



## *Check against delivery*

*Europe Lecture 2014 – Jonathan Holslag, October 28<sup>th</sup>, The Hague*

Thank you so much for the invitation to share some ideas today.

This former house of worship makes me instantly think Europe's position in today's world. The problem with Europe is that it preaches too much. It tries to lure countries to enter the church of European values, but when these countries try to find out more about it, they discover that the church is empty and that the parishioners are out on the streets selling its bibles and benches... How can one expect the rest of the world to cherish European values if Europe itself seems to have given up to believe in them?

A good friend from China once joked: "When we talk Americans we can be sure that they think they have it right, when we talk to Europeans we get confused because of your own bewilderment. It's not Mars versus Venus; it's more like Armageddon versus Monty Python."

Ladies and gentlemen, today I want to discuss with you how the 500 million Europeans can survive and thrive in what promises to be yet another turbulent century. This lecture is not going to be a walk in the park. I want to disconcert you, to make you feel alarmed: alarmed about the state of Europe, alarmed about the state of the world around us, and alarmed about the sterile state of our thinking when it comes to solutions.

But I do not want you to become defeatist or cynical. Political realists like me are cautious about the ability of man to adjust before inconvenient situations force him to do so. We also believe that power and the fear to lose it are the drivers of politics. That makes statecraft the art of keeping the balance of power favourable to our society and, even more so, to harness the power to work towards its ideals.

Power is what drives politics. But, so much history has shown, it is dreams that can change the way we define power.

### **The crisis**

Allow me to start in a rather unusual place to probe world politics, not a church this time, but a local pub. Earlier this year, in those dark hours of the day that conversations become sharper, I sat in the buffet in the railway station of Hasselt, a place in the north of my country, and got caught by a discussion between three visitors, seemingly having the bar as their daily terminus.

One was the son of a Moroccan immigrant who came to work in the mines. He sounded bitter. He started as a teenager in a small factory, until the factory closed, then moved to on to a construction company, until that closed too, and then onwards worked in a cleaning company, but that lost a contract with a bank during the Eurozone crisis, so he was on the street again.

What he loathed the most was not the changing of jobs, but that these jobs hardly got you any respect. "There is social safety, but there is no solidarity and even no society any more, no mutual respect, no interest in what the other does. We would rather hire a couple of Bulgarians to save a few Euros than to allow a neighbour to earn a living. This cannot go on."

The other nodded. "We get all this stuff from China. We have to stop that. Our governments also have to spend less so that we can become more competitive." That gentleman, you can guess... worked for



the government. Then a third person chipped in, a retired teacher, “Do we not exaggerate? We had so many crises in the past so why should we think that this time is different?” That question, as you can guess, made me miss my train.

Because, ladies and gentlemen, this time is different... And it is so because of four important reasons. Allow me to explain them shortly.

32 First of all, we are in an unprecedented legitimacy crisis of the European institutions and a persistent failure to address the main causes of the crisis. Never in forty years was the scepticism about the benefits of the European project so large.<sup>i</sup> The EU is more than ever under pressure to deliver, but the bickering between the member states has not gone away. They go on in more discrete committee rooms, where the capitals remain unable to agree on crucial policies – ranging from energy to employment.

24 Second, we experience an unprecedented weakening of national mainstream parties. If trust in the European government is in decline, trust in national government declined even faster.<sup>ii</sup> Today, public confidence in national governments is actually lower than trust in European governments.<sup>iii</sup> Again we are at a tipping point. For the first time since WWII, mainstream parties might lose their majority. National election results show that 33 per cent now vote pragmatic, 33 per cent populist, conservative and extremist, and 33 per cent no longer goes to vote. These pragmatic parties used to be the main facilitators of European integration.

Third, we witness unprecedented challenges to the social model that allowed governments to maintain stability and to make concessions towards one another. Unemployment continues to be at very high levels. But there is more. Since 2008, an average European lost 11 percent of his real income. Important is that the lower middle class also started to be affected. This is another tipping point: our economies no longer benefit the majority of the people.

