

## Many Roads Lead to Rome – the State of European Integration\*

By Werner Abelshausen\*\*

### Abstract

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

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## 1. State of the Union

It is difficult to predict the success or collapse of efforts to achieve international integration. Once the stakeholders have embarked in a certain direction, they hesitate until the very end to register political failure. But if the strain becomes unbearable, things can move very quickly. This is borne out by plenty of examples. From 1870 to 1931, the gold standard served as a shared monetary system in Europe and as a type of global currency. In the wake of the stock market crisis of 1929 and the banking crisis that followed, the gold standard became an obstacle to the development of strategies that could successfully combat the global economic crisis. Nevertheless, as late as September 1931, all of the participating countries continued to insist that the gold standard was indispensable. But when the United Kingdom – the pre-eminent power behind the gold standard – threw in the towel on 20 September 1931, 30 additional countries followed suit in order to regain sovereignty over their monetary policies. This example shows that it might help to be prepared for the disintegration of familiar European frameworks, especially since the strain they are under is intensifying. This is not the first time that the process of European integration has faced an acute crisis. Thus the question also arises as to whether there might be alternative ways to achieve integration if the approaches that have been pursued so far prove deficient.

Centralisation vs. subsidiarity is of course a classical alternative within European policy. However, the problem is that both principles – an *ever closer union* and the *rescue of the nation state* – are in practice hopelessly entangled with each other. Even worse: both principles failed in realizing their respective policy models: the United States of Europe vs. the rescue of the nation state, which, according to research, has been the starting point of European integration policy (Milward 1992). The Treaty of Rome proclaims that the signatories are “[d]etermined to lay the foundations of an ever closer union among the peoples of Europe.” An ever closer union was reconfirmed 1983 at the Stuttgart European Council after the principle was given up as a consequence of French empty chair policy during the sixties, which had preferred a Europe of nation states. “The Heads of State or Government, on the basis of an awareness of a common destiny and the wish to affirm the European identity, confirm their commitment to progress towards an ever closer union among the peoples and Member States of the European Community“ was articulated by the European Council (1983). From Stuttgart the principle found its way into the 1993 Treaty of Maastricht.<sup>1</sup>

Nevertheless, at least once a decade, European integration faces a glass ceiling – for politicians an invisible barrier to an ever closer union. Every time, the answer to this failure was the incantation of subsidiarity – a principle which

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<sup>1</sup> Single European Act, preamble section 1.

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

“The process of unifying Europe has reached a critical juncture in its development.” This was the lead-off sentence in the essay “Reflections on European policy” by Wolfgang Schäuble and Karl Lamers (1994), which was published more than two decades ago. The two authors took a critical view of what they saw as “bloated European institutions” along with “the increasing fragmentation of interests,” “unemployment” and “overstretched social security systems.” But more than anything, they deplored the “rise of a ‘regressive nationalism’ in almost every member state, which springs from a deep fear triggered by the adverse outcomes of the civilisation process and by external threats such as migration.” They concluded by proposing that “multiple speeds” be permitted on the road to European integration in order to allow concentric circles for permanent differentiation of integration intensities to emerge, but which would include a solid core (*fester Kern*) in the political union. The factors that Schäuble and Lamers cited as causes of a “dangerous trend” – just a few years after the Maastricht Treaty was signed – serve to highlight how intractable the obstacles to integration are. After all, this was in 1994, and the factors they mentioned had already been gathering force for more than 20 years.

An article on the state of European integration today could start out with nearly identical wording. However, at least one problem has been added to the mix, one that Schäuble and Lamers could not have taken into account precisely because their proposal for a two-speed Europe aimed to prevent it from occurring: namely, the instability of the European Union, whose member states not only have highly divergent capacities (or collective mentalities) for complying with rules, but also differ fundamentally in terms of economic culture – that is, in how they think and act economically (their institutional rules of the game) and in the way they organise their national economies.

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

Differences in member state development levels can be evened out within a few decades. But economic cultures generally have deep historical roots. Meas-

ured against the pace of everyday politics, economic cultures can seem impervious to change. But they are by no means always in need of adapting. On the contrary, functioning institutions provide for comparative institutional advantages in gaining preferential access to different markets. Thus an alternative strategy for Europe calls for an economic policy that does not flatten out divergent paths towards economic development but instead adeptly interconnects these different paths in a way that achieves unity in diversity.

