

Theo Sommer

**The Emerging European Reality
and its Significance for India**

Pochhammer Lecture

May 17, 1999

It is both an honor and a pleasure to address this distinguished group today on the subject of Europe. I have long felt that India has far too long turned a blind eye to the process of European integration.

The same is true, of course, for a large part of the world – for all those countries which get their information about Europe from news agencies and newspapers based in London. Most of them are foreign-owned, in the hands of either the Australian Rupert Murdoch or of the Canadian Conrad Black. What you get from them on Europe is heavily biased. The only exception in the British press are the *Guardian*, the *Independent*, the *Financial Times* and the *Economist*.

Apart from that, the British have always been reluctant Europeans. Winston Churchill called for a United States of Europe as early as 1946, but pointedly added that Britain's place was outside such an association of continentals. In the late fifties, Harold Macmillan called EFTA into being in order to wreck the emerging European Economic Community. When he reconsidered and applied for membership in 1963, he was rebuffed by General de Gaulle; it was only in 1973 under Macmillan's successor Edward Heath that the United Kingdom finally became a member. Under Harold Wilson, a referendum almost took Britain out of the Community again; Margaret Thatcher raised such a fuss about London's payment into the EC till that the scared continentals granted her a special rebate; and Tony Blair, while in favor of bringing the U.K. into the European Monetary Union, decided that it was still too early to take that momentous step. I am quite prepared, however, to bet that Britain will be a member within three to five years. The Brits always get it right in the end; they just never get it right in time.

I will not make any bones about where I stand. I am not only a European by the accident of birth. I am an ardent European by conviction – not a Europhobe or a Euroskeptic, but an engrained Europhile. I am convinced that the peoples of our proud and ancient part of the world will have to hang together in the 21st century, or they will hang separately. In the age of globalisation, forging „an ever closer union“ out of our several nations is the only rational choice we have.

In isolation from each other, we shall not have the slightest chance of holding our own vis-à-vis a United States increasingly disposed to regards yesterday's partners as today's competitors; vis-à-vis the emerging Asian-Pacific trading bloc – despite Asia's present troubles and travails we should not delude ourselves: Asia will recover; vis-à-vis an awakening China and a reawakening Russia. Only by the progressive Europeanization of Europe can we cope with the fall-out from the ongoing globalization of the globe. And personally I do not only feel persuaded that Europe has no alternative to integration, I am also confident that in the fullness of time it will muster the courage, the political will and the diplomatic skill to forge sustainable unity out of its historical diversity.

I would like to present my own opinion in ten brief theses. They deal with the history of the Brussels Community, with the problems it faces at the present, and with the outlook for the next 25 years.

Thesis No. 1

Europe is whole and free again – and bouncing back on the world stage.

In August 1914, on the eve of World War I, Britain's Foreign Minister Sir Edward Grey looked out over St. James' Park from his office window and spoke the desolate words: „The lights are going out all over Europe, and we won't see them relit in our lifetime“. Thirty-four years later, in February 1948, these words were gloomily repeated by Grey's successor Ernest Bevin, as Czechoslovakia fell under Communism domination and the Cold War began. It was destined to last 41 years.

Nine years ago, in the great yet unbloody upheaval of 1989 / 90, the lights were suddenly relit over Europe. In some places they are still flickering. In former Yugoslavia they illuminate a murderous ethnic battlefield which is still a far cry from peace, in fact, in the Kosovo the Europeans are now involved in a war against Slobodan Milosevic's dictatorship – the first armed conflict in Europe since the end of World War II. I'll return to that subject shortly. In the reform states of Eastern Europe, the reality of freedom has turned out much grayer and harsher than the dream of it used to be; the travails of transition impose enormous burdens on Czechs and Poles, Hungarians and Slovaks, Romanians and Bulgarians. At the same time, Western Europeans are passing through a phase of affliction; their political and social systems need mending and reforming.

But after 75 years of what might be called the Great European Civil War, the core of Europe is at peace, and it is once again „whole and

free“ (George Bush). It is beset with problems currently, but it is beginning to bounce back.

Thesis No. 2

The European Community has from its very inception evolved by fits and starts, but developed it has. It has gone through untold crises and through periods of turmoil, of stagnation, of diffidence. Yet it has emerged stronger from each of them. It won't be any different in the future.

