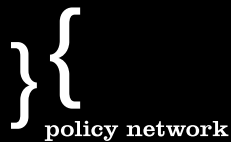




The European Union in the Global Age

Peter Mandelson



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About Policy Network

Policy Network is an international think-tank dedicated to promoting progressive policies and the renewal of social democracy. Launched in December 2000, Policy Network facilitates the sharing of ideas and experiences among politicians, policy-makers and experts on the centre-left.

Our Mission

Policy Network's objective is to develop and promote a progressive agenda based upon the ideas and experiences of social democratic modernisers. By working with politicians and thinkers across Europe and the world, Policy Network seeks to share the experiences of policy-makers and experts in different national contexts, find innovative solutions to common problems and provide quality research on a wider range of policy areas.

History

Policy Network was launched in December 2000 with the support of Tony Blair, Gerhard Schröder, Giuliano Amato and Göran Persson following the Progressive Governance Summits in New York, Florence and Berlin. In July 2003, Policy Network organised the London Progressive Governance Conference, bringing together 12 world leaders, and over 600 progressive politicians, thinkers and strategists. Since 2003, Policy Network has organised Progressive Governance Conferences in Budapest and Johannesburg, as well as a series of events and summits across Europe.

Activities

Through a programme of regular events, including Progressive Governance Conferences, symposia, working groups and one-day conferences, Policy Network's focus is injecting new ideas into progressive politics. Meetings are held throughout the year, often in cooperation with partner

organisations such as Fondazione Italianeuropei, the Wiardi Beckman Stichting, Fundación Alternativas, A Gauche en Europe, the Friedrich-Ebert-Stiftung, the European Policy Centre, the Progressive Policy Institute, and the Centre for American Progress. The outcome and results of the discussions are published in individual pamphlets that are distributed throughout the network, placed on our website and used as the basis for discussions at Policy Network events.

During 2005 and 2006, we have concentrated our energies on the renewal of the European Social Model. Our programme on the ESM was launched during the UK Presidency of the European Union and has investigated the principal means through which the various models for welfare states in Europe can be adapted to meet the challenges of the twenty-first century. Eighteen working papers were commissioned for the project, and six of them presented for discussion at a private seminar for the UK Prime Minister at 10 Downing Street one week prior to the European Summit at Hampton Court. Since then the debate has widened in a series of discussions across Europe in collaboration with other European centre-left think tanks in Italy, the Netherlands, France, Hungary, Germany, Spain, Romania and Finland. Similar discussions also took place around the UK. The first results have been published in a policy pamphlet, *The Hampton Court Agenda: a Social Model for Europe*, published by Policy Network in March 2006.

In 2007, Policy Network's work programme will broaden to include research on immigration and social integration, public service reform and social justice in a globalised world. More information on Policy Network's activities and research can be found on our website:

www.policy-network.net

About the Author

Peter Mandelson studied Philosophy, Politics and Economics at St Catherine's College, Oxford. A life-long pro-European, he led the British delegation to the first ever meeting of the European Communities Youth Forum in Strasbourg in 1979.

After working as an economist at the Trades Union Congress and as a current affairs TV producer, Peter Mandelson was appointed Labour Party Director for Campaigns and Communications in 1985. Later he was Tony Blair's Campaign Manager in the May 1997 election that brought Labour to power in Britain. In 1992 he was elected as Member of Parliament for the Northern English constituency of Hartlepool. He served until 2004 upon his appointment to the European Commission.

Peter Mandelson was appointed to the British Cabinet as Secretary of State for Trade and Industry 1998. He had responsibility for the introduction of Britain's first ever National Minimum Wage and oversaw new measures to strengthen regional development through the creation of Regional Development Agencies. In 1999, Peter Mandelson was appointed Secretary of State for Northern Ireland. Between 1999 and 2001 he negotiated the creation of Northern Ireland's power sharing government and the IRA's announcement that they would put their arms beyond use. He also introduced the radical overhaul of the police service in Northern Ireland.

Peter Mandelson is honorary Chair of *Policy Network*, a European and international think tank whose work and conferences promote the exchange and debate of centre-left policy ideas and European social democratic thinking. He was UK chairman of the UK-Japan 21st Century Group, which brings together leading academics, politicians and business people.

Peter Mandelson was made EU Commissioner for Trade in 2004. At his confirmation hearing in the European Parliament in October 2004, he said: "I am convinced that trade policy, used well, can make a powerful contribution to economic development around the world, as long as we recognise the needs of the poorest."

Preface

This important pamphlet by Britain's EU Commissioner, Peter Mandelson, comes at one of the most important junctures for the EU since the 1950s. March 25th marks the fiftieth anniversary of the Treaty of Rome, which set in train a continuous process of deeper European integration, helping to secure an unprecedented period of peace and prosperity for the continent of Europe. Yet at precisely the moment when Europe celebrates these achievements, the EU faces among the most profound challenges in its history. A strong case for Europe can still be made, but the EU's legitimacy is widely called into question – and not just in Britain.

At a time when the consequences of globalisation make the case for European co-operation more urgent than ever – managing trade with China and India, dealing with the challenge of energy and climate change, tackling issues of migration and security, protecting citizens from all forms of exploitation – there have never been as many doubts about the EU's future. Yet there is a real risk that the protectionist backlash against the EU will gain further momentum.

