Japan and, to an even greater extent, with Russia. Periods of population decline are never good for growth. We know that for several reasons ageing societies are less dynamic, less entrepreneurial and less inclined to take risks, which is one of ingredients in the way market capitalism works. And that is not our only problem.

For some time, we have come up against the same problem we have always had; but it has been compounded by the way in which the Americans' discovery of shale gas has impacted our energy prices. We were more or less well-situated in the musical chairs of natural resources from the standpoint of energy resources. Regardless of the virtues of an energy transition policy, it takes a great deal of time. Supposing that we are successful together, it is a problem that is going to affect European competitiveness over the next ten years.

I will only talk about a third factor as a structural reason for the current situation: Europe's position at the technological frontier has decreased. It has shrunk first and foremost to the benefit of the Americans,

whose position has grown over the past 30 years in high technology, nanotechnology and new information technology; everything that concerns life sciences and the relationship between minds and machines, which will most likely constitute the new technology revolution. The Americans have conquered a large portion of these frontiers, and in some of these technology sectors a number of emerging countries are starting to appear. As a result of all of these factors, Europe's position is decreasing. This is obviously a particularly crucial problem at a time when we are headed towards a knowledge-based economy, where what really matters is the quality of our brains. Our decreasing role from this standpoint - which I do not think is inevitable - is going to affect growth and European consumption.

Are these problems too difficult to overcome? I don't think so. But we have to be realistic because if nothing changes, that is what we can expect.

2.2. The governance deficit

The EU's second deficit is that of governance. Reality explains, at least partly, the move of European opinion away from European integration, a move that we have observed continuously for fifteen years. Our European institutional system, pieced together with different chapels built around a central nave, is completely convoluted and difficult to understand for most European citizens. I think this is a problem that in the short term we must address more seriously than we have in recent years and one that the crisis, because it required us to use intergovernmental instruments and not purely European instruments, has certainly compounded.

I think that we need to go back to a simpler, more easily understandable format, in which the Commission would essentially be the government of the Union, the Council of States would essentially be the Senate of the Union and the European Parliament would essentially be the House of Representatives. It would be up to the Commission to serve as representative for European interests. The political forces would lead debates in the European Parliament: this would mean a parliamentary democracy system would be used. The national or state powers would lead debates in the European Council. In any system, regardless of the degree of federalism it contains, there exists a house that represents the territories, which means those who agreed to share a portion of their sovereignty. There would be nothing unusual in this system, provided

that the interaction between the central part, which would be the Commission, and the Council of States and the Council of people is clear. That would require an orientation that current institutions allow, even if the experience of recent years has shown that it has also allowed other systems. I believe that, concerning this point, there is no major problem, provided that the Commission, and particularly its president, properly organises the work.

António Vitorino and I have been commissioners for five years: I think it makes sense to recognise that 28 commissioners and particularly one commissioner per member state is a very dangerous system to put into practice effectively as it stands today. In the Union's competences, there is not enough substance for 28 serious portfolios. This is a reality that must be noted. As a matter of fact, Notre Europe - Jacques Delors Institute recently published an extremely informative policy paper on this subject¹. I don't see any other solutions: if we want the Commission to take back political control of what is inevitably a bureaucracy, if a dose of necessary politics is not injected, I don't see any other solution than organising the Commission with a tighter circle of vice-presidents who are each responsible for an area to lead. Of course, people will say that means that there would be higher-ranking and lower-ranking commissioners: I think that is inevitable if we genuinely want to give this institution the role and the power it should have, especially when it comes to leading debates in the European Council.

2.3. The sense-of-belonging deficit

The last and perhaps most worrisome deficit is that of a sense of belonging. It is our essential problem when we are faced with difficulties, whether they come from afar or whether they arise in times of crisis we have experienced or are still experiencing. We just need to look at the unemployment rate in certain European countries to be convinced that we have not yet exited this crisis. What I think is the most worrisome is basically this essential question regarding European integration, which is to know why we want to build this Europe. We want to build Europe because we work more effectively together than separately. I think that is the fundamental question, regardless of our political beliefs, our historical or philosophical traditions. What unites all of us is our wondering what we could accomplish better together than separately. We must also ask ourselves where we can find the political energy for such an unprecedented undertaking, which consists of

sharing our sovereignties, in a completely new political space and with a supranational dimension. I think that the lack of clear answers to these questions is in some ways the main cause of our difficulties

In the past, many people believed that Europe's ideological fuel was peace, particularly between France and Germany. It was a huge dream to establish peace. This dream became reality and then, to a certain extent, lost its driving force. If I speak to my grandchildren about Churchill or De Gaulle, for them it's like speaking about Napoleon or Joan of Arc. For them it is a bygone era, in which disasters occurred, but the idea that these disasters could happen again makes absolutely no sense. From a certain perspective, that is excellent news but at the price of losing this motive, this narrative and this meaning to give.

