

# A New Narrative for Europe?

Summary of a BRIE-ETLA Seminar

Timo Harakka\*

\* YLE, Finnish National Broadcasting Company, [timo.harakka@yle.fi](mailto:timo.harakka@yle.fi)

This paper summarises the presentations and discussions in the BRIE-ETLA seminar *National Political, Economic, and Industrial Consequences of the Ongoing Crises* held at the *European Commission Representation in Helsinki*, Finland, April 2, 2012. A copy of the original programme and handout for the event may be found in the Appendix of this paper.

ISSN 0781-6847

## Contents

	Abstract	2
<b>1</b>	<b>Shifting geopolitics</b>	<b>3</b>
<b>2</b>	<b>Two crisis narratives: Discipline or prudence</b>	<b>3</b>
<b>3</b>	<b>A new core of member states?</b>	<b>4</b>
<b>4</b>	<b>Enforcement is the key</b>	<b>5</b>
<b>5</b>	<b>Fantastic crisis?</b>	<b>7</b>
<b>6</b>	<b>Visions of growth</b>	<b>8</b>
	Appendix: Program of the event	9

**Abstract**

The EU is currently facing great challenges. Paradoxically, however, the crisis has demonstrated the endurance of the European model. The only long-term solution to the current challenges is to achieve sustained growth. To achieve this goal, Europe must balance austerity and expansion. In the current era of globalisation, the key to Europe's success is to avoid the commodity trap and to discover the sweet spots of global value creation.

## 1 Shifting geopolitics

Until the end of the 20<sup>th</sup> century, the Atlantic was the natural centre of the world, and its shores constituted the axis of political and economic supremacy. Anyone turning 50 years old – as **Olli Rehn** had done just two days prior to the event – was born and raised in the “Western Century”. The story of that century followed the lines of a famous 1909 lecture by U.S. President Theodore Roosevelt, “The expansion of the white races”.

**Lord Wallace of Saltaire** evoked Roosevelt’s concept as he discussed the de-Westernisation of the world in the 21<sup>st</sup> century.

A snapshot from Libya a year ago should illustrate this sea change in geopolitics. European countries and the U.S. struggled to rescue a few hundred of their citizens from war-torn Tripoli, whereas China and India organised impressive mass evacuations of 30,000 and 20,000 of their citizens, respectively. China and India are arguably more influential in Africa than Europe and the U.S., undermining Western aid and the investment conditions of democracy, the rule of law and human rights.

**Ali Babacan**, Deputy Prime Minister of another emerging regional superpower, Turkey, warmly welcomed the developments in North Africa. In the long term, he said, the Arab Spring should bring more stability and prosperity to the region. As another sign of shifting geopolitics, Turkey has increased its diplomatic presence in Africa by increasing the number of embassies on the continent from 12 to 27, and 7 more embassies will be operational in Africa by the end of next year.

Measured in terms of its relative share of the real world GDP (In 2005 PPPs), China has already attained equality with the Euro area. Moreover, according to the OECD estimates presented by Mr. Rehn, China will surpass the U.S. before 2020. Ten years later, India will gain equality with the Euro area, but each of these equal shares will represent barely one-half of China’s share of the world GDP. This global trend has been accelerated by the recent financial crisis, which has eliminated almost one-quarter of the Euro area’s share of the global GDP in less than a decade.

At the same time, Turkey has enjoyed strong growth, 9.2% and 8.5% in 2010 and 2011, respectively. According to Mr. Babacan, Russia is already the second-ranking trading partner of Turkey, and trade with China is growing robustly. The audience might have been forgiven for thinking that in its current dire straits, Europe needs Turkey more than Turkey needs Europe.

Indeed, as Professor **Helen Wallace** said of Europe’s need for invigoration, “Turkey cannot come a moment too soon”.

## 2 Two crisis narratives: Discipline or prudence

In this seminar, the Euro crisis was approached from two distinct perspectives. These perspectives can be broadly categorised as *the debt crisis story* and *the market imbalance narrative*. The former emphasises public finance problems, debt relative to GDP and fiscal discipline, whereas the latter emphasises systemic disorders, macroeconomic imbalances and prudent oversight. For the former perspective, the key word is *growth*; for the latter, *regulation*.

