Eurozone Crisis: Is the Union at Risk?

Summary of a Roundtable
(with Policy Recommendations)

Held In New York City

October 2013

Our Mission

The National Committee on American Foreign Policy (NCAFP) was founded in 1974 by Professor Hans J. Morgenthau and others. It is a nonprofit activist organization dedicated to the resolution of conflicts that threaten U.S. interests. Toward that end, the NCAFP identifies, articulates, and helps advance American foreign policy interests from a nonpartisan perspective within the framework of political realism.

American foreign policy interests include:

- preserving and strengthening national security;
- supporting countries committed to the values and the practice of political, religious, and cultural pluralism;
- improving U.S. relations with the developed and developing worlds;
- advancing human rights;
- encouraging realistic arms control agreements;
- curbing the proliferation of nuclear and other unconventional weapons;
- promoting an open and global economy.

An important part of the activity of the NCAFP is Track I½ and Track II diplomacy. Such closed-door and off-the-record endeavors provide unique opportunities for senior U.S. and foreign officials, think-tank experts, and scholars to engage in discussions designed to defuse conflict, build confidence, and resolve problems.

Believing that an informed public is vital to a democratic society, the National Committee offers educational programs that address security challenges facing the United States and publishes a variety of publications, including its bimonthly journal, American Foreign Policy Interests, that present keen analyses of all aspects of American foreign policy.

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Dear Reader,

On October 8, 2013, the National Committee on American Foreign Policy convened a closed-door roundtable on "Eurozone Crisis: Is the Union at Risk?" The conference was organized by Bernard E. Brown, director of the Transatlantic Relations Project of the NCAFP and professor emeritus of political science at the CUNY Graduate School, along with Ambassador Herman J. Cohen, former Assistant Secretary of State for African Affairs and also a member of the Transatlantic Relations Project. Lead speakers were Nicolas Véron and Christiane Lemke; Joseph Quinlan was the luncheon keynote speaker; designated discussants included Giusseppe Ammendola, Irene Finel-Honigman, Hugo Kaufmann, Edward Goldberg, and Colette Mazzucelli. A list of speakers, and other participants, with their affiliations, is appended to this report.

Ever since the financial crisis that began in 2008, the euro currency, adopted by 17 of the 27 member states of the European Union, has been under pressure. The euro is the only major currency in the modern era issued by a bank, not a state. The integrity of the euro is currently being questioned—as is the viability of the European Union itself. A rift has opened between the wealthier states in the Eurozone and the peripheral states, particularly Portugal, Italy, Ireland, Greece, and Spain. Political leaders of member states have striven in a series of summit meetings to strengthen the European Central Bank, coordinate economic policies, and increase competitiveness throughout the Eurozone. Some observers have called for a banking union, to be followed by a fiscal union, then a union of economic governance, and finally a more perfect political union. The prospects of each of these options were examined in the conference. What happens in Europe does not stay in Europe. The United States has been affected and is still being affected by the evolution of the fiscal crisis in its principal trading and strategic partner in the world.

The frank and free discussion by the lead speakers, discussants. and other participants has been summarized and edited by professors Giusseppe Ammendola (Part I and luncheon keynote) and Bernard E. Brown (Part II) in this report. I wish to thank a donor, based in a New York financial institution, who wishes to remain anonymous for a generous grant that made this conference possible. The keynote speaker, Joseph Quinlan, described negotiations now under way between Washington and Brussels for a Transatlantic Trade and Investment Partnership (T-TIP) as a potential "game changer" that would provide an economic stimulus on both sides of the Atlantic. Some participants maintained that T-TIP could also have transformative geopolitical consequences comparable to those of the Marshall Plan after World War II. It is our belief that creation of a transatlantic economic community could indeed be a "Marshall Plan moment." The National Committee on American Foreign Policy plans to play a role, along with other organizations in civil society, in helping to advance this project.

Sincerely,

George D. Schwab

SESSION I
Eurozone Troubles: Is the Crisis Over?

Nicolas Véron
Peterson Institute for International Economics, Washington, D.C.; Bruegel, Brussels

Discussants:

Giuseppe Ammendola
New York University; Board of Advisers, NCAFP

Irene Finel-Honigman
Columbia University

Hugo Kaufmann
European Union Studies Center, CUNY Graduate Center

This summary of Session I and the Luncheon Session was prepared by Giuseppe Ammendola from a transcript also edited and commented on by him. An effort has been made to retain as much as possible the "flavor" of the individual contributions and the nature of the meeting. All the participants spoke in a personal capacity and their views do not necessarily reflect those of the institutions with which they are affiliated.

Dr. George Schwab, president of the National Committee on American Foreign Policy (NCAFP), opened the event, welcoming the guests and explaining the general mission and activities of the National Committee on American Foreign Policy. Professor Bernard Brown, the NCAFP Transatlantic Relations Project director, then spoke of the NCAFP interest in the European Union and associated NCAFP activities and research. Ambassador Herman Cohen moderated the discussion and introduced the main speaker of Session I, Nicolas Véron.

Nicolas Véron: The answer to the question: "Is the crisis over?" is a double no. The crisis is not over in a *narrow* sense because market volatility will return in 2014; the crisis is not over in a *broader* sense because we are far from a robust sustainable arrangement that, from an economic and institutional perspective, would count as a steady state.

