

# CONTEMPORARY EUROPE

## A DIGEST OF GLOBAL CHALLENGES AND A LABORATORY FOR SOLUTIONS

Jacques Attali

**I**N THE AFTERMATH of World War I, French poet and thinker Paul Valéry posed one of the most far-sighted questions of our epoch:

Will Europe become what it is in reality—that is, a little promontory on the continent of Asia? Or will it remain what it seems—that is, the elect portion of the terrestrial globe, the pearl of the sphere, the brain of a vast body?

This question remains essentially unanswered nearly a century later.

**I**ndisputably, Europe has been—for a large span of the modern era—at the heart of the world's political, military, economic, technical, and cultural history. From Bruges at the beginning of the twelfth century to London at the end of the nineteenth, it has concentrated many of the world's heart-cities, attracting creative classes who spearheaded innova-

tions in many fields—from art, science, and philosophy, to banking, transport, and communications.

Nonetheless, at the turn of the nineteenth century, the 'heart' of the Global Merchant Order moved to the other side of the Atlantic Ocean: to three American cities where the innovations which have been at the core of the contemporary era

arose: the piston engine in Boston, the electric engine in New York, and, finally, the microchip in Los Angeles.

**A**s the global economy's core has been shifting towards

the Pacific, Europe has feared finding itself on the sidelines of the twenty-first century's international stage, especially as the relative decline of the "American Empire" is giving way to a polycentric world in which non-European actors play a growing part.

*Europe has been, and will increasingly be, a digest of global challenges ... and a laboratory for their solutions.*

*Jacques Attali is an economist and writer. He was the founder and first President of the European Bank for Reconstruction and Development. He is President of Positive PlaNet, an international non-profit organization assisting microfinance institutions all over the world, and CEO of A&A, an international consulting firm.*



Photo: Jean-Marc Gourdon

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This should not, however, be interpreted as meaning that the Old Continent will have no influence on the shape of tomorrow's world. It will actually be quite the opposite. For Europe has been, and will increasingly be, a digest of global challenges ... and a laboratory for their solutions.

**O**ver the coming decades, Europe will face a set of challenges around four dimensions: its demography, its economy, its security, and its political stability and project.

The first of these challenges is perhaps the most predictable, as demographic

trends are well known. The ones that will most strongly shape the Europe of tomorrow will be the aging of the population and the diverging dynamics between the countries of the continent.

Europe's share in the rising global population is set to decline, from about 7.2 percent today to less than 5.5 percent in 2050. The increase in the world's population over this time horizon will indeed be driven mainly by the demographic dynamism of developing countries. Africa's population, in particular, is expected to double by 2050, adding over a billion inhabitants to the continent—and is predicted to reach a

total of four billion by around 2100. The proximity of Africa is therefore clearly the chance of Europe future.

The population of EU member states is set to start declining from 2035 on, or at best remain constant, below 520 million. Many states will, like Germany, see their population both decrease and age: the Germans, who now number about 82 million, will be just 73 million at best, and 66 at worst, in 2050, and two out of every five inhabitants will be over 60 years old. The dynamism of French (as well as Irish) demography constitutes an exception: provided recent demographic trends persist, France, which now counts 65 million inhabitants, will have over 74 million inhabitants in 2050; one in three of whom will be over 60.

Those diverging trends will have significant consequences for the cohesion of Europe. Demographic disparities in a currency union may eventually become unbearable, just as disparities in the fields of public debt and competitiveness have proven to be.

The issue of diverging trends will also be at the heart of the second

challenge that Europe will have to address—that of economic performance.

European countries still bear the scars of the global financial crisis as, in their case, recovery was interrupted by another shock: the sovereign debt crisis. This crisis has challenged the integrity of the Eurozone, exposing the fragility of a currency union that has not reached the same level of integration in the monetary and fiscal fields.

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Sovereign debt has grown at a rapid pace during the crisis, reaching about 94 percent of the Eurozone's GDP. The reduction of the burden that it has come to represent will take time: it should only be back to its 2010 level (84 percent of GDP) in 2020—and this is still far from

pre-crisis figures, which were already significant: in 2005, government debt represented 69 percent of the Eurozone's GDP.

A high level of sovereign indebtedness is not the only lasting impact that the global financial crisis has had on the European economy. Seven years since its onset, unemployment is still above 11 percent in the Eurozone, and, according to the latest IMF forecasts, it will remain at high

levels (above nine percent) over the 2020 horizon.

More than 22 percent of youth are unemployed in spring 2015, and this average figure encompasses very diverse situations, from countries where youth unemployment is limited (it is around seven percent in Germany, for instance) to others, like Greece or Spain, where more than half of young people are unemployed.

The ability of Europe to overcome the current crisis is a source of concern, especially since the continent's delayed economic recovery risks leaving it a laggard in core sectors of the new industrial revolution.

