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Europe in a turbulent world: four comments

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"Enhancing Europe's global power" sets the target as "where we want to be in 2030", and backcasts to "what we have to do now to achieve those objectives". Backcasting necessarily entails forecasting, so as to keep within the bounds of plausibility. Any exercise of foresight as little as a decade or two ahead should keep in mind Philip Tetlock's conclusion, in *Expert Political Judgement: How Good Is It? How Can We Know?* (2005).[i] In 1984 he asked a group of experts to predict geopolitical events within the following 20 years, such as whether the Soviet Union would disintegrate by 1993. Overall, the experts struggled to predict more accurately than – in Tetlock's phrase – "dart-throwing chimps", and were consistently less accurate than simple statistical algorithms, regardless of professional credentials.

As a graphic case in point, take the secret US Department of Defense report that leaked in early 2004 and was summarized in several media outlets. *The Guardian* summary began, "Climate change over the next 20 years [to 2024] could result in a global catastrophe costing millions of lives in wars and natural disasters. A secret report, suppressed by US defense chiefs and obtained by *The Observer*, warns that major European cities will be sunk beneath rising seas as Britain is plunged into a Siberian climate by 2020".

A second caution concerns where power stops. "Enhancing" assumes that Europe will be able to wield enough power to achieve whatever those 2030 objectives are. US President Harry Truman speaking of his successor Dwight Eisenhower remarked: "He'll sit here [in the Oval Office], and he'll say, 'Do this ! Do that ! And nothing will happen." A former advisor on industrial strategy to the government of Theresa May, Giles Wilkes, backs this up (2019). "When you take power, you think the point is to have smart ideas; when you leave, all your praise is for the rare officials who just know how to get things done." Yet as Wilkes goes on to remark, "Between LBJ and Mr Obama, Harold Wilson and David Cameron, we saw the civil rights act, the defeat of inflation, the privatization revolution, a doubling of spending on the UK's National Health Service, a Great Depression averted and Osama din Laden dispatched. This was not all dumb luck."

With these caveats, I make four main comments.

1. The increasingly turbulent world

The paper's opening sentence defines the context as, "the increasingly turbulent world, characterized by intensifying competition between the major trade blocs and potentially game-changing technological developments." As this implies, the "end of history" vision that became popular towards the end of the Cold

War – globalization taming power politics with "sweet commerce", China emerging as a "normal market country" content, like Europe, to accept US leadership of the world -- has faded. From well before 2016 and the Trump presidency, we have been caught in the early stages of what Abraham Newman (2019) describes as :

"a new 'quiet war', where the global networks that were supposed to tie countries together have become a distributed and complex battlefield. Great powers such as the US and China are wielding supply chains as weapons in their grand disputes, while smaller states such as Japan and South Korea copy their tactics."

Not only the US and China and the smaller states of Japan and South Korea, but even between the US and the EU, as in President Trump's cheering for the breakup of the European Union.

Intense "Big Power" rivalry is likely to continue for some decades, for at least two reasons. One is brought out by the venerable "hegemonic stability" theory. The theory says that the hegemonic state (the US since the Second World War) pushes for an open world economy when its leading firms dominate international competitors, using justifications like "fairness", "level playing field", "comparative advantage" -- obscuring the heavy state "intervention" in markets that enabled it to become the hegemon. Friedrich List, in 1844, called this "kicking away the ladder", referring to Adam Smith's prescription – from the standpoint of Britain, the emerging hegemon of Adam Smith's time – of free trade for all (1885 [1844], 368). Hegemonic stability theory goes on to say that when the hegemon is challenged by one or more rivals its commitment to free trade and free investment falls away as it attempts to use its superior position in trade and financial networks to take down the would-be hegemons. This is the script being played out in the current US-China "trade war", which is now part of a wider "cold war" stretching from telecommunications, patents, the exchange rate, mass detention of Uighur Muslims in Xinjiang region, to the South China Sea.

The second reason we can expect intensified Big Power rivalry for several decades ahead is the rising levels of grievance and insurgency of largely white working-poor and lower-middle classes in parts of the US and Europe, where people have not generally benefited from globalization, immigration and digital technology, and feel themselves falling further behind. Their resentments are now being amped up with social media, in a way barely possible before the 2010s. Political leaders and would-be leaders can mobilize support from this population by presenting themselves as Saviors of the (white) People against Elites, Immigrants, Blacks, Muslims, Jews, or some other Other, and "Make [Our Country] Great Again" – without doing much to reduce the causes of grievance and insurgency. That in turn supports the theater of aggressive actions against other countries, as in Newman's "new 'quiet war'".

