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# **Comparative European Social & Economic History Studies**

## **The Economic Versus the Social & Cultural Aspects of the European Union**

Reflections on the state of the Union and the roots of the present  
discontent among EU citizens

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## **Preface**

After lecturing for a couple of years on “European Social Policy, Migration, Multiculturalism and Interculturality” in the Erasmus and Socrates lecturer exchange programme of the European Union at the universities of Stockholm, Rome, Ljubljana and Oulu in Finland and after having taught “European Economic History” and “European Union Development” at the University of Applied Sciences bfi Vienna since 1998, I decided to attempt an analysis and a comparison of the economic, social and cultural aspects of the European Union development from the point of view of a social and economic historian. By interviewing Austrian professionals from different fields of work, covering music, art, medicine, psychology, legal and educational research and banking, I attempted to find reasons for the sceptical attitude of Austrians towards the European Union as expressed in the latest Eurobarometer 2008.

The intention of this working paper is to provide students and a general public interested in current developments in the European Union and their historical roots with a concise overview and a critical comparison of the economic, cultural and social developments of European Union integration and their impact on the satisfaction of European citizens with the state of the Union.

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## **Abstract**

If today a country is incorporated in the EU this means that there are a lot of advantages, you can stay in your country and keep your job, you can speak your language and Europe comes to you, you do not have to leave your home to improve your living conditions. But Europe has embraced privatisation, globalisation and enlargement too quickly and by that has forgotten how the EU has developed. The European welfare state was developed by very experienced conservative politicians who had realised that fascism had its roots in social inequality. That's why Europe has a legacy of a strong welfare state and many are too much in hurry to say good bye to it to please neo-liberalist economists. For the first time since the end of World War II Europeans can expect that their children will not be as prosperous and secure as they are today.

So how can the European model be saved and be made more attractive for its citizens? One solution that is clearly discernable from opinion polls and the interviews conducted for this paper is a process of decentralisation and drastic scrapping of superfluous rules and regulations that has to take place within the EU soon. The possibilities of the principle of subsidiarity have to be explored and the EU has to think about what can be delegated to national or even regional levels. The second solution would be an improvement of the information policy of the EU, so that the man in the street can understand what new projects, laws and contracts that affect him/her are about. The EU has to manage to enthuse the people and convince them of the values of the European idea and its officials should not withdraw into their committees and offices and just do a good job as technocrats. Further, local politicians have to be aware of the damage they inflict on the European idea if they continuously blame the EU for their own inadequacies. Finally, the most important issue that has contributed to a widespread rejection of the EU is the neo-liberalist economic policy of the Union. At a time when the middle class – always a strong force in Europe - is losing out and sees its existence threatened in Europe, and at a time when working incomes are stagnating while company profits are rising, Europeans no longer accept that EU policy is solely driven by business interests. So EU policy in future will have to concentrate more on preserving the European social model and shielding the European citizens from the harshest consequences of internationalisation. Otherwise it will lose legitimacy in the eyes of Europeans.

The European Union has been driven by economic interests from the start and social and cultural aspects have always been marginal. Europeans also do not expect the EU to take over the social responsibilities of their nation states, as can be seen from the Eurobarometer 2008 and the interviews carried out for this paper. On the contrary, they prefer more freedom of decision making on a national level, but they expect the EU to build a framework within which the European welfare state in its many varieties is not dismantled, but can survive, in a reformed way if necessary.



## 1. Introduction

*“Si c’était à refaire, je commencerais par la culture” (“If I were starting over, I would begin with culture”)*  
Jean Monet

Whether Jean Monet really said this or not, it is a fact that he and Robert Schuman started with the economy and the preponderance of the economic integration still characterises the European Union today. Nevertheless, Monet’s quip epitomises the importance of culture in any form of unity in Europe.

The virtues of Europe today as compared to the United States are the emphasis on trans-national cooperation, not only on an economic level, and the humane attitude to law, society and the environment. But Europe has lost a sense of purpose. The EU was built institutionally, not democratically; it would probably not even have come about if there had been national votes on establishing a union after World War II. Nowadays you cannot go around public opinion, and it seems to be fashionable in Europe today to oppose the EU. Politicians exploit the EU for their purposes without considering the costs, as they just take the benefits of the EU for granted. There is definitely a lack of direction. The EU as an ideal is no longer supported by the majority of Europeans, not even by the new members in Central and Eastern Europe. They rather imitate the American way of life, especially the economic and consumer aspect of it, and the focus on the virtues of Europe has got lost in recent years. In Western Europe many people are either supporters of the neo-liberalist American approach or they take up a crude anti-Americanist stance. Yet the EU is the only model of peaceful and economically successful cooperation we have that embodies a sense of collective interest, regulates the market and induced nation states to abdicate some of their sovereignty to build common institutions.

Can a further integration of Europe be achieved today by the common will of the countries concerned? Should it? Will the governments make concessions and sacrifice more of their sovereign rights? Or will Europe be unable to catch up with the interdependent world of today and the future and continue to believe that nationalistic self-interest still makes sense or that European nationalism can carry on where the nation states of Europe were forced to leave off? Those building Europe today never seem to go beyond the purely highly technical level of specialists who are brilliant experts and indispensable, but not understood by the people living in Europe. Yet we misunderstand Europeans if we give them sums and statistics only, which look wan alongside the waves of enthusiasm that have enlivened Europe in the past. Can a European consciousness be achieved solely through statistics? It is disturbing that Europe as a cultural ideal and objective is the last item on the current agenda. No one is concerned with a mystique, an ideology. Europe will not be built unless it draws on the old forces that formed it in the first place and are still lingering below the surface. “The Europe of the peoples” will have to work with the people or they will overturn it with their historical taste for revolution and cast it away.

The disappearance of national frontiers in the movement of goods, capital, services and people could forge a new kind of peoples who feel for instance Austrian and European. The community has been

formed largely to avert a return to a tragic past and less to build a clearly envisioned future. So Europeans are bound together by the unpleasant memory of their national antagonisms and their desire to keep those at bay, and now increasingly by a common fear of being run over by waves of immigrants and being wiped out economically by globalisation. Yet the European Union could become a model of how independent states integrate and cooperate. To adapt Churchill's famous remark about democracy: "Democracy is the worst form of government – except all those other forms that have been tried from time to time", the European Union is the worst possible Europe, apart from all the other "Europes" that have been tried from time to time.

## **2. The Historical and Cultural Concept of Europe as a Unity<sup>1</sup>**

### **2.1. Why did Anyone ever Think of Europe as a Separate Continent?**

By definition a continent is a stretch of continuous land clearly bounded by the sea or at least a narrow isthmus, but Europe is a large peninsula projecting from "Eurasia" at its western side. So why did anyone ever think that Europe was a continent and why do people still think that Europe is a distinct entity?

Since the second millennium BC Greek sailors had sailed up the Bosphorus to trade on the coast of the Black Sea. "Europe" was the land on their left, to the west, when sailing north, where most of them lived and "Asia" was the land on their right, to the east, with Troy, Milet and the Lydians, Phrygians and Persians. They supposed that Europe was really separate from Asia. A map of the world of the Greek geographer Hecataeus from around 500 BC shows that he assumed that the Caspian Sea stretched out into a great ocean dividing Europe from Asia. In the wars of the Greeks against the Persian Empire the Persians were seen by the Greeks as forces of barbarism, lacking the capacity for self-government and a sense of freedom. The Greeks labelled this distorted picture of the people on the Persian side "Asia" and by a brilliant piece of propaganda Herodotus reclassified the Greeks "on the Asian side" as really "people of Europe", namely the bearers of independent-minded rationality, law and freedom. This was the moral justification for the imperialist colonising activity all around the Mediterranean. In this way the Greek sailors' idea of Europe "as the land on the left hand side as you sail north" was filled with meaning and propaganda. It became a label for an ideal centred in Athens, where cultural characteristics which were thought of as ideal European ones were most fully developed, while other parts of Europe only participated in this ideal by sharing the cultural values of this European centre. Not only was Europe from its beginning defined in opposition to "non-Europe", but the idea was promoted that Europe's true character was that of its centre and over the centuries this centre moved from Athens to Rome and then to Western Europe. From the Middle Ages on this centre was defined in the terms of Christianity. So Europe was always a word used by Europeans to boost their own image and power and not just to label a certain piece of land.

Even after it had been discovered that Europe was a peninsula of Eurasia and did not deserve to be



called a continent geographically, people stuck to it because it signified more than a piece of land, it denoted an ideal, a certain kind of civilisation. Nevertheless they disagreed widely over the centuries and in different regions what exactly that kind of civilisation was. Furthermore it is noteworthy that Europe has no true eastern boundaries except arbitrary ones, such as the Ural Mountains.

## **2.2. The European Civilisation**

Historically, the West looked to Rome, the East to Constantinople. The major separation in the 9<sup>th</sup> century was the success of Cyril and Method in preaching the gospel to Slavs and shaping the future along Greek Orthodox lines. A later division occurred between North and South with the Protestant Reformation, which curiously split Europe roughly along the ancient Roman limes.

The Eastern Mediterranean had been endowed with a very old civilisation, when the Western Mediterranean was still primitive. After the break-up of the Roman Empire, Europe developed a feudal civilisation and in the 11<sup>th</sup> and 12<sup>th</sup> century a lively feudal regime, a particular and very original political, social and economic order. There could be no feudalism without the previous fragmentation of a larger political entity, the huge Carolingian Empire, the first “United Europe”. Despite this political compartmentalisation, there was a convergence in European civilisation and culture. There was, indeed, a single Christendom and a civilisation of chivalry, the minstrel, the troubadour and courtly love. The crusades expressed that unity as they were mass movements, collective adventures. The social pyramid with its obligations, rules and allegiances mobilized economic, political and military strength and enabled the West to survive and safeguard its old Christian and Roman heritage to which it added the ideas of the seigniorial regime. Yet all that mattered in this compartmentalized world was the small unit, the narrow, limited native region.

The history of Europe has been marked everywhere by the stubborn growth of private “liberties”, franchises or privileges limited to certain groups, big or small. This process has never been peaceful, yet it is one of the elements that explains Europe’s progress. The peasants were among the first to begin to be liberated, but certainly the last to be fully free. With the economic awakening of Europe in the 10<sup>th</sup> century, the increase in population and agricultural production and the growth of towns, the lot of peasants rapidly improved. Money rent started to replace serfdom. These liberties had no firm legal basis. The lord continued to enjoy superior rights over the land and could recover his oppressive powers, which resulted in a succession of peasant revolts. Newly acquired privileges were called into question again with the capitalist economic development beginning in the 16<sup>th</sup> century. When capital faced economic recession, it turned back to the land in a large-scale seigniorial reaction. The capitalist landowners looked for profit, the small-holders became indebted and so their land could be seized and bond-service increased. This development was especially tragic in Central and Eastern Europe. This system persisted until the 19<sup>th</sup> century in the East and was responsible for the economic backwardness of these areas. In the West favourable changes began in the 18<sup>th</sup> century, first in England. Then the French Revolution freed peasants at a stroke, which was copied elsewhere during revolutionary and Napoleonic wars.

The towns were the motors of Europe's first advance and were rewarded with liberties. After a long decline of Roman towns in the West, from the 11<sup>th</sup> to the 13<sup>th</sup> century the towns experienced a remarkable renaissance, they prospered and were ahead of their time. Free cities emerged early in Italy and the Netherlands. Medieval European towns were exclusive, their citizens were privileged by virtue of their citizenship. The countryside around them was often under their control, but they were not politically open to the surrounding area like ancient city-states. The liberty of the cities was threatened when the modern states grew more powerful in the 15<sup>th</sup> century. A territorial economy grew up, replacing the urban economy, but still controlled by the towns.

The territorial states were late-comers to Europe. The ancient form of feudal kingship took a long time to be transformed. The turning point came in the 15<sup>th</sup> century especially in areas where the urban revolution had been least marked; not in Italy, the Netherlands and Germany where there were so many free, rich and economically active towns. Modern monarchies developed in Spain, France and Britain with a new kind of rulers. Territorial states were served by functionaries, servants of the state. They enjoyed the loyalty of the masses, who saw the monarch as their natural protector against the church and the nobles. The modern state arose from the new costly needs of war. It did not recognise any higher authority, not the Holy Roman Emperor, not the pope. The new nation state wanted to be isolated, uncontrolled and independent. As the modern state tightened its grip, European civilisation became territorial and national. At the heart of these larger civilised entities, the capital cities played an important role and London for instance virtually became England. A redistribution of liberties, granted by the state set in. Liberties were handed out to powerful groups of privileged people by the monarch.

The intellectual ferment of the Renaissance and the Reformation laid the basis for individual freedom, respect for the greatness of the human being as an individual. Effective market economy and money from the colonies upset and weakened the old hierarchies. A certain freedom of choice was discernible, but on the other hand the state imposed a new order which strictly limited such freedom. In the name of the interests of the whole society the state undertook a strict regime for the poor in the 17<sup>th</sup> century. Already in the 16<sup>th</sup> century the beggars of Paris were arrested and forced to work in the sewers, chained together in pairs. Throughout the Middle Ages the poor, vagrants and the mad had been protected by the Christian right to hospitality and alms, they were viewed as God's emissaries, yet people were keen on sending them on their way rather than keeping them within the city walls. A certain form of liberty prevailed; the peasant could flee his lord for another one, go to the city, to the New World or become a soldier. Even the Elizabethan Poor Laws in England offered some scope for humane treatment of the poor. With capitalism all these people became enemies of a society which was urban, capitalist and attached to order and efficiency. Throughout Europe the poor, the sick, the unemployed and the insane were locked up, sometimes with their families alongside with delinquents. A large number of establishments were founded for this purpose, barracks with forced labour.

The French revolution itself did not succeed in establishing complete liberty. Hence liberty was invoked by almost all the ideologies and claims that advanced in the 19<sup>th</sup> century: "liberalism".

Freedom of thought necessarily implies the idea of tolerance and respect for others. The revolutions of 1848 were a crucial landmark for liberty and electoral reform. "Liberalism" is now virtually banished from active politics, yet it remains part of Europe's heritage and has become second nature. Any breach of individual liberties affronts Europeans. In the face of authoritarian states a certain kind of defiant, anarchic liberalism continues to survive as a Western heritage.

The spiritual and intellectual life of Europe was always subject to violent change, yet that should not distract from an impressive continuity of Europe's thought, evident throughout all its successive phases.

First, "Christianity": Western Christianity was and remains the main constituent element in European thought, including rationalist thought, which although it attacked Christianity was also derivative from it. A European, even if he/she is an atheist, is still the prisoner of an ethic and mentality which are deeply rooted in the Christian tradition. Christianity became the official religion in the Roman Empire as a result of the Edict of Constantine in 313. With the 18<sup>th</sup> century there was a great reverse. This time material progress did not serve the cause of the church, it went with a scientific and philosophic movement which on the contrary opposed the church in the name of progress and reason.

Second, "Humanism": European thought is inconceivable except in the context of a dialogue with Christianity, even when the dispute is violent. This context is essential to the understanding of humanism, one of the fundamental aspects of Western thought. Humanism frees and magnifies humanity and diminishes the role of God even if not completely ruling it out. Humanism is a manifestation of human pride, directed against exclusive submission to God, against a wholly materialist conception of the world, against any system that would reduce human responsibility. Humanism is a constant drive towards ways in which it can modify and improve human destiny. It signifies a European quest for what is new, difficult, forbidden or even scandalous, with many achievements and many set-backs.

Renaissance humanism of the 14<sup>th</sup> and 15<sup>th</sup> centuries on the one hand, represented a dialogue between classical and Christian civilisation. Pagan Rome had never died out in the West, Christian Europe was on a day-to-day contact with ancient Rome and its traditions, classical heritage had entered language, thought, literature, urbanity and monasteries. The Renaissance then distanced itself from medieval Christianity in its approach to life itself, by creating an atmosphere of lively enjoyment, relishing the pleasures of the eye, the mind and the body. It was on earth that people had to build their kingdom.

On the other hand there was Protestant humanism, starting in 1517 with Luther's propositions. It was the source from which the great flood of Reformation flowed between the 15<sup>th</sup> and the 16<sup>th</sup> century. The following excesses of war and violence died down in the 18<sup>th</sup> century, but Protestantism survived and today is widespread in a large part of the Western world. The nature of Protestant humanism despite its great diversity becomes evident once it is contrasted with Catholicism. Common is an inclination towards the free study of the Scripture, historical criticism of sacred texts and a kind of deist

rationalism, greater freedom of conscience in the spirit of Enlightenment and under the influence of scientific progress. This might have helped Europe to develop towards a greater independence of the mind together with the general evolution of philosophical and scientific thought in Europe.

If we look at the humanism of the French Revolution, we can see that Europe has always been and still is revolutionary and at the same time counter-revolutionary. What revolutionary humanism essentially believed was that violence could be legitimate if it were used to defend law, equality, social justice or the mother country. But to embrace violence was acceptable only if it were the sole means of making the society more human and fraternal. Revolution meant violence in the service of an ideal. The counter-revolution sprang from the same roots, but its historical failing was that it looked backward and tried to move backward. It is remarkable that “1789” inspired mass workers’ movements in the 20<sup>th</sup> century and it is still alive.

Finally “scientific thought”: The problem is to discover why modern science developed only in the context of Western civilisation and not much earlier in advanced civilisations such as China and Islam. All scientific proceedings are undertaken in the context of a certain view of the world. There can be no progress, no reasoning and no fruitful hypothesis if there is no general set of references to locate one’s position and choose one’s direction. At the beginning of the 18<sup>th</sup> century the unprecedented economic growth affected the whole world, but its centre became Europe, so industrialisation and the increasing demand caused by material and technological conditions were the motors of change. In that way, one Western phenomenon, namely science, has to be explained by another Western phenomenon, namely industrialisation. These two go side by side. Much earlier than the West, China possessed the rudiments of science in an elegant and advanced form, but it failed to reach the decisive stage, because it never experienced the economic impetus, the capitalist tension that spurred Europe on. The beginnings of this creative tension can be traced back to the great medieval trading centres.

### **2.3. The Unity of Europe**

Europe simultaneously enjoys both unity and diversity. Among the things shared by the whole of Europe are, as we have seen, its religion, its rationalist philosophy, its development of science and technology, its taste for revolution and social justice, and its imperial adventures. At any moment however it is easy to go beyond that apparent harmony and find the national diversity that underlies it. Such differences are abundant, vigorous and characteristic of Europe as such. But they exist just as much between the north and south of France, Italy or Germany.

One of Europe’s shared characteristics is its outstanding art and culture. But that does not mean that all nations of Europe have exactly the same culture. Yet any cultural movement that begins in one part of Europe tends to spread throughout the continent. This cultural phenomenon may face resistance and rejection in one part and be successful in another part of Europe. Nevertheless Europe is, broadly speaking, a fairly coherent cultural whole. Every cultural centre in Europe has always attracted artists, philosophers, scientists from various parts of Europe. One can mention the wanderings of Italian

Renaissance artists or the “commedia del arte” actors groups that travelled as far as England at the time of Shakespeare, or the spread of the Italian opera from Florence in the 16<sup>th</sup> century.

For centuries Europe has been bound together by a common economy. At any given moment its material life has been dominated by particular centres of privilege and influence. During the later Middle Ages the centre was Venice, with the beginning of modern times it moved to Lisbon, then Seville and Antwerp, in the 17<sup>th</sup> century to Amsterdam and then to London. Each time the European economic centre was the more influential because not only European economic life centred there, but also the economic life of the world. In 1914 London was not only the great market for credit, maritime insurance and reinsurance, but also for American wheat, Egyptian cotton, Malayan rubber, South African gold, Australian wool, Middle Eastern oil. Very early on Europe became a coherent material and geographical whole, with an adaptable monetary economy and busy communications along its coasts and rivers and via the carriageways and roads for pack animals. This interdependence is the reason why the different regions of Europe were affected almost simultaneously by the same cycles of economic change. In the 16<sup>th</sup> century, for instance, a huge price rise began in Spain as a result of the sudden influx of precious metals from America. The same price inflation affected the whole of Western Europe and penetrated even as far as Moscow, then the centre of a still primitive economy.

Yet all of Europe did not develop at the same rate. A line could be drawn from Lübeck or Hamburg through Prague and Vienna as far as Trieste, to divide the economically advanced Western part from the economically backward areas to the East. Socially, the separation became evident in the persistence of serfdom among the peasant population in the eastern parts of Europe at a time when it was long abolished in the West. Three important Western European developments reached Eastern Europe much later and they were less prominent there, namely the urbanisation of the Middle Ages in the 10<sup>th</sup> and 11<sup>th</sup> centuries, the Enlightenment of the 17<sup>th</sup> and 18<sup>th</sup> centuries and the industrialisation in the 18<sup>th</sup> and 19<sup>th</sup> centuries. Nevertheless also in the West there were growth areas in the midst of less developed regions. Indeed there can be no economic interdependence unless there are differences of development, in which some regions lead the way and others follow. Despite the national and regional differences economic links have long bound Europe together.

Yet in building European unity politics has always been most hesitant. The truth is that all of Europe has long been involved in the same political system, from which no state could escape without grave risks to itself. But that system did not encourage unity in Europe, on the contrary, it divided European countries into groups of varying membership, whose basic rule was to prevent any hegemony. Each state pursued its own selfish ends and if it was too successful, it sooner or later found the others lined up against it according to the “European balance of power”. The growing power of states made this imperfect balancing act ever more dangerous. The ultimate outcome was always war. Until the 20<sup>th</sup> century, the world was at the mercy of this European balance of powers.

Political unity by force always failed, as can be seen from the failed attempts of Charlemagne, or the emperor Charles V. His dream was to conquer all the Christian lands, as his “Imperial Idea” was rooted in the historic Spanish crusade. The emperor lacked nothing, he had troops, excellent

commanders, loyal followers, the support of great bankers, the Fuggers, excellent diplomats, mastery of the sea, and he had the treasures from America. It was the “concert of Europe” that defeated Charles V using every method including an alliance with the Sultan.

