

## EUROPEAN UNION TOWARDS 2020 AND BEYOND: A NEW “ZEITGEIST” AND THE CHALLENGES AHEAD

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### Abstract

*The economic crisis has had a serious impact in many but not all economies of the world. As for the European Union, the Greek crisis and the Eurozone crisis have led to a structural and conceptual crisis. This impact generated a lot of commentaries, analyses and proposals of solutions. Most of the discussions have remained either technical, looking for solutions within a paradigm that is no longer valid, or looking towards the past and asking a lot of “what ifs” that are not anyway of particular relevance. This paper took a different perspective, that of a change in the “spirit of times”, a change in the way people understand reality and the way they picture their expectations. In our opinion European Union lost, to a large extent, the contact with the perception of times and expectations of the people from the 27 member states. European Union leaders look for technical solutions but the 500 million people look for a vision and a motivation, a sense to justify it all. This is, in our opinion the real challenge for the years to come.*

**Keywords:** European Union, structural solutions, immigration, federalization, Zeitgeist, spirit of times.

**JEL classification:** O19, P41, P43

### Introduction

In March 2007 European Union celebrated 50 years since the signature of the Treaty of Rome, 50 years of accomplishments (such as the avoidance of war in Europe, economic growth, adoption of a single currency in many member states, considerable enlargement, a.s.o.) and of big hopes for the future (continuation of enlargement, transformation into a very competitive knowledge based economy, obtaining a prominent role in the world arena, etc.). It is interesting to note that by the same time, March 2007, the European Union through the voice of European Commission, listed some of the foreseen challenges for the next 50 years. In order they were: facing globalization, global warming, further enlargement, democracy and participation of the citizens<sup>1</sup>.

5 years and a crisis later, in 2012, European Union has been confronted much sooner than expected with some of these challenges and more. Some of the challenges comes indeed from the impact of globalization, while others from some

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<sup>1</sup> Celebrating Europe – The next 50 years, [http://europa.eu/50/future/index\\_en.htm](http://europa.eu/50/future/index_en.htm)

inner structural issues as well as from changes in the social and political characteristics of the member states. A shocking example that illustrates the new design of the world economy and the decline of Europe was given in March 2012 by Jim O'Neill from Goldman Sachs, the author in 2001 of the BRIC acronym. He pointed out that in 2012 China generates an output equivalent with the GDP of Greece in 11 weeks and a half and an output equivalent with the GDP of Italy in 15 months<sup>2</sup>.

But, in our opinion, the most important, complex and even scaring challenge comes from a change in the “Spirit of the age” (*genius saeculi*), a very comprehensive and elusive notion for which the Germans coined such an appropriate word – *Zeitgeist*.

In the following sections of this paper the analysis starts from some social-demographical issues that create considerable challenges for the European Union at present and then gradually move towards what we perceive to be the real issues with the European Union.

## **The immediate social challenge - High and unequal unemployment in the European Union**

### **The facts**

As of February 2012 over 24.5 million people in the European Union were unemployed, the largest figure in the past 15 years. In March 2012 the unemployment rate for the euro zone was 10.8 %.

This average level of unemployment is significant and worrying but more worrying is the great disparity among member states. In some countries the unemployment rate was very low, such as: Austria – 4.2 %; The Netherlands – 4.9 %; Luxembourg – 5.2 %; Germany – 5.7 %. Nevertheless, in other countries the unemployment rate is more than high: Spain – 23.6 %, Greece – 21 %. To put more significance to these figures we can note that in Greece one out of every two the young people under 25 was unemployed and in Spain one out of five persons was unemployed. The overall trends for the European Union in 2012 compared to 2011 are not comforting either: in 8 countries the unemployment is lower, but in 18 countries is higher. As usual Romania is atypical, therefore in Romania the unemployment rate is the same as in 2011<sup>3</sup>.

These figures are important because at the core of everything we discuss about European Union is and should be the people. European Union is not an abstract idea or construction, it is something that must deliver a better life to the majority if not to all European citizens.