We have come a long way since the foundation of the European Payments Union in 1950 and the Coal and Steel Union in 1951. In 1957, the Treaty of Rome was signed; on January, 1 1958 the European Economic Community came into being. Its founding members were France and Germany, Italy, the Netherlands, Belgium and Luxemburg. But gradually the EEC evolved into the EC, the European Community, transcending both the realm of the economy and the boundaries of the old Carolingian Empire. Membership grew steadily. In 1973 the U.K., Ireland and Denmark were admitted, in 1981 Greece, in 1985 Spain and Portugal, in 1995 Austria, Finland and Sweden. Of all West European countries only Switzerland, Liechtenstein, Andorra and Norway remain outside (although Norway has joined the European Economic Space, whereby it accepted 85 percent of the E.U.'s economic rules and regulations). The Swiss, however, are highly interested kibitzers – and I would not be greatly surprised to see them take their seat at the EU table in the not too distant future. At the present time, negotiations are under way with five East European countries. The first of them may become full-fledged E.U. members as early as

2003/2005. Negotiations with the next batch of five are scheduled to start later this year.

All the while, the Brussels Community not only widened, it also deepened. In 1979, Valéry Giscard d'Estaing and Helmut Schmidt called the European Currency System (ECS) into being. The Single Market opened shop in 1990. In December 1991, the Maastricht Treaty erected the signposts pointing the way to a full-fledged Currency and Political Union. Since then, the European chiefs of government have repeatedly corroborated their determination to follow these signposts. To be true, progress was incremental, as always – but, undeniably, there was progress once again. The Europeans stay their course. And with the establishment of EMU – the Economic and Currency Union started on January 1, 1991 – we have taken a quantum jump into a common European future. The Treaty of Amsterdam, which was signed in 1997 and entered into force on May 1, 1999, maps out the next stage of integration. Europe is, as it were, „work in progress“ – and it does not stop progressing.

Thesis No. 3

For a few years after Maastricht Europe was enveloped in a haze of discouragement, doubt, even disgust. But the truth is that, public disgruntlement in many countries notwithstanding, Europe has rarely lived through a more creative phase than the period 1992 – 1998.

Just consider the facts:

- On November 1, 1993, the *Maastricht Treaty* entered into force. The European Community became the European Union.
- On January 1, 1994, the *European Currency Institute*, the precursor of the European Central Bank, started its activities in Frankfurt/Main. The only item on its agenda was preparing the introduction of the *euro*.
- On January 1, 1995, *Austria, Sweden and Finland* joined the Union; it now counts 15 members.
- In 1996/97 the *Schengen Accord* was implemented, abolishing border controls between ten of the 15 old members (those still remaining outside members all want to be included as soon as possible).
- In the fall of 1996, the *Euro-Corps* formally reported for duty. In this multinational Rapid Reaction Force, German and French soldiers serve side by side with Spanish and Belgian troops. Europe is beginning to build some military muscle. There are a number of other multinational units: a German-Dutch corps and, most recently, a German-Polish army corps.
- Since Maastricht, the E.U. has concluded *Treaties of Association* with ten East European reform states. All these treaties hold out the prospect of eventual full membership to the Eastern states. Preliminary negotiations with five of them started in March 1998. Those five are Poland, Czechia, Hungary, Slovenia and Estonia. At the same time, the *Western European Union* – the

defense arm of the EU – has granted several countries of Central and Eastern Europe the status of „associate partners“.

- The Treaty of Amsterdam aims at enhancing the EU identity in both foreign and security policies, to be embodied by a Mr. (or Mrs.) GASP (German), Pesc (French) or CFSP (English). Common policies concerning internal security, asylum and immigration policies are the second pillar. A third pillar is the European Employment Pact. The fourth pillar grants extensive new rights to the European Parliament and extends the spectrum of issues on which Ministerial Council decisions can be taken by majority voting, significantly limiting the use of national veto power.

Thus, contrary to public perceptions, there has been a great deal of real progress in recent years. We are fully entitled to say about Europe what Galileo Galilei, having recanted, defiantly said about the earth: „And yet she moves“.

Thesis No. 4

It has been a long and winding passage, but the European Currency came off on time. It started on January 1, 1999, and with 11 initial members – far more than anyone had thought possible even a year ago. And it is going to be a success.

In May 1998 the European Council (the chiefs of state and government) decided by a qualified majority vote which countries met the criteria for membership. The core group consisting of Germany, France, Belgium, Holland, Luxemburg, Austria, Ireland and Finland was joined from the outset by Spain and Portugal, and

surprisingly even by Italy. (Denmark and Sweden would qualify for the single currency, but both countries do not, for the time being, aspire towards early membership. The same goes for Britain, although Tony Blair has made a number of moves and even more noises pointing toward early membership.)