This is the underlying premise of *Policy Network's* research project on the future of Social Europe. We are exploring how the social well-being of Europe's citizens can best be advanced within a globalising world. This should be at the heart of everything the EU and Member States do. Too many Europeans currently see globalisation, liberalisation and the drive for greater competitiveness as a fundamental threat to their economic futures and livelihoods. This exacerbates declining confidence in the EU as a legitimate instrument to help people through periods of unsettling change and insecurity.

It is this lack of confidence in the values and delivery capability of Europe's institutions that now needs to be addressed, as two *Policy Network* books have recently argued: *Global Europe, Social Europe* by Anthony Giddens, Patrick Diamond, and Roger Liddle, and *Europe in the Global Age* by Anthony Giddens, both published by Polity Press. Peter Mandelson's timely contribution also explores how Europe might need to re-define itself in an age of globalisation.

We hope that this pamphlet will stimulate constructive debate across the EU about Europe's future. In particular, we would like to express

our gratitude to Victor Phillip Dahdaleh who has generously supported our research programme on the EU. Thanks also go to Lucy Greig who edited the text so diligently, and to all the staff at *Policy Network*.

Patrick Diamond and Olaf Cramme
Policy Network

The European Union in the Global Age

Peter Mandelson

The message of this pamphlet is simple. I believe that the European Union has been an astonishing historical achievement. Yet as it celebrates its fiftieth anniversary, the EU stands at a crossroads. We need to agree on what the EU is for in the twenty-first century and re-establish the support of the people of Europe for it.

My argument is that without a stronger and more effective European Union, the states of Europe will never manage to shape globalisation. Without a stronger and more effective EU, Europeans will not be able to project their shared interests and values in an increasingly multi-polar world. Without a stronger and more effective EU, European nations will not be able to set the rules, domestically and internationally, that are essential to the successful functioning of open and just market economies, and that enable our citizens to achieve prosperity.

Europeans need the EU now as much as in 1957, but for different reasons. It is the multiplier that will enable us to turn our national ambitions into credible global influence to shape the international system. Yet while the need for the EU has never been greater, it has never been more questioned or debated. This is the paradox which Europe's leaders must address if the EU is to serve us as effectively in the twenty-first century as in the twentieth. It is a project which should unite forward-looking people of the Left and Right across the continent and create the basis for a new pro-European consensus.

The Global Age

The balance of power in the world is changing fast. China and India are emerging as global powers and others such as Brazil will join them. Russia is resurgent – if unpredictable – on the back of its energy wealth. The leadership of the United States after the Cold War now seems less absolute. The revolution brought about by a combination of huge technological change, the shrinking of distance and the new global economic geography is reducing Europe's relative economic weight in the world. This trend seems certain to continue as Asia raises its share of global output, just as Western Europe did in the 1950s and 60s. We live in an economically multi-polar world and it seems likely that global politics will soon reflect this much more explicitly.

Alongside the rise of new powers, new political challenges and new security threats are emerging. Financial markets around the world are integrating, and production and supply chains are fragmenting. The pressures of rapid demographic change and migration, and the dilemmas of social cohesion in increasingly diverse societies, are growing. We are, in short, living in a period of global change that is deeper, faster and broader than we have ever known. We should take a positive view of this. Globalisation has enormous potential to extend individual opportunity and fulfilment in Europe and the rest of the world. For all the inequalities and injustices, and environmental drawbacks, the remarkable achievement of this period of globalisation is to have lifted more people out of poverty more quickly than at any time in human history.

However, there are no guarantees that it will prove sustainable. We should not forget that an earlier great phase of global economic integration came to an end on the battlefields in 1914. Sustaining success depends above all on politics, not economics. The risk today is not so much war as the failure to manage the political strain of such rapid change in societies around the world. In China, the tensions between economic development and political control have the potential to derail the world's most rapidly changing society. In other parts of the developing world, slow social, economic and political progress can feed resentment, extremism, and the pressure for mass migration. The challenges of energy security and climate change will require a second industrial revolution in societies

barely adjusted to their first.

Different but related tensions are driving politics in the developed world. There is nothing inherent in globalisation preventing Europeans from continuing to enjoy and enhance their quality of life. The values, institutions and traditions Europeans have developed over centuries – our strong education and social systems, and our innovation and creativity – remain huge strengths. With the right politics and the right progressive policies, globalisation can create myriad new opportunities for Europeans to exploit these advantages.

Nevertheless, there are real challenges. Rapid change means opportunity for many, threats for some and uncertainty for most. It is fertile ground for the voices of protectionism, defensive nationalism and isolation. Too many fear they will be the losers from change – that more jobs in China means fewer jobs in Europe or in the United States. The rhetoric of politicians on both sides of the Atlantic is often about ‘protection’. Although it is reasonable and only human to seek to protect what we have, it is not acceptable to deny others the opportunities we enjoy: that is where self-protection becomes protectionism. Protectionism offers an answer to our fears and anxieties about change, but it does so by mortgaging the future to the present. By promising false security, it stops us adapting to new challenges and so weakens us. Protectionism is the politics of the ostrich: it sells a political fantasy about resisting change rather than a practical strategy for harnessing it and the benefits it brings.

