

## Europe: Grand deal, big deal, or no deal?

by Harold James

2016 will be remembered as the year when globalisation turned sour and de-globalisation began – with the Brexit vote in the UK, and then the *Trump* election in the USA. By 2017, it also looked as if Europe had lost its mojo. The reversal of globalisation and populist mobilisation pose a fundamental challenge to the EU. Each election – in the Netherlands, then in France, then in Germany, then in Italy – looks like a cliff-hanger, not just for that country but for the whole of Europe. *Jyrki Katainen*, vice-president of the European Commission, recently explained the need for reform in order to “avoid the situation where every year, in some member states, elections create an existential threat to Europe. It is not sustainable.”<sup>1</sup> The departure of the UK is an obvious sign of a problem, or, as an often used analogy has it, of a marriage that is not working.

The new European Commission White Paper sketches out a menu of five alternative options, including carrying on in the same way, retreating to just a single market, coalitions of the willing on particular issues, doing less more efficiently, and moving to much further and deeper integration.<sup>2</sup> The first and last look doomed to failure, and *Jean-Claude Juncker* is certainly right to think that new and imaginative approaches are needed. But the document is fundamentally a confession of helplessness and of failure, a statement of the fragility and vulnerability of multilateral institutions and governance in a world of de-globalisation.

The European integration process was imagined in the mid-twentieth century as a way of thinking about issues that look very actual – how to manage political discontent and the instability of democracy; and how to handle transformative economic change. But in both cases the answers that are hard-wired into the Brussels outlook appear rather out-dated in the second decade of the twenty-first century. Thus while the problems are still there, in an acute (but mutating) form, the remedies are not. The White Paper accurately reminds its audience that by

1 *Boffey, D.*: Rising Euroscepticism ‘poses existential threat to EU’, [www.theguardian.com](http://www.theguardian.com), 03.03.2017.

2 *European Commission* (ed.): White Paper On The Future Of Europe, Reflections and scenarios for the EU27 by 2025, 2017.

mid-century, no existing member state would have more than 1 % of the world's population and on this insubstantial material basis could not really carry much weight in the shaping of global rules; and thus if global issues are to be addressed there is a clear need for European coordination.

## I. Explaining Europe

The 1957 Treaty of Rome was driven by a powerful imperative, that was at the same time moral and historical; practical and political; and strategic and geopolitical. Each of these drivers of the founding treaty will be considered in turn, as a way of understanding how the European imperatives have mutated.

### 1. The Psychology of the Past

The first explanation of European integration is concerned with the political psychology of Europeans. It is historical or backward-looking, and relates directly to the political and moral catastrophes of the twentieth century. The EU, and especially its French-German core, was at its deepest level a mechanism for dealing with the legacy of the collapse of democracy in the mid-twentieth century, in both countries and in most of continental Europe. In Germany, the failure is that of the fragile democracy of the Weimar Republic, destroyed by a radicalisation of the far right and the far left, mobilised by opposition to liberal economics (capitalism), but also to the international system of the postwar treaties. In France, there was a military failure in 1940, but then the self-abnegation of the Third Republic.

For some, especially a few generations ago, Europe was a metaphysical concept, that dissolves and resolves the problems of the past: a dispenser of forgiveness and redemption. *Charles de Gaulle* saw Europe as focused on a French-German psychodrama. He depicted the relations of the two countries in a narrative of betrayal and decadence. He thought that in the path of constructing Europe, France needed to make the first step because “in Western Europe, France suffered most. [...] France suffered most because France was more betrayed than the others. That is why it is she who must make the gesture of pardon. Germany is a great people that triumphed, and then was crushed. France is a great people that was crushed and then associated itself [in Vichy] with the triumph of another. It is only I can reconcile France and Germany, because only I can raise Germany from her decadence.”<sup>3</sup>

*De Gaulle's* concept seems completely remote from the interactions of *Angela Merkel* and *François Hollande*, yet the story of 1940 that *de Gaulle* told, of

3 *Peyrefitte, A.* : *C'était de Gaulle*, Paris, 2002, 76-77.

