

Europe means more than just crisis

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Published online: 3 April 2017

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1 1.

A. Europe has gone through a series of crisis in recent years. Nevertheless, seen from a wider perspective, European integration has been a success story. In these times of accumulating crises, it is important to be aware of this. The European Union has guaranteed peace, democracy and prosperity for its citizens and Member States for almost 70 years. It is still the greatest political achievement in history that has served the people of our continent. The European Union and Europeans themselves have turned the page of a tragic history by freeing ourselves from fascist and communist dictatorships. We have created a new image of Europe in the world, far removed from imperialism and colonialism. We have set up and improved the Single Market and enabled the free movement of people, goods, services and capital among Member States; we have created a currency union and defended it amidst the challenges of a global economic and financial crisis. We have found our way back to economic growth and fiscal consolidation in most Member States. Furthermore, we have managed to attract many more Member States.

We can be proud of these achievements. We should point them out more often. But we cannot take them for granted, and we should draw lessons from our mistakes.

This editorial is the speech delivered by Herman Van Rompuy (President Emeritus of the European Council) on the 16th December 2016 in Rome at the Accademia Nazionale dei Lincei. The Editorial Board thanks Accademia dei Lincei and President H. Van Rompuy for permission to publish this speech.

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The rapid succession of crises of all kinds—“the multiple crisis, the polycrisis”—has provoked a deep shock, leaving wounds that are not yet healed. Some crises came from outside the Union (banks, refugees, terrorism), some came from within (eurozone, economy, Brexit). Trust was broken or on the verge of being broken in pillars of our societies: banks and the currency. Incomes, jobs and savings were threatened. It takes time before trust is restored.

Whatever the source of crisis, citizens are asking for solutions from our national and European authorities.

B. But the crisis is much deeper. It is about our socio-economic model, at a national, European and global level. When people become afraid of “space”, it shows they are longing for a “place” that protects them, one where they feel “at ease and at home”.

In the Brexit-referendum, mostly older people wanted their “home” back—the nostalgia of “the good old days”. Young people voted overwhelmingly for Remain, knowing that the old world would not return. The first group are the—according to Thomas Friedman—“wall” people, ready to build walls in order to prevent others from coming in. The others are “web” people, embracing globalisation with its pro’s and its cons.

This represents a fundamental and inevitable choice also in Europe and in the States. At the same time, we have to find a way to alleviate the tension, to bridge the distance between space and place, between web and wall. We need to address the worries of our younger and older citizens, by giving them better protection in many respects, correcting the market economy by tackling unemployment, irregular migration, climate change, huge inequalities and unfair competition, and by providing physical security. We need a new version of the social market economy at the European and even at the global level. We need a new social contract, a new consensus. Only this way we can turn fear into hope and liberate people from the feeling of powerlessness. We need more social harmony and less polarisation. More moderation and less aggressiveness. This, I repeat, at the European and at the global level. We need counter vailing powers to correct the brutal forces of the markets—the financial crisis was a warning shot. Much is at stake, but it is still doable.

2 2.

I want to speak now on the economy. In the southern countries of our Union it is the main driver for populism.

In this climate of uncertainty, governments are still struggling with massive private and public debt. Weak governments don’t find enough popular support for further drastic reductions in public debt and deficits. Not after so many efforts in recent years. Economically, it makes sense to slow down the pace of fiscal consolidation (a.k.a. austerity) without giving up the structural direction of further lower deficits. Actually, this cautious approach is now the policy of the European Commission, and I consider this wise behaviour. The direction of reducing deficits is more important than the speed. Too much fiscal discipline can kill political discipline. But we must admit that public finances have benefitted in recent years

from extremely low interest rates. This will not last forever. That's why we have to continue to structurally decrease our public deficits.

Let us not forget that populism of both the political right and left has a different cause in the North and the South of Europe. In the North it is mainly about migration. In the South, it is about austerity, poverty and unemployment.

Growth depends to a large extent on investments, public as well as private. Investment fuels demand and strengthens supply. Never was the cost of borrowing so low in economic history, due to the very accommodative monetary policy of the ECB. In order to boost investment, the European Commission launched its Juncker Plan promoting more daring activity. The aim is a private and public investment volume of 500 billion euros (or 3% of the European GDP) by 2020. The programme is well on course. It is recently extended. We badly need more investment, even in Germany. China is overinvesting and the EU underinvesting. Both evolutions have to be corrected. Otherwise, it will be difficult to avoid secular stagnation, even though we are still growing again at 1.5% annually. Let us also not forget that the ageing of the population will hamper growth in the long term, because older people are more risk averse and less creative.