There is an opposite and equally wrong response to globalisation. If protectionism promises a world without change, what we might call ‘hyper-globalism’ sees globalisation as an irresistible economic force in which global capital imposes neoliberal economic policies on all governments. It denies our political ability to shape this change. The voices of hyper-globalism tend not to be found in global business, whose leaders are only too aware of the political risks their global investments entail, but they are not uncommon in politics, finance and the media.

My response to the challenges of globalisation is different. As a social democrat, I believe we must develop a positive politics of globalisation that recognises the benefits of change while acting to mitigate the costs, and that our economic strength must serve the higher

purpose of social justice – offering opportunity and access for all, and solidarity and protection for those who need it most. These are the values that should drive our societies. Without this social dimension, change will be contested, barriers raised, and the economic promise of globalisation squandered.

The Problem of Government in the Global Age

The politics of globalisation are the politics of change. Managing that change will be harder in the global age than in the past for the simple reason that the causes of change are often global in themselves. The nation state remains the single most important source of identity for most people in Europe, and the essential unit of our political organisation. It is what we understand and feel comfortable with. Reports of its passing are premature, to put it mildly. When our jobs are under threat or our heating bills double, we look first to national governments for answers. However, national governments alone can no longer provide these answers. Immigration, energy supply, the environment or terrorism may seem local or national in their immediate effects, but they usually have much wider causes.

That is why successful modern governments are changing the way they govern. They control less and to enable more. They are devolving power: down to local decision-making; out to business and NGOs; and up to international institutions. This does not mean that globalisation spells the decline of national government. It means that governments must find new ways of providing the essential goods on which their legitimacy depends – opportunity, security, participation and social justice. The nation state, acting alone and hoarding its sovereignty, is not necessarily the most effective vehicle for the management of all problems.

Accepting that we need to think more clearly about these different levels of political action is the crucial intellectual step into the politics of the global age. For us as Europeans, the EU is central to that. The EU gives us a capacity for continental-scale action in a world of continental-sized partners that will help secure our interests in the global age. Without it, the pressures of change will drive us back into competing

nationalisms at home and weaken us abroad. But across Europe, reactions against globalisation are undermining the very instrument – the European Union – that is our best hope for managing globalisation. The hyper-globalists argue that the EU is a regional anachronism in a globalised world. Defensive nationalists see it as the end of national sovereignty – at least their idea of it. For the protectionists, it is the thin end of the liberal economic wedge. All reject it.

It was those most at risk from Europe's transition to a knowledge and service economy – predominantly older people and manual workers – who voted no in the Constitutional Treaty referenda. Their anxieties are being exploited by parties of the Far Left and the Far Right. In many countries these parties are doing well, as the recent Dutch elections showed. Nor is Britain, which generally believes it is adapting well to globalisation, insulated from this trend – even if its first past the post system makes it difficult for extreme parties to move beyond the fringes.

However, the real danger today is that mainstream parties of the Centre Left and Centre Right give ground to the political fringe in the mistaken belief that protectionist gestures are necessary to limit the appeal of the extremes, when in reality they often magnify it. This too easily leads to economic nationalism which weakens Europe as a whole. What is urgently needed today is convincing leadership and a convincing case for how we best advance our interests and values in the global age. Leadership explains the opportunities of change, and responds to fear and uncertainty. It does this not by promising to pull up the drawbridge, but by equipping people to keep ahead of the curve. Leadership responds to people's need for identity and a sense of solidarity in a way that is open and inclusive; and leadership that places the EU at the centre of the argument about how we advance European interests and values in the world.

From a Continental to a Global EU

That means we need to learn to see the EU differently. This is not to dismiss the old arguments for the European Union, but instead to recognise

that we have moved beyond them. For much of the last 50 years, the challenges facing Europeans have been national and continental. The European Community was designed to integrate and pacify the continent in an age of coal and steel, and to strengthen European democracy against Soviet Communism in alliance with the United States. In rebuilding after war, the interests of producers, rather than consumers, took priority. European countries focused on increasing their trade with each other. Financial markets played a limited role in the wider economy. Jobs were for life – at least ideally. Union membership was high, social relations hierarchical and state intervention the norm. The welfare state was based on the male breadwinner family, personal freedoms were restricted and gender equality a dream.

After 50 years, the objectives of that continental phase of the EU's development have largely been met: peace and reconciliation and the spread of democracy, prosperity and security into Spain, Portugal and Greece, as well as the former Warsaw Pact countries. The transformation of Ireland from one of the poorest to one of the richest countries in Europe is a testimony to the progress possible under the EU. The EU is, by any measure, an astonishing success: a model harnessing competing nationalisms through economic integration that others around the world – in East Asia, Africa, and Latin America – are seeking to emulate.

However, the context and challenges today are different: they are global, complex, interwoven and rapidly evolving. A secure and prosperous continent will remain the basis of the EU's strength. Yet the key purpose of the EU in the twenty-first century is to provide Europeans and European governments with a level of organisation and action to defend their interests and values at the global level.

How can Europeans influence humanity's response to global challenges other than as part of the European Union? Will European countries, even the largest, be more effective in engaging with powers like China, India, Russia or the United States acting alone, or as members of the EU? Are we more likely to promote our trade and economic interests with the United States or China negotiating as a market of 500 million, or as separate markets of five or even 50 million? Is Britain, for example, influential around the world simply because of its colonial past, its military capabilities and its relationship with the United States, or

because it is also a central member of the European Union and has that collective weight behind it?