A year ago, it seemed quite unrealistic to expect that 11 countries would be able to meet the criteria laid down in the Maastricht Treaty.

There were five criteria. Three of them were innocuous. They related to inflation rates, to keeping currencies within the EMS corridor, and to long-term interest rates. Most countries met them easily.

By contrast, two criteria set up very high hurdles. They related
a) to the public debt requirement, which should not exceed 3 percent of the GNP, and

b) to the accumulated national debt, which is supposed not to exceed 60 percent of the current Gross National Product.

Apart from Luxemburg, hardly any country could meet these criteria two years ago – not even Germany. By the way: Not even the United States or Japan would be eligible by this yardstick. But then, quite miraculously, all the hopefuls pulled up their socks. In a *tour de force* of self-discipline, they kept their borrowing requirements down and pared their budgets. A little creative bookkeeping may have helped – but in the end not even critical analysts could deny that the figures were sound.

This, ladies and gentlemen, was a remarkable achievement. Never before has there been so much convergence in so short a span of time. This astounding fact bodes well for the euro.

I still have no doubt but that the euro will be a strong currency – just as strong as the deutschmark.

Let me remind you: the DM, too, has always had its ups and downs. It went from 1.35 to the dollar two years ago down to 1.84 at present. Thus the euro's decline against the dollar since its launch is nothing unusual. The European Central Bank does not appear to be unduly worried. In fact, the fall of the euro is a welcome boon to our exporters – and with inflation rates hovering about 1 percent we don't have to worry too much about importing inflation. As the *Economist* put it recently (1. May 1999): „The euro will get its turn in the sun, even if the warmth has not come yet. The fall in the new currency may have given fresh heart to eurosceptics and wounded some European politicians' pride. But better that, surely, than an overstrong currency wounding the continent's fragile economies.“

Three factors explain these fluctuations:

1. The U.S. economy is booming (+4.5%) while Euroland has been hit by the Asian Crisis (which shaved about 1.5 percentage points off our growth rates [down to 1.5-2%]) A fall in the U.S. stock market would quickly lead to a fall in the dollar. With America running a trade deficit of \$310 billion this year, the boom is unlikely to last forever.

American short term interest rates (4.5%) are significantly higher at this juncture than European interest rates (down to 2.5%).

2. During the Kosovo War, as in most other international conflicts, the dollar is seen as a safe haven by many investors. Anyway, the plunge of the euro should not be exaggerated. In trade-weighted terms, the euro has fallen by a more modest 5%; it is no weaker than its component currencies were a year ago.

The prediction still holds true: the euro will be world's second strongest currency, backed by the world's second-strongest economy. It will become both an important reserve currency and a currency of transaction, competing on both counts with the Dollar.

Just to remind you: Euroland is the biggest trading power at this juncture. It's gold and foreign currency reserves top those of the US and even Japan (20.6% – 4.1% – 13.8%). The population of Euroland is 291 million – bigger than the US (269 m) and Japan (126 m). Those 291 million people generate 20% of the world's GNP. And I'm convinced about one more thing: EMU will hasten the process towards political union.

Thesis No. 5

Europe cannot and will not retain its Carolingian character. It is bound to open up and acquire an Othonian, Hapsburgian dimension. Eastward extension of the EU will dominate the agenda of the next twenty years.

Vaclav Havel is quite right: If Western Europe does not stabilize the East, the East will destabilize the West. Western Europe will have to help Eastern Europe the same way it helped the Spaniards, Portuguese and Greeks after they shook off the yoke of

dictatorship. The most efficient way of stabilizing the East, however, is bringing it into the European Union.

This is not an easy task. Therefore, there still is considerable reluctance in Western Europe about taking in the eastern part of the continent. The GNP per capita even of the four Visegrad states (Poland, Czechia, Slovakia, Hungary) amounts to barely 30 percent of the EU average. It does not quite reach three fifth of the Portuguese figure – and Portugal is the poorest country of the Union. On the one hand, the experience of southward extension in the early eighties scares many northern members (every minute, DM 21.000 go to Spain, for instance, 11 billion each year). On the other hand, it is not surprising that the southern members fear the milk from the Brussels cash-cow would henceforth flow to Eastern Europe. So there is reluctance, even subcutaneous resistance in many quarters.

