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Europe Is Stronger Than You Think – If We Reinvent Ourselves

We must not only ponder Europe's weaknesses, but also highlight the qualities that make Europe strong

It seems to me that we Europeans have a need to re-examine our own role in the world from time to time. Where are the roots of our relative success in the world? Why is it that our continent has been the dominating force over so many centuries? Many famous historians and philosophers have dedicated much attention to these questions. The German Arthur Spengler in the 1920ies was perhaps the greatest among the many pessimists. He was convinced that the Western cultural sphere is an organism in decline and will ultimately perish. Arnold Toynbee, the great British historian was only slightly less pessimistic. Perhaps he still gave us some hope – if we get our act together.

Today similar thoughts come from many sources. But before we concentrate our minds to deploring our fate, perhaps it would be better first to ask ourselves which have been the strengths that have made it possible that Europe as a political, economic and cultural region has, for so long, had such a crucial role in world affairs.

The well known British born Harvard professor Niall Ferguson offers his own explanation in a recent book called "Civilization". The Western world – according to him – has had some decisively important qualities. He calls them somewhat suspiciously as six killer applications. But before we go into that let me share with you a quote from the afore mentioned book. Here Ferguson quotes from a 1800 century text called "Rasellas: Prince of Abyssinia". This is the quote:

"By what means are the Europeans thus powerful? Or why, since they can so easily visit Asia and Africa for trade or conquest, cannot the Asiaticks of Africans invade their coasts, plant colonies in their ports , and give laws to their natural princes? The same wind that carries them back would bring us hither."

Niall Ferguson does not leave us with that only. He also offers an answer to his why? His philosopher called Imlac replies:

"Because they are more powerful, Sir, than we, because they are wiser; knowledge will always predominate over ignorance, as man governs the other animals. But why their knowledge is more than ours , I know not what reason can be given , but the unsearchable will of the Supreme Being."

Ferguson thinks he does know. His six killer applications are his explanation to why we have been wiser or less ignorant.

The economic success is based on fierce, open competition. That is the force that has spurred European economies to superior performance.

The second decisive factor is science. The scientific achievements are a good explanation for many of the exploits of our culture.

The third is property. By that he means that private ownership which is guaranteed in an environment of rule of law has been a great stimulus to prosperity.

The fourth is medicine. The success of western nations has been large possible due to better health care.

The fifth is consumption. It has much to do with a world view that is the opposite to worship of frugality. Since consumption is seen not only as acceptable but even as the fulfillment of at least some aspects of human desire it has become a driver.

The sixth is – quite flatly and simply – work. The key factor is work ethic –Here he quotes Max Weber who has coined the phrase: Protestant work ethic.

It is, of course, an impossible task to compress Fergusons some 400 pages into less than a page of text but his points are still worth making.

If these are, or rather have been, the sources of our accomplishments and our perceived strengths, where are our weaknesses today?

I will start with weaknesses which are shared by most highly developed nations and which are very difficult, if at all possible, to amend.

The first is the unfavorable demographic development. Western societies, almost all of them, are aging societies. The birth rates are low, the great achievements of medicine and economic prosperity have extended the life span of western nations.

Those in working age are fewer and fewer. Immigration has been, to some degree, a palliative, but it is does not come without problems of its own. Policies designed to boost birth rates have been ineffectual.

Countries with long history in accepting immigrants and in absorbing them into the mainstream have done better than those where there is no such tradition. These are, indeed, main challenges to the mature European economies.

Inadequacy of a skilled and flexible work force is one of the reasons why manufacturing industries are – more and more – relocated to developing countries. There are several other reasons, as well, such as the increasing purchasing power in the developing parts of the world. To relocate production closer to the markets is a purely practical consideration.

In many European countries we face the problem of high unemployment, in particular among the youth and the immigrant community. As many as about half of the younger generation are, in some countries, without work. If this state of affairs is long lasting the consequences can be grave. This has led to unrest and to crime.

Irresponsible political movements have exploited these phenomena causing thereby much ill will and unwillingness to find constructive solutions to the problems at hand.

Our societies are undergoing a process of change – demographic change, economic change, cultural change. The great question is does our political culture find solutions to these problems, respecting democratic values and full observance of the rule of law.