The answers are obvious. The only way for European nations to defend their interests in the global age is by using the EU to leverage the common interests and values it represents. To believe that, we must have confidence in the fundamental political bargain at the heart of the EU: that Europeans are stronger tackling the challenges we face when we work together; that by giving our fellow Europeans some influence over our decisions, we gain influence over theirs; and that this is worth doing because our interests and values are so intertwined that the compromises which are a necessary part of any form of political integration are worth the investment.

There are some who reject this argument. The hyper-globalists believe that regional groupings like the EU are irrelevant in a global age, and a protectionist obstacle to economic progress. If they once saw the single market as a force of economic liberalism, they now see it as a Trojan horse for protectionism. They hope that globalisation will force Europeans to abandon their political choices for forms of social solidarity and welfare provision which the hyper-globalists see as wasteful and unnecessary. Others believe that the enlarged EU is too diverse to make co-operation possible. They highlight differences over issues such as the role of the state in the economy, the use of force, or the Iraq War. They point to Britain and France as European extremes that undermine the idea of true co-operation.

It is true that Britain and France disagreed over Iraq, have different traditions on the role of the state in the economy and sometimes manage their relationship with difficulty, but these differences are skin deep compared to their essential shared values and interests. They have led world opinion on, for example, climate change and development aid. In some ways, their global vision and vocation are closer than any two other member states.

In terms of attitudes towards the use of force, there is an important cultural change taking place in the EU. The use of the military must always be the last resort, but it should be an option in support of a coherent and balanced foreign policy. Germany has played a critical role in the evolution of the EU in this respect. The remarkable feature

of Germany's military deployment in Afghanistan is not, as critical commentators highlight, the limitations on the way it uses its troops, but the fact that German governments have overcome history and persuaded the Bundestag and German people of the need for active German military engagement overseas, from Kosovo, to Africa, to Afghanistan.

From Iraq, which was such a divisive and damaging issue within Europe, there are many lessons to draw. One of those lessons is surely that European countries are more effective and more influential when they act in concert and that when they are divided, and the Atlantic is divided, they are less able to build global consensus. In a more positive way, this lesson has been learnt and used in European policy towards Iran.

The Value of EU Institutions

Many of those who accept that Europeans *should* co-operate reject the role of the EU's institutions in helping them do so. They see the institutions as an unnecessary straitjacket. It is true that European countries would still co-operate if the EU's institutions did not exist, but they would do so less effectively and predictably. Disagreements would be more likely to lead to stalemate or confrontation. Immigrants would be off-loaded from one country to another.

In reality, effective institutions for European co-operation are essential to help Europeans deal with the challenges of globalisation. In a large, diverse Union, there will be many ways in which the countries of the EU work together, but at the heart of European co-ordination is the so-called 'community method' in which the Commission takes the lead in proposing policies on behalf of Member States, reporting and accountable to them. It is a useful illustration of the political bargain at the heart of the EU.

Trade policy, for example, works this way. The role of the Commission is to build consensus among Member States on policy, and to defend and advance the European interest. With this mandate, the Trade Commissioner then acts as sole negotiator on the EU's behalf, but is held to account by the Member States – whether on tactics in WTO trade talks or the possibility of anti-dumping duties on the import of ironing

boards, shoes and strawberries to the EU. If EU Member States pursued purely national trade policies, each might differ marginally from the EU's policy. However, they would be frankly inconsequential in global terms, and therefore a poor instrument to benefit European citizens. By pooling their sovereignty on trade, each EU Member State has far more influence in global markets than they would have alone.

Given the caricature of the Commission in some Member States, it is worth underlining this point. The Commission, like any organisation, has its faults. It can be too hierarchical and unco-ordinated. But these flaws are insignificant compared to its strengths. The Commission is in many ways in the vanguard of modernising the EU. It is the single most effective driver of reform and of long-term policy-making, from areas where it is developing a strong role, such as energy security and climate change, to those where its role is to offer analysis and recommendations, such as demography.

The Commission is not the unelected Government of Europe, imposing change against the wishes of Member States. Its job is not to force Member States to do what they do not want to, nor is it to split the difference between opposing Member State views. Its job is to work with them to take decisions and make sure – through enforcement action if necessary – they respect the rules they have drawn up and signed. It helps Member States to go beyond specific national concerns in the pursuit of wider European interests. Whether in the end they choose to do so is up to them.

EU Policies for the Global Age

If the EU is to be at the heart of the answer to the global challenges we face then it must do so both by being an effective global actor and by helping European nations adapt their economies and labour markets to deliver prosperity, opportunity and social justice in our own societies. It must do so because in the global age, the traditional distinctions between internal and external policies are breaking down. In a global market, our internal economic strength both determines and derives from our international competitiveness. Three issues can illustrate the importance of the EU's

role in pursuing our external interests and values – and their connection to what is happening within our economies and societies.

First, climate change and energy security. What coal and steel were to forging the early EU, climate change and energy may be to the EU of the twenty-first century. If the EU did not exist, we would need to invent it to deal with these twin challenges. There can be no purely national European answers to climate change. They depend on having a market large enough to offer returns of scale for the investments we need to make in emission-reducing technologies and alternative fuels, and to give us the collective political weight to lead the international debate.

