Notre Europe
Thinking a united Europe
Penser l'unité européenne

European Steering Committee 2011 of *Notre Europe*

Key elements

Yves BERTONCINI

Synthesis
Paris
November
2011
ESC

European Steering Committee 2011 of *Notre Europe*

18-19 November 2011
Paris

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In this vein, the staff of Notre Europe *directs research projects; produces and disseminates analyses in the form of short notes, studies, and articles; and organises public debates and seminars. Its analyses and proposals are concentrated around four themes:*
- *Visions of Europe: The community method, the enlargement and deepening of the EU and the European project as a whole are a work in constant progress.* Notre Europe *provides in-depth analysis and proposals*

that help find a path through the multitude of Europe's possible futures.

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Its Presidents have been successively Jacques Delors (1996-2004), Pascal Lamy (2004-2005), Tommaso Padoa-Schioppa (2005-2010) and António Vitorino (since 2011).

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European Steering Committee of *Notre Europe*

The European Steering Committee of *Notre Europe* (ESC) meets annually with various high-level European personalities in order to give guidance for reflection on the future of the European construction and on *Notre Europe*'s working programme.

The annual dinner-debate of the ESC took place on Friday 18 November 2011 at the Automobile Club in Paris. The guest of honour of this evening was Pascal Lamy, Director-General of the World Trade Organization and also Honorary President of *Notre Europe*. He pronounced a speech entitled: ***"The world-economy - Where is it standing? Where is it going? Where does Europe stand in the light of this change?"*** which was followed by several questions and answers. His address then served as a basis for a tribune entitled ***"The Future of Europe in the New Global Economy"*** *(see annex 3)*.

The European Steering Committee of *Notre Europe* then met on Saturday 19 November 2011 at the Maison des Polytechniciens in Paris. This meeting, usually chaired by Jacques Delors, Founding President of *Notre Europe*, was presided over by António Vitorino, President of *Notre Europe;* more than forty people attended the meeting *(see annex 1)*.

This year, the debates dealt with the following issues:

- ***"Schengen and immigration"***
- ***"Institutions and people"***
- ***"The dilemma financial austerity – economic stagnation"***

The Declaration

At the end of the ESC, a Declaration was adopted by all participants. Entitled ***"Austerity, but also growth"*** *(see annex 2)*, this declaration calls on European leaders to mobilise all tools available for the EU to promote growth in the next quarters.

The Declaration of the European Steering Committee was published in several newspapers during the following week: *Publico* (Portugal), *Handelsblatt* (Germany), *Le Figaro* (France), *Le Temps* (Switzerland), *The Independant* (United Kingdom), *La Repubblica* (Italy), *NEurope* (Greece), and *Phileftheros* (Cyprus).

Programme 2011

Friday 18 November – Opening Dinner

Venue: Automobile Club, 6 Place de la Concorde, 75008 Paris

7pm Cocktail

8pm Dinner-Debate: ***"The world-economy - where is it standing? Where is it going? Where does Europe stand in the light of this change?"***
Debate introduced by **Pascal Lamy**, Director-General, WTO

Saturday 19 November –
Notre Europe's Steering Committee Meeting

Venue: Maison des Polytechniciens, 12 rue de Poitiers, 75007 Paris

9am **Welcome**

9.15am **Introduction** by **Jacques Delors**

9.30am ***"The Schengen Area and immigration"***
Debate introduced and moderated by **António Vitorino,** President of *Notre Europe*

11am ***"Institutions and people"***
Debate with:
Josep Borrell Fontelles, President of the European University Institute in Florence
Niels Ersbøll, Ambassador, Honorary General Secretary of the Council of Ministers of the EU
Guy Verhofstadt, President of the ALDE group of the European Parliament
moderated by **Gaëtane Ricard-Nihoul**, Political Analyst with the Representation of the European Commission in France

12.30pm Lunch

2pm ***"The dilemma of financial austerity – economic stagnation"***
Debate with:
Pervenche Bérès, Member of the European Parliament
Laurence Boone, Chief Economist Europe, Bank of America Merrill Lynch
Daniela Schwarzer, Head of the Research department on European Integration, German Institute for International and Security Affairs (SWP)
moderated by **Jean-Christophe Ploquin**, Deputy Editor-in-Chief, *La Croix*

4pm ***"Austerity by Member States – stimulation and growth by the EU" (Tommaso Padoa-Schioppa)***
Overall conclusions and adoption of the ESC Declaration
Debate introduced and moderated by **Yves Bertoncini**, General Secretary of *Notre Europe*

5pm **End of the ESC**

1. “Schengen and immigration”

The session on the Schengen area and immigration began with a key-note speech by António Vitorino, followed by an address from Stefano Manservisi and comments and questions from other participants. The session as a whole led to the identification of the following main points for present analysis and future direction[1].

1.1. Immigration, a political challenge at the national and European levels

1.1.1. Public opinion appears to be less favourable to immigration

- the arrival of 30,000 Tunisians on the Italian coastline sparked a dispute the like of which had not been seen even when 500,000 Balkan refugees entered EU countries back in the 1990s;

1. The views expressed here are not necessarily those of *Notre Europe*.

- public opinions in many countries feel that there are too many immigrants in the European countries, though they estimate the number of immigrants to be double the real figure (as confirmed by a recent study by the German Marshall Fund);
- these opinions are no longer the prerogative of the "poorer" classes exposed to direct competition, they are held also by a part of the middle classes, immigrants frequently becoming scape-goats at times of major uncertainty for the future;
- immigration's negative image is not promoted solely by traditionally extremist right-wing parties any longer but also by new parties or players (for instance Pim Fortuyn in The Netherlands) who wield an increasing influence over mainstream parties.

1.1.2. Immigration reflects tangible problems which need to be addressed in order to avoid confusion

- several kind of organised delinquency or crime are associated with networks which can be traced back to the Balkans (gangs) or to Bulgaria and Romania (the "Roma" network); these must be combated for what they are, also in order to forestall any kind of link between immigration and insecurity;
- several thousand asylum-seekers apply for asylum illegally and they, too, need to be addressed in that context because they are sufficient to spark a crisis which national political authorities then occasionally bend to their own purposes;
- some 3/4 of illegal immigrants are overstayers: they have legally entered EU territory with a visa but they overstay after visa expiry or residence permit expiry: thus the real priority is to track those people, rather than staging a media circus involving monitoring immigrants arriving at the border with no visa.

1.1.3. Immigration, a topic for mistrust among member states and the Schengen area

- mistrust among countries is due to the structural imbalance between the establishment of common borders while each country continues to maintain responsibility for its own and for deciding who may or may not enter its territory (deciding on both admission and regularisation);
- this mistrust is initially displayed outside the country, in the form of doubts voiced regarding the ability of one or the other country to efficiently monitor its borders or to effectively record the arrival of refugees on its soil;
- this mistrust is also displayed towards the rules governing internal freedom of circulation, with negative reactions being expressed, for instance, towards Polish workers who have come to work in the United Kingdom or in The Netherlands and are now unemployed.