#### **2.4. Defining European Identity**

The German chancellor Otto von Bismarck was of the opinion that Europe was a mere geographical expression. But Europeans, on the contrary, have long been conscious of their civilisation, their continent, its boundaries, topography, languages and ideas. More than any other continent Europe has been obsessed with its own self-definition, with ascertaining just what it is that binds Europeans together and distinguishes them from others. But Europe has had a chequered past. In the medieval urban renaissance, which saw the spread of universities and city states, throughout the Enlightenment and again since 1945 it has been common practice to think and talk European. But at other times much more attention was paid to local interests. Even when Europeans did invoke the idea of Europe they frequently had different things in mind.

There has always been a Mediterranean Europe, an Atlantic Europe and a Northern Europe. For many centuries there has further been a mainstream Europe defined by wealth, trade routes and established political regimes and a marginal one defined by poverty, vulnerability to invasion and imperial domination. And cutting across these lines there has always been the distinction between centre and periphery.

Then there is the important element of size. The dimensions of European states vary greatly. Populous states with long-established, secure state systems, like France and Britain, have always been wary of being absorbed anonymously into pan-European projects, whether led by popes, emperors or bureaucrats. For Europe's smaller countries the situation is quite different. Vulnerable small countries like those of Central Europe or the Netherlands and Belgium can best maintain their distinctive cultural identities by identifying with Europe as a bulwark against their own past and ambitions of mighty neighbours. For them as for regions like Catalonia and Lombardy, which have long strained against the demands of a centralised Spanish and Italian state, being European and taking pride in local identity are complementary. Larger countries fear a loss of their special place, their distinct national image, through too close an identification with a Europe they cannot control.

But the most significant fault line today runs through countries, not between them. Whatever is distinctively European thought, taste, practices has always been restricted to a trans-national élite, united by the command of a common language, first Latin, later French, then English, and by a freedom of movement. It might surprise modern business executives, lecturers and politicians travelling from one European capital to another how much they have in common with the traders, theologians and emissaries who traversed the same routes centuries ago. Such cosmopolitan Europeans have always had more in common with one another than with their monolingual, less well-educated national compatriots. For this other Europe of farmers, workers and service employees, Europe is an abstraction. Thanks to television today even the poorest European citizens aspire to a

certain common culture, but this is a universal, interchangeable, popular culture, not distinctly European, rather American. At a deeper level the less educated citizens of European states remain confined within narrow boundaries. Their concerns are local or national rather than continental and they are accordingly more susceptible to populist and nationalist appeals.

### **3. The Development of European Economic Integration**

#### **3.1. Building a European Economic Community<sup>2</sup>**

The idea of pooling economic interests to overcome common problems was not a new one after 1945. The “United States of Europe” had been proposed in 1848 by the French newspaper *Le Moniteur* and there were various proposals made for an economic federation along Swiss cantonal lines. Another popular theme of the 19<sup>th</sup> century were customs unions, for example, proposals to extend the German Customs Union, established in 1834, to include the Netherlands, Belgium, Denmark and even the Habsburg Empire, which failed. After the First World War the break-up of empires resulted in a disruption of production units and trade patterns, which made the need for cartels and trading pacts even more urgent. Wide-spread anti-Americanism and the fear of US competition continued to favour intra-European trade agreements, which were mostly bi-lateral, not multi-lateral as before 1918. One exception was the International Steel Cartel, founded in 1926, covering Germany, France, Belgium, Luxemburg and the Saarland, which was still separated from Germany under the terms of the Versailles Treaty. It was joined by Czechoslovakia, Austria and Hungary a year later, but renounced by German producers in 1929 and altogether abandoned two years later at the height of depression. Other similar efforts to boost the European economy in the interwar years was the Oslo Group of 1930, covering Scandinavia and the Benelux countries or the Fascist Rome Protocol of 1934 comprising Italy, Hungary and Austria. None of these attempts succeeded in preventing the collapse of trade in Europe. In 1938 Germany and France were still negotiating a trading agreement under which France would import more German chemical and engineering output in return for an increased German import of French agricultural produce. It was never to be ratified.

Diplomatic efforts accompanied these unsuccessful attempts at economic partnership. The German Gustav Stresemann argued in 1920 for an end to customs barriers and the creation of a Eurocurrency because he was of the opinion that Germany’s own interests were best served by putting them into a broader European context. The Frenchman Aristide Briand developed plans for a “United Europe” in 1929. There were several precedents of a strife for a European unity to revive the economically depressed continent, from the Young Neutralists to the Pacifists and the Fascists, who spoke of a “renewed and re-juvenated Europe”, united around their common set of goals. The Nazi Albert Speer’s plans for a “New European Order” towards the end of World War II, rejecting the old liberal, democratic and divided pre-war Europe and propagating a German-dominated National Socialist union, led to the fact that the terminology of a “United Europe” was polluted immediately after World War II.

The creators of post-war European integration were driven by most conventional motives, realistic, national and traditional. They had grown up in a world of nation states and alliances. In 1945 the prospects of building any kind of European unity looked especially bleak. It is a mistake to believe that Europe was built by idealists because the idealists that existed had no discernable real-world impact. The British Prime Minister Winston Churchill and the Foreign Secretary Anthony Eden propagated a vague idea of a unified continent, but limited the idea of a “Council of Europe” to a meeting place and talking shop of Europe’s leaders. The goals of most spokesmen for a united Europe were domestic. European statesmen were striving for reconstruction and reform in their home countries. Until the 1950s it was uncommon to find politicians or even intellectuals talking about a unified Europe. In fact, it was neither idealism that drove Europeans together, nor historical destiny, but economic need. After the Second World War it had become obvious that the Western European states had to cooperate economically to overcome post-war exhaustion. Those forms of economic cooperation, such as the Organisation of European Economic Cooperation (OEEC) or the European Payments Union (EPU), had no idealistic content and carried no implication of future European unity.

The time immediately after the end of World War II was dominated by the historical “French- German dilemma” and was not fundamentally different from 1918. The French had to resolve again their “German problem”, namely how best to hold German power down to an unthreatening level while keeping it productive enough to ensure a sufficient flow of vital raw materials to restart the French industry. At that time France was uniquely dependent on German resources, especially coal. In order to fire its own steel plants France needed coal from the Ruhr and ironically, the return of Alsace-Lorraine after 1919 had increased this dependence, as it doubled French steel-making capacity without adding significantly to its coal supplies. So France’s strategy was an urgent exploitation of German resources and at the same time a reduction of German political and military power to the minimum. It would have been a replay of the unsuccessful strategy that led in 1923 to the French occupation of the Ruhr. But this French policy was incompatible with the British and American policies which wanted to revive the Western German economy. They planned to boost the West German economy, firstly, for the sake of European economic recovery and secondly, to relieve the British of the cost of feeding and housing the people in their zone of occupation. Finally, especially the Americans wanted an economically strong Germany as a partner against the Soviet Union, at a time when tensions were already rising and the onset of the Cold War was imminent. The US military commander in Berlin, General Lucius Clay was about to accord to Western Germany a certain degree of autonomy to help the economy recover. The French leaders tried to work around this British-American strategy by allying with the Soviets, a replay of traditional French diplomacy of associating with a strong partner east of Germany. Initially, the Soviets had no objection to the French exploiting German resources, when they themselves were dismantling German assets in their zones of occupation and exploiting German raw materials to the full, especially as it antagonised British and American interests. But with the onset of the Cold War the Soviets had no use for French diplomatic manoeuvring and rejected the French plans. So France had to adopt a third strategy, namely accepting the need of a revival of the Western German economy and a unified Western German state while hedging it around with international alliances and economic agreements and by that ensuring the



French access to German resources.

Vital for the Jean Monet Plan was the French industrial reconstruction that depended on the availability and affordability of German raw materials. Yet the original plan was too limited, reproducing the trade-restricting tariff agreements of the interwar years and negotiations failed. That's where the plan of the French Foreign Minister, Robert Schuman, for a six-nation community to share and regulate the production and consumption of coal and steel under an autonomous international authority came in. This proposal took the imaginative leap from the Monet Plan to a new concept of accepting the participation of Western Germany and the absence of Great Britain. In 1950 the European Coal and Steel Community (ECSC), the kernel of the European Union, was the second best solution. The British thought they could still stay outside a European cooperation, secure in their political and economic links with the Commonwealth. They lacked the wartime experience of occupation that led other European countries to accept an economic cooperation that included Western Germany in return for a peaceful economic development and a national revival. For decades the British thought they could go on as before the two World Wars, which was a grave misconception and resulted in smaller growth rates compared to other European countries in the 1950s and 60s. The French accepted a European solution to their German dilemma only after their preferred strategies had failed. Nevertheless they were successful beyond their expectations in "Europeanising" their historical problem by incorporating Western Germany into an originally French-dominated community. France was given the chance to take initiative and the absence of Britain was felt as a kind of "sweet revenge" after decades of diplomatic humiliation by the British.

Western Germany, of course, would have preferred a broader economic union, just like all the other partners except France, but they agreed to the ECSC on French terms as a first step back into the international community of states and to gain French support for their primary goal of increased sovereignty. The Netherlands and Belgium feared a US retreat from Europe and a repetition of American isolationism of the interwar years. So they attempted to keep at least Britain engaged in continental Europe but failed. They agreed to a much reduced community because they needed to see the German economy restored in order to revive and modernise their own industries and to be able to sell to a growing German market. In that way Germany constituted a counterweight to the French economic domination in that area.

The result of this political process was an emerging European unity that was in certain aspects an accidental construction and still unpredictable in form, content and membership. In those days no one was talking about giving up sovereignty or a political union. The ECSC, signed in 1951, did not yet signify a peaceful and economically strong Europe; it was rather a kind of "peace treaty" between Germany and France by institutionalising their important mutual economic dependence. Once the European Recovery Programme, better known as the Marshall Plan, phased out in 1952, the limits of the Schuman Plan became evident, but France blocked any attempt at further European integration, such as the "Green Pool", proposed by the Netherlands to coordinate agricultural output or the "European Defence Force". The economic boom of the Miracle Years raised the need to stabilise

trade in more than just coal and steel, so initiative was recovered in 1955 at a meeting in Messina, Sicily. The high rates of economic expansion forced upon Europe some sort of regulation. So the 1957 Treaty of Rome agreement to establish a Common Market, The European Economic Community (EEC), was the result of new economic developments the six members had to channel and contain, just like its predecessor, the ECSC. They had to develop new devices to tackle occurring economic problems, such as agricultural production.

The Common Agricultural Policy (CAP) constituted and still constitutes a gross misapplication of resources. For a long time it has been the most expensive European economic policy by keeping European agricultural target prices above world level while guaranteeing to buy surpluses at predetermined rates. In the 1970s it took up 70 per cent of the EEC budget. Why then had the other five members given in to French pressure in 1957 to implement CAP?

Firstly, one answer to this question is historical. Since the late 19<sup>th</sup> century Europe had suffered from rural overpopulation despite urbanisation and emigration. The majority of peasants barely scraped by and after World War I the situation worsened, when the prices for agricultural products decreased rapidly. The democratic governments of the interwar years could not do anything to raise agricultural prices because higher food prices would have worsened the situation of the urban population that was already suffering from deprivation and unemployment. Furthermore no investments were made in agricultural support programmes due to strict laissez-faire economic policies. The high rates of urban unemployment excluded any alternative occupation of the peasants in the cities. Authoritarian regimes, on the contrary, imposed policies to ensure agricultural autarky. So a desperate peasantry turned to fascist and populist parties everywhere in the interwar years. The fact that Europe's depressed farmers had proved so susceptible to the Fascist appeal turned out to be a major element in the willingness to agree to CAP in order to win the European farmers over to democracy.

Secondly, in the 1950s farmers were still a significant presence in Europe; in France they constituted 30 per cent of the labour force and in Italy even 43 per cent. Thirdly, immediately after the Second World War, Europe suffered a chronic food shortage, and there was an urgent need to produce as much as possible to reduce imports from the dollar zone to save precious foreign currency. Consequently, farmers were encouraged to produce as much as possible as fast as possible with the help of wartime aid measures, which were kept in place. Reforms were passed in France and Italy to confirm and improve the rights of tenant farmers and farm labourers in the hope to convince them of the benefits of democratic policies. But once the immediate post-war agricultural production crisis had been overcome the Europeans had to cope with a new situation, namely how to keep food prices high for the farmers and at the same time at a reasonable level for the consumers. With the economic boom in industrial production and trade of the Miracle Years the welfare gap between urban and rural workers had started to widen again. At that time the supply of food was already growing fast despite a rapid and continuous fall in the labour force engaged in agriculture.

The result of trying to tackle these problems was CAP. The French government only accepted trans-national aspects of the EEC in exchange for a protection of their agriculture from competition,

especially from Denmark, and the Netherlands went along with France. For Western Germany CAP represented an economic advantage in the south only, but for Western Germany it was the price that had to be paid for an expanding trading community. Only in return for CAP would France adopt common commercial policies and an “ever closer union”, as mentioned in the Preamble of the Treaty of Rome. In effect, CAP never benefited a majority of peasants, even in France because it was and still is mostly advantageous for big grain and dairy producers and offers much less to small farmers of olives, wine, fruit and vegetables. The true function of CAP therefore is political and not economic. While farmers have become decreasingly relevant in electoral terms, constituting below ten per cent in Western Europe, and because the traditional rural society has been swiftly melting away, a compensatory myth of its cultural centrality, not only in France, grew and a powerful belief has spread that rural communities and rural culture have to be preserved and protected. This guaranteed the survival of a very costly European agricultural protection programme until today, in utter contrast to the general drive of European economic policies and out of all proportion to the size of the European constituency.

In this way CAP illustrates the whole enterprise of European integration. It has always been an outcome of separate electoral concerns, economic interests and national political cultures, it was made necessary by economic and political circumstances and it was made possible by the prosperity of the economic Miracle Years. The achievement of this integration process was an astonishing and fast economic recovery and the resulting wealth and prosperity of Western Europe. By avoiding the disasters of two World Wars and the Great Depression its success is singular in European history as a peace project and an economic programme. Three aspects rendered this success possible: First, the impact of the war itself. Europe with the exception of Britain had become defeatist and wary of any commitment to war. Past emphasis on national and military achievements seemed inappropriate and the attention was turned to social and economic affairs. Second, the Cold War: It forced Europe into a greater measure of unity and collaboration while sparing Europeans high military expenses, which were taken over by the Americans. A re-armament after the war would have been economically and politically disastrous. Finally, the disastrous economic history of the inter-war years led to a drastic change in social and economic policies along Keynesian lines, which resulted in a long and unprecedented era of relative social peace and economic and political stability. For the economic take-off mainly three factors were responsible, namely first, the American aid and the willingness of the American administration to spend it on a programme for European economic recovery, second, the acute labour shortage until the 1960s that provided labour for the people from the economically depressed areas of Western Europe and then for cheap foreign workers and third, coal. Without the vital interest that coal had played and was expected to play in the future, the Western European states might not have had a shared interest in an economic community. For the six founding members coal and steel was a domestic problem that drove European integration forward.

But more than US dollars, docile and cheap labour and coal, it was luck that contributed to the unification process. Five of the six founding members were among Europe's potentially wealthiest and economically most efficient states, the community could wait until 1973 to incorporate three more

members, two of which wealthy again, Britain and Denmark and before 1989 the community never had to worry about absorbing the really poor nations in Eastern Europe. All this made this European trade partnership different from all the previous attempts, and on top of that its expansionist future intentions. From the beginning the community claimed that its interests would be best served by extending to others their rules and benefits.

### **3.2. Problems of European Integration<sup>3</sup>**

As we have seen in chapter 3.1., the movement that has actually produced the existing European Union was not based on strength and potential, but on the exact opposite, weakness. After World War II the need to avoid suicidal wars of mutual destruction became evident, at least to Western German and French governments, and coordination between those two states formed and still forms the cornerstone of Brussels politics. Weakened as single states, former “great powers” could now count only as part of a coordinated Europe. Britain, which after 1945 still hoped to maintain itself as a global power and global empire, finally abandoned this hope after the collapse of its empire.

Four problems derive from this origin of the European Union:

First, this pragmatic development of the community would probably not have taken place but for the Cold War, the combination of fear of one superpower and strong pressures from the other, notably the pressure to integrate Western Germany into the anti-Soviet front. The community grew up as a part of the American anti-Soviet block, though formally outside the military system NATO. With the end of the Cold War and the collapse of the Soviet Union it lost the stability of bipolar confrontation and was faced with problems it was not prepared for as part of the American alliance. The two most obvious were and still are, how and how far to extend the EU to formerly communist European countries and how to acquire a common foreign and military policy after emerging from under the umbrella of US Cold War policy.

The second problem derives from the nature of the construction of the EU, developed from the European Coal and Steel Community in 1951. Considering that electoral democracy was an essential qualification for membership, its absence from the institutions of the EC is striking. The EC was constructed from the top down, outside the scope of the democratic politics of its member states. The machinery of the EC made no real provision for an all-European democratic element, although it took over from the ECSC a consultative assembly, renamed the European Parliament in 1958. Some slow and reluctant concessions to the public rhetoric of democracy and the pressure of the European Parliament have been made, especially since 1979. It might be misleading to speak of a “democratic deficit” of the EU, as it was explicitly constructed on a non-electoral basis and few will seriously argue that it would have got where it is today and would have achieved what it has otherwise. It may be transformed into a directly elected democratic entity, but if it is, its character will be profoundly changed. However, one must add that for its first decades, the EU benefited enormously from the fact that neither voters nor politicians in the member states took much interest in its affairs, knew much about them, or – except special-interest groups like businessmen and farmers – saw them as of more

than marginal importance for themselves. Generally speaking, the citizens of member states regarded the community as concerned with technical matters like tariffs and as broadly beneficial, with relatively minor and manageable drawbacks. Since the Single European Act (SEA) of 1986, this has changed. "Europe" has become a major issue in the national politics of the member states and has sharply divided their politicians and electorates. Moreover, as the EU has moved closer to political integration since the mid-1980s, the feebleness of its democratic component has become increasingly evident and ideologically embarrassing.

Third, the EU was built by a marriage between, on the one hand, national governments that for one reason or another thought of a union as helpful to the interests of their nation states and, on the other hand, a pressure group of ideological missionaries who believed in and worked towards the building of a single federal or confederal Europe. In the SEA this conflict between the two concepts of Europe became evident. The conflict was highlighted as on some issues the SEA substituted majority voting for unanimity and by that, depriving member states of their automatic veto on community decisions. After the end of the economic Miracle Years it became clear that the European Economic Community could no longer rely on the socio-economic consensus that had underpinned it, the combination of market and welfare and the partnership of state, capital and organised labour. The rise of free-market neo-liberalism undermined the Community's cohesion as much as the collapse of communism. In ultra-liberal theory, even a large trading block like Europe arming itself against rival economic blocks, such as the USA and Japan, was an unacceptable interference with free enterprise in the global economy. The problem nowadays is that only the European Union and the economists and politicians responsible for the current EU economic policies seem to see it this way, while all the other economic blocks are already protecting their economic interests in very intricate ways. Politically, the Community was then under attack from two sides, from those who disliked its encroachment on the national state and from the champions of a single free-trading world economy against trading blocks. Unfortunately, the ideologists' project of building Europe based on a European identity had never had a real political constituency in the member states. Changes in the world economy now may require reinterpretations of the "4 freedoms" of the EU that are its basic principles: freedom of movement of goods, persons, services and capital, since the EU's function today is increasingly supposed to be that of strengthening and protecting the global economic competitiveness of a regional block against other economic blocks, as well as preventing the freedom of movement of persons from outside into Europe.

The fourth problem of integration poses the historical heterogeneity of the continent itself. The "European project" tried to minimise this problem by making common political and economic institutions a condition of membership and by avoiding too great a disparity between the economic and social levels of the members. That's why the application of Turkey has been postponed for so long and is still hotly discussed. With the accession of notably poorer and more backward economies like first Greece and Portugal and then Bulgaria and Romania, the scale of the problem was underlined. The solution was transferring income from richer to poorer areas through structural funds. Even if we suppose that the economies, political systems and living standards of Europe's countries and regions converge more rapidly within the EU, Europe remains heterogeneous and is and should be proud of it,

not just because of the many languages spoken within the EU. Almost one quarter of the administrative staff of the EU consists of translators and interpreters, making it the world's largest linguistic service. Though the EU exists to facilitate freedoms of movement within its borders, the surprisingly low rate of population shifts within it, compared to the USA, indicates the reality and importance of these cultural barriers, and the immobility of the European population.

Yet the decades of impressive evolution of the EU until the late 1980s took place out of sight of mass public opinion. Essentially, the considerable advances in European integration rested on two pillars then, the powers of the European Commission and the European Court of Justice. This period of comparatively unproblematic advance ended in the 1990s. The increasing politicisation of Europe has dramatically reduced the Commission's ability to pursue its objectives untroubled by member governments' politics, but few other effective initiators of policies has appeared so far. However, there is still room for the traditional Brussels-initiated process of "Europe-building" to continue in those areas that have not yet been politicised, at least until they are. For instance, the Union's redistributive function, especially its regional policy, has grown rapidly. A majority of countries have benefited by this redistribution, even in countries that paid more into the EU's budget than they received back, poor and backward regions benefited from EU subsidies. Also this development, which has introduced a special recognition of regions and a direct link between those regions and Brussels, bypassing their national governments, has political implications. These have already been recognised by separatist movements in for instance Spain, Britain and Italy.