This is precisely what the EU is doing. The strengthened Emissions Trading Scheme will start to set a realistic carbon price, giving markets and companies the clarity they need. It will set a global standard which other schemes will follow. Binding targets will encourage the move to low carbon economies on a continental scale. This could never happen without the EU.

A shared energy policy is the essential counterpart to a common approach to climate change. As we become increasingly dependent on imported energy, often from unstable regions, European states need common approaches to greater energy efficiency, security of supply and more open, competitive energy markets. As with climate change, the Commission has a role as a catalyst for progress. Some Member States find the Commission too ambitious in freeing up energy markets, but the path of reform can only be set at the European level. In both these areas, energy and climate change, we will need to consider in time whether we should further strengthen the European dimension, for example by moving to the community method for the external aspects of these policies. This would give the EU real weight in its negotiations with the US, China, India and others.

My second illustration is development, and Africa in particular. Africa is a strategic issue for the EU in terms of development, climate change, energy and natural resources, migration and security. It is no coincidence that five out of nine EU security operations outside Europe have been in Africa. And it is no coincidence that the most significant efforts outside the WTO to put trade at the service of development – the EU's Economic Partnership Agreements with African, Caribbean and

Pacific countries – have Africa at their heart. 80 per cent of increased global aid pledged in 2005 (much of it intended for Africa) will come from Europe. By 2010, 63 per cent of all official development assistance will come from EU Member States and the Commission. For Europe it is a matter of enlightened self-interest and moral obligation.

Nevertheless it is an area where we can do better, and act with greater coherence. As European giving increases – both as a Union and as individual Member States – it becomes even more important that we give effectively. The way European countries spend development aid today is rational from a national perspective, but when looked at in the round, it is not. There are too many EU donors active in some sectors and in some countries, and too few in others. Some favoured developing countries are swamped by donors' visits and reporting requirements, whereas others are left to sink or swim.

European countries should not give up national development policies. They want to maintain their ability to use development tools in support of national policy goals, and some are cautious about the Commission's performance as an administrator of aid – in the past with some reason but much less today. However I believe that development budgets must be further Europeanised if they are to maximise change for the better on the ground. We need to pool more development resources, with a strengthened role for the Commission and stronger engagement from Member States to a better division of labour among themselves.

Third, enlargement. Hyper-globalists often argue that geography no longer matters. Nothing could be more wrong. The development of any global power is based on influence, security and prosperity in its neighbourhood. The EU's main policy in this area, enlargement – surely one of the most successful regional foreign policies in history – has not been based on force or subjugation. It has relied on the desire of European countries to transform their economies and societies to join a sphere of security, prosperity and solidarity and on the openness of other European countries to welcome them to do so.

It is a measure of the uncertainty and defensiveness across Europe that this most successful EU policy is now one of the most questioned, including in countries which have been among its greatest beneficiaries. For too many, enlargement has become a proxy for globalisation,

transmitting the shock of competition and change, rather than acting as a buffer against it. Our media are filled with stories of factories closing and jobs moving to cheaper locations in Europe or around the world. They are not, of course, filled with stories explaining that for every job that is 'lost', another is created in a different sector of the economy, and that this is (and always has been) the key to economic progress.

We must answer the concerns about immigration and illegal economic activity which enlargement provokes by setting out the rights and responsibilities of those seeking to join us, and by explaining that it is better to manage these pressures in a controlled manner within the EU rather than drive them underground. We have to explain honestly why further enlargement can be in the interests of Europeans – economically and politically – not least to meet our common demographic and competitiveness challenge.

Turkey is at the heart of this debate. Turkey is slowly undertaking an economic and social transformation as profound as the earlier change led by Kemal Ataturk. This process involves the interests of every European and will falter without European support. Understandably, people have concerns about the EU's ability to cope in future with such a large and different member. These concerns should lessen if the Turkish reforms, with the EU's support, succeed.

In any case, the answer cannot lie in offering Turkey a 'privileged partnership'. As Turkey already has such a partnership with the EU, it is in reality an offer of permanent second class status. Nor is it legitimate to exclude Turkey on the often unspoken ground that most Turks are Muslims. How does that fit with the European values of tolerance and secularism that we need to promote if we are to counter the religious intolerance and extremism now being directed against our societies?

Nevertheless, those of us who favour keeping the door open to further enlargement also have a responsibility to ensure that the EU has the capacity to function effectively as it expands. Widening of the EU through enlargement and deepening through further co-operation and integration have always gone hand-in-hand; for political reasons, because no policy based on widening or deepening alone will ever unite the EU; and for practical reasons, because as the EU takes on new members, it takes on new issues and preoccupations, and it becomes harder to run.

Institutional reform is necessary to ensure that an EU of 27 and more can function effectively. This should not be a new pre-condition for enlargement, but it is a statement of practical and political reality.

A Modern Social Market Economy

However important these questions, we cannot expect people to accept that they need the EU simply because the world is big and complex. The issues we face may be global, but politics is first local and domestic. People will only support the EU if it is seen to make a positive difference in their daily lives. Economic success is at the heart of our ability to provide the education, health and social systems we want and at the heart of our ability to be an effective global player.