German triumph and French self-defeat is being re-enacted in contemporary Europe. A combination of betrayal of elites and incapacity to reform – the hallmarks of interwar French democracy – are present again today, and appear to be bringing Europe back to a bitter past.

The basis for departure for contemporary Europe has shifted: it is the perception of Germany as a political dwarf but an economic giant. The threat of German economic power loomed over every discussion – even long before 1989. The veteran commentator *Elizabeth Wiskemann* in 1956 commented, at a moment of tension in Eastern Europe, “Nothing might do greater harm to German-Slav relationships than for Poles and Czechs to feel that, no sooner they are free of the communist yoke than they must go into German economic harness.”<sup>4</sup> After 1989, there was a temporary weakening of the German giant, as the country absorbed the costs of unification; by the 2000s the strong Germany emerged again.

Germany also has over a long period of time presented itself as a model for Europe. Back in the first major post-war economic crisis, in the aftermath of the first oil shock, during the election campaign of 1976, Chancellor *Helmut Schmidt* spoke of a “Modell Deutschland.” That exemplary character is more in evidence now. Its labour relations, its labour market reforms, its apprenticeship scheme, its approach to monetary stability and budgetary orthodoxy (so that *Schuldenbremse* is one of those words like *Angst* and *Kindergarten* and *Schadenfreude* that exist outside the German language). The radical divergence of French and German economic performance over the past ten years is attributed almost entirely to Chancellor *Gerhard Schröder’s* Agenda 2010 labour market reforms.<sup>5</sup> The message sometimes explicitly and more often implicitly delivered by Germans is that other Europeans need to be more German – but the Germans will still define what is right.<sup>6</sup> And they will benefit from it.

The UK found the continental psychology of trying to find a way of accommodating Germans bewildering and utterly alien. The UK, like Switzerland (outside the EU) or Sweden (in the EU but not in the Eurozone), was not defeated and occupied in the 1940s. There was no fundamental compromise of the old elites (though the Swiss and Swedish governing class did make such a compact as part of the exercise of maintaining neutrality). Hence, in the British case there is no need

4 *Wiskemann, E.*: Eastern Neighbours: Problems Relating to the Oder-Neisse Line and the Czech Frontier Regions, London, 1956, 295; *Garton Ash, T.*: In Europe’s Name: Germany and the Divided Continent, London, 1993, 403.

5 For instance, *N. A.*: Wunderreform, in: *The Economist*, 16.03.2013.

6 *Schröder, G.*: Agenda 2010 – The Key to Germany’s Economic Success, in: *Social Europe*, 23.04.2012.

for the dialectic of reconciliation that *de Gaulle* laid out; and for other Europeans, the historical case is over-shadowed by current day tensions and resentments.

## 2. Protecting Democracy or Protecting Against Democracy

A key part of the political mechanism for protecting democracy was through transferring key areas of policy making away from the arena of politics, and insulating them through legal and constitutional processes that protected laws and institutions from popular politics.<sup>7</sup> Interwar democracy had played fast and loose with the law. The essential vision of the post-war order was at the same time the universality and the permanence of the law and its guarantees. There could not be laws that discriminated against some citizens, even if a powerful group or a majority demanded such laws.

An analogy to legal guarantees was the removal of monetary processes from politics through legally guaranteed central bank independence. Initially this was just a German peculiarity, instituted in the late 1940s at the insistence of the US military occupation regime, but in the 1990s it was Europeanised through the Maastricht Treaty.

The mechanisms of protecting policy from politics and politicisation by today, has produced both widespread complaints about “unelected technocrats” and resentment against judicial activism. Both sentiments played a key role in the Brexit vote. Many British Conservatives, including *Theresa May* (who was nominally in favour of Remain) complained about the extension of the reach of the European Court of Justice to protect foreign criminals or even terrorists; and the Brexiteers also attacked the interventions of the Bank of England in the lead-up as the central bank warned about economic consequences. In Europe, there is the same resentment about Court decisions that protect migrant rights; and a much broader campaign against the European Central Bank, with northern Europeans complaining about low interest rates and the danger of TARGET2 balances, and south Europeans attacking the ECB’s part in imposing “austerity.”