1.2. Immigration is a triple challenge for the elite classes

1.2.1. A current challenge: improving the perception of people's reality

- the main problem for most European citizens today is not getting to Helsinki without a passport or without being checked at the border, it is feeling safe in their own homes. Greater attention needs to be paid to this hierarchy of priorities, without always harping on about the grand principles of freedom of circulation ("values do not grow on trees");
- the elite classes have frequently underestimated the impact of immigration, which may have a positive impact for them – access to low-cost services, few coexistence problems, no head-on competition on the labour market – but does not necessarily have the same impact for other social groups.

- the objective is to take into account this public opinion, while underlining that immigration doesn't constitute the most central economic, social and political problem in Europe.

1.2.2. An anthropological challenge: immigration and European identity

- when globalisation is perceived as unbalanced, not to say downright aggressive, it triggers an anthropological debate on the specific characteristics of the European territory (the "relationship between us and them") and on its ability to promote its own interests;
- competition from other countries and other regions, coupled with concern for the future, may occasion a demand for protection focusing on borders, which play a strong role in the field of identity;
- in that connection, the slogan of a "Europe without borders" becomes less popular if people perceive that Europe's external borders are not properly guarded; but in imparting legitimacy to this demand for border protection, the EU can also encourage people to fall back on national borders because those borders are generally perceived as being the safest of all.

1.2.3. A cultural challenge: free circulation versus "territorial liberalism"?

- "circulatory ideology" must not necessary be backed onto universal values or be applied at the global level, even if the elite classes do consider themselves "citizens of the world": we have to define a specific kind of freedom of circulation for the European territory;
- the transition from "Lepenism" to "Fortuynism" reveals the emergence of anti-immigration movements that combat Islam on the basis of a "territorialised liberal ethic" because, in defending European territory against Islam, they also pretend they defend the rights of women, of homosexuals and so on. Finding an intel-

ligent way to counter this "anti-Islamic liberalism" constitutes a major challenge for the pro-European governing classes.

1.3. Rekeying the debate on immigration by highlighting its positive effects

1.3.1. The links between immigration and welfare systems

- the widely held belief that immigrants get more out of our welfare system than they put into it must be countered with statistical facts;
- it is necessary to stress that Europe's welfare systems, which are one of the EU's trump cards, cannot be safeguarded or improved without a massive demographic input which is only going to come from immigration in the short and medium terms.

1.3.2. The links between immigration and growth

- a key idea that needs to be pushed through is that there can be no strong or lasting economic growth in an aging Europe without stable and properly integrated migration;
- the examples of Italy and of Spain show that immigration has a very positive economic impact in terms of the creation of businesses and jobs, and in stimulating demand on the home market;
- the Commission is right to highlight the fact that the European countries are involved in a global struggle to attract a more or less skilled workforce – even though the member countries are not necessarily well placed right now to organise a "selective immigration" system.

1.3.3. Pointing to national integration models that work

- the impression that immigrant integration no longer works must be counterbalanced by pointing to countries where integration has worked well; this, for example, is the case in Spain, which has taken in almost 6 million immigrants over the past 10 years without encountering any major political or social problems;

- as the example of Spain shows, regularising illegal immigrants can also have a positive impact, especially by comparison with the problems caused by their non-regularisation;
- the successful integration of immigrants depends primarily on national issues: the integration of Turks in Germany, for example, appears to be an easier matter than the integration of North Africans in France – and this, even though we are talking in both instances about peoples from a Muslim background;
- the crisis must boost the attention we pay to immigrant integration, including incentives designed to get them to leave even when they are fully integrated in their host country.

1.4. Improving the Schengen *acquis* to safeguard it

1.4.1. Bolstering existing European cooperation mechanisms

- it is necessary to open the eyes of people thinking that European countries would be able to address the issue of international migrant flows single-handed and more effectively;
- it requires, in particular, to boost the mechanisms for cooperation and financial adjustment already in place, including by applying the "temporary protection" directive in the event of mass applications for political asylum;
- it would also be advisable to clear up the ambiguity surrounding the "Frontex" agency by endowing it with all of the resources that it needs to act.

1.4.2. Improving the common handling of migration-related issues

- real or alleged border problems raised by member states must become the subject of a common debate in a formal framework;

- the decision to reintroduce border checks in the event of a crisis must be adopted on the basis of a common decision taken in the respect of the EU competences as regards external borders control and the free movement of people;
- the Council must hold a structured political discussion on migration-related issues, on the basis of evidence-based reports and by improving the exchange of information on policies pursued by the individual member states;
- in legislative terms, the main goal must be to achieve common European regulations governing admission decisions in the areas of asylum and family reunification, as well as for decisions regarding the regularisation of illegal immigrants.

1.4.3. Combining political debate and practical applications

- the migration-related issues linked to the Schengen area deserve a broad preliminary political debate stretching beyond the mere handling of the crisis (for instance, see the debate in the United States in the early 20th century);
- strategies adopted by the member states have a tendency to vary according to their individual situations and traditions;
- the Commission must be tasked with monitoring the application of common regulations.

1.5. Immigration from the Arab and Muslim world, a specific issue

1.5.1. The weight of representations carried by "Arab and Muslim" immigrants

- this kind of immigration is often perceived as a threat to the identity of Europe's societies, particularly in view of the importance assigned to religion in the public sphere and of the status accorded to women;

these issues, too, must be addressed both at the factual level and in terms of the (often mistaken) manner in which they are portrayed;

- the political ethos spawned by the war on terror continues to have an impact and can even lead to people associating crime with Arab or Muslim immigration, an association not borne out by the statistics;
- one of the key points is to avoid keeping Islam in a minority, whether it be in the Arab world or in Europe – the "Arab Spring" is a highly significant signal in that connection.

1.5.2. The Arab Spring and an open European response to migration

- the nature of Europe's response to the "Arab Spring" depends partly on the way migrants from those countries are treated, and so we would be well advised to adopt a more favourable approach in view of our neighbourly relations with them;
- visa liberalisation for specific groups of people (teachers, business people, students) would be perceived as a very favourable signal – set against a trend involving encouragement for students educated in France to leave;
- one of the goals must also be to foster circular mobility between Europe and its neighbouring countries (multiple-entry visas);
- and finally, the policy for readmitting illegal immigrants into Arab countries must not be pursued either on unilateral terms or in brutal conditions.

2. “Institutions and people”

Moderated by Gaëtane Ricard-Nihoul, the session on political and institutional debates included speeches by Niels Ersbøll and Josep Borrel Fontelles, and comments and questions from other participants. The session as a whole led to the identification of the following main points for present analysis and future direction[2].

2.1. The governance of the EMU: “necessity knows no law”?

The current crisis is placing the governance of the EMU under stress and triggering political debates both on the allocation of powers and on the fundamental solutions.