## 2. A German Perspective on European Integration

Almost every member of the European Union has its own perspective to approach European integration. Germany operates with great success as one of the world's leading trading nations. It does so from a secure and sound basis within the European market. This heightens the importance of the EU internal market as a foundation and instrument for German trading power. Beyond this, the EU as a whole – i.e. as a cohesive economic power – needs to be revamped in a way that enables it to stand on equal footing with other leading trading powers such as the United States and Japan as well as with emerging markets such as China and India. For proponents of the European project, this goal is prominent on the agenda because it appears to be best-suited to highlighting the necessity of a European super-state. For EU member states, this scenario certainly poses the risk that they will no longer have sufficient economic and fiscal policy tools at their sovereign command that help them to safeguard and advance their comparative institutional advantages on global markets.<sup>2</sup>

In the field of foreign policy, too, “communitisation” at the European level would appear to be neither conceivable nor desirable. The Western European countries that wield veto power within the UN Security Council will resist a joint European mandate, simply out of self-interest. Even a common EU external economic policy will be geared towards lowest common denominators that may end up failing to satisfy any of the member states.

The multilateral EU – like only a few countries in the international community – does possess the economic, military and technological capacities that are required to play the role of a world power (Perthes and Mair 2011, 12). But for the foreseeable future, it lacks both the political will and the ability to articulate uniform European interests, as the United Kingdom's recent decision to withdraw from the union underscored.

Member states such as France and Germany would certainly be capable of acting as traditional great powers, even though Germany has so far explicitly

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<sup>2</sup> On the current incarnation of David Ricardo's classical theorem of comparative competition advantages, see Abelshauser (2012).

demonstrated no willingness to play power politics. Given this constellation of circumstances, the European Union's external policies should be limited to measures that enable member states with similar economic cultures to take concerted action on world markets, while simultaneously giving these member states the freedom to pursue their interests in global governance forums – on their own initiative, and at their own risk.

For Germany, the balancing act between Europe and the world is especially difficult. A formal recognition of Germany's economic dominance in Europe is just as difficult to imagine today as it was before 1914 and after 1945.<sup>3</sup> This is one key reason why Germany will not aspire to a formal leadership position within a European treaty-based union of sovereign states with divergent economic cultures. It suffices for Germany if it can retain its ability to act freely on global markets, while simultaneously enjoying secure European backing (BDI-Archiv 1983).

This would appear to be a realistic strategy, because other ambitious members of the EU also stake claims to this freedom of action – although with more limited prospects of success, and their power tends to lie largely outside the economic sphere. France's claims to world-power status are based primarily on the diplomatic status it possesses thanks to its historical capital as a veto-wielding permanent member of the UN Security Council and its position as a nuclear power. These factors have helped France to compensate for its diminishing influence as a traditional world power. In contrast, in 1969/1973, Germany definitively gave up the option of becoming a nuclear power, even though its cabinet had adopted a decision in December 1956 reiterating Germany's intention to produce nuclear weapons (Bundesarchiv Militärarchiv 1956, 388 f.).

Twenty-five years after the end of the Cold War, it is pretty much inevitable that Germany would seek to shift its foreign policy away from bloc-based thinking towards new options in a multi-polar world – regardless of who happens to be the president of the United States. Germany's comparative political advantage here lies in the nature of its economic ties to markets in Brazil, Russia, India and China. Germany's business culture has given rise to an economy that specialises in post-industrial custom fitting on markets for diversified, high-quality products. This means that, in contrast to older Western powers, Germany (along with some of its neighbours) does not stand in direct competition with emerging economies but rather supports their economic ambitions – while profiting from these ambitions at the same time (Abelshauer 2005). This role as a sought-after supplier to emerging markets should make it easy for Germany to enter into dialogue with rising powers in a new, multipolar world