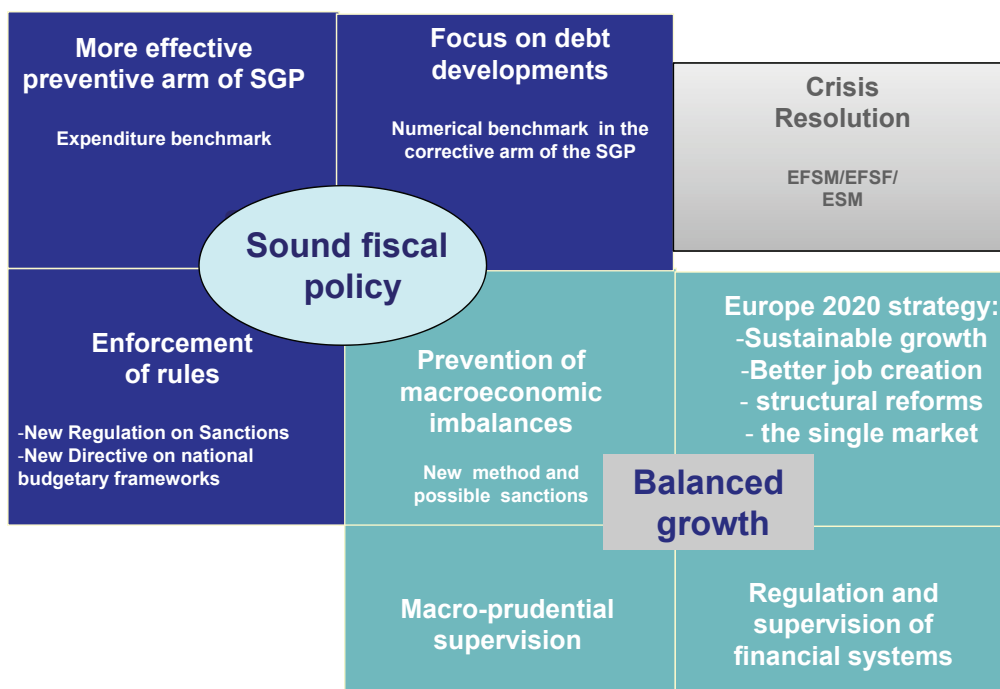
Among the speakers, Professor **John Zysman** and Minister **Alexander Stubb** emphasised public finance discipline, whereas **Erkki Liikanen**, Governor of the Bank of Finland (BoF), highlighted improved economic governance, a topic that Mr. Rehn also stressed, to some extent, in his intervention.

Schematic as this division undoubtedly is, it also serves to demarcate two European viewpoints on the crisis (or crises). The political negotiations between the member states concentrate on public finances, but the EU community legislation concentrates on market regulation. It is obvious that these approaches and processes do not exclude each other, but it is nevertheless the case that they often compete. What are the consequences of the Euro crisis for the power relations and decision-making of the European Union?

### 3 A new core of member states?

The Euro, as Professor Zysman duly reminded the attendees at the seminar, is an economic instrument to accomplish political purposes. In a way, its political success has always been accompanied by an equal downside of financial fragility. This potential was realised when harder times emerged. Mr. Stubb observed that this logic has now been reversed. During “these years of frenetic crisis management”, Europe has become an economic project for which political instruments are being invented as events unfold.

**Figure 1** Enhanced economic governance as part of the EU’s comprehensive crisis response



Source: Olli Rehn's presentation at the BRIE-ETLA seminar held at the European Commission.

Accordingly, reforms in EU economic governance have been high on Mr. Rehn's agenda. The six new EU laws ("the six-pack") adopted last year, in addition to two laws still in process, bring increased rigour to both fiscal and macroeconomic surveillance. Most likely due to the prominence and imminence of the Greek crisis, the emphasis has been on fiscal surveillance more than on macroeconomic surveillance. However, as Mr. Rehn noted, the crises in Ireland and Portugal have been almost exclusively related to boom and bust in the private sector. Moreover, the entire Euro crisis arguably originated from the U.S. subprime mortgage crash of 2008.

