



**REFLECTIONS ON  
THE EU PROJECT  
AND ITS FLAWS:**

***A fatal conceit  
about markets  
and the  
real world***

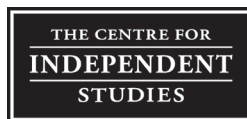
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THE CENTRE FOR  
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# Introduction

Britain's departure from the European Union was a potent reminder to the Continent's complacent elites that the forces of local and nationalist sentiment could not indefinitely be suppressed. It was also a powerful vindication of de Gaulle's prediction that the UK and the EU would never have been a good fit.

Post-Brexit performance has strongly favoured the newly independent nation. While the UK vaccine rollout produced double the number of vaccinations per day of any European country, and its economy is poised to rebound, the EU slipped back into a double dip recession, with Germany experiencing a vaccine debacle — not surprising when Chancellor Angela Merkel refused to be vaccinated.

The fact that both Merkel and French President Emmanuel Macron invoked the “precautionary principle”, written into the French Constitution since 2005, highlights the Union's lack of serious leadership. It is unable to assess risk rationally and is too bureaucratically rigid to respond to fast-moving events. As Boris Johnson has said: “Germany vacillates, Britain vaccinates.” Why would a newly liberated and enthusiastically innovative UK want to align itself with the EU's entrenched political culture of risk aversion?

There is no post-Brexit euphoria in Europe — quite the opposite: a slowly dawning awareness that the Union is on the road to nowhere and “ever closer union” is simply an elitist fantasy.

Despite Merkel's belated assessment that the Brexit rupture was a wake-up call for an EU which needed to become more globally competitive, the signs have not been promising. Macron remains more interested in ‘fair’ competition, and his insistence that “regulatory

convergence” was a condition precedent to an ambitious trade deal with the UK defied the reality of the December 2019 UK election landslide result.

But even more importantly, Germany — headed for its highest inflation rate since the 1990s and a budget deficit even higher than in 2020 — is in no mood for another €1 trillion boost to the EU’s Recovery Fund; without which southern Europe is in grave trouble. Former European Central Bank chief economist Jorgen Stark has already described the Recovery Fund as a power grab by Brussels at the expense of German democracy.

Meanwhile, Greece, Portugal and Italy are barely out of deflation, while Italy is ‘going big’ with the largest fiscal deficit since the creation of the modern Italian state, and a debt-to GDP ratio of an untenable 160% of GDP. The eurozone is once again diverging into opposed blocs at different stages of the economic cycle with different needs that cannot be met by a one-size-fits-all policy.

As leading Australian columnist and polymath Henry Ergas has pointed out: “The epicentre of the crisis of democratic institutions is squarely in Europe.” The European project, so beloved of the elites, with its boundless arrogance and anti-democratic “ever closer union” aspiration, has required national governments to transfer crucial elements of sovereignty to European institutions, while still paying lip service to democracy. There is a redolence of Friedrich Hayek’s exposure of the “fatal conceit” that an individual or group of people could shape the rest of the world.

After 60 years, the EU remains a Franco-German duality, against which the majority of nations and members of the EU parliament are powerless. At its heart, Europe’s problem is its failure to accept the primacy of economics over social welfare models, compounded by its disdain for democracy. Its elites also have a serious attitude problem, almost a Napoleonic superiority complex. Macron is essentially an establishment political *arriviste*, possessed of extreme hauteur and not interested in political accountability, preferring a top-down centralised state and a planned economy model, despite its disastrous history.

# The origins of the EU

The EU, and its predecessor bodies, were set up more than seven decades ago with the aim of ending the long history of frequent and bloody wars between European neighbours, principally France and Germany. Its fundamental purpose was to promote greater social, political and economic harmony among the nations of Western Europe.

These were worthy intentions. But the idealists have long given way to a bureaucratic cadre steeped in *etatist* doctrines. The varied traditions and cultures of Europe have been weakened in the quest for uniformity, ignoring what was once seen as Europe's major guiding principle of governance, subsidiarity, which holds that decisions and administrative activity should be as close as possible to the people and the communities affected.

Nothing in its founding documents advocated, or even aspired to, economic or monetary union — let alone the political coming together of a United States of Europe.

