Vortrag beim “Public Finance Dialogue” im Bundesfinanzministerium am 25./26.9. 2017.

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**Which integration model for Europe?**

**Centralisation vs. subsidiarity – or a totally different approach?**

**by Werner Abelshauser**

Centralisation vs. subsidiarity is of course a classical alternative within European policy. However, the problem is, that both principles - **an ever closer Union** and **the rescue of the nation state** – in practice are hopelessly tangled with each other. Even worse: both principles failed in realizing their respective policy models: the United States of Europe vs. the rescue of the nation state, which according to the state of research has been the starting point of European integration policy.

The **commitment to progress towards an ever closer Union** was reconfirmed 1983 at the Stuttgart European Council after the principle was given up as a consequence of French empty chair policy during the sixties, which preferred a Europe of the Nation States. From Stuttgart the principle found its way into the 1993 Treaty of Maastricht.

Nevertheless, at least once in the decade, European integration is driving against **a glass ceilling** – for politicians an invisible barrier to an ever closer Union. Every time, the answer to this failure was the **incantation of subsidiarity** – a principle which from the very beginning belongs to the DNA of European integration.

This experience shows that it might help to be prepared for the disintegration of familiar European frameworks. This is not the first time that the process of European integration has faced an acute crisis. Thus the question also arises as to whether there might be alternative ways to achieve integration if the approaches that have been pursued so far prove deficient.

**Different speeds on the European road vs. clockwork Europe**

“The process of unifying Europe has reached a critical juncture in its development.” This was the lead-off sentence in the essay “Reflections on European policy” (*Überlegungen zur europäischen Politik*) by Wolfgang Schäuble and Karl Lamers, which was published 23 years ago. The two authors took a critical view of what they saw as “**bloated European institutions**” along with “**the increasing fragmentation of** **interests**”, “**unemployment**” and “**overstretched social security systems**”. But more than anything, they deplored the “**rise of a ‘regressive nationalism’ in almost every member state, which springs from a deep fear triggered by the adverse outcomes of the civilisation process and by external threats such as migration.**” They concluded by proposing that “**multiple speeds**” be permitted on the road to European integration.

The factors that Schäuble and Lamers cited as causes of a “**dangerous trend**” – just a few years after the Maastricht Treaty was signed – serve to highlight how intractable the obstacles to integration are. After all, this was in 1994, and the factors they mentioned had already been gathering force for 20 years.

An article on the **state of European integration** today could start out with nearly identical wording. However, at least one problem has been added to the mix: namely, the instability of the European Union, whose member states not only have highly divergent capacities (or collective mentalities) for complying with rules, but also differ fundamentally in terms of economic culture – that is, in how they think and act economically (their institutional rules of the game) and in the way they organise their national economies.

Even after being put into practice, the strategy of advancing integration at different speeds has evidently failed to prevent the integration process from arriving at yet another critical juncture today. Further rifts have emerged, both (a) **within** the euro area and (b) **between** euro countries and the rest of the EU. If, after over half a century, a particular conception of how the integration process is supposed to work does not lead to satisfactory results, the time would appear to be ripe for thinking about alternatives. It goes without saying: no more business as usual.

Differences in member state development levels can be evened out within a few decades. But economic cultures generally have deep historical roots. Measured against the pace of everyday politics, economic cultures can seem impervious to change. **But they are by no means always in need of adapting.** On the contrary, functioning institutions provide for comparative institutional advantages in gaining preferential access to different markets. Thus an alternative strategy for Europe calls for an economic policy that does not flatten out divergent paths towards economic development but instead adeptly interconnects these **different parts of the European clockwork** in a way that achieves unity in diversity.

**European Economic Cultures**

The European economic area breaks down into different types of capitalism that are as numerous as the diverse paths these countries took towards modernity. The way that the European economic area came into being causes it to differ in particular from the United States, which possesses a more or less uniform economic culture. Basically, four different cultural groupings influence the behaviour of European business within the global economy.