What is likely, or even almost certain, is the return of *market volatility* next year. This is to say that the phase of market turmoil that has characterized this crisis in Europe for its first five years, at least from mid-2007 to mid-2012, is not over. In the United States, the situation is different in that the market turmoil phase is over (essentially having ended in mid-2009 as far as the financial system was concerned; the extraordinary intervention by public authorities continued well beyond that point), but the crisis is not. As a matter of fact, the Fed is having difficulty exiting its current quantitative easing. And, even without the current fiscal challenges in Washington, what is very reasonable is to say that the United States is not entirely out of the woods as far as the consequences of the major shocks of 2007 and 2008. So, one could say that in all probability that market volatility is over in the United States, but the crisis continues and will take several years to resolve. Europe is not yet at this point.

The reason for this difference between the United States and Europe is associated with their banking systems. The European banking system has been fragile since mid-2007. European policymakers have made several attempts at restoring trust in European banks, but did not get at the core of the problem. The interbank market is dysfunctional and market investors no longer trust European banks. Just as important, European banks do not trust one another. In addition, the interbank market and especially the cross-border interbank market, which is crucial to the operation of Europe's financial system, is and remains very far from a normal state. This has prompted the extraordinary intervention of central banks in the Eurosystem—particularly through the long-term refinancing operations (LTROs) that were decided on in late 2011. In a way, central banks have taken the place of the interbank market and continue to do so.

The decisions in June 2012 of European leaders to take much more decisive action did not, by themselves, recognize the dysfunction in the banking system, however. More specifically, it was the concern about how the banking system was affecting financing conditions for sovereign issuers that led these leaders to move toward what is now commonly called a "banking union."

The plan is to transfer supervisory authority from the National Banking Supervisors (NBS) to the European Central Bank (ECB); currently, the transfer is scheduled for October 2014. This is a transfer of authority that *must be preceded by* a comprehensive assessment of the balance sheets of all the banks for which the direct supervisory authority will be transferred from national authorities to the ECB—at least 130 banks, representing at least 85 percent of the total assets in the Eurozone banking system.

If the ECB finds that some banks among those 130+ are significantly undercapitalized, it will have to declare that, and these banks will have to be restructured; if no plan is implemented to recapitalize and/or restructure, the market, and possibly customers, will react very negatively.

The risk of bank runs, of course, has to be forestalled. Thus, a well-managed sequence of balance sheet assessments and announcements of restructuring plans must be made for those banks found significantly undercapitalized in the balance sheet assessment. Here a difficult balance has to be achieved between member states' aversion to using taxpayers' money for bank restructurings and member states' desire to avoid disruption in the marketplace. This latter desire, however, makes the use of taxpayers' money almost inevitable.

So, next year we are going to see two major forces opposing each another. The ECB is one. By pushing for rigorous balance sheet assessment, it will try to preserve and boost its credibility. The other force is some of the member states. How many it is hard to say since, at this point, it is difficult to predict those states that will not welcome a rigorous assessment of bank restructuring. In the past five or six years, member states' preference for forbearance and denial of problems in the banking system have been a powerful force. But, the ECB is not motivated in its resolve simply by its future role as a bank supervisor, but also by its fundamental role as the single monetary policy authority. This conflict is building up and becoming increasingly visible—leading to market volatility because investors will gradually come to understand that a lot of risk is present that is not currently priced in.

This conflict between the ECB and certain member states will be resolved because of the pressure the marketplace exerts on decision makers. The outcome will probably be *in favor* of the ECB. However, while the market responded with remarkable calm to significant developments such those in Cyprus or the elections in Italy, the conflict's inevitable escalation will not be taken as calmly by the investor community. In the end, an important element in the conflict's resolution will have to be an increase in bank capital, which, in the aggregate, will need to exceed 200 billion euros. Clearly, the situation of weaker banks will be more difficult to tackle.

I am cautiously optimistic in predicting the "victory" of the ECB, which is linked to a chain of events going from rigorous assessments to effective restructurings to return of trust in the European banking system and, in the end, to a return to normality in the European interbank market. The October 2014 deadline is useful as are a set of conditions for the transfer of authority to the ECB. If successful, the transition to the single supervisory mechanism in 2014 will mark the beginning of a construct that will likely be more stable than anything we have had in the last five years, but which will *still* not be stable enough to withstand future shocks.

I would like to make some clarifications by offering some general points about the crisis.

It is useful to think of the EU crisis, which is extraordinarily complex, as a combination of *four threats* and *four narratives* that have competed against one another since the beginning. The public has lost trust in four areas of the process of European integration:

1. *Banking:* A banking crisis is ongoing and the banking system is fragile.
2. *Fiscal:* It has dominated the headlines since late 2009, with failing sovereigns that can lead to potential sovereign defaults. Arguably, Greece did default last year even if the semantics are still

in dispute.

3. *Structural:* This has to do with competiveness and microeconomic structure; it incorporates the ideas that Europe no longer has the capacity to grow at a pace sufficient to address its challenges and that it has lost the ability to be entrepreneurial, to have dynamic corporate growth, to support dynamic job creation, and to embrace the industries of tomorrow. Accordingly, the EU is in a downward spiral of recession and decline.
4. *Loss of trust in EU institutions:* European institutions are becoming part of the problem because their decision-making process and commitment are inadequate. Decisions are delayed until it is too late to avoid adverse economic consequences. Not only is there a democratic deficit, with citizens not being represented properly in the decisionmaking process; an executive deficit that mirrors the democratic deficit is also present. *Decisions are simply not made*—irrespective of whether they are legitimate or not. The one exception is the institution that is outside of the normal political framework: the European Central Bank. But the ECB, despite its broad shoulders, cannot handle the responsibility of addressing the management and resolution of all crises.