An emphasis on discipline, as demonstrated by the recent German-led "fiscal compact", has inspired political opponents from Athens to Paris to act against austerity in general and against Troika interventions in particular.<sup>1</sup> Intentional or not, the Commission's action against macro-instability has been much less frequently advertised. The "politicisation" of the management of the Euro crisis reflects a preference for inter-governmental decision-making and against the community method.

Consequently, Mr. Stubb said, the institutional balance in the EU has shifted in favour of the European Central Bank at the Commission's expense. Mr. Stubb noted that he was also looking for a "messier" Council, presumably of member states defending their interests more vigorously than they have in the past. Finland, for one, has recently been a noisier presence than ever before.

If the member states are in control, not all can lead. Which states constitute the core of action, defined in what manner and by whom? Mr. Stubb observed that the core would no longer be determined by the European countries or institutions themselves; instead, the core will be determined by the market. In an earlier speech (Bruges, 17 Nov. 2011), he had described this process as "Darwinistic". However, he selected less contentious language for his current remarks, calling the "new core" the "meritocratic" or "able" group of AAA-rated Euro countries.

Finland has never had a more influential position in the European Union, argued Mr. Stubb, although for the "wrong reasons". Only three other Euro states retain AAA credit status: Germany, the Netherlands, and Luxemburg.

## 4 Enforcement is the key

European integration has gone deeper than would have been imaginable before May 2010, only two years ago. Mr. Rehn insisted, "This only means that we are finally putting in place the structures and policies that should have been there already from the start of the EMU".

Indeed, Mr. Rehn proposed an even larger mandate in economic affairs for the Commission. To ensure "the influence and leadership commensurate to its economic weight", the Commission should represent "a unified and stronger" Europe at IMF and G20 meetings. If nothing is done, Europe will continue to lose its share of the world GDP. Similarly, if Europe does not

---

<sup>1</sup> The political parties in the May election in Greece were divided between "pro-Memorandum" and "anti-Memorandum" camps, referring to the "Memorandum of Understanding of Specific Economic Policy Conditionality" signed by the EU Council and the Greek government in February 2012.

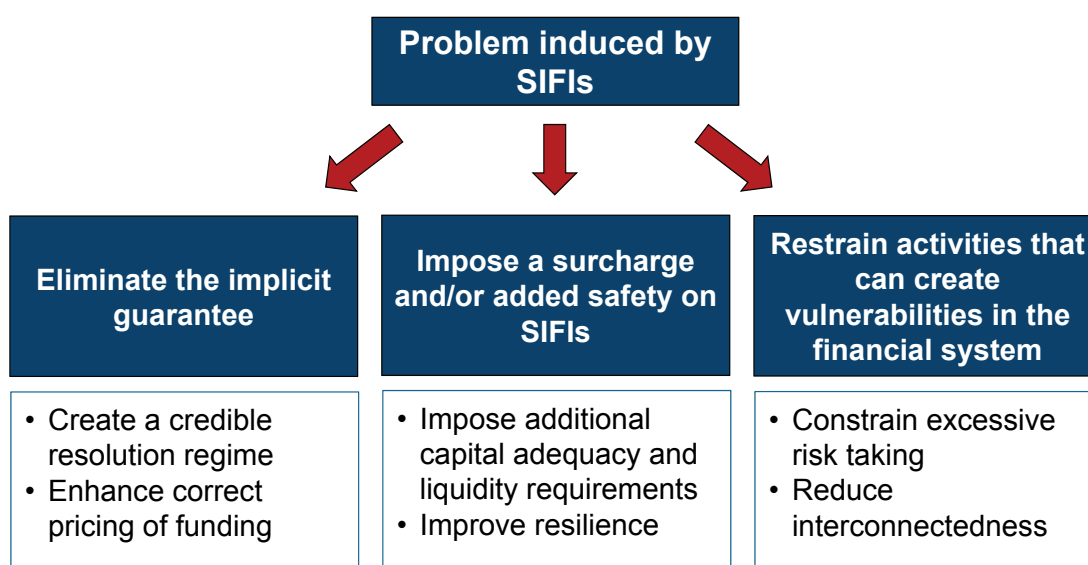
advocate a “single credible position” at international institutions and forums, its influence as a key player will diminish. However, it would be surprising if Mr. Rehn’s exhortations were heeded in the current climate.