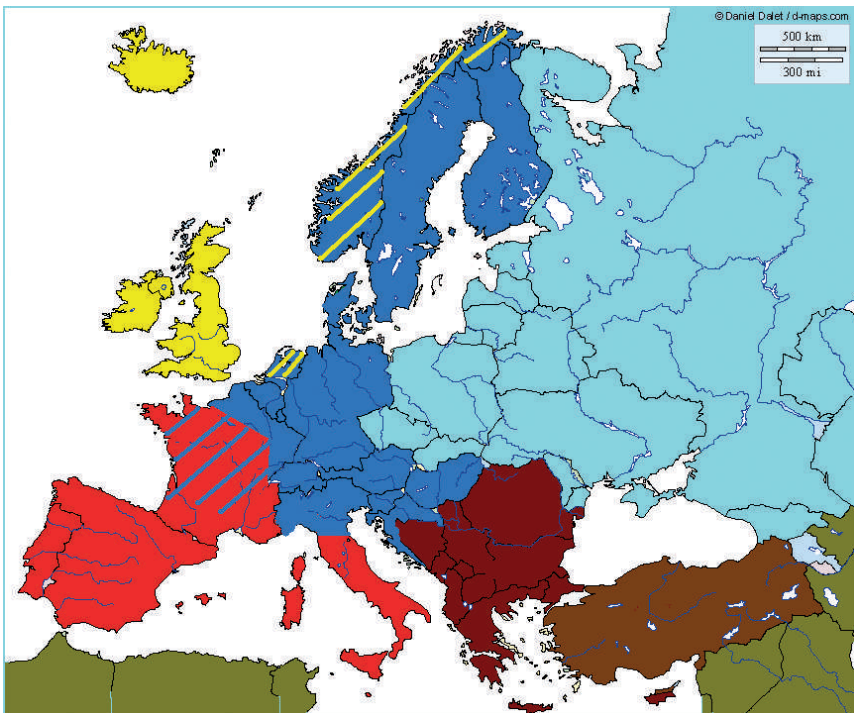
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<sup>3</sup> That is why the German Chancellor Helmut Schmidt saw the art of German European politics (in addition to the use of “checkbook diplomacy“ as a lubricant) not least in the ability to prompt their own ideas France, to then support them from the second row. Interview with the author on May 25, 2004 in Hamburg.

system, with the aim of articulating and asserting shared interests in global governance forums.

### 3. A Landscape of European Economic Cultures

When viewed from up close, the landscape of European markets breaks down into different types of capitalism that are as numerous as the diverse paths these countries took towards modernity (Hall and Soskice 2001; Fukuyama 1995). The way that the European economic area came into being causes it to differ in particular from the United States, which possesses a uniform economic culture. Basically, four different cultural groupings influence the behaviour of European business within the global economy (Figure 1).



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Legend: Blue: Rhenish Capitalism, Yellow: Anglo American Capitalism, Red: Mediterranean Capitalism, Light blue: Transformation countries, Dark brown: Balkans, Light brown: Turkey

#### European Economic Cultures

Anglo-Saxon economic culture places its trust in the invisible hand of the market and leaves less room for spontaneous sociability than continental economies. Already towards the end of the 19<sup>th</sup> century, Britain turned its back on the industrial economic culture it had previously embraced and instead shifted its focus to pursue more profitable forms of investment on global capital markets. British industry owed its decline in the 20<sup>th</sup> century to the British economy's coalescence with the capital market culture of the United States – a culture that definitely swept to global predominance in the 1980s and 1990s. Even though the United Kingdom does not belong to the euro area, will soon leave the EU, and never stood at the vanguard of European integration, Anglo-American economic culture is undeniably a driving force of European integration.

The region that makes up the core of Europe took another path to modernity. This path criss-crossed the continent, touching nearly every region at some point in time. French senior manager and author Michel Albert has given this economic culture the name *capitalisme rhénan* (Rhenish capitalism) (Albert 1991, 24 f.). His concept denotes an economic area that has grown over time and that spans north-south from Scandinavia to northern Italy and west-east from the Seine to the Oder river. The geographic itinerary of this model's rise began on the east-west trading route of the Hanseatic period and then proceeded along the development axes that stretched across continental Europe from Bruges to Genoa and from Antwerp to Venice. Along these routes, first the trade fairs of Champagne, and then the industrial belt around Augsburg and Nuremberg, became crucial hubs of modern institutional innovation. Today, Rhenish capitalism roughly coincides with the solid core of the euro area and gives this region a certain degree of cohesion in terms of economic culture. As a dense landscape of voluntarily accepted 'rules of the game,' this economic culture is basically the ideal-typical opposite of the invisible-hand ideology of market economies that rose to predominance in early 18<sup>th</sup>-century England.

