

# **Is Europe Ready for the Future?**

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It was here in Berlin – in the hearth of Europe – that our generation was given the task of setting up a new system of peace and stability in Europe as a whole.

It was when the wall that divided Berlin, Germany and Europe came down in November 1989 that the long dark night for Europe finally come towards an end.

In August 1914, looking out over the grounds of Horseguards Parade in London, the then Foreign Secretary Sir Edward Grey said that “the lamps are going out all over Europe. We shall not see them lit again in our lifetime.”

His words were prophetic.

The Great War destroyed the one Empire after the other – German, Russian, Austro-Hungarian, Ottoman – and paved the way for turmoil and revolution, inflation and depression, fascism and communism, murder and genocide, partition and repression in a tragedy that lasted for nearly a century.

It was not until November of 1989 that the lights started to be lit again. Not only in a part of Europe – but in the whole of Europe.

The long dark night was finally over.

And in the months that followed, history truly accelerated. Germany was peacefully reunified within less than a year. Jubilant people brought independence, freedom and democracy to the one country after the other that had been trampled down behind that famous Iron Curtain from – in the words of Winston Churchill - Stettin to Trieste.

In December of 1991, the red flag was lowered from the Kremlin. The age of the Evil Empire had come to its end. There was freedom even for Russia.

The task that was then given us was to build a new system of peace and stability for all of Europe.

Not a Europe of a multitude of manoeuvring national states as after the Peace of Westphalia. Not a concert of Empires as after the Congress of Vienna. Not a Europe divided into opposing military alliances as after 1945. These alternatives were either not available or not acceptable.

The only alternative that could bring peace and stability was the gradual building of a federation of nation states encompassing the area between the Atlantic and Russia, the Arctic Ocean and the Mediterranean.

In the Dutch city of Maastricht the then leaders of the then European Community took the decision to move towards a European Union, to build an economic and monetary union with a common currency on the basis of the integrated single market, to set up

a common foreign and security policy and to gradually open for membership for all European democracies willing and able to be part of the common effort.

This was the agenda that dominated the last decade of the last century in Europe.

There were eminent successes.

Against many odds, conditions for the economic and monetary union were created, and the common currency was introduced from Helsinki in the North to Lisbon in the South. The integration of the western part of the continent was virtually completed with the accession of Sweden, Finland and Austria to the Union.

But there were also painful failures.

Suddenly, we were confronted with the reality of war in Europe again. Millions of people were forced to flee as barbarities swept over the Balkans, from a brief skirmish in Slovenia, over the wars in Croatia, Bosnia and Kosovo to the flames of conflict also in Macedonia. We were brutally reminded both of the evil nature of nationalism running wild and of the shortcomings of Europe in making peace also with more than words.

As the old century gave way to the new, the agenda of Europe was widened.

In Helsinki, the leaders of the European Union opened up for membership for 12 countries of the Baltic area, Central and Southern Europe, as well as for the membership perspective of Turkey. And they decided to move towards a European Security and Defence Policy with also the necessary military means.

In Lisbon, the same leaders proudly proclaimed their ambition to create, within a decade, the most dynamic knowledge-based economy in the world, catching up with and perhaps even overtaking the United States.

Since then, we have seen primarily the process of enlargement moving forward. On April 16, no less than 10 countries will sign their treaties of accession on the

Acropolis in Athens. A series of referendums – starting in Malta and ending in Estonia – will allow more than 70 million persons to freely take or reject the decision of joining the Union.

This goes hand in hand with the parallel process of enlargement of the Atlantic Alliance. By May 1<sup>st</sup> 2004, all of the countries of the Baltic region and of Central Europe, as well as Slovenia, are likely to become full members of both the European Union and the Atlantic Alliance.

Then, we will be perhaps half of the way towards building that federation of nation states that the momentous changes symbolized by November 1989 here in Berlin put on the agenda of history.

Too often, we tend to take what has been achieved in this regard for granted. Too often, we discuss this process in terms of the problems ahead rather than in terms of the enormous achievements done.

Half of Europe saw its society and economy in chains for more than a generation. Societies were perverted and economies were distorted. Culture was deformed and entire nations were virtually enslaved.