The link between income and political attitudes is strong. Each income quintile one goes down, political trust drops by five per cent and turnout at elections by 2.5 per cent. Strong dissatisfaction with the functioning of democracy goes up 3 per cent each quintile one descends. On a country-by-country basis, average incomes strongly correlate with trust in national governments. Unemployment has a large impact. Strong dissatisfaction with the functioning of democracy is about twice as high among the unemployed. Polls show that economic performance is considered the most important issue on which they expect the EU and their country to deliver: the combating of unemployment (marked by 49%), the economic situation (33%), and inflation (20%) – followed by immigration (11%).

<sup>iv</sup>

Fourth, we face unprecedented threats to our economic power – and privileges. There is of course the demographic challenge. But Europe is also losing competitiveness and this becomes nowhere as clear as in our rapidly shrinking advantage in high-tech exports. European countries also increasingly rely on external debt. Since the Eurozone crisis broke out, about 2 per cent of our GDP was generated by selling bonds abroad – 2 per cent each year. That’s a lot. Europe’s next generations will thus have to service a larger external debt with a shrinking labour force and an economy that is less competitive.

Yes, this time is different. The four layers of uncertainty that I just identified create a situation that is totally new and has made Europe much more fragile. It can also not be excluded that the achievements in erecting a firewall against new shocks in the Eurozone will be sufficient. Internal imbalances are still very large, powerhouses like Germany do not create sufficient demand for peripheral countries and new bubbles seem to be in the making.



Those who assert that Europe has to learn to live with less deny the political repercussions. No government will survive if a lasting economic decline leads the poor to say that they are too poor to pay, the middle class to argue that taxation will cripple the economy even more, and the rich to threaten to leave. They might try to draw the ire to the European institutions, after states launched they attack Europe without delivering growth, what comes next? Regions attacking states? Cities attacking regions? Standing still and losing out is just no political option.

So, then, we can now also do away with this argument that the crisis of Europe is also a crisis of democracy. I dare to say that Europe is more democratic than any other large society. The problem is really not that there is not enough democracy; the problem is that our democracy fails to perform.

### **The world**

Ladies and gentlemen, Europe is at the crossroads, disoriented, disoriented in a world that no longer tolerates a lack of vision and leadership. The next decades will by no means resemble the previous two decades of cosmopolitan fancying. The world order that was marked by globalization will be destabilized both by shifting balances of power and the fact that economic growth permits politicians less and less to meet the needs of their people. The world is not getting flat but fragmented.

There are no true leaders. The United States might still hold the best cards; it still struggles with a widening partisan cleavage, growing debt, structural deficits, and unprecedented inequality. In China, citizens are gradually losing their confidence in the Communist Party's ability to rebalance the economy away from unsustainable dependence on investment and to bring on a more equitable form of development. India, Japan, Russia, and Brazil are even more fragile. Fragility, however, does not lead to cooperation – it leads to more competition.

This is competition about wealth. Economic nationalism is back in full swing. It is not yet about erecting tariff barriers, but about the manipulation of global trade and capital flows by other political means: external devaluations, internal devaluations, subsidies for infant industries, endless credit lines for exporters and so forth. I am not convinced that this is all very helpful in the long run. But it does lead to a situation in which economic competition comes to look more like a financial and social battle of attrition.

The return of blatant economic power politics coincides with a new contest for natural resources. True, global production of fuels and ores has often caught up with demand in the last few years, but states actively use domestic resources to gain competitiveness on others – even if that implies severe environmental costs. For some rare minerals and agricultural goods a new global scramble has started. The fiercest competition, however, will be competition over water. South Asia and Sub-Saharan Africa will have to develop with about a third of the freshwater we had available per capita in Europe; in North Africa and the Middle East this will be less than a quarter.

The new power politics also spills over into international organizations. We see more and more that the majority of developing countries work against the minority of developed countries. In specialized committees on technical standards, which decide on hundreds of billions of profits, Europe is getting marginalized by the United States, China, and Japan. True, as it exists, global governance is no longer a reflection of the balance of power. It has to be reformed, but reform requires consensus, consensus on economic norms, consensus on environmental rules, consensus on security... None of that is in the making.