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<sup>2</sup> Jim O'Neill , Global economy needs BRICS, Greece ‘dispensable’, 23 May, 2012, <http://rt.com/business/news/china-brics-greece-growth-949/>

<sup>3</sup> Bianca Toma, UE cere taxe reduse pe munca, 17 aprilie 2012, [http://www.adevarul.ro/financiar/UE\\_cere\\_taxe\\_reduse\\_pe\\_munca\\_0\\_683931984.html#](http://www.adevarul.ro/financiar/UE_cere_taxe_reduse_pe_munca_0_683931984.html#)

The figures above draw attention to two aspects referring to labor related social issues:

- These issues are of significant magnitude and therefore ask for concrete and visible solutions;
- These issues are very different from the perspective of various EU member countries.

The moment to tackle this issues is right because in 2014 a new seven years programming period begins and 2012 and 2013 are the years for drawing the plans for the medium term future.

But hopes can not be too high for practical solutions to be found and applied. There are at least four reasons for that. **First**, structural changes are by definition long term irrespective of the field of activity. The more so in social and demographical areas where the inertia of the phenomena is very long, therefore short term solutions are practically not possible.

**Second**, the functioning institutions and mechanisms of the European Union do not allow for fast and decisive responses. One of the main weaknesses in our view is the so called "open method of coordination" which does not work, at least, does not work properly. As long as member states exist and make significant decisions they will always, in a normal and natural way, put their interests first. The failure of the Lisbon Agenda is a relatively recent and clear example of what can be expected from the open method of coordination. Those that think in a binary way, that is 1 and/or 0, black and/or white may interpret the above statement as a support for the United States of Europe, that is for a centralized or better said a federalized approach. Anyway, the above statement is not such a support, it is just the observation that member states, particularly when confronted with (very) different circumstances and issues, can not coordinate properly only on the basis of logical arguments.

To further develop on the data above, in the first quarter of 2012 Germany recorded the lowest unemployment rate in 20 years, that is since reunification in 1990, while the growth rate of the economy in 2011 was 3 %<sup>4</sup>. For the same period of time Spain reached the highest unemployment in 15 years<sup>5</sup>, one third of the unemployed from the euro zone being in Spain. This is not to blame someone or to point the finger. This is to say that real life situations are different in the European Union and that a "one size fits all" solution is not only highly improbable, it is impossible. Except the case when a European government would be in place, empowered to govern all across now 27 member states. Maybe some people would accept the scenario, but it is not feasible anyway, not within the current framework of institutions and mechanisms.

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<sup>4</sup> Hardy Graupner, Unemployment in Germany lowest since 1991, January 3, 2012, <http://www.dw.de/dw/article/0,,15642176,00.html>

<sup>5</sup> Emma Ross-Thomas, Spanish Unemployment Reaching Highest in 15 Years, 27 January 2012, <http://www.bloomberg.com/news/2012-01-27/spanish-unemployment-rises-to-22-9-.html>

**Third**, in correlation with the above, there is the fact that not only the social issues but also historical, cultural, structural issues are very different among groups of European Union member states or even among states. To prove that it is enough to mention that Great Britain is different than the continental states, and this is a fact, while Romania is different from Western European member states and this is also a fact. To continue a bit the example, in the continental Europe, Germany is different from other continental Europe states. To imagine that countries as different as Great Britain, Germany and Romania have similar challenges and therefore may apply similar solutions is, in our opinion, highly improbable if not really impossible.

### **The long term demographic trends**

The unemployment is just one of the socio-demographic aspects about European Union that is worrying. The others are related to decrease and aging of population, and its corollary in the labor area, that is the reduction of the workforce.

In order to compensate for these phenomena the only immediate solution consists in immigration. At least on the surface this solution may seem accessible given the fact that the world population is increasing (the world just counted the 7<sup>th</sup> billion citizen somewhere between October 31, 2011 – according to United Nations and March 12, 2012 – according to the US Census Bureau<sup>6</sup>) and therefore the fact that Europe has a decreasing and aging population can be easily compensated. Anyway, in view of the historical and cultural heritage of European countries, particularly the Western ones, as well as in view of the previous experiences with immigration to Western Europe starting with the 60s of the 20<sup>th</sup> century, this solution is not so feasible as it seems.

Further research on the subject reveals some difficulties related to the magnitude of the immigration policy that might compensate the European decline and aging of population. Some calculations done by Daniel Hamilton point that the 2011 immigration levels to European Union have to multiply five times till 2020 in order to maintain the ratio of active people to retired people of today<sup>7</sup>. The problem is that already European Union is the destination of 42.6 % of all immigrants in the world (that is 70 million out of 164 million). And this is further complicated by the fact that at present 85 % of the total unskilled immigrant labor goes to European Union, compared to only 5 % to United States.