While tons of books had been written on how to build socialism out of the ashes of capitalism, there was nothing on how to build capitalism out of the ruins of socialism. Yet, this was the task we were given.

Step by step, all the institutions necessary for the rule of the law, for an open society and a dynamic economy, for functioning welfare systems and for transparent systems of government have been put in place from Tallinn to Sofia.

Decaying socialism left fragile societies in its wake, open for temptations and emotions we have seen much too often in the history of Europe. But it was the dream of and determination to returning to a Europe they so brutally had been cut off from that gave the gigantic process of transformation of these countries the direction and drive that will now make it possible for them to join the European Union.

Without the template set by the standards of the European Union, I doubt that this transition would have been as smooth as it so far has been.

The enlargement of the Atlantic Alliance is also of profound importance. Without the feeling of security and being anchored that this gives, I fear that the politics of all these countries would have been far more driven by fears of insecurity and a sense of not being firmly anchored. This would, no doubt, have had a detrimental effect on both the internal stability and the external security of many of these countries.

This enlargement was driven more by the United States than by the leading nations of Europe. There was, in this respect, more of a strategic vision on the need for a new security structure for all of Europe on the other side of the Atlantic than there was here.

Our relationship with the United States is important in very many different ways. It should never be forgotten that we have a paramount interest in preserving and developing the security relationship between the United States and not least all these countries of the Baltic area, Central and South-eastern Europe. It is when these nations – historically often treated as the small change in the big deals between the powers of the day – are firmly tied to the security structures guaranteed by the United States that we can speak about a solid foundation for the security of Europe.

With the success achieved, we are thus perhaps half the way towards that new federation of nation states in Europe.

We need to focus on the tasks ahead.

The Presidency of the European Convention has just presented the first draft for the first 16 articles of the first constitution for this evolving federation of nation states. Shortly, there will be new drafts for these articles, as well as first drafts for subsequent articles.

There is a great different between the inter-governmental processes that produced the treaties – of Rome, Maastricht, Amsterdam and Nice - of the past. Then, it was often made by diplomats in the dark. Now, it's an open convention with representatives from all aspects of the political systems of Europe and the 28 countries part of this process, step by step working towards a constitution, to be reviewed and adopted later by the governments of Europe.

For the first time, we are talking about a constitution. For the first time, there is talk of at least partly a federal nature of the union we are building.

And this is necessary. A constitution because that is the way in which the institutions of democratic decision-making are always laid down. And a federation, since this is the way in which we can ensure that the powers of the regions and of the nations are preserved and protected, thus furthering the diversity in cultures, traditions and experiences that gives Europe a richness others can only envy.

Thus, we don't seek an "every-closer union" in the words of the Treaty of Rome. We seek a federation of nation states.

The process of economic reform and integration of the new member states must certainly continue.

Today, they are on an economic level that on the average is app 40 % of the average of the present 15 member states. They are growing substantially faster than the economies of "old EU", and faster in the countries that have been firmer and faster in their reform policies.

But they have a long way to go, and they will require our help.

We should set as the aim, that they will all within a generation be able to close the wealth gap that exists between them and the "old" European Union.

Within a generation, Ireland went from the poorest member of the then European Economic Community to the second wealthiest member of the European Union after

Luxembourg. Between just 1981 and 2001, its per capita income grew from 62 to 121 % of the EU average.

So we know it can be done.

But it will require wise policies both by them and by us.

If we – to take just one example - start to harmonize social and welfare policies across all of these countries, we are in all probability dooming them to future failure and future poverty. This would, over time, undermine also the stability that we are seeking.

To further the necessary process of reforms, all the new member countries are seeking to adopt the euro when they have gained full membership.

But the process might well be a very demanding one. In my view, we should seek to amend the Stability and Growth Pact so as to give these countries the room for growth that is essential for their future, recognizing that conditions for them could in certain respects be different than conditions for us.

According to economic theory, we should see labour moving West and capital moving East in this new integrated economy. I hope and believe, however, that we will see more of the former than we will see of the later.

Already today, we see how the automotive industry is slowly but surely migrating to these countries. We should not hesitate in seeing these countries as new pillars of manufacturing strength in Europe. We should clearly recognize, that a continuous inflow of capital and knowledge is necessary for the growth that is necessary to close the wealth gap within a generation.