The idea of a government of unelected technocrats was first conceived in the 1920s by two of their number; French economist and diplomat Jean Monnet, and British politician and academic Arthur Salter — both senior officials of the League of Nations. Their searing experience with the demise of the League taught them two lessons: nation-states could not be entrusted with a power of veto; and the views of ordinary people did not need to be taken into account through the democratic process. Supremely convinced of the righteousness of their cause, they did not want their grand plan derailed by lesser mortals.

During the 1950s only six countries in Europe — Germany, France, Italy and the Benelux countries of Belgium, the Netherlands and Luxembourg — were willing to go down the supranational route. All had been defeated in one way or another during World War II. Most countries, like Britain, favoured intergovernmental cooperation. Yet it was the minority view that eventually won the day.

The legacy of two wars in most of Europe has been support for integration, based on a widespread belief that traditional nation-states had failed to provide economic security during the interwar period or physical security thereafter. The common view was that economic prosperity required trade, but political stability required welfare states, and integration needed a common regulatory framework to avoid a race to the bottom. All European governments desired food self-sufficiency and a common agricultural policy, with a fervent belief that much more intergovernmental cooperation was required than a mere free trade area.

## **The fear of nationalism**

The two world wars were unquestioningly accepted by the *bien-pensants* as the inevitable consequence of nationalism. The typical elite attitude of the time was typified by Albert Einstein, who had a lifelong hatred of nationalism and regarded national frontiers and armies as evil.

Macron has claimed that nationalism is a betrayal of patriotism. He would have been better advised to heed the words of Pope John Paul II: “Patriotism is a love for everything to do with native land: its history, its tradition, its language, its natural features ... The nation is, in fact, the great community of men (and women) who are united by various ties, but above all, by culture.” No false dichotomies there.

The nation-state has been one of the most successful political inventions of all time. The Treaty of Westphalia in 1648 paved the way for widespread national self-determination. Yet the European elites have taken the opposite view; deeming it to be so dangerous that

it had to be rendered powerless by whatever means, and democratic traditions emasculated to this end.

As a result, populism in its latest incarnation is disrupting the established political order and upstaging mainstream parties throughout Europe. In France, the centre-left Socialist Party and the centre-right Gaullist Republican Party now barely exist. Similarly in Italy, with the demise of the Christian Democrats and the Socialists. In Germany, the newcomer, nativist hard-right AFD, is now the main opposition party. Even relentlessly moderate Sweden now has a third force nationalist-conservative party — proudly anti-immigration in a country traditionally renowned for its welcoming attitude towards immigrants.

It is against this background that Euroscepticism gets a bad press from the euro-elites, aided and abetted by the usual suspects in the media, finance sector and big business; who are all benefitting very nicely from current arrangements, and simply refuse to accept that there is any validity in the popular pushbacks.

Nationalist movements often express a legitimate desire to temper unsustainable levels of social change. They can also serve as a vindication of a society's right to defend its distinctive values and way of life. As has rightly been said by David Thunder in *Citizenship and the Pursuit of the Worthy Life*: “The need to ground one's life in a culturally cohesive, enduring community is an inescapable dimension of the human condition.”

The global elites who delight in being citizens of everywhere but nowhere reflect a minority view. Most people are not ashamed to show pride in their country and its achievements, especially on the sporting field. But they would not be able to do so if their country had been submerger into an amorphous greater entity. Unsurprisingly, in a survey commissioned by the EU, a mere 7% identified as Europeans first.



## The genesis of the social model

The European project had many founding fathers, but three men are most often cited as its pioneers: Robert Schuman of France, Alcide de Gasperi of Italy and Konrad Adenauer of Germany. Each of the big three was a devout Catholic imbued with socialist ideals.

Schuman had been imprisoned for acts of resistance to the Nazis and barely avoided being sent to Dachau. Described as an “intensely religious man”, he went on to become the first President of the European Parliamentary Assembly, earning him the title of ‘Father of Europe’. As French foreign minister, in 1950 he proposed pooling Western Europe’s coal and steel industries, to be administered by a new supranational authority. In doing so, he declared that “this proposal will lead to the first concrete foundations of a European federation indispensable to the preservation of peace.”

De Gasperi was the founder of the Christian Democrats and eight times Prime Minister of Italy. An opponent of Mussolini’s Italian fascism, he was arrested in March 1927 and sentenced to four years in prison. His release 18 months later was negotiated by the Vatican, and he was employed by the Vatican Library until Mussolini’s demise in July 1943.