### **Real challenges and “spiritual” challenges**

The above data and the corresponding comments refer to real issues that require real solutions. But there is something more than meets the eyes. Something

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<sup>6</sup> Daniel Goodkind, The World Population at 7 Billion, Population Division, US Census Bureau, October 31, 2011, <http://blogs.census.gov/2011/10/31/the-world-population-at-7-billion/> .

<sup>7</sup> Daniel S. Hamilton, Europe 2020: Competitive or Complacent, Johns Hopkins University, Center for Transatlantic Relations, July 30, 2011.

so powerful that important leaders of the institutions of the European Union show publicly their concern.

On April 25, 2012, for the first time in history, the President of the European Parliament, Martin Schultz, warned on the risk of a possible collapse of the European Union as a "realistic scenario", that is a possible scenario. The warning was generated by the trend manifested in many member countries towards a return to a predominantly national approach for solving European problems, by the manifestation of xenophobia and requests for closing national borders as a departure from the Schengen Area principles<sup>8</sup>.

The threats identified by the President of the European Parliament come not only from the heads of states and governments that attempt more and more to make decisions ignoring to a large extent the European Parliament. The threats come also from the mechanism of the European Semester. This mechanism asks the European Commission, a body that is not elected by the people of Europe, to study the draft budgets of member states before the budget commissions of the respective national parliaments. This may lead to a substantial democratic deficit because budgets are to be debated by the elected bodies like parliaments (national or European). Even in case of a true federation (which European Union is definitely not), such as the Federal Republic of Germany there are local budgets (lander budgets) and a federal budget and according to the law these two categories of budgets are autonomous and mutually independent in their management<sup>9</sup>. Therefore, the mechanism of the European Semester asks for more than it is asked in a real life federation, while the European Union is not a federation.

Also in April 2012 Herman van Rompuy, the President of the European Council stated that the "winds of populism threaten free movement" in response to various political positions expressed in France and the Netherlands<sup>10</sup>. In a way the explanation for the rise of state power as opposed to community institutions power as well as the rise of populism under the circumstances of high unemployment and uncertainty represent a reflection of the failure of European Union as a concept to offer a tangible project to the peoples of the European Union member states. In time of crisis, of hardships and lack of trust in the future people turn to what is imperfect but real, that is national or local political structures and politicians.

The fact that in many European Union member states as well as in the European Union institutions the majority if not all discussions since the autumn of 2008 are about austerity, cuts of budgets, salaries, pensions, funds have generated a sort of fatigue, simply put people are fed up with it. A passive and pessimistic European mood is substantiated by the fact that no one can see how austerity and

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<sup>8</sup>Speech by EP President Martin Schulz to the Members of the European Commission, [http://www.europarl.europa.eu/the-president/en/press/press\\_release\\_speeches/speeches/sp-2012/sp-2012-april/speeches-2012-april-2.html](http://www.europarl.europa.eu/the-president/en/press/press_release_speeches/speeches/sp-2012/sp-2012-april/speeches-2012-april-2.html)

<sup>9</sup> Thomas Knörzer, The Budget System of the Federal Republic of Germany, Bundesministerium der Finanzen, November 2008, 11016 Berlin.

<sup>10</sup> Valentina Pop, Van Rompuy: 'Winds of populism' threaten free movement,

budget cutting may lead to resuming growth. A “no plan, no hope” situation developed in time and the current messages from the European institutions leaders are not showing any clear, easy to understand road out of this.

Maybe, this is why Mario Draghi, the president of the European Central Bank asked recently for a “growth compact”<sup>11</sup>, that is a plan for resuming growth in the Eurozone and in all European Union. It is important to note that a plan for resuming growth requires also a vision, a strategy with clearly defined targets and time periods.

Add to this the fact that in the news, Europeans learn everyday that other countries of the world are not, were not, will be not in crisis, be they China, India, Brazil, Turkey and so on. Sooner or later the European citizen may ask oneself: “Is it possible that something is wrong with us ?” And, to be frank, the Europe 2020 Strategy is so distant, so abstract, so unrelated to everyday life, that is not at all an answer to that question.