The same demographic challenge is very well known in Japan, China and Russia. Europe is in a better position because we will remain an area of migration. We have to!

We must, of course, improve the business climate in each of our Member States, not only by lowering taxes but also by providing more venture capital, by spending more in innovation and R&D, by deepening our single market via an Energy Union and a Digital Union. In many domains, the Union is taking initiatives to make up for our delay vis-à-vis our competitors.

Investors hate instability. It is needless to repeat how unstable our world is. All the more, therefore, we have to put our energy in investments.

The migration agenda is overshadowing now the economic challenges. It is a huge mistake to allow our economy to slip from the agenda.

3 3.

During my time in office as PEC I had to manage the crisis in the eurozone. The creation of the euro was a game changer in the history of the Union. It changed profoundly the image of the EU in public opinion.

In ancient times a Prince had two key competences: the right to wage war and the right to coin. The Treaty of Maastricht created the opportunity to convey this crucial instrument of monetary policy to supranational institutions.

It was not a choice of monetary policy. It was a choice for another kind of Europe. It was a political choice "per excellence". I'm not sure that all the leaders realized that this was the beginning of a process of transferring sovereignty. You can not have a common currency without a Banking Union, an Economic Union and a Fiscal Union. We are still at the stage of drawing all the conclusions of this essential step: abandoning national currencies. No progress was made since 2014. It is not an ideological discussion between federalists and inter-governmentalists. It is

just fearing to take the unavoidable decisions, implying more solidarity and more integration. Unfortunately we take too often those kinds of decisions in a crisis in front of the abyss, a “cliff edge” situation, as it is now called in the Brexit-debate.

We lack the necessary tools to face another unknown crisis. We all are fully aware of this, but knowing the good is not the same as doing the right thing. Knowledge and action are separated as Socrates taught us!

The biggest threat to the eurozone is not economic but political, going from political instability and party fragmentation to the growing influence of populism and populist parties. It creates either weak governments not capable of reforms and courageous measures, or parties whose goal is to do the opposite of what is needed. The eurozone requests convergence of policies. Divergences undermine a monetary union. Populism would create those divergences.

A member of the eurozone cannot leave it without a very high price. That’s why the UK can leave the EU more “easily” than a eurozone country.

The euro was and is a great political project, unifying the continent in the longer term more than the single market. But at the same time its crisis between 2010 and 2013 has made the European idea less attractive. The single market was a win–win operation. On the other hand, the single currency brought the European idea via the wallet into people’s daily lives, but in a negative way due to the crisis in the euro area. The single currency created winners and losers.

We need to restore cohesion, but not the artificial cohesion based on huge public and private debts as in the period before the banking crisis. Debts have masked imbalances and uneven developments inside the euro area. Debts have created artificial and unsustainable economic growth.

We made progress during the last years in terms of convergence in fields such as inflation, balance of payments, public deficits and even on growth and jobs. Many in the Anglo Saxon world predicted the end of the eurozone, even speaking about the Italian referendum. I don’t belong to the club of those who fear the implosion of the eurozone and the Union. Brexit and the chaos it produces is not an incentive to provoke other exits. The confidence in EU-membership increased dramatically after June 23. The problems of the UK have yet to start!

4 4.

I want to say a few words on migration, the main driver of populism in Western European countries since more than 24 years.

Identity problems are even felt more deeply than socio-economic problems. The massive influx of refugees in 2015 created the perception that we were on the brink of living in another society than we were used to live. Our ‘place’ was threatened. The prospect of millions of refugees to come provoked strong emotions and a feeling of fear and anxiety.

4.1 What is the model for the future?

Our societies must be based on ‘one civilization and many cultures’, between what binds us and what makes us different. A civilization means: political democracy, the rule of law, non-discrimination, equality between men and women, the separation between religion and the state and fundamental liberties. Around these shared values, several cultures, religions and convictions can gravitate. They must dialogue and meet together. True dialogue requires respect, listening, compromise and moderation. But dialogue is not called for those intolerant voices who oppose civilization. Barbarians must be fought against.

But we have to uphold our values ourselves. In a climate of fear some people are tempted to prefer security above liberty. The support for political democracy, the rule of law, the independency of the judiciary is actually decreasing, because they cannot deliver sufficient security and prosperity according to the perception of some people.

The Schengen zone was designed for normal times—as was the eurozone, not for the massive influx of last year, the biggest movement of non-EU people since centuries. The two key values of our Union: sovereignty and solidarity came under pressure. Only after months an agreement was reached with Turkey in order to stop the immigration coming from the war zones. Solidarity is still far away. The refugee crisis divided the Union profoundly. More the eurozone crisis, although not some countries do not belong to the two clubs.