## 3. Compensating Losers.

The most common political science way of understanding the EU is as an exercise in the extension of a particular kind of national politics. *Alan Milward* famously described the beginnings of the European Economic Community as the

7 *Lindseth, P. L.*: The Paradox of Parliamentary Supremacy: Delegation, Democracy, and Dictatorship in Germany and France, 1920s-1950s, in: *Yale Law Journal*, 113/2004, 1341-1415; also *Lindseth, P. L.*: *Power and Legitimacy: Reconciling Europe and the Nation-State*, Oxford, 2010.

“rescue of the nation-state.” *Andrew Moravcsik* has extended this argument, and made the claim that the EU has from the beginning been consistently about finding a framework – a rather limited one – for satisfying domestic constituents by using a supranational framework.<sup>8</sup> In particular, the most important of these mechanisms was the management of the decline of agriculture. Globalisation and technical change together mean the erosion of the living standards of whole groups of people – classes, to use an old-fashioned term. In the interwar period, farmers suffered across the world from a collapse of their incomes as new areas started to produce. Food prices, and then farm prices, collapsed. Over-indebted farmers lost their farms, and the banks to whom they owed money cut credits. The answers of the interwar period – trade protection through tariffs and quotas – were not effective. Instead, the EEC’s prime fiscal mechanism, the Common Agricultural Policy (CAP), set prices for farmers, and offered an elaborate system of subsidies. Managing rural decline proved the most important political payoff of the European process.

For France, agriculture accounted for 42.2 % of employment in 1900, and was still, at the beginning of the EEC in 1958 22.0 %. It is today 2.8 % (2010). For Germany, the equivalent figures are 33.8, 16.1, and 1.6; and for Italy 58.7, 32.9 and 4.0. But the UK did not really need this system of management of the peasant class, with only 9.2 % of employment in agriculture in 1900 and 4.1 in 1958.<sup>9</sup> “Peasant” is a term that does not really have a meaning for most parts of the modern UK (it does for Ireland, and that fact explains quite a lot of the constitutional history of the nineteenth century, up to Irish independence).

A similar argument applies to the idea of formal institutions that made for greater social peace, a political demand that also came very much out of the interwar era and the sharp polarization driven by redistributional conflict in continental Europe. That provision has – like agricultural policy – been Europeanised, in this case in the 1996 Social Charter, which provided not only for objectives guaranteed by existing British law (employment protection; prohibition of gender discrimination) but also some areas which no one in the UK (until recently) considered desirable, such as rights of workers’ representatives in enterprises. The UK, as in the case of the CAP, sees no compelling logic why Europe-wide provisions for social

8 *Milward, A. S. et. al.*: The European rescue of the nation-state, London, 1992; *Moravcsik, A.*: The choice for Europe : social purpose and state power from Messina to Maastricht, Ithaca, N.Y. 1998.

9 *Wingender, A. M.*: Structural transformation in the 20th century: A new database on agricultural employment around the world, in: Discussion Papers, Department of Economics, University of Copenhagen 14/28 (2014).

support should be needed for the successful operation of a market economy.

The UK consequently never felt the need, arising out of national politics, for a European mechanism for compensating the losers of economic modernisation. Other Europeans feel that a new kind of compensatory mechanism is needed. But the search for compensation is problematic. The analogy with keeping farmers active and farm incomes up is not easily transferred to other sectors of the economy, to manufacturing or services. It is a waste of both human and natural resources to keep workers in occupations that create goods for which there is no longer a real demand. People who are paid to do meaningless activities – or to do nothing – are even more likely to become disengaged and alienated. Regions that are subsidised simply because they are losing out will become more and not less resentful. They will demand more autonomy and then grow angry when that autonomy turns out badly.