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Telecommunications and digital technologies are a case in point. While Europe invented the GSM standard for second-generation digital cellular networks (at the time it quickly became a global standard for mobile communications), it is lagging far behind the United States and developed Asian countries in the deployment of fourth-generation (LTE advanced) infrastructures—key to providing very high-speed internet access to mobile phones and their applications ecosystem. Indeed, the European telecom sector is too fragmented to

engage in the necessary investments for infrastructure modernization—causing an annual prejudice to the European economy estimated to €110 billion.

While Europe gave birth to Nokia—a long-time unchallenged, leading phone maker—it missed the smartphone revolution and is now totally absent from this industry. Worse, it never set foot in the field of operating systems, even though these are where the value of the telecom industry truly lies. This layer is now fully

dominated by American actors, which set standards for application development.

Last but not least, while Europe barely took the turn of Web 2.0, it is now terribly under-

represented in the revolution of the Internet of Things, smart networks, and, linked to the first two, big data analysis. Except for a few players, like SAP, most major actors of the cloud computing and big data analysis platforms are American. Moreover, the leading companies in what has been called—by General Electric's Chief Executive Officer Jeff Immelt—the “industrial internet” in the fields of smart energy, smart transport, and, generally speaking, smart cities, are American or Asian.

For Europe, these absences constitute a major risk for two reasons: European

companies risk losing competitiveness compared to their American and Asian counterparts as they fail to keep the pace of innovation in manufacturing, services, and processes; and Europe's economy risks losing the value of data to the benefit of the United States and, to some extent, Asian economies, where European data is stored and exploited.

It is not too late for Europe to again become a driver of innovation and an economic powerhouse in the digital age. The continent has solid fundamentals, among which are its education systems and research centers, world-class engineers and mathematicians, and high levels of R&D investment.

In order to bridge the growing gap with the United States and the most advanced Asian economies, however, it will take much more active and coordinated industrial policies among EU member states, more investment in key infrastructure, and a more developed and risk-taking financial system to support early-stage innovation.

The aforementioned major economic and demographic challenges, which are likely to change the relative position of Europe on the global stage, are among those that can be predicted today with a fair degree of certainty.

Other challenges are less predictable, however, as both their materialization and the form they will take will be contingent upon the will and actions of men and countries.

This is, of course, the case for security challenges—with Europe being likely to face, in the coming decades, both “classical” geopolitical tensions (which typically pit states against each other) and new threats (which may also involve non-state actors).

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A major, if not the biggest, achievement of the European Union has been the preservation of peace on the continent since 1945. However, the Balkan wars of the 1990s have already shown that conflict could still take place on European soil—on the outskirts of the European Union.

More recently, the Ukrainian crisis has reminded us that the possibility of a war between states should not be removed from the range of scenarios—all the more so as Europe is not ready to deal with such a possibility. First of all, because this hypothesis has been evacuated from the current design of the military forces of the EU's largest member states—and these forces are therefore too small to lead this kind of war.

Second, and most importantly, because Europe has yet to develop a common understanding of its strategic interest, and therefore a common foreign policy able to set a clear strategic goal for the use of force.

In the case of Ukraine, it is questionable, for example, whether it is in Europe's best interest to durably alienate Russia and push it, against its will, into the arms of China.

Beyond the possibility of large-scale state conflicts, Europe today faces a growing and more imminent threat: that of militarized terrorism. This threat has a moving face: Al Qaeda yesterday, young jihadists coming back from Iraq and Syria today. This enemy, born out of chaos and poverty in the countries bordering Europe, has now crossed the border—attracting EU citizens to its fight, and carrying out deadly attacks on European territory.

Europe has to understand that it is not just because the terrorist threat does not classically involve a state—as did the wars of yesteryear—that Europe is not at war with terrorism. Threats are changing, and so is the concept of war itself.

The security threats that Europe is facing, and the strategic space that it has to cover, are expanding. Europe will have to face these challenges at a time when the defense spending of its member states has decreased drastically over the past twenty years, and when no breakthrough has been made in the field of European defense. Europe still lacks key capabilities in terms of intelligence collection (drones), transports (planes), logistics, and cyber-warfare.

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The willingness of the United States to invest heavily in the defense of Europe and continue its involvement in the Middle East may not last forever. A strategic refocusing on the Pacific is a credible scenario.

For the EU, plugging the holes that have developed in its defense capacities will require strategic choices, both in terms of resource allocation and a much-enhanced cooperation between member states—two dynamics we have yet to witness.

Last, but not least, facing these security threats will require constant vigilance from Europe not to transgress its democratic safeguards. The fight against militarized terrorism cannot rely on measures taken at the expense of civil liberties and individual free-

dom. New technologies of information, communication, and self-measurement are already pushing us into a world of hyper-surveillance—most of the time agreed surveillance.