The power of the European Court of Justice (ECJ) rests on the fact that member states have given EU law precedence over their national law and that there is no appeal to any superior court. Its judgements inevitably affect the constitutional law of the member states and imply a significant diminution of their sovereignty. The ECJ was originally set up to settle problems of the interpretation of the treaties establishing the EEC, but its importance has grown substantially. Most of its decisions take the form of a preliminary ruling on a case referred to it by a national court when a point of European law is at issue, with its ruling then being applied by the national court. Only the belief that the EEC was primarily concerned with technical rather than political matters, and the lack of massive public interest in its affairs, can explain why so major an abdication of national sovereignty was allowed to pass into the member states' legislation so easily and without public attention. Yet, once accepted, the supremacy of the European law cannot be ended. So at present and in the foreseeable future, the standardisation of national laws through the decisions of the ECJ constitutes the most powerful and permanent element in European integration. The judgements of the ECJ both shape, reflect and set the balance between European and national law.

#### **4. European Cultural Convergence<sup>4</sup>**

Despite the persistence of a strong and lively cultural diversity across Europe, a certain convergence of national and regional lifestyles can be seen throughout Western Europe since 1945. It is based on

the spread of a common staple of consumer goods and leisure activities and rising and converging living standards. The household expenditure on basic needs, such as food, housing and clothing steadily declined since 1945. After the Second World War this expenditure constituted half or even more than half of the average household budget; in France e.g. 65 per cent. By the 1990s the household expenditure on basic needs had fallen to an average of one quarter in most countries of Western Europe, while in the 21<sup>st</sup> century the share has been rising again, especially in less well-to-do households, as the welfare gap is significantly widening again. The reduction in basic expenditure allowed an increase in demand for consumer goods and services. Yet it is interesting to see that especially in the area of basic expenditure regional tastes and customs proved most resilient. In housing North Western Europe's pattern of smaller houses contrasted, with the exception of large blocks of council house flats in Britain, with tenement houses and high-rise apartment blocks in the Mediterranean region. This trend was reinforced by new building projects up till the 1980s. Traditional eating habits persisted as well. The most visible European trend was the diffusion of American style fast food since the 1960s and not any kind of European food tradition. In North Western Europe a spread of oriental food was triggered by immigrants who were prepared to toil in small, often take-away, restaurants for very low wages. Popular lifestyles in Europe were approaching American standards and in this, as in many other respects, an apparent "Europeanization" was more of a much broader "Americanisation" on a world scale. Just like several other idealist European goals, the European mass culture turned out to be something else, namely more of an American mass culture.

Since the last decade of the 20<sup>th</sup> century the cultural landscape, as well as the social and political one, has changed considerably in Europe. People change their domicile and country more easily, they have continuous access to information on a planetary scale, and they have formerly unknown powers of consumption. This transformation has occurred within one generation, whereby children were generally more educated, cultivated and prosperous than their parents. The main reason for this change in lifestyle was the enormous increase in educational standards, from literacy levels to secondary and university education. For the first time in history more or less the whole population of Europe was literate and a very high percentage had a university education, some European countries, such as Britain, are planning for half the youth population to go to university in the next decades, more than a third are already doing so.

Non-material belief systems, such as religious practices and regional folk customs, lost importance or disappeared altogether, but some have been revived for tourist purposes. The urbanisation process is one of the main reasons for this trend. Even in remote areas, old beliefs and practices waned or were converted into tourist attractions. The commercialisation of everything also reached European traditional culture and customs. Everything now had its price and was turned into a product that had to be attractively marketed. "Traditional Europe" was turned into a kind of television show for holiday makers. Tradition thus merged into the consumer society, backed by the mass media. Advertising was the most apparent means of directing behaviour across Europe, while the news and entertainment content of the media had an indirect impact, wrapped up in the commercials. The main linguistic medium of this convergence, also in Europe, was English. English achieved a growing importance

after the war as the main commercial language owing mainly to its use by the Americans. The emergence of the internet then further boosted the use of English as a means of communication in Europe. English culture also made a contribution, as its European character rendered it in some ways more acceptable to Europeans than American culture. But over the following decades the mass culture of Western Europe was increasingly converging, no matter in what language it was expressed. One example would be the television shows with exactly the same concept, content and setting that are produced in all the main languages of Europe for the national audiences.

There has always been a tendency for elites from each European nation to share a world or global culture. But today we are faced with something quite new: a process of getting cultures to conform on a planetary scale, the global spread of mass popular culture. 90 per cent of films seen in the world, with the exception of India and Japan, are American productions. The same is true for music, the MTV generation listens to the same music world-wide and famous football teams only employ a handful of native players. Technological inventions, especially in the field of communications technology and the economic aspect of the global market have enhanced this global mass culture. There is however a difference between traditional 19<sup>th</sup> century high culture and modern mass culture. Traditional high culture spread via a European cultural model that has been adopted globally and was globalised in this way. A classical concert programme in Osaka, Chicago and Johannesburg presents the same kind of repertoire, i.e. European classical music. This is not true to the same degree of literature because of a very powerful limitation on globalisation, namely, language difference. Even literary classics and bestsellers have never been globalised in the way music and the visual arts are. In popular culture, on the other hand, we are faced with widespread syncretism at the beginning of the 21<sup>st</sup> century. The most obvious example is popular music and its assimilation of various elements, such as Afro-American, African, Latin American and white country and western elements. A combination of all different musical traditions is travelling around the world. Global popular culture is the product of the readiness to mix different elements coming from different parts of the world. High culture does not share this propelling force to the same degree yet. Popular culture is shared by everyone somehow, including those who are familiar with high culture, but the opposite is not true.

Yet in spite of the spread of mass global culture, there is clearly resistance and even a revival of local, regional and national cultures in Europe. The Welsh discover Welsh, the Bretons Breton, Pakistani girls in London dress traditionally. It seems that globalisation itself cultivates diversity and cultural differences as market opportunities which, although directed at niche markets, are profitable nevertheless. Furthermore multilingualism, by definition, is an obstacle to globalisation. The idea that one day all Europeans will speak English only and all other European languages will become extinct is utopian. One aspect must not be confused: globalisation, which is a real and wide-spread phenomenon, is quite different from cosmopolitanism, which is still extremely limited. Obviously, the clashes between dependence on tradition and individual autonomy on the one hand and between fundamentalism and cosmopolitanism on the other hand characterise the present globalisation process. The foundations of European societies and societies world-wide have been disrupted by the economic, social and cultural revolutions of the late 20<sup>th</sup> century. Anything like this break with



traditional lifestyles, anything that upsets tradition has some effect on fundamentalism, and globalisation is obviously one of these triggers. Many of the traditional bonds that tied an individual to his/her reality have been weakened, such as loyalty to the family, village, neighbourhood and company; insecurities in bondage, relationships, in employment have increased. With the erosion of traditional societies, religions and beliefs and the snapping of links between generations, the values of the absolute a-social individualism have been dominating Western European capitalist societies. The capitalist economy fosters a society of otherwise unconnected self-centred individuals pursuing only their own gratification. Yet, the triumph of material progress based on science and technology has triggered exactly the opposite, namely a rejection of these attitudes by a large part of the European public. Calls for the "community", the small regional unit have become louder. The problem very often is that many people see no other way to define identity except by defining outsiders, who are not in the group. The growing economic disparities and the dissolution of traditional social norms and values, leave many people bereft and at a loss and make them easy targets for anti-foreigner and anti-European populist appeals.

## **5. The Challenge of a Common European Social Policy<sup>5</sup>**

By the time of the treaty of Nice in 2001 the EU had acquired considerable responsibility in the social field concerning the issues of employment, industrial health, industrial social costs, labour mobility and the role of social spending in social affairs. A more integrated approach to social issues, combining employment, social protection and economic and budgetary policy might be envisaged. In the early years of the Union, broader issues of social welfare were of little relevance, but the EU's social competences have grown since. There are several reasons for this. First, social affairs form a large component of national policy and have to be fitted into the European framework in the course of the integration process because more problems have a trans-national element nowadays. Second, Union policies have been reaching more into detailed areas of life over the years, such as equal opportunities policy. Especially during the 1980s the Commission, backed by the European Parliament, felt it was supposed to play an active and positive role in social affairs and stepped up the social momentum to strengthen the legitimacy of the Union. The Commission has often clashed with national governments, which still wish to claim credit with their citizens for their work to improve the conditions of life, notably over the "social dimension" of the single market. The argument from Brussels has always been that the Union has to come closer to its citizens, a view that encourages an ever more important social role. Social policy in the EU now covers several individual policies, and five Commissioners and their directorates have direct responsibilities for the items under the umbrella of social policies. Some provisions in treaties are clear-cut, but many are of a very general nature and do not require legislation but political programmes. That results in a wide variety of activities that demand a different degree of commitment from the member states. A consequence of this is the growing overlap of interest with that of national authorities which leads to cooperation, but also to conflict. National governments remain primarily in charge of education, health care, social security and

housing, which are overwhelmingly financed from national sources. Community interest is often marginal to the main body of work carried out nationally since the EU is primarily driven by economic objectives and the current emphasis on subsidiarity cements this division. In education for example the EU accepts that the member states are mainly responsible for fulfilling their educational needs, but stresses the European dimension by supporting language programmes, staff and student mobility and cooperation between different member states' educational institutions. Political and human rights have been covered extensively in several treaties.

The 1990s were years of relative stagnation in European social matters, but the year 2000 marked a new beginning. The new optimistic strategic aim for the next decade was to become the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion. This strategy should be implemented by improving the existing processes and by stepping up integration of social domains so far separated, such as employment and social protection, and of economic and social policies. The ultimate goal was to modernise the European social model by investing in people and combating social exclusion.

The table below shows the distribution of income or consumption in EU countries around 2000 in comparison with the United States, Russia and some other comparators. Most interesting is the Gini index, which is the Gini coefficient expressed as a percentage. This is a measure of inequality of income or wealth distribution. The lower the percentage, the more equal the wealth distribution in the country. The table shows that all 27 EU member states show a percentage far below the United States and Russia, which means that wealth is distributed much more equally in Europe. The European countries with the most equal distribution of income are Denmark (24.7), Sweden (25.0) and Finland (26.9) from the "old" EU countries, Slovakia (25.8), Hungary (26.9) and the Czech Republic (25.4) from the "new" EU countries, this of course on a lower per capita income level than the "old" EU countries. The countries with the biggest welfare gap in Europe are the Baltic States (between 35.8. and 37.7) in the "new" EU member states and Portugal (38.5), Italy (36.0) and Great Britain (36.0) in the "old". In Europe Austria (29.1) lies somewhere in the middle. These European figures have to be compared with Russia (39.9) and the USA (40.8).

|                       | Percentage share of income or consumption |            |            |            |            |           |            |             |             |
|-----------------------|---|------------|------------|------------|------------|-----------|------------|-------------|-------------|
|                       | Survey year <sup>a</sup>                  | Gini index | Lowest 10% | Lowest 20% | Second 20% | Third 20% | Fourth 20% | Highest 20% | Highest 10% |
| <b>EU countries</b>   |   |            |            |            |            |           |            |             |             |
| Austria               | 2000                                      | 29.1       | 3.3        | 8.6        | 13.3       | 17.4      | 22.9       | 37.8        | 23.0        |
| Belgium               | 2000                                      | 33.0       | 3.4        | 8.5        | 13.0       | 16.3      | 20.8       | 41.4        | 28.1        |
| Bulgaria              | 2003                                      | 29.2       | 3.4        | 8.7        | 13.7       | 17.2      | 22.1       | 38.3        | 23.9        |
| Cyprus                | na  | na         | na         | na         | na         | na        | na         | na          | na          |
| Czech Republic        | 1996                                      | 25.4       | 4.3        | 10.3       | 14.5       | 17.7      | 21.7       | 35.9        | 22.4        |
| Denmark               | 1997                                      | 24.7       | 2.6        | 8.3        | 14.7       | 18.2      | 22.9       | 35.8        | 21.3        |
| Estonia               | 2003                                      | 35.8       | 2.5        | 6.7        | 11.8       | 16.3      | 22.4       | 42.8        | 27.6        |
| Finland               | 2000                                      | 26.9       | 4.0        | 9.6        | 14.1       | 17.5      | 22.1       | 36.7        | 22.6        |
| France                | 1995                                      | 32.7       | 2.8        | 7.2        | 12.6       | 17.2      | 22.8       | 40.2        | 25.1        |
| Germany               | 2000                                      | 28.3       | 3.2        | 8.5        | 13.7       | 17.8      | 23.1       | 36.9        | 22.1        |
| Greece                | 2000                                      | 34.3       | 2.5        | 6.7        | 11.9       | 16.8      | 23.0       | 41.5        | 26.0        |
| Hungary               | 2002                                      | 26.9       | 4.0        | 9.5        | 13.9       | 17.6      | 22.4       | 36.5        | 22.2        |
| Ireland               | 2000                                      | 34.3       | 2.9        | 7.4        | 12.3       | 16.3      | 21.9       | 42.0        | 27.2        |
| Italy                 | 2000                                      | 36.0       | 2.3        | 6.5        | 12.0       | 16.8      | 22.8       | 42.0        | 26.8        |
| Latvia                | 2003                                      | 37.7       | 2.5        | 6.6        | 11.2       | 15.5      | 22.0       | 44.7        | 29.1        |
| Lithuania             | 2003                                      | 36.0       | 2.7        | 6.8        | 11.6       | 16.0      | 22.3       | 43.2        | 27.7        |
| Luxembourg            | na  | na         | na         | na         | na         | na        | na         | na          | na          |
| Malta                 | na  | na         | na         | na         | na         | na        | na         | na          | na          |
| Netherlands           | 1999                                      | 30.9       | 2.5        | 7.6        | 13.2       | 17.2      | 23.3       | 38.7        | 22.9        |
| Poland                | 2002                                      | 34.5       | 3.1        | 7.5        | 11.9       | 16.1      | 22.2       | 42.2        | 27.0        |
| Portugal              | 1997                                      | 38.5       | 2.0        | 5.8        | 11.0       | 15.5      | 21.9       | 45.9        | 29.8        |
| Romania               | 2003                                      | 31.0       | 3.3        | 8.1        | 12.9       | 17.1      | 22.7       | 39.2        | 24.4        |
| Slovakia              | 1996                                      | 25.8       | 3.1        | 8.8        | 14.9       | 18.7      | 22.8       | 34.8        | 20.9        |
| Slovenia              | 1998-9                                    | 28.4       | 3.6        | 9.1        | 14.2       | 18.1      | 22.9       | 35.7        | 21.4        |
| Spain                 | 2000                                      | 34.7       | 2.6        | 7.0        | 12.1       | 16.4      | 22.5       | 42.0        | 26.6        |
| Sweden                | 2000                                      | 25.0       | 3.6        | 9.1        | 14.0       | 17.6      | 22.7       | 36.6        | 22.2        |
| United Kingdom        | 1999                                      | 36.0       | 2.1        | 6.1        | 11.4       | 16.0      | 22.5       | 44.0        | 28.5        |
| <b>EU candidates</b>  |   |            |            |            |            |           |            |             |             |
| Croatia               | 2001                                      | 29.0       | 3.4        | 8.3        | 12.8       | 16.8      | 22.6       | 39.6        | 24.5        |
| Turkey                | 2003                                      | 43.6       | 2.0        | 5.3        | 9.7        | 14.2      | 21.0       | 49.7        | 34.1        |
| <b>EFTA countries</b> |   |            |            |            |            |           |            |             |             |
| Iceland               | na  | na         | na         | na         | na         | na        | na         | na          | na          |
| Norway                | na  | na         | na         | na         | na         | na        | na         | na          | na          |
| <b>Comparators</b>    |   |            |            |            |            |           |            |             |             |
| Switzerland           | 2000                                      | 33.7       | 2.9        | 7.6        | 12.2       | 16.3      | 22.6       | 41.3        | 25.9        |
| <b>Comparators</b>    |   |            |            |            |            |           |            |             |             |
| Canada                | 2000                                      | 32.6       | 2.6        | 7.2        | 12.7       | 17.2      | 23         | 39.9        | 24.8        |
| Japan                 | 1993                                      | 24.9       | 4.8        | 10.6       | 14.2       | 17.6      | 22.0       | 35.7        | 21.7        |
| Russian Federation    | 2002                                      | 39.9       | 2.4        | 6.1        | 10.5       | 14.9      | 21.8       | 46.6        | 30.6        |
| United States         | 2000                                      | 40.8       | 1.9        | 5.4        | 10.7       | 15.7      | 22.4       | 45.8        | 29.9        |

<sup>a</sup> Except for Estonia, Hungary, Latvia, Lithuania, Poland, all EU candidates and the Russian Federation, the figure refers to 'expenditure shares' by percentile of population, ranked by per capita 'expenditure'; for the rest 'income' in both cases.

**Figure 1: Income distribution.**

Source: El-Agra, Ali, ed., The European Union. Economics and Policies, CUP 2007, p. 103

### 5.1. Industrial Relations in the EU

The social dimension of the EU depends among other things on whether labour unions succeed in mounting solidaristic action in defence of Europe-wide labour standards and social policies. Without a strategy of internationalisation, national labour unions are caught in the downward spiral of desperately defending their declining domestic power base, and they are in danger of falling for

protectionism in defence against trends beyond their control. Since the 1980s the intensity of global economic competition, persistent high unemployment, the ascendancy of neo-liberalism, new forms of employment outside traditional contracts of employment, and new steps toward European integration have tended to undermine the effectiveness of organised labour at the national level. From a European perspective, globalisation refers to three interrelated processes, the rise of trans-national corporations, the partial loss of economic and political autonomy and of the sovereignty of national states and the global shift in economic power from Europe and North America to Pacific Asia and low-wage economies in general.

The rise of the trans-national corporations and the globalisation of the economy have changed the balance of power between firms, states, and unions. On top of that, labour's interests and objectives vary considerably across Europe due to substantial differences in the prosperity of Europe's national economies. Poorer countries tend to perceive Europe-wide labour standards as devices to protect richer countries against the transfer of investments and jobs towards the weaker economies. High labour standards thus draw only half-hearted support and are often undermined, especially when common social minimal standards are not backed up by a redistributive policy of the richer countries, paying more in order to enhance the productivity of the weaker economies and poorer regions.

The main economic rationale of European integration has always been to enhance factor mobility and efficiency rather than to promote redistribution and equity. Initially, it was assumed that increased economic interdependence would produce the convergence of economic factors. Yet, when no such tendency was observable, European politicians abandoned the harmonisation target in favour of the principles of "mutual recognition" of national producer standards, a qualified majority on EU deregulation measures, and subsidiarity in matters of social policy regulation. Despite the EU cohesion measures assisting weaker economic regions, the EU is not a redistributive welfare state guaranteeing social rights against the vagaries of the free market. Labour market institutions and social security arrangements in Europe still have a high national content, in spite of today's deregulated market forces and decades of European integration. The influence of unions over social and economic policies is typically confined within, and dependent upon, the national welfare states and, hence, different from one country to the next.

Barriers that stand in the way of trans-national union co-operation in Europe are first internal barriers. Europe is a continent not only of peoples with different histories and languages, but also persistently diverse industrial relations. European labour unity poses the same problem as political union: how to encompass and manage national diversity. The sources of union diversity are rooted in the national histories of labour movements in Europe. The particular form of party-union relations within the labour movements varies widely across countries. This "nationalisation" of organised labour has deep and lasting roots far beyond national interests, values and symbols. Since nationally distinct patterns of representation and collective action are strongly institutionalised, these are obstacles to a common European social policy. The current downward trend in unionisation, the financial crisis of labour movements, and the unions' dependence on state or party support do not make the problem easier.

As national labour unions come under pressure to spend their meagre resources on visible membership services, European-wide activities are hardly likely to receive priority. Across Europe, union movements maintain different linkages to the political system. In the past, union movements drew strength from their partisan linkages, especially when the allied party was holding government office. This partisan involvement has caused deep divisions within and large variations across European countries.

Cross-national diversity in industrial relations is also huge with respect to employer associations, collective bargaining, state regulation, and institutionalised forms of worker participation. Despite the expectations of convergence theory, different political, legal and cultural contexts bear heavily on industrial relations in each country. Moreover, the Brussels power play does not appeal equally to each national union movement; its appeal depends largely on national contingencies. Some union movements have reason to fear the loss of their “quasi-public” status at home; others hold so little status in the domestic public arena that they can only gain from going to Brussels.

When organised labour engages in EU lobbying, it encounters a complex set of supranational and intergovernmental institutions with restricted regulatory competencies, underdeveloped executive powers and a multiplicity of actors. Many of the most important industrial relations issues are explicitly excluded by the EU treaties from supranational policy making, including the main rules of the game for collective bargaining, strike action, and worker representation. European supranational institutions, however, constitute a number of points of access for lobbying, in particular the European Commission, the European Parliament (EP), the Economic and Social Committee (ECOSOC) and also regional committees. Yet the powerful and remote governmental committees; the European Council, the Council of Ministers, and COREPER (Comité des Représentants Permanents), composed of representatives from EU member states, elude labour unions and can be reached, if at all, only through national channels.

Yet the rulings of the European Court of Justice have tended to expand the scope of initially restricted social regulations under the EU treaties. The role of the EP has increased and now influences much more of EU legislation, but its powers are still limited compared to national parliaments. The Social Protocol requires the co-operation of the EP in several labour and social policy areas, but in these domains, the position of the Council of Ministers and hence national governments remain strong. Yet the extension of qualified majority voting and the signing of the Social Protocol should have improved the chances for a common social policy, but not much has been achieved for the European employees so far.

The Maastricht Treaty's Social Protocol includes a self-regulatory path, in accordance with the principle of subsidiarity and with the joint proposal that organised labour and capital signed in 1991. Yet the achievements of the self-regulatory path are limited, owing to the hesitation of the European employer organisations to co-operate. From national labour histories, it is clear that once party-union ties and electoral power helped labour to obtain citizenship rights and invite state intervention on its behalf, employers were compelled to combine in central organisations in order to counter these

efforts. Neither a EU welfare state nor a strong EP eager to integrate worker-citizens into a social Europe, are in sight. Therefore employers have not had much incentive to pursue the self-regulatory path. So even if European unions were well organised and overcame their differences, without some minimal co-operation of the European “would be” state and of European employers, it would be very difficult to conceive of any common European social policy.