It is worth looking at what happened to the “losers” in previous waves of technologicalisation. In the classical Industrial Revolution of the late eighteenth and early nineteenth century, innovation, above all in textile machinery, displaced skilled artisans and craft workers. There was little in welfare to cushion the blow. In retrospect, it is also hard to think of good alternatives that might have compensated the Silesian hand loom weavers or the rural Irish craftsmen of the 1800s. The products of their hard work were expensive and inferior to the output of the new factories. The solution for many of the displaced was emigration. Somewhere else – often a long distance across oceans – they could do new work, be productive, and become prosperous.

What is the modern equivalent of the emigration valve of earlier centuries? It probably isn't emigration – although that is the way that eastern and southern Europe are responding to economic malaise. There is increasing mobility in modern Europe, decreasing mobility in the United States. Young people can look for and find work in new places. There is a possibility of internal migration, away from settings that constrain and repress, and into dynamic metropolitan hubs. Being prepared to move like this requires skills and initiative. How to achieve that, and how can adaptability and flexibility take the place of resentment and misery? The movement that is important in the modern world is not so much a physical one, as a social and psychological one, for which many people are badly equipped. The biggest failure of policy in much of the industrial world is a stultifying and rigid educational system that makes physical and social mobility harder.

#### 4. The Atlantic Community

A third way of understanding the past of European integration is as a story of building an Atlantic community. The United States consistently pressed for European cooperation. 2017 is not only the sixtieth anniversary of the Treaty of Rome, but also the seventieth anniversary of the Marshall Plan, anticipated in the speech of Secretary of State *George Marshall* at the Princeton Alumni Day on February 22, 1947, and more fully sketched out in the Harvard Commencement speech on June 5, 1947. In Princeton, *Marshall* had explained that, “If the world is to get on its feet, if the productive facilities of the world are to be restored, if the democratic processes in many countries are to resume their functioning, a strong lead and definite assistance from the United States will be necessary.”

It was not just that the US needed a more united Europe as a pillar of stability. Many of the most important mechanisms of European integration – in particular the view that competition policy was essential to building a market that had widespread legitimacy – were directly taken from the American model. Competition was seen in the second New Deal as the key instrument in limiting corporate power and corporate abuse. The US lessons were applied in Germany by *Ludwig Erhard* and the principle of competition in a regulated order is essential to *Ordo-liberalism*. *Erhard's* *Walter Hallstein*, who devised Germany's cartel laws, then took his vision to the European level, as the first President of the EEC Commission. In the early 2000s, under very effective Commissioners – *Mario Monti* (1999-2004) and *Neelie Kroes* (2004-2010) – competition looked as if it was the most effective arena of EU action.

After November 2016, the American mood has shifted. *Trump's* “America First” inauguration speech, with its conscious echo of the isolationist aviator *Charles Lindbergh*, was a renunciation of the whole history of Washington's role in making and sustaining the post-war order. The main objection to the past policy orientation was about the economic loss that American leadership inflicted on the American people. That is an old criticism. It has constantly been raised as an objection to “global America.” But this is the first time that it has been enunciated by a President of the United States. The main targets of *Trump's* inaugural speech were the “other countries”, especially China and Germany, but also Europe as a whole, which got rich at the cost of the US (although he would later complain that “We're taken advantage of by every nation in the world virtually. It's not gonna happen anymore.”)<sup>10</sup> The United States seems to be positioning

10 *Weaver, C.*: ‘Don't worry’ about tough phone calls, Trump tells Americans, in: Financial Times, 03.02.2017.

itself firmly in the Brexit camp, and many figures in the administration are actively trying to undermine and destroy the European Union.

Thus by 2017, the US model is the inspiration for *Viktor Orbán*, *Geert Wilders*, *Nigel Farage*, and *Marine Le Pen*, all of whom welcomed the *Trump* victory in ecstatic language. *Orbán* described November 8, 2016, as the end of “liberal non-democracy,” a “historic event, in which Western civilisation appears to successfully break free from the confines of an ideology.”<sup>11</sup> *Marine Le Pen* thought that *Trump* will “bury the old order” and serve as a steppingstone to “building tomorrow’s world.”<sup>12</sup> The Atlantic is thus set against Europe in a completely unprecedented way, and Europe needs to devise a new strategy.