It is the European Union's role to make sure that this world does not turn into one of forced hyper- and auto-surveillance—both for the sake of the democratic ideals upon which the Union has been built and the stability of its political project.

Today this political project faces several challenges that go beyond the political dimension of the aforementioned security threats. Political stability in Europe is indeed threatened, both at the level of the state and the continent.

European countries are facing waves of forces that contest the so-called “traditional” political order—or even their national integrity. The crisis has deeply shaken Europe's economic and social structures and paved the way for the rise of populist parties.

Such parties—on either side of the political spectrum—share an anti-elite rhetoric and call for a break with the established parties and their representatives, which are described as corrupt. Some of these emerged years ago, like the Front National in France or UKIP in Great Britain. Others, such as

Syriza in Greece or Podemos in Spain, were created more recently. Most have registered significant successes in recent elections—in some cases winning power and in others compelling mainstream parties to consider making alliances with them.

All of these forces question the ability of “traditional” parties to propose and implement a political project for their respective countries. Most of them also have in common a criticism of the European integration project or, at least, of the path that has been chosen to carry it out.

The victory of UKIP in the May 2014 European Parliamentary elections, where it received close to 28 percent of the British vote, paved the way for a broader questioning of the UK's positioning within the European Union. Prime Minister David Cameron's commitment to hold a referendum on EU membership in the after trying to renegotiate its terms has spurred concerns over the hypothesis of an exit of the country from the Union—a prospect that has been coined “Brexit.”

One of the issues often raised in the British debate over EU membership is that of the two-speed European integration process and the risk that non-Eurozone member states will be at a disadvantage within a larger and less integrated EU.

Nonetheless, the irreversibility of the currency union itself is also questioned today, as the stalemate in negotiations between Greece and the institutions previously known as the “Troika” (the European Commission, the European Central Bank, and the International Monetary Fund) is fueling speculation about the possibility of a country's exit from the Eurozone—a case for which the European treaties contain no provisions.

Such uncertainties on the future of the European project are all the more challenging as the four issues facing Europe enumerated above can only be addressed through joint, decisive action from member states, requiring levels of integration which have as yet scarcely been achieved.

The ability of the EU to unite to attract and welcome migrants, renew its economic and political partnership with neighboring states, and deepen the economic and political integration around its core, will determine how successful it will be in meeting its demographic, economic, security, and political stability challenges.

Immigration policies illustrate the difficulty that Europeans still have in coordinating on an issue that touches on their respective national sovereign-

ties, while it would be in their common interest to do so.

The economic prosperity of the continent, and the necessary demographic convergence, will be contingent upon the ability of Europe to take three significant decisions: encourage labor mobility, align social and family policies amongst European countries to the most efficient practices in terms of demography, and push for an open and inclusive immigration policy.

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The importance of the latter, in economic and demographic terms, for many European countries has been evidenced by several reports. In the United Kingdom, for instance, the Of-

fice for Budget Responsibility assessed the impact of migrant flows on public debt sustainability: the UK's net debt would exceed 174 percent of GDP at the 2062–2063 horizon if immigration were to be blocked, while it would stand at 99 percent with an annual net inward migration of 140,000 from 2016 onwards.

While the appropriate management of migration flows will be key to Europe's security, its ability to attract and welcome immigrants will say a lot about its own political project, as it is closely linked to core values which

are shared by Europeans and underlie the continent's integration process—among which are human rights, individual freedom, equality, and solidarity.

Yet migration issues are far from being given the importance they deserve in the European debate. The political will to initiate discussions on them is scarce, as evidenced by the quick build-up of opposition to European Commission President Jean-Claude Juncker's proposal to address the unequal distribution of asylum seekers across the EU's member states.

This is all the more unfortunate because an open continental debate on these issues would quickly lead Europe to realize that it is in its own interest to welcome several million migrants from other regions each year, hosting asylum-seekers and political refugees, and attracting talents from all over the world whilst establishing proportionate means of integration.

**B**eyond immigration, the security of Europe, and its political and

economic weight on the international scene, will also depend on its ability to deepen its relationship with neighboring countries. It is indeed in Europe's best interest to be bordered by prosperous and secure states, which uphold the rule of law.

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Looking back at the objectives set for the EU's neighborhood policy in 2003, the EU may seem to have achieved little. In particular, the hope that the *acquis communautaire* would spill over into the legislation of neighboring states has been disappointed: the rule of law has barely improved in neighboring countries, except for a few exceptions like Georgia; economic relationships have intensified, but these exchanges have had limited impact on the economic modernization and diversification of partner countries on the eastern and southern borders of the European Union.