What are the barriers to European social policy regulation? For once, the EU is far removed from the “stateness” of the national welfare states that hold strong regulatory powers in the social policy and labour domain. The pull factors that have promoted nationwide co-ordination and centralisation in the domestic industrial relations arena appear to be lacking at the European level. As a predominantly intergovernmental institution the EU lacks many of the competencies and means of even the weakest of the member states.

## **5.2. European Social Fund and Social Charter**

The European Social Fund ESF, which was already incorporated in the EC Treaty and has been revised several times since then, has a dual role. It has the task of improving employment opportunities for workers in the internal market by increasing their mobility and facilitating their adaptation to industrial changes, in particular through vocational training and retraining, and contributing thereby to raising the standard of living. But it is also intended to contribute to the strengthening of the economic and social cohesion within the EU. The European Social Charter was first drawn up in Turin 1961 and was revised and substantially extended in Strasbourg 1996. In the Convention for the Protection of Human Rights and Fundamental Freedoms, signed 1950 in Rome, the member states guarantee the fundamental civil and political rights and freedoms to their populations, whereas in the Social Charter the member states secure to their populations the basic social rights in order to improve their standard of living and their social well-being. Furthermore the Charter concentrates on securing employment rights and on providing protection for workers.

From the very beginning of the Common Market, the social and labour policy domain was of secondary concern. The Common Market’s social provisions mainly dealt with measures to improve labour mobility and avoid the distortions that different national health and safety standards might cause in product market competition. With the exception of equal rights and some employment protection measures, the debate on European social policy remained dormant until the new initiatives on the “social dimension” led to the signing of the non-binding European Social Charter in 1989, revised in 1996 and to the related EC action programmes. With few significant exceptions, the EU social and labour policies remain subject to unanimity and thus intergovernmental bargaining, with ample space for threat and use of national veto. Moreover, the EU must rely on the apparatus and instruments of the member states for legal enactment and implementation. The principle of subsidiarity that was introduced in the Maastricht Treaty is readily invoked to set further limits on supranational competencies and EU regulatory intervention.

### 5.3. Public Pensions and Health Care in the EU

Two areas of social policy, which are being hotly discussed in most countries of the EU at the moment, might call for some kind of common policy within the EU in the long run, but huge national divergences make such a co-operation very difficult and a consensus on a common strategy nearly unthinkable in the near future. These Europe-wide pressing social questions that urgently require reforms are the public health care system and the public pension system. A common policy in these sensitive welfare areas might be of interest for the employers, if the resulting systems are not too costly for them and more efficient than the different national ones, because a harmonised public pension and health care system would further enhance the mobility of the European workforce. But is such a Europe-wide harmonisation in the interest of the people in the EU? Those living in countries with very comprehensive welfare systems will definitely lose, while others might gain. It might further be a chance to get rid of a lot of red tape and inefficiencies in the national administrations, as for instance Austria with eight million inhabitants supports a system of dozens of regional and professional public social insurances.

The public health care system has become much too costly and unmanageable with a fast aging population and rising life expectancy in Europe, declining contributions and an ever more extensive and costly health service. What happens if no reforms are carried out in time and the public health system breaks down and is fully or partly privatised can be seen in some Central and Eastern European countries. There the life expectancy has declined since the breakdown of the public health system in 1989 because there is no appropriate affordable medical care for the elderly any more and there is no preventive healthcare, so that unhealthy life styles, especially among men, proliferate. But also within the EU the breakdown of a once most efficient and world-wide acclaimed public health service, namely that of Britain, can be observed. The NHS (National Health Service) has become much too costly and unwieldy and any attempt to reform it has come to nothing so far. As a consequence, Britain has been trying to recruit doctors from Southern Europe with an excess of medical doctors, such as Spain, Italy, Greece and from the countries of the 2004 EU enlargement for the NHS. Another initiative to combat deficiencies at home via EU cooperation is the transfer of patients waiting for operations to the continent. The NHS has already negotiated co-operations with French and German hospitals with free capacities. Operations there are much cheaper than in Britain even if the expenses of a person accompanying the patient are paid too. The drawback of this exchange is that not all patients can manage such a journey and that the free capacities in other EU states are not excessive. One further deficiency is the incompatibility of the different health care systems within the EU. There would be scope for integration and standardisation in the next years in this respect, so that in future moving across borders for medical treatment could become easier. The basis for the British initiative is the legal right of every EU citizen to get medical treatment in another EU country if his/her own country cannot provide appropriate treatment within reasonable time. At the moment, standardisation of medication is for instance lacking, so it is difficult for the doctor in Britain to continue the treatment prescribed by the hospital in Germany or France. Europe-wide standardisation of pharmaceuticals and medical examinations could be a first step of integrating European public

health care systems.

A far more challenging task would be a harmonised European pension system. Also in this area of social policy all EU countries are facing nearly insurmountable problems. The public pension systems are in crisis everywhere in Europe for three principle reasons. First, the aging population and second, the mandatory contribution imposed on participants, which is extremely high and third, the looming insolvency of the systems. The high imposed contribution rate, expressed in percentage of gross wages, is 18 per cent on average and in a few countries it even exceeds 20 per cent. The high contribution rate has negative effects on the economic system, impoverishing workers by reducing their take-home pay and encouraging contributory and fiscal evasion and the underground economy. The increase in labour cost tends to reduce Europe's international competitiveness. The wide gap in contributions within the EU can be explained by the largely diverse public pension systems in the EU, by the generosity of the promised pensions and the method of financing. The promise of generous public retirement benefits, measured by high replacement rates has long-term negative implications, as the institution should be financially self-sufficient, so a high replacement rate has to be covered by a high contribution. This is getting increasingly difficult with a drastically shrinking working population in Europe. As a consequence there has to be a trade-off between generosity and onerousness.

A great challenge for a common EU social policy would be a harmonisation of public pension systems within the EU with the final aim of a common system which is quite unimaginable today, given the wide differences in the national systems. Modigliani/Ceprini have suggested a mixed system that combines the advantages of the "Pay-as-you-earn" system (PAYE) and funding. Since most countries in the EU rely on the PAYE system and all face to some degree the danger of bankruptcy associated with this method, they all need to consider sooner or later an overhaul of the existing public pension systems. This would be a unique opportunity for undertaking co-ordinated reforms resulting in a common pension system for the entire EU. The portability of the fund would not only encourage mobility of labour, but a portfolio diversification of all marketable assets over a large cross-section of the euro-market would ensure a return that would be far more stable than those obtainable on a purely national level. It would also prevent disasters like Enron pensions, which caused a revision of the British fund system provided by the employers, where the assets were also too much concentrated on the own company. Not only would all European countries profit from economies of scale and international diversification, but also pooling diversified groups of participants would lower liability risk, a typical defect of PAYE systems. In addition, a common pension system could benefit significantly from the diversification of demographic as well as asset risk. Such changes would require a deep revision of present systems, which might be easier to carry out and justify politically on an EU level than on a national level. The blame could always be put on Brussels by national politicians. The currently high and very diverse replacement rates would have to be harmonised and for most countries reduced and the retirement age would have to be raised in most countries, as in Austria where it is unsustainably low, and last but not least the PAYE system would have to be supplemented with a funded component with all its stock market risks. Nevertheless, transition problems and the rejection of European voters of this kind of integration will imply that a common public pension system will not be feasible in the

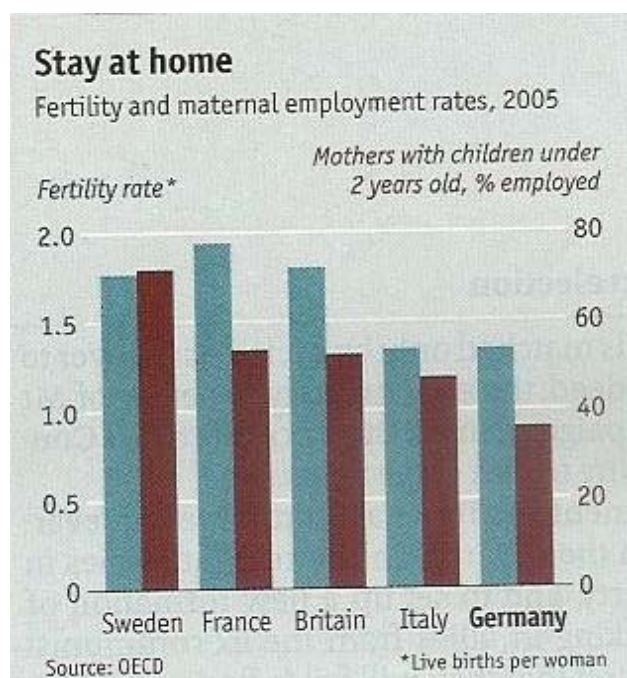


near future and the question might also be, is it really desirable?

#### 5.4. The Swedish Model. A Social Model for Europe?

Interestingly, it seems that once again Sweden has moved ahead of Europe in reforming its social system, so what seems to be the benefit of the new Swedish Model? There are still some universal benefits for families and children, but most other social payments, such as old age pensions are exclusively linked to earnings. In that way the Swedish Model covers all parts of the labour market. The Swedish social services are decentralised and delivered locally, also decision making on issues like health care and education has been decentralised, there is further regional financing of health care and public transport by regional taxation to a certain extent, the remainder is financed by the state and municipalities.

Parental insurance is available for a total of 480 days for every child. Furthermore every child has a right to a day care centre from the age of one on; it is the duty of the state to provide enough facilities. The fees are income-related, but the ceiling for one child is very low and it is even lower for the following children. Even night care centres are provided for parents who might need to work at night. As education and university training is of the highest priority in Sweden, schools and universities are free of charge and students receive maintenance loans to help them pay for their living costs. Those are some of the reasons why Sweden has one of the highest birth rates in Europe, together with other Scandinavian countries and Ireland. Women are encouraged to return to work soon on a part-time basis, while still receiving parental insurance. The labour market is much more flexible and child care facilities subsidised by the state abound. Statistics have shown the freer women are to make their own decisions, the more children they will have, as can be seen from Figure 2.



**Figure 2:** Fertility and maternal employment rates 2005  
Source: The Economist July 12<sup>th</sup> 2008

In the Swedish Model social rights are individual in every area, that's why there is no female pension linked to the earnings of the male breadwinner. It is the state's duty to provide services that make it possible for everyone to participate in the labour market. There is a strong emphasis on active labour market participation, which has resulted in low life-cycle poverty, reduced inequalities and a high female participation in the labour market. The "Rowntree Poverty Cycle", which says that poverty always hits the young and the old the most, has been broken in Sweden. The Swedish social reform works because it is based on the principle of consensus. If you need to change structures, you have to find an interest coalition and then combine it with political mobilisation. This strategy worked with the reform of the pension system, based on the "Matthew Principle": You have to give to the richer people their share, so that they are more generous to the poor. In that way you achieve redistribution by everyone paying into the same system. The pension reform has to be seen as a response to an aging society and to critique of the welfare state, which had lost cost-control and had no incentive structure.

In Sweden liberals and conservatives already abandoned the neo-liberalist tax-cut approach some time ago, so there is a better political consensus. Extensive public funding of higher education is a reason for the success of the Swedish Model and the Swedish potential for technological innovation. The combination of innovation and a functioning social system is the basis of this model. People living in well-functioning social states are much more open for innovation and new creative ideas. Innovation should also be seen as social innovation in Sweden. R&D spending in Sweden is 4 per cent of GDP and funding of technological innovation is 8 per cent of GDP in Sweden. But due to the model function of the state also private investment in R&D is very high, and that makes the true difference. A common pension system and a common education system for everyone have fostered a feeling of belonging to the same society in Sweden. It is a combination of reliance on collective institutions and individualism. People are willing to pay taxes if they get good services, if they can rely on subsidised services and old-age pensions. Then functioning private alternatives can be put on top of the state system, not the other way round. The Swedish pension system works in the way that every year you work longer, this will add to your actual old-age pension. But the focus is on the quality of the jobs. This has to be good, working hours are not the only issue that counts, the quality of the work you do and your satisfaction have priority.

What can be the relevance of the Swedish Model for Europe and the European Social Model? In future decentralisation of social services might be an important aspect for social policy in the EU. Brussels should be responsible for regulating the overall framework only, but the implementation should take place locally, not even on a state level necessarily, but on a regional level. In this way all services are closer to the citizens and the service providers are directly accountable to the local population. But as we are getting more and more integrated economically in Europe, we become more dependent on each other, also in social terms. The EU levels should be seen as a discussion forum on social aspects, such as the ministers of social affairs of the Nordic countries have been cooperating and exchanging ideas since the 1950s. Europe is facing common problems, the same demographic and social trends, such as rising income inequalities, problems of integration of immigrants, population decline, future fertility, future migration and future family patterns. You have to rethink social policy in

an aging society: As there is an increased pressure on public finances we have to devote more resources. Furthermore too little attention has been given to the productive future tax base. We have to invest in the young because they are the productive future tax base. We have to improve the social system by introducing incentives: having the necessary social services for people to become future taxpayers, enabling them to become employed. All over Europe women see many negative aspects when asked about having a child, while men see more positive aspects, which of course creates a dilemma that has to be solved. The European population believes that governments should improve links to the labour markets, offer child care facilities and allow flexible working hours; traditional social policy comes second in the opinion of Europeans. The President of the European Commission José Manuel Barroso defined the European Social Model in 2005 with a stress on “social inclusion and equality of opportunity”. The new dimension to be included should be “families and children”. A discussion on “basic social values” is urgently needed and pressure is to be put on EU politicians to focus more on the social dimensions of the European Union.

## **6. Does the EU Need a New Welfare Model?<sup>6</sup>**

What should not be forgotten when talking about the European welfare state is that there is an endogenous element in Europe’s social change today; globalisation is not necessarily the only cause of these changes. The great social challenges that have to be tackled and the reasons why the European welfare model might need to be reformed are the following four: first, the demographic aging of the society, second, the change of women’s roles in European society, third, a radical evolution of the concept of family and fourth, the demands of the knowledge economy.

At the moment approximately 10 per cent of Europe’s GDP on average is spent on pension payments. It is predicted that the rapid increase of the aging population in Europe will cause an extra 50 per cent spending on the elderly by the year 2040, which would mean that the young cohorts are very small and a huge demographic imbalance is about to occur. The 80+ group is forecast to double every 20 years and they do not just cause pension payments to rise, but they are the ones most in need of care. So in effect, life expectancy in Europe is improving dramatically and the working age population is shrinking. Due to the change of women’s roles, few women will take care of the elderly at home by 2040. Extended residential care facilities and home help services will devour an extra 5-6 per cent of Europe’s GDP on average already within the next few years. Privatising the social services will not solve the problem because the total social costs will not be any smaller if you put them on the market. The savings on schools and kindergartens will be insignificant and we would probably need four times the immigration levels of the 1990s in Europe to replace the workforce that is retiring. The method to share these huge costs might be a renewal of the Musgrave Principle, the generational contract in financing public pensions. The intergenerational solidarity principle results in the simple fact that one year more of work means one year less of pension payments. Early retirement in the past was due to bad health conditions, but nowadays health conditions are much better and still improving. The big

gap in skills between older and younger workers is also narrowing, so the seniority principle might have to be questioned, which makes older workers too expensive and raises pension payments if only the last working years are calculated for pensions. The problem is not one of intergenerational solidarity, but it is one of intra-generational inequity because there is no equality in death. European workers have a five year shorter life expectancy than professionals, which results in the fact that professionals receive the higher pension payments and live longer and this gap is widening continuously. Consequently, one proposed solution would be that pensions have to be based on life-time earnings and financing has to be more progressive because the pensions of the well-to-do are the most expensive. A further suggestion for a reform of the European model would be to extend the working life of high life-time earners, so that they would retire later than low life-time earners. Another model proposes a basic flat-rate pension for basic coverage for those most at risk, but a highly tax-subsidised private pensions system further increases inequalities in Europe, as these schemes traditionally cater for the wealthy part of the population.

Moving now to the changed role of women and the evolution of the family, it can be observed in Scandinavian countries that the disappearance of the family home care unit and the general and widespread public care for the elderly does not reduce intergenerational solidarity, on the contrary, contact to the elderly tends to be more frequent, intense and of a higher quality than when the elderly are cared for at home because it takes away the huge strain from the caring family member. Yet the best way to think about the elderly is to think about children because when you start out poor in life the chances are high that you will end up poor. Unfortunately young adults fare poorly on the labour market in many European countries today if they have children. European society is not more hedonistic today, young people still desire 2-3 children on average, but if child care and work is incompatible, the young family loses one income. There is a welfare gap in Europe and citizens do have difficulties to form families. That's why we have 1.4 children per woman in Austria and only 1.2 in Italy and Spain for instance. Spain and Greece were lagging far behind in Europe concerning female employment, but they are fast catching up and there is evidence of the enormous amount of wealth that is being created in GDP if women enter the labour market in growing numbers. What we need in Europe is a basic package of maternal and paternal leave, full-time child care for everyone at an affordable price from an early age on. At the moment child care costs swallow a large amount of a woman's wages in many European countries and this hits poorer women more if the costs are the same for everyone. Statistics have shown that the probability of having a child doubles when the woman has a permanent employment contract as compared to insecure employment conditions or unemployment. Another interesting trend is visible in Europe, namely that educated women make sure that the men they live with contribute more to home production before they have children. This helps men to change their life styles and sociologists speak of a "feminisation" of male life styles, while the radical change in the role of women leads to a "masculinisation" of female life styles. These are most dynamic elements of change in European society. Generally women are selecting their partners in different ways today from the past, when they used marriage as an upward mobility tool. Nowadays we can find much more marriage homogeneity and by that more social polarisation, e.g. two highly-skilled parents versus two unskilled parents. This enforces inequalities in the life chances of children.

The final reason for a need for reform is the fast spreading knowledge economy. Which children will lose out in tomorrow's knowledge economy is not due to genetic inferiority, but to institutional deficiencies in some European countries. The interesting aspect for analysis is how many children end up far below average at school because that shows an institutional deficiency. Here Britain is doing very badly and Finland and Sweden are rating on top. The rising income inequality in Europe prevents poor parents from investing in their children's education and that is a very alarming trend. A similar development can be identified in the relative performance of immigrant children, who usually do less well at school due to the economic situation of their parents and their lack of education. These gaps are unusually large in Germanic-speaking countries, such as Germany, Austria, the Netherlands and Belgium, whereas Britain is doing much better. European society has a stake that the life chances of all tomorrow's children are excellent because they will provide the pensions. As they are a small cohort Europe cannot afford to waste any chances. A child gets most stimuli at pre-school age and these are determined by money and cultural environment. The more money a family has, the more they can invest in the child. It reduces the child's future chances radically if the family is poor. US data show that child poverty results in two years less schooling. Poor parents take few risks and have the child quit school rather than help him /her to continue. So, one way to fight child poverty in Europe would be to make sure that all mothers have the chance to earn a proper salary. The second decisive stimulus at pre-school age is the learning culture in the family. This is not clearly visible to the policy maker, but has a tremendous effect on the performance of children at school later on. This learning culture includes indices such as books in the household or parents who read to their children. This is the reason why early childhood intervention programmes, such as the Children's Centres in the United Kingdom for disadvantaged children from age 0 on, are so successful and extraordinarily effective. That is the time when the foundation for learning in a knowledge economy is laid. If the first five years are wasted, this gap cannot be made up. The more you stimulate learning early on, the easier it is to learn later on.

The solution is universal affordable childcare in Europe with invariably high standards and an excellent preparation before the children start school. As both parents in full employment might have an adverse effect on the development of a very young child, there should be parental leave and part-time work opportunities provided for parents with children below the age of one, but after the age of one child care facilities can provide an adequate learning surrounding for all children, independent of their parents' income. Scandinavian countries introduced universal early childcare some time ago and that is one reason why they are doing much better at Pisa studies. There are very few children lost, few drop-outs, fewer dysfunctional children and the society is much more homogenous and can respond better to the knowledge economy challenge. Consequently, basic European standards along the lines mentioned above which are then implemented independently in the different regions according to the principle of subsidiarity might be a new social model for Europe.

## 7. The Challenge of a “Borderless World” for Europe<sup>7</sup>

The trans-national developments of the financial and communications revolution are in many fields Europe's own achievements and Europe is well positioned as a major beneficiary of the globalisation of finance, the media, industry and commerce provided worldwide financial instabilities do not occur. But two serious problems might arise in Europe from the creation of a borderless world. First, the unrestricted globalisation might create in Europe the social gulf that can already be observed in the US. An upper stratum of financial advisers, hedge fund managers, lawyers, engineers, consultants and analysts might emerge that caters to trans-national demand for their services. While the lower four fifths of society will be at the mercy of trans-national companies moving their production and services in and out of regions for the sake of comparative advantage. The social consequences might not be as severe as in the US if the EU took up the challenge and interfered. In comparison to the US, Europe has a deeper sense of company roots and a higher level social security network and more interventionist state traditions.

The second problem implies the question whether the emergence of a borderless world contradicts the EU's aim for economic as well as political unity. Those integrationists have been gaining ground, who lobby for maintaining and enhancing barriers between Europe and non-Europe because after all there was no sense in creating a unified Europe if virtually everyone else could enjoy its privileges. The larger implications of this concept are that far from dismantling national borders, the individual nation states are simply being folded into a larger economic unit. As the world economy will increasingly be dominated by large regional trading blocks, this development will leave the countries outside desperately begging for market access, which they would be unlikely to get. This would further reduce the employment prospects at home and drive more migrants to Europe in search for jobs.