## II. Less and More Europe

There are many areas where some measure of enhanced coordination appears to be needed. The most prominent include energy an effective mechanism for dealing with cross-border banks, energy interdependence, refugees, and security as well as global issues: none of these were classically the concern of the European Union. In the new framework of global politics, as well as economic and domestic political challenges, there is a new intensity in the security threat from Russia which presents not just a military challenge to its immediate neighbours, especially in the Baltic Republics and in Poland, but also is actively intervening to influence the outcome of elections in Europe; and at the same time, the security guarantee of the United States is open to questioning.

### 1. Banking Union

What is now termed a banking union – that is common European regulation with some fiscal capacity for resolution in the case of failed banks – is a very belated but necessary completion of the monetary union. Even this step is only partial, and has excited a great deal of opposition from Germans who do not want to bail out south European banks. Thus while there is European supervision, the resolution process is predominantly national. Critics have correctly identified the problem, that some sort of permanent fiscal mechanism is required in order to pay for the bailouts and thus in fact implies a move to a real political union which regularly redistributes resources. But there is also a legitimate worry that the creation

11 <http://www.independent.co.uk/news/world/europe/donald-trump-us-election-win-hungarian-prime-minister-viktor-orban-end-liberal-non-democracy-a7413236.html>.

12 [https://www.washingtonpost.com/news/worldviews/wp/2017/01/12/marine-le-pen-at-trump-tower-only-for-the-food/?utm\\_term=.cdc0e425562e](https://www.washingtonpost.com/news/worldviews/wp/2017/01/12/marine-le-pen-at-trump-tower-only-for-the-food/?utm_term=.cdc0e425562e).

of an extended banking union would involve very large insurance commitments, that Europe's citizens are not necessarily already willing to take on. The current discussion – as set out for instance in the very helpful Four Presidents' Report of December 2012 and extended in June 2015 in the Five Presidents' Report – is set out very much in terms of an “insurance type mechanism”: but it is important to remember that insurance mechanisms are not suited to make long term one way transfers, rather they have to represent a genuine sharing of risk (i.e. of conditions which at the time of making the insurance contract cannot be anticipated).

## 2. Energy Union

The argument in favour of a European energy union – a genuine common energy market with common regulation – may even be stronger than the case that was successfully made in the 1980s and 1990s for a monetary union. Security concerns and worries about the extent of risk generate considerable pressure to implement dirigiste measures that may be counter-productive and harmful. A coordinated approach to energy needs to address equally obvious problems that are often not recognized explicitly. Just as in the case of the European Union's overall “growth, stability, and cohesion” objectives, the 1996 Internal Energy Market directive's goals of (1) secure, (2) environmentally compatible, and (3) competitive energy sources are in conflict with each other: renewable energy may be environmentally sound, but is neither secure nor inexpensive; foreign supplies of oil and gas may be inexpensive at a point in time, but are subject to geo-political risks. Policy choices need to provide a framework to guide the myriad choices of market participants, producers and consumers, through a pricing mechanism that is accepted as fair and transparent. An economic argument can be made for security-oriented policies like renewable energy subsidies that increase both current costs and self-sufficiency.

Further improving the linkage requires a substantial investment in transmission systems. One response to the financial and debt crisis, which is also a crisis of European growth, is to demand higher levels of investment – both public and private – in Europe. The problem is that in the past, much public sector investment has been misdirected as a result of the political bargaining processes. However, private investment has also been misdirected (above all in large construction booms). Investment in energy networks may offer appropriate incentives to private producers looking at innovative ways of producing new clean energy sources. Since the search for funding also coincides with a widespread sentiment that Europe should investigate large infrastructure investment projects, it may be conceivable to fund the new energy transmission channels, both electricity grid-

lines and gas pipelines, with public or a mixture of public and private funding. A security levy on energy supply might be an appropriate way of ensuring the fiscal sustainability of such investment.