With new members, we will also get new neighbours. And with new wealth will follow new wealth gaps. We need to formulate forward-looking policies for these our new neighbourhoods, so as to prevent them from developing into new centres of instability and uncertainty.

The risks are clearly there in the Eastern zone of new neighbours.

Belarus is a disgrace to all of Europe, not the least to Russia, in its disregard for fundamental democratic principles. Moldova with the breakaway statelet of Transdniestria clearly falls into the category of a failing state with all the risks for all of the surrounding area inherent in this. Ukraine – with great potential, but also great problems – has yet to make its decisive decision on which way it would like to go in the future.

We are also facing very major issues in the zone of neighbours South of Slovenia and North of Greece.

Their affairs no longer fill our media, and there are signs of progress. Shortly, Croatia intends to submit its application for membership in the European Union. But overall, there is reason to be concerned, and there is reason to fear a deterioration of the situation in the years ahead.

Unemployment across the region is staggering, and some of the core issues of the century of conflict in this region remain unresolved. We have not finally decided, whether we seek to preserve and build multi-cultural and multi-ethnic state structures, or whether we will accept the region being more or less totally fragmented along cultural and ethnic lines. The future of Bosnia and Macedonia – the two by far most difficult issues in the region – will over time be decided by the fate of Kosovo.

We have yet to live up to the promise of creating a true European policy for the stability and integration of this crucially important region.

Beyond these difficult issues, as well as the membership of Bulgaria and Romania, lies the large, difficult and demanding issue of whether we truly see Turkey as a member of our evolving federation of nation states of Europe.

Its size, history and geostrategic environment make this an issue truly deserving a profound debate. We are talking about Istanbul replacing London as the largest city

of our Union, and of a federation that will eventually stretch from the shores of the Arctic Ocean in the North to the edge of the plains of Mesopotamia in the South.

Often, the mission of European integration is described in terms of recreating the Empire of Charlemagne. It is still to Aachen the statesmen of Europe go to be awarded for their contributions to the common cause.

But the old Frankish Empire is far too limited a vision for the Europe it is now our vision of creating. We have already overcome Verdun – the battles of the 20<sup>th</sup> century as well as the treaty of AD 843 that divided the heritage of Charlemagne into what was to become France and what was to become Germany.

Now, the task is to overcome also the lingering consequences of the division in AD 286 of the Roman Empire into its Eastern and its Western parts, and the ensuing division of the Christian Church in AD 1054 into a Western and an Eastern Church.

And with Christianity meeting Islam not only in the lands of South-eastern Europe, but increasingly in the suburbs of virtually every major city of Europe, we have no alternative but bridging that division as well.

After 1989, we are well beyond the Europe of Charlemagne. Our vision for the future can no longer be the re-creation of Aachen – perhaps our daring vision for the future should be a re-creation of Constantinople.

There is no building our new Europe without reforming its economic foundation. The Lisbon declaration was a belated recognition of the magnitude of the task ahead of us in these respects.

The European Commission recently reported the largest economic gap between the European Union and the United States in a quarter of a century. On the average, our economic strength is on a level app 70 % that of the United States.

Following the reforms of the 1990's, and taking full use of the scientific and technological revolution we are in the midst of, we have seen a new dynamic strength

in the economy of the United States. Gradually, a larger and larger gap in performance versus the EU has opened up.

The magnitude of this change is often overlooked. Were we to succeed to bring the growth rate of the EU economies to a level 0,5 a percentage point above that of the US in the years ahead, it would still take us no less than 28 years to get back to the position relative to the United States that we had in 1990.

That's the magnitude of the task. And the problem is that we are nowhere near achieving growth rates approaching, not to speak about surpassing, those in the US economy. As things stand today, it is likely that economic growth in the US will be between one and two percentage points higher than in the EU in the years ahead, thus widening the gap even more. We are not approaching the Lisbon goals – they are becoming more and more distant.

Europe as a whole has every reason to be concerned with the economic weakness of Germany. If the largest country of the Union, instead of being the engine of our growth turns into a brake, then we all have a major problem, certainly including the new member countries.