Adenauer was the co-founder and first leader of the Christian Democratic Union in the Federal Republic of Germany (West Germany) and Chancellor for 14 years. The West German model of a ‘social market economy’ — a mixed economy with capitalism moderated by elements of social welfare and Catholic social teaching — had fuelled the so-called ‘economic miracle’. It became the

inspiration for the EU model, steered by the Minister for Economic Affairs, Dr Ludwig Erhard, who succeeded Adenauer as Chancellor.

The founders were intent on putting their faith into practice. It is not for nothing that the Europe of those days has been described as a ‘Christian club’ and it quickly becomes clear on examination that moral fervour was a key motivation in the European project.

Like many good men of the left, they envisaged a transformational new entity based on the central planning model already being pursued by communist states such as the USSR and China. The new community was intended to be built on co-operation, not the ‘cut-throat’ competition of unrestrained capitalism. This may have been a noble aspiration, but it ignored the lessons of economics and history.

However, with the departure of those early high-minded and deeply religious leaders, the Christian ethos faded. By 2005, when the EU adopted a new constitution, the by-now ardent secularists, firmly in control, resolutely refused to recognise — or even refer to — the “Christian roots of Europe” which, in an earlier era, would have been uncontroversial. The preamble now refers only to “the cultural, religious and humanist inheritance of Europe.”

As a result, Christian attachment to the project has weakened. Prominent Catholic writer George Weigel has written “That Europe is a failing state is hard to dispute” and attributes the malaise to a crisis of spirit. In similar vein, Pope Benedict XVI, for many years a pan-European intellectual, called it a sickness of ideas and values wedded to its preference for secularism, infused by relativism, scepticism and nihilism.

### **Rise of the welfare state**

But while the Christian foundations of the European project have faded away, its socialist underpinnings have flourished. The EU is in essence a supranational welfare state model built around such nostrums as employment protection and generosity of benefits.

In 2000, the EU signed up to the so-called Lisbon agenda, with the lofty aim of making Europe the most competitive economic

entity in the world. The globe was then awash with the wonders of the new information technology revolution; the political excitement was contagious. EU leaders seemed to understand that economic liberalism was a potential elixir, which could cure Europe's scandalous mix of economic stagnation, all-round protectionism and high unemployment.

But with the bursting of the information technology bubble in 2000, the reform challenge became much harder. European politicians quickly defaulted to their preference for the traditional social model. Ultimately the Lisbon agenda went nowhere, being simply replaced by another social variant, Europe 2020, aimed at achieving "smart, sustainable, inclusive growth" by greater coordination of national and European policy. It was essentially more of the same; a social market economy with an environmental twist.

Even the reformist 2000 Lisbon agenda had explicitly stated that reform should realise the potential of "social policy as a productive factor." One of its principal precepts was a commitment to "social dialogue", which provided an open invitation to trade unions to deal themselves a place at the top table, where they could agitate for ever more worker benefits — perhaps core business for them, but certainly not helpful in achieving labour market reform or employment flexibility, which they regard as anathema. As a result, they quickly became part of the problem and a powerful impediment to economic reform.

To those who have benefitted from the classical free market model, despite the occasional 'market failure', the Lisbon ethos put the cart firmly before the horse. For the Anglosphere, a strong economy is a condition precedent to the affordability of an efficient welfare system. As Margaret Thatcher once famously said: "The trouble with socialism is that you always run out of other people's money." The essence of the social model is that it prioritises job security and welfare support over market reforms.

The International Labour Organisation, the global trade union movement's peak body, is still an influential player in Europe. It is

no fan of the free market, rather a fervent supporter of the European Social Model, whose core mission it sees as being to promote ‘inclusive’ economic growth, high living standards, decent working conditions, and sustainability of social policies. It deplores all notions of fiscal consolidation and austerity. Nowhere does it explain how to grow the pie, only how to carve it up, with “socially responsible” (read ‘non wealth-creating’) institutions distributing the spoils and preserving “hard won” gains.