When you reflect on these four narratives, what has become conventional in the past twelve months in Brussels is to address them in terms of "four interdependent unions": banking union, fiscal union, economic union, political union. It is impossible to think of tackling one of these issues areas without touching on the others. The *banking union* is the quintessential example because a robust sustainable banking union is impossible without a *fiscal union,* if only for insuring deposits in a credible manner across the union. In turn, a sustainable fiscal union is difficult to imagine without a political union—essentially you cannot have taxation without representation. The banking union is being addressed first because it is arguably the easiest one to confront—or so it appears to policymakers.

The institutional debate is probably the most difficult. The shape of European institutions, the shape they should have "to deliver the goods" and become sustainable both from an executive and a democratic perspective, is one question for which we have few answers. None of the components of the current institutional framework is sustainable, with the French–German couple being long dead. *German dominance* is equally problematic and the unsustainability of having one nation deciding for the others is keenly felt in Berlin. The European Central Bank is the one federal institution that works and is able to address issues more or less on time. But, lacking political legitimacy and accountability, the ECB has to be cautious about overextending itself. Many would, in fact, argue that the ECB has already overextended itself. That may be true, but one could also say that it did not have a choice; the alternative—of doing nothing while things were falling apart—was much worse.

According to the Treaties, the European Commission is meant to be the closest that the European Union has to a central executive. Dramatically weakened, perhaps terminally, by this crisis, the Commission has displayed no ability to fill the executive gap in the institutional framework. The European Parliament has been sadly unsuccessful in embodying democratic legitimacy on a continental scale. Even in terms of the mechanics of decision making, the method that is considered in European circles to be the most advanced—qualified majority voting—has shown its limits in this crisis, especially on issues of financial regulation. Essentially, member states are not accepting being put in the minority, just as France did not accept such positioning in the mid-1960s. So, we are very far from an institutional steady state.

For how long can we live with this incomplete and unsustainable institutional framework? Whatever the answer, clearly the flaws in the institutional framework will not be addressed comprehensively without treaty change. Predicting both the timetable of treaty change and how the fourfold crisis of European integration will be addressed is impossible.

This crisis tests the boundaries of European integration, both from a geographical standpoint because we don't know the future geographical shape of the Union that emerges from this crisis (if there is still a Union) and from a historical standpoint, because we don't know to what political forms this truly corresponds. The resulting entity will not be a nation-state of continental scale, but it probably will be more politically integrated than what we currently have. Historical, political, and geographical tensions are unresolved and have been exacerbated by the crisis. No truly helpful precedents are available to determine what may happen.

Add in an another paradox: the European Union is turning more and more into a process of radical institutional innovation at the very moment when *Europe is declining in relative importance* on the global stage. And, such paradox Europeans find difficult to grapple with, even though it has existed from the beginning of European integration in the 1950s (at least in the view of some Founding Fathers, including Jean Monnet).

The crisis has demonstrated the limitations of all analytical frameworks. Doomsayers, including luminaries such as Martin Feldstein, who thought that the Eurozone would not withstand the first shock, were proven wrong. Traditional federalists, of which you find many in Brussels, were also proven wrong. The Commission and leaders of Parliament have not emerged as the locus of European democracy. This is history in the making. Prejudices or backward-looking analytical frameworks are not the best way to understand what is happening. They are also not the best way to anticipate future developments.

Giuseppe Ammendola: I want to start with two broad points that must be kept in mind. First, *the European Union is the largest economy in the world.* In terms of purchasing power, the 27-member European Union in 2012 had an economy that was very slightly larger than that of the United States: $15.970 trillion versus $15.940. It must also be noted that the transatlantic economy accounts for 41 percent of world GDP [gross domestic product] in terms of purchasing power and more than 50 percent in terms of value. In 2011, while the United States and Europe accounted for only 25 percent of global exports and 31 percent of global imports, they together accounted for 57 percent of the inward stock of foreign direct investment (FDI) and 71 percent of outward stock of FDI. And, very important, most of that stock has been built in each other's economies. Thus, the relationship, central to the world economy, is much more about investment than trade. This is most indicative of the perceived reliability of the political and legal systems of both partners. Second, the economic crisis has made even clearer the *complexity of policymaking in the European Union*. It has brought into higher relief both (1) the difficulties of integrating economically and politically so many different countries and (2) the contrast between centripetal and centrifugal forces and modes of governance, against a backdrop of significant transparency, accountability, and equity issues.

In his writings and presentation, Mr. Véron succeeds in conveying the magnitude and complexity of the challenges ahead. I believe that those challenges will give rise or contribute to the growth of debates in three connected areas. These areas, whose importance was highlighted in terms of their usefulness in understanding the global economy in a recent paper of mine, are: *economic growth, equality,* and *development/role of government*. Below are some brief considerations about these three.

With regard to *economic growth,* fiscal policy is broadly neutral currently across the Eurozone, with the single greatest constraint on the area's economic growth being the banking sector. More specifically, since the beginning of the crisis, the financial sector has not been supplying the Eurozone economy with adequate funds to expand. Mr. Véron in a recent writing points out how in Europe the dominance of banks has linked the credit conditions to the fiscal situation of local sovereigns (essentially with banks pulling down governments and weak governments pulling down banks). In the United States, on the other hand, Mr. Véron sees that the very magnitude of non-bank credit channels—shadow banking—has lessened the negative impact of bank deleveraging and restructuring in the wake of the 2007–2008 turmoil. Notably, in our country, bond issuance by nonfinancial entities increased substantially between 2007 and 2011 (from 39% of total financing to 47%) while in Europe the increase was less and from a much lower base (from 11% to 13%). These numbers capture clearly the vastly greater importance of the banking sector (and the need to reform it) for Europe vis-à-vis the United States.