We overcome both existential crisis. It took time. Agreeing with 28 was a challenge but we did. Europe was in the midst of the storm. Its image was tarnished and trust declined dramatically. Even if the EU as a whole in those cases was the sum of the mentalities in the Member States. This way of decision making is just unsustainable. We need much more ‘European’ solutions. But a serious incident took place. A legally binding decision on the relocation of refugees, taken by qualified majority was not accepted by countries and not implemented by others. The rule of law is at stake in the EU.

Migration was the defining issue in the Brexit referendum and in the American elections.

5 5.

The American presidential elections dealt with the same problems as we are used to in Europe: migration, terrorism, insecurity, globalisation, opposition to the so-called elites. This shows that our root problems are not only related to the EU or to the national democracies. It is a Western wide challenge. Our growing inward looking behaviour prevents us from seeing this broader picture. A lack of self-confidence is hampering lucidity on our own situation in Europe.

Day by day it becomes clear what the big challenge for the upcoming years and decades really is. How to keep our societies, democracies and economies open and at the same time how to better protect people against the excesses of this openness? How to better protect people against financial instability; unemployment; unsecure

jobs; irregular migration; climate change; social, commercial and fiscal dumping; huge inequalities; etc.? We need a new balance between freedom, fairness and protection.

The simple truth is that we cannot provide results in these domains without more European cooperation and integration. It is a “Europe of necessary!” It is not an ideological choice. Actually it is not a choice at all. It is an unavoidable consequence of previous choices.

Of course this Europe will request more transfer of sovereignty and more solidarity. But in fact we are not sovereign anymore on migration, terrorism, dumping, etc. More European cooperation and integration will give us more “control” over our destiny (using a Brexit idiom). It reminds me that by giving up Belgian monetary sovereignty (Belgian Franc), we won control back. Our national currency was totally dependent on the Deutsche Mark. The euro gave us a seat in the ECB, a say in European monetary policy.

We were for too long in a survival mode. First with the eurozone, and later with the Schengen zone. We decided on longer term reforms but it is time to have a more strategic view on the EU. The European Council and the Commission launched ideas already in 2014, but after the Brexit referendum and the American elections it is time to act. We have to seize the opportunity because both events create a vacuum which the Union can fill. A strategic plan waits for an opportunity to get it implemented. The less the time is ripe, the more we have to do to make it ripe.

A really new chapter for more European cooperation is the military one. The Russian threat and America’s reluctance to have as much solidarity as in the past is giving a push to the military dimension of the Union.

The Union cannot become a truly regional and global actor without a relevant military dimension. Far greater synergies in the research, development and procurement for military tools are perfectly feasible. Battle groups must finally become operational. We can establish headquarters for our civilian/military operations and missions, and we can decide upon the instrument of Permanent Structural Cooperation for countries wanting to go forward within the framework of the Treaty, the coalition of the willing.

We have to go on with the free trade agreement. “Free and fair” trade. The “America first” philosophy is actually one folding back on itself. By the way, it is contradictory with the other slogan “Make America great again”. The dropping of the TPP in Asia (America first) means a considerable loss of influence of the US (Not making America great) in the Far East. The Union must conclude the negotiations with Japan next year. The agreement with Vietnam is already finalised. We have to go on with the talks with Indonesia. Korea and Singapore are already strong trading partners. But also in South America we have agreements in the pipeline, namely with Brazil and Argentina—after our trade deals with Peru, Ecuador and Colombia. We signet the CETA with Canada.

The Union has to remain open because it is a source of growth, jobs and influence in the world. I fear that the protectionist course of the new American administration will jeopardise the TTIP-agreement. It had the potential to be the biggest trade and investment agreement ever, setting standards for the other half of the world economy. But hope is a verb. Optimism is a moral duty.

Our internal trade, our single market, has also got to be strengthened. Free movement of goods, services, capital and people is not enough. We have to add a chapter on “industrial policy”, on micro-economic policy, creating an Energy and Digital Union. Our market is too fragmented and too dependent respectively on Russia and on a few American companies. We made progress during the last years, but starting with a huge lag. Competitiveness remains key.

Consolidation at the level of enterprises is inevitable on a European scale. The time of “national champions” should be over. Unfortunately we notice these old fashioned reactions every day. In the financial sector we also need consolidation in order to remain competitive vis-à-vis American and Chinese competitors.

