

The Challenges ahead – The European Agenda in 2009

Introduction by Emil J. Kirchner, University of Essex

Given the extent of the current economic and financial crisis, there are significant challenges ahead. Although I do not count myself among those who believe that the global recession is necessarily a prelude to political and social apocalypse, I think that some of the current economic and financial problems will affect EU social cohesion, political stability, energy and environmental matters, and foreign affairs. There will, therefore, be a burgeoning European agenda of matters to address and deal with not only this year but in the next few years as well. Before I turn to the agenda items, let me deal first with the challenges.

Challenges and Opportunities

Challenges present opportunities. Yes, there is a real challenge about how to overcome the present financial and economic crisis. But there are also opportunities to introduce long-term progressive measures which foster inter-state cooperation and enhance European integration generally.

EU history tells us that when crises were translated into opportunities long term benefits for all states accrued. For example, in the 1970s the Eurosclerosis crisis gave impetus to the internal market programme.

EU history also tells us that when such opportunities are neglected there are long term negative consequences. This was the case with energy policy when in 1973/74 we had

a serious crisis over oil supply. But instead of concerted action, individual states initially tried to make bilateral arrangements with oil suppliers, and then to opt for either nuclear energy sources or indigenous oil and gas energy sources.

In the midst of depleting indigenous energy sources, rising energy demands and growing dependency on energy suppliers from outside the EU, especially Russian natural gas, we find that these stop-gap solutions have prevented us from taking measures to establish appropriate infrastructure links, or what are called interconnections, especially in gas distribution outlets and in gas storage. These are just a few of the shortcomings.

What is more, the absence of a genuine energy policy has not only exposed us to high levels of dependency on outside energy supply, it has also made us vulnerable to continued gas supply, as the 2006 and January 2009 Russian gas disruptions have demonstrated.

The Need for Concerted Action

The speed with which the financial and economic crisis spread has demonstrated the interconnectedness of national economies. This speed also illustrates that concerted action is necessary for ameliorating or dealing with the crisis. However, in addition, there are a number of other reasons why concerted action is needed. Firstly, concerted action is needed in economic and financial affairs, in order to preserve the fabric of the internal market, which is a key component of EU prosperity and stability, and to preserve the necessary underpinnings of the Euro. Failures to preserve the integrity of

the internal market or its associated competition rules could revive the old beggar-thy-neighbour problems and their unfortunate links with nationalism and conflict.

Secondly, concerted action in economic and financial matters is a pre-requisite for making progress in the fields of energy and environmental policy, again two vital components for Europe's economies and societies.

Thirdly, in order to avoid international terror organisations taking advantage of perceived economic, social and political ills within the EU, concerted action is required. This could take the form of burden sharing in military missions such as in Afghanistan. Moreover, the need to respond to international conflicts will grow rather than diminish: Sudan/Dafur, Congo, and Somalia, to name some of the more pressing areas of conflict.

Yet while these dangers prevail, EU governments have not gone far enough in coordinating a rescue package for measures in the economic and financial field. There is still reluctance to upgrade sufficiently the levels of coordination; partly because some countries, or their approach to financial regulations, are considered more to blame than others; and partly because of the different approaches countries take to public debt levels. Moreover, governments are tempted to entertain short-term measures.

Meantime, as economic growth rates falter and unemployment rises in the EU, the level of social unrest is likely to rise. All this is likely to put strains on the welfare system, affect political stability through fragmentation in the party systems, and result

in difficulties in forming and sustaining coalitions. The election campaign and composition of the EP after July this year will be a barometer of how far we have already moved along this spiral of linked economic-social and political ills. It might also provide a taste of what is likely to follow in national elections, such as the German one in September this year.

Economic nationalism, as advanced through the protection of the national workforce, the appeal to buy domestic products, or the relocation of plants for the purpose of protecting national workers, might produce short-term benefits but will have negative implications in the medium to long run.