What it is mentioned above is not just a personal comment, it is a view shared, among others, by the Reflection Group on the Future of the European Union 2030 that was requested by the European Parliament and Council to formulate alternative scenarios and which briefly stated: **“Reform or Decline”**<sup>12</sup>. Other exploratory researches on the future of European Union in the context of a multi-polar global economy, such as the one called **Paradigm shifts modelling and innovative approaches** propose at the 2030 – 2050 time horizon solutions that are fundamentally different in comparison with the present institutions and mechanisms of the European Union<sup>13</sup>.

### European Union and the original sin

The difficulty of the European Union to find a comprehensive solution to its institutional and structural crisis as well as to its competitiveness problem in relation to the rest of the world has very long roots. And it may represent the intrinsic limit that can not be overcome.

In our opinion this is because of an original sin. At the very beginning of the European integration process there was a debate between federalism and functionalism. The objective and pragmatic solution that would allow for an effective allocation of resources, a solution that was purely technical, was that of federalism. Because you can not manage a real integration at such a large scale without a federal structure. Of course, from a theoretical standpoint there is an even better solution, a one European government for just one European state. Of course, the latter is even more far fetched than federalism. But, at all times federalism was not acceptable for historical, cultural, political and many other reasons.

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<sup>11</sup>ECB chief surprises with call for euro 'growth compact', 25 April 2012, <http://www.eubusiness.com/news-eu/finance-public-debt.g66>

<sup>12</sup> PROJECT EUROPE 2030 - Challenges and Opportunities, A report to the European Council by the Reflection Group on the Future of the EU 2030, May 2010

<sup>13</sup> <http://www.pashmina-project.eu/>

Therefore the "original sin" was to say that European Union as an entity (with its various formats, European Economic Community, Single European Space, European Union) is not about federalism (which in fact it was and it always has been) and is about cooperation (such as the famous "open method of coordination" and others), is about "multi-level government" or "subsidiarity", all of these being in fact diluted (and therefore acceptable at the level of the member states) forms of federalism. Because the essence of "subsidiarity" or "multi-level government" is to say that, yes, there are some areas where we have European decision making mechanisms (that is super state level), but, these are only for issues of European interest while, at local or regional level European Union means, in fact, even more autonomy than in a normal state.

This way of presenting things functioned for a long time, but it is totally non-functional in a period of crisis and in a period of change of paradigm. In such periods there should be unity of command, bold actions, changes of direction and some ideals to mobilize the people.

The complicated and distant and overlapping institutional structures of the European Union which were created as such as a compromise between the objective need for federalism and the need for acceptance from the part of the European member states can no longer be a solution.

This is why we can not expect a clear solution to the current situation. This is why European Union is only doing some patchwork to cover intrinsic deficiencies and postpone to 2020, 2030 or even 2050 fundamental changes.

One aspect we want to point to is the fact that the above analysis is not an attack to the concept and functioning of the European Union. We are not here against European Union. We are looking for a pragmatic and functional solution to a systemic problem that succeeded to be postponed for too long. In fact, the long term history proves that all state structures have a certain dynamic, they change in time, adapt and survive or fail to adapt and disappear. This is just historical evidence and from this perspective why not accept that a 62 years old paradigm (if we count from 1950 when on May 9th the Schuman Declaration unveiled a new plan for a new Europe<sup>14</sup>) is old enough in terms of social politics to be replaced by a new one, more adapted to a very, very different world than that of 1950.

### **Long term solutions for European Union are more sociological and cultural rather than economic**

We started this paper with some considerations on the current social and demographical situations in the European Union. The obvious solution to demographic trends is free movement of labor and immigration. The obvious solution to the economic and primarily financial issues is an European (federal)

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<sup>14</sup> The Schuman Declaration – 9 May 1950, [http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index\\_en.htm](http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm)

government with an European (federal) budget. The obvious solution to long term competitiveness issue is a true internal free market that will allow for a much better allocation of resources and for true economies of scale, large enough to allow competitiveness with the new economic powers (China, India) and old ones (United States).

But these three obvious solutions rise **two types of difficulties**. **One difficulty** is sociological and cultural. That difficulty refers to the “why” of things. **The other difficulty** is managerial and logistic. That difficulty refers to the “how” of things.

**The obvious solution to demographic trends is free movement of labor and immigration.**

Freely accepting immigration is not an easy task. In the short run it is (almost) impossible. European Union member states still have a problem to accept free movement of labor inside European Union, that is among member states not to mention world wide free movement of labor.