Other people, and notably those in a country such as Portugal, believe that Europe meant the consolidation of democracy and the definitive end to dictatorships. For a long time, Europe was a process used to spread democracy. Yet others, and I'm thinking of those in eastern European countries, believed it to be first and foremost a move towards democracy, a better life expectancy and improved growth at a "western" level if you will.

All these reasons, which were ingredients of the political force that built Europe, no longer exist. We therefore need to find other ones. That is why I am proposing a new narrative, a new common project and a new objective, which is to civilise globalisation.

3. Civilising globalisation

Globalisation is the great transformation of the contemporary world. This does not mean that the history of humanity has never experienced other periods of technological changes that have made the planet smaller, particularly in terms of transportation systems. After all, it is in this area that we were able to test the consequences of the invention of stern rudders, which enabled ships to navigate other than down wind and therefore cross oceans. Other transportation revolutions have occurred successively: there have been remarkable ones in the past 50 years, especially with regard to everything related to maritime transport, air transport and information technology, particularly with the creation of the Internet. We are currently experiencing one of these periods in humanity that has greatly reduced distances and the costs associated with it. It is likewise one of the reasons I think that globalisation will persist. In globalising, market capitalism is multiplying locations.

This is reflected in an upheaval of our economic systems that has translated into interdependence, an increasingly intimate intertwining and a constant increase in the integration of different economic systems, through a disappearance of economic borders of sorts, since the systems to produce goods and services are in multiple locations. Most goods and services consumed today on average have been produced in five or six countries, sometimes in one or two countries, but most often in twelve or thirteen countries, where they can be produced most efficiently. Overall, production chains are therefore integrated globally. Looking at the most informative indicator, what is the average content of exports of a country that is imported (how much must a country import of what it exports?), this percentage was 20% on average 20 years ago, it is 40% today and it is expected to be 60% in 20 years. We are therefore in this world where goods and services are "made in the world", as I said when I was Director-General of the WTO. This is going to continue with some impacts that are incredibly positive and others that are much more negative.

The positive impacts are due to efficiency gains, the most effective factors this globalisation produces. Consistent with the traditional theories of Adam Smith and David Ricardo, specialisation has produced efficiency that has reduced world poverty. In completely unprecedented conditions, given the volumes, hundreds of thousands of people have risen out of poverty,

which is an undeniably positive outcome for those who are interested in social justice issues, for moral or political reasons. We likewise have witnessed an increase in health and education levels and access to human rights, especially in developing countries. The downside is clearly, for the moment anyway, that this massive poverty reduction has been accompanied by a considerable increase in inequalities within countries (in rich and emerging countries alike) and pressure on our environment and on our ecosystems, which we now know is not sustainable. It is obviously difficult to come up with solutions to tackle ecological problems and to improve the environment.

Therefore both positive and negative forces come into play. The fundamental question, looking ahead, is to know in what direction the balance will lie. Will positive forces outweigh the negative or vice versa? There is no easy answer: it will depend on what humans do to influence these trends, whether on a technological, geo-economic or geo-political level. Nobody manages them completely. But... so far so good. Overall, the positive effects have outweighed the negative effects.

Moreover, I would like to say that if we ask an average person in what era he or she would like to live, generally speaking, he or she would answer that we are now living in the best possible era.



4. Giving Europe back a meaning

In this context, I truly believe that we must give back a future and a meaning to our Europe. This idea was considerably clearer to me during the ten years I spent outside of Europe in Geneva than during my 15 years working in the engine of the European institutions. I learned more about Europe's future from non-Europeans' perspective than that of Europeans. If you ask non-Europeans to define Europe by asking them what European identity is - what Europeans have in common - generally speaking, the response is clear. Their answer is the social market economy. They respond that we have something in common that you can't find anywhere else, a sort of balance between a strong focus on individual freedoms and a strong focus on social solidarity, on social cohesion. "Social cohesion" does not mean much to non-Europeans. They also say that in Europe there is less intolerance of inequalities, particularly with respect to the United States, and a greater commitment to individual freedom than in China.

That is how non-Europeans see things: there is the American model, the Chinese model and then, somewhere else, the European model, which remains desirable. Many non-Europeans see the European model as providing the right balances. Moreover, that is a bit what the German Chancellor meant when on several occasions she stated: "Europe accounts for 7% of the world population, 20% of the global economy and 50% of global social spending". We can interpret this information in different ways, but if I interpret it as what defines Europe's originality and its specificity, it can clearly be found in these figures. And that is what unites us, in a matter of speaking, before this tremendous challenge of growth.