The most dramatic arena of the new contest for power, however, is that still where armed forces stock their arsenals. Global military spending is again at Cold War levels. The wrangling over the maritime



margins of East Asia is most fearful, especially as it takes place in an area that is marred by nationalism and complex histories. Europe is not going to escape from that reality. Tensions between the Pacific titans are already impeding the international community to respond to hotspots closer to Europe – Ukraine, Syria, the whole Middle East, and Africa.

But they also spill over into new spheres. The militarization of the internet is now widely recognized, but Europe is still unable to protect itself. Less known is the rapid militarization of space. Even if they continue to stress their peaceful intentions, the United States and China are readying the one system after the other to gain the upper hand in outer space. If the Ming Emperors did not grasp the military use of gunpowder in the 15<sup>th</sup> century, Europe is facing a new gunpowder moment today.

It is hard to predict where this will end. Indeed there are solutions to most problems, political ones, economic solutions, technological solutions,... But think again, how successful have we been in implementing them and especially to implement them fast enough?

As a result, I see dark clouds gathering all around Europe. There is the belt of uncertainty that runs from Gibraltar via the Middle East all the way to the Belarus. Here I anticipate fast urbanization without dynamic economies to sustain it, more unrest and more pressure on weak governments. Amidst this, four regional powers, Russia, Turkey, Iran, and Saudi Arabia will relentlessly vie for influence – also playing off Europe against new partners in East Asia. The people, polls show, in this area got completely disillusioned with Europe. China is more popular in Egypt these days than Europe.

Beyond this belt looms a vast wedge of hardship that stretches from the southern slopes of Himalaya to the Gulf of Guinea. This is a region with a remarkably resilient people and with enviable entrepreneurs. But it is also a region where the average income remains below US\$ 3 per day, where much of the growth is jobless and erased by inflation, and where the population is set to expand by over 1.6 billion in the next 30 years. This expansion takes place in one of the most vulnerable environments of the world. Without a sustainable and labour-intensive growth model, this wedge of hardship is set to turn into a new hotbed of insecurity.

This is the chessboard on which the two Pacific titans will vie for influence. The United States is a traditional partner; China a potential partner, but both are also formidable competitors. Make no mistake, I am staunch supporter of a strong transatlantic partnership, but the geopolitical interests of the United States and Europe are not always the same. The normative rift between the two also seems to become wider; economic competition fiercer.

I would like to repeat here the same conclusion as in the first part: this time is different. Yes, Europe has been divided and quarrelsome throughout the greatest part of history, but it tended to be superior in terms of economic and military power. It could, in other words, afford it. Today, that is no longer the case. Its internal divisions will be exploited ruthlessly by other powers.

### **The choice**

Ladies and gentlemen, as you can see, European unity is not a matter of choice, but of geopolitical necessity.

Now, I am aware that this is a very old argument. The attacks of the Vikings led many to call for unity. It did contribute to unity in England, but not to unity between European kingdoms. When Europe faced the expansion of the Moors in the 9<sup>th</sup> century, there was a vivid debate about whether the Spanish Marches and France needed to unite. “Unity is strength,” proclaimed the duke of Lorraine.



The Marquis of Navarre retorted :“ We understand the need for unity, but we will think very carefully before forfeiting our rights.” A similar discussion followed as the Mongols closed in and intellectuals, like John of Plano, called on the European kings to unite against “the savagery of the Tatars”. The Teutonic Knights did join forces, but the Pope and the Emperor continued to trade an ally with the invaders. The same was true with the Ottomans.

It is really interesting to reconstruct the arguments. Thinkers like Tomamso Campanelo and Leibniz argued that European countries had to join forces to maintain security and to defend Christian values. But, as could be expected, they disagreed whether they had to be led by either the Pope, the King of Spain, or the Holy Roman Emperor. Others insisted that sovereignty could not be given up and that unity would be detrimental for the development of Europe. Fearful of the Turks, Dante called for unity in diversity: European princes had to be guided to peace by common law, but, he added, nations and kingdoms also had their own traditions and characteristics which needed to be governed by different laws.