Nevertheless, the apparent shift of power from the Commission to the member states may be an illusion enhanced by nationalist media in times of impending elections. Certainly, during the perpetual crisis meetings convened by the Councils, the Commission used a rare window of opportunity to produce a torrent of regulatory legislation. Current acronyms to be debated in the European Parliament include the CRD4 (Capital Requirements Directive for Banks), MIFID (Markets in Financial Instruments Directive), and FTT (Financial Transaction Tax).

A very important piece of regulation concerns the structural reform of banking. On this issue, Commissioner Michel Barnier recently installed a high-level expert group, chaired by Mr. Liikanen. The Group is expected to produce its report at the end of the summer in 2012.

The Group set its sights on “systemically important financial institutions”, or SIFIs. These companies, deemed “too big to fail”, contributed considerably to the financial crisis. According to Mr. Liikanen, the moral hazard they induced was threefold. Enjoying an implicit government guarantee, SIFIs were encouraged by cheap funding to grow even larger and to assume reckless risk. To be effective, regulation may need to improve the safety and adequacy of capital and its liquidity, to constrain either the size of banks or the scope of their activities, to reduce interconnectedness and the resulting procyclicity, and to create a credible resolution regime. The last of these items is the subject of an existing Commission proposal that remains unpublished, either in anticipation of the Group’s report or for fear of upsetting the markets once again.

**Figure 2** Authorities are now searching for ways to solve the problems induced by systemically important financial institutions (SIFIs)



Source: Erkki Liikanen’s presentation at the BRIE-ETLA seminar held at the European Commission Representation in Helsinki, Finland, April 2, 2012.



At last, however, the tug of war between inter-governmental and community methods “has become obsolete”, noted Mr. Stubb. European decision-making requires both a strong political mandate and a rigorous implementation: the Sarkozy-Merkel initiative and Commission enforcement.

Vice-President Rehn’s prominence illustrates this “hybrid model”. The agenda of Rehn’s team is driven by European Council resolutions, whereas his department produces little or no community legislation. The Commission’s role as the enforcer of treaties is continually strengthened. Thus, the Vice-Presidency can be a bridge connecting the political feasibility of necessary actions to the institutional integrity of the EU framework. Previous failures to adhere to the rules only highlight the importance of the vigilance of the Commission.

Overall, implementation and enforcement constitute the principal focus for markets, media, companies and trading partners. Minister Babacan acknowledged “some personal doubts” about those areas, and it is clear that a substantial amount of work remains for Mr. Rehn.

## 5 Fantastic crisis?

“This crisis has been fantastic. It is probably the best crisis the European Union has ever had”, declared Mr. Stubb, inviting Mr. Liikanen to quip: “We are starting to have enough!”

Instead of institutional infighting and budgetary squabbles, Europe is forced to concentrate on “real issues”, Mr. Stubb argued. Europe has come close to its citizens for the first time because of the crisis, and people in bars now talk about Greece, interest rates, and collateral. That much of this debate is directed against the legitimacy and actions of the EU does not seem to matter.

Additional cautionary words were heard from both Wallaces. Lord Wallace noted that although governments have been forced to adapt to the de-Westernisation of world politics, the public at large is very reluctant to accept changes. He identified a curious contradiction in British discourse: although Britain is still considered a world power, there are growing demands for a more distanced relationship with the EU, similar to Norway and Switzerland.

Helen Wallace identified a political fault line between cosmopolitan and parochial concerns in every country. This division runs not only between populist parties and established political forces but also within the mainstream. “I am struck by the notion that even the liberals are lukewarm towards European integration”, she stated.

“We need a new narrative of European integration for younger people.”

Minister Stubb strongly agreed. “The story of EU being about peace, prosperity, stability and security just doesn’t fly in the IT generation. I don’t care about this ‘peace thing’, but I am really concerned about my wallet.”

In contrast, Professor Wallace insisted that integration must not be economic in nature. The crisis has halted both the deepening and the enlarging of the EU. Stronger integration is needed in foreign policy and defence – two areas where otherwise-active Germany is relatively hesitant.

In the Q&A session, however, she was alone in desiring to incorporate the fiscal compact into an EU Treaty. Messrs. Rehn, Stubb, and Liikanen did not believe that the timing would be right for treaty revisions.