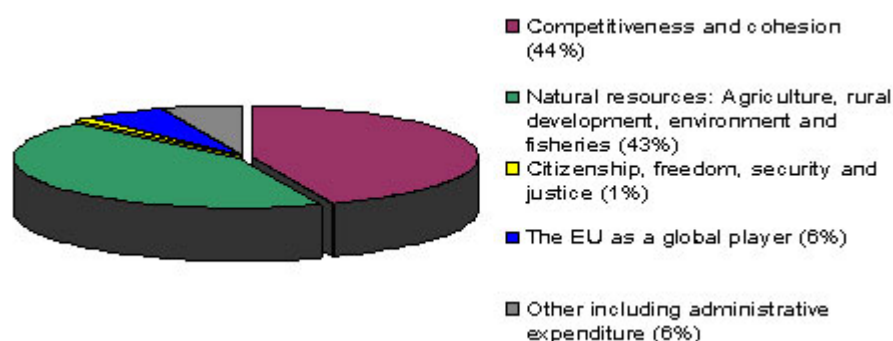
The contradiction between national purposes and trans-national changes exists in all countries, but is more obvious in the EU because the EU is heading for a closer integration when trends in technology and communication tend to loosen state controls, erode borders and question the concern about national identity. Nations in Europe are still of the highest political importance despite the fact that the potential of the nation state to interfere and regulate in a globalised economy is severely reduced. The concept of nations still determines how European societies think about themselves and about the relationships with others. Yet, a decline in traditional loyalties, structures and associations which have made nations the focal point of political and economic identity can be witnessed. There is a growing relocation of authority to, on the one hand, larger trans-national units in the economy and, on the other hand, smaller regional or ethnic units in politics and culture. The arising question is whether there will ever be a time when an organisation like the EU will appear legitimate in the eyes of its peoples in the same way as national governments were and how will such an organisation relate in a meaningful way to the needs of regional units such as Tuscany, South Wales or the Tyrol.

Since the end of the 20<sup>th</sup> century the world has been driven by two diverse currents. On the one hand a global drive towards greater worldwide integration of technology, communication and trade and on

the other hand a revived tendency towards ethnic separation, which was exacerbated by the collapse of a transcendent “creed”, namely communism and the rise of religious fundamentalism. Especially in times of economic pressure internal questioning of national borders that were superimposed, often from outside, upon very different ethnic groups, crops up. Europe has always had a critical historical role with respect to nation states. In the first half of the 20<sup>th</sup> century Europe offered dreadful examples of excessive nationalism and ethnic prejudice, after 1945 Europe was seeking to learn from mistakes and created a structure to enhance economic integration and reduce national differences. Since the fall of the Iron Curtain Europe has had to move forward again, integrating Central and Eastern European countries. The EU now has to seek to create a responsible and manageable entity, bridging the gap between deepening the union and widening its membership and on top of that, Europe cannot stand apart from the problems of the rest of the world.

## 8. The EU Budget: The Distribution of Funds<sup>8</sup>

The present financial framework that has been agreed upon for the years 2007 until 2013 comprises six headings. The EU funds are subdivided into the areas of, first, sustainable growth including competitiveness and cohesion for growth and employment; second, preservation and management of natural resources; third, citizenship, freedom, security and justice; fourth, the European Union as a global player; fifth, administration and sixth, compensations related to the latest enlargement of the EU. In the table below one can see that the two largest shares constitute heading one, competitiveness and cohesion with 44 per cent and heading two, natural resources with 43 per cent.



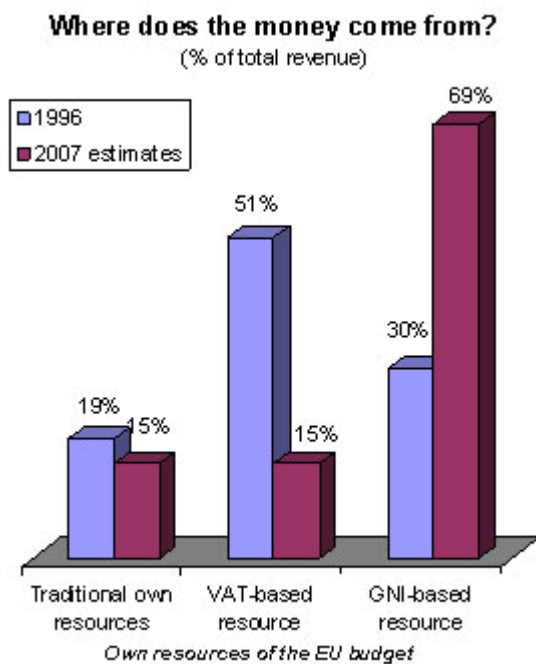
**Figure 3:** Distribution of EU budgets 2007-2013

Source: <http://ec.europa.eu/budget/>

In heading one, eight cents out of every euro of the EU’s annual budget are spent on economic growth and jobs and 36 cents on cohesion, assisting less advantaged regions to develop. In heading two 43 cents are assigned to agriculture, rural development, environment and sustainable fishing. In heading three 1 cent out of every euro is used to support the fight against terror, organised crime and illegal immigration and 1 cent to protect Europe’s cultural heritage, to support active participation in social

debates and to protect public health and consumer interests. In heading four 6 cents go into emergency aid and long-term assistance for prosperity, stability and security outside the EU and finally in heading five 6 cents are spent on running the EU, the administrative costs, including staff and building costs. So despite a widespread belief, the EU administration is quite cheap compared to national administrations. Furthermore the imbalance between the social and cultural and the economic aspect of the EU is highlighted by the budget distribution; 87 per cent of the annual budget is spent more or less exclusively on economic and agricultural issues.

Another interesting aspect for analysis is where the funds for the EU budget come from. In 2007 15 per cent or € 17.3 billion came from Traditional Own Resources (TOR), which consist of duties charged on imports from non-EU countries. The VAT-based resource accounts for 15 percent of total revenue or € 17.8 billion. It is the uniform percentage rate that is applied to every member state's harmonised VAT revenue. Finally 69 per cent or € 80 billion of total revenue is made up of the uniform percentage rate (0.73%) of General National Income of every member state. The total EU revenue for 2007 was € 116.4 billion; the funds committed were slightly higher due to the fact that long-term projects can be spread over several years.



**Figure 4:** EU budget funds

Source: <http://ec.europa.eu/budget/>

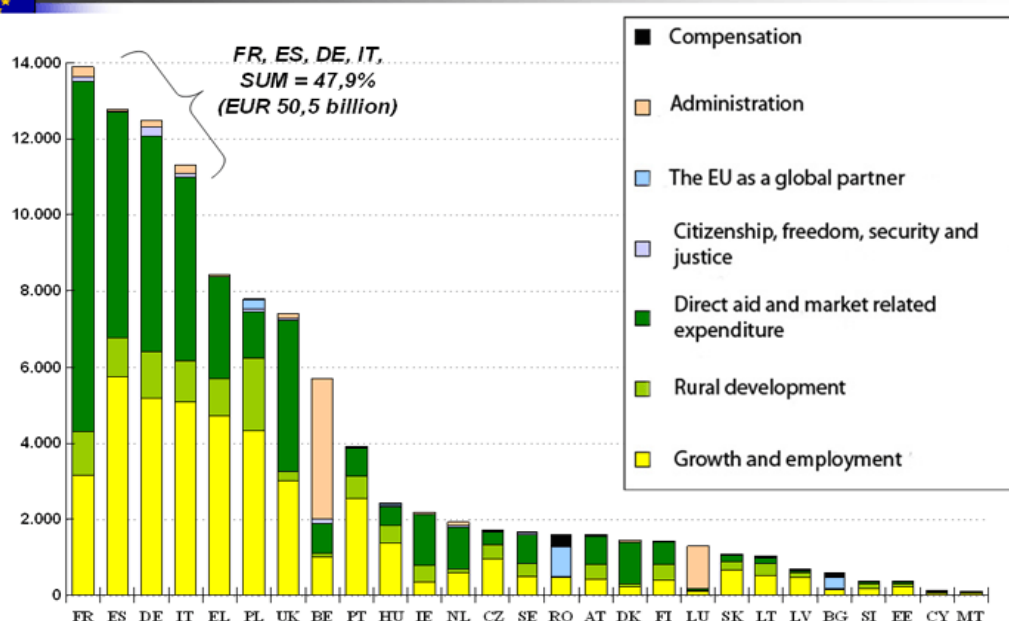
For this analysis it is further interesting to see which country received which amount of funds in 2007 and for what.





## Who got what in 2007? (EUR million)

Largest recipients remain the same



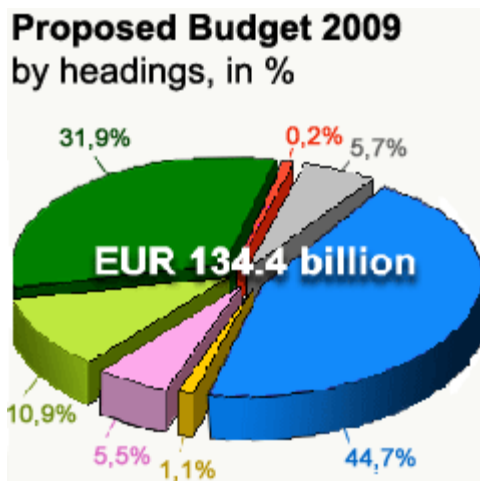
Note: the UK correction amounted to EUR 5,2 billion in 2007.

**Figure 5:** EU funds recipients 2007

Source: <http://ec.europa.eu/budget/>

In Figure 5 it can be seen that all member states with the exception of Belgium and Luxembourg, which for obvious reasons used up a large amount for administration, received most EU funds for agriculture, rural development and economic growth and employment. France, Spain, Germany and Italy were by far the biggest recipients in 2007; they together received €50.5 billion.

The projected EU annual budget's distribution for 2009 is within the framework agreed upon for the financial period 2007 to 2013. Cohesion and competitiveness for growth and employment account for 44.7 per cent; and direct aid and market related expenditure together with rural development, which basically refers to agriculture and environment, account for 42.8 per cent. 5.7 per cent will be spent on administration and 5.5 per cent on aid to non-EU countries and meagre 1.1 per cent on citizenship, freedom, security and justice. 0.2 per cent constitutes compensations for the two new member states, Bulgaria and Romania.



**Figure 6:** Proposed EU budget for 2009

Source: <http://ec.europa.eu/budget/>

## 9. The “Old” and the “New” Europe

### 9.1. The EU Enlargements 2004/2007 and their Impact on EU Integration<sup>9</sup>

The EU enjoyed a mystique founded on its claim to be a new and more perfect type of political order, capable of lasting European peace. The complexity of its laws and institutions helped, by blurring popular understanding of what the Union did. After the enlargement in 2004/07 nobody imagined that all 27 countries were heading for political union in the way once projected. The EU might now become an organisation with much less political and legal authority. This would be manageable for existing members, so long as the single market and the euro kept the economic integration intact. It would, on the other hand, be seen as a catastrophe by countries counting on accession. An end to enlargement, of which some in the EU now talk, might have negative political consequences in those areas. In the east the limits to Europe are most imprecise. The question of where to situate those limits has returned since the fall of the Iron Curtain. The enlargement of 2004/07 fixed the Union's eastern borders at the edges of the Baltic States, of Poland, Slovakia and Hungary. Now of 15 countries lying to the east and south east of those new borders, at least 10 more hope to become members, most of them within the next 10 years: Turkey, Croatia, Albania, Bosnia, Macedonia, Serbia & Montenegro, Ukraine, Moldavia, Georgia. At the back of these countries looms Russia. It has of course no desire to join the Union as an ordinary member, but it fears loss of influence in Eastern Europe, and it has long tried to construct a countervailing block of ex-Soviet countries, with itself at the centre.

The history of the EU can almost be written in terms of its struggle to find alternatives to membership, which it could offer to keep its neighbours happy but excluded. Yet again and again the EU agreed to an enlargement and made it work. This might encourage Turkey, Albania or Ukraine, none of which will be inside the Union for years yet, but none of which can be easily excluded for ever, or while the

EU lasts. The EU's latest non-membership strategy for nearby countries goes by the name of "European Neighbourhood Policy". Under this policy, the Union offers the countries of North Africa, the Mediterranean, the southern Caucasus and Eastern Europe graduated access to the single market, plus financial and technical aid, in exchange for reforms bringing them closer to the Union's political and economic models. These are presented as a substitute for membership, not as a precursor to it. Right now on French initiative a "Union for the Mediterranean" is being created to incorporate the southern and eastern Mediterranean countries. This is a follow-up of the Barcelona process, which was initiated in 1995. It is a small start, but again as often in EU development, there are important business interests behind the new scheme when the economies around the Mediterranean are taking on globalisation, at a time of a new openness to trade and foreign finance there. These countries still take less than 10 per cent of all Foreign Direct Investment (FDI) from the EU and might offer fair economic chances in future. Unfortunately there is no sign that the civil societies in the countries of the eastern and southern Mediterranean are strengthened by this cooperation, there is little mentioning of democracy, human rights and civil rights in the negotiations with the autocratic rulers there, which might constitute preconditions for financial assistance from the EU. Historically such an economic cooperation would remind of Imperial Rome, when across the southern Mediterranean up till northern Europe the same currency was used, Latin was the lingua franca and efficient transport routes connected the whole Mediterranean with northern and western Europe.

The idea that the Union is needed to stop its founding members from going to war with one another has long faded. Stripped of its early utopian rhetoric, the EU can be seen as the sum of its functions, several of them favourable. Many members want more flexibility in tackling economic problems, not to speak of social or cultural issues. So, conventional wisdom in Brussels has come round to the idea that not every country needs to take part in every Union project. This trend used to be called "Europe à la carte" and some believe this would lead to the break-up of the EU. In some ways the Union is indeed growing weaker. The supranational institutions are losing ground against nations and governments. But "Europe à la carte" may also mean a more accepted and more effective union, internally. What matters externally is that Europe's political and economic values should go on penetrating and changing the countries around. It may sound arrogant to talk of the Union as offering the only viable model for European states, but so far the alternatives are not encouraging. The Union has learned how to export stability and prosperity through enlargement. The issue today is whether or how to continue enlarging, how to persuade public opinion within the Union that stability and prosperity can be exported without importing instability and poverty in exchange. That is doubly difficult when currently public scepticism cuts so deep.

By culture and language, by history and landscape, the countries that joined the EU in 2004 offered more of a complement than a contrast to the existing membership. Slovakia, the Czech Republic, Hungary and Slovenia were recognisably still related to the Habsburg Empire, Poland and the Baltics were still related to the Hanseatic order. What was really divisive was the gap in real income. This gap widened with the accession of Romania and Bulgaria in 2007. This explains why the EU has lost so much of its enthusiasm for enlargement despite the relative success of the last rounds. EU citizens

have become worried about competition for jobs and investment from these countries. The EU is reluctant to add to that competition by promising to admit even more low-wage countries later. In contrast to that, low-wage countries next door could be seen more as a resource than a threat: they attract business that would otherwise go to low-wage countries on the other side of the globe.

The EU's newest members, though much poorer than France or Germany, are already a lot richer than they were immediately after communism's collapse. The EU led the way in Central Europe's rehabilitation, helped by America's USAID and other international agencies, giving or lending 18 billion dollars to Central Europe in the 1990s. Multinational companies bought or built operations there. They set new standards for wages, training, workplace safety and technology transfer. But this intervention brought deep change only because the Central Europeans really wanted to anchor their democracies and raise their long-term living standard, even at the cost of short-term disruption. The accession process gave politicians an alibi for unpopular reform. Voters wanted the orientation towards Western Europe, if not for themselves, then for their children. From the viewpoint of the Western European countries the transition in Central Europe has worked extremely well. By the end of the 1990s, the countries there had reached a level of political and institutional development that qualified them for membership, even though their incomes and wages were still a fraction of those in the older member states. Now their economies are continuing to grow at substantial rates.

The fear of workers flooding in from Central Europe has caused all but three countries in Western Europe to close their labour markets to the new members for up to seven years. In 2005 France and Germany blocked an EU law opening up national markets to services from anywhere in the Union, for fear that self-employed workers would arrive by this route. The new members have also upset the old with their taste for flat and often low rates of personal income tax and corporate tax, chosen mainly for ease of collection. Other payroll taxes and indirect taxes mean that the overall tax burden in the new member states is still similar to that in the old. Investors love the new members for their low wages, high productivity and simple taxes. If you build a factory there, you get EU market access at far less than average EU costs. Because of the above mentioned reasons it is often cheaper to produce goods in Poland than in China, and should the Ukraine be accepted as a candidate, the recent rate of foreign direct investment there could triple. It was not only EU market access that boosted investment in Central Europe since the 1990s, it was also the expectation that the rule of law and the quality of government would rise towards EU levels. Firms will build factories in difficult places if they have to, but they much prefer places where contracts can be enforced, property rights are secure, taxes are predictable, executives feel safe, and workers get basic social services from the state. Conditions like these help to mobilise domestic investment too.

If Ukraine and Turkey were brought inside the EU, they would create, together with Romania and Bulgaria, a low-wage industrial powerhouse in Europe's backyard, a zone of 150 million people able to compete even with China and India. This thought might frighten highly paid workers in Germany or France. But it might be better for all of Europe if new investment went to Eastern Europe and not to faraway China and Brazil. More investment and more growth in low-wage Europe will generate more

demand for goods and services from high-wage Europe. The EU countries with more to fear from further enlargement should be those in Central Europe which are the Union's lowest-cost producers now. Slovakia has had spectacular success in attracting foreign direct investment, especially from the car industry. Soon it will produce more cars per head of population than any other country in the world. But in five to ten years the country's competitive advantage in mass production will slowly, but permanently decline as Romania, Turkey and the Ukraine catch up. Politically it may be a good idea to accept that free movement of labour is incompatible with further EU enlargement. If Western Europe wants to block cheap labour, there is still capital mobility to compensate. If workers cannot come looking for jobs, the jobs will go looking for the workers. The Central European experience shows that the more assured countries can be of EU membership, the more foreign investment they will receive. Less investment might also mean fewer jobs at home, lower incomes, less trade and more pressure on the workers to find jobs elsewhere.

The further east you went in the first decade after the fall of communism, the more remote the EU became, and the easier it was for populists to capture power. In every post-communist country, the rejection and collapse of the old order forced at least some shaky first steps towards democracy and the market economy. But this progress soon faltered if predatory groups of rich and violent people could invade and capture government, rigging privatisations, stealing public money and blocking further reforms that might encourage more competition in business or in politics. This was the story of reform in much of the Balkans, and in much of the Commonwealth of Independent States (the ex-Soviet Union minus the Baltics). Often the new ruling groups defended themselves by claiming that conditions in the country were not suited to reforms along Western lines. The inverse of reform in post-communist countries was corruption. The term covers different forms of corruption, but the kind most harmful to a whole country is "state capture", whereby a group of political and business insiders bribes or bullies its way into control of a ministry or a government agency and then runs it for its private profit. State capture may establish a hidden political regime at odds with the constitutional purpose of state institutions. It undermines democracy as well as economic growth. This might be one reason why democracy and growth have gone hand in hand in most post-communist Eastern European countries. The prospect of EU accession has not only improved the economies of these countries, but has also contributed to a reshaping of the civil society, boosted the democratic process, stabilised the legal systems and opened the countries up to cultural exchange. Even social change was initiated on several levels through the cooperation with experts from EU countries, who have been assisting in establishing a social network modelled on Western institutions.

EU membership has boosted trade further, which surprised observers from the European Bank for Reconstruction and Development (EBRD), as they had thought that the free-trade arrangements agreed in previous years had already exhausted the potential. But it seems that quite a few people were willing to make necessary investments only when these countries were inside the EU. The wider effect of the EU on public administration is still unclear. It may have given bent bureaucrats more cause to worry about outside scrutiny. But others have found even more rules that they can use to extort money from hapless firms and individuals. Rent-seeking industries have grown for instance and

new high tobacco prices set by the EU have been a huge windfall to local smugglers. An even bigger difficulty is reforming the most complex bits of the public sector: health and education. Employers increasingly complain about labour shortages, especially skilled salespeople and production workers. Unfortunately the education system is not producing the right kind of workers. Indeed, it seems to be deteriorating. School scores, like health statistics, are worsening. These bits of the public sector are still rooted in the communist-era thinking: inefficient, old-fashioned, largely immune from competition. In countries that have reformed higher education, new educational offers have begun to make a difference. But schools sometimes still prize memorisation and regurgitation over critical thinking and creativity. That encourages cheating and corruption and is bad for long-term competitiveness. Yet, as we have seen in chapter 5, most Western European countries find reforming health and education very difficult, too. But the Eastern European countries need growth and better public services soon to stop their best people from emigrating and to end poverty. They must still improve their competitiveness if they are not to lose markets to rivals in Asia.

## **9.2. The Present State of European Integration & the State of European Nations<sup>10</sup>**

Despite the undeniable success of the latest enlargement rounds, the dissatisfaction of European citizens, especially of the “old” EU countries, has soared and the reasons for this backlash are manifold, the history of European nations, the political establishment, the speed and the size of the latest enlargements, the lack of communication and an excessive bureaucracy.

The phenomenon of different European “nations” cannot be denied and ignored today by anybody. The intellectuals who praised the “end of nationalism” at the end of the 20<sup>th</sup> century were totally mistaken. Nationalism is in all European countries – and the whole world – an important psychological factor among the populations. One just has to watch reactions before, during and after international football matches. These reactions are nationalistic. If you look at the disastrous period of National Socialist history in Germany and Austria, this part of German history is not only engrained in the German and the Austrian memory, but also in the historical memory of Czechs, Poles, the Dutch, Danes and the French. Those terrible incidents took place only half a century ago, and they will not be easily forgotten in those countries. We should not deny the important role that historical memory plays for the present.

The idea of the nation is the root of democracy, but it is also the reason for the worst outbreaks of atrocities and the source of the most vicious wars in history. Yet while we must continue to live with the nation, the nation need not give rise to nationalism. The nations in Europe have been developing over many generations, the different European languages over many hundreds of years; German and French over more than 1000 years, Italian over 2000 years. National cohesion has developed later, but language is usually connected to the nation with few exceptions such as Switzerland. Yet there are many problems that a nation alone cannot solve in Europe nowadays. One small nation alone cannot, first, preserve peace and second, achieve economic progress. Those were precisely the two main reasons for the foundation of the European Community: to preserve peace and to achieve economic competitiveness. The strength of the national idea in Europe might prevent the creation of a

“European nation” which was supposed to replace national identities. Italians, French people and Germans will remain Italians, French people and Germans first of all and Europeans next, which would already be an achievement.

