CENTRE FOR EUROPEAN REFORM

The bulletin at 100

by Charles Grant

We have published a bulletin every two months since the CER started up in 1998. Re-reading numbers 50-99, I am struck by how different the world was in October 2006, when the 50th bulletin appeared (including my own take on the first 50 issues).

The EU had momentum: the euro was widely viewed as a success; the EU's leaders were working to save its constitutional treaty; and Bulgaria and Romania were preparing to join, while Turkey – then a shining example of a successful Muslim democracy – was negotiating seriously to follow them. With Tony Blair as prime minister, few questioned British membership of the Union.

Ukraine was an exasperating neighbour but a sovereign state. And though Russia's creeping authoritarianism was somewhat worrying, it seemed to understand that it needed to work with the West. The Arab world was dominated by stable, autocratic regimes. The US was fighting difficult wars in Iraq and Afghanistan, with sometimes reluctant European support, but was undoubtedly the dominant global power. And China was rising.

So much has changed since then, though China is still rising. Europeans have stopped believing, with Voltaire's Pangloss, that they live in the best of all possible worlds. Hugo Brady captured the shift in bulletin 79 (August 2011): "The EU in its current form and the euro were born during a unique period between 1989 and 2008. This was a time of steady economic growth and freedom from existential threats. Agreement on European integration was relatively easy against this benign background. It no longer is."

The West as a whole is now less confident about its ability to shape global events. Barack Obama's insight that since the US could not run the world it should become a more modest super-power was correct. But unfortunately Obama has sometimes handled foreign policy in ways that make the US look weak. Neither the US nor the EU could prevent the failure of the 'Arab Spring' (Tunisia excepted), the growth of authoritarianism in Turkey, the dismemberment of Ukraine or the resurgence of militaristic nationalism in Russia. As for the EU, enlargement is off the agenda, almost nobody (outside the European Parliament) wants a major new integrating treaty and the euro is widely viewed as having been economically ruinous for several of its members. Anti-EU populism is surging in many countries and British membership of the club is now precarious.

The mismanagement of the euro accounts for several of the EU's current difficulties. As Simon Tilford wrote in bulletin 71 (April 2010): "In order for the eurozone to become stable, three things need to happen: South European member-states must boost productivity growth; northern ones – notably Germany – have to strengthen domestic demand and reduce their current-account surpluses; and there should be greater institutional integration." We have had a little, though not much, of the first and third things, enabling the euro to endure. But the CER has argued again and again that without quantitative easing (QE), more flexible fiscal rules, greater sharing of risk, structural reform and more public investment, the eurozone would stagnate and trust among governments would erode. Sadly – though QE is now, belatedly, on its way – we have been proven right.

We also read the political consequences of the euro crisis correctly. As Katinka Barysch wrote in bulletin 74 (October 2010), these were "a Union in which governments are in the driving seat, large countries matter more than small ones, and more decisions are taken by subsets of member-states. The crisis has also weakened the Franco-German alliance and revealed a growing sense of German euroscepticism." I added in bulletin 81 (December 2011) that "France and Germany make no secret of wanting less Monnet and more de Gaulle", and that this weakening of the European Commission vis-à-vis the member-states was dangerous for the EU. I noted that "Germany is emerging, for the first time in the EU's history, as the unquestioned leader. France is having to adjust to a subordinate role."

Germany is now central not only to EU policy on the euro, but also Russia. After Russia invaded Georgia I argued in bulletin 62 (October 2008) that its economic weakness would stop it becoming a serious threat to the West: it could not overcome its dependency on hydrocarbon exports or improve its lacklustre services and manufacturing industries. I also noted its strategic isolation, citing George Kennan's ever-valid dictum that Russia's neighbours had to choose between becoming its enemies or its vassals. I urged Western leaders to make clear to Russia that it would pay a price if it compromised the territorial integrity of its neighbours. The current sanctions over its actions in Ukraine are making it pay that price. And the impact of very cheap oil on an undiversified economy will prove extremely painful.

Germany will also play a pivotal role in any British attempt to renegotiate EU membership. In bulletin 88 (February 2013) Philip Whyte shot down a major canard of the eurosceptics, that the EU holds back the UK economy. Using OECD data, he showed that "despite the alleged shackles of EU membership, the UK's product and labour markets are among the freest and least regulated in the developed world." He also pointed out that none of the main supply-side constraints on the British economy – poor infrastructure (notably transport), skills shortages (reflecting high drop-out rates from secondary school and poor vocational training) and rigid planning laws (distorting land use and pushing up rents) – were the fault of the EU.

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Philip often refuted conventional thinking. In bulletin 59 (April 2008), he asked whether liberal economic reform really caused social problems. He demonstrated that the member-states with the most regulated markets – in Southern Europe – had the highest levels of poverty, inequality and long-term unemployment in the EU. And "the reason the Nordics and the Dutch are the most egalitarian societies is that they provide the best education".

When the financial crisis struck, Philip wrote in bulletin 65 (April 2009) that "many Europeans were quick to treat the event as a morality tale. Americans were paying for their profligacy and for their heartless model of capitalism". But Philip explained that the crisis was rooted in poor financial regulation and global imbalances rather than Anglo-Saxon capitalism and liberalising reforms per se. "The US was mistaken to allow parts of its financial sector to thrive with little regulatory oversight. But it does not follow that there is nothing in the US worth emulating." For instance, the US easily out-performs Europe on productivity.

Outside contributors wrote some of the most original pieces. Nick Butler, who co-founded the CER, explained in bulletin 64 (February 2009) that the high volatility of oil prices in 2008 had damaged much-needed investment in new hydrocarbon production and in renewables. He called for global governance in oil markets: a new institution should curb volatility by "holding a cushion of reserves. These stocks would be augmented as prices fell and released gradually as they rose." The halving of the oil price since mid-2014 has strengthened the case for such mechanisms.

The EU certainly faces bigger challenges than it did when the CER was founded or when the bulletin completed its half-century. But the CER will not flinch from continuing to provide both rigorous and sober analysis, and innovative policy proposals.

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