* **Anglo-Saxon economic culture** places its trust in the invisible hand of the market and leaves less room for spontaneous sociability than continental economies. Even though the United Kingdom does not belong to the euro area, will soon leave the EU, and never stood at the vanguard of European integration, Anglo-American economic culture with its main **focus on capital markets** will undeniably stay a driving force of European integration.
* The region that makes up the core of Europe took another path to modernity. This path criss-crossed the continent, touching nearly every region at some point in time. French senior manager and author Michel Albert has given this economic culture the name *capitalisme rhénan* (**Rhenish capitalism**). His concept denotes an economic area that has grown over time and that spans north-south from Scandinavia to northern Italy and west-east from the Seine to the Oder rivers. Today, Rhenish capitalism roughly coincides with the solid core of the euro area and gives this region a certain degree of cohesion in terms of economic culture. As a dense landscape of voluntarily accepted “**rules of the game**”, this economic culture is basically the ideal-typical opposite of the invisible-hand ideology of market economies that rose to predominance in early 18th-century England.
* The characteristics that typify the economic culture predominant in **southern Europe** are a more distant relationship between economic actors and the state, a weaker ability to build and utilise social capital, and a tradition of soft currencies derived from agrarian/tertiary modes of production. This is not meant to suggest that southern Italy and the other countries of the Mediterranean region do not have their own economic culture. They have a different one – one with comparative institutional advantages reflected in stable economic familialism, a strong orientation towards services markets, and a vibrant small business sector. Furthermore, the Iberian peninsula possesses great foreign trade potential thanks to its worldwide network of trade ties. Current conditions call for the implementation of **“visible hand” policies** that aim to remedy weaknesses in certain segments of Mediterranean economies while simultaneously reinforcing potential competitive advantages.
* This does not conclude the list of economic cultures that make up Europe. There are the **Balkan** countries that were heavily influenced by centuries of Ottoman rule and that therefore missed out on key economic developments occurring in Europe. And in particular, there are the **transition countries in eastern Europe** that are in the process of reviving their own traditions or adopting the institutional structures of other economic cultures.

The point here is not that there is a superior economic culture that will win out in the end. Economic cultures know no hierarchy. The sole deciding factors are their ability to compete on specific markets and the capacity of their institutions to function effectively under conditions that have evolved throughout history.

All of this suggests that Europe’s diverse landscape of economic cultures is **more than just a burdensome historical legacy** that, like it or not, must be taken into account in crafting the process of European integration. Rather, it is precisely the competition between economic cultures that has facilitated Europe’s prosperity relative to the rest of the world.

**Single European Currency?**

For that matter, a single currency is not an indispensable prerequisite for smoothly functioning European markets. What Europe’s economy really needs are sound monetary conditions that would preferably apply to Europe in its entirety. This makes it all the more necessary for the currency union to develop a strategy that counteracts the single currency’s rigidity, which makes it difficult for euro countries with traditions of soft currencies to adjust to old and new challenges. This opens up broad possibilities for alternative strategies to advance European integration. At the same time, this does not mean **Europe à la carte**. The EU needs rules that provide for unity in diversity, and it needs a monetary system that is compatible with this approach.

**How is this to be achieved?**

The precondition for a change of course in European policy is to “**communitise**” those “visible hand” regulatory frameworks (**Ordnungspolitik der sichtbaren Hand**) that some member states – most of all Germany during its era of social market economy – have implemented successfully as a means to strengthen their comparative institutional advantages. In Europe this “**Ordnungspolitik der sichtbaren Hand**” would need to accommodate a wide range of variation, as is evidenced by EU-wide differences in social production systems – differences that manifest themselves in divergent ways of organising banking systems, vocational training, labour relations, lobbying practices and corporate governance, and in highly diverse ways of thinking and acting. Now that the internal market is complete and is functioning in a satisfactory manner, European policy faces more complex tasks. An effective integration strategy must always bear in mind the comparative institutional advantages of the relevant economic cultures and must respect the differences in social systems of production. In its current shape, the EU’s Brussels apparatus would certainly be overstretched if it were tasked with formulating and executing such complex economic policy strategies. Rather, this task calls for the skills and expertise of the member states, which would have to agree on rules for a **social market economy *à l’européenne***. However, I am sure we shall solve most of the problems tomorrow.

To this end, a **concept of gradual integration** is necessary. All of his proposals pointed towards a greater emphasis on the subsidiarity principle, which features prominently in the Maastricht Treaty but has never really been implemented in practice. However, this general clause has never been applied, like so much else that is written in the European treaties. Now would be a good opportunity to use this principle as a new launching point. Since the strategic innovations of the 1990s – that is, using multiple speeds to advance European integration – have failed to achieve their aim, it is now time to take into account the diversity of economic cultures in Europe and to unite the continent along a variety of paths. **Irony of history**: it’s not a new perception of European integration at all. It was no one less than Ludwig Erhard, the German Vice-Chancellor, who in 1959 (!) was firmly convinced, that “Europe should drive on many wheels and not on one axis”.

**Conclusion**

The ongoing crisis in the euro zone raises the question of whether the previously chosen path of European integration is likely to spur internal and external competitiveness and capability of action. In economic terms, it is about a strategy that does justice to the uniqueness of the European Economic Area. Its special feature is that Europe – in contrast to North America - has historically developed diverse economic cultures whose qualities match the requirements of distinct markets and whose set of institutions are functional. An adequate European economic policy has to acknowledge these cultures and develop strategies to improve their individual effectiveness, i.e. comparative institutional advantage. This productive governance (*Ordnungspolitik* of the visible hand) is in stark contrast to a policy of harmonization that emanates from the idea of uniform market conditions. What does the EU need are rules and strategies that create unity in diversity, realizing its official motto: united in diversity. What Europe needs is an integration strategy on several path`s - not only in several speeds.