Europe has been in the economic doldrums now for many years, well before the Global Financial Crisis arrived more than 10 years ago. It will not emerge by pandering to a fractious electorate that has never been conditioned to understand the need for tough medicine but encouraged to believe that the status quo can be preserved in aspic. The Asian tigers, and the formerly sleeping giants of China and India, have long since woken up to the magic of the market. Meanwhile, Europe sleeps soundly on.

## The onset of genteel decline

The EU has become, in many respects, a utopian project, driven more by careerists than visionaries, who choose to ignore the fact that Europe has always been a patchwork of very different and proudly independent communities.

Apologists for the social model like to argue that the EU ‘binds Europe together’ in contrast to ‘the American way of life’. This is yet another repeat of the long running idealised caricature of a civilised Europe versus a dog-eat-dog America. However, there are some significant cultural differences: 73% of Americans, compared to 35% of Europeans, believe hard work is very important for getting ahead in life. Americans tend to prioritise individual liberty and self-reliance while Europeans place more emphasis on the role of the state. In Europe, welfare can be a way of life — or at least an unbreakable entitlement — whereas in the US it is seen as a last resort. Both Australians and the British are much more aware that the best form of welfare is a job; a sentiment unlikely to strike a chord in some of the bigger European countries.

Staunch advocacy of social protections and social inclusion for all are often little more than open-ended debating platforms for advancing social justice aspirations which, because of their nebulous political nature, have no end point of achievement, and can therefore never be satisfied.

In Europe’s post-war glory days, it could afford to luxuriate in its elegant history, culture and scenery, while avoiding the hard decisions such as opening up the economy to external trade rather than economic autarky. Instead, it was happy to enjoy living in a gilded

museum, seemingly oblivious to the tectonic changes taking place around the world.

All the while, the EU has been content to concentrate on second-order issues, such as enlargement to currently 27 members, rather than the politically difficult task of structural and micro-economic reform.

In recent years, European statespeople of true calibre have been few and far between. Of the two major continental powers, Germany has had two long-reigning Chancellors in Helmut Kohl and Angela Merkel. Kohl presided over German reunification, but was a poor public speaker; albeit a ruthless, if shrewd, backroom operator. Merkel may have once been a safe pair of hands, but at heart she is a 'Germany firster', with little interest in Europe-wide leadership or the pursuit of major economic reforms in the manner of Margaret Thatcher. Indeed, Germany does very nicely out of the status quo, particularly the low euro, and therefore has no incentive to pursue Europe-wide reform.

In France, Chirac petered out, while his successor Sarkozy promised disruption but made little progress. Hollande proved indecisive, and Macron, supposedly a new broom, has an out-of-touch, imperious approach.

People are always moaning about the decline of their country. The French, with its economy and society in never-ending decline, have even coined a name for presiding over it — *declinisme* — but any attempt to modify benefits or 'entitlements', or even put them at competitive risk, is met with massive blockades and street protests. The punters are not really interested in — maybe not even aware of — the straitjacket of monetary policy, which precludes a cheaper floating currency from facilitating exports and boosting national income. Ironically, while they like the idea that they can move freely around Europe, they dislike the idea of hordes of uninvited migrants doing the same.

## The show must go on

Senior officials of the EU have done little more than fiddle while national brushfires have burned. Their obsession with keeping Europe intact saw Greece become a helpless pawn of the major players, a sacrificial lamb on the altar of EU expediency. Only now, more than 10 years later, is Greece emerging from purgatory as one of Europe's more stable members.

Meanwhile the EU has wasted precious years which should have been devoted to fixing its economy instead of merely trying to save the furniture.

In the wake of the collapse of the Soviet Union and the reunification of Germany, EU 'visionaries' led by Jacques Delors, seized their chance; proposing that the unelected European Commission — of which he was then President — should become the executive agent of the European Parliament, an elected body.

This particular power grab was soon abandoned in favour of another major play. In 1991, at Maastricht, it was decided to convert the existing European Monetary System into a full currency union. As the European Economic Community turned into the European Union, deleting the previous centrality of the 'economic' imperative, it became clear that the ultimate merging of everything — monetary, fiscal and, most importantly, political — was on the table.

Simon Jenkins, in *A Short History of Europe*, deplores the bureaucratic meddling of the European Commission in everything from building regulations to food portion sizes, while the European Parliament has become a paper tiger, given over to lobbying for domestic projects. Voter turnout has fallen from 62% in 1979 to the

low 40s. Undeterred by public apathy, not yet hostility, the EU has forged ahead with ever more bureaucracy and institutions such as a European Council.