### 3. Migration Union

One of the gravest security crises currently facing Europe is the outcome of the disintegration of neighbouring regions: North Africa and the Middle East in the wake of the so-called Arab Spring; and more recently the crisis in eastern Ukraine. Europe is confronting a humanitarian crisis as a consequence of the flight of refugees from civil war in Libya and Syria. ISIS is indeed trying to use the threat of further expulsions as a weapon against Europe.

The countries that are today on the front line of Europe's humanitarian struggle are by chance also the worst affected by the financial crisis: Greece, Italy, Spain. Responding to the distress of refugees is a European task, and the financial consequences of the refugee crisis cannot be left to the crisis-struck states, in which there is an inevitable political feeling that resources devoted to accommodating and even potentially integrating refugee populations can only come at the expense of citizens. Any adequate solution to the refugee challenge involves including or integrating them in a constructive way, at least for some time, into the host societies. It would necessarily involve substantial financial injections from Europe as a whole into the countries at the forefront of the refugee crisis. That could also be a source of new dynamism, and an answer to the problem of European ageing and decline.

At the same time, ensuring that people can move with dignity also requires the elaboration of a precise political program to stabilize the neighbourhood of Europe. Europe cannot be an island in a sea of a humanitarian disaster. It needs to act effectively to end the chaos that is driving despairing people by the millions to a European safe haven.

### 4. Military Union

At the outset of the 1990s, many European leaders in the face of the new security challenge created by the collapse of communism and the Soviet Union emphasized that they needed to find a way to permanently secure European peace. Even at the time, it was not quite obvious that a currency union was the best way to do this (it was rather a question of the central bankers having plans for a currency union in their drawers). Would not a common European army be a better course? In the nineteenth century, many people made the argument that universal military service was a central part of the project of nation-building. *Jean-Claude Juncker*

recently triggered a storm of controversy when he made this suggestion, and critics emphasized the difficulty of expecting military sacrifice without a much further deepening of political community. On the other hand, common defence organization and procurement would certainly involve major savings, generate a more effective capacity to project power, and might well indeed make a wider group of young people realize that they are Europeans.

## 5. Youth Union

But a similar argument could be made for encouraging other sorts of organized movement: a common social year (with social service performed in a different country), and also cross-national apprenticeship schemes. The latter has been tried by some large German companies, with considerable success. Fostering youth mobility is probably a better way of moving to an integration of outlooks and attitudes, but also to a dissemination of best practice across Europe. Countries with high levels of out-migration at some point in the last century (Ireland and Poland are the most striking examples) found that the return of young migrants who had increased their skill levels represented a major source of dynamism. In that sense, if the current crisis is promoting higher migration, it should not simply be a source of worry: in the long-run, it may have a strengthening effect.

## 6. Global Union

The management of cross-national problems and the containment of nationalistic quarrels require more than technical fixes. The fatal loops that tie badly managed currencies to the destruction of the international economic and political order inevitably conjure up memories of the disasters of the 1930s, the Great Depression and the drive to war. Currency wars are now making their reappearance. We should remember that there can be global disaster, as well as merely European disaster. A politically legitimate mechanism for solving the problem of international adjustment was the unsolved problem of the twentieth century. In Europe and elsewhere it generated enormous conflict. Chancellor *Merkel* rightly thinks of Europe as a way of managing globalisation (*Globalisierung gestalten*).<sup>13</sup>

All these problems and challenges require responses, and it is hard to see how each could effectively be handled by a separate grouping of countries in a disparate institution, in a coalition of the willing, or what the political scientist *Jan*

13 <http://www.faz.net/aktuell/wirtschaft/angela-merkel-plaediert-im-bundestag-fuer-mehr-globalisierung-14540950.html>. See also *Jacoby, W./Meunier, S.*: Europe and the Management of Globalization, in: *Journal of European Public Policy*, 17/3 (2010), 299-317.