The characteristics that typify the economic culture predominant in southern Europe are a more distant relationship between economic actors and the state, a weaker ability to build and utilise social capital, and a tradition of soft currencies derived from agrarian/tertiary modes of production. It is surely no coincidence that, in the 20<sup>th</sup> century, essentially all of the countries that practice the Mediterranean model of capitalism (and the Balkan country of Greece as well) had extensive exposure to fascist movements that put authoritarian systems in place with the purported objective of compensating for the apparent lack of effectiveness in both state and society.

This is not meant to suggest that southern Italy and the other countries of the Mediterranean region do not have their own economic culture. They have a different one – one with comparative institutional advantages reflected in stable economic familialism, a strong orientation towards services markets, and a vibrant small business sector. Furthermore, the Iberian peninsula possesses great

foreign trade potential thanks to its worldwide network of trade ties. Current conditions call for the implementation of ‘visible hand’ policies that aim to remedy weaknesses in certain segments of Mediterranean economies while simultaneously reinforcing potential competitive advantages.

This does not conclude the list of economic cultures that make up Europe. There are the Balkan countries that were heavily influenced for centuries by Ottoman rule and that therefore missed out on key economic developments occurring in Europe (Mishkova 2013). And in particular, there are the transition countries in eastern Europe that are in the process of reviving their own traditions or adopting the institutional structures of other economic cultures.

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

All of this suggests that Europe’s diverse landscape of economic cultures (Figure 1, Table 1 and Table 2) is more than just a burdensome historical legacy that, like it or not, must be taken into account in crafting the process of European integration.<sup>4</sup> Rather, it is precisely the competition between economic cultures that has facilitated Europe’s prosperity relative to the rest of the world. This is a recurrent insight that spans thinkers from John Stuart Mill, who in 1859 expressed his firm conviction that Europe benefits specifically from its plurality of developmental paths (1859, 129 f.) to Douglass C. North, recipient of the 1993 Nobel Prize in Economic Sciences, who argued that it is precisely the lack of a unified European state that has laid the historical groundwork for growth and prosperity (1998, 22; see also Jones 2003).

#### 4. Consequences for the Euro Area

In the idealised world of the optimum currency area, it initially seemed as if all the economic prerequisites were in place that would enable the currency union to serve as an engine for transforming the EU from a treaty-based community of sovereign states into an increasingly supranational entity. From the beginning, the euro countries had highly flexible and mobile labour markets and goods markets, and their level of integration in global markets (i.e. their degree of openness) left little to be desired. All that remained was an appeal to the willingness of euro countries to comply with a few rules that were deemed indispensable for maintaining the cohesion of the currency area. But, of course, compliance with the criteria laid down in the 1992 Maastricht Treaty is contin-

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<sup>4</sup> For this current discussion on the differences between the Mediterranean and “Rhenish” models regarding monetary and fiscal policies, see Brunnermeier et al. (2016).



*Table 1*  
**Economic-Cultural Differentiation in the EU**

	<b>Anglo-American capital market</b>	<b>“Rhenish Capitalism”</b>	<b>Mediterranean Economy</b>	<b>Balkans</b>
<b>Cultural Action Pattern (1–9)</b>				
<b>1. Social Relationship</b>	institutions	institutions	clients	kindred
<b>2. Familism</b>	weak, but strongly ethnical differentiated	regional networks (“Cluster”)	strong, weak intermediate Institutions	protectionist communities
<b>3. Sociability / Social Capital</b>	high, but slacking	high	weak	extremely weak
<b>4. Role of the State</b>	subordinated	moderating	ineffective	instrumental
<b>5. Business Horizon</b>	short term	long term	short term	short term
<b>6. Market Coordination</b>	micro-economically	corporations and associations	state, micro-economically	micro-economically
<b>7. Financing</b>	venture capital	“patient” capital	capital market	capital market
<b>8. Savings Rate</b>	very low	high	very high	very high
<b>9. Lead Markets</b>	tertiary mass production	“postindustrial tailoring”	services, agrarian markets	services, agrarian markets
<b>Cultural Presence</b>	UK, Ireland, global capital markets, Netherlands, (Norway)	Scandinavia, Benelux, Austria, Germany, Northern Italy, France, Croatia, Slovenia, (Switzerland)	Southern Italy, Spain, France, Malta, Portugal	Romania, Bulgaria, Greece, Cyprus, Western Balkans

gent upon the existence of collective mentalities that enable euro countries to organise state and society in a way that makes it possible for these rules to be fulfilled. The proponents of a single European currency did not doubt for a moment that generally binding standards for budget deficits, debt ratios and inflation rates would take hold automatically under the pressure of capital markets. In their minds, the social and political capacity to comply with common rules seemed to be reduced to a simple question of political will and discipline.