The single greatest achievement of the European Union in economic policy is the creation of a single continental market of nearly 500 million people, with a single set of rules and the means to enforce them. Since 1992 the Single Market has added over 2 per cent to GDP in the EU and nearly three million jobs. It has created economies of scale, and a wider choice of quality goods at lower prices. European economic integration has helped make the City of London perhaps the world's pre-eminent financial centre, rooted in its proximity and access to the integrated European market. Without the Single Market, there would be far fewer cross-border mergers and acquisitions and far less corporate finance business. As the euro grows in strength as an internationally traded currency, it has also created new foreign exchange business.

Europeans have the right to live and work across the EU. Tens of thousands of French, German and Italian experts work in London, and tens of thousands of Britons live and work in continental Europe. They have automatic consumer rights when they shop outside their own country. European rules, rigorously enforced, protect consumers and preserve competition. Imagine as a business trying to sell goods in 27 markets, with 27 sets of rules open to local 'interpretation' to keep outsiders out. Many would simply not bother.

Yet the Single Market is not only the basis of economic strength at home. It is also the essential platform for Europe's global competitiveness.

Competition at home prepares companies to go global and acts to strengthen them; big in Europe, big in the world. The rules by which European companies operate in the future will be set at the continental and the global levels, not the national. The job of EU Trade Commissioners in the twenty-first century will increasingly be to influence global rules in ways which reflect Europe's values and interests. They will only be able to achieve this because of the single market. European regulations help set global standards, whether by establishing environmental standards for cars, or by promoting renewable energy, or by determining emission limits for conventional power generators. In so doing, they give EU companies a head-start as they seek to expand on the world market.

We need to strengthen the Single Market to respond to a more dynamic global economy, to deal with structural changes in the European economy and to cope with an enlarged EU. We will need to focus EU actions more strongly on areas where markets are failing to deliver the benefits of competition to the consumer. This will be particularly true in the most important economic sectors of the future, such as services and in key network industries, such as energy. We will need to use a greater range of tools to deal with a diverse market. EU-wide legislation will remain necessary, but we will need to make greater use of other approaches that engage industry in voluntary change. We will also need to ensure our external trade policies are better integrated with our domestic policies so that by working for greater competitiveness within Europe we can see the benefits in greater market access abroad.

Like the single market, the euro is a huge achievement of the EU which is under attack from both the protectionists and hyper-globalists. The euro has not destroyed jobs or undermined growth, whatever the claims of those who want to find scapegoats for weak economic performance. Without the euro and the ECB, interest rates in Europe would be higher. The answer to uninspiring levels of growth in the Eurozone is not for European Member States to control the ECB or to ditch the common currency – it is economic reform and better co-ordinated economic policies. As a young bank, the ECB rightly takes a firm line to meet its inflation target in the absence of credible, co-ordinated macro-economic policies in all parts of the Eurozone. However, the evidence shows that the ECB has responded well to economic changes in the Eurozone. In

time there may be a case to look again at the Stability and Growth Pact or other aspects of the functioning of the Eurozone. But with the euro still in its infancy, politicians in Europe need to ensure it grows up strong, rather than undermining it through public criticism of the ECB.

Tackling Economic and Labour Market Reform

The Single Market or the euro alone are not panaceas for delivering dynamic economic growth in Europe. The EU today may be the largest combined economy in the world, but it has been falling behind the United States over the past decade in productivity and GDP per capita. European governments broadly know the reforms they need to boost economic growth: investment in education and training; a focus on innovation, research and development; moving to high-value added sectors in all parts of the economy; reforming labour markets and keeping public finances under control. However, the transformation to a knowledge and service economy is as profound and in some ways as difficult as the earlier switch from agriculture to industry. Many of the most important levers of economic policy that will drive this reform quite rightly lie at the national level. Yet reform is politically difficult. As the Luxembourg Prime Minister, Jean Claude Juncker, famously put it, “the problem is not knowing what we ought to do, but getting re-elected if we do it.”

It is difficult to judge how brave Europe’s leaders have been in pushing reform. There is a strong cyclical upturn in the European economy and it is not yet clear how much structural reforms have contributed to an improvement in the EU’s growth potential. There are some hopeful signs. European business, particularly in Germany, is restructuring its operations and pursuing wage moderation with the co-operation of the trade unions. Germany has also seen strong job growth in the last year or so, particularly in part-time work. In Spain unemployment has fallen from 20 per cent to 8 per cent in little over a decade, despite inward migration of three million. Across the EU the employment rate of older workers has risen by some 5 per cent in the past five years as a result of widespread labour market and welfare reforms.

On the other hand youth unemployment is still high – nearly

20 per cent in France and nearly 40 per cent in Poland. Investment in research and development lags far behind the 3 per cent EU target. The labour market position of the low skilled is worsening. Too many young people – one in six – are still leaving school early and even more lack basic skills for economic survival in the knowledge economy. In higher education too, many Member States are failing to deliver either excellence or access. Only 29 of the world's top 100 universities are European, 54 are American.

Employment and productivity are linked to wider social questions. The incidence of child poverty appears to be rising in many Member States. Social mobility may be in decline and inequality in pre-tax incomes is rising. Birth rates at present levels threaten the sustainability of European societies. There are big issues of generational equity between young and old. Europe needs more migrants but most Member States are facing complex problems in integrating them successfully in their school systems and labour markets. These are serious potential causes of polarisation in our societies.