2. The views expressed here are not necessarily those of *Notre Europe*.

2.1.1. *Power issues: a bonus for the intergovernmental approach?*

- the economic and financial crisis has had an even greater political and institutional impact than the Lisbon Treaty: it is fairly logical that this crisis should have afforded pride of place to the heads of state and government in the European Council;
- the bonus for the “intergovernmental” method also echoes a fundamental dilemma for Germany, which is rather favourable to increased coordination of national budgetary and economic policies, yet it is hostile to the transfer of competences, also in view of the position adopted by the Constitutional Court in Karlsruhe;
- the present system can be fine for handling an exceptional situation, but it cannot be the right way to run the EU in the longer term, especially when the bonus for the intergovernmental method has effectively turned into a Franco-German duopoly: the situation needs to be redressed.

2.1.2. *Substantive issues: what remedies for the EMU crisis?*

- we should remember that the sovereign debt crisis would not have reached this magnitude if the stability pact had been complied with, whatever its shortcomings, because the political consequences of failure to comply with it are far from negligible (lack of confidence);
- several problems that are glaringly apparent today were identified both when the Maastricht Treaty was negotiated and during the Convention: the fact that there can be no single currency without the coordination of economic policies, the need for European solidarity in the event of an asymmetric crisis and so forth. These problems were not addressed on account of political disagreements among the member states, and the basic underlying reasons behind those disagreements are still there;

- one of the major issues lies in properly identifying the causes of the EU's problems: in economic terms, by focusing on the private debt problem as much as on the problem of public deficits; and in political terms, by highlighting the fact that the EU is often slow to act and then does so insufficiently on account of national leaders' difficulty in speaking openly to their public opinion at least as much as on account of its institutional cumbersomeness.

2.2. Issues of method

A fresh boost to the debate on the "Community method" must lead to a clear analysis of the main underlying political issues.

2.2.1. Clarifying the way in which three crucial political issues are addressed

- 1st question: who proposes the decisions? No one really disputes the Commission's role in this connection, even though the Commission does not necessarily exercise that role sufficiently, and even though it might have difficulty playing that role in connection with decisions regarding the euro zone alone;
- 2nd question: who makes the decisions? The role of the European Council and of the Council of Ministers (in conjunction with the European Parliament) is fairly clear in this connection. The fact that the EU is not a federation along US lines naturally requires a collective management system allowing member states to play an important role;
- 3rd question: who implements the decisions? In this regard the EU suffers from a lack of transparency, of effectiveness, and thus of crucial credibility in the handling of the crisis: its decisions are implemented slowly and belatedly (for instance, the EFSF) and, even more deplorably, it is not clear whose job it is either to implement them or to follow up on them.

2.2.2. Emerging from the current confusion

- the management of this crisis appears to have fostered a trend towards a pooling of proposal, decision-making and implementation functions in the hands of the European Council, which is primarily a deliberating, decision-making assembly devoid of the powerful services able to exercise functions of proposal and implementation;
- debates on the reform of decision-making methods occasionally focus on the presidency of meetings or summits (euro zone) when in fact it is not essential – the only significant issue is the presidency of the institutions;
- the crucial thing is to comply with one of the fundamental aspects of the Community method, which provides for the institution tasked with making proposals also being responsible for implementing the decisions reached, thus ensuring that there is a clear chain of command;
- it is not a matter of regarding the "Community method" as sacred, which is no longer fully applied today anyway in connection with the coordination of economic policies or of the CFSP, due to considerations of legitimacy.

2.3. The predominance of the legitimacy issue

The current crisis has often led to priority being given to the concept of effectiveness, but that cannot be allowed permanently to overshadow the primacy of legitimacy.

2.3.1. Balances between member countries

- it is not possible for European countries to be governed by other EU member states – which explains why there is such widespread rejection of the "Merkozy" system;

- one of the key issues in European governance is to ensure that member states are on an equal footing, and that can only be guaranteed by independent institutions along the lines of the Commission (which includes a national from each member state);
- the rotating presidency of the European Council was useful to boost the profile of all of the member states, as well as the grasp of European issues in each state – but the formation of a 27-strong EU made major inroads into those positive effects even before the Lisbon Treaty set up the stable presidency.

2.3.2. The incarnation principle

- the end of the rotating presidency of the European Council and of the Foreign Affairs Council has weakened numerous member states' ability and will to incarnate the EU, to the advantage of two presidents whose appointment was shrouded in fairly murky circumstances;
- at the same time, the current coexistence of several different "presidents" (Commission, European Council, Council of Ministers, High Representative, European Parliament and so forth) makes it more difficult to identify those really in charge in Europe;
- the trend towards a merger of the presidencies now under way in the foreign affairs sphere would therefore deserve to be addressed in greater depth also in the economic and financial fields (with the presidency of the Council, or even of the Eurogroup, being assigned to the vice-president of the Commission);
- in the end, it would seem appropriate to merge the posts of Commission president and stable European Council president, particularly since this would make it possible to put paid to the current imbalance (H. van Rompuy is often forced into the limelight yet he has no administration and is not monitored by the European Parliament, while the opposite situation applies in the case of J.M. Barroso).

2.3.3. *Democracy*

- the more powerful role conferred on national parliaments entails both a strengthening of the intergovernmental approach and a boost for democracy;
- the establishment of a "parliament of the euro" cannot be based exclusively on the participation of national deputies, unless we wish to reduce the European Parliament to the role of a "parliament of the internal market": priority should be assigned in the future to dialogue between national parliaments and the European Parliament;
- the strengthening of the EU's powers in the economic and budgetary spheres has naturally imparted a fresh thrust to the debate on "political union" (particularly in Germany) and on the European institutions' democratic basis: the EP's representativeness, the allocation of powers within the ECB's executive board, the possibility of the president of the Commission being directly elected, and so forth.

2.3.4. *"Technocracy"*

- the important role played by unelected institutions can foster legitimate criticism, but that criticism must be tempered by clear explanations;
- the Commission's legitimacy is rooted in its independence – the independence of a body that is neither judge nor party, unlike the member states – but so is its effectiveness: it has to maintain that independence in order to establish its credibility and to guarantee the implementation of decisions reached by others;
- the same is true of the ECB: it is precisely because it is independent that it can act in a credible and lasting manner, sheltered from the pressure of member states and of electoral cycles.

2.4. Proposals for a revision of the treaties

The proposals for a revision of the treaties or for a new treaty raise numerous uncertainties of both a political and a legal nature.

2.4.1. Using the "tool-box" provided by the Lisbon Treaty

- intervention which the treaties neither formally anticipated nor yet formally ruled out has been seen in the addressing of this crisis; that includes rescue plans for countries in difficulty, extraordinary activism on the ECB's part, and so forth;
- it has also been possible to reform the stability pact ("six pack") and to establish a European semester without changing the treaty – these reforms are due to be put in place both in the very near future and within the current legal framework;
- the short-term responses to the crisis will necessarily have to be implemented outside of the new treaty because it is going to take several quarters for it to come into force, and that will trigger a period of political uncertainty and tension which it would probably be preferable to avoid;
- finally, the launch of a revision of the treaty could be necessary if it constitutes a political signal contributing to other interventions in the short run (ECB, etc.).

