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Breaking Europe's cycle of enfeeblement

By Mark Leonard

It is time to face facts: markets are not just betting against the euro but testing the European project itself. Tuesday's Franco-German summit showed that the more leaders repeat outdated nostrums – such as the impossibility of eurobonds – the less they are believed. The Merkel-Sarkozy proposals were an attempt to paper over differences (with Germanic prudence on eurobonds and debt ceilings balancing Gallic pressure for economic governance) and buy time, but the past few months have shown that this piecemeal approach will simply increase the cost of a long-term solution. To save itself, the European Union must stop seeking loopholes and attacking symptoms, and instead grapple seriously with its fundamental design faults.

Since the French and Dutch “no” votes in 2005, pro-Europeans have acted like the mythical boy with his finger in the dyke; unwilling to give ground for fear of a eurosceptic flood. As a result they have defended the unsatisfactory and unsustainable status quo: a currency not backed by a treasury; joint borders without a common migration policy; and a technocratic foreign policy divorced from national sources of power.

The only way to stop a tide of disintegration spreading beyond the euro to the EU itself is to tackle these problems head on. Doing so, however, means first giving up the dream of a one-speed Europe. EU nations have long travelled at different speeds, but now they need an institutional framework for a multi-speed future.

Rather than hiding this division, the EU now needs a model in which fast-lane nations act as pioneers who endow the whole project with new purpose. Yet even a multispeed Europe needs bigger fiscal transfers – the best option being an explicit deal between creditor and debtor nations. As well as reconciling austerity with debt support, this could develop a vision that balanced economic liberalisation with social protection.

Most importantly, Europe's leaders must stop stripping the politics out of European integration. Instead of shrouding discussions in legalese, they must engage voters in a debate to reinvent the three big integration projects of the past 20 years: the euro, Schengen freedom of movement and a united foreign policy.

On the euro – the most existential of the crises – leaders have tried unsuccessfully to stem market panic but not dealt with deeper problems. Even after the latest summit, the policies fall short of the eurobonds, European banking regulation and pan-European deposit insurance schemes that are needed. New rules at the European financial stability facility – allowing it to support banks by buying Greek bonds, and even to recapitalise banks directly – marks a changed German position, whose logic backs new eurobonds. This must now be made explicit, and backed by a big EFSF expansion.

EU rules for border-free travel are also under pressure. When borders opened up, hundreds of thousands of refugees were entering Europe; now controls are being reintroduced because of only a few thousand Tunisian incomers. Rather than the current situation in which EU and national policy seem to conflict, a new common migration policy should include co-operation to secure the EU's external borders, joint criteria for legal migration and a solidarity budget to help certain countries, such as Italy, to cope with sudden and large migratory movements.

Europe's foreign policy must also regain credibility. The enlargement project has ground to a halt and the EU, once wooed by Turkey, is now branded comatose, stagnant and geriatric by its prime minister. Europe's response to the Arab spring is governed by narrow national agricultural and immigration interests, not generosity, and imagination. The admirable action to save Benghazi may, in the long term, expose dwindling defence budgets.

Rather than relying on national foreign policies coupled with an EU bureaucracy tasked with delivering "enlargement-lite", EU governments must learn to exercise power collectively towards countries that will never be EU members. A task force to develop a more compelling EU response to the Arab spring, and a commission to strengthen the pooling of defence capabilities would be a good start.

EU integration has always moved forward through repetitive crises, but only political leadership can turn these into sources of new energy. Thankfully, all of Europe's problems come from a lack of will, not a lack of military or economic capacity. Even its military spending is second only to that of the US, and around double that of Brazil, India, China and Russia combined.

The eurozone's debt and deficits are also far lower than in the US, Japan or even the UK. Yet the EU's failure to govern itself is fuelling global perceptions of decline, in turn making Europe's citizens even more short-sighted, as they try to protect their slice of a shrinking cake. EU leaders' attempts to defend the status quo only reinforce a vicious

circle of enfeeblement. Conservatism will not break this cycle of decline. To save Europe, we must reinvent it.

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