At the very latest by 2010, as the banking crisis – which continues to smoulder today – caused the problem of rising public debt to reach an acute stage in numerous euro countries, and as it became increasingly difficult for

Table 2

**Institutional Framework of European Economic Cultures**

	<b>Anglo-American capital market</b>	<b>“Rhenish Capitalism”</b>	<b>Mediterranean Economy</b>	<b>Balkans</b>
<b>Social System of Production</b>	liberal market economy	corporative market economy	subsidized market economy	archaic market economy
<b>Labour Relations</b>	deregulated	labour participated	syndicalist	conflict orientated
<b>Training System</b>	general education	dualistic	general education	general education
<b>Corporate Governance</b>	hierarchic	cooperative, dualistic	hierarchic	hierarchic
<b>Finance System</b>	investment banking, capital market	private, cooperative and public-law universal banking	externally managed	externally managed
<b>Interest Policy</b>	pluralistic	associations	state intervention	state intervention
<b>Social Security</b>	market state	social state	welfare state	weak welfare state
<b>Production Mode/ Markets</b>	tertiary fordism/ franchising	postindustrial “tayloring” (diversified quality production)	tertiary and agrarian mass production	tertiary mass production

The tables are explained in more detail in W. Abelshauser, *Europa in Vielfalt einigen. Eine Denkschrift*, in: *Nationalstaat und Europäische Union. Eine Bestandsaufnahme*, ed. by Anthony B. Atkinson, Peter M. Huber, Harold James, Fritz W. Scharpf, Baden-Baden 2016, p. 275–294.

them to refinance their debt on capital markets, the instability of the euro area became apparent to all. At the same time, a growing number of signs indicated that there were other serious reasons for the difficulties that euro countries were experiencing in their efforts to meet the Maastricht criteria. Collective mentalities have proven to be tenacious, and the diversity of economic cultures within the common currency area is colliding with the necessity to impose discipline on the currency union by adopting strictly standardised rules and carrying out far-reaching economic policy interventions. This raises the question of whether the stabilisation of the European currency system calls not for a uniform, harmonising approach but rather for nuanced economic and fiscal policy strategies that take into account the characteristics of different economic cultures – and

their different ways of thinking and acting – that have evolved over the course of history.

For that matter, a single currency is not an indispensable prerequisite for smoothly functioning European markets. Anton Börner, president of the Federation of German Wholesale, Trade and Services, put it this way in November 2011 – at the height of the euro crisis – when he told the *Frankfurter Allgemeine Zeitung* matter-of-factly: “We can live without the euro” (2011, 12). In fact, a European monetary system that is as comprehensive as possible and that features fixed exchange rates is sufficient for achieving the most important monetary policy objectives. In the lead-up to the introduction of the euro, the European Monetary System (EMS) provided for an area of “stable but adjustable exchange rates,” which the Federation of German Industries regarded as “a comparatively reliable basis for calculations over the long-term” (BDI-Archiv 1992). What Europe’s economy really needs are sound monetary conditions that would preferably apply to Europe in its entirety.

Even if Europe can operate successfully on global markets without the euro – as proven by (a) the EMS prior to the introduction of the single currency and (b) the current experience of EU member states that do not belong to the euro area – the members of the euro area seem firmly determined to live with the euro for the long term. This makes it all the more necessary for the currency union to develop a strategy that counteracts the single currency’s rigidity, which makes it difficult for euro countries with traditions of soft currencies to adjust to old and new challenges. This opens up broad possibilities for alternative strategies to advance European integration. At the same time, this does not mean Europe à la carte. The EU needs rules that provide for unity in diversity, and it needs a monetary system that is compatible with this approach.