2.4.2. Arbitrating between several different legal paths

- the potential of Articles 42 and 46 in the Lisbon Treaty regarding structured cooperation could be put to better use in the service of the euro zone, even if those articles were originally devised for defense issues;
- article 136 in the Lisbon Treaty could also be used, on condition that the revision does not include any major issues (examples include changes to the weight carried by member states in the ECB, or the monitoring of economic policies by the Court of Justice) because otherwise it could not be called a "simplified revision";

- a choice also needs to be made between a revision of the Lisbon Treaty and/or the signing of an intergovernmental treaty.

2.4.3. A 17-strong EU versus a 27-strong EU?

- the euro zone is a "core business" in the construction of Europe, after the CAP and trade policy in the early days, followed by the internal market and structural funds in the 1980s and 1990s: its development concerns the EU as a whole, and thus also the treaties governing the EU;
- membership of the euro zone is not the result of an enhanced cooperation but a prospect for all of the EU's member states (save for the two which have negotiated an "opt-out clause"): the debate on the reform of the EMU must therefore take place at the level of the 27-strong EU;
- it is important to begin negotiations with all 27 member states involved, even if those negotiations will not necessarily be concluded in that format, especially if the government of the United Kingdom wants to use the negotiations to take back certain powers to the national level.

2.4.4. Addressing several practical issues

- the timetable issue: it is unlikely to be possible to finalise negotiations on the European treaties before the French presidential election;
- the content issue: for instance, is it necessary to include the creation of "stability bonds" as proposed by the Commission, or the modification of the weight carried by member states in the ECB as Germany has suggested?
- the method issue: should an Intergovernmental Conference be convened, or should a Convention be formed as the European Parliament would prefer?

3. “The dilemma between austerity and stagnation”

Moderated by Jean-Christophe Ploquin, the session on the dilemma sparked by the effort for austerity being made in the EU included speeches by Laurence Boone, Pervenche Berès and Daniela Schwarzer, and comments and questions from other participants. The session as a whole led to the identification of the following main points for present analysis and future direction[3].

3.1. The financial markets’ vision

3.1.1. An alarm-bell role

- the financial markets have evinced their alarm (sometimes even excessively so) regarding countries’ ability to control

3. The views expressed here are not necessarily those of *Notre Europe*.

their finances, although they themselves are not the source of sovereign debt crises;

- the markets are not (or are no longer) attacking the euro, and indeed the currency's rate of exchange shows that, at this stage, it enjoys a good level of confidence: those hedge funds that tried to speculate on the euro losing value have lost too much money and they are now feeling somewhat disheartened;
- over the past few weeks, banks and insurance companies have had to sell French bonds to compensate for their Italian and Spanish losses: we should not necessarily interpret this as an attack on one or the other country;
- on the whole, the markets would be happier with a functional euro and a stabilised situation – the default of a large European country would cause the stock markets to panic.

3.1.2. The markets question the European response

- it is true that the euro zone is in a better overall situation than the United Kingdom or the United States, but given that there is no genuine unified management of the situation, the markets tend to make national comparisons (Greece with the United Kingdom; Italy with the United States, etc.);
- the credibility of Europe's political "word" has been badly undermined by the way the crisis has been handled, and thus that credibility needs to be rebuilt *(see 3.3.)*;
- the markets know that excessive austerity would weaken growth and increase the danger of a recession, and so they are very concerned to ensure that Europe's responses are going to be sustainable in the longer term *(see 3.4.)*.

3.2. The EU member states' economic strategies: a contrasting assessment

3.2.1. Germany

- broad support for austerity, a synonym of confidence, even though Germany adopted a Keynesian approach in the 1990s;
- awareness of having to make an effort to address some very substantial challenges (funding reunification, demographic decline, the move away from nuclear energy);
- good competitiveness strategy based, in particular, on structural reforms (labour market), on involving the trade unions (moderation in wage demands) and on partial relocation to central Europe;
- strong attachment to its own growth model.

3.2.2. Spain

- a diligent disciple of the stability pact until only recently, and in terms of regulation of the banking industry;
- real estate bubble caused by a very low interest rate linked to the changeover to the euro, to a housing stock in need of modernisation and to an extremely dynamic demographic trend;
- a rude awakening in these three fields with a build-up in competitiveness problems, with respect to which European monitoring has not been effective.

3.2.3. France

- lack of assessment of the successive economic policies;
- public spending rates hitting the 56% mark, with political stances being adopted on taxation and the feeling that spending is untouchable;
- also competitiveness problems, although there is excellent potential to make a comeback.

3.2.4. Italy

- is paying the price for its record debts in the 1990s;
- major ability to make an effort to remain in the heart of the EU (see the special tax levied in 1996 to enable the country to join the euro zone);
- excellent ability to make an economic comeback.

3.3. Rebuilding the credibility of European politicians' "word"

3.3.1. The need for a firm national political commitment to reform

- the strategy adopted by the most effective member states consists in not seeking to deny the problems and in clearly stating how they intend to proceed (United Kingdom and Ireland);
- austerity plans that fail to embody a genuine adjustment strategy may be perceived by the markets as being mere marketing tools (France);
- recourse to technocrats to adopt structural reforms may be useful in the short term, but it may also confirm doubts regarding the political class's ability to implement such reforms in the longer term (Greece and Italy).

3.3.2. The way the Greek situation has been handled is emblematic of Europe's dithering

- denial that default is a possibility, followed by implicit recognition of the fact;
- debt erasure threshold set at 20%, and then at 50%;
- preventing Greece from leaving the euro zone was presented as a last-ditch goal, yet the scenario was then countenanced by Europe's own leaders for several days (after the announcement that a referendum might be held).

3.3.3. The way the "EFSF" has been handled also points up the dithering involved in Europe's efforts to promote solidarity

- major financial commitments on the part of member states, but with so many strings attached that doubt has been cast on the authenticity of their solidarity efforts;
- the procedures adopted to boost the size of the EFSF have been too complex;
- the request that emerging countries, which are presumed to be poorer, take part in the EFSF is a rather worrying sign.

3.4. The need for balanced austerity

While public deficits are not unhealthy things in themselves, they have to be widely reduced in the short and medium terms on the basis of balanced stringency efforts.

3.4.1. Striking a balance between revenue and expenditure

- the strategy adopted by the most effective member states consists in splitting their adjustment between 2/3 spending cuts and 1/3 tax hikes (e.g. Ireland);
- spending cuts tend to impact one of the European model's most important distinguishing features, namely the welfare state, which needs to be better tailored to the new social, family, and demographic reality;
- new resources must also be found, including taxation of higher income brackets, a tax on financial transactions, and the taxation of capital and income covered by banking secrecy or tax havens.

3.4.2. Striking a balance between austerity and fairness

- structural reforms will be sustainable, and thus effective, if they are fair – the financial markets are also aware of that fact;

- fairness is all the more crucial if we consider that the adjustment efforts which need to be made are going to have an impact in the medium term (e.g. in Greece);
- the aim must not be to whittle away at the system in dribs and drabs but to rebuild it in such a way that it becomes both sustainable and fair (counterexample of France, which now has the lowest pension turnover rate);
- reforms undertaken in the field of financial regulation (including in connection with tax havens) play an important role in determining whether current adjustments are fair or not.