On *equality,* the central issue is one of the costs imposed on various parties by government intervention. Typically, banks claim that banking regulation is expensive, but, in their arguments, issues of negative externalities tend to be absent. From the taxpayers' point of view, in the Eurozone the problems associated with the costs of bailouts are clearly not just related to redistributional considerations but also to the issue of which countries bear what burden. Worthy of note is Mr. Véron's pointing out how, across a few years, the consensus has gone from "systematic bailouts" to a more extensive use of "bail-ins" and how these latter have taken place against a backdrop of contested legal frameworks and in an inconsistent way. Incidentally, I believe that the debate on clawback issues connected to compensations of bank executives given incentives to take excessive risks with other people's money has not reached in any way its potentially very high levels of intensity. Further, in the Eurozone, the banking sector at present displays highly different credit conditions across member states, with periphery countries strongly at a disadvantage and even more so the small- and medium-sized enterprises based therein. Last, as Mr. Véron also briefly reminds us, are issues of the type of "conduct of business" regulation, among which clearly consumer protection also responds to considerations of equality and fairness.

The third broad area, *development/role of government,* while encompassing growth and equality considerations, goes much beyond. The United States and Europe in political, economic, and social terms profoundly influence each other, and they have been and still are the points of main reference for the rest of the world (OECD [Organisation for Economic Co-operation and Development] and non- OECD). Thus, the regulatory changes in the transatlantic economy deriving from the lessons learned from the ongoing turmoil are looked at for their applicability both to developed and emerging markets.

The crisis has led to significant rethinking in the area of capital requirements. A well-known example of sloppy thinking in the United States on this issue: to meet regulatory requirements, a bank had to hold 8 percent of the loan value as capital for a traditional business loan, only 4 percent for a home mortgage loan, and—courtesy of the "wise" assessments by ratings agencies—1.6 percent for highly rated home mortgage–backed-securities. The crisis brought a modification of the Basel Agreement, the so-called Basel III, whose implementation has been extended to 2018. In turn, the EU adopted a new regulatory framework (CRD4). Only time will tell about its effectiveness; in any case, Mr. Véron contends that "further steps will be needed to reach the stated objective of a true 'single rulebook.'"

Another area subject to high levels of worldwide scrutiny is the interaction between monetary and banking supervision responsibilities. The assigning of these two responsibilities to a single entity, the ECB, is most challenging. Concerns about conflict of interests have arisen. Some argue that monetary policy may lose its independence because of the tradeoffs between monetary and financial stability. This is one more debate about which Mr. Véron alerts us to be mindful.

Yet another area of great importance for the world beyond the EU in connection with banking policy is that of competition policy. Competition policy in general has, from the beginning, been a central pillar of the overall European integration process. With regard to banking, however, competition policy has always been difficult because of the need to strike a balance between the drive for profit and efficiency associated with competition and the needs of sector stability. With the advent of the crisis, limitations on the applications of competition laws had to be put in place and EU enforcement activities had to become more restricted. Here, the prohibition on state aid would have dangerously undermined the efforts to contain the crisis. Clearly, this important dichotomy between aggressive and very tolerant (some could say very lame) competition policy is linked to the overall state of the economy. It is part of the overall austerity versus stimulus debate that is so pervasive on both sides of the Atlantic, and, once again, both important to understand and to derive lessons from for those outside the transatlantic economy. Most important, taken together, these issues are so central to the role of government in the economy that they belong to the even broader discussion on the nature and types of capitalism.

Irene Finel-Honigman: First, let us not forget what happened with regard to the stress tests that took place under the aegis of the European Banking Authority in 2010 and 2011. We received the perfectly lovely news that apparently all the banks were all in perfect health. Of 93 banks tested, only 7 failed. However, a few months later in September in 2011, Dexia, a major French–Belgian bank that had passed with flying colors, actually failed.

Why is this important? Because what the European Central Bank will now have to prove is that it has absolute credibility, that these stress tests have no weaknesses in them, and that they are based on extremely solid hard-core assessments. Why is this a problem? Because if we are just at the stage where markets appear to have more confidence in these entities and markets have more confidence in European banks at large (which is the case now), are we going to be in the situation where we suddenly have banks that are shown to have inherent weaknesses? How will that be interpreted, number one, by the market, but more important, how will sovereign nations accept these decisions and where will the political implications come into play? This will be a very delicate balancing game. Would France or Italy suddenly want to see one of its banks have a real problem or have some initial issues on the stress tests? Clearly not.