I realise that this is easier said than done. But for governments to maintain a sufficient degree of public trust, more forthright communication by governments and leaders on their actions is necessary; possibly associated with a certain degree of humility to admit when and where mistakes have been made. A similar argument can of course be made for the European Commission, where there are traditional problems of transparency and accountability

The EU Record SoFar

Europe's efforts at crisis management have taken shape largely at national level, with little concern for the EU's wider interests...such the internal market, the Euro and prosperity and stability of EE

The Commission has so far played a low-key role in either taking initiatives or providing a coordinating role. What is more, the Commission has turned an almost

blind eye on government attempts to re-nationalise part of their banking system, thus neglecting its watch-dog function in the competition policy. However, given the extent of the financial crisis, it is perhaps not so surprising that the Commission has simply suspended activities in this sector. The real danger, and hence challenge, for the Commission is to avoid banks being put under pressure by their governments to maintain funding for national champions and to avoid lending to companies based in other European states.

The Commission must remain vigilant in other sectors as well. Particular attention should be paid to the service sector, which accounts for around two-thirds of economic activity across the EU, but where productivity has been weak, and more competition at both national and European level would be desirable. Indeed as a recent report of the Centre for Economic Reform suggests “a retreat from the liberalising agenda of recent years would cause as much damage to the European economy in the long term as the financial crisis is doing in the short term.”

Equally important, the Commission must insist that derogations in state aid, such as in the automotive industry, are not abused by governments through such manoeuvres as the re-location of manufacturing plants in order to benefit one national work force over another.

How to Keep the Public On Side?

Lame European banks and capital markets will no longer provide an impetus for economic growth – in fact they may find themselves facing significantly tougher

regulation. What makes the problem more difficult is that popular trust in the financial systems is dwindling and is co-joined by a public perception that “it’s billions for bankers but pennies for the people”. Measures by governments to fight against tax evasion in tax havens will help to sooth public sentiments to some extent but may not alleviate the sense of having become the main losers in the crisis. However, how the public, especially the middle classes, will accept that it is they who, through their taxes, will eventual have pay for all the mess or the huge debt remains to be seen.

Crisis requires leadership ...the problem is that the requisite political will is in scarce supply. Messrs Sarkozy, Brown and Merkel would do well to remember Benjamin Franklin’s words”we must all hang together, gentlemen....else, we shall most assuredly hang separately”.

The Agenda for 2009

Setting the agenda on important financial, economic and political matters raises the customary question: should Europe rely on the US to determine the agenda, join the Americans in this effort, or do it independently? No easy answers can be given to this question, and what will happen in practice is that at different times one or two of these choices will be used. The following will provide a brief review of some of the major events in 2009 by listing the major issues at stake and the likely agenda setter.

• G-20 Meeting in London in April

The Obama team, together with Gordon Brown, will probably try to have a new financial rescue package adopted at this meeting. The de Larosiere report, which calls for a new European risk council to evaluate risks in the financial system, will form the basis of the EU’s proposal. It will be interesting to see how vigorously this report will

be presented and what reception it will get from the non-European partners of the G-20

- **The NATO summit** in April will have to deal with the pending membership issue of Georgia and the Ukraine, which is not only antagonising relations with Russia, but has also divided NATO members internally. The NATO meeting may also touch on developments surrounding the plans for an US missile shield in the Czech Republic and Poland.

- **EU-US summit** in June. Besides the need to improve relations between the EU and the US the two need to work together on: (a) disarmament and non-proliferation; (b) Afghanistan, where a new strategy is needed. Increasing military contributions may be part of it, but priority must be given to governance and human security; (c) Iran, where thought might be given to a revival of the EU-3 initiated multilateral mechanism; and (d) Israel-Palestine, where the EU should step up pressure to bring about a solution to the conflict.

- **The Irish Referendum on the Lisbon Treaty**, expected in October, will be a key determinant for the future of EU institutional and policy developments. Failure of that referendum would mean a continuation of the Nice Treaty, but would also introduce severe restraints on the future workings of the enlarged EU.

The Copenhagen summit on climate change in December. Acting together and leading by example, the EU and the US should reduce GHG emissions, improve energy efficiency and engage key emerging global players in the run-up to this critical summit.

- **EU-Russian relations** The EU needs to clarify energy issues with Russia, especially secure gas supplies. It may also give consideration to the proposal of President Medvedev regarding a European security architecture.