3.4.3. Striking a balance between austerity and growth *(see 3.5.)*

3.5. A key objective: boosting potential for growth

The trend in the debt-to-GDP ratio also depends, of course, on the trend of the… GDP itself, so GDP also needs to be stimulated at both the national and European levels.

3.5.1. Measures that need to be adopted at the national level

- deregulation measures need to be adopted in certain countries in order to free up the growth potential in certain state-protected sectors (e.g. in Italy);
- at the same time, fewer regulations are required in order to allow small businesses to grow more easily, but also to simplify bankruptcy procedures;
- at this juncture, investing in manufacturing is not necessarily the priority any longer: "human capital" appears to be a stronger source of growth (hence the need to invest massively in education).

3.5.2. A strategy for growth at the European level

- deepening the single market is one of the main sources of growth in Europe – the Polish presidency's initiatives are welcome;
- European funding for projects of common interest must be developed further, including in the framework of public-private partnerships;
- the renegotiation of the European budget must make it possible to shine the spotlight more clearly on the added value inherent in European spending.

3.6. For converging economic policies

3.6.1. Converging budget policies

- a properly functioning euro zone will be sustainable if it is possible to organise improved convergence in the area of debts and deficits (the recent stability pact reform being a useful step in that direction);
- it is better to debate national budgets upstream rather than to resort to penalties after the event, which are more difficult to apply: this common upstream debate presupposes some form of transfer of budgetary sovereignty to the European level – which would help to resolve the moral hazard problems that have dogged the EMU since it was first set up;
- the kind of budgetary convergence to be aimed for cannot be confined simply to the enforcement of further discipline and further austerity: it also needs to facilitate the coordination of the budget choices made by countries with a surplus and countries with a deficit, to lead to the adoption of better harmonised investment policies, and to include a minor cyclical role for the Community budget.

3.6.2. Converging competitiveness policies

- implementing economic strategies primarily based on exports (Germany) weakens European internal demand: the adoption of such strategies by all of the EU countries would inevitably have a globally depressive impact;
- conversely, excessive recourse to fiscal and social competitive advantages may start to resemble dumping, thus dragging down both the internal market and public policies;
- the interdependence of Europe's economies, as highlighted by the current crisis, demands stronger coordination of national supply-side policies: the adoption of the "Euro-Plus Pact" points to a commendable monitoring effort, but its scope and importance now need to be defined;
- policies that can be subject to effective European convergence must be carefully chosen: it is by no means certain that taxing businesses is the most promising area for such an initiative if we remember the complexity of procedures in the EU's various member states.

3.6.3. Convergence requires a helping hand in both political and democratic terms

(see the session on "Institutions and People")

3.7. ECB intervention, a key issue

The ECB has been playing a major role since the crisis began, and that role is set to grow in the short and medium term.

3.7.1. Three kinds of complementary intervention, which could resemble a surreptitious form of solidarity

- the ECB has launched debt-purchasing programmes worth over 200 billion euro, 60 of which involve secured bank debts;
- the ECB provides banks with liquidity at various intervals (weekly, six-monthly, yearly and even biennially), accepting "collateral" which can be part of the Greek debt;
- the ECB is the framework through which interbank loans transit, which has prompted certain central banks to advance funds to central banks with no liquidity (examples in Greece);
- if the liquidity thus advanced is not recovered, these operations will effectively be akin to transfers of wealth (an IMF study has, for example, recently quantified the impact of such operations for a country like Germany).

3.7.2. The ECB sends out messages which could be more effective

- the ECB tends to intervene in the context of the limits that it sets itself (approximately 20 billion euro in debt purchases per week), whereas it would be preferable in the markets' eyes if it did not set itself any limits at all;
- the ECB resorts alternately to arguments based on monetary policy and on financial market stabilisation, which can blur the direction of its policy;
- it would be useful for the ECB to say that it is prepared to intervene even if it then fails to do so, rather than the other way around: this, because in the past it has occasionally given the impression that it is hesitant to intervene, only to then do so in the end.

3.7.3. Interventions which need to develop further

- criticism in Germany of the ECB's intervention has more often than not been levelled by economists (not by the government)

- and has not been primarily concerned with the purchase of debts on the secondary market;
- the debate on the potential inflation risk deserves to be taken further, as does the debate on the ECB's sterilising the inflationary impact of its intervention;
- if it were to be confirmed that the EFSF cannot have the impact expected, it would be necessary to turn once again to the ECB.

Annex 1: List of the participants to the ESC 2011

António Vitorino, President of *Notre Europe,* Lawyer, Former European Commissioner, Former Portuguese Minister
Enrique Barón-Crespo, Former President of the European Parliament, Former Chairman of the Party of European Socialists Group
Pervenche Berès, Member of the European Parliament, Chair of the Employment and Social Affairs Committee
Yves Bertoncini, Secretary General of *Notre Europe*
Joachim Bitterlich, Vice-President of *Notre Europe,* Executive Vice-President International Affairs of Veolia Environnement Paris
Laurence Boone, Chief Economist Europe, Bank of America Merrill Lynch
Josep Borrel Fontelles, President of the European University Institute in Florence, Former President of the European Parliament
Jean-Louis Bourlanges, Associate Professor at the Institut d'études politiques de Paris, Former Member of the European Parliament
Laurent Cohen-Tanugi, International lawyer and essay writer

Etienne Davignon, Belgian Minister of State, Former Vice-President of the European Commission
Pierre Defraigne, Executive Director of the Madariaga - College of Europe Foundation
Renaud Dehousse, Director of the *Centre d'études européennes* at *Sciences-Po Paris*
Jacques Delors, Founding President of *Notre Europe,* Former President of the European Commission, Former French Minister
Niels Ersbøll, Ambassador, Honorary General Secretary of the Council of Ministers of the EU
Elisabeth Guigou, Member of the *Assemblée nationale*, Former French Minister
Klaus Hänsch, Former President of the European Parliament
Pascal Lamy, Honorary President of *Notre Europe,* Director-General of the World Trade Organization, Former European Commissioner
Philippe Lagayette, President of the *Fondation de France*, Vice-President and Senior Advisor Barclay Capital Bank
Eneko Landaburu, Ambassador, Head of the European Union Delegation to the Kingdom of Morocco
Pierre Lepetit, Vice-President and treasurer of *Notre Europe, Inspecteur général des Finances*
Père Henri Madelin, Jesuit, Centre Sèvres
Vitor Martins, Advisor for European affairs to the President of Portugal, Former Portuguese Minister
Stefano Manservisi, Director General for Home Affairs at the European Commission
Jean Nestor, Former Secretary General of *Notre Europe*
Riccardo Perissich, Former Director General for Industry at the European Commission, Telecom Italia consultant
Alojz Peterle, Member of the European Parliament, Former Prime Minister of Slovenia