The other interesting issue that Mr. Véron mentioned is the need for further consolidation within the European banking market. And, on many levels, despite a great deal of consolidation since 1999 to 2005, we still need further consolidation. But we have here a very complicated paradox between economic patriotism and the real need for cross-border mergers and consolidation. As we know, in France, Germany, Italy, and Spain, their banks may have taken over certain foreign banks. However, their banking sectors remain basically entirely under domestic control. These are the crown jewels of the country. And France has made extremely clear that no one was going to come in and buy out either Société Générale or even the failing Crédit Lyonnais in the 1990s. Therefore, this is something that goes directly to the issue of sovereignty and political leadership and how these countries perceive themselves as key political and economic players. All of a sudden American hedge funds are showing an intense interest in Greek banks. It turns out that some of the Greek banks have been cleaned up a bit and look better. They look now like interesting cheap targets. This is a whole other set of dangers that needs to be examined: To have unregulated global shadow banking entities that can actually come in and, if they were to suddenly buy out one of these weaker country banks, could have 50 percent of its equity. If that occurs, what is the actual commitment of a hedge fund as part owner of a European bank? Is there any sense of this being long term/short term? Is this pushing profit centers again toward the most speculative activities? We do not have the answers, but these are legitimate questions. If the banking union completely fulfills its commitments, becomes in charge, and has a supervisory role over these banks—what happens then? Is it possible to develop certain firewalls so that they do not become these kinds of targets or does this still fall back to national regimes?

Mr. Véron appropriately mentioned the very complex interplay between the European Stability Mechanism (ESM) and the banking union. The ESM is basically a 500 billion euro bailout fund, but now it appears that it may have also been given functions that will allow it to directly step in as a bailout fund for banks. Thus, how the expansion of ESM activities is going to play out in relation to the nearly concurrent expansion of the ECB mandate will be interesting to see.

The European banking authority has now made a decision that it may want to penalize the banks that are still relying on the basic cheap funding obtained through the ECB's LTROs. What does this mean? On the one hand, this could be an incentive for the banks to repay the loans and to prove that they are viable and independent of the cheap funding from the ECB. At the same time, however, this will put additional pressure on a number of these poorer countries or peripheral countries. How will they deal with their banking sector? Thus, again, another major set of issues.

The role of the United Kingdom is paradoxical. Although the United Kingdom is a non-euro country, London is the heart and soul of all of European and global finance. A lot of negotiations are under way and quite a bit of discussion is ongoing about how you can actually incorporate the United Kingdom into this larger plan. This will have to be examined very carefully because of the weight of the financial markets in the United Kingdom's economy.

The other major issue that troubles me is that this is a market- and data-driven recovery—*not a real recovery*. We are still seeing across Europe a large number of unemployed, particularly among the young. We are still seeing weak recovery in poor communities and areas outside of urban centers. The broader economy is just barely starting. Banks, just like in the United States, are barely beginning to lend again, especially to small and medium-size businesses and to communities. If you have small and medium-size businesses that do not feel that they have the protection of the state, that do not feel that they are able to be viably involved in their own communities, where do they turn? They turn to extremist groups—and extremism is one of the underlying fears across Europe.

In conclusion, I want to stress the need to look also at the economic health of non-euro members of the European Union. Are we actually incorporating everyone into the fold or are we, instead, returning to what a number of years ago Prime Minister Balladur called "*géométrie variable*" of "circles within circles within circles." At its base, some of this was quite good because you had to have some lead countries. But we are now looking at a Union of 28 countries, 17 within the Eurozone, and more countries wanting to come in, and—despite the disaster— very few wanting to drop out. How is this broader range of problems going to be addressed? We still do not have a definitive answer.

Hugo Kaufmann: I want to make several points. With regard to the bailout, the Germans have indicated that they are going to bail out the larger banks but not the smaller ones. So, there is a danger here because, depending on the number of small banks, that could have a major impact. I agree with Mr. Véron that the timing after 2014 is wide open and justifiably so, since it would be unwise to establish any dates. In addition to moral hazard, we should talk about honesty. *Basel III came about because Basel I and Basel II "did not do their jobs."* I would not be surprised to have a Basel IV or Basel V or whatever as time progresses. This is natural because things are changing and unanticipated consequences materialize. Also important to remember is a recent Federal Reserve Bank of San Francisco publication in which "the new normal" of full employment is discussed. I remember that the NAIRU, the nonaccelerating inflation rate of full employment, was at one time 4.5 percent. Then it moved to 6.5 percent and then, as the whole employment picture changed again with women entering the workforce and migration, the NAIRU moved back to 4.5 percent. So, the question that the Federal Reserve Bank of San Francisco raises is: *What is the new normal for full employment?* Banks are accused of sitting on money and not lending it. There are several reasons for this and anyone who has studied Keynes would not be surprised because, if you don't find profitable projects, you don't lend. Also, if we are not sure and we have been burned with people who could not repay their loans, how can we encourage them to go out and borrow to have more consumption? An internal conflict exists that must be addressed and maybe even tolerated. The question has to do with honesty. Homer talked about the Trojan horse—to this day we have Trojan horses. Certain things really do not change over centuries or millennia even though the form changes, the characteristics may change, and the money used changes.

While the Maastricht Treaty actually prohibited direct lending, the ECB is nonetheless doing so. This is the right thing to do but how far, I wonder, would Mr. Draghi or any successor go or could go? Then we come to the question of econometrics, which was mentioned a little while ago. Econometrics does not give the correct answers—it is based on the past. Another question is: Do we have the right information? Not too long ago, we saw the "Reinhart-Rogoff brawl." The 90 percent debt-to-GDP ratio was considered sacrosanct, the red line that must not be crossed because anything beyond that would lead to a decrease in GDP rather than an increase. Then an institution, which certainly also uses econometrics, namely the IMF [International Monetary Fund], published an article by Olivier Blanchard. In it, he apologized for having underestimated the unemployment problem that would result from the cutback in expenditures by the various governments. Clearly, we have here all kinds of unanticipated consequences. Even with best diagrams and mathematics, all we can do is make projections, not promises or guarantees.