This was the same each time the Brussels Club broadened its membership. Yet each time a solution was found, usually in negotiations that lasted anywhere from seven, eight, twelve years (only Austria, Sweden and Finland managed to complete their entry negotiations within 13 months). There will be highly selective candidacies, protracted transition phases, and certainly derogations – temporary exemptions – from EU-financed benefits. Some of the more backward applicants will have to gear themselves for long wait. But I have no doubt: Within five years we shall welcome the first newcomers, and by the year 2020 the European Union is likely to boast 24, perhaps 30 members. The fledgling democracies of the East don't want to be thrown a life-belt any longer – they want to be taken abroad. Europe cannot say No to them any longer – and it won't.

Thesis No. 6

As it expands eastward, Europe has to answer the question where its borders are to lie.

Two hundred years ago, the two German poets Goethe and Schiller posed the question „*Deutschland, aber wo liegt es?*“ (Germany, but where is it?) In the same vein, we must ask today: Europe but where is it? Europe needs definition – not only politically, but also geographically.

I find it useful, in this context, to distinguish between Europe I, II, III.

Europe I consists of the 15 countries comprising the present European Union, counting 373 million inhabitants, and additionally Switzerland, Liechtenstein, Andorra and Norway.

Europe II encompasses the four East Central European states Poland, Czechia, Slovakia and Hungary, plus Slovenia, the three Baltic republics, possible Croatia. This is another 75 million. All of these countries belong to the old Catholic or Protestant Europe.

To the East and south lies *Europe III*: the Balkan countries, in addition Belarus, Ukraine, Moldova – another 75 million.

Russia, in my view, is beyond the pale. It is part Europe, part Asia, facing both ways. More especially, its sheer size, the weight of its 150 million people, would be too much to carry. Our aim for Russia, once it overcomes its Times of Trouble, is to make it a good partner, not a member – like the United States, the other Janus-

faced giant. So the question is: What to do with Ukraine, Moldova, Belarus? What about the restless, fragile, conflict-ridden Caucasian republics? And what about the others knocking on our door: Turkey, Cyprus, Malta, one fine day perhaps even Israel. Do we want them? Can we afford to exclude them? What is the balance of advantages and disadvantages particularly in the case of Turkey?

Thesis No. 7

Before admitting any newcomers, Europe will have to do its homework. Institutional reform is of the essence to make the structures and procedures originally designed for six members suitable for one or two or two-and-a-half dozens.

The EU has to streamline its decision-making process by abolishing the veto – at least to the extent that a single dissenting member can no longer stop all others when those are agreed to move ahead. The Union will have to adopt the principle of differentiated integration, according to which members will proceed at different speeds. There are going to be different degrees of density and commitment (EMS, Schengen, EMU).

Moreover, we'll have to tackle the reform of the Common Agricultural policy. At present, CAP still gobbles up 50% of the Brussels budget.

Also, we must squarely face the problem posed by the existing system of financing the EU. Today, Germany pays about 60% of EU net outlays. While I hope that we'll go about this tactfully rather than bullying [Thatcher: „I want my money back!“], it stands to reason that a new distribution key must be found.

Finally, it is imperative to overcome the „democracy deficit“ in the Union by granting more say to an upgraded European Parliament.

With the Amsterdam Treaty, we have taken a number of steps in the right direction. Parliament, for instance, brought down the Santer Commission.

Thesis No. 8

Europe will not be a non-descript hodgepodge. It will not become one single nation, but rather a nation of nations, resembling the medieval Holy Roman Empire much more than the United States of America.

Our proud and ancient nations won't simply disappear. They will not lose their faces, their souls, their identities. There will always be Dutch and Danes, French and Germans, Britons and Spaniards – as there will always be Czechs, Poles and Hungarians, Finns and Austrians. The point is that at the same time they will acquire a second, a European identity.

In fact, we should abolish a great many absurdities that come out of the maniacal addition of the Brussels Eurocrats to detailed centralized regulation (peas, condoms, curve of cucumbers, width of tractor seats). We are not talking about a centralized state, nor about a loose confederation. Rather we are talking about a supranational Union of sovereign nations which will, although largely integrated, preserve their languages and literatures, their cuisines and folk customs. The essence of Europe's unity will lie in its continuing diversity. The nations will remain – as nations without nationalism though. But we'll all become Europeans – and have to become

Europeans if we want to withstand the onslaught of the outside world.

Already today, the European Union is far more than the sum of its component nation-states. In the realm of economic and social policies, more power is already concentrated in Brussels than the Americans have ever granted to their federal government in Washington.

Thesis No. 9

As Europe enters the 21st century, its political map is suddenly colored red, pink or red-green. But the New Left is far different from the Old Left.