But grave as they are, the structural problems of Germany are only a reflection of the structural problems of a large part of the economies of Europe. I can only hope, that in much the same way as my country Sweden, after experiencing a virtual melt-down of its economic model as the 1980's gave way to the 1990's profoundly changed its course and started to liberalize its economy, thus giving Europe a new model, Germany in its situation now will marshal the strength to do the same.

There are many reasons for the superior economic performance of the US economy during the last decade. Its more open, liberal and often also more sophisticated markets is the most important reason. But to this should be added a true devotion to change and a clear dedication to the advancement of science and technology.

In 1990, our investments in Europe in new information and communication technologies was on a level app 90 % that of the United States. By 2000, enormous

increases have obviously occurred, but our investments in Europe then were only at a level app 70 % of that in the United States.

Overall, spending on research and technology in the United States is 40 % higher than in the European Union.

With more liberal markets, and with larger investments in new technologies, we saw the beginning of the surge in productivity in the US economy that seems to have endured throughout the economic slowdown of the past two years. In contrast, productivity in the EU economy, far from accelerating, instead shows signs of actually declining.

But to these disturbing trends of an increasing gap in growth, productivity and investments in research and development should be added the effects of the demographic trends that we are now seeing.

The world is growing – but the world is also aging. During the next few decades Europe will face the challenge of both an overall decline and – even more pronounced – a decline in the part of the population that is working and contributing to the growth of the economy.

The figures are stark. Today, app 270 million Europeans are in working ago, and app 70 million are 65 years old or older. In half a century - on present trends - there will be app 200 million Europeans in working age, and app 110 million Europeans 65 years old or older.

This will challenge the very foundation of our present welfare societies. Since their inception by Bismarck, they have depended on a growing population and a growing tax base. Now, those that must be provided for will increase in numbers, and those that have to provide this support will decline.

Apart from challenging the very foundation of our welfare societies, these trends will further reduce the long-term growth rate in our economies. The latest assessment of

the European Commission believes that these demographic trends will cause our long-term growth rate of somewhat above 2 % to decline towards or even below 1 %.

For the world's second largest economy – Japan – these developments are even more dramatic. But trends in the United States are entirely different. Here, we are likely to see a continued growth both in the overall population and in the population of working age.

Thus, with already a significant gap in growth rates, we face the prospect of long-term growth rates in Europe declining significantly at the same time as long-term growth rates in the United States are likely to continue to increase.

The overall result of this risks being a dramatic shift in the relationship between Europe and the United States.

In 1970, we were of roughly equal strength. The countries of the present EU represented app 25 % of global economy, and the United States app 23 %.

By 2000, things had started to change. In spite of the tremendous growth in countries like China and India, the United States had kept its share of app 23 % of the global economy, while the European Union had slipped to app 18 %.

But the real drama is ahead of us. On present trends, by 2050 we will see the United States share of the global economy increase to app 25 %, while the European Union will see a dramatic decline of its share to app 10 %.

The brutal reality then is that we will no longer be playing in the same league.

Enlargement and the growth we are aiming for in all the new member countries will affect these figures, but only marginally. The 10 new members now will add less than 5 % to the overall EU economy. Over time, only the inclusion of Turkey has the prospect of having any significant impact on these figures.

There is an urgent need to put the issues of long-term structural reforms of the European Union economies on the agenda in all of our countries. We are losing out now. We risk losing out even more in the future. Our welfare systems risks breaking apart. The cohesion of our societies will be at risk. Our position in the world will deteriorate substantially.

There are things that can be done.

Sweden has set an example in pension reform. Ireland has set an example in a dedication to education. The United Kingdom did set an example in terms of encouraging entrepreneurship and liberating the labour markets. New trailblazers like Estonia have shown the virtues of a growth-oriented system of taxation. Finland has placed itself among the world leaders in terms of competitiveness.

And we must stop being shy in learning from the success that is undoubtedly there on the other side of the Atlantic.

These new structural reforms to radically improve the flexibility and adaptability of our markets and societies are also an imperative if we shall master the challenge of integrating the increasing numbers of immigrants that we will see in our societies in the years to come. Success or failure in their integration will be a true litmus test of our ability to meet the challenges of the future.