Moving on to another issue, we all know that European labor laws impose tremendous inflexibility on businesses in the hiring and firing of employees. So, if you do not know how far an expansion goes, you will be very reluctant to hire new employees if you think you will be stuck with them for a long time. One issue that ought to be addressed is changing the labor laws, which is clearly expecting to meet great resistance by, among others, Italy, France, and Germany.

Finally, I want to state that I doubt the merits of any current Eurozone expansion. In addition, I'd like to draw attention to the costs associated with the moving between Brussels and Strasburg by the European Parliament as well as the costs associated with the too numerous documents being translated into too many languages.

Nicolas Véron: So many points have been made that I cannot respond to all. And, in a way, this is what makes this topic so interesting and difficult.

If you think of European integration as a way for more member states to make decisions together, then *variable geometry* is an appealing concept. It is appealing to say: "They have different issues, different formats, et cetera." However, I think that this way of making European decisions has not passed the test of fire. And the problem, what I have characterized as the "executive deficit" of European decisionmaking frameworks, is precisely the question of accountability to the people. In this sense, in May 2014, the elections for the European Parliament will see a massive rejection by European electorates of the mainstream parties because voters are not happy with representation in their current decision-making frameworks—with the exception of Germany, where it could be business as usual. Thus, variable geometry is appealing, but the problem at this juncture is that seeing what framework of democratic accountability you might apply to it is very difficult. We have just one European Parliament. In the United States, in Washington, D.C., there is taxation without representation in the district, but that is a very small geographic entity.

Edward Goldberg: The statement that the ECB was taking decisions outside the democratic structure should be extended to the Fed, which is ignoring (at least somewhat) democratic structures. It is interesting that on both sides of the Atlantic we have a crisis of democratic structures. Mr. Véron, can you have the stress tests in Europe without first having a depository insurance plan, given the risks of bank runs?

Nicolas Véron: The ECB has gone much further into political territory than has the Fed. Italy is a prime example since the ECB basically ousted Prime Minister Berlusconi. Nothing comparable has happened on the U.S. side.

With regard to stress tests and bank runs, I was surprised that we have not had bank runs in Europe; instead, we have had what some, including Paul Krugman, describe as "bank jogs." Deposits have been stable or "sticky" more than I would have anticipated. One question, of course, is how that evolves over time. We are talking about fundamental tenets of trust of the public in the system. The public learns from a repeat game. At the beginning of the crisis, there was high trust; it is not surprising that deposits were stable, except in one case, Northern Rock in the United Kingdom [in September 2007], where actually no guarantee was in place. Afterward, the guarantee was created in all member states with the same level of EUR 100,000 of fully insured deposits. Most important, in Cyprus this year, there was one moment of time when you had the entire policymaking establishment, not only all heads of state and governments including Cyprus, the European Commission, but also the ECB and the IMF saying that even insured deposits are not safe. This was a massive policy blunder for which nobody has taken responsibility and that should have some negative (albeit hard to predict) consequences. At any rate, I believe it is possible to do the balance sheet assessments and the wave of restructurings that comes after such assessments without federal deposit insurance. The absence of federal deposit insurance makes the process riskier and more difficult to manage, but not impossible.

Bernard Brown: Let me refer to Mr. Véron's "irresistible logical progression." To have a workable currency, you must have a banking union; for a banking union, you need to have a fiscal union . . . and that will not work either until you have political union. But you could reverse the procedure. You could begin with the nature of the political union that is possible and then you might end up with a more realistic position instead of a more optimistic or pessimistic position. It is worthy of note, for example, that David Cameron said that you can have an internal market without a common currency. This is true as you have one now. We have an internal market for 28 countries and there is not a common currency for all 28. Thus, it is feasible to have the benefits of an internal market without a common currency. This does not mean that the currency is not useful in many ways, but it is not the only condition for having an internal market. In the case of the Transatlantic Trade and Investment Partnership, one will be creating not just a free trade [area] but also maybe some aspects of an internal market that can move forward without a common currency. Cameron also said "there is no single European people." And political scientists know that having a single people is usually an indispensable element of creating a state or the kind of state you need to have a fiscal system that works.

Nicolas Véron: Can I ask Mr. Brown for his definition of "a single people"?

Bernard Brown: A *single people* is sufficiently confident of its own identity, created in some mystical way (as Max Weber pointed out), sharing "heroic periods" of its historical development, and with a sufficient sense of identity to support the weight of a state, of a political system that then would be capable of running a fiscal system. The euro currency is issued for the first time in modern history not by a state but by a bank and without being part of a larger, effective, political system. There may be many ways of creating states and such variety of means is not an obstacle to the creation of states, but not all states can work in the presence of ethnic conflict or historical enmities. Further, we should not forget that, for Europe, the heroic periods are shaped by fighting with one another.

I want to acknowledge Mr. Véron's comments about the Parliament not providing democratic legitimacy and the Commission not filling the executive deficit. However, what is not mentioned is the one institution that seems to be coming out on top—the European Council—the summit meetings of the political leaders. They are the ones who are making the strategic decisions.

