CENTRE FOR EUROPEAN REFORM
opinion paper

THE VIEW FROM 2027

By Charles Grant

Given how much respect and esteem most Europeans feel for the EU today, one can easily forget that when it celebrated its 50th birthday, in 2007, it was widely disliked and mistrusted. When given the chance to vote on the EU in referendums, people usually gave it the thumbs down. The EU passed through its very darkest moments at the end of the first decade of the 21st century.

Britain and France caused many of the problems. The British, under successive governments led by Gordon Brown and David Cameron, blocked significant changes to the EU treaties, even where there was a clear need for institutional reform. Britain thus marginalised itself from mainstream European debates, but the others moved on, setting up *avant-garde* groups without the British. France also proved destructive, blocking freer trade, deregulation, enlargement and farm policy reform.

But around 2010 the EU's fortunes started to revive, for four reasons, the first of which was economic. The root of the malaise had been the high unemployment and slow growth in many countries that made people fearful of change – whether market liberalisation, more open trade, EU enlargement or new treaties. But the Italian crisis of 2009 proved a turning point. After the collapse of the centre-left government led to political chaos, financial markets started to fear that Italy was incapable of structural economic reform. With its exports decreasingly competitive, Italy's current account deficit and foreign debt soared. Foreign investors insisted on a hefty premium before lending to Italy. Political leaders on the nationalist right and the hard left called for the country to quit the euro, devalue and repudiate foreign debt. With that outcome looking likely, financial markets started to view Greece, Spain and Portugal – which had also lost much competitiveness – as potential quitters of the euro.

Then Mario Monti, the former EU commissioner, formed a government of technocrats, backed by moderates of the left and the right. The trade unions tried to block Monti's radical programme of economic reform, but despite mass demonstrations and civil unrest he faced them down and won. Business confidence, foreign investment and economic growth all picked up dramatically. Inspired by Italy's example, other members of the eurozone found the political will to fulfil the promises on economic reform that they had made in Lisbon in 2000.

France's President Sarkozy had begun his term of office cautiously, fearing that if he revealed his true *ultra-libéral* colours he would provoke great social unrest. But Monti's success inspired Sarkozy to liberalise labour markets, reform public services and cut back the role of the state. France responded to firm leadership and the left, still in disarray after three successive presidential election defeats, proved an ineffective opposition. The economic reform agenda gathered pace across the EU, with member-states learning from each others' examples: British centres of excellence in higher education, Nordic active labour market policies, Baltic incentives for entrepreneurialism and French policies to encourage child-birth all proved attractive models. So at the special summit to mark the 10th anniversary of the Lisbon agenda – held in Lisbon in 2010 – European leaders were able to celebrate its qualified success. With most EU economies growing at more than 3 per cent a year, popular hostility to economic openness and further enlargement began to wane.

The second cause of the EU's revival is that its institutions have undergone dramatic reform over the past 20 years. Because of the Commission's slow, inflexible and cumbersome procedures, it was ill-suited to spend money. So its spending departments were turned into independent agencies, accountable to the

European Parliament. The Commission still drafts laws, sets objectives for the spending agencies and studies long-term challenges. It also polices the single market, negotiates with third parties and has the important task of explaining to citizens how the EU works. Official documents are translated into all EU languages, but since 2012 English has been the only spoken language within the Commission. This has led to huge savings on interpretation. The Commission is much smaller and nimbler than it was, its staff having dropped from 28,000 in 2007 to 8,000 today.

The EU's budget was radically transformed in 2014, when the member-states decided to take full financial responsibility for supporting their own farmers. The budget is now spent in roughly equal measure on R&D, aid for poorer EU regions, assistance for neighbours, and foreign policy (including defence missions). But its overall level – about 1 per cent of EU GDP – has stayed constant for the past 20 years.

The most dramatic institutional change came in 2019, with the first direct elections for European commissioners. The electorate of each member-state chooses a commissioner for a non-renewable term. The European Parliament then chooses one of those elected as Commission president, and another as EU foreign minister. The president picks ten of the remainder as full commissioners, the others becoming deputies. Critics of this reform argued that it would encourage commissioners to promote national rather than EU interests. But they had always done that. What did change was that voters started taking an interest in the EU. And the Commission – blessed with democratic legitimacy – gained the authority to stand up to the member-states that tried to break the rules.