*Zielonka* has termed political polyphony.<sup>14</sup> The reason is that in each case, some member countries will work out that they will gain from cooperation, but others will realise that they would lose from that particular instance of cooperation. Instead, an analogy from trade negotiations may be a useful way to think of solving the political side of some of Europe's problems. Trade negotiations have been a largely successful exercise in the second half of the twentieth century, in which large welfare gains were realised in many areas.<sup>15</sup> How did those trade negotiations – at the core of the classic management of globalisation – work?

First, the breakthrough occurred in the 1930s with the conceptual realisation that negotiating fora that were too open to the assertion of particular interests stood in the way of the realisation of generally beneficial outcomes. The landmark study examined the contribution of Congress to an unintended snowballing effect, in which thousands of extra positions were added to the Smoot-Hawley tariff, which was thus transformed from its original intention of providing some agricultural support into an extensive and complex industrial tariff.<sup>16</sup> After the 1934 Reciprocal Trade Agreement Act (RTAA), and after Second World War, the authority to act in trade negotiations in the US was delegated to the President.<sup>17</sup> In an analogous manner, European countries delegated trade authority at an early stage to a supranational institution in the European Economic Community. In all the controversies over European policy after 2010, no one has ever cast doubt on the effectiveness of the Commission as the voice of Europe in trade. Trade is an instance in which framing in terms of an over-arching interest is required in order to realise potential gains.<sup>18</sup>

Secondly, though, the appeal to an over-arching interest may not be enough. In practice, trade is often accompanied by auxiliary measures (Germans speak of “*flankierende Maßnahmen*”). In trade negotiations going back to the nineteenth century, domestic policy packages were put together where all players gain something but some lose more than others, so a compensation mechanism has to be created to make the deal go through. The *Bismarckian* welfare state is an early example, and can be understood as a compensation for the grain tariff, which

14 *Zielonka, J.*: Is the EU Doomed?, Cambridge, 2014.

15 On this argument, see *Bordo, M./James, H.*: Partial Fiscalization: Some Historical Lessons on Europe's Unfinished Business, in: *Ódor, L.* (ed.): Rethinking Fiscal Policy after the Crisis, Cambridge, 2017, 238–263.

16 *Schattschneider, E. E.*: Politics, pressures and the tariff, New York, 1935.

17 *Irwin, D.*: From Smoot-Hawley to Reciprocal Trade Agreement: Changing the Course of U.S. Trade Policy in the 1930s, in: *Bordo, M.* et al.: The Defining Moment: The Great Depression and the American Economy in the Twentieth Century, Chicago, 1998, 325–352.

18 *Olson, M.*: The logic of collective action; public goods and the theory of groups, Cambridge, 1971.

raised food prices and thus hit workers who wanted some measure that would protect them. The same logic was the heart of many compromises made on a national level in the aftermath of the Great Depression: during the New Deal, where trade negotiations conducted through the RTAA were compensated by deals that favoured unions in the Wagner Act, but also especially in some smaller European states (the Swedish and Swiss cases are often discussed as examples).<sup>19</sup> After the Second World War, the major surges of trade liberalisation also occurred at the same time as social reform packages: the *Kennedy* Round at the same time as the Great Society.

The lesson from trade reform is in part a story of political framing, and in part a story of compensatory deals. Countries can calculate that they might lose out on the solution to one of the issues but gain on another. For instance, Germany might have to pay something in terms of debt relief for southern European countries but also might quickly benefit from a European solution to the refugee crisis. The presence of migrants – some from within, some from without – raises the case of how social security is provided. Military integration could raise the effectiveness of defence while cutting costs, especially in those countries with a high military budget. Europe would appear as an arena in which trade-offs and compromises were negotiated, rather than a place where precious concepts of sovereignty were destroyed.

The trade reform packages and arguments about grand deals are however part of the acute dilemma facing modern Europe. After decades of relatively unproblematic international negotiations, the Canada-EU trade treaty CETA was almost brought down by the strong opposition of the Belgian regional parliament of Wallonia to its agricultural clauses. That incident, in late 2016, appeared as another instance of the EU's malaise.