Most difficult of all, we need to reform our labour markets to overcome inequalities of opportunity and the problem of exclusion. Reform is not simply a code for deregulation. Workers in a competitive world need to feel that certain minimum standards are guaranteed; that if they lose their job they will be equipped to find another one; that if they have to settle for lower pay, wage insurance will help pick up the difference. Progressive, active labour market policies are not cut-price alternatives to the generous social protection some Europeans currently enjoy – they are not even necessarily cheaper, but they are more effective and more than simply accepting structurally high unemployment.

The key to progress is for EU Member States to take advantage of the cyclical improvements in public finances to press ahead with structural reforms. We need to increase the proportion of public spending on future-oriented investments – early-years education and childcare, university reform, the creation of collective European centres of excellence in research. We need to reform welfare systems to help the economically inactive and those displaced by rapid economic change move on to new jobs. We know it is possible to reconcile social justice and economic dynamism because many EU countries, in particular in Scandinavia, are

already doing it.

Protectionists want a rigid, social Europe to prevent change. The hyper-globalists think none of this has anything to do with Europe. Yet there has always been a strong social dimension to Europe: from the commitment to gender equality in the Treaty of Rome and its free movement of labour provisions, through the Social Funds and Structural Funds to the framework of basic employment rights under the Social Chapter, and the promotion of social partnership and recent anti-discrimination laws.

The issue here is that while Member States are responsible for most areas of social policy, important economic levers linked to this policy area are under the control of Brussels, for example, legislation setting the rules for business and the Single Market, and enlargement policy which affects the movement of labour. In earlier years this division of responsibilities worked well – EU policies drove growth and Member States looked after social questions of distribution, but this political bargain will only continue to work if there is a common approach. If Member States begin to see economic liberalisation or enlargement as the enemy of social welfare in their countries, the EU has a problem. We have already seen symptoms of this in the debates on the Services Directive, imports from China and the free movement of workers from new Member States.

We need to re-establish that consensus, based on a proper analysis of the structural changes taking place in European societies, or support for the Single Market and the very idea of European co-operation will weaken. The role of the Commission is not to carve out a new role in this area, but to stimulate discussion that can help re-build consensus on our social and economic goals. This is the purpose of the review of the Single Market and the European Social Model which the commission has recently launched.

A Stronger, More Effective EU

This pamphlet is not about the EU's institutions. Having a correct appreciation of the issues before us and the right policies to address them

together is more important for the future of the EU than a debate on institutions and structures. Yet that doesn't mean that the institutions are irrelevant. They are a vital means, but not an end in themselves.

Europeans will be rightly sceptical of any debate about the institutions and treaties of the EU which is not grounded in a new and convincing view of the purpose of the EU in the global age. The question that really matters at the moment of the fiftieth anniversary is not what can be salvaged from the Constitutional Treaty, but what changes, including those proposed in the Treaty, are needed to make the EU more effective. Our institutional answers should flow from our debate about the policies and purpose of the EU.

My approach to this debate is dictated by my belief that the interests of Europeans are pursued most effectively – both at home and abroad – when European states act together through common policies supported by the institutions of the EU.

Given what we, as Europeans, need to do in the world, what are some of the key ingredients of reform in the way the EU works? First, the EU's capacity to influence international events in the global age must be strengthened. In addition to the sometimes divergent foreign policies of Member States, the EU's weight in the world is diminished by the division of responsibility for different areas of external affairs between the Commission and the Council of Member States. The two institutions co-operate, but not as closely as they should. With China, for example, our current system means we have much greater difficulty than the United States in harnessing our trade, economic and political relations in an effective and coherent manner.

We now urgently need a single senior person with overall responsibility for coordinating those areas of external policy that the EU Member States have decided to pursue collectively. The role would be to bring together the political weight of Member States and their overall foreign policy objectives with the financial, trade and other levers of the Commission. This does not mean the end of national foreign policies or foreign ministries, and it does not spell the birth of a European superstate. It means an end to a self-imposed obstacle to using effectively the instruments of external policy we have already pooled.

Second, as the EU enlarges, we need to maintain our ability to

make effective decisions. The time has come to replace the rotating Presidency with a more stable system, including an elected President of the European Council to give more consistent strategic direction. We need a system of voting that does not need to be reformed every time a new member joins and which fairly reflects the size of Member States.

We will also need, in some clearly defined areas, to move to more voting within the EU by qualified majority. Taking decisions in this way is not a loss of sovereignty unless the interests of European countries are so different that co-operation diminishes the effectiveness of all, rather than increasing it. However, in the vast majority of cases, majority voting gives Member States meaningful sovereignty and real influence, because it allows them to influence the decisions of others and set the direction of a bloc of nearly 500 million.

The larger the Union, the more important is our collective ability to decide. The example of Justice and Home Affairs is instructive because in this area the extension of collective action is as contentious as it is necessary. There can be no purely national answers to the growing pressures of immigration on the management of the EU's borders. Yet European governments co-operate cautiously in these areas of policy. That needs to change, however sensitive and difficult the issues. As things stand, it is still much easier for terrorists or people traffickers to co-operate across borders than it is for the forces of law and order.