As Jenkins points out: “Rarely in the EU’s history were the peoples of Europe directly consulted on its powers, or even its existence.” When elected governments did defer to the masses they got a bloody nose. The EU constitution had to be approved by the electorates but was rejected by the French and the Dutch at referendums, as was the final treaty by the Irish. These results were either re-run or ignored. The final Treaty of Lisbon was signed in 2007, with virtually no concessions to subsidiary nationalism; its authors blind to any incipient resentment this might breed.

Shortly afterwards, the tsunami of the Global Financial Crisis hit, crippling Greece, Spain, Portugal and Italy, and sending unemployment levels through the roof. After that, it was only a matter of time before a resurgent nationalism became a major force to be reckoned with.

### **An insufferable superiority complex**

Satirist and commentator Mark Steyn says the “democratic deficit” snuffs out the spirit of liberty: “The issue is not how to make the chaps in Brussels more ‘accountable’, but why all that stuff is being dealt with in Brussels in the first place.” Yet it is not just the flawed voting system, but the arrogant and dishonest mindset that corrupts the democratic process.

Jean-Claude Juncker, the recently retired President of the European Commission, epitomised all that is wrong with the leadership. In commenting on Greece’s economic meltdown in 2011, Juncker said: “When it becomes serious, you have to lie.” On EU monetary policy: “I’m ready to be insulted as being insufficiently democratic, but I want to be serious ... I am for secret, dark debates.” On British calls for a referendum on the Lisbon Treaty: “Of course there will be transfers of sovereignty. But would I be intelligent to draw the attention of public opinion to this fact?” and “There can be no democratic choice against the European treaties.”



It is hard to imagine any politician expressing such open scorn for voters, and boasting of Machiavellian deviousness, staying in office anywhere else. Juncker was shameless in defending a system that imposed fundamental tax changes on an electorate that was not permitted to have a say — that is not just a democratic deficit but a complete abrogation of democratic rights. There is no willingness to respond to widespread unrest and loss of faith in the system. The answer to large-scale opposition to ever closer union seems to be even closer union.

The rationale for Europe today is not peace, but power. As prominent Europe watcher John Gillingham has said: “The European idea has turned rancid.”

## Little light at the end of the tunnel

With a seriously wounded Macron and a fatally crippled Merkel, Europe is essentially rudderless. Meanwhile the upstart champions of New Europe, Oxford-educated political scientist Victor Orban, long-serving Prime Minister of Hungary, and former historian and economist Mateusz Morawiecki, Prime Minister of Poland, together with the northern European leaders of the Baltics and Scandinavia are on a very different journey. The emergence of the Visegrad group of four — the Czech Republic, Hungary, Poland and Slovakia — is a sign of things to come and may well herald a multi-speed EU in the not-too-distant future.

Ominously for old Europe, these upstarts are already showing the way, with Western-style growth policies which have delivered significantly lower unemployment rates — averaging 5% compared with Spain and Greece (closer to 20%) and Italy (around 10%), a recipe for social unrest and youth emigration. The leaders of these rapidly emerging economies, and their predecessors, have had first-hand experience of the evils of communism, and have seen how it crippled their economies. Not surprisingly, they look to the US and Western economic models for inspiration and guidance.

Meanwhile, Germany has derived a massive trading advantage from the common currency. Its manufacturers can operate in a common market and assemble their products in low-wage countries without worrying about tariff or other trade barriers. It only spends a miserable 1.3% of GDP on its own defence, while leaving the heavy lifting to the United States. As a result, Germany can indulge its citizens in free universities and health care. If it were not for the euro,

Germany would long ago have had to appreciate its currency in line with its enormous export surplus.

### **Rich but weak**

Europe is widely perceived as rich but weak; a lazy free rider, dreaming of being a post-modern superpower while wallowing in chronic economic underperformance. Over the past decade, the EU's share of the global economy has shrunk from one-third to a quarter and, according to a recent PwC report, is on track to be about 10% by 2050. Even Germany is now getting cold feet.

Immigration is no longer the noble cause it was some years ago, when overt criticisms were heresy. With the emergence of people smugglers, the game changed, as it became clear that most of those leaving their homelands were not fleeing persecution, but instead seeking a better life abroad, preferably in a wealthy country such as Britain, with a generous welfare scheme.