Nicolas Véron: I agree with much of what Mr. Brown said. I have been surprised by the political cohesion of Europe in this crisis. Some centrifugal forces are at work, with the most obvious the UK referendum. In the end, the forces of cohesion have been stronger than expected. If we had had this con-versation a year and a half ago, most participants would have bet that at the end of 2012 Greece would no longer be in the Eurozone. This consensus was obviously wrong and mistakes were made, including by me, in assessment. Most notably, literally weeks before the decision to go for a banking union, I wrote that it would not happen because member states were too committed to financial repression and con-trolling their domestic banking systems to relinquish their core responsibility of banking supervision.

With regard to the creation of the common cur-rency, it is easy to say now that this was a mistake. But it is not easy to construct the counterfactual where the European Union would have gone through the fall of the Berlin Wall and German unification without the creation of a common currency.

Then there is the idea that there is no "single people"—we do not know this. Certainly, there are elements of *European identity*. Europe exists as much as Italy or Germany existed a century and a half ago. The notion of Europe as a geographical entity that means something in terms of identity and values is not particularly different from processes of political agglomeration we have seen in the historically recent past. The current level of diversity within Europe is high, but certainly not as high as, say, India—which is culturally, ethnically, economically, socially, religiously, and linguistically more diverse than Europe. Democracy is imperfect, but it works on that subcontinent. There is no reason why intrinsic diversity would work against democracy in Europe. Of course, the question is how to create a political entity. What is not true is that all the political entities that we currently see as stable have been marred by conflict and bloodshed at the moment of political agglomeration. It used to be true, but it is not a universal rule. Violence is less of a force in history now than it was in the past. In essence, the range of possibilities is much broader than a backward-looking approach would suggest.

Christiane Lemke: We have all been taught that the drivers of European integration are France and Germany. If, as Mr. Véron maintains, the Franco–German couple is dead, who is going to reform the treaties and the institutions?

Nicolas Véron: I do not know and that is why I am not offering a date for treaty change. Right now, the mechanism that would get us in an orderly manner to a more sustainable institutional framework is unclear. My home country of France doesn't want a treaty change. A deep aversion to raising issues of sovereignty is embedded in the French debate. France is a nation that currently is a bit afraid of the future and perhaps also of the present. It is proud of its past, but that seems to be the only thing it is ready to look at. The trigger of change will come unpre-dictably—the most chaotic and innovative of pro-cesses. I see no contradiction between maintaining, on the one hand, that this change has to happen at some point to get to a more sustainable state and, on the other hand, being incapable of predicting what the path from here to there might be.

LUNCHEON KEYNOTE

Transatlantic Trade and Investment Partnership (T-TIP): A Game Changer?

Joseph Quinlan
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The T-TIP is a project that I thought was never going to get launched and I'm still pretty skeptical that this deal will be concluded on time, if ever. The focus has become myopic, centering on Asia and China and the BRICS [Brazil, Russia, India, China] and with the future lying with the Rest instead of the West. At the meetings I've attended almost no one believed that the T-TIP would be successfully concluded by the end of 2014.

Yet, the *T-TIP is a game changer*. The developed economies' total output as a percentage of world GDP versus that of developing countries is approximately equal. The transatlantic economy is the largest commercial artery in the world. It is the building block, the foundation of the global economy on which growth, independence, and prosperity depend. These are really about talks to lower the cost of doing business on both sides of the Atlantic, *about increasing efficiencies for companies on both sides* of the pond. Will companies pass along these cost savings to consumers? This is an area of uncertainty. Nevertheless, the T-TIP contains much that can drive growth on both sides.

First, T-TIP can be growth creating and job creating, but maybe not to the extent or as quickly as some of the macro models might suggest. When you speak about a trade agreement, you have to boil it down to one simple word to sell it: "jobs." When you do look at the transatlantic partnership as it exists today, it is very deep and integrated and creates millions of jobs (some 10–15 million) for European workers and U.S. workers.

Second, my research on the FDI component of the transatlantic economy has led me to see how deep and integrated and important for both sides of the pond and for the global economy the transatlantic partnership is. Clearly, many challenges will need to be met. Notably, Europe's service economy is woefully inefficient, bloated, and fragmented. While it is ripe for reform, it remains to be seen how it plays out. Telecom is another area where huge disparities in industry standards exist; competitive advantages are stacking up for one side of the ocean versus the other. And, these advantages will not be surrendered easily. This is more about the nitty-gritty service-related activities that Europe has long protected and is not willing to stop protecting. Big data (and data privacy) is another huge issue. How do you reconcile the different positions held by the two parties?

Third, both the United States and Europe *must* be expanding at the time of the negotiations. Europe is out of a recession, but we are being told today that the crisis is not over. It is always difficult to do a deal with a partner that is sinking or can't seem to get out of its way or promises something that doesn't come forward. That Europe is out of recession, that the United States is growing at 2.5 percent are all good signs, but we need stronger growth and lower unemployment rates on both sides of the Atlantic going into 2014 to have this project ever become a reality.

Brazil and China are both keenly interested in the T-TIP and what is happening between the United States and Europe. The announcement by President Obama in his State of the Union address did remind the rest of the world that the transatlantic economy is still the foundation, the pillar of the global economic architecture on which everything else rests. The emerging markets are "not ready to drive the car." I am not surprised, although I am disappointed, at how much the emerging markets have struggled in the last 12 months. Some of the fastest-growing economies are not Brazil or India; look rather, to Japan, the United States, and hopefully Germany and others in Europe. The Indians, the Brazilians, the Russians, the Chinese do not understand what global governance means. They are not ready to put the interests of the world ahead of their own, in part, because of their own pressures at home with population and environmental challenges, creation of jobs, and so on.