## 6 Visions of growth

The seminar did not provide answers to indicate the type of new narrative that might inspire future Europeans to work together for sustainable growth, but a certain optimism prevailed. Paradoxically, the crisis has demonstrated the endurance of the European model, although many have found it inefficient, insufficient or both (Such criticism is also endemic to the European model).

All speakers agreed that the only long-term solution to the debt crisis is to achieve lasting growth. This solution is made more challenging, noted Professor Zysman, by Europe's need to achieve a balance between austerity and expansion. "What pain can be absorbed by whom, and who will pay which bills for others, and what the appropriate balance will be in the several national systems and within the community?"

Budget discipline and growth-supporting measures should be combined into "growsterity", suggested Minister Stubb. At the same time, many BRIC and Next Eleven countries that enjoy outstanding growth would qualify for the EMU with flying colours. Minister Barbacan noted that Turkey chose a different course from Europe and the U.S. by adopting austerity policies instead of stimulus policies, and it was rewarded by resilient growth led by the private sector.

According to Professor Zysman, the key for Europe to succeed in "the Third Globalisation" is to avoid the trap of commodification and to discover "the sweet spots of value creation. If the rich countries wish to remain rich, they must recognise changing patterns of competition, production and demand that require "real experimentation and innovation", both in technology and in business models.

In a de-Westernised world, the playbook has changed. Success in the market requires overstepping "ideologies", rights, liberties and traditions of equity that we have taken for granted in the past. The cultural shift may prove the most agonising of all forthcoming changes. Lord Wallace reminded the audience that to overcome formidable global challenges – climate change, food shortages, competition for raw materials – the West must co-opt new partners with a gentle touch.

Perhaps, if one applied the Roosevelt doctrine to the 21<sup>st</sup> century, it might differ slightly from the original: "Speak softly, for you do not carry a big stick."

## Appendix

### Program of the event

# National Political, Economic, and Industrial Consequences of the Ongoing Crises

European Commission, Malminkatu 16, Helsinki  
Monday, April 2<sup>nd</sup>, 2012, 14:00–18:00

**BRIE**, the *Berkeley Roundtable on the International Economy* (Univ. of California, Berkeley), and **ETLA**, *The Research Institute of the Finnish Economy*, are organizing this seminar to discuss the consequences of the ongoing crises. The event is hosted by the *European Commission Representation* in Helsinki. BRIE-ETLA collaboration is supported by the *Federation of Finnish Technology Industries*, Nokia, and Tekes.

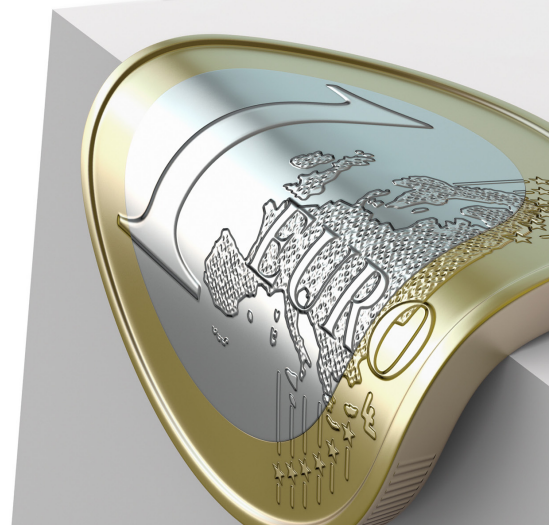
#### Welcome!

Eikka **Kosonen**, Head of the European Commission Representation in Helsinki

- Session I**
- Chair: Sixten **Korkman**, The former Managing Director of ETLA
- Geo-Politics, Currency Crisis, and Economic Adaptation*  
John **Zysman**, Professor, University of California at Berkeley
- Europe in the World: Political, Security and Economic Challenges*  
Lord **Wallace** of Saltaire, Government Whip and Spokesman for Foreign and Commonwealth Office, Ministry of Defence and Cabinet Office
- Europe in the Global Economic Transformation*  
Olli **Rehn**, Vice-President of the European Commission
- Evolution of Europe Seen from Turkey*  
Ali **Babacan**, Deputy Prime Minister for Economic and Financial Affairs
- Discussion*