## 5. How is This to be Achieved?

The precondition for a change of course in European policy is to ‘communitise’ those ‘visible hand’ regulatory frameworks that some member states – most of all Germany during its era of social market economy – have implemented successfully as a means to strengthen their comparative institutional advantages. Particularly in the core regions of continental Europe, market actors have shown considerable willingness to cut back voluntarily on their own freedom of action and to accept rules of the game that promise to deliver benefits if they are complied with. Wherever this willingness is lacking, or wherever the free-rider problem negates the aggregate economic benefits of market-based rules of the game, state action in line with competition-based regulatory frameworks is needed.

These ‘visible hand’ regulatory frameworks in Europe would need to accommodate a wide range of variation, as is evidenced by EU-wide differences in

social production systems – differences that manifest themselves in divergent ways of organising banking systems, vocational training, labour relations, lobbying practices and corporate governance, and in highly diverse ways of thinking and acting. This diversity calls for flexible strategies that cultivate specific competitive advantages.

As long as Europe's integration process consisted of establishing and completing the customs union and the internal market, a strategy of harmonisation made good sense. This strategy could be implemented using traditional regulatory instruments that aimed to establish a level playing field on the basis of transparent and codified rules. Now that the internal market is complete and is functioning in a satisfactory manner, European policy faces more complex tasks. An effective integration strategy must always bear in mind the comparative institutional advantages of the relevant economic cultures and must respect the differences in social systems of production. In its current shape, the EU's Brussels apparatus would certainly be overstretched if it were tasked with formulating and executing such complex economic policy strategies. Rather, this task calls for the skills and expertise of the member states, which would have to agree on rules for a social market economy *à l'européenne*.

Plenty of preliminary considerations to this end have taken place at European level. When the European integration process came under strain during the 'small' global economic crisis of the 1970s, European industry federations blamed the failure of common policies on an excess of harmonisation and simplification. They argued that an overly systematic and unrealistic integration policy was not conducive to the consolidation and optimisation of the advances that had been achieved so far and did not serve the interests of European companies. For this reason, they proposed that future European legislation be restricted to the specification of targets and objectives, while the member states should be given the latitude to select the modalities and means for achieving these goals. In a similar vein, the 1976 report by Belgian prime minister Leo Tindemans, which was commissioned by the European Community, started out from the premise that the "European structure" – which he noted was "swaying" – needed to be stabilised by making integration policies more flexible. To this end, he introduced the concept of gradual integration. All of his proposals pointed towards a greater emphasis on the subsidiarity principle, which features prominently in the Maastricht Treaty but has never really been implemented in practice.

Under Article 5(3) of the Treaty on European Union, the Union is given authority to take action in areas outside its exclusive competence only if and insofar as the desired objectives cannot be sufficiently achieved by the member states. However, this general clause has never been applied, like so much else that is written in the European treaties. Now would be a good opportunity to use this principle as a new launching point. Since the strategic innovations of the 1990s – that is, using multiple speeds to advance European integration –

have failed to achieve their aim, it is now time to take into account the diversity of economic cultures in Europe and to unite the continent along a variety of paths. But there is irony in this history: it's not a new perception of European integration at all. It was no one less than Ludwig Erhard, the German Vice-Chancellor, who in 1959 was firmly convinced, that Europe should drive on many wheels and not on one axis.

## 6. Conclusion

The ongoing crisis in the euro zone raises the question of whether the previously chosen path of European integration is likely to spur internal and external competitiveness and capability of action. In economic terms, it is about a strategy that does justice to the uniqueness of the landscape of European markets. Its special feature is that Europe – in contrast to North America – has historically developed diverse economic cultures whose qualities match the requirements of distinct markets and whose set of institutions are functional. An adequate European economic policy has to acknowledge these cultures and develop strategies to improve their individual effectiveness, i.e. comparative institutional advantage. This productive governance (*Ordnungspolitik* of the visible hand) (Abelshauer 2016) is in stark contrast to a policy of harmonization that emanates from the idea of uniform market conditions. The sole alternative strategy lies neither in a return to the ERM nor in some way for the “club Med” to adopt German *Ordnungspolitik* nor simply in a return to more subsidiarity. What the EU needs beyond that are rules and strategies that create unity in diversity, realizing its official motto: united in diversity. What Europe needs is an integration strategy on several paths – not only at different speeds.

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