Jean Pisani-Ferry, Director of Bruegel, Associate Professor at *Université Paris IX-Dauphine*

Jean-Christophe Ploquin, Deputy Editor-in-Chief, *La Croix*

Julian Priestley, Former Secretary General of the European Parliament

Romano Prodi, Former President of the European Commission, Former President of the Italian Council

Antonio Puri Purini, Former Advisor to the Italian President, Former Italian Ambassador to Germany

Gaëtane Ricard-Nihoul, Political Analyst with the Representation of the European Commission in France, Former Secretary General of *Notre Europe*

Maria João Rodrigues, Economic and Social Policy Advisor to the European Commission, Professor at Lisbon University, Former Portuguese Minister

Philippe de Schoutheete, Former Belgium's permanent representative to the European Union, Director of the European Department of the Egmont Institute

Daniela Schwarzer, Head of the Research Department on European Integration, German Institute for International and Security Affairs (SWP)

Stefano Silvestri, President of the *Istituto Affari Internazionali*

Pedro Solbes, President of the *Fundación para las Relaciones Internacionales y el Diálogo Exterior* (FRIDE), Former Spanish Minister, Former European Commissioner

Antoinette Spaak, Belgian Minister of State, Former Member of the European Parliament

Christian Stoffaës, Associate Professor at *Université Paris IX-Dauphine,* Member of the Board of the French Centre for Research and Studies on the World Economy (CEPII)

Christine Verger, Director of Relations with National Parliaments at the presidency of the European Parliament, Former Secretary General of *Notre Europe*

Annex 2: Declaration of the ESC 2011 "Austerity, but also growth"

The debt crisis which most Western countries are currently having to tackle is forcing the European Union (EU) and its Member States to address a fearful dilemma: they are in a position where they need to adopt budget adjustment and structural reform agendas while making sure, at the same time, that they hang on to their prospects for growth in order to be able to offer their people hope for the future.

"Austerity for the States, growth for Europe": this slogan by Tommaso Padoa-Schioppa[4] doesn't preclude the need to face such a dilemma at the national level, while implementing deep reforms including inequalities reduction objectives, and then promoting a sustainable growth strategy. It nevertheless insists on the added value of the EU, to which a major priority has to be granted, for economic, social and political motives.

4. Former Italian Economy Minister, former Member of the European Central Bank's Executive Board, and President of *Notre Europe* from June 2005 until his death on 18 December 2010.

The Stability Pact rules naturally have to be complied with today as in the past, if only out of respect for future generations and to avoid handing our sovereignty over to private creditors. But the EU cannot only be seen as a Community which bans deficits by force, be that force legal or political. In complementing the crucial role played by each of the Member States, it must also contribute to responding to the challenges of unemployment, which has risen above the 10% mark at the European level, and of the global slowdown in economic activity. The EU must also be seen, beyond the euro zone, to be fulfilling its primary role as a driving force for growth: it can act effectively in that direction in connection with the crucial decisions to be taken in 2012.

Thus the EU must achieve the completion of the Single Market, 20 years after the mobilising deadline of "1992", in order to make the most of a potential for growth and employment that is still largely under-exploited. As Mario Monti's report stressed in 2010, there remains a great deal to be done, particularly in the spheres of the services, the digital economy and public contracts. Moreover, it is perfectly possible to achieve this in the context of a balanced approach combining social objectives and respect for the environment, each in their proper place. In its Single Market Act, the Commission estimated that a potential growth rate of at least 4% of GDP could be achieved over the next 10 years, and it has recently proposed stepping up the pace. It is up to the Member States and to the European Parliament to respond to this initial challenge.

The EU must also take advantage of the future adoption of its new multiannual financial framework, because while the Community budget is first and foremost a tool for solidarity, it is also a tool for growth. Thus the budget must play a more extensive role in developing European research programmes, but at the same time it must also prove more effective in furthering the deepening of the Single Market, in particular by financing transport, energy and communication infrastructures of common European interest. In this connection, it is crucial for the 50 billion euro which the Commission has proposed for 2014-2020 to be approved in 2012, and that the sum then be put to work in partnership with private funding to expand the EU budget's leverage effect. By the same token, it is crucial that, after approving the anticipated and more flexible use of the structural funds earmarked for countries in difficulty, the EU immediately mobilises an equivalent sum for infrastructures of common European interest, because an exceptional gesture of that nature can counterbalance the depressive impact of the financial stabilisation measures currently being implemented.

And lastly, to complement these budgetary operations, the EU, and more especially the European Investment Bank, must take the lead in issuing bonds designed to fund future spending, primarily in the infrastructure and environment fields. This can indeed respond to the massive investment requirements identified in Europe and permit this kind of spending to go forward, as it gets set to fall under the axe in numerous Member States. The EIB is well placed to issue such bonds, and to thus raise its annual funding capability to 200 billion euro (as opposed to the figure of 80 billion today) by bolstering the capital and the securities provided by the Member States.

The simultaneous mobilisation of the three tools that are the Internal Market, the Community budget, and European project-bonds, will trigger an almost immediate increase in activity and bring major benefits in terms of medium-term endogenous growth. This "growth package" is crucial to ward off the very negative economic and social consequences that would inevitably ensue if Europe's flat growth rate were to continue for much longer, but also to boost the EU's legitimacy in the eyes both of its Member States and of the man in the street.

Annex 3: Tribune by Pascal Lamy - "The Future of Europe in the New Global Economy"

***Tribune based on his opening address at* Notre Europe*'s European Steering Committee*.**

The economic and monetary turbulence we are experiencing today should not prevent us from reflecting either on the future of the global economy in the medium and longer term, or on Europe's place in a rapidly changing geo-political situation. Let us overlook our momentary concerns so that we can sketch a bigger picture of the world that is taking shape and ponder the kind of reforms that would allow Europe to face the future with greater optimism.

To understand the geopolitical framework now taking shape, we need to begin by describing the broader trends shaping the development of the world's economy, then we need to situate Europe's place and prospects in that changing landscape. And lastly, we need to suggest a few more concrete paths for reform, and public policies capable of ensuring Europe's future in the new global economy.

1. The "big change" in the global economy

The global economy, which is the Europeans' reference environment, has undergone two major changes in the past 20 years; moreover, those changes are going to continue and, in all likelihood, to speed up over the coming decades.

1.1. The "big swing"

The first change involves a radical upheaval in economic masses and growth rates linked to the growing power of the emerging countries, some of which consider themselves to be still emerging while others feel that they have already emerged. Jean-Michel Severino[5] calls it the "big swing" [le "grand basculement"] and argues that it consists of both the masses themselves and of the speed at which those masses are shifting. There is no other instance in the entire history of mankind, of such massive economic development concentrated in so short a space of time.

China's output today accounts for over 8% of the world's economy (in current dollars) compared with less than 2% only 30 years ago. This increase is already having considerable economic, political and media repercussions, but twenty years from now China is likely going to be worth 20% of the global economy, and the consequences of that transition are going to be even more obvious.