### III. The Framing of Europe

Europe after sixty years has a new chance. Some new grand bargain is the only way. It is being obstructed by timidity and doubt. But those characteristics are not an ingredient of political success – ever. There is always room for an interplay between misunderstanding and incomprehension on the one side, and a clash of interests on the other.

We should perhaps also recall that 2017 marks not just the sixtieth anniversary of

19 *Gourevitch, P.*: Breaking with Orthodoxy: The Politics of Economic Policy Response to the Depression of the 1930s, in: *International Organization* 38 (1984), 95-130.

the Treaty of Rome, or the seventieth anniversary of the Marshall Plan, but also a much rounder number commemoration, the five hundredth anniversary of the Reformation, of *Martin Luther's* nailing of the 95 theses on the church door in Wittenberg. There are echoes of that earlier division: there is a mutual incomprehension between northern and southern Europe, in which the two sides do not speak the same language literally and in terms of intellectual frameworks (then: theology; now: economics).<sup>20</sup> And there are also analogies with the divisive role played by international fiscal transfers (then Church payments to the Roman papacy for the reconstruction of St. Peter's as well as the opulence of a Renaissance court, which drove the German princes to support *Luther*). The part played by cross-border judicial functions and by the role of the Curia and the papal courts is also central. In the sixteenth century a defensive reaction against the Roman court led *Henry VIII* to declare in the 1532 Statute in Restraint of Appeals that "this realm of England is an empire" in a the first real declaration of the modern doctrine of sovereignty; the Brexiteers picked up exactly this argumentation.

The main obstacle to rationality in today's debate is a retrospective utopia, that the old nation-states were a better, more just and more stable, solution. The same forces that push against an overall European assessment of risks will continue to dissolve other political formations. Of the six larger states in the European Union, only France is really a well-defined centralised political system. Poland comes close to France in a philosophy of centralism, but there are strong differences between different regions, which were in the nineteenth century part of three big and quite contrasting imperial systems. Italy and Germany were nineteenth century creations from a colourful variety of small and medium sized units. Spain after the Franco dictatorship stabilised itself by granting autonomy to its regions, which in many ways now behave as independent units. And in the UK, the aftermath of Brexit is severely eroding the foundation of the 1707 Act of Union that linked Scotland to England and Wales.

If European integration went into reverse, the outcome would not be a series of happy and prosperous nation-states, living in a sort of replica of the 1950s or 1960s. South Germans would wonder whether they are not transferring too much to the old industrial rustbelt of the north; northern Italians who already support an anti-EU Lega Nord in "Padania" would definitely want to escape from the rule of Rome and the south. Setting the clock back would thus go far beyond a return to the mid-twentieth century. The small states of the mid-nineteenth centu-

20 See *Reinhardt, V.*: *Luther, der Ketzler: Rom und die Reformation*, München, 2016.

ry, with no fiscal transfers out of a relatively small area, might be recreated. But the dynamic might go further: the German territories had around 350 independent political entities in the mid-eighteenth century and more than 3000 before the middle of the seventeenth century.

The European Union was actually built on the idea of needing crisis as an instrument of further cooperation and integration. *Jean Monnet*, Europe's secular saint, repeatedly went back to the thought that Europe would be built by responding to new challenges. As he put it, "Europe would be built through crises, and [...] would be the sum of their solutions."<sup>21</sup> But this approach requires that each problem – each crisis – be sufficiently small to be manageable. An excessive load would by contrast lead to breakdown. In *Shakespeare's* "Hamlet", Claudius contemplates Ophelia's deteriorating mental state: "When sorrows come, they come not single spies, but in battalions." Ophelia, of course, broke down and while mad, drowned herself. But Claudius is a murderer and a tyrant and not necessarily the font of all wisdom. There exists in fact a radically different approach to the issue of multiple crises. Problems that appear almost insoluble on their own can be tackled if they are seen as a giant bundle.<sup>22</sup>

21 *Monnet, J.*: Memoirs, London, 1978, 417.

22 For a further discussion of this theme, see *Brunnermeier, M. K./James, H./Landau, J.-P.*: The Euro and the Battle of Economic Ideas, Princeton, 2016.