Merkel may have been a steady hand on the wheel for many years but in 2015 she lost much support in the wake of her fatal immigration rush of blood, offering an open door to one million immigrants, despite compelling evidence that most migrants to Germany are failing to integrate. She seemed to have forgotten her own earlier warnings on the subject. As far back as 2010, she had said that the attempt to build a successful multicultural society had "failed, utterly failed." A low birth rate among native Germans and an overly high level of Muslim immigration, with higher birth rates, are now fundamentally transforming the nature of German society. To make matters worse, a higher birth rate among the less well-educated, and a lower one among the highly-educated, are putting Germany's post-war prosperity and economic success at risk.

### **Rule by elites for the elites**

More than 20 years ago, Christopher Lasch wrote *The Revolt of the Elites and the Betrayal of Democracy*, excoriating this privileged group for their loss of moral values and their abandonment of the middle

class and the poor. Nothing much has changed. These days the term 'elite' has mostly pejorative connotations, but in many parts of Old Europe it remains a badge of honour, to be pinned on intellectuals and big picture 'visionaries', selfless toilers in the national interest and dismissive of lesser mortals.

The fundamental problem with rule by elites is that they are on an ideological journey, not an economic or financial one, and are therefore at odds with those they seek to govern. With their superiority complexes and plutocratic lifestyles, they are disdainful of the views and needs of others, in the self-righteous belief that their top-down nostrums are self-evidently right. This did not work out well for the Soviet Union, where groupthink, reinforced by gerontocracy and sheer obstinacy, meant it was incapable of meaningful reform. Yet the new bureaucratic aristocrats of Europe don't really care about those who are unfortunate enough to have to earn a living.

Even the ineffectual members of the European Parliament live like lords — a so-called "office and travel costs allowance" of around \$7,000 a month goes straight into their personal bank accounts, no receipts required. EU officials fly around in private jets, while preaching austerity to member states. The EU not only spends vast amounts shuffling politicians, bureaucrats and paper between Brussels and Strasbourg but plans to devote more than \$1.5bn to a desperate program to support 'European values', all the while happily dispensing funds to Hamas, refusing to treat with anti-Castro dissidents and selling weapons to Beijing.

EU mandarins, obsessed with their own survival, do not want other countries to follow Britain out the door and spoil the party. But the writing is already on the wall. Not only has the UK, the region's second largest economy, left; the fourth largest, Italy, has elected a vigorously anti-EU government. French polls show 40% in favour of Frexit and the EU's own research shows that Austria, Greece and Italy are even more unhappy with EU membership than the British.

## The Euro

Despite the EU seeing the euro as one of its proudest achievements, after 20 years it has many more objective critics than supporters. The eurozone has become an albatross around the necks of most members, but particularly the smaller ones like Greece; unable to use the automatic stabiliser of devaluation to make themselves more competitive.

It is now clear a single currency can only work if controls over taxation, spending and the core economic policies of the nation-state are centralised, and the nation-state abolished. Even the founding chief economist of the European Central Bank, Professor Otmar Issing, has warned that “one day, the house of cards will collapse.” Only Germany is a clear winner.

It is convenient, but wrong, to simply blame the fiscal profligacy of the pro-redistributionist south, instead of the crippling austerity imposed by the fiscally-disciplined north, led by Germany. The IMF has admitted that Greece was in effect sacrificed to save the euro and the European banking system. Not to mention that Ireland, Portugal, Spain and Cyprus have also needed bailouts. While most member countries now have far higher debt-to-GDP ratios than a decade ago, Germany coasts along with a current account surplus of 8% of GDP.

Fiscal union can only work if accompanied by the political union of 27 economically, culturally and socially diverse states — a pipedream for which there is no popular support in any major country. In fact, even now only 19 member states are in the eurozone. The big problem, as the former European Central Bank President (and current President

of Italy), Mario Draghi, rightly insists, is the failure to implement supply-side reforms to boost growth and productivity.

The euro came into being as a form of gold standard with a solemn commitment that there would be no debt bailouts. But the supposed iron discipline of a single currency has not delivered any serious reform. Rules capping fiscal deficits at 3% of GDP and total debt at 60% have been wilfully ignored, giving larger nations like France and Italy get-out-of-jail cards, while condemning Greece to a decade of unnecessary poverty.

