CEPS COMMENTARY
Thinking ahead for Europe

No need for a master plan from Brussels

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At high-level gatherings of European Union elites, one often hears statements like the following: "Europe must integrate and create an economic governance at the centre to defend its social model in an age of globalization." European Commission President José Manuel Barroso and his counterpart at the European Council, Herman van Rompuy, are particularly keen on this argument.

But the claim that only deeper EU integration can save the 'European' social model from the onslaught of emerging markets is not true. Yes, globalisation represents a challenge to all EU member states, but it not clear how more integration will help them to confront it. More European economic governance is not a panacea.

In fact, it is not even clear which European social model needs to be saved. There are enormous differences among EU member states in terms of the size of their public sectors, the flexibility of their labour markets, and almost any socio-economic indicator that one can think of. The common elements that are usually identified with the 'European' social model are a quest for equality and a strong welfare state.

The main problems for Europe's social-security systems are slow economic growth and aging populations (a function of low fertility). But neither can be addressed at the European level. This is obvious for fertility, which is determined by deeper social and demographic trends that cannot really be influenced by government action, whether at the EU or national level. And, while aging could be transformed into an opportunity if the elderly could be made more productive, this requires action at the national and societal level, not more European integration.

It is understandable that European leaders talk so much about globalisation, given that the European economy is rather open for its size, with exports amounting to about 20% of GDP, compared to just 12% in the US. The (re-)emergence of big economies like China is thus bound to have an even more profound impact on Europe than on the US.

Economists long ago recognised that it is theoretically possible that the emergence of new growth poles abroad does more harm than good to an economy. This can happen if the new economic powers are more important as competitors than they are as customers. But this does not seem to be the case, even with respect to China. The EU does have a bilateral trade deficit with China, but it also exports a lot to the Chinese market – much more than the US does.

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In any case, given that trade policy is already fully unified at the EU level, there is little scope for further integration; even if one accepted the point of view that globalisation constitutes a threat to Europe's social model. At any rate, the EU has generally contributed constructively to all major rounds of global trade liberalisation.

With the EU contributing modestly to keeping global markets open, European exports have held up rather well, with the EU maintaining its market share. Although it has lost ground relative to the emerging markets (especially China), it has by far outperformed other developed economies like the US and Japan. This is true even in services, despite slow productivity growth in Europe. It is thus wrong to assume that economies based on cheap labour are massively outcompeting the EU. Moreover, this relatively good trade performance has been achieved with a much lower increase in wage inequality in Europe than in the US.

The various European social models have thus been, on average, quite robust – most likely because of the absence of a master plan from Brussels on how to react to globalisation. Each member country had to adapt in its own way, knowing that it could not bend the rules of the game in its own favour. Not all succeeded, but the successes (e.g. Germany) far outweigh the failures (Greece).

The key to ensuring the future of Europe's social security systems, and thus its social model, is faster growth. And, again, it is difficult to see how 'more Europe' would improve the situation. The obstacles to growth are well known, and have existed for a long time without being removed. The reason is quite simple: if there were a politically easy way to generate growth, it would have been implemented already.

Moreover, most national policy-makers have a tendency to blame 'Brussels' for all of their difficult choices, thus creating the impression at home that the economy would improve if economic affairs could be managed without EU interference. More integration is preached at the European level, but implicitly portrayed at home as an obstacle to growth.

This double-speak on the part of national political elites is perceived as such by voters, whose trust in both national and EU institutions is naturally declining. The claim that Europe needs more integration to save its social model has long lost its credibility. Integration is irrelevant to that question, and, in those areas where deeper integration really would benefit Europe, it appears to be the last thing that national leaders want.