So, as a rule Europe fails to unite in light of external threats. Even if there are no longer armed hordes at the gates, Europe is also no longer holding the advantages that it had in previous centuries. If its superiority allowed it to externalize much of the internal quarrels to other parts of the world the world. Today, the rest of the world will miss no chance to exploit its weakness and divisions. That’s how politics works. So, there is a geopolitical imperative for unity. But what does unity mean?

### **Security**

First of all, unity has to bring security. The primary task of each polity remains to guarantee the physical safety of its people, today and in the future. Whether we like it or not, security demands for hard military power. Hard power is the ultimate tool for defence. It is essential also to build strategic partnerships. Moreover, it is a myth that normative power, the capacity to lead by example, can exist without hard power. There will be no role for the European Union in this century without hard military power.

Unity helps to build hard power more efficiently and without more efficiency there will soon be no European hard power left anymore. By 2030, Europe will probably only have about 350 fifth generation fighter jets. In Kosovo in 1999, over 800 jets were deployed. Also by 2030, Europe is projected to have only about 60 frigates. In Libya in 2011, 18 surface combatants were deployed. These future deficiencies come on top of the current gaps in areal refuelling, strategic lift and so forth. More than ever the reality is that we have to pool assets or lose them.

However much I recognize the importance of solid relations with the United States, the current security alliance stands in the way. In fact we are being kept in a vicious circle in which American leadership makes it less important for European leaders to take security seriously, takes away the incentive to explain important investments to their people, which on its turn leads to more asymmetry in the partnership, and forces the United States to do even more. The United States, fair to say, makes our leaders geopolitically ignorant. De-insurance not re-insurance might be the only way to make Europeans come to grips with their own security environment.

It is true, of course, that this security environment can look different from Riga or Rome. But, the tragedy of MH17 has shown that the distance between Katwijk and Kiev is really not that large, as the growing number of refugees demonstrates that the Scandinavian countries cannot be blind to the reality in the Mediterranean. In the restless 21<sup>st</sup> century we are all together in this tiny peninsula that sits between two vast continents.



This geopolitical reality imposes clear priorities upon us. Europe can only weigh on the new power politics if it concentrates its economic and political efforts on its backyard. Europe has to create its own sphere of influence, not by supporting crooks as we did in the past, but by providing security and helping to develop wealthy, resilient, and diverse societies.

We have to turn the belt of uncertainty into a belt of opportunity. The population in our neighbourhood will expand from 500 million today to 700 million in 2050. There is no reason why these people should be less an economic opportunity than the reservoirs of labour in Eastern Asia. Many of the countries in the area are still smaller than in Eastern Asia, so that investment translates easier in influence. Influence in this region also means influence on the Asian titans. If Europe can make itself indispensable in its backyard, it will make itself indispensable to countries like China and India as a security provider along their long and vulnerable supply lines.

The biggest mistake for Europe now would be to join the so-called pivot to the Pacific while its neighbourhood is on fire. Europe does not have to be in Asia to wield influence in Asia. Europe does not have to have frigates in the Pacific to stand by its Atlantic partner.

There is a great need for the External Action Service to facilitate a grand geopolitical bargain between the member states, in which the north commits to assist the south, and vice versa, and the west to assist the east, and vice versa. It is my opinion that the External action service should be more about internal action. It should have ability to listen to the 28, to facilitate consensus on the strategic questions that really matter, and to lead through vision.

Today, the European Union only has a sham foreign policy, a high representative who does not know what exactly she represents, a large number of bureaucrats that behave often like a 29<sup>th</sup> ministry of foreign affairs, a large number of dialogues and partnerships that cannot deliver absent the support of the member states.

### **The economic road to nowhere**

But we cannot build security around a society that is weak and disorientated. The key to Europe's survival in the Asian century is an economic narrative, a model that generates opportunities for the majority of the people of Europe and that allows those Europeans to share more opportunities with the people around them.

If we thought hard power to be a challenge, economic power is even more challenging. Economic strategy has to strike a balance between the need to become more competitive and the fact that more social uncertainty will be destabilizing, cause fragmentation, and just create too much resistance to any policy that aims at change. The current economic debate in this regard is polarizing and most propositions not very helpful.