Even the once venerable *Economist*, fervent supporter of all things Europe, agrees that none of the fundamental problems have been solved — too much expansion, too little reform. There is still no genuine cross border integration of economies, banks and capital markets to ease the pain of real-wage adjustment. In the US, capital and credit flowing from the rest of the country cushion the impact of a downturn in any one state. But a single capital market has not developed in the euro area. A 2016 study by the EU Commission found that integration of capital and labour markets eased the blow of half the asymmetric shocks in America but only a tenth in the euro area.

## A dearth of leadership

It is ironic that, while the leaders of the four Visegrad countries have provided strong leadership on a national basis, there are only two European leaders who matter — and each has displayed severe limitations.

The lead writer of Britain's *The Telegrapher*, Ambrose Evans-Pritchard, is an astute and non-ideological observer of the European scene. As Angela Merkel prepares to retire, his damning assessment is that “she is more responsible for Brexit than any other political figure in Europe, on either side of the Channel. She bears the greatest responsibility for the “Japanisation” and austerity bias of monetary union. She exalts the German mercantilist trade surpluses that render the whole euro project ultimately unworkable.” To make matters worse, the German economy is currently suffering its worst year since 2013.

Germany is in the process of phasing out both nuclear and coal power and investing billions in the shift to renewable energy, despite evidence showing that this has not added to efficiency in the energy mix, while also falling short of the country's climate goals.

With the German federal election to be held on 26 September 2021, the Greens are second place in the polls after sliding back from an earlier lead. Their candidate for Chancellor is 40-year-old Annalena Baerbock, who has been in the Bundestag for eight years, but has never held ministerial office. Although she studied at the London School of Economics, she is unlikely to adhere to any conventional economic script. This does not augur well for getting the EU back on a sound economic track.

Meanwhile euro-zealots like Macron simply plough ahead, seeking closer political and economic integration, the famous ‘one last heaven’, as though this mirage is just around the corner. He continues to argue stridently for a single, Europe-wide tax regime and vigorously opposes any move to lower direct taxation as a violation of European solidarity, conveniently ignoring the fact that his proposal is also a denial of national sovereignty.

Macron has barely improved on the pallid economy he inherited, with unemployment around 9% and youth unemployment at 21%. He treats his own people with contempt, labelling them recalcitrant Gauls who hate reform. His 2018 proposed fuel tax, a measure he sought to justify as an attempt to tackle climate change, was yet another ivory tower vanity project, unconcerned for the impact on the living standards of those who are not members of the privileged class. The Paris climate accord remains sacrosanct, despite the fact that it does little to curb the emissions of major emitter economies, especially China and India. Real structural reform is just too hard.

Seeking re-election in 2022, although afraid to say so, he is belatedly making efforts to reposition himself by tacking to the right with newly discovered commitments to more police, new anti-terrorism laws and a crackdown on Islamist ‘separatism’. All this is designed to ward off a serious challenge from Marine Le Pen, although at this stage few expect her to win. She regularly taunts Macron for his inept handling of the pandemic, while herself embarking on a makeover — a creeping normalisation that has involved ditching barnacles such as leaving the euro or the EU. But how Macron manages the ongoing Covid recovery phase will probably be decisive, especially if the economy starts to improve.

Macron accepts that the status quo is “a static Europe.” His beloved “project” would prioritise convergence, including protectionism, rather than competition — a throwback to the dark ages of economic theory. But in seeking ever more centralising power, he is starkly reminding British voters why they chose to leave in the first place.



Macron's attitude also flies in the face of Poland's remarkable economic success since it threw off the shackles of Soviet oppression. GDP has risen two and a half times since 1989 and the economy has grown without interruption since 1992 — by far the best performance in Europe, despite its reliance on the importation of mineral commodities and a precarious geopolitical position. Macron has been quick to denounce the authoritarianism of Viktor Orban, while displaying similar tendencies himself; he sounds like Obama, but governs like Trump. Determined to avoid any meaningful economic reform, he instead vows to wipe out the far right “plague”, thereby ignoring the very root of the problem. With this pervasive mentality, Old Europe, at least, is headed for a slow-motion train wreck.