Experience has shown that a main feature of this social market economy system is its considerable redistribution of the wealth that it produces, at least compared to other systems, and that it is extremely sensitive when it comes to growth. Rationally, when we redistribute 50% of what we produce, the debate on redistribution is inevitably more significant than when we only redistribute 15% or 30%. Yet, this debate on redistribution has existed with regard to welfare state policy in Europe for many years. It dies down when growth is higher and intensifies when it is lower, simply because when growth is lower the debate heats up on how to redistribute the little we produced compared to times when we had a great deal to redistribute. It is from

this standpoint that I think there is a very clear connection to sustainability—not to say survival—of this European model.

I believe in this model because it encompasses my values, and I think that it is what unites us. I believe that there is a close connection between the sustainability of this system and capacity for growth. At 1.5% growth, I think that this model is in danger, in other words, that the European identity and thus the European project are being called into question. I am not a growth fanatic. I know that the way in which we measure it is completely flawed, even though I also know that we have never agreed on another way of measuring it. I know that this growth, in environmental terms, is in many ways unsustainable. Nevertheless, I am placing European identity, that is to say, this social cohesion model, above everything else, for political reasons. Increasing this potential for growth, in other words, moving from 1.5% to 2% or 2.5% has become a crucial issue if Europe wants to continue to offer this civilised version of globalisation. This controlled version of globalisation accepts the benefits in terms of poverty reduction but corrects the negative impacts in terms of an increase in inequality. We now come to a short-term plan of action with which I will conclude.

5. Boosting potential for European growth

I believe that the essential question we have to ask ourselves is how to increase growth potential from 1.5% to 2 or 2.5% in the coming years. Two-thirds of the answer to this question is of national concern, as can be seen in the wide range of economic and social performances of countries belonging to the same Union. Some of them have high unemployment and others low unemployment, just as some have higher growth and others have lower growth. But I consider that one-third of the solution to this question needs to be addressed at European level. And I am one of the people who think that if this European one-third exists, then the national two-thirds will unite more easily because they are considered participants in the cooperation mechanism.

In this area, what absolutely needs to be done at European level? I think, and this is no secret to anyone, that considerable growth opportunities still exist when it comes to the internal market of services and by comparing the productivity of the US and European economies. It is not in industry that we have a problem, but in services. Moreover, there is a lot to be accomplished in terms of energy: we can remain at the technological frontier, which is that of energy transition, if we fulfil a certain number of conditions. However, one of the conditions is to achieve some convergence about the energy mix that we have in mind from now until 30 to 40 years in the future, given the timeframe that is extremely long in these areas. We have possibilities when it comes to infrastructures. I don't know whether we should create Eurobonds or not, but I do know that we have an institution, the European Investment Bank, that has a very impressive signature and loans money with extremely favourable conditions in the markets. If we truly want to acquire financial means and infrastructures, particularly in the digital economy, we have this instrument that we can use. Sometimes it is complicated because the Board of Directors of the European Investment Bank has the last word, and generally speaking, its members are not always inclined to take financial risks, but I think that short-term solutions exist that do not require reinventing the wheel or the cart.

From my viewpoint, that will only be able to be done if we find this mix of more discipline and solidarity that produced the success of phases in which Europe advanced. I, of course, am thinking of what Jacques Delors had in mind, having long assisted him in this

task, in creating the internal market. It was a major structural reform: he designed it with solidarity mechanisms and structural funds. He had a hard time convincing the European Council to make the necessary decisions, but they made a deal: structural reform for solidarity. It was a reform and it was Schumpeterian. Yet it was also Keynesian, which was one of the reasons this system worked for such a long time.

Therefore it is important to again find this mix of solidarity and discipline, the difference for the future being that it is not the same combination that we can now apply to the euro area and the rest of the Union. For reasons related to lessons learned from the crisis, we know that the euro area is not sufficiently integrated or more precisely, that it is monetarily integrated, but not sufficiently integrated in terms of fiscal policy and economic convergence. Therefore we need to reinvent this mix between discipline and solidarity in the euro area.

Without forgetting that there is another Europe, in addition to the euro area: the Europe of 28. We are going to discuss this matter soon with our British friends, and therefore we have this dual challenge, that of the five years of the next legislature. There will be other topics that will emerge with regard to the environment and trade, but I think this is a core issue. I hope that the new Commission, with the support of the sufficient majority in the Council of States and in the Parliament, undertakes action in this direction. In any case, it is the direction we need to take if we want to address the need to give this European undertaking a sense of history, which it had when it was founded and that it must have for its peoples.

European integration was born of nightmares. I think that the time has come to give it back what motivates, what counts, what makes everyone want to take more action, in other words, a dream. After all, Europe's place in globalisation is a hope that should not be dashed.

1. Yves Bertoncini, António Vitorino, "The Commission reform: between efficiency and legitimacy", *Policy Paper No. 115*, Notre Europe – Jacques Delors Institute, July 2014.

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