It is the fault of politicians in all EU countries that the European integration has been hastened in the last ten years because the people in Europe were unprepared and it was an excessive demand on them; the politicians asked too much of them. That's why the voters in France and the Netherlands first and then in Ireland rejected the European constitution and the Lisbon contract. They protested against the neo-liberalist lobby that is driving EU integration forward solely to its own advantage and in its own interest. The people in the EU are afraid of losing their national identity, they are afraid of an enlargement process that is much too fast for them and they are annoyed with excessive EU bureaucracy. After a 1000-year long development of the nation and national histories in Europe you cannot expect to complete a European integration in a few decades.

Rushing European populations into an ever closer integration without respect for their centuries old individual social, economic and political traditions risks and conceals the undeniable success of the European Union: half a century of continued peaceful development and economic success in Europe, the longest period of peace ever in European history, which was characterised by war in the past. The European Union has achieved a union of European nations in a peaceful way and with the consent of all members, which is unique in history and an achievement that should not be put at risk. If you want to integrate you have to go slowly and you should not overburden the populations concerned. It seems as if this success has made the politicians reckless, they acted too quickly and thoughtlessly, without the appropriate concepts and the relevant information and preparation. Only 20 years after the foundation of the European Community in 1973 the first enlargement took place and it only comprised three countries, Great Britain, Ireland and Denmark, also in the next two rounds of enlargement only three countries acceded each time and in 2004 ten new members were incorporated. This enlargement was too big and too fast for the European population. A step towards further integration, towards an “ever closer union” might take another 50 years, but compared to the centuries long development of European nations this is a short time span.

Another serious problem is excessive bureaucracy. All EU member states are responsible for this negative development because they have agreed to this red tape. There are too many regulations which are totally unnecessary; there is no need for so many rules. This burdensome bureaucracy can only cause anger and frustration in the populations of Europe.

At the moment the usual drivers of European integration, France and Germany, are struggling economically and are troubled by internal problems, but initiatives could come from other countries as well. Despite its problems France should still have a special place in Europe and act as a leader because of its prestige in the world and its position in the UN Security Council. Britain does not really want to or cannot, because of the British voters, accept the role as leader. Traditionally Britain has always been reluctant in getting involved in the project Europe; they rather look across the Atlantic. New members such as Poland have fully emancipated themselves and want to play a bigger part in

the European concert of nations. In every century the European power balance changed several times decisively, also at the end of the 20<sup>th</sup> century with the disintegration of the Soviet Union, not through war, but through internal collapse and the protests in Poland and Hungary. Without this development the unification of Germany would not have been possible. So, one can predict that also in the 21<sup>st</sup> century the European power balance will change dramatically several times.

The end of the Cold War changed the situation in Europe radically as it meant the end to the fear of a 3<sup>rd</sup> World War and of Soviet atomic weapons. The Cold War had created clear and stable frontiers: on the one hand the democratic West, on the other hand the autocratic communist sphere, and somewhere far away the Third World. Now this has changed completely. Billions of Chinese, Indians, Vietnamese and other Asians are entering the global market. During the times of the Cold War, people under the communist sphere of influence had no real share in the global market. Globalisation has effected enormous changes in Europe because many European economies are export-oriented. The German economy for instance is far more globalised than the US economy. Germany exports half of its GDP, the US only 10 per cent. Europe has not realised early enough that globalisation would mean a competition for jobs in Europe. The Europeans thought that if they continued to produce the goods and services they had produced before at those high levels of quality they would be able to keep their expensive jobs. They did not foresee that e.g. China would be able to produce these goods and services at the same quality more cheaply in a short time. The only solution is to create new and innovative products and services that require a lot of research and a highly specialised workforce, which the emerging economies cannot produce yet and offer them on the global market. European unemployment and especially youth unemployment is one of the biggest problems that is not being tackled so far, because it is underestimated or ignored by politicians who slavishly follow the neo-liberalist market ideology. To conclude it can be said that socio-economic aspects will play a much bigger role in European integration in future whether European politicians and businessmen like it or not.

## **10. The Economic versus the Social Aspects in European States and in the European Union<sup>11</sup>**

After the end of World War II the European states were characterised by a dense network of social benefits and economic strategies, which guaranteed that the state served its citizens and not the citizens the state, as in the centuries before. From the 1970s on these all-encompassing ambitions of the Western European welfare state lost their appeal because the welfare state could no longer fulfil its promises. Unemployment, inflation, economic recessions and transformations on the international capital markets and in the field of electronic communication put constraints on the individual European states to meet the expectations of the citizens. But, most of all, the legitimacy of the interventionist state was undermined by the inflexibility, inefficiencies and waste of the public sector. In the peak years of the European welfare state a consensus was achieved across party lines that in many ways



the state would do a better job than the unrestricted free market, not just in judicial and security matters, but also in distributing goods and services and implementing strategies for social cohesion and cultural diversity. That these matters should be left to individual self-interest and the free market was seen as a remnant of pre-Keynesian times. Between 1950 and 1973 government spending rose in Great Britain from 34.2 to 41.5 per cent, in France from 27.6 to 38.8 per cent and in Western Germany from 30.4 to 42 per cent. Most of the increase in government spending went on insurance, pensions, health, education and housing. In Scandinavia alone the share of national income devoted to social security rose 250 per cent in Denmark and Sweden in this period of time. The success of post-war European capitalism was everywhere accompanied by an enhanced role of the public sector. Yet the nature of the state involvement varied considerably. Apart from public transport and communication direct ownership of industry was rare; the state preferred to exercise indirect control. The state tried to influence the smooth workings of commerce, politics and societies in many ways. It was responsible, directly or indirectly, for the employment and salaries of millions of citizens. The diminishing standing of public authorities did not immediately lead to a decline in the role of the state, especially in cultural matters. There was a broad consensus in Western Europe that only the state had the resources to service the cultural needs of the citizens. Across party lines it was seen as the responsibility of the state to not only provide housing, employment and public services, but also cultural nourishment. It was the time of European cultural subsidies.

With the new appeal of the neo-liberalist and monetarist economic policies of Milton Friedman and Friedrich von Hayek, Keynesianism was replaced first in the Great Britain of Margaret Thatcher and a great wave of privatisation and deregulation set in. The ideological zeal of the old champions of individualism was reinforced by the apparent impotence and failure of the conventional economic policies after 1973. The free marketers were on the offensive and came to dominate the politics of the 1980s. The neo-liberalists had little trouble attacking the rigidities, inefficiencies and economic wastages so often sheltering under government policies and there was considerable scope for applying the neo-liberal cleansing agent to the mixed economy with beneficial results. There were good grounds for some of the disillusionment with state-managed industries and public administration that became common then. As an economy Britain was after the Thatcher years a more efficient place, but as a society it suffered a meltdown with long-term negative consequences. One of Margaret Thatcher's reportedly famous quips was: "There is no such thing as society". By disdaining and dismantling all collectively-held resources, by insisting on an individualist ethic, serious harm was done to British public life. Citizens were transformed into shareholders or stakeholders and the public space became a market place. British people lost respect for socially defined state functions and uncritically emulated the "American model". Services that remained in public hands were starved of resources, while significant wealth was accumulated in the deregulated sectors of the economy, such as the City of London. The mere belief that business was good and government was bad - building on US President Ronald Reagan's attitude that "government was not the solution, but the problem" - did not constitute an alternative economic policy. In any case, most neo-liberal governments were obliged to manage and steer their economies while claiming they were only encouraging market forces. Regimes most deeply committed to laissez-faire economics were often building up gigantic budget

deficits, as Reagan in 1979 till 1982 with an armaments build-up and the deliberate management of the dollar, and they were sometimes profoundly nationalist and distrustful of the outside world, just as Margaret Thatcher. Tony Blair's successes rested on the Thatcher inheritance by dismantling the public sector and replacing it with "privatised" entrepreneurial Britain. A new consensus had been formed about the questionable role of the state and nowadays there is nearly no one who would defend its position in a civil society.

This model became a model for Europe and contributed to today's disdain of the role of the state in most parts of Europe. Mediterranean Europe as well as Eastern Europe would have been much slower to relinquish state controls, but for the impact of the European Community and later the European Union. Despite the regulations for a Single European Market that were in practice often circumvented, the privatisation fever of the 1980s and 1990s probably brought less change in continental Europe than its supporters promised and expected. In fact, the result was not more competition but a transfer of concentrated economic power from the public to the private sphere. In France for instance many large private firms acted like the old public companies and monopolised whole sectors thanks to complicated cross-shareholding arrangements. Ironically, privatisation and increased competition had little impact on the size of the state sector, even in Britain the scope of the state actually expanded, but most of the government employees were now in the service sector. Economic liberalisation did not end the welfare state in Europe, but there was a decisive shift in the allocation of resources and initiative from the public to the private sectors, and a Europe-wide disdain of state interference.

The urge to escape centralised rule and to relinquish responsibility for impoverished fellow citizens in distant provinces was widespread from the 1990s on, but Western Europe managed to retain the form of a conventional nation state, despite significant centrifugal forces. These politics of sub-national particularism in the larger states of Western Europe appear as the reversion of the centralisation efforts a century ago that merged historically very diverse regions into single large nations. This move against centralisation among European citizens might explain their fear of being dominated by an additional, even farther removed, central power, namely Brussels. EU citizens now not only tend to question the economic function of the state, but also the social and cultural function and the state as a provider of public services. This is for once the result of indoctrination by politicians and the media that have been influenced by the above-mentioned neo-liberalist economic policies and further the result of a deterioration of public services that have been starved of funds. In Scandinavia we can observe an opposite trend, where citizens trust in the provision of public services by their national state and are prepared to pay higher taxes for excellent public services. There private service providers in the field of health, education, pensions and public transport are practically unknown.

As we have seen the Union started out as a customs union and over the years its ambitions expanded into the fields of culture, law, government and politics. It had taken on some of the external characteristics of a conventional government. At the turn of the century the EU was still more or less run along the lines that had been set down at its foundation. Uncontentious decisions were made by

experts and civil servants. Policies likely to affect national electoral constituencies were negotiated in the Council of Ministers and produced complicated and costly compromises. What could not be agreed upon was left unsolved. This was a unique set of arrangements that bore no resemblance to the separate federal states of the US or the Swiss Confederation. The member states of the EU remained completely independent and separate units in a voluntary association to which they had over time conceded a set of powers and initiatives without a clear underlying principle. It became increasingly clear that this inherently complicated and incremental nature of the EU would be impossible to maintain with an increasing number of member states. It was basically a decision-making system designed for six member states, not for 27 or more. The rejected constitution and the now much discussed and modified Lisbon contract would have served over time to reduce the top-heavy system of national representation in the Commission and devised a new system of voting in the European Council that might have produced clear-cut majorities on several critical issues apart from taxation and defence.

To the surprise of many, the EU had overcome the difficulty of governing a community of 27 members by 2008, but it had not managed to address the chronic absence of interest on the part of the European public and in some parts of Europe even a disdain of the EU. The technocrats who built the institutions of the “new” Europe should have shown a certain degree of unconcern for the opinion of the public and this lack is now being repaid. With each direct election to the European Parliament the voter turnout fell. The only exceptions were those instances when national and European elections coincided. At the European elections of 2004 the voter turnout was down 42 percentage points from the most recent national election in Austria, 43 in Sweden, 39 in Finland, 23 in Spain and 20 in Great Britain. Even in the new member states the voter turn out fell short of the last national elections; in Hungary 32 percentage points, in Poland 26 and in Slovakia 17 percentage points. Europeans seemed to be so profoundly indifferent to the affairs of the EU because they felt they had no influence over them. There was the widespread sentiment that of all the institutions the Members of the European Parliament were the least significant. National elections were crucial because the real power lay with the Commission, appointed by national governments, and the Council of Ministers, comprising national representatives. On the other hand it became clear that Brussels now wielded real power and influenced the lives of European citizens. Every national government had at one time or another over the last 20 years found it convenient to blame “Brussels” for unpopular laws, taxes and economic policies to which it had consented in Brussels and which it tacitly favoured but for which it was reluctant to take responsibility. The EU’s so-called democratic deficit could in this way be easily turned from unconcern to hostility. This sentiment was fuelled by irresponsible mainstream politicians and fanned by nationalist demagogues. That’s why a sizable amount of the votes in the EU elections of 2004 went to overtly anti-EU candidates.

And yet, all in all, the EU has had a decisively positive impact on all members, the economic benefits have been real. The newfound freedom to travel, work and study anywhere in Europe was a chance for young people especially. In relative terms, the so-called “social” element in the EU budget was tiny, less than 1 per cent of the European-area GNP. But from the late 1980s on, the budgets took on a

distinctly redistributive quality, transferring resources from rich regions to poorer ones and contributing to a steady reduction in the aggregate gap between rich and poor. The advantage of the European idea in the decades after the foundation lay precisely in its imprecision. Of course now it is exactly this formulaic vagueness combined with much too precise details of EU legislative directives which has highlighted the democratic deficit. It seems difficult for Europeans to care about a Union whose identity was for so long unclear and which at the same time seems to influence every aspect of their daily lives. By not being a state the EU has been able to bind nearly 500 million people in a single, peaceful and loosely articulated community, where the citizens' primary loyalties remain to the country in which they live, whose laws they obey, whose language they speak and whose taxes they pay.

At the beginning of the 21<sup>st</sup> century the European states are faced with a wave of economic and social challenges largely beyond their control. Basically there is nothing mysterious about globalisation, it is also not even unprecedented. The impact on the world economy of new and rapid networks of transport and communication at the end of the 19<sup>th</sup> century was as dramatic as the transformation triggered by the Internet and the deregulation and liberalisation of financial markets a hundred years later. The unequal distribution of the benefits of liberalised trade were not new either, if one looks at how international trade regimes accommodated to the interests of the powerful and wealthy around 1900. From the European perspective there is one distinctive difference. At the end of the 19<sup>th</sup> century the functions of the state were just expanding and the state was beginning to assume responsibility for social and welfare needs and government expenditure increased considerably, partly due to war expenses. The latest economic internationalisation started after the first wave of European privatisations and triggered many more. The European state was now in retreat, as mentioned above, and production and money moved around the globe beyond the control of European countries, a process boosted by the Single European Act of 1987 with its provisions for open competition within and across borders. The social costs of economic disruption were especially glaring because at the same time privatisation and deregulation created great wealth for relatively few. This sense of recently unknown stark contrasts between rich and poor in Europe triggered a growing scepticism about the benefits of unregulated markets and globalisation. In Europe in the past this would have resulted in some form of protectionism, but now the governments' hands are tied and organised labour is already more or less powerless. What has been emerging in many parts of Europe now is a new four-class system. At the top one can find the new professional stratum, second a core of traditional and protected employees, third small businesses and services, and the fourth stratum and the fastest growing one, people who are employed or not employed in jobs that lack long-term security and benefits. In the past economic upswings in Europe tended to lift many of the poor into better paid and more secure employment, this does not happen now. Europe is developing an underclass in the midst of wealth, a new caste of casual and temporary workers.

## 11. The European Model of Society

Europeans might have lost faith in their politicians and in the state, but what seems to bind Europeans together is not the EU, not democracy, not freedom and the rule of law – all that is taken for granted – it is the contrast between “the American way of life” and “the European model of society”, however critical they may be of the practical workings of it. Despite the burgeoning multiplicity of Europe and the multiplicity of fault lines that blur what once seemed clear cut, national or social divisions, a distinctly European identity might be emerging in contrast to the USA.

In high culture the state has retained its role as provider of subsidies. In Britain the national lottery has taken over from the state some of the burden of cultural support and in other places there are discussions about an indefinite distribution of grants. In German speaking countries over 80 percent of the cost of running a theatre or opera house are typically provided by public subsidies. Culture at this level is closely bound up with status and with regional identity. In France, too, the arts flourish even in small provincial towns thanks to direct aid distributed from central funds. The national state has remained the most important source of funding for the arts all across Europe. Indeed culture is one of the last important areas of public life in which the national state, rather than the EU or private enterprise, can play a distinctive role as a near monopoly provider, also in Eastern Europe. The audience for European high arts is nowadays much more international. Productions in major cities are attended by increasingly international audiences who communicate across borders and languages. These newly cosmopolitan audiences might not be as sophisticated as they are well off, but the trend is anyway towards popularising classical material for wider audiences. European high culture is now exploiting the European classical cultural heritage for the “under-cultivated nouveau riches”. This is a new and interesting cultural shift on a continental scale; the composition of audiences from Lisbon to Prague is now quite uniform, as are the productions on offer.

Whether the EU made its cultural audiences even more cosmopolitan or simply blended their individual parochialisms is not known, but it can be said that there are now genuinely European quality papers around, such as the Frankfurter Allgemeine Zeitung, The Financial Times, Le Monde, and weekly papers like Die Zeit and The Economist. These are now truly European papers, available everywhere in Europe and also read across the continent. The mass-circulation tabloid press, however, remains firmly national. Television, the main source of information nowadays for most Europeans, has unfortunately followed the tabloids and reduced the foreign news coverage considerably. Despite the spread of private and satellite channels the European traditional state-owned television channels have retained a surprisingly large audience. This results in a curious paradox. While the entertainment offered varies little from one country to the other, television remained a distinctly national medium. The intellectual and political concerns, the contrasting attitudes to power and authority are as distinctive and different in the various European countries as they were after the Second World War. When most other collective activities and communal organisations are in decline, television is what the mass of the population of every country has in common. Television serves efficiently to reinforce national distinctions and a high level of mutual ignorance of the average

European citizen. Television news show remarkably little interest for events in neighbouring countries except catastrophes, rather less than years ago when an audience, fascinated by technology was confronted with foreign documentaries and “outside broadcasts”. Now Europe is taken for granted and the attention is turned to more far-away exotic destinations, although Europe is in practice largely unknown. For the most part, Europeans have very little idea what is going on in neighbouring countries. There is just one exception: major sports events. What really seems to unite Europe is the interest in football.

For many free marketers the core problem of Europe is its economic rigidity: there are still too many laws protecting the workers and their jobs and guaranteeing lavish unemployment and pension schemes. But despite some hardships for employers it does not mean that European workers are less productive than their American counterparts. In 2003, when measured in terms of productivity per hour worked, the economies of Denmark, Austria and Italy were all comparable to the US, and Ireland, Belgium, the Netherlands and France out-produced the US. If America was nevertheless more productive overall, it was because a higher percentage of Americans were in paid employment, they worked longer hours and had shorter holidays. Europeans have made the deliberate choice to work less, earn less and live better lives. In return for higher taxes they receive better and affordable public services, they are on average better educated, live safer and longer lives and have fewer people in poverty. The majority of Europeans believe that poverty is caused by social circumstances and not individual inadequacy and so they are willing to pay higher taxes if these are directed to alleviate poverty. In Europe there is a broad cross-class consensus about the duty of the state to shield its citizens from the hazards of misfortunes and the free market. Social responsibility and economic advantage should not be mutually exclusive; economic growth is good, but not at all costs. The European social model comes in several styles, but what they all have in common is the balance of social rights, civic solidarity and collective responsibility that was appropriate of the modern state. The aggregate outcomes look very different in Sweden and in Italy, but the social consensus they incorporate are regarded as binding for many citizens.

Since the 1980s there have been various attempts to resolve the choice between European social solidarity and American-style economic flexibility. A younger generation of economists and entrepreneurs, mostly educated in the US, have impressed upon politicians the need to adapt to the American economic model and streamline production and enhance competition. The “Third Way”, modelled on US President Bill Clinton and articulated by British Prime Minister Tony Blair, was marketed as a pragmatic solution to economic and social dilemmas and a significant conceptual breakthrough. Until 1995 the European Commission under Jacques Delors had been preoccupied with devising and imposing norms and rules, so also the EU seemed in need of a “Third Way”. The evidence that Britain, just as the US, has been seeing a dramatic rise in the numbers of the poor, in contrast to the rest of the EU, where poverty has been increasing modestly, if at all, discredited the British model of the “Third Way” in the rest of Europe. Despite cutting government spending and opting out of the European Social Charter and reducing company taxation, the UK consistently underperformed the rest of “unreformed” Europe measured in terms of output per hour.

So what will be the future for the European welfare states? There is no going back to the old free standing autonomous nation state model. In their economic lives every EU citizen is now truly European. The EU is the largest single internal market, the world's biggest trader in services and the member states' unique source of authority in matters of economic and legal regulation. Thanks to its own currency it also rules the money markets. So the only vital economic activity left to national rather than European initiative is taxation rates and only because the UK insists on this. Yet people do not live in markets, but in communities and despite the fact that the death of the nation state was proclaimed by many experts years ago, especially since September 11<sup>th</sup> 2001 these nation states appear to matter a lot again. The early modern states had two functions: raising taxes and making war; the EU is not a state because it does neither. The traditional European state not only made war, but enforced peace at home, too. In a time of fear of terrorist attacks, the state's monopoly of armed power is an attractive reassurance to many citizens. It is the nation state's responsibility to keep its citizens safe, not the responsibility of the EU. Further more, as long as the state, rather than the EU, pays pensions, insures the unemployed and educates children, the state's political legitimacy will remain unchallenged. Over the course of the 20<sup>th</sup> century the European state took on considerable responsibilities for its citizens, it has shed some of those, but the rest remains intact. Citizenship, democracy, rights and duties are bound up with the European state. Distinctive nations and states have not vanished in Europe. The illusion that we live in a post-national or post-state world is based wrongly on the assumption that globalisation and trans-national developments must be at work in every sphere of life. Seen from the production side Europe is in fact a trans-national entity, but viewed as a site of power, political legitimacy or cultural affinities, Europe has remained what it has long been, an accumulation of individual states. Nationalism has come and gone but nations and states have remained.