**T**he geopolitical context of the European Union's periphery has radically changed since 2003. This creates a challenge, for the EU now has

to define new models of political and economic relationship with neighboring countries. Failing to do so may prove costly.

The EU's inability to anticipate and adapt to the changes brought by the Arab revolutions, and its incapacity to help consolidate the democratic dynamics among them, has already contributed to the difficulties it is now facing on its southern border—in particular in terms of security and migratory flows.

**F**urthermore, Europe's failure to clearly differentiate its neighborhood policy from its enlargement policy, and to adapt the former to the particularities of each of the countries targeted, has created a backlash and misunderstanding which have played a role in, for example, the unfolding of the Ukrainian crisis.

The European Union will therefore have to adapt to the diversity of situations on its eastern and southern borders, and to design its neighborhood policy according to the reality of the geopolitical context. The EU will also need to put more effort into the promotion of economic and institutional modernization in those neighboring countries that express an interest in developing such a partnership. Specific attention should

be paid to the education sector, as a key area for the future of these countries.

**T**he strengthening of the EU's neighborhood policy should not preclude a reflection on its enlargement prospects: the European Union should integrate, in the long run, all Balkan states, Ukraine, Russia, and Turkey.

The development of Europe's political and economic partnership with neighboring countries can be achieved through the current institutional framework by creating a larger single market and an area of common regulation to ensure the smooth functioning of this market. However, the European project should not be summarized to this common market: it involves closer economic and political integration, which can only be achieved, at least initially, around a core group of countries.

**T**he success of the European construction process has so far rested on a step-by-step approach, with each leading logically to the next in order to ensure sustainable progress. Nonetheless, advances are becoming more difficult to achieve, as further steps require going beyond coordination and progressing towards real integration and policy institutionalization in fields traditionally associated with state sovereignty.

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One such advance has already been made through the adoption of a single currency by 19 of the EU's 28 member states. The integrity of the monetary union will nonetheless not be ensured as long as member states fail to agree to share another element traditionally associated with sovereignty—complementing the existing monetary pillar with a common fiscal capacity. This, in turn, will open discussions on taxation.

The social consequences of policy choices made in this field necessitate a high degree of political integration: the logical future of the Eurozone is to become a federal entity, with its own parliament. Such advances could be a prelude to coordination in other areas, such as security and defense.

The path towards a closer union is therefore well known, but the horizon at which it will be completed, if ever, remains uncertain, as it is contingent upon the will, courage, and determination of European leaders and peoples to gather around a common project.

The ability of Europe to define such a common project, both within and around its borders, will condition its weight and influence on the international stage.

Indeed, Europe's challenges, and the political choices that it will have to make in order to answer them, are an illustration of a global phenomenon: the growing mismatch between the market, which has reached a global scale, and democracy, which remains contained within national borders.

These two forces emerged in Europe from the long time quest for individual freedom. Yet they have opposite

properties: the market economy, by nature, accepts no physical frontiers within its scope and no boundaries within its reach; in contrast, democracy today remains local and

relies on rules and regulations that are attached to territories and framed in terms of frontiers. The market, which can choose not to accept local rules, is becoming ever more global, benefiting partly from technological advancements, whereas the rule of law remains mostly local.

From this situation, the world could go in two opposite directions. First, the rule of law may fail to globalize, leaving a freeway for the untrammelled domination of the market as the only law of the world.

This process will not happen without triggering economic, social, and politi-

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Only if it is successful will it be able to help the international community address the twenty-first century challenges, which range from ending poverty to curbing global warming.

By doing so, Europe would also act as a laboratory for global

governance. Both at the level of the continent and globally, the current paradox of a single market and multiple democracies can only be solved through violence, or through the adoption of common rules and the design of efficient and democratic institutions to implement them.

We can only hope that Europe, and the world as a whole, will choose the latter path; and that their leaders and peoples will strive—individually and collectively—to make that happen. ●

cal tensions. States may try to react by reinstating protectionism in the vain hope of shielding their respective economic and social models from globalization. This may in turn pave the way for new cycles of violence.

The other path the world can choose consists in harnessing and controlling globalization without refusing it, by establishing a global rule of law—often termed 'global governance'—by which democracy would be generalized at the global level.

This would allow everyone to equitably enjoy the benefits of market imagination, preserve freedom from its own excesses and from its enemies, leave to future generations a better protected environment, and give birth to new ways of living and creating together.

Such is the dilemma the world is now facing.

Europe is, to some extent, a digest of this global dilemma, for it has chosen the economy as the engine of its integration. The European project began with the construction of a single market, which successfully abolished economic borders between member

states. But analogous political advances are still lagging.

The ability of Europe to solve this paradox—through a political integration process that paves the way for more efficient and more democratic governance—will condition its ability to exercise influence on the international stage.