The place that China occupies in this picture is of necessity unique because it is the largest and most important of the rapidly developing economic masses. India accounts for 3% of the global economy today and should account for 5% twenty years from now, thus it is a smaller and less rapidly developing mass. Africa accounts for 2% of the global economy today, while Latin America accounts for 4% to 5%. In twenty years' time, Africa

5. See Jean-Michel Severino & Olivier Ray, *Le grand basculement, la question sociale à l'échelle mondiale*, Odile Jacob, Paris, 2011.

should account for 3% of the global economy and Latin America's share should remain stable. Thus while these other economic masses are also shifting, they are not doing so to as great an extent.

The downswing in the West's economic power is the logical offset to the increasing economic weight carried by the emerging countries. If the trend observed over the past two decades continues, the weight Europe carries in the global economy is going to drop from 35% to 25% by 2030 and the weight carried by North America (the United States and Canada) is going to drop from 30% to 28%. The fact that North America is likely to hold out better is due, in the main, to a more favourable demographic situation than in Europe. This swing in relative weights is destined to continue, or even to speed up in China's case, while heightening the kind of turbulence we are already experiencing today.

1.2. The new configuration of international trade

The second major transformation that the world's economy has experienced in the past two decades is a deep change in the nature of the international division of labour, particularly in terms of stronger specialisation in the manufacturing apparatus of the various countries. This specialisation movement is rooted in the technological changes that have made the world a smaller place.

International trade has traditionally been restricted by the costs entailed by distance, particularly in connection with transportation and communications. That has led to a "preference for proximity", on which economists have dwelled upon for many years and which translates into a country choosing to trade first and foremost with its neighbours. The invention of the container and of the Internet has considerably reduced the obstacle of distance in the space of a mere few decades.

Thanks to the container, the cost of transporting a tonne of goods by sea has been slashed by fifty times in the space of a few years; while the Internet revolution has had an impact of the same magnitude in the sphere of communications. The power of today's computer tools combined with the possibility of real-time communication with the whole world has made it possible to set up logistics chains on a global scale spread out over different countries. These logistics chains, comprising a large number of distinct operations, would never have seen the light of day without a series of tools making it possible to handle complexity while at the same time regulating, monitoring, and remote-managing the work of all the suppliers and partners involved.

Fully 60% of Asian countries' international trade is concentrated in the Asia zone itself, the area which has witnessed the most in-depth integration of its production chains, with the manufacture of parts and semi-assembled units that are then mixed with components which themselves comprise elements from different countries, and the whole then ends up in China for assembly before being exported elsewhere. The underlying phenomenon, a process of fragmentation among different countries and types of labour, is effectively illustrated by the production chain of certain emblematic products.

Take the iPad, a part of which is assembled in Chengdu, in western China. Over 100,000 people work in a factory that only "manufactures" one part, namely the iPad's aluminium casing. The rest of the factory's activity consists in alternating assembly operations with technical testing. Logistics circuits are enormously complex and it takes eight hours to assemble the components of an iPad on account of the large number of quality controls required. The Chinese added value generated by this factory accounts for 5% of the iPad's purchase price, while the American added value of the same iPad, assembled in China and exported to the United States, is over 20 times higher.

Global manufacturing chains are constantly changing, in an ongoing movement involving the allocation and reallocation of labour and capital in response to the opportunities that businesses perceive, to a changing regulatory environment and to changes in trade barriers. The execution of these tasks, once performed in a given country by a given company and based on the use of an extensive labour force, can now be brutally shifted to another country and another company with different means of production.

It is no longer a matter of trading in goods and services but of trading in tasks, which enter the production process of an end product or service. International trade theory these days talks about “trade in tasks”. This underlying transformation has numerous and very obvious consequences because it rests on industrial location, transfer and relocation, which give businesses the leverage they need to improve their efficiency.

To understand where the efficiency in this new configuration of international trade comes from, we have only to refer to a simplified Ricardo-Schumpeter model. From David Ricardo we take the increased manufacturing efficiency that he argues is to be gained from an increasing international division of labour, while from Joseph Schumpeter we take his theory based on the uninterrupted cycle of the destruction and creation of manufacturing systems, the least efficient making way for the more productive, which then employ the labour and capital thus freed up.

This movement is speeding up at the global level and it is triggering an increase in growth and employment at international level. But the division of employment and the changes affecting it are by no means uniform. Social and economic fabrics cannot develop at the same pace and they take considerable time to adapt to the changes to which they are subjected. Hence the deindustrialisation process that is hitting certain traditional labour pools, triggering dramatic social shocks in certain regions. Hence also the painful social insecurity in job markets where the previous model had been stable for a long time, in other words in the developed countries[6].

In this new configuration of international trade, commercial issues broadly transcend the mere issue of trade imbalances. And in any case, bilateral trade imbalances are becoming meaningless when China's exports to the United States contain almost 50% of Chinese added value while US exports to China contain 80% to 90% of American added value. It is an economic non-sense to continue to calculate bilateral trade balances the way we do today. What we need to monitor is the effective added value in each country, not the overall value of goods and services imported and exported.

Naturally, China is in a surplus situation and the United States is in deficit. That is a macro-economic problem whose causes are well-known: excessive consumer restraint in the former case and insufficient savings in the latter. Yet politicians focus on the two countries' bilateral trade relations, which makes very little sense these days as we can see from the example of the manufacture of iPads.

That is why we have to stop measuring international trade flows using a gauge that increases a product's overall value each time that product crosses a border. We need to calculate trade in the same way as we calculate gross domestic product (GDP), in other words by adding together the value added flows. An approach of this kind would also allow us to conduct a meaningful analysis of the impact of trade on employment, a crucial policy issue in today's world.

6. British university lecturer Guy Standing likens the "precariat" of the 21st century to the proletariat of the 19th.

2. The impact of these changes on Europe

To explore the situation and prospects for Europe in this global economy in the grip of change and development, we first have to put paid to two clichés that too often foul the debate and prevent it from making any progress.

The first cliché argues that Europe is a victim of this new international division of labour. All the available figures show us that that view is mistaken. In the change in production methods that we have witnessed over the past twenty years and more, Europe is coming out of things far better than either the United States or Japan. Europe's market share of international trade has remained more or less stable throughout this period, hovering around the 20% mark, while the United States' and Japan's market shares have shrunk substantively. The EU's foreign trade surplus in the industrial sphere has trebled over 10 years, hitting somewhere in the region of 200 billion euro.

But as we have seen, that same period has witnessed major progress on the part of the emerging countries, with China heading the list. The countries of Europe, Germany in particular, are especially well placed to benefit from their comparative advantages at a time when the emerging countries have to import considerable quantities of manufacturing technologies and goods. So we can hardly call Europe a victim; indeed so far it has rather profited from the globalisation process.

The second cliché: Europe is naive in that it allows itself to be taken advantage of and overtaken by its trading partners, and the porous nature of its borders is said to be the most obvious demonstration of this state of mind.