### **11.1. Small versus Big States<sup>12</sup>**

Two economists, Alesina and Spolaore, explored the question whether the size of a state might influence its prosperity and they found that of the ten richest countries in the world in terms of GDP only two had more than 5 million people, namely the USA and Switzerland. According to their theory the best size for states is the result of a trade off between the benefits of scale and the costs of heterogeneity, but openness to trade alters this trade-off. This would mean for Europe that the larger countries can afford proportionally smaller governments; and consequently also embassies, armies, road and rail networks are likely to cost less per head in populous countries. They can raise taxes in more cost-effective ways and have bigger internal markets, allowing more specialisation and economies of scale and they can redistribute income geographically. But size has its costs, too. Large countries tend to have a much more diverse population with varying preferences and demands. Research has shown that people prefer to live in more homogenous countries with respect to income, race and ethnicity. Where the preferences of a country's people count, their country is likely to be smaller than it would otherwise be. Authoritarian regimes typically suppress regional or ethnic dissent and stress the benefit of size, whereas democracies are usually more conscious of the costs. That's why we have seen lots of secessions in Europe in the last decades, but only one merger of nation

states and that is Germany, a special historical case. The main reason for the rise in the number of small countries might have been the shift from empire and dictatorship to self-determination. But as it is only safe to be small in a peaceful world, also the importance of economic size for prosperity depends on how open a country's economy is. Small countries that would not be viable in a world of trade restrictions can prosper when trade is liberal and markets are open. That is why we can expect that in future economic integration might go hand in hand with political disintegration in a mutually reinforcing process. The answer to the question why the United States are an exception might be that they have never been ruled centrally, but the federal states decide about many aspects of their citizens' lives. In this sense the European Union is a model of more or less powerful supra-national organisations to preserve markets and coordinate policies, combining large economies of scale with political, cultural and social independence. That's why especially small countries in the EU prosper.

## **12. Dealing with Discontent and Democratic Deficit<sup>13</sup>**

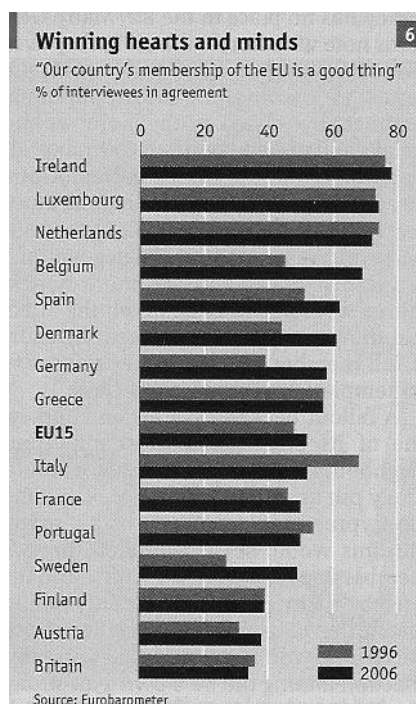
Probably the biggest failing of the EU has long been the gap between the project of integration with its set of institutions and the mass of citizens. When the French and Dutch voters voted against the constitution in 2005 and the Irish against the Lisbon Treaty in 2008, they were not merely objecting to specific provisions in the respective texts, nor were they just voting against their current national governments, they were also expressing a general feeling of resentment towards the European project and its remoteness. The traditional response by governments was to ignore this resentment by implicitly arguing that Europe had always been an elite project and it should remain so. As long as political leaders understood and pursued European integration, that should be enough. But many political leaders nowadays spend more time attacking the EU institutions for interference, even though almost all EU laws require those leaders' endorsement, than talking about the European ideals. Many media in Europe have become very critical of the EU as well and this is reflected in the people's views, too. Popular support for the EU has, in fact, slightly increased over the last years, but in most countries, especially in Austria and Britain it is very low, as can be seen in Figure 7.

First, one possibility to win back support might be to concentrate more on showing the European citizens that this Union works. European citizens really do believe that on the issues of energy, environment and foreign policy a Union acting with one voice can do more than nation states acting alone. Furthermore the discussions on subsidiarity over the last years show that there is a benefit in giving back to nation states some of the powers that have accumulated in Brussels over time because many tasks can be tackled much more efficiently on a national or even regional level. It is necessary to review and scrap much of the abundance of regulations and directives that has poured out of Brussels over the last two decades.

Second, Euro-sceptics stress the European institutions' lack of transparency and accountability, their corruption and their remoteness to citizens. There seems indeed to be a democratic deficit, as was discussed, but it should not be maintained that it lies necessarily at the EU level. In comparison with



most national governments the EU institutions are highly transparent and information is easy to find. Corruption certainly exists, but the auditors' habitual qualification of the EU's annual budget relates largely to how the money is spent at the national level. As for accountability, the Commission answers not only to national governments, through the Council, but to the Parliament, whose representatives have been elected directly by the European voters, as well. In truth, the deficit is to be found more at a national than at a European level. The EU is a unique organisation that can neither be compared to a state, nor to a federal union, nor to an intergovernmental organisation. But it is closer to the last, as nation states remain the main decision makers. From this point of view the democratic deficit constitutes the lack of information for European citizens, where they can find out what they want to know about the EU and how they can influence what is going on in the EU through national institutions. This should be an easy task for national governments to tackle. Denmark for instance set up a powerful European committee in the national parliament in 1973 to call ministers to account. The committee summons ministers once a week to discuss the following week's Council meetings in Brussels and to agree to a negotiating mandate. The EU committee also maintains an extensive information and library service and a website that all Danish citizens can use. As a result the Euro-sceptic Danes have become more convinced that the EU is a beneficial for them.



**Figure 7:** The development EU citizens' consent to the EU

Source: The Economist. Special report on the European Union, March 17<sup>th</sup> 2007

According to Euro-sceptics the European Parliament is an expensive talking shop with a wasteful monthly commute between Brussels and Strasbourg which adds some €250 million to its costs. But it is much more efficient than its reputation, the average quality of its members has risen, and it has learned how to work the EU system. It plays a crucial role in forging necessary compromises and its

influence over the Commission has increased. Where it has failed so far is connecting European citizens to the European project. Few European voters have the slightest idea who their MEP is and fewer still know what he/she does. Voters see little connection between how they cast their vote and what happens in the EU. Campaigns for European Parliament elections are mostly fought on national issues reflecting the fact that the media are national, not European. One suggestion to remedy this deficit might be to give the Parliament more powers, e.g. in selecting the commission, so that the voters might take more interest.

The original aim of the Union was peace and prosperity, so some think that Europeans need a new vision to enthuse them about the EU. This could be concern for the environment or a more active foreign policy. But what is most needed is more inspired leadership by European heads of government and a full acknowledgement to their voters of the practical importance of the EU for them. But in the end voters still want prosperity. Also in the future the EU will be a diverse and not a uniform group of countries and the question is whether all members have to integrate at the same speed and whether some should not be able to opt out of certain projects of closer integration and join in others. In fact this is already happening, e.g. not all members are in the Schengen passport-free travel zone and not all are in the €-zone. It can be tiresome to live with these opt-outs, but having the possibility to opt out of certain projects might take away the citizens' fear of a "super state" in Brussels. Opting out of the EU as such is definitely not an appealing prospect. Norway and Switzerland, the two biggest European countries to have chosen to stay outside the Union, must apply almost all the EU laws to gain full access to the single market and even make large payments into the EU budget, but play no role in the decision-making process. A multi-speed Europe might further be a way of resolving growing tensions about further enlargements. Already in the enlargement 2004/07 new members joined the EU on the basis that they did not take part in all EU activities right from the start. When incorporating the Balkans for instance new members might also be given long transition periods before benefiting in full from the union's four freedoms. Yet a multi-speed Europe harbours potential dangers. For once, the EU can only work if all member states sign up to the majority of the rules, the *Acquis Communautaire*, especially for the single market. It will not be possible for members to opt out of the competition rules and most other single market laws. If a multi-speed Europe in the end became a multi-tier Europe that left the lower tiers somewhat outside that would be unsatisfactory, too. The goal has to be not to fragment the union but to accommodate different views on how far to integrate and how fast, but all within a broad common framework set by the single market and the EU institutions.

If we want to discuss the so-called democratic deficit in the EU, we have to look at the present state of democracy in Europe as such. Democracy thrives when there are major opportunities for the mass of ordinary people to actively participate through discussion and autonomous organisations in shaping public life and when they are actively taking up these opportunities. Societies probably come closest to this democratic ideal in the early years of achieving democracy or after a great regime crisis, when enthusiasm for democracy is wide-spread. Most of Western Europe had its democratic moment after World War II. For the first time in the history of capitalism, the general health of the economy was seen as depending on the prosperity of the mass of wage-earners. A certain social compromise was

reached between capitalist business interests and the working population. Business interests learned to accept certain limitations on their capacity to use their power. The democratic political capacity concentrated at the level of the nation state, which could guarantee those limitations because firms were largely subordinate to the authority of nation states then.

By the late 1980s the global deregulation of the financial markets had shifted the emphasis of economic dynamism away from mass consumption and on to financial markets. First in the US and the UK the maximisation of shareholder value became the indicator of economic success. Everywhere the share in income taken by the working population as opposed to capital, which had risen steadily for decades, began to decline again. In the early 1990s the USA became a model again, just as after World War II, for everyone seeking to be associated with economic dynamism and modernity. Under US influence democracy in Europe is increasingly defined as "liberal" democracy. This form stresses electoral participation as the main type of mass participation, extensive freedom for lobbying activities, which are primarily business lobbies, and a form of policy making that avoids an interference with the free market economy. Today this unambitious form of democracy is being accepted in Europe as well. The public electoral debate is a more or less controlled spectacle, managed by professional teams of marketing experts, covering a small range of issues, selected by these professionals. The mass of the citizens play a rather passive role and respond to those signals by casting their ballot. Behind this spectacle of election campaigns, many aspects of the political agenda are shaped by the interaction between elected government representatives and elites that overwhelmingly represent corporate interests.

Nowadays politicians receive less deference and uncritical respect from the public and the mass media than ever before. Governments and their secrets are increasingly laid bare to the public and there are more calls for open government and constitutional reforms to make governments more responsible. In the past politicians were trusted and respected by deferential and rather naïve citizens in a way they probably did not deserve. That's why today politicians are more afraid to shape the political agenda and prefer to rely on market research techniques and opinion polls. The moves towards open government and transparency are currently being countered by measures for tightened state security and secrecy due to the terror threat since September 11<sup>th</sup> 2001. Yet there might be evidence of a lively democratic culture in the growing importance of pressure groups, cause groups and grass root campaigns, away from party politics and election campaigns. There has been a growth of highly diverse self-help groups, communitarian networks, neighbourhood schemes and charitable activities. They mostly try to fill the gaps left behind by the retreating welfare state and this type of cause groups seems to turn away from politics deliberately. Yet you also find such groups in undemocratic societies where the state is indifferent to social problems.

The second type of cause organisations is much more important in today's Western democracies and those are politically oriented campaigns and lobbies who do not seek to influence elections, but try to shape government policy directly. They are a strong evidence of liberal democracy in the American sense. These business lobbies are so successful, first because business interests are able to threaten

the government that if their interests are not taken into account their sector will not be successful and the government's record on economic growth will suffer. Second, they can raise enormous funds for their lobbying because the outcome of this lobbying will mean increased profits. Those, who for example set up an a-political cause group of the first type for healthy food, will be faced with the lobbies of the food and chemicals industries, who will bring battleships against their rowing boats. That's why in true democracies there has to be a level playing field for all citizens in participating in the democratic process and the state has to make these rules, such as regulated party funding and media access. In fact, the more the state withdraws from providing for the lives of its citizens, the more apathetic about politics they will become and the more easily can corporate interests use the state for their interests. Globalised business interests and the social fragmentation of the population are shifting the political advantage away from those seeking to reduce inequalities of wealth and power. An important element of the European democratic movement after World War II was the popular demand that the power of government should be used to challenge concentrations of private power and the present distrust and low level of expectations in politicians and the state suit those interests who try to rein back the active state and liberate and deregulate private economic power. This current lack of interest in politics is further intensified by a low quality level of popular journalism that is modelled on the advertising copy. Political debate is characterised by a degradation of mass political communication and an excessive personalisation of electoral politics.

Since the end of Keynesian economic policies and the rise of neo-liberalism, lobbies and pressure groups working for the interests of the globalised corporate sector have been more likely to be listened to. Global corporations have access to governments and influence their policies far more effectively than normal citizens, even if they do not have formal citizen rights in these countries or pay taxes there. Yet in Europe pro-labour and pro-welfare interests are still strong and have retained more power in the nation states than in the US or the UK, but this could erode gradually. Globalisation clearly contributes to the constraints imposed on Western democracy because this system has difficulty in rising above national levels. So a kind of democratic deficit is observable on European national levels and the dissatisfaction and distrust of European voters is not restricted to a national level but is carried further to the European level and might explain in some way the disinterest in EU politics and the low turn-out at the European polls.

### **13. What do Europeans think about the EU?<sup>14</sup>**

It might be interesting to see whether this much publicised dissatisfaction of European citizens with the EU is reflected in recent surveys. The Eurobarometer 2008 offers some insights into the current attitude of Europeans to the EU.

The Eurobarometer shows that the Europeans in general have significantly more trust in the European Union (50%) than in their national parliaments (34%) or national governments (33%), which is an astonishingly positive signal for the EU. Furthermore trust in the EU has increased since autumn 2007

(+2 points) while the belief in national parliaments (-1 point) and national governments (-2 points) has fallen. Austria is at the very bottom of the table referring to trust in the EU with 38 % (-8 points), but the Austrians' rather high trust in national institutions has also suffered with trust in the national parliament 46% (-8 points) and in the national government 42% (-11 points). All in all, one can say that the EU is significantly more trusted in most member countries with the exception of Finland, Sweden, Denmark and Austria, where one or both national institutions enjoy more trust than the EU.

If one has a look at what important issues Europeans think should be jointly tackled by the EU and national governments, we can find that highest priority is given to fighting terror with 79%, followed by environmental protection 71%, scientific and technological research 70%, defence and foreign affairs 64%, support for regions in economic difficulties 62%, energy 61%, immigration and fighting crime both 58%. Europeans feel that international and strategic matters, environment, defence and migration could be better handled within the EU. Social matters such as health (33%), education (31%) social welfare (30%) and pensions (24%) come last in the ranking of what Europeans think should be jointly handled, which means that they believe these issues should be best tackled by their national governments without interference from the EU.

48% of Europeans state that the EU has a positive image; just under half of the Europeans, which is a slight decrease by 1 % from the 2007, but only 28% of Austrians say that the EU conjures up a positive image for them. This figure shows that Austrians see the EU in the most negative light of all 27 members. Unlike the broader concept of the EU's image, positive views on membership in the EU are on the decline overall. Still a majority (52%) believe that EU membership is good for their country compared to 58% in 2007. The majority view in most countries remains positive towards EU membership, especially in the Netherlands (75%), Ireland and Luxemburg (73%), Belgium (66%), Denmark, Spain and Poland (65%). Austria with 36% ranks again at the bottom, just above Hungary, the UK and Latvia. Yet in 18 member states a drop by 3 or more percentage points has been recorded since 2007. The majority of Europeans (54%) think that in general their country has profited from membership in the EU, a drop by 4 points since 2007. The exceptions to the general trend of Europeans who view their country's EU membership as beneficial are again Hungary, the UK and Austria where the majority of the population are of the opinion that their country has not benefited from membership. In all three countries only 36% of the citizens believe that their country has benefited from EU membership.

44% of Europeans on average believe that the EU helps member countries to protect citizens from the negative effects of globalisation, yet only 30% of Austrians are of this opinion. What is astonishing and might be a positive sign for the idea of Europe is that the majority of Europeans (61%) say they can differentiate a distinct set of collective European values when compared to other continents. It is easier to see what Europeans have in common in terms of values, they believe. 54% say that member states are close to each other in terms of values, whereas only 34% define this relation as rather distant. Unfortunately also here Austria ranks last with 39% who believe that member states are close in terms of values.

Finally, one can draw the conclusion that Austrians are in all aspects covered by the Eurobarometer 2008 survey immensely critical of the EU, which definitely does not reflect the economic reality at a time when Austria has done extremely well economically since accession to the EU in 1995, but an underlying uneasiness and discontent. It also does not illustrate an overall European trend, but an Austrian speciality.

#### **14. The Attitude of Austrian Professionals to the EU. An Analysis of Qualitative Interviews<sup>15</sup>**

Finally, this research paper tried to find out whether the frustration of Austrians with the EU which was laid bare by the statistical analyses of the Eurobarometer 2008 is also discernable in personal qualitative interviews with Austrian professionals working in various fields. In the course of three months (May to June 2008) nine topic-related interviews were conducted with professionals working in economic areas such as banking, in law and social fields such as medicine, psychology and university education and finally in music and the fine arts. The interviewees were asked five questions during these narrative interviews. First on what the EU meant for them personally, second the importance of the EU for their field of work. In the third question they were invited to voice their positive and/or negative criticism on the latest developments in this respect. Fourth, the interview partners were questioned about their expectations for the future of the EU in their profession, but also as EU citizens, and finally they were asked about their opinion concerning the reasons for the widespread frustration with the EU in Austria thirteen years after joining the EU.

The personal impression of the EU is overwhelmingly positive despite certain drawbacks. Austria is again part of a much bigger entity as during the times of the Habsburg Empire and with it unfortunately again the rise of extreme nationalism is discernable, but also the hope that in this community there will be a positive counterbalance to parochialism. Austrians are not prepared yet to fight for an ideal of Europe; they seem to lack understanding of the values of the EU and are locked in their small world. The feeling prevails that Austria is part of a big multinational group within the EU which has several advantages but also disadvantages, such as restrictions and regulations. The personal pros that were mentioned are mostly passport-free travel and the euro, free movement of labour and the chances to work and study abroad, especially for those who have experienced how difficult it was before membership in the EU. But corporations are the ones that really benefit from the EU. The EU is seen as a system that envelops Europe and tries to promote the integration of different cultures and peoples, but is mostly steered by economic interests and focuses on corporate goals. The EU acts systemically and tries via processes to engage all members. The EU is further seen as a chance for greater personal and national development in a wider community, embedded in a geographical entity with a high standard of living and an exceptional level of security and freedom. Peace is valued highly. Those who are interested in European history stress the uniqueness of the Union as the first successful historical peace project in Europe that has ended centuries of European wars, a historical

move that compensates any drawbacks related to the single market. European cultures and societies approach each other and get to know more about each other and by that armed struggles between member states are fortunately unimaginable today. A small country like Austria could not stand alone in today's world. Norway and Switzerland boast a special status due to oil resources on the part of Norway and a special position as a financial haven in the case of Switzerland, but both countries are nevertheless strongly linked to the EU in many ways. The EU is also seen as a counterpart to the USA as a political and economic association, as an economic power in a globalised world. It is easier to face the challenges of globalisation as part of a big economic block; a single small nation state would be lost. Basically the EU is still valued as a great chance for Austria, especially the "four freedoms" of free movement of goods, persons, services and capital, but one interviewee stressed the feeling that only powerful lobbies drive the EU nowadays and the ordinary citizens have no say in the community. In his opinion the EU is developing in the wrong direction, imitating the United States. Small countries are outmanoeuvred and he deplores the lack of democracy. The EU has been turned into a representation of multinational groups' interests. His solution would be a return to the roots of the community as an economic union leaving all other aspects, political and social, to the member states.

The impact of the EU on different professional fields in Austria is manifold. Let us start with culture. For musicians the EU can offer a way out of the traditional Austrian musical establishment, to open up the introvert traditional cultural attitude by encountering other cultures and nations and by that becoming more open and tolerant. Musicians have always travelled a lot and have learned from other musical traditions, nevertheless there is still a strong nationalist tendency in the classical music business. People lament that the sound of the Vienna Philharmonic Orchestra is no longer the same as before because so many foreigners play there. In fact already around 1900 many of the musicians were from the geographical areas where they come from today, only then it was the Habsburg Empire. The strings sound of the Vienna Philharmonic Orchestra is different today but not necessarily worse for that. But there is a slow awakening and an opening up discernable, not everything that comes from abroad is seen as a threat any longer. A strong signal is the appointment of the first female first violinist from Bulgaria in the Vienna Philharmonic Orchestra. In the music and arts scene Austria was secluded for decades and there is a strange ambivalence between a rejection of everything foreign and on the other hand a lavish and unconditional praise of star musicians from abroad. A compromise between the two extremes of total rejection and limitless euphoria would be called for and Austria should learn a respectful way of integrating other musical traditions. The EU as such has no consequences for classical musicians except easier movement because musicians have always worked internationally. But the EU promotes and supports various small and young musical groups especially in deprived areas and funds are raised for young cultural projects that link member countries in border regions to boost cultural relationships between neighbouring countries. The musicians themselves have to open up and grab the chances that are being offered. For decades the repertoire of concert halls in Austria has been the same, now a few conductors, such as Riccardo Muti, are digging up treasures and putting them on stage. Musicians need to look across borders and see what music they find there that is worth playing and by that extending the traditional repertoire. This is a slow process but it is under way. At the times of Mozart the musical scene was much more

interlinked in Europe than it is today. Haydn had an Italian first violinist in his orchestra in Eisenstadt and that was nothing extraordinary. There was a vivid mutual exchange between Vienna, Hamburg, Paris, Saint Petersburg and the other cultural capitals in Europe. Although also this exchange was not free of conflict, a new form of this cultural network of the 17<sup>th</sup> and 18<sup>th</sup> century would boost innovation in classical music because the artists would get to know various cultural and musical trends across Europe. The retreat into national music schools is a heritage of the 19<sup>th</sup> century nationalism and the claims to national cultural superiority that wanted to exclude any influence from abroad and conserve the national tradition. Probably the increase of power and wealth of the bourgeoisie that started to compete with the nobility for sponsorship of the arts was responsible for this more restricted view of the world. The music of Dvorsak and Smetana for instance was traded as a musical expression of the Czech rebellion against the Habsburg Empire and the recourse to medieval mythology in music was used to glorify German nationalist theories. In Europe ethical values should gain more importance again, not just economic and material ones. Even artists and classical musicians in particular have concentrated too much on economic success in the wake of the neo-liberalist transformation of Europe and have neglected the humanitarian mission of art in the quest for commercialisation of the arts.