In many European countries traditional political parties have been broken up .That may be a desirable development if they are incapable of transforming themselves in lockstep with the rest of the society. On the other hand, new parties, often led by populist inexperienced leaders add to the unpredictability of political life. That is certainly not auspicious to economic development.

The role of the political parties has changed considerably in several European countries. They no longer offer political all comprising coherent doctrines but rather solutions to various problems often reflecting special interests within the party. Since developed, coherent ideologies have lost much of their importance, the basic political principles, such as democracy and rule of law, become even more important than before in giving a value based foundation to political activity.

One of deeply worrying development is the widening rift between North and South. It is a fact that many of the Southern members of the European Union are in extremely difficult situations. Very high unemployment, and even higher youth unemployment, coupled with destitute immigrants, cannot last for long without very severe political consequences.

The recipe for improving the situation has been austerity. It seems to me that further cuts in public spending are no longer politically wise nor economically helpful. The realization of this seems to gain wider support. The International Monetary Fund has already confessed that it has been guilty of misjudgment.

I come from a country where fiscal discipline and balanced budgets have been the rule for decades. The rule – for sure – but exceptions have been accepted, if temporary. We are, at present, well within the limits set by the euro treaty for budget deficits and public debt. That is, however, nothing to brag about. We too face the very same problems of an aging population, relocation of manufacturing industries and increasing youth unemployment. Fortunately we have, however, been spared from violent outbursts of youth rage.

The social model we have implemented, called the Scandinavian model, has, so far, proven to be strong and crisis resistant. Not without exceptions, but exceptions are rare. The potential basic problems are, nevertheless, not too different from those in Southern Europe. Perhaps we have had more luck in dealing with these challenges than our brothers in the South. We must not drop our guard by being overly confident because we have, so far, avoided the worst turns in our development.

The Scandinavian countries are not, of course, alone with their general political and social principles. Much of the same would be true in countries such as The Netherlands, or Germany. It was, after all, Ludwig Erhard, the German minister of economy and later the

chancellor who coined the expression “social market economy” or soziale Marktwirtschaft.

It is sometimes said that an equalitarian society may be desirable as it is more just and more human, although it may not be as competitive as societies where fierce competition increases productivity and innovations. This argument does not hold water. Some American economists have claimed that the Nordic countries cannot be as innovative as those where there is no “cuddly capitalism.”

They say that societies where the life is safe from cradle to grave are less productive, less innovative. Figures tell a different story. Such critical indicators as patents per, e.g. million of population show as that the Nordic countries do well. In comparison with, for example, the United States, they are good competitors. Statistics from some three years ago are clear. There were 48,7 patents per American, 88,3 per Swede, 60,5 per Dane and 63,9 per Finn. In other words this indicator shows that innovations are not hamstrung by the social model we have in our part of Europe. The figures indicating labor productivity are almost similar. The key to all this is a good mobilization of human resources by equalitarian policies, first and foremost in education. In the Nordic countries a larger share of the population is employed although the Americans put in more working hours.

Equality is productive – that may sound like heresy to those who believe in a stratified society. But if the proof of the pudding is in eating it, our fare has a good taste.

Since Europe is today, in economic terms, one largely amalgamated and unified region, the role of the European Union is central. It is, however, salutary to remember that the resources available to the execution of the EU policies are no more than one per cent of the GDP of the member countries.

Flushing money there were the problems are is therefore no more than a palliative. Here we come to the difficult part. If there is not enough money to solve the problems the usual recipe is structural reforms. That is a pair of words we often hear. But not very often what is exactly meant by so saying.

Most of the structural reforms are, if implemented, sour grapes. Nobody wants to hear that their work input is not really worth what is paid for it since there will be others, in distant places, who do the same, equally well, for much less. They do it because they have access to the same tools we have had for some centuries. Furthermore they today live in an environment, both economic and social, where there is fierce competition.

The fruits of scientific research are today low fruits. Wherever property is reasonably well protected, where major health problems are under control, where a community based on high consumption is possible and where the work ethic is high, there will be success.