A first option is **internal devaluation**. The reasoning is that if the labour costs per hour are reduced, by cutting salaries or making it easier to fire redundant workers, companies again have more space to invest and thus to boost productivity. The positive impact however is questionable.<sup>v</sup> I calculated the impact of labour cost evolutions in the European between 2004 and 2013 and the willingness of companies to invest. The impact is almost zero.

A second option is **fiscal devaluation**. This implies taxes on production and wages to decrease by raising taxes on VAT, for example, or just cutting government expenses. A review of the literature and two important recent studies for the European Commission and the OECD show that fiscal



devaluation does not create long-term competitiveness gains and even have a pervert effect in a sense that they discourage more fundamental reforms that affect the performance of companies.<sup>vi</sup>

Related to fiscal devaluation is public sector dismantling and **privatization**. This has been a preferred instrument to address large government budget deficits. Yet, it is not that because the government offloads services like healthcare that the needs disappear. What matters for quality and productivity, research shows, is not who organizes services, but how they are organized, how much is invested in training, incentives for strong performers, the ability of customers to compare providers, etc. This can be achieved both in private and public companies.<sup>vii</sup>

Fourth comes what is probably the most popular policy these days: printing money, being it in a slightly more sophisticated way, via **quantitative easing**. This is another quick fix. It helps to ward off wrecking liquidity crises after bubble bursts and bailouts, but it cannot be a long-term solution. Without structural changes and productivity gains, quantitative easing does two things: it accelerates the formation of new bubbles and postpones the adjustment crisis.

The fact that Europe can so easily sell its bonds abroad leads to a fifth element: **external demand**. European leaders increasingly count on the growth of consumer markets in Asia and elsewhere to compensate for low demand at home. The problem is, however, that the trade surplus of Europe with the emerging markets remains very small and that those emerging markets want to build their own industrial sector through exports – which means more competition with Europe.

A sixth proposed solution concerns **free trade agreements**. Free trade agreements are supposed to lead to efficiency gains through specialization. Research shows, however, that the gains in terms of growth and jobs become less clear.<sup>viii</sup>

These were six measures related to the organization of the economy. **It is striking to see that none of the allegedly positive evolutions – tax moderation, labour cost moderation, even and productivity increases – had a clear positive and rewarding impact on employment.** There are four more issues related to specific sectors that I want to discuss with you.

Many European governments have considered a seventh approach: **industrial policy**, pursued to defend domestic industries or to get some industry back. Subsidies and more subtle support to an industrial sector that is already often struggles with overcapacity can only be a waste – they will not generate the returns to compensate for the financial sacrifices.

Since the turn of the century, many member states were convinced that a **services economy** would be the future. This enthusiasm as cooled somewhat. Services cannot replace the secondary sector.

Ninth: **technology**. This is the most salient aspect of the economic debate. Almost all governments scramble to become technological leaders. But guess what, R&D intensity does hardly correlate with profitability. I looked at Europe's 1000 biggest spenders on R&D and the correlation is even negative. The returns on innovation will probably be under more pressure as more and more countries aim at the same technology.

Last comes **IT**. I tend to be quite sceptical about this. In 2008, Oracle analysts expected the IT sector to generate 1.5 million new jobs over the next five years. Only 360,000 were effectively created. The question also remains whether we want all things to become virtual. Computer work does not lead to greater satisfaction. People are physically and psychologically not made to become some kind of oyster in a shell of apps.



It is striking how the great economic debates have become debates about organization and distribution, but much less about the purpose of economy. That might explain why so many policies fail to appeal to the masses.

### **A humane economy**

The economy to my understanding is what allows us to climb higher upon Maslow's pyramid. It starts with physical needs, which requires wealth to fulfil them. The economy is not expected to *bring* wealth to the masses but to allow them to *create* wealth. The truth is that less and less Europeans, also higher educated ones, are able to find a job that pays enough to afford decent homes and proper meals. Is that because they prefer flat screen television or do not want to work? Sometimes, yes, but mostly it is not.<sup>ix</sup> That leads us a next level: the ability to live and work in healthy conditions and in dignity. That too could become increasingly imperilled by uncertainty, stress, long and irregular working days, work that is too passive, etc.