We are living in the third wave of globalisation. The second – after 1945 – affected only the countries of the West. Our third wave encompasses, as the first wave did, more or less the entire world. But in important respects, it has not yet reached the levels of the third.

Our capital exports to the developing countries are still, in relative terms, smaller than they were then. Over time, this will change. They will need our capital for their investments, and we will need the return of that capital for our pensions. This will be the global new deal.

Migration so far is far more limited now than it was then.

In that first wave up to 1914, app 10 % of the population of the world moved from one country to another, and in many cases from one continent to another. The millions that went from Europe to America is only a small part of this great story.

In our third wave, so far only 2 % of the global population have moved across borders. It is one of the safest of predictions that this figure will increase in the decades ahead, and that this will have a profound effect on the future of Europe.

There is no holding the tide back. The United States makes more than 1,5 million arrests along the Rio Grande border to Mexico every year, but the Hispanic population of the country just continues to grow. There are more Hispanics in the United States than there is population in all of Canada. A metropolis like Los Angeles is turning Hispanic in more than just its name.

For Europe, the situation is even more demanding. Look at our “near abroad”.

To our East, we have a Russia in dramatic demographic decline. But to our South and Southeast we have got a Muslim and Arab world in the midst of a demographic explosion.

Today, the 22 Arab countries have a population of app 280 million people. But within two decades, this is likely to be app 450 million. It’s a region with a greater proportion of young people than any other in the world. Today, 38 % of its population is below 14 years of age.

And while the population is exploding, the economies are stagnating. During the last two decades this region has had the weakest economic development of any region in the world with the exception of sub-Saharan Africa. The abundance of fossil fuel resources has not prevented its economic standard versus the rest of the world from radically declining. Their combined exports excluding energy are no larger than the exports of Finland. Their combined economies including energy are no larger than that of Spain.

The barriers to growth are big. Seven of the ten largest Arab League member countries are still outside the World Trade Organisation. A third of the women can't read or write. And the region has the lowest Internet penetration of any region of the world – including sub-Saharan Africa.

If we leave the profound political issues of what we once used to call the Fertile Crescent apart - the state of the lands of Mesopotamia after three decades of dictatorship, two decades of de facto war and one decade of devastating sanctions; the state of the lands of the Jordan River as the relationship between Jews and Palestinians continue to deteriorate - we still have reason for deep concern.

It's not difficult to see the near certainty of economic and social implosions that will lead to political explosions that could cause millions to seek their future somewhere else. A recent UN survey indicated that half of the population wanted to leave their countries and the region.

However much they might dream of Manhattan, they are more likely to end up in the suburbs of Milano, Marseilles, Manchester or Munich. Or whichever their number will be in the years to come, success or failure in integrating them could decide the inner stability and security of our societies some decades into the future.

There are already 50 mosques in Berlin, and more than 150 mosques in London. It is no longer a question *if* we will live with Islam in our societies – but *how* we will do it.

Either, there will develop an Islam of the Ghettoes that will risk breeding fundamentalism and conflict; or there will develop an Islam of Europe that combines its own beliefs with the values of ways of our modern secular societies. I need not elaborate on the importance of this.

As we ask ourselves whether Europe is ready for the future, all of these issues come together.

We are half the way towards dealing with the consequences of the political revolution that brought down the evil Empire that divided also this city, this country and this

continent. We must move forward with the federation of nation states, encompassing all of Europe to the West of Russia and the Ukraine.

We have failed to address properly that economic revolution that has seen the gap between the United States and Europe widening during the past decade and threatening to widen even further in the years immediately ahead.

We have yet to grasp fully the magnitude and the consequences of the demographic revolution we will see in our own European societies, and the significance of the large demographic shifts both in our relationship to the United States and in the impact that it will have in the “near abroad” of ours that is the Greater Middle East.

Thus, we have reason to be satisfied with aspects of what we have achieved since events here in Berlin symbolized the end of the long dark night for Europe and the beginning of a new future.

But we have no reason to be complacent. The tasks ahead are even greater than the tasks that are behind us. We are not yet ready for the future.

The challenges ahead require an open debate, a profound search for new ways and a political leadership that is truly European and profoundly visionary.