Third, strengthening democracy and accountability in the EU is critical to its future. It is important for the quality of decision-making in the EU, and to restore a sense of public confidence. The EU is caught up in a growing lack of trust in political institutions across the nation states of Europe. As the political institutions people trust most are those most local to them, it is no surprise that the Brussels system is seen with suspicion. We understand that we need international responses to global problems, but our gut feeling is that we are surrendering control.

The solution here is largely in the hands of the Member States. The more national politicians make Brussels a scapegoat for domestic ills, the more difficult it becomes to achieve reforms that could make the EU more transparent and democratic. Politicians cannot in one breath say Europe should stop wasting its time on institutional reforms and in the next criticise Brussels for a lack of accountability.

The European Parliament has grown enormously in importance in recent years. It is exercising real influence in a growing range of areas. This Commission President was elected by the Parliament and the current Commission as a whole was endorsed by it. The consequence will inevitably be that over time the Commission will become more of a political and less of a technocratic body. This will create more risk, but in a pluralist society the fresh air of democratic politics should be allowed to blow. This does not only apply to the Commission and its accountability to the European Parliament, but also to the Council, where Member States need to be ready to allow greater transparency and the links between national parliaments to be strengthened.

Because of its central role in an effective EU, reform of the Commission is an important issue for debate. The main question about the Commission in an enlarged EU is whether it is too large to be effective. There are good arguments for fewer Commissioners. This is why the Constitutional Treaty committed to ensuring that in future there would be fewer Commissioners than Member States in the Union. Yet size is not the only factor in effectiveness. Leadership and legitimacy are critical. José Manuel Barroso has provided the right leadership for this Commission. And any changes would at the very least need to preserve the legitimacy of the Commission in the eyes of Member States.

Finally, the budget. Any discussion about money in an organisation as important as the EU will never be easy. However, we do need a more rational and less contentious system for deciding the EU budget. And we need a reformed – and not necessarily larger – budget to enable it to equip Europe for the global age. The reform of Europe's agriculture set in train in 2003 should continue in the future, bringing European farmers over time and at a sustainable pace closer to the market, encouraging them to focus on high value-added produce and supporting the development of a true common rural policy. We must channel a higher proportion of our resources to our priorities, using European money more strategically to leverage change and innovation throughout the EU in areas such as environmental technologies, research and development, education and social policy.

Conclusion

The political reactions in Europe to the economic changes of globalisation risk driving European countries apart, not together. In doing so, they also risk weakening the very institutions and the habits of co-operation which are necessary for us to respond successfully to the challenges of the next 50 years. As proud as we are of the 50 years of consolidation and peace we mark this year, the EU needs a new rationale for the next 50.

The rationale for the EU in the twenty-first century is to be our response to globalisation both at home and abroad, in projecting Europe's collective interests in a globalised world, and in equipping Europeans for the economic and social challenges it brings at home. The interests and values of Europeans are sufficiently similar that they *can* be pursued jointly, and in an age of global challenges and continental powers they *must* be.

The task for European leaders today is to build a new consensus based on a positive politics of globalisation, with the EU at its heart. Today too few are taking up this challenge of leadership. Those who have proclaimed their commitment to the EU, on the continent in particular, have too often failed to make the positive case for globalisation. Those who have made a positive case for globalisation, as in Britain, have too often ignored the EU's central role in the global age.

There is no single formula for building this positive European politics of globalisation. Every country will need to find its own mix of policies, its own balance and its own language, but there must be a common and central European dimension to our endeavour. It must be based on a positive story about the value of European co-operation. A bit of Brussels bashing is normal in all domestic politics, but European countries cannot blame Brussels for every unpopular decision or treat European co-operation as a zero-sum game and then wonder why public consent for European Union disappears.

This pamphlet is not about Britain and the EU, but it is informed by my experience as a British politician and a European Commissioner. I believe that the EU today is a place where Britain can feel at home in a way that it has not been for much of the past 30 years, and it is a place that is hungry for ideas and commitment from Britain.

As the debate over the EU's institutions grows in 2007, Britain will be faced with a choice. It can play a leading role in making the case for the EU. It can articulate the ways in which the EU can benefit Britain and Europe as a whole, engage in the debate over the changes the EU needs to be effective in the global age and so play a central role in defining the future of the EU. Or it can watch others take the lead, criticise from the margins and be forced in the end to go along despite public opinion – or to veto. In either case a marginal role in Europe would be the result.

There will always be differences between British parties on particular European issues. That is natural and healthy, but the opportunity exists today to build a new political awareness in Britain around a positive agenda for the EU – and to remove Europe as the poisonous issue in British politics it has been for the past twenty years.

Building a new political consensus is difficult, painstaking work and is a project of many years. I am convinced that in the difficult challenge of framing a compelling response to globalisation lies the opportunity to build a new consensus on the role of the European Union in the global age.

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This pamphlet argues that the European Union needs a new rationale for the twenty-first century. This is to secure the interests and values of Europeans in the global age, and to be the essential instrument for Europe in dealing with global challenges and continental powers. The task for European leaders today is to build a new consensus based on a positive politics of globalisation with the EU at its heart. The EU must take its place as powerful force for good in the new global order.

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