Then we move on to recognition and self-accomplishment. Here the situation in Europe is problematic: only about 55 per cent of the people with a job think they get enough opportunities to show how capable they are; 25 to 31 per cent is not satisfied. The situation is most difficult in those sectors that expand fast: basic commercial services, retail, logistics, restaurants, and so forth. I would add to all this that a strong economy limits externalities – economic, social, intergenerational, and environmental ones. Europe is failing to do so.

Across the board, Europe is not performing well, but there are a few exceptions: the Scandinavians, the Netherlands, but especially one country where one would not expect it: Austria. If there is one country that has elicited a great deal of fascination with me than it is this tiny, landlocked country that basically does not have any comparative advantage besides mountains, Sisi, and Mozart.

Austria, I discovered, has reached the highest levels of political trust and economic confidence. Since 2009, it has registered healthy growth and corporate investments in machinery, equipment, research, and software also grew much faster than in the rest of Europe, including Germany. Its finances are sound. It actually created a lot of new jobs, also in the manufacturing sector and kept unemployment at the lowest levels in Western Europe. Wages increased faster than in Germany. On top of that, Austrians are much more satisfied about their work, feel more respected and reckon to have more opportunities to excel.

What are the keys? It was not fiscal devaluation: taxes on labour hovered around the European average. It was not internal devaluation: labour costs developed in sync with the rest of the Eurozone. Social safety nets are generous. Nor was it competitive devaluation. So what has made Austria different? The fact that it has a healthily diversified economy, to begin with, with a good mixture of small and larger firms, manufacturers and service providers, old and young enterprises, strong performers in tradable services and non-tradable services. Austria also excels with high quality standards across the board, in industry, public services, but also in basic matters like housing, food, public spaces, and utilities. Any visitor must have observed this. What really makes Austria different is its educational system, its vocational schools with great facilities and skilled teachers, its vocational schools also where the citizens of tomorrow are trained to become proud producers and critical consumers with an eye for quality.

Ladies and gentlemen, this is where all growth starts, by raising the ambitions and expectations. A 21<sup>st</sup> century economy is about more than hard working alone. It is about a sense of purpose and a sense of creating something that has a clear value, not just a price tag.





The next generations of consumers need to be critical consumers that create the scope for ambitious producers to thrive – especially in sectors where we spend most of our income, like housing, food, education, and healthcare. This starts at school. I understand less and less why we teach our children the most complex mathematic formulae and to become good producers, whereas we do not teach them how to distinguish quality from junk and how to consume.

But it is also a matter of standards. We cannot allow our companies and producers to be exhausted by governments that decide to put the safety, the dignity, the health, and the wealth of their citizens at risk to stimulate growth. Each society has the right to decide what is valuable and what not. Standards that are applied to both domestic and foreign producers do not discriminate. In fact they help developing countries from avoiding a detrimental race to the bottom.

Governments should lead the way and organize the market in a way that capital, producers and costumers find each other in projects that make a difference. Urban rejuvenation, public utilities, schools, hospitals, creative producers of consumer goods, and so forth. Growth opportunities here are endless and these sectors need to be prepared for investors, but we do not just want these investors to compete on price; we want quality and spirited workers too.

Now, some free traders might retort that this will destroy the market. I call upon them them to think twice. Can we consider a market where a central bank injects over a trillion into the financial sector still free? Can we consider a market governments actively encourage the imports of cheap goods at the expense of domestic producers to be free? How free is a market where choices with regard to production and consumption are heavily influenced by education or the branding strategies of quasi-monopolists?

If we want to restore a healthy functioning of the free market, we have to elevate it to a higher level. Compare it to traffic: everything goes smoother if there are some basic rules that protect people against their own shortsightedness. Those rules are the reflection of an agreement that the government will level the playing field in exchange for a greater commitment of its citizens as entrepreneurs, producers, craftsman, engineers, and consumers.

I am also not against innovation. Innovation is crucial and so is technology. But whenever we make efficiency gains, we must ask ourselves not just how things can get cheaper but how they can get better, how we can relocate resources to jobs that are more important – and more fun.