In eleven of the 15 EU member states Social Democrats or Socialists furnish the Prime Minister now, in another two they participate in coalition governments. Gerhard Schröder has replaced Helmut Kohl in Bonn. An ex-Communist and post-Communist leads the Italian government. Only Spain and Ireland are still being ruled by Conservatives. When Europe's leaders meet for their twice-yearly reunions, the obligatory summit photo looks like a snapshot from the Socialist family album.

The British historian Eric Hobsbawm, an unreconstructed Marxist, went a step further. In an essay about the end of neo-liberalism he jubilated: „In 1998, Marx has returned.“

Hobsbawm is quite certainly wrong. Europe may be swerving to the left but it does not return to Marx.

First of all, there are many shades of red and pink. Europe's new left-wing establishment is far from monolithic. Its leaders are not a coherent group, inspired by identical beliefs. Their national agendas impinge on their political persuasion. Thus it will be far from easy for them to contrive common blue-prints, let alone common policies.

Second, these are not our grandfathers' or even our fathers' leftists. To be true: They worry more about 10% unemployment than about 0.8% inflation. They emphasize growth. They advocate cushioning the social impact of overdue reforms. Some at least adhere to demand-side ideas. And they favor lower interest rates. In the face of persistent mass unemployment, the Keynesian borrow-and-spend recipe holds a certain appeal to them. They agree that it is far better to finance incentives to work than letting people go idle and pay them for doing nothing.

But they do not any longer preach the sermon of the classic cradle-to-grave welfare state. They want to cut out rampant abuse of the social system and to limit entitlements to the truly needy – and in the process they don't even shy away from a practice they have traditionally abhorred: means testing. The objective of the left is not the dismantling of the welfare state. They want to reshape it on a more solid, more sustainable basis.

The New Left does not rail at globalization, but takes it for granted. At the same time, it is determined to soften the impact of globalization on their own constituency, subjecting the global economy to rules and regulations aimed at bridling recent excesses.

What the world witnesses in Europe is a threefold backlash: against the callousness of unfettered global markets; against the ravages of rampant unemployment; and against the treacherous triumphalism of the neo-liberals after the demise of communism. The dialectics of Karl Marx have survived the downfall of his followers: Every thesis produces an antithesis, from which arises a new synthesis. Marx erred by assuming that once communism was established this law would no longer apply. Fukuyama committed the same error with regard to liberalism, paleo or neo. Once again, the mood has now swung back.

At this juncture, it is still unclear precisely what new synthesis will emerge in the decade ahead. Clinton's New Democrats, Blair's New Labour, Schröder's New Middle – so far they are but labels. The content of the package is yet to be defined. Most likely it will mix social compassion with fiscal prudence, entitlements with obligations, increased spending on human capital with a diminished degree of redistribution, welfare with workfare. Modernized socialism – such a mixture, combining traditional left-wing solidarity with basic conservative values, would indeed constitute a „Third Way“.

Thesis No. 10

All the reasons that more than forty years ago triggered the process of European integration are still there, save one: the Communist threat.

European integration has allowed ancient foes to overcome their age-old enmities. It is the most potent antidote to ruinous nationalism – also to economic parochialism.

Only in a uniting Europe which does not fall prey to re-nationalization will the German Question – the question what role 80 million Germans are going to play in the center of the continent – remain permanently defused.

Only the Community can provide a *structure d'accueil* to the countries of Central and Eastern Europe, a model of reconciliation, tolerance, and peaceful cooperation – and a source of support to help them out of their present predicament.

European Union constitutes the only meaningful framework for dealing with both the evolving North-American region and the Japanese-Pacific region – a framework for partnership with them, hopefully, but also, if necessary, for defending the Old World's interests in any sustained rivalry with them.

Only the Community in its entirety can pull the continent out of the economic recession, come to grips with the problem of organized international crime, stop the devastation of the environment, and deal with the huge migratory movements that will become one of the most intractable features of the next century. Only the Community as a whole can accommodate the desires and demands of the seething millions on the southern littoral of the Mediterranean.

Conclusion

I am deeply convinced: Europe is on the move again. It is pulling out of stagnation. It has overcome its listlessness. A new generation is holding the torch, pushing on with great determination on the path to „ever closer union“, as the Maastricht Treaty puts it.

Many Euro-believers as well as many Euro-skeptics thought this was impossible as recently as five years ago. But now it is happening. Europe is in the process of growing together and forming an entirely new type of commonwealth that will make our continent whole, free and prosperous after centuries of internecine conflict

The lights have indeed been relit all over Europe. The long night is over. A bright future is beckoning.