Therefore, the first step is to really achieve free movement of labor inside the European Union. The implications of this for social security, pensions systems, health care and others are staggering. But it is something to be done. Further on, an active immigration policy for the European Union vis-à-vis the rest of the world means to have criteria for filtering the labor requests, a very good monitoring system and a social and cultural policy for integrating the immigrants in the European social structures. In this respect United States can be (again) a model, as well as Canada. And a “don’t” model is represented by the persistent omission of integrating immigrants in the local communities in Germany since the ‘70s.

To achievement of such a free movement of labor first within the European Union and then vis-à-vis the rest of the world needs not only a determined political will but also a very good communication policy in order to explain in great detail to the population what is the reason for such an European policy and which are the benefits.

**The obvious solution to the economic and primarily financial issues is an European (federal) government with an European (federal) budget.**

The crisis in the Eurozone gave reason for many serious and honest debates on the structural problems of the single currency. A well known problem was time and again mentioned: one can not have a single currency without a single fiscal policy. But the problems are not only about the single currency. In case of European funds, the lack of absorption or the misuse of funds are often due to the fragmentation of decision making, interference of local interests and lack of perception at local, regional and even national level of the European wide interests.

A single European government (in a federal type of state) would solve all this issues and would give a real chance to the application of the subsidiarity mechanism.



Within such an European government umbrella the delegation of decisions for local, regional, national issues would be not only recommended but also the only feasible approach possible. Within such a system, the projects of true European interests would be governed directly from a European government and the implementation of such projects would be fast and efficient (such as the Ten-T projects, or European energy infrastructure projects).

This solution also requires political will and vision from the part of the European leaders. And maybe even more than in the case of labor this solution requires a lot of debate and communication as well as a very transparent implementation mechanism so that any suspicions, particularly those with historical roots, be avoided completely. All stakeholders have to participate in these debates and all points of view have to be taken into account. A long term true European project needs a firm foundation and no deficit of democracy can be accepted because such a deficit would undermine the stability of the construction in the long run.

Such a project is a long term one. But this is not an excuse for not starting today a decade long process. Not a single person can conceive such a project and it can not be imposed from top down. Europe needs to reinvent itself and this can not be done without the people of Europe, but only with them. At the same time, we can not expect the people of Europe, all of them 500 million, to design collectively a new paradigm for the 21<sup>st</sup> century. Persons with vision are needed to propose a blueprint for a new paradigm, for new values and a sustainable life style. And then we need the patience to debate such a blueprint for a decade, using all the social networks and other means of communication that the Internet may provide.

**The obvious solution to long term competitiveness issue is a true internal free market that will allow for a much better allocation of resources.**

The first two solutions, once gradually implemented, will provide for an increase of competitiveness. But in order to achieve the economies of scale that Europe may provide a true free movement of the economic factors is needed. Simultaneously, a better and better understanding of what globalization is have to be achieved at a mass level. Because the European size free market is not something against globalization but a form of participation to globalization. Europeans unite because they have to compete globally. And an European sized free market is their best response they have for competing globally.

## **Conclusions**

The world has changed dramatically in the past decade. And Europe as a whole and European Union as a part of Europe are rather followers than leaders. According to several studies on future trends in the global economy, if in 1900

Europe (without Russia) represented about 40 % of the World Gross Domestic product and in 2000 represented about 25 %, by 2050 Europe will represent only 11 - 15 %, that is more than 3 times less<sup>15,16</sup>.

European Union is confronted with a lot of internal crises (euro-zone, demography, deficit of democracy, lack of effectiveness and efficiency of its institutions, to name but a few) and external crises (decline of competitiveness, lack of coherence as a global actor, lagging behind in research-development and innovation).

Our approach is that the internal and external crises should be treated as sides of the same coin, as manifestations of the same problem. And the problem is that European Union and Europe as a whole is no longer synchronized with the global trends, with the new approaches, new values, new balance of power. Such large and comprehensive issues can not be solved by small, partial solutions. They require a new design, a new paradigm as a European decade long project. As Europeans we should be all part of it.

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<sup>15</sup>Global Europe 2050, European Commission, Directorate-General for Research and Innovation, Directorate B – European Research Area, Unit B.5. – Social Sciences and Humanities, 2012

<sup>16</sup>Jean Fouré, Agnès Bénassy-Quéré, Lionel Fontagné, The world economy in 2050: a tentative picture, CEPII, WP No 2010-27, Centre D'Etude prospectives et des Informations Internationales