And of course, budget deficits have to be cut back. But now at least we can explain to our people why their sacrifices are needed, that there is a way out, explain our great entrepreneurs that profits will be possible and to the workers that will build the schools of tomorrow that that can be proud of their job, even if they do not run an app-company in San Francisco Bay.

## **Conclusion**

Ladies and gentlemen, a society without growth is a death society. It will fail to hold itself together and to inspire its neighbours. The pie has to grow, but we cannot allow it to become a sponge cake, like in the United States. I have travelled a lot in the last few years and seen many examples of what this more humane and dynamic European economy can look like, and certainly not only in the Alps. Here again, unity will be vital. We need the scale of 500 million people to make this race to the top possible, to set our standards, and to challenge other large economies to follow.

By empowering our society within we can harness the resources to make the necessary investments in security and defence, but also share those resources with our neighbours, to make those neighbours



more wealthy and satisfied. That in turn will also make us more secure. A weak society that tries to be more secure on the outside comes to look like a mollusc. We don't want that. We want to be resilient and entrepreneurial. We want to be agile and perceptive. We want to be able to reach out to other nations, to admire and to be admired.

Power remains key, but true leaders are the ones that shape the definition of power.

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<sup>i</sup> Eurobarometer "Generally speaking, do you think that (your country's) membership of the European Community (Common Market) is ...?" for the E8.

<sup>ii</sup> For a discussion: Algan, Yann and Pierre Cahuc, 2013. *Trust, Growth, and Well-being: New Evidence and Policy Implications*. IZA Discussion Paper, June 2013; Inglehart, Ronald and Christian Welzel, 2003. *Political Culture and Democracy: Analyzing Crosslevel Linkages*. *Comparative Politics*, 36, 1, pp. 61-79; Newton, Kenneth and Pippa Norris, 1999. *Confidence in Public Institutions: Faith, Culture or Performance*. JFK School of Government Working Paper, September 1999; Nye, Joseph S., Philip Zelikow, David King, and eds. 1997. *Why People Don't Trust Government*. Harvard: Harvard University Press.

<sup>iii</sup> Eurobarometer Database.

<sup>iv</sup> Eurobarometer: What do you think are the two most important issues facing your country at the moment?

<sup>v</sup> Gali, Jordi and Tommaso Monacelli, 2013. *Understanding the Gains from Wage Flexibility: The Exchange Rate Connection*, ECB, November 2013. Also: Weisbrot, Mark and Rebecca Ray, 2014. *Latvia's Internal Devaluation: A Success Story?* <http://econintersect.com/wordpress/?p=16831>

<sup>vi</sup> Koske, Isabell, 2013. *Fiscal Devaluation: Can it Help Boost Competitiveness*. OECD, October 2013; CPB, 2013. *Study on the Impact of Fiscal Devaluation*. European Commission, 21 January 2013.

<sup>vii</sup> Hermann, Christoph and Jörg Flecker, 2009. *Privatisation of Public Services and the Impact on Quality, Employment and Productivity (PIQUE)*. Vienna: Forschungs- und Beratungsstelle Arbeitswelt.

<http://www.ncbi.nlm.nih.gov/pubmed/21167627>

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<sup>viii</sup> OECD, 2011. *The Impact of Trade Liberalisation on Jobs and Growth*. OECD Trade Policy Paper, February 2011; Lee, Eddy, 2005. *Trade Liberalization and Employment*. DESA Working Paper, October 2005; Lora, Eduardo, 2012. *The Effects of Trade Liberalization on Growth, Employment, and Wages*. In José Antonio Ocampo and Jaime Rose eds. José Antonio Ocampo and Jaime Ros. Oxford, Oxford University Press; Bajona, Claustre, Mark Gibson, and Timoty Kehoe, 2008. *Trade Liberalization, Growth and Productivity*. Federal Reserve System;

<sup>ix</sup> Spannagel, Dorothee, 2012. *In-Work Poverty in Europe: Extent, Structure and Causal Mechanisms, Combating Poverty in Europe project*. Working paper for the European Commission.

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