Third, ever since the presidency of José Manuel Barroso, the Commission has repeated the mantra that the EU should focus on delivering benefits in the areas that matter to citizens. And the Union has done a pretty good job on that front. Its Climate Change Agency – as independent as the European Central Bank – is a popular institution. It decides on the levels of greenhouse gases that the EU should emit each year, and divides up quotas among the member-states. This has cut the Union's carbon emissions significantly, enabling it to lead by example in international talks on tackling climate change. Many other countries have joined the EU's emissions trading scheme.

Other EU agencies are also respected. Europol now co-ordinates the counter-terrorist work of the national intelligence agencies. Frontex, the border management agency, fights illegal immigration by deploying fleets off North Africa and undercover agents on either side of the Union's eastern border. Energy security is another area where EU action – under the Commission's leadership – is generally popular. The EU has linked up the various national grids, and adopted rules requiring each government to store gas and share it with those suffering shortages.

Fourth, the EU has developed a more effective and coherent foreign policy, thanks in part to Vladimir Putin, who returned to office for a third – and increasingly authoritarian – presidential term in 2012. Russia's illiberal political system, military build up and threatening behaviour towards its neighbours made the member-states see the value in sticking together when dealing with Russia.

Russia proved difficult but not impossible to deal with. The Europeans discovered that, so long as they remained united, they had some cards to play: Russia wanted to stay in the Council of Europe and the G-20 (that had replaced the G-8); it eventually learned that it needed foreign investment in its ageing gas and oil industries, to prevent a severe fall in production; and it wanted its energy firms to have the right to buy western firms. International competition spurred Gazprom to modernise its corporate governance and transform itself into a true multinational. After Gazprom bought Gaz de France and E.ON Ruhrgas it became easier for western firms and governments to deal with. In 2014, when the Kremlin seemed to be preparing to invade Georgia, EU foreign minister Carl Bildt warned Russia that it risked losing a seat at European tables, foreign investment and access to the single market. This *démarche* worked, and the Kremlin pulled its troops back from the frontier.

The EU's enhanced role in foreign and defence policy has won broad public approval. Thanks to the creation of the EU foreign minister and diplomatic service, and the abolition of the rotating presidency, other countries generally treat the Union with more respect than they did in 2007. The EU makes a pretty good job of combining its diplomatic, economic and military means to promote security, good governance and prosperity in many unstable regions. While the EU has 50,000 troops deployed in Afghanistan, Nigeria, Palestine and Somalia, it has hundreds of thousands of judges, policemen, aid workers and other civilian staff in difficult places. These external actions have boosted awareness among European citizens of their shared interests and values.

These four factors transformed the popularity of the EU, even in the more sceptical countries such as Britain. By 2020 the British had opted in to most of the *avant-garde* groups they had excluded themselves from. The pundits who had predicted that enlargement would stop after the accession of Croatia in 2012 were proved wrong. The mood of optimism in Europe helped the cause of enlargement. Not only Serbia, Montenegro, Bosnia and Macedonia joined the EU, but also Iceland, Norway and Switzerland. However, enlargement moves very slowly. France has voted twice in referendums to keep out Turkey, while a Serb referendum defeated the membership hopes of Albania and Kosovo. Spain has blocked membership talks with Belarus, Moldova and Ukraine because its partners said no to Moroccan membership.

The slow pace of enlargement has spurred the Union to offer several neighbours participation in most EU policies. For example Israel, inside the European Economic Area, takes part in everything the EU does bar foreign and defence policy. Meanwhile the French are preparing to vote for a third time on Turkish accession. They are starting to look more favourably on the Turks. Per capita incomes in Turkey have overtaken those of the poorer French regions; the Kurdish assembly in south-east Turkey has won autonomy over most areas of domestic policy; Turkey provides more troops for EU military missions than any country; and French companies are having to tackle labour shortages at home by recruiting directly in Turkey. Opinion polls suggest that this time France will vote *Oui*. Meanwhile in Britain David Miliband's government is proposing to join the euro and is promising a referendum.

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Charles Grant is director of the Centre for European Reform. Parts of this article are based on a contribution to "European Union: the next 50 years", a book published recently by FT Business, Agora and the London School of Economics. The article will also appear in the April edition of Prospect.

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