In brief, the factors that Niall Ferguson sees the explanation to the wellbeing of Western societies are no longer their monopoly. Globalization is a greater equalizer. It rewards those who are flexible enough to make good use of new tools. It punishes those whose capacity to rejuvenate themselves, economically, socially and politically is insufficient.

The classic theory of division of labor would have it that economic development in one country can be – and probably is – beneficial also for other countries. That creates new possibilities to mutually beneficial trade. Is this true even today?

It seems to me that the speed of change today does not allow the traditional industrialized countries much time for reinventing themselves – for adapting their productive machinery and their institutions to a new situation.

The newcomers make use of new techniques, new processes and other innovations so fast that they are, as producers, on our level in no time. Where, then, is our comparative advantage? How do we maintain our achieved standard of living on the present level, or even improve on it, in such competition?

We have, I believe, certain advantages on our side, not yet fully utilized. One of them is ever closer cooperation in education and scientific research. We still have the advantage of a well educated and thoroughly trained work force, if we make good use of it.

Our institutions are strong –we have the advantage of relatively balanced political culture. For us the rule of law is more than just a lofty principle. Our societies have their problems, but being open societies, as they are, we do not try to wipe them under the carpet.

I did mention co-operation. By that I mean that the possibilities and opportunities afforded to us through the process of economic and political integration are, by no means, exhausted. The European Union is a work in progress. The tumultuous years we have experienced lately have made some of us convinced of the need for more integration, in particular in our economic and financial sectors.

Others see their misgivings as proven. I belong to the camp who believe that economic progress and social justice do not mutually exclude one another. A just society can indeed be a more productive society. But not by just extending old policies without re-examining them in the light of global competition.

Resistance to change is well ensconced. Special interests have their producers associations, their banking unions, their agricultural lobbies as well as their trade unions. Most of them fear that their interests, as institutions, are endangered if the society finds new ways for organizing itself. And yet, new forms we need. The present framework was constructed to a different world. To a world where fierce global competition was unknown. To a world where the fruits of scientific research were in our possession, and ours only. To a world where we had the benefit of well organized, law based institutions. Now these one sided advantages are part of history. The right question is, I believe, do we make full use of our strengths, such as scientific research and broadly based education. Or the advantages of a rational division of labor. Or do we understand how to best profit from unhampered trade. We have many gaps in our systems.

The European Union has not yet been able to develop a common energy policy at time when energy is becoming ever more a key factor in international competition. Our markets are not yet as open as we like to profess. Much could be achieved if we could agree on a

trans-Atlantic free trade regime. My point is that there are plenty of unexploited possibilities and much room for improvement of our present performance. The point is that we have to reinvent ourselves, we must boost our self confidence.

Let me finish by quoting Niall Ferguson from the last chapter of his book:. He discusses the strengths of the Western societies calling them a package. Like this:

“Yet this Western package still seems to offer human societies the best available set of economic, social and political institutions – the ones most likely to unleash the individual human creativity capable of solving the problems the twenty-first century world faces.

Over the past half-millennium, no civilization has done a better job of finding and educating geniuses that lurk in the far right-hand tail of the distribution of talent in any human society The big question is whether or not we are still able to recognize the superiority of that package.

What makes a civilization real is not just the splendid edifices at its centre, nor even the smooth functioning of the institutions they house. At its core, a civilization is texts that are taught at in its schools, learned by its students and recollected in times of tribulation. “

In times of economic and political crisis it is easy to lose faith in our institutions and in our leaders. On the other hand, a crisis such as the one we are at present living with, has not yet dislodged anything vital. The crisis resistance of our democratic institutions has proven itself. We share our wealth, at least some of it, with those who need a helping hand. We are prepared to reconstitute some of our institutions so that they would better meet the requirements of an ever changing world.

Simply, we are aware of the need to be more responsible and to be more innovative. But this I would like to add – we need to be more aware of the importance of social equity. Socialism has not succeeded in granting that, although high hopes have been attached to it. Naked capitalism, as practiced in too many countries these days, has not been the solution. What we need is fairness, hard work, justly rewarded, a caring society but with full acknowledgement of the fact that we all have the primary responsibility for our own wellbeing. That is the way how a strong, dynamic and harmonious society should be recreated.