European policy-makers now must adopt a more strategic mindset in Europe's international trade and investment policy than most of them believed during the heyday of globalization and neoclassical economics. The strategies for this new game or "quiet war" are not at all clear. What is clear is that neoclassical economists will push back against the "strategic intervention" project, joined by the galaxy of well-funded right-wing think-tanks dedicated to making and sustaining a firewall between democracies and capital markets, so as to expand the freedom of capital across the world and across the sectors (Slobodian 2018; McLean 2018).

2. *Defending Europe from US retaliation against the internationalization of the euro*

"Enhancing" says, "Although markets will, ultimately, determine usage of the euro for transactions, the EU can use its market power to develop a strategy to reduce the share of dollar invoicing in key sectors, such as energy. To avoid or reduce the impact of retaliation, the SWIFT financial messaging service should be shielded from US influence by pushing for its political neutrality, i.e. through an agreement between IMF members that guarantees its independence."

Much as the US would like to weaponize the SWIFT network so as to rein in the internationalization of the euro and preserve dollar dominance , the task would be very difficult. SWIFT gains protection from US pressure in the fact that the platform is based in Brussels and the overwhelming majority of its Board of Directors are based in Eurozone organizations.

Even against a long-standing pariah state like Iran (the first country against which the US levied the SWIFT sanction, in 2012) the US faced a lot of difficulty in using the SWIFT platform as a sanctioning tool. The US government pressed SWIFT to remove Iran from its network, but SWIFT resisted, saying it was a private, politically neutral financial messaging service. It agreed only when its own Board members were themselves threatened with US sanctions, as a result of a mighty lobbying effort in the US (led by the United Against Nuclear Iran lobby, which got the Senate Banking Committee in 2012 to commit to an act specifically targeting Board members). [1] In addition, the EU signalled to SWIFT its willingness to accommodate the US, in order to both keep the pressure on Iran to negotiate and to pre-empt Israeli airstrikes threatened at the time.

In short, given the difficulty faced by the US government in making SWIFT agree to impose sanctions against a badly-reputed country like Iran, we can be fairly confidence it would not succeed against the EZ. And if it did look like it might succeed, the EZ could probably dismantle the SWIFT payments platform before the US obtained the ability to weaponize it (Majd, 2018).

So the EU should not be constrained by fear of US retaliation (as least not via SWIFT) in pushing for – in the words of "Enhancing",

"increased international leverage of the EU via the euro …. This would come from drawing third countries more into its sphere of influence and from giving a credible alternative to

[1] The United Against Nuclear Iran lobby was formed in 2008. It is now led by Mark Wallace and Joseph Lieberman (former US Senator). Its advisory board comprises 34 Americans and Europeans prominent in public office, think-tanks or academia.

what some see as the 'TINA' (there is no alternative) nature of holding reserves in dollars via T-bonds...."

3. Enhancing Europe's stakes in high-tech activities

"Enhancing" stresses the importance (for boosting Europe's global power) of building up EU strength in high tech sectors. For this purpose it privileges the instrument of geographical clustering (which it calls "smart clusters", as though the name itself makes them smart). Easier said than done.

The US experience is relevant. The dozen or so industries at the frontier of innovation in the US include semiconductors, software, data processing, communications equipment production, aerospace, pharmaceuticals, chemicals, and more. They have 45 percent of the workforce or more with degrees in science, tech, engineering or maths, and investment in R&D equal to at least $20,000 per worker. They are heavily concentrated in a handful of cities along the west and east coasts, including Seattle, San Francisco, Silicon Valley (as appendage of San Francisco), San Diego, Boston. These five alone captured nine out of 10 jobs created in these industries between 2005 and 2017 (Porter 2019). This hyperconcentrated innovation economy makes for gargantuan regional divides in the US.

Proposals to boost high tech activities outside the existing centers have tended to be greeted by economists as foolish, on grounds that public spending should be devoted to people, not places (and commonly underpinned by sentiments like "market failure is the last refuge of the scoundrel" and "all governments are predatory"). But this resistance is wearing thin as the picture of a nation cloven into a few "have" areas and a majority of "have-nots" has come sharply into focus with an opioid epidemic and "deaths of despair" disproportionately afflicting the "have-not" populations.

Government support has to overcome powerful "cumulative causation" in favour of the existing hubs. High tech firms are attracted less to places with low cost workers and low cost housing, and more to places where there are already lots of highly educated workers, sophisticated suppliers and research organizations.

A recent report by Mark Muro and Jacob Whiton, of the Brookings Institution, and Rob Atkinson of the Information Technology and Innovation Foundation, proposes to identify eight to 10 cities far from the coasts which already have (a) a research university, and (b) critical mass of people with advanced degrees (St Louis, Pittsburgh, Cincinnati, Columbus Ohio, for example). The government would spend $700 million a year in each of them, for a decade. High tech businesses could get tax and regulatory concessions, including a break from antitrust law to allow businesses to coordinate their location decisions (2019).

The proposal of the Brookings and the Information Technology Foundation carries a price tag of $100 billion over 10 years.   Not cheap.