In point of fact, these statements cannot withstand even the most modest analysis of the facts and figures. Europe's borders are neither more nor less porous than those of comparable developed countries. This applies to traditional trade barriers, customs duty and quotas, but also to such commercial protection measures as anti-dumping rules and countervailing duties, or to technical quality, food safety and environmental safeguard standards. Europe is no more naive than its trading partners that enjoy a comparable level of development.

Europe's problem, its weak growth and its crippling unemployment are thus not simply linked to international trade but to different factors, and thus we should not be seeking solutions to that problem in a fallback commercial policy built on increasing the number of obstacles to trade.

The prices of European products have tended to become increasingly less competitive over the past few years. Salary levels are sometimes mentioned as being one of the causes for this, but there is absolutely no point in comparing hourly wages without relating them to the productivity of the working hour. Where competitiveness is concerned, the fact that a European worker earns far more than his Chinese counterpart is of little consequence so long as that higher hourly wage level is reflected in greater efficiency and greater productivity. Thus when we look at salaries, we have to set them against worker productivity. Having said that, it is glaringly obvious that Europe's hourly productivity is currently being eroded, particularly by comparison with the United States. The euro's high rate of exchange against the dollar in recent years has also had a far from negligible impact on European products' loss of competitiveness in the world's market places.

In parallel with price competitiveness, Europe's (and especially Germany's) comparative advantage stems largely from its "non-price competitiveness". This type of competitiveness comprises all of those characteristics that cause a product to stand out positively among its competitors, regardless of price. In particular, it comprises know-how, quality and innovation, which allow a company to sell the same products as its competitors but at twice the price. This explains the performance of the German manufacturing system – and that performance, incidentally, is on a par with the average figure for the Community, according to the most recent figures.

The countries of Central and Eastern Europe have made enormous progress in terms of price competitiveness; yet while they have now overtaken even the Germans, they perform less well than them in the field of "non-price competitiveness". Other countries, on the other hand, have fallen below the average, performing less well in the sphere of price competitiveness like Italy, or less well in the sphere of "non-price competitiveness" like France.

The difference between France and Germany in terms of comparative advantage on the international trade scene does not lie in price competitiveness, because salaries and productivity are the same in both countries. The Germans, on the other hand, enjoy a very clear comparative advantage in the field of "non-price competitiveness", in other words, in terms of the range of products that they manufacture and export. The level of specialisation that sets France apart from Germany does not lie in pure product but in the range of products offered. "Up-markets" products are sold at a higher price and guarantee higher profit margins. Their quality attracts consumer loyalty and confidence, and this, to some extent, shields manufacturers from having to worry about fluctuating global prices and competitor attacks.

In view of this situation, if we bear in mind the Europeans' market positioning, know-how and economic tradition, we have to admit that comparative advantage is going to depend on price competitiveness but also to a large extent on "non-price competitiveness". Thus the problem of Europe finding its place in the new global economy boils down to a European "domestic" issue. The external environment is not negative; on the contrary, it is rather positive.

3. What reforms for Europe's future?

Europe enjoys comparative advantages that ought to allow it to find its full place in the global economy. If we accept the idea that an improvement in its integration into international trade depends first and foremost on its internal policies, then we need to go back to the basic problem, which is a problem of excessively weak economic growth in Europe. That was true before the crisis, when the European Union's potential for growth hovered around the 2% to 2.5% mark, but since the start of the crisis that potential for growth has decreased by half.

On a global scale, Europe is an island of prosperity and well-being thanks to a welfare system which is of unquestioned quality, yet whose sustainability depends on significant growth both in the economy and in the population. However, Europe has a problem in both of those spheres. A well-known solution to its demographic problem would involve falling back on immigration, but it is difficult to envisage such a solution being adopted in the short term on account of the positions espoused by Europe's political forces on the issue. It would also be opportune to make it easier for people to reconcile their personal and professional lives, and to remove obstacles standing in the way of an increase in the birth rate, which has dropped to critical levels in European countries where the generational turnover is no longer guaranteed –although there are a few exceptions, and one of them is France.

Where potential for growth is concerned, the crisis has highlighted difficulties incurred through the problem of excessive indebtment. The only way to keep the social security system going without significant demographic growth is by increasing the economic growth rate. Yet it is difficult to impart a fresh boost to the growth of an economy whose potential for such growth has been damaged by the crisis and which is having to cope with a heavy indebtment burden. Yet therein lies the whole issue: it is a matter of boosting potential for growth by 1 or 1.5 percentage points in order to be able to continue funding the European welfare system and to check the indebtment that has built up to date.

The reforms required to achieve this goal and to make the best of Europe's comparative advantages are long-term reforms primarily regarding its education, training and innovation system. It is in that sphere that the difference between countries and continents is going to be seen. A population's level of education is the single variable that best evinces differences in economic growth and success worldwide over the past forty or fifty years. But public education and innovation policies can have an impact only in the medium and longer terms. So in view of that, how can we stimulate growth in the short term? It is a matter of devising measures whose impact can be felt at once.

We may find an answer to that question on the labour market, yet we have to combine fiscal and budgetary measures in order not to reduce productive public expenditure, which has a driving effect on the economy, and to avoid any rise in manufacturing costs so that we can protect our price competitiveness.

And finally, monetary policy can also serve as a short-term lever for action. According to the Bruegel think tank, there is a way of managing the inflation differential within Europe intelligently so as to restore part of the competitiveness that is missing in the south. Inflation at 2.5% to 3.0% in northern Europe, coupled with lower inflation – at say 1.0% – in southern Europe would gradually allow countries that cannot devalue their currency to recover, to some extent at least, the price competitiveness they lack.

*

We are not telling fairy stories here: the economic stagnation affecting Europe today – and from which it must emerge on top and as rapidly as possible – is not caused by international competition as devastating as Europe’s trade policy is allegedly weak or naive.

Europe’s dearth of price competitiveness and of “non-price competitiveness” must be the target of future public policies, which will give Europe the means to benefit from the comparative advantages that it should have. Education, training and innovation policies, the meticulous management of intra-Community inflation, and greater fluidity in the labour market are the pillars of a courageous reform equal to Europe’s legitimate ambitions in an increasingly competitive world.

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Notre Europe *also receives the financial support of the French Government, the Compagnia di San Paolo, the Macif and the Grand Duchy of Luxembourg.*

Dépôt legal

Yves BERTONCINI

Yves Bertoncini is Secretary General of *Notre Europe*.

European Steering Committee 2011 of *Notre Europe*

Key elements

The European Steering Committee of *Notre Europe* (ESC) met on 19 November 2011 under the chair of António Vitorino, president of *Notre Europe;* more than forty people attended the meeting.

Discussions dealt with the following issues: "Schengen and immigration", "Institutions and people" and "The dilemma financial austerity – economic stagnation".

A declaration entitled "Austerity, but also growth" was adopted at the end of the ESC and released in several European newspapers.

This publication offers a synthesis of the key elements of these discussions and the text of the declaration of the ESC. It also contains a tribune by Pascal Lamy entitled "The Future of Europe in the New Global Economy", based on his opening address at the European Steering Committee.

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