#### Coffee break (app. 16:00–16:30)

- Session II**
- Chair: Vesa **Vihriälä**, Managing Director of ETLA
- European Integration at the Crossroads*  
Helen **Wallace**, Professor, London School of Economics and Political Science
- A New Core for Europe*  
Alexander **Stubb**, Minister for European Affairs and Foreign Trade
- Banking and Regulation After the Crisis*  
Erkki **Liikanen**, Governor of the Bank of Finland
- Discussion and Closing Remarks*



## Program of the event (continued)

## BRIE-ETLA Leadership:



**Petri Rouvinen** is a research director at ETLA. He earned his PhD from the *Vanderbilt University* (USA) in 2000. In 2004–5 he was a *Jean Monnet Fellow* at the *European University Institute* (Italy) and in 2010–11 a visiting scholar at *IIASA, International Institute for Applied Systems Analysis* (Austria). His scholarly interests include entrepreneurship, globalization, and innovation. He has served as an expert in the projects of the *EU, OECD, UNU/WIDER*, and the *World Bank*. He represents Finland in the competitiveness programs of *IMD* and the *World Economic Forum*.



**Pekka Ylä-Anttila** is a research advisor at ETLA and the managing director of its subsidiary *Etlatieto*. He has authored, co-authored, or edited over 30 books and dozens of scholarly

articles. He is member of several international research networks. His current research interests include global value chains and productivity as well as related societal policies. For more than two decades, Ylä-Anttila has served as the leading expert in crafting and evaluating innovation policies in Finland.



**John Zysman** is a professor of political science and the co-director *BRIE* at the *University of California, Berkeley*. He earned his PhD from *MIT*. He has written extensively on American, European, and Japanese policy and corporate strategy. Zysman's publications include *The Highest Stakes: The Economic Foundations of the Next Security System* (Oxford Univ. Press), *Manufacturing Matters: The Myth of the Post-Industrial Economy* (Basic Books), and *Governments, Markets, and Growth: Finance and the Politics of Industrial Change* (Cornell Univ. Press).

THIS CONFERENCE is a continuation of the research collaboration ongoing since 2001 of **BRIE**, the *Berkeley Roundtable on the International Economy* at the University of California at Berkeley, and **ETLA**, *The Research Institute of the Finnish Economy*.

THE FOUNDATIONS of this conference were laid in 17 June 2002 when **Erkki Liikanen** — then the Commissioner for *Enterprise and Information Society* of the *European Union* — hosted a BRIE-ETLA meeting in Brussels. The continuation of the debates was organized by Professor **Helen Wallace** — then the Director of *The Robert Schuman Centre for Advanced Studies* of the *European University Institute* (Florence, Italy) —, as she hosted a BRIE-ETLA seminar in 17–18 October 2003. Professor **Olli Rehn** — then at the *University of Helsinki* — suggested publishing some of the findings in print. With Olli's help and a key contribution with **Darius Ornston**, a collective volume was published by *Stanford University Press* (edited by **John Zysman** and **Abraham Newman**).

THE STANFORD UNIVERSITY PRESS BOOK concluded the first round of BRIE-ETLA collaboration. Some of the research conducted in the second round came out in a double special issue of the *Review of Policy Research* (an international peer-reviewed journal of *Blackwell Publishing*). The third 3-year round came to its conclusion with a special issue of the *Journal of Industry, Competition and Trade* and a conference in 29 August 2011 at *Nokia House* (Espoo, Finland).

CHAOS OR TURBULENCE IN DIGITAL ECOSYSTEMS: NATIONAL AND GLOBAL RESPONSES is the topic of the ongoing BRIE-ETLA collaboration to be completed in 2014. Currently the convergence of information technology, (tele)communications, and digital content is taking place in a major way. These changes imply major re-structuring of industries, businesses, and institutions. Due to the pervasive and ubiquitous nature of ICT, the turmoil influences other industries and the society at large: ICT has induced an *algorithmic revolution* in services, which is only accelerating with the advent of cloud computing; ICT has a major role in green growth and in transforming energy systems; ICT is also transforming businesses by assisting geographical dispersion of value chains as well as by enabling cost-efficient small-scale production.

MORE THAN ONE HUNDRED SCHOLARLY ARTICLES and reports have been published under the BRIE-ETLA umbrella. Besides via written material, the findings and insights are shared with the business and research communities as well as decision-makers via formal and informal seminars, workshops, meetings, and researcher visits.