"Levelling up" is the new slogan of the Conservative government of UK Prime Minister Boris Johnson, meaning the ambition to raise the level of well-being in all parts of the UK towards that of London – not least in order to consolidate its surprise electoral gains in the North of England in the December 2019 election. There is little new in this ambition. The last Labour government attempted to reduce Britain's persistent regional imbalances, starting in 2002, including by significantly expanding higher education outside the Southeast. In 2009 the Treasury concluded, limply, that "some progress" had been made. Boris Johnson's government would have to go against the conservative mindset, and against normal economic appraisals, to achieve a better result (Giles 2019).

The scale needed for a government to achieve a big jump in high tech can be illustrated with the case of Taiwan. The government established the Industrial Technology Research Institute (ITRI) in 1973, divided into a ten or so sub-organizations. By the mid 1980s ITRI had about 10,000 employees (today its Wikipedia page gives the staff as "6,000 + "). One of its components is ERSO (Electronics Research and Service Organization), with a staff of about 700 in the mid 1980s. Employment contracts made it easy for ITRI scientists to spin-off companies to commercialize their innovations – which was a strong incentive for top Taiwanese scientists to return from overseas (converting "brain drain" to "brain bank"), but disrupted ITRI research programs with constant movement of personnel out and in.

The spin-offs often established themselves in the close-by Hsinchu Science Park, opened in 1980, explicitly to be a Taiwan version of Silicon Valley. Hsinchu is now home to *world-leading* firms in semiconductor manufacturing and industrial and computer technology development, some 400 firms in all.

ITRI and Hsinchu illustrate the scale of commitment in organization, money and people needed to drive Taiwan's exceptional long-run economic performance, making it one of only a handful of non-western middle income countries in the 1960s to ascend to the high income/developed country category by the 2000s (Wade 2004; 2020).

How likely is it that the European Union can muster resources on the scale required for spatially-distributed high tech clusters? And how will the relevant policy makers fight off phalanxes of neoclassical economists saying with choral force, "We recognize market failure, but government failure is worse", and "Why spend public funds on places rather than people ?".

4. Unified and differentiated Europe

"Enhancing" says next to nothing about power structure within Europe; it assumes Europe hangs together with much the same set of rules as today. The Brexit outcome shows the unwisdom of such an inflexible EU. It is a fair bet that if the EU side had allowed more flexibility, in terms of opt-ins and opt-outs (eg on "free movement"), Britain would not have left or would have left with a close associational agreement.

And it is a fair bet that if the EU is to enhance its global power by 2030 it must start to downplay the political aim of the Treaties in promoting "ever closer" union – because *movement towards ever closer union will keep generating mass nationalist backlashes which erode – not enhance -- Europe's global power*.

The EU must institutionalize principles for allowing a more differentiated Europe than is possible today – allowing member states to pursue their own public policies in fields in which the EU is active, not applying the EU treaty provisions uniformly across all members. Of course, various kinds of opt-outs have been permitted under EU treaties (mainly for just four countries, UK, Ireland, Denmark, Sweden); but treated as "last resort" exceptions to the "one-size-fits-all" rule.

The way ahead – here I follow the argument of Frank Vibert (2013) -- should be to greatly strengthen the doctrine of "subsidiarity", to protect against the EU taking on tasks it does not need to perform. This may have costs in terms of *economic efficiency*, due to more policy incoherence; but these costs have to be weighed against the economic gains from more scope for policy experimentation and copying. And subsidiarity could bring a big *normative* gain by reducing the democratic deficit -- reducing the gap between policies set at the EU level and the influence that citizens feel they have through their representatives to get policies responsive to their concerns.

The key is to identify policy clusters by a high degree of functional ties or linkages between the policy components and a lower degree with policies outside the cluster. Clusters can be the main units for designing opt-ins and opt-outs. One member state might wish to pool its policies with all other willing states except for, say, the non-financial services cluster in which it wishes to protect its shopkeepers, artisans, and professional practitioners. Another member state might wish to opt-in to only a few clusters (for example, free movement of goods, and competition policy). The art of differentiation is the art of balancing the economic and political gains from "one size fits all", with the economic and political gains from wider scope for national differentiation. Obviously the politics would be difficult – think of coal-dependent Poland's demand to opt-out of the EU's deadline for overall carbon-neutrality.

Subsidiarity has to go below the national level, to the level of cities and provinces. For Europe to thrive the more centralized states (notably France) and the more centralized nations (notably England) have to shift power downwards to local mayors, local coalitions of businesses, educators, unions, civil society groups (including "local citizens' assemblies"). And then the top – the nation-state level, the EU level – has to actively countervail the centripetal market forces of concentrated prosperity, discussed earlier. Otherwise the "Trump era" in Europe will continue for another twenty years.
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