Another lesson I draw from Brexit and the American elections is about jobs. We have to reflect on the simple fact that two countries (the UK and the US), both with very low unemployment rates of 5%—full employment—, nevertheless still face a very low level of social harmony and contentment, such that their societies are growing more polarised and more aggressive, not only politically, but also socially. Even those who have a job fear they may lose it any day. Many of the low and lower middle class have resigned themselves to lower wages and one-third of them in the EU and US feels that their standard of living is declining in the last 5 years. The motto “it’s the economy stupid” is no longer entirely true.

In climate change we can become world leaders in the clean energy transition, but other players like China are catching up. This transition is the growth factor of the future. The EU is well placed to use our R&D and innovator’s policies to turn it into a concrete industrial opportunity. The climate scepticism of the incoming American administration is again an opportunity for Europeans to go ahead with our climate goals. By the way, we will “over-perform” by doing better in 2020 than the target of -20% greenhouse gas emissions. The new objective of -40% in 2020 is within reach.

The Union spoke with one voice at the COP-21 conference in Paris, on the most important theme for the human race. We shouldn’t be too humble.

Another area where we should not miss the train is Africa. We donated a lot in the past. We opened our market for African countries. But China is on the rise in Africa. We have to react. The Commission is fully aware of investment possibilities and is setting up instruments. If we want to contain migration coming from this populous neighbouring continent, we have to offer them something in exchange. Africa’s share of the global population is expected to grow from 16.4% in 2015 to 25% in 2050, and 39% by 2100. Financing concrete investments, also attracting private capital where possible, needs to become a priority.

The biggest danger of neo-nationalism and populism is a “bunker-mentality” or a “fortress” mind-set. The paradox is that we have to remain open-minded in order to defend our interests and our identity. The biggest enemy is fear. It is precisely anxiety which is at the source of irrationality and even of decisions going against the long term social and economic interests of our people, our nations, and of Europe as a whole. I repeat, this openness has to go hand in hand with protecting our citizens better against unfair and undesirable evolutions. It can be our new narrative for the years to come. A mix of offensive and defensive, but in any case a narrative of hope.

Let's hope that after the elections of 2017 in Europe a new initiative is taken to re-dynamise to re-energise the European Union. I prefer to use this verb instead of "re-invent". It would mean a new Treaty. The last one took 8 years to negotiate. Let us invest our time and energy on other issues. This doesn't prevent us from reflecting on the institutional framework for a future Europe. We can even ask a group to produce proposals, but the upcoming years will be devoted to policies and to obtaining "results". "The Europe of results" is the only way to get back trust.

But we need more than deeds. We have to change our language about the EU and Brussel. My city is the symbol of a negative Europe, imposing sacrifices and efforts on people after the glorious days of the win-win, when Europe was not yet affecting our daily lives. As I said, this perception changed dramatically with the introduction of the euro. The Union is mature now. It is no longer a love affair of young people. We are in a marriage with its ups and downs, with the 27, "for better and for worse". We have to fight for our marriage. Love is a verb. We have to "speak for Europe". One country is in a process of divorce. Let's hope we can achieve an "amicable" divorce by mutual consent. Until now this is not sure. Let's hope.

In a time of globalisation—not only in the economy, but in so many fields such as information, culture, fashion, sport, music—there is no room for a stand-alone and for this sentiment of national "exceptionalism". We are in our nation states not better than others but we are proud that we are what we are. Identity is a very natural feeling, certainly with people with whom we live closely. But identity has always to remain open. Identity can have different layers, also a European one.

The European idea is a young project, historically speaking. Younger than most of our nation states. It is in a building-up stage. It is already now a part of our cultural and political DNA.

6 6.

Brexit is a political decision, but once it is taken, it will be bound by legal procedures within the institutional framework of the EU. The UK referendum was based on a simple YES or NO answer to remaining in the EU, but the outcome is very complicated and has far-reaching economic as well as political consequences. The vote was a moment. All the rest is a process.

Let me add that a referendum never appeases society. A "yes" or "no" polarizes and reinforces enemy-thinking. One never has a rational debate. It's always about emotions, passions and sometimes even hate. A referendum also gives answers to questions never posed. We created parliaments for weighing the pros and the cons in a serene way. Referenda are not about more democracy, but about a lack of political courage and leadership.

The starting point for the EU is "Brexit means Brexit". There is no hidden EU agenda to bring Britain on board again—only the British could decide on that! The institutional first step is the triggering of article 50 of the Treaties. A country has to notify that it wants to leave. "No negotiation before notification" is the position of the European Council as of 28/29 June 2016. It is repeated since then.

The Conservative government has delayed the activation of art. 50 because it is not ready to negotiate yet, neither technically or politically. Brexit was not foreseen and not prepared at all.