## Aikaisemmin ilmestynyt ETLAn Keskusteluaiheita-sarjassa *Previously published in the ETLA Discussion Papers Series*

- No 1259 *Kari E.O. Alho*, How to Restore Sustainability of the Euro? 19.9.2011. 27 p.
- No 1260 *Heli Koski*, Does Marginal Cost Pricing of Public Sector Information Spur Firm Growth? 28.9.2011. 15 p.
- No 1261 *Valeriy Naumov – Olli Martikainen*, Method for Throughput Maximization of Multiclass Networks with Flexible Servers. 13.12.2011. 19 p.
- No 1262 *Valeriy Naumov – Olli Martikainen*, Optimal Resource Allocation in Multiclass Networks. 14.12.2011. 17 p.
- No 1263 *Jari Hyvärinen*, Innovaatiotoiminta: Suomi globaalitaloudessa. 30.12.2011. 49 s.
- No 1264 *Jari Hyvärinen*, Productivity: An International Comparison. 30.12.2011. 20 p.
- No 1265 *Jukka Lassila – Tarmo Valkonen – Juha M. Alho*, Fiscal Sustainability and Policy Rules under Changing Demographic Forecasts. 21.12.2011. 32 p.
- No 1266 *Reijo Mankinen – Olavi Rantala*, Ulkomaanliikenteen palveluiden arvonlisäverotuksen käyttöönoton vaikutukset laiva- ja lentoliikenteeseen. 11.1.2012. 29 s.
- No 1267 *Ville Kaitila – Pekka Ylä-Anttila*, Investoinnit Suomessa. Kehitys ja kansainvälinen vertailu. 30.1.2012. 34 s.
- No 1268 *Valeriy Naumov – Olli Martikainen*, Queueing Systems with Fractional Number of Servers. 21.3.2012. 11 p.
- No 1269 *Kari E.O. Alho – Nuutti Nikula*, Asevelvollisuus ja työmarkkinat. Varusmiespalveluksen vaikutus koulutukseen, työllisyyteen ja palkkaan. 29.3.2012. 25 s.
- No 1270 *Hannu Hernesniemi*, Merenkulun toimintaedellytykset, kilpailukyky ja julkisen talouden sopeuttamistoimet. Taustaselvitys valtiovarainministeriölle. 18.4.2012. 53 s.
- No 1271 *Petri Böckerman – Mika Maliranta*, Outsourcing, Occupational Restructuring, and Employee Well-being. Is There a Silver Lining? 11.4.2012. 28 p.
- No 1272 *Heli Koski*, The Role of Data and Knowledge in Firms' Service and Product Innovation. 24.5.2012. 18 p.
- No 1273 *Pekka Ylä-Anttila*, Sähkö-, elektroniikka- ja tietotekniikka-ala. Tuotantoketjut hajautuvat, osaamistarpeet muuttuvat. 29.5.2012. 16 s.

Elinkeinoelämän Tutkimuslaitoksen julkaisemat "Keskusteluaiheita" ovat raportteja alustavista tutkimustuloksista ja väliraportteja tekeillä olevista tutkimuksista. Tässä sarjassa julkaistuja monisteita on mahdollista ostaa Taloustieto Oy:stä kopiointi- ja toimituskuluja vastaavaan hintaan.

*Papers in this series are reports on preliminary research results and on studies in progress. They are sold by Taloustieto Oy for a nominal fee covering copying and postage costs.*

Julkaisut ovat ladattavissa pdf-muodossa osoitteessa: [www.etla.fi/julkaisuhaku.php](http://www.etla.fi/julkaisuhaku.php)  
*Publications in pdf can be downloaded at [www.etla.fi/eng/julkaisuhaku.php](http://www.etla.fi/eng/julkaisuhaku.php)*

### ETLA

Elinkeinoelämän Tutkimuslaitos  
The Research Institute of the Finnish Economy  
Lönnrotinkatu 4 B  
00120 Helsinki

ISSN 0781-6847

Puh. 09-609 900  
Fax 09-601 753  
[www.etla.fi](http://www.etla.fi)  
[etunimi.sukunimi@etla.fi](mailto:etunimi.sukunimi@etla.fi)