The new big community of 27 countries is not only a big chance for artists it is also a big challenge because the competition has become fierce. On the one hand it is much easier today to exhibit works in other European countries, but on the other hand there is also no secure home market. A local artist has to concentrate on one unique topic or technique to beat the competition at home and abroad. With the EU membership cultural exchange has been boosted and many more foreign painters and other fine artists flock to Austria. Especially Vienna has the potential to become again a centre of fine arts. Many foreign students study art in Vienna because the training is excellent and there is more scope for development for students than elsewhere; they are given a lot of freedom to discover their style and individual talent is encouraged. The rush of students to Vienna can be explained by the image of the city, the reputation of the teachers and the importance for the curriculum vitae of a young artist to have studied in Vienna. It is more about reputation now than about quality because Vienna was already a centre of the fine arts around 1900. More foreigners than Austrians study at the Vienna Academy, especially Germans and Italians, and it is getting more difficult for local students to win a place here. The foreign students are seen as an asset because they carry the reputation of the Vienna Academy into the whole world. On top of that the EU membership has increased cultural subsidies for the fine arts, but these are linked to stringent rules and regulations. Due to cut-throat competition you usually have to gain an international reputation in a certain specialised field of art first to be eligible for funding. "Ordinary" painting is not subsidised, the artist has to excel in fields such as light or video installation to be in the position to apply for funds. Today there is much more international exchange in Austria, too, but Austrian arts students rather stay at home and fail to profit from the various possibilities abroad. Austrians complain that so many foreign artists come here to study, to work and to exhibit, yet they themselves do not take up the chances that are being offered by European cultural exchange programmes, for instance to stage an exhibition abroad. Nowadays there are no co-operations of artists any more, no artists' associations such as the "Wiener Werkstätte" or "Blaue



Reiter"; professional artists face the competition alone and encounter excessive egoism and jealousy. Those professional artists who have to make a living from art lead a tough life because only very few make a fortune and those are not necessarily the best, but they can market their art best. They are boosted by a well-paid manager and only after some time the art scene realises the lack of quality and innovation in their work. Most of the Austrian artists scrape along, they live on teaching contracts or social projects such as "Soho in Ottakring" or painting classes for migrant children. They have to accept any work that they are offered to make a living. Several EU initiatives promote the work of artists with disabled children and adults, such as workshops for children suffering from Down syndrome, but also the art of disabled artists themselves is promoted. Here Vienna started a project already years ago with the artists from "Gugging" and now the EU sponsors similar initiatives.

The second broad professional field of work on which the impact of the EU was investigated are social fields of work from medicine and education to social work. In the medical profession the EU has brought even more regulations adding to the abundance of rules and regulations that already existed before. It seems that everything has to be put into the form of rules, even the most obvious and matter-of-course. Yet coercion does not necessarily combat neglect successfully in a social field of work. A very positive aspect of membership in the EU has been a considerable rise in professional exchange with the result that Austria is no longer lagging far behind internationally. Nevertheless due to the common language the professional links to Germany are still the closest. In the medical field most organisational standards are imported from the US and the UK nowadays, they are taken up by the EU and applied to all member states. This leads to overregulation, red tape and less efficiency. Complying with all the rules and regulations takes up a lot of time, which then is lost on the patients. Furthermore, crippling restrictions for every step in the process of communication with and treatment of the patient stifle creativity and innovation in treatment. A minimal deviation from the rule book might end the medical personnel up in court. As a consequence, doctors do not dare to apply alternative forms of medicine or new therapies that have not yet been tested for decades, because he /she might be sued. The well-established Austrian system of medical doctors who are also experts in alternative forms of medicine and combine the different approaches in treatment is demolished by this over-bureaucratic system imposed from outside. Austria will in the long run end up with a health care system where alternative medicine is offered by people without a traditional medical training only and the patient has to have the knowledge and money and make the decision who to consult. The doctor's time is taken up with bureaucratic work and there is little time left for communication and consultation, the patient receives the standard treatment because there is no room for an individualised approach. Austrian doctors are extremely frustrated by these recent developments and pass this disillusionment on to their patients. The patients are annoyed about the reduction in the scope of therapies and medication, which the public healthcare system pays for, and make the EU responsible for the deterioration in health care.

In the field of university education the membership in the EU meant for Austria a positive transformation from a local and rather secluded to a more open and Europe-oriented system. This opening up would have been possible without membership in the EU, but Austria needed this impetus.

Austria has profited a lot from EU exchange programmes such as Erasmus and Socrates and nowadays there are more funds available for business trips and lectures abroad. Also priorities have shifted to new topic areas, especially in social work. Migration and the wealth gap have changed the orientation of social work in Austria away from the approach of the 1970s and 1980s, when it was focused on therapeutic and psychological counselling and when securing a subsistence level was not an issue because of a lack of need. With the EU membership the focus has shifted towards socio-economic topics in social work due to the EU's promotion of neo-liberalist economic policies. All social services are now subject to Europe-wide tenders and fierce competition has also reached the social service sector. But unfortunately Europe-wide quality standards for social services are lacking, so those who offer services at the lowest prices win the tenders. Here the EU and national countries have to react and introduce and guarantee high quality standards for social services. One negative example is the East German company that won the tender for caring for refugees in the refugee centre Traiskirchen, where the standards are not satisfactory at all now. On the other hand Austria has exported its probation service and out-of-court settlement system to Germany. The question is whether the specific regional conditions and the local know-how are really exportable in the area of social services. It is further questionable whether the outsourcing of drug treatment, e.g. the transfer to and treatment of Austrian drug addicts across the border in Hungary, is morally justifiable, just because treatment is cheaper in a neighbouring country. Of course privatisation and outsourcing will increase in the social service sector as well, but reducing decision making to cost-cutting is very problematic in this field. There will be more social service institutions that are active Europe-wide in future, just as the "European Centre of Clinical Social Work" for education, training and practice. Supranational institutions will exist side by side with European social service corporations and there will be more labour mobility. More social service workers will move to the "old " EU countries because it will still take years until the living conditions between the old and the new member countries will have reached the same level. Austria just has to make its financial contribution to help the poorer member countries in the union to raise their living standards. With the aging of the European population the fields of work will shift to gerontological aspects of social services and to linking care for the elderly with work with migrants. There is a wide scope for European cooperation in the fields of care for the aging, drug therapy, and many social fields of work can be handled on a European level, such as care for beggar children and child thieves from Romania and Bulgaria. The child care organisation "Kinderdrehscheibe" is active in several European countries and is successful by cooperating closely with the countries of origin of those children. In today's world social phenomena crop up more suddenly than before and change more quickly. New social phenomena tend to be similar in many European countries, there are fewer local characteristics.

The aims, approaches and the content of the EU cultural and educational policy are largely rated as satisfactory and EU initiatives make up a large part of the agenda in Austria's tertiary education sector. What is a real challenge is the implementation of the EU guidelines and regulations on the national level in concordance with the other member states. Many EU projects are only funded if they are carried out in cooperation with other EU member countries, but not exclusively neighbouring countries. The intention behind this idea is to boost links between all members, but the enactment is extremely

difficult because the national legal systems in the field of education are very diverse and often not compatible. Many university institutions urgently require EU funds and that's why they have to take up the challenge of struggling with EU bureaucracy. The top management demands for instance "joint degrees" and more labour mobility in the EU to be able to recruit young academics all across the EU with a uniform university education, but as education in the EU is still a national issue, the national legal system often does not allow the realisation of EU- wide "joint degrees". The drawback of the EU in this respect is that corporations formulate demands and the implementation is left to the lowest tier in the national systems. National governments and the EU stress the importance of internationalisation, integration and mobility, but the support in putting these ideas into practice is lacking. In education, too, the economic aspect is increasingly replacing the socio-cultural aspect of exchange of cultural and scientific ideas. This is visible in the way universities compete to recruit the best foreign students not just for one semester but for the whole course of studies. Universities are becoming more out-put oriented and more service-oriented. The focus on life-long learning in the EU has triggered a development in adult education, too, whereby educational institutions have to offer a unique and recognisable package that offers services which are immediately applicable on the job. To make this abundance of educational offers in the EU somehow recognizable, clearer EU guidelines for course descriptions and Europe-wide quality standards have to be introduced. Integration of educational systems also means that you can be sure about the quality of standards offered in institutions in different member countries. But it is important that the EU only provides the framework for quality standards and course descriptions and leaves the implementation to the creativity and expertise of the local institutions.

In the field of research the Bologna and Lisbon processes have created a dynamic force in research and extended the sources of funds for research projects. Today there is more cooperation and communication with foreign colleagues at a high level of quality. Withdrawal into a national niche is no longer possible and the procedures leading to appointments are more open and transparent than in the past due to internationalisation. The field of law has always been lagging behind concerning internationalisation, but today there is nearly no special field of law that has not got a European dimension. Student and lecturer mobility have been boosted as well, although this has to be restricted to basic research because of the varieties of national legal concepts in Europe. As education is not a supranational competence of the EU, the EU has to rely on the national organisations of the members to put the internationalisation process into practice and the Austrian mentality tends to reject everything that is new and comes from outside initially, so the internationalisation processes move ahead rather slowly. The EU as such cannot resort to action on a national level in the area of education and research, so the strict hierarchical orders at university level remain untouched in Central Europe and there is a wide gap between expectation and reality in the Lisbon process. Should the integration process now be slowed down or stopped as a reaction to the Irish vote against the Lisbon contract, this would have serious consequences for the integration process in the field of university research and education and might result in a reversion to old static structures. It would be a mistake to fall back on separatist policies, but if politicians do not manage to convince the citizens of the benefits of the EU, further integration will be difficult and that would cause considerable damage to

the European university systems.

From the point of view of business people and especially bankers the successful expansion of Austrian companies would not have taken place in the way it did without the EU. Within the framework of the single market Austrian companies could not only survive but exploit the potential of the growing market, especially in Eastern and South-Eastern Europe. Foremost in banking, Austrian companies have developed a very positive image that is also reflected in the self-confidence of the employees who work for these companies. The pending accession to the EU has definitely made it easier for Austrian banks and other businesses to set up subsidiaries in this region. But in banking the personal relationship between expert and customer is especially important and the bigger the organisations the more anonymous they become, which has to be seen as a negative trend in the banking business. Yet the EU promotes large corporations and does not support small and medium-sized companies in the same way. Optimism was expressed in the interviews in the form that there is hope that more business people in the EU see these negative trends and try to steer EU economic policy in the right direction. There will always be negative consequences of membership in the Union but the benefits will prevail and in the long run democratic structures will be developed and strengthened, but this is a slow process because the EU set out as a customs union only.

One of the most important preconditions for a positive future development would be that every country sends its best people to Brussels and not its worst or those who have no standing at home. The principle of unanimous consent is outdated and costs a lot of time and money and results in a reduced quality of the outcome. On the other hand qualified majority vote weakens the position of individual countries in the EU. It is always difficult to reach consensus in an economic union where different economic frameworks and competitive structures prevail. For labour market and regional policy decisions the EU membership constitutes a drawback for some interview partners, as does the red tape from Brussels. A flood of rules and regulations are designed in Brussels and the companies are left to cope with the burden of bureaucratic overload and the rising costs. Additionally, some of the guidelines are even incompatible with local business practice. But the growing internationalisation of the capital markets calls for more international regulation. The EU membership has speeded up the concentration process in the Central European banking scene because the EU has created the legal framework for a wave of mergers and acquisitions, which would not have been possible in Austria before 1995. In banking the EU calls for more transparency to protect the clients which again causes more costs. The banks react by reducing personnel and making the customer pay, but the companies still make profits because the EU has created most favourable conditions for big corporations to the disadvantage of the ordinary consumer. Austrian governments then use the EU as an excuse for unpopular decisions at home, but in Brussels they do not speak up, on the contrary, they are subservient.

Finally the nine interviewees were asked to comment on the widespread frustration in Austria about the EU and they came up with a variety of reasons. One interviewee stressed that Austrians can easily be manipulated, they submit willingly to authority, are obsequious and have not really learned from the

experiences of 1938. That's why they are easy prey for populists who polarise against the EU and demand a withdrawal from the EU. When politicians argue against the EU, Austrians seem to believe their arguments and blame the EU for everything they find unsatisfactory, especially the widening wealth gap. The ideal and ethical values that the EU stands for are not appreciated. There is no sense of European community in Austria, rather the feeling that Austria has to finance the development in poorer member countries such as Bulgaria and Romania, while at the same time people in Austria are earning less, have to endure pension cuts, experience deteriorating working conditions and their living standard is declining as well. All these arguments are reinforced daily by the tabloids and the man in the street feels that only the industry and corporations profit from EU membership but not the ordinary citizen. The impression is widespread that those who remain outside the community, like Switzerland, can still profit from the common market but can negotiate special rights with respect to transit or the anonymity of savings accounts or a restriction on the number of foreign students. So Austrians draw the conclusion that it might be advantageous to opt out of the EU. Another factor should not be underestimated, namely the EU sanctions against the Austrian centre-right government in 2000, which was seen by many Austrians as an unfair punishment of a democratically elected government of a small country, because sanctions were not even discussed when Italy voted the Neo-fascists into the government later. The Austrians do not forget these sanctions even if they themselves did not vote for the centre-right parties. Another argument against the EU that is often mentioned is the Austrian neutrality, which is not really compatible with the EU aims. This is a highly emotional subject because the Austrian identity is closely linked to it. Furthermore, former and current price rises are attributed to the EU and the euro and confirm the impression that Austria is always losing out, in transit negotiations, in negotiations for study places, Austria is facing a flood of migrants and the Lisbon contract further restricts the right of co-determination. The man in the street does not feel the benefits of the EU expansion to the east, he/she experiences more competition on the labour market, rising crime rates and of course does not want to realise that for instance care for the elderly would break down completely in Austria without those cheap carers from Eastern Europe.

One interviewee quoted the globalisation expert Manuel Castells who said that "European integration is, at the same time, a reaction to the process of globalisation and its most advanced expression". The people are shaken by today's insecurities and fast changes and feel lost, they cannot cope with the contradiction of the EU of integration and opening up inside the community on the one hand, and seclusion from the outside, the "fortress Europe" on the other. Austrians tend to withdraw to small units, local customs and to the national state, because this seemingly offers them security and identity in a fast changing environment. Those who take up the chances that the EU offers and go abroad, they do not feel threatened, but the great majority who does not profit from the four freedoms of the EU tries to find their identity and a position in society by rejecting the Union and resorting to small secluded entities. Of course, this Austrian feeling of being again the loser and not the winner is subjective and a totally wrong impression, but it is a typical aspect of the Austrian defeatist mentality. Not only in Austria do European citizens resort to smaller local entities for identification and the EU should rethink its tasks and aims and take the opinions of its citizens seriously. The EU should concentrate on the overall structure and leave the execution to the national or regional administrators.

What can be decided and done locally in a more efficient way should be decided and done on a local level. These local entities can also cross borders and unite regions from different nation states if it makes sense, is efficient and accepted by the populations. The people identify more easily with local institutions than with Brussels. The EU is viewed as a new form of central power, decisions are made in Brussels by people nobody knows here; and much of the frustration is a purely emotional reaction to that sentiment. This tendency is reinforced by Austrian politicians who blame the EU for every negative development and praise themselves for every positive one. They criticise the EU at home and vote in Brussels for the projects they condemn in Austria. This hypocrisy angers the Austrians and they blame the Austrian politicians together with the EU indiscriminately. By their actions politicians unfortunately endanger the biggest peace and wealth project in European history, one interview partner stressed.

Finally the EU information policy or the lack of it is blamed for the rejection of the EU in Austria. EU institutions have completely failed in their duty to inform the European citizens efficiently and comprehensibly about EU policies. Often it seems that national and EU politicians believe that it is better to say nothing and wait and see what the reactions will be and only start to inform when they are forced to. Under these circumstances the citizens do not believe a word that is said. It would be necessary to inform the citizens in an open and truthful way about EU policies from the start and in a way people can understand.

## **15. Conclusion**

The British historian Tony Judt once said in a talk “Europe is a grown up version of the US”<sup>16</sup> and what he meant by this was that the European society and economy has changed a lot in the past four decades, while the American has not. The US economy is no longer more advanced than other market driven economies and the US social model does not work at all. So there is optimism for Europe. If today a country is incorporated in the EU this means that there are a lot of advantages, you can stay in your country and keep your job, you can speak your language and Europe comes to you, you do not have to leave your home to improve your living conditions. But Europe has embraced privatisation and globalisation too quickly and by that has forgotten how the EU has developed. The European welfare state was developed by very experienced conservative politicians who had realised that fascism had its roots in social inequality. That's why Europe has a legacy of a strong welfare state and many are too much in hurry to say good bye to it to please neo-liberalist economists. Already the first wave of globalisation ended in the catastrophe of World War I at a time when everyone thought that economic expansion and internationalisation would go on for ever. Now Europe is again entering a new era of insecurity in economic life. For the first time since the end of World War II Europeans can expect that their children will not be as prosperous and secure as they are today. But from a historical perspective Europe is better prepared for such a future than the USA, which did not make the same experiences in the 20<sup>th</sup> century. All compromises are flawed and contradictory, but the EU is the best

model of living together that Europe has ever had.

So how can this European model be saved and be made more attractive for its citizens? One solution that is clearly discernable from opinion polls and the interviews conducted for this paper is a process of decentralisation and drastic scrapping of superfluous rules and regulations that has to take place within the EU soon. The possibilities of the principle of subsidiarity have to be explored and the EU has to think about what can be delegated to national or even regional levels, because at these levels you are closer to the people and you can meet their needs and solve their problems faster and more efficiently. The EU should resort to designing the overall framework that can then be interpreted rather freely by the local institutions. Variety is the essence and the wealth of Europe – Europe is not like the USA, a federation of rather homogenous states - and the EU should draw on these strengths and resources and leave more decision making to the local tiers. The people even in small countries have to gain the impression that they count within the EU and that they have a say. For this boost of esteem of small nations the rotation of the EU presidency from one country to another can be of greatest importance because this is the time when even small countries are for six months at the core of the Union and the people are confronted with EU issues much more intensively than at other times because the local media cover all EU events in the country. People in Europe ask why they have to cope with all this burdensome centralisation that is only serving business interests, if the EU does not or cannot use its regulatory powers to protect its citizens from exorbitantly rising oil prices and a crippling inflation. European citizens demand that the EU speaks up in the world with one voice and strongly states the European case in matters of migration, energy, environment and human rights. Where is the benefit for the ordinary citizen, why is there a need for another European contract? And that's why they are suspicious of the Lisbon contract.

This leads to the second solution: the abysmal information policy of the EU has to be radically improved, so that the man in the street can understand what new projects, laws and contracts that affect him/her are about. It should be an easy task to regularly issue very short and simple versions of important projects in all languages of the Union to governments and the media, so that not every local politician and journalist attempts an interpretation of complex laws which results in an interpretation that is often a far cry from what the intention of the law really is. The EU has to manage to enthuse the people and convince them of the values of the European idea and its officials should not withdraw into their committees and offices and just do a good job as technocrats. If Europeans cannot be convinced of the benefits of the Union they will quickly do away with it with their traditional sense of rebellion against rulers who do not listen to their subjects. If some bemoan the lack of closeness of the Brussels bureaucracy to the European citizens, they miss the target. A few ten thousand civil servants in Brussels can never be close to all the citizens in Europe, that is what the local politicians are for, and that leads to the third important aspect. Local politicians have to be aware of the damage they inflict on the European idea if they continuously blame the EU for their own inadequacies. The EU has been turned into the scapegoat for unsolved problems of local governments all across Europe and this is visible in the frustration of the people with the EU. Politicians have to learn to think in a European context and also support the European policy at home that they agree upon in Brussels. A fourth

important issue would be to speed up the process of dealing with the democratic deficit, especially in the intergovernmental organisations. In the European Council the representatives of the national governments make decisions, appoint officials and draw up budgets behind closed doors. This kind of policy might have been acceptable in the 1950s and 60s, but is incompatible with the understanding of democracy in the 21<sup>st</sup> century. National politicians probably favour this principle of decision making because the lack of transparency then makes it possible for them to blame the EU in front of their local constituency for decisions they have supported behind closed doors.

Finally, the most important issue that has contributed to a widespread rejection of the EU is the neo-liberalist economic policy of the Union. At a time when the middle class – always a strong force in Europe - is losing out and sees its existence threatened in Europe, and at a time when working incomes are stagnating while company profits are rising, Europeans no longer accept that EU policy is solely driven by business interests. The middle class carried the economic expansion of the Miracle Years of the 1950s and 60s and in the 1970s for the first time in history there was a more or less fair distribution of incomes in Western Europe. But since then the wealth gap has drastically widened again and the Europeans blame the EU, not only their national governments. The reaction of those who feel a loss might be either to vote for populist parties or – hopefully - to stand up and try to influence European policy in a way that benefits the citizens more than the corporations. People do not accept any longer that the EU is still propagating liberal trade policies and the unrestricted free market with the exception of CAP (Common Agricultural Policy), while the USA and Asian countries, such as China and India, are protecting their home markets and restricting trade. So EU policy in future will have to concentrate more on preserving the European social model and shielding the European citizens from the harshest consequences of internationalisation. Otherwise it will lose legitimacy in the eyes of Europeans.

The European Union has been driven by economic interests from the start and social and cultural aspects have always been marginal as is discussed in this paper, and Europeans also do not expect the EU to take over the social responsibilities of their nation states as can be seen from the Eurobarometer 2008 and the interviews. On the contrary, they prefer more freedom of decision making on a national level, but they expect the EU to build a framework within which the European welfare state in its many varieties is not dismantled, but can survive, in a reformed way if necessary. And if the EU does not manage to become a “union with a human face” the Europeans will no longer support it.



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