Virtually all modern nations now accept that competition, together with innovation and entrepreneurial activities, create the environment for growth and enhanced productivity. This is so, even if it also delivers the dreaded (to the Europeans) ‘creative destruction’ which one of their own, Joseph Schumpeter, conclusively demonstrated is the lifeblood of capitalism and the source of innovation and progress.

Even today, the Europeans eschew any overt recognition of the virtues of capitalism, and are leery of competition, busy protecting their own from outside forces and even sometimes from internal upstart east European challengers. The Common Agricultural Policy was expressly designed to protect European — especially French — farmers from more efficient outsiders. It certainly preserves a romantic tourist attraction and an enviable lifestyle for some, but at the expense of the working classes who get no benefit from their tax contributions and would benefit much more from a stronger economy.

America and China have powered ahead by adopting market-based strategies, albeit overseen by different business models, one free market capitalism, the other a form of managed capitalism. Both have been remarkably successful over the past 30 years, yet Macron now proposes to double down on a dirigiste model of strategic planning by enlightened bureaucrats — a model with a very checkered history. Old Europe remains wary of the very engine of competition, despite it being a proven success story.

# Conclusion

The original noble purpose of saving Europe from itself has now turned into a self-preservation exercise of saving the elites at the expense of the masses. The idealists have been replaced by ruthless careerists, whose exciting and prosperous lifestyles depend upon a blind continuation of ‘the project’, despite all the evidence that it is not delivering the goods and is now provoking widespread resentment and popular unrest. Europe is increasingly riven by internal ideological cleavages, with the new members more interested in economic growth than endlessly growing the welfare state.

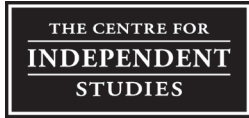
The UK went through its epiphany under Thatcher more than 40 years ago. The EU remains essentially inward-looking, a prisoner of its past grandeur and sense of superiority. In the words of John Gillingham in his powerful work, *The EU: An Obituary*: “The EU remains undemocratic, inefficient, blinkered, inflexible, unpopular and soft on corruption. The EU system seems unwilling to address the issues of the future.” Its policymakers flounder on crucial policy issues like energy, finance, and technology; preferring to stoke people’s fears by banning fracking and genetically-modified food.

It has repeatedly ignored sensible growth strategies — even those it has commissioned — and refuses to acknowledge that the single currency experiment has been a catastrophic mistake, while being of enormous economic advantage to Germany; the nation which needs it least. Research and development as well as defence spending badly lag the US, and the macro picture is far from encouraging.

Despite spending more on social welfare than any other nation in the developed world, it is not a happy place; with chronically high

unemployment, endless labour unrest, a serious brain drain, and rising political extremism — all signs of worsening economic, social and political decline. Italy, whose economy has been moribund for 20 years, with youth unemployment at over 30%, has seen nearly two million of its best and brightest desert the country in the past 10 years.

While the EU is in decline, epochal change is occurring elsewhere, particularly in China and the US, but also in hitherto sleeping giants like India, Turkey and Indonesia. Until Europe starts to acknowledge the increasing gulf between old and new Europe, and takes economic reform seriously, it will continue to experience tepid growth. But while it may be only a matter of time before the system collapses, it will probably have to await a major ‘existential’ crisis or the arrival of a new generation of realists whose careers no longer depend upon keeping the museum open.



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# Reflections on the EU Project and its Flaws: A fatal conceit about markets and the real world

The European Union shows all the signs of worsening economic, social and political decline — from tepid economic growth and chronically high unemployment to social unrest and rising political extremism.

This paper reflects on the idealistic roots of early European integration in the wake of two world wars, before exploring how these worthy intentions have long given way to a bureau-cratic cadre steeped in *etatist* doctrines.

At its heart, the EU is an elite-driven project that rejects the primacy of market economics over social welfare models, compounded by a disdain for democracy. Its relentless quest for top-down uniformity ignores what was once Europe's guiding principle of governance, subsidiarity, which holds that decisions should be taken as close as possible to the people and communities affected.

The original noble purpose of saving Europe from itself has now turned into a self-preservation exercise of saving the elites at the expense of the masses. Yet the EU's answer to widespread loss of public faith in — if not opposition to — 'ever closer union' seems to be 'even closer union'. The rationale for Europe today is thus arguably not peace but power.



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