The government is clearly divided on key issues about the future relationship with the EU after the end of its membership, especially in the economic and trade field, and on “migration” (free movement of labour). The victory of the “leave”-vote was precisely due to the fear of “migration”, after the influx of 3 million EU-citizens to the UK, even though more migrants to Britain come from outside the EU, and EU free movement is two-way, with many Brits in other EU countries. Actually a choice seems to have been made: restricting migration is more important than the economy. Britain was long thought to have a ‘transactional’ view on the EU, looking at its economic interests. This is no longer the case.

The PM has to reach an internal agreement on the future relationship with the EU but she also has to find out what kind of proposal stands a chance of being a negotiating base for the 27. A consensus within the UK government is of no use if it is unacceptable from the start for the 27. “It takes two to tango”. But if it is the case that the EU has to say immediately after the triggering that the proposal of the British government is not a valid basis for negotiations, we would face a very dangerous moment already in a few months. It will be difficult for the conservative government to change its proposal because it was the result of a laborious compromise within the ruling party.

The intention of the UK is to trigger art.50 before the end of March 2017. The government wants to conclude the negotiations before the next European elections of 2019. Before the elections in France and Germany in the course of 2017 and the formation of new governments, no serious negotiations on the separation will take place. Between those two dates there are only twelve months, instead of the expected two years.

The UK-EU (27) negotiations have to deal with two kinds of problems:

- The arrangements for the withdrawal (separation treaty).
- The framework for the future relationship.

The withdrawal agreement is about things to be done to extricate the UK from its EU rights and obligations. It has to address a large number of so-called “technical” issues.

The separation treaty has to be approved by qualified majority (20 out of 27 MS), by the European Parliament as well as by the UK parliament. Agreements on the future framework can only come after the end of the separation procedure! If there is no agreement on the separation treaty, it is the “guillotine” or complete chaos. It is in nobody’s interest, but we are living in unprecedented and irrational times!

The key framework of any future relationship with the EU is about trade, even if trade is only one part of our future relationship. The European Council made it clear in June that such trade negotiations cannot really start until the UK has left the EU and attained third country status. The EU cannot conclude a trade deal with one of its own members! Of course, informal talks can start before the separation agreement is concluded! But that kind of agreement is likely to be a “mixed

agreement” and therefore will be one that is subject to unanimous ratification by all 27 Member States (and most likely their parliaments...), running the gauntlet of veto. In any case, it will be a long process, which will extend the period of economic uncertainty.

The institutional framework is of utmost importance. Britain will need a transitional arrangement for the companies and the economy: after the definitive exit (and thus also of the single market) until the end of the ratification of the trade deal in the 27 parliaments. It may take years. This transitional arrangement has to be agreed f.i. in the withdrawal agreement. The most rational option would be to prolong the current participation in the single market, but the issue of ‘migration’ makes this apparently impossible.

I come back to the content. What kind of trade deal does Britain want?

The UK could opt for an FTA. If Britain rejects the ‘four freedoms’ and a customs union, an FTA is a likely option. In that case British trading companies exporting to the EU will have to respect EU legislation and standards.

So, none of the options are easy. And each of the options includes a chapter of migration or the status of EU citizens residing in the UK. One cannot never avoid this problem.

The EU-27 now consider their own unity as a top priority in the negotiations and in the work on the future of the EU although the views and the interests are divergent in a series of domains. But there is now a solid consensus on a central negotiating line: full respect of the four freedoms. In other words, Britain is welcome to stay in the single market, but it must play by the same rules as the rest of us in that market.

Let me conclude: apart from the underestimated problems it will create for Britain, the main political victim of Brexit is the Union. Its peace project is now no longer irreversible. The idea of the Founding Fathers was precisely to create irreversible economic bonds so that war would be precluded. Trade at the service of peace. Interdependence was the aim. The supporters of “leave” want to regain “control”. Yet national ‘control’ is exactly the opposite of what the EU is aiming for! And anyway, it is an illusion: in today’s world of globalisation, national ‘control’ is simply impossible. Interdependence is a worldwide reality.

We live in unprecedented and even dangerous times, not only in our Southern and Eastern neighbourhood, but also within our societies. Our societies are on the move due to globalisation, digitalisation, unemployment and inequalities, massive migration, and the rise of individualism and polarisation. The values on which our socio-economic models are built upon, have to be defended and the models themselves have to be adapted.

I still think that this is “doable”. We can make it. We did it in the past, after catastrophes and tragedies. We can do it without these. I believe in the openness of the young generation. We have to combine this with the sense of protection of the older ones. I remain a man of hope.