T-TIP could be a game changer also because it could remind the rest of the world that the United States and Europe still matter. They can do deals. They can *set industry standards*. They can set standards when it comes to carbon emissions, public procurement, energy, automobile, pharmaceuticals, and telecom. The United States and the EU have a whole host of ways that they, through the transatlantic agreement, can set the standards and raise the bar for others to have to clear if they want to participate in this massive, wealthy market called the "transatlantic economy." When you went to China or India in 2008 through 2010, you saw a hubris, an arrogance. The narrative was that Europe and the United States didn't matter: there was too much debt; they were not talking to each other; the banks had blown up the place. And it was their turn to drive the bus, so to speak, and set world standards. We have seen the BRICS (including South Africa) as an entity try to go down this road. For example, they created a development bank. They also have more coordination perhaps in currency swaps and other issues. In reality, however, the BRICS and the G-20 have not grown up enough to drive the global economy and "game change the global architecture" that we have seen in the last 60 years. The foundation of the 60-year global architecture has a lot of cracks, but nothing is going to tear it apart just yet.

Not only is T-TIP an opportunity to mend some of these cracks, it is an opportunity to send *a message to the world that the United States and Europe can work together*. Not just for themselves, but for the global economy. The Chinese and Indians know this, but they really thought post-crisis that they had an opportunity to step up and run the place and they thought there was more disintegration than integration.

T-TIP is not the last chance for the United States and Europe to be hugely influential players on the global economic stage. But it is one of the last chances. This is an enormous opportunity for the United States and Europe to "reset" and help strengthen the global and transatlantic economy and continue on the prosperity path that we have enjoyed for the last 60 years. The global economy in dollar terms is $75 trillion—it has the ability to reach $100 trillion, but it is going to take the leadership of the United States and Europe to make that happen. Without such leadership, it is not going to happen and we are going to backslide. Then, you will see other countries disintegrate or become disengaged globally as the decade progresses and beyond.

Irene Finel-Honigman: Is the United States making clear to the Europeans that a lot of the smaller details have to be set aside because the stakes are larger?

Joseph Quinlan: I would caution against the use of the word "smaller." Many issues are considered smaller by us but they are large to Europe. I am always struck by the fact that we keep coming back to issues that we discussed 15 years ago and that have not been tackled (e.g., REACH, airline emission standards). Clearing these hurdles is going to be a huge challenge; odds of completing the deal by 2014—1 in 4.

Helena K. Finn: Looking at this from a foreign policy angle, we really do not have any other choice but to make this work, since it is very important for security and economic reasons. . . . What more should leaders on both sides be doing to make people understand how important this is, without making it into an "us versus them"?

Joseph Quinlan: How do we make that happen? In our transatlantic survey, we see that among the biggest proponents and users of our research are state *governors* because they get it. They have to balance budgets and create jobs. On the other hand, those on *Capitol Hill* are a disappointment—they seem to be less interested in trade and lack real understanding of foreign direct investment. Their focus is on getting reelected. Governors, instead, have to do real work.

How do you sell this to a general public or media that has no interest in trade, that doesn't understand FDI, or how trade and investment complement each other? Few in the White House understand the connection and the drivers. We buy BMWs and think they are made in Germany, but parts are actually put together in South Carolina. And, we are globally disengaged or ignorant, which makes this an even harder sell. I am not optimistic about a Transpacific Agreement either. There is fierce resistance from some key corporate players in America about doing a deal that involves Japan, because of its currency and its trade and its regulations in auto and agriculture. The media, the common person on the street as well as some of the wealthiest people on Earth do not understand trade or even want to—they just want the benefits. If we banned a lot of these products and services from coming into our country and vice versa, then they would wake up. Why the president has not pushed harder to obtain trade authority is a mystery; perhaps, the president does not "get it." In the end, we may go from a multilateral to a regional to a bilateral deal (e.g., with Germany or India).

Richard R. Howe: In the past 20 years, American law firms have moved around the globe and are now widespread in Europe. The same can be said of accounting firms. A great deal of integration has occurred in terms of developing common laws and understandings about issues. The 2014 deadline is not important, talking is. We have continuing acquisitions of European companies by U.S. companies and U.S. companies by European ones. Bringing people together and creating an environment for discussion are what really matters, even with Asia.

Joseph Quinlan: We did a lot of talking in and around Doha and we are still talking. And this will be the first multilateral round to fail after World War II. It is good to have it out there. Services are hugely important strategically, with a lot of potential upside for U.S. companies. In Europe, they are afraid of some of our big service companies. Thus, with regard to services, we have a tremendous upside, but for them it remains to be seen. For instance, they are strong with pharmaceuticals, automobiles, aerospace, and across the whole spectrum of chemicals. So, basically there are places for them to prosper. But, we do not seem to make great progress about GMOs [genetically modified organisms] or airlines' emissions.

Colette Mazzucelli: What would be the next best alternative if this does not work?

Joseph Quinlan: Are you talking about the multilateral trading system for sectors or corporations?

Colette Mazzucelli: The multilateral trading system.

Joseph Quinlan: It will die a slow death: the G-20 cannot govern the world; the United States doesn't have "the push and the will" to make things happen with our partner Europe; companies will have to navigate without a map, so to speak; maybe some sectorial deals will work out. Furthermore, *I do not believe that global trade will not grow.* But we could do better. Bringing Africa into the fold will become harder. China is being very protectionist about FDI. And yet, when you take a look at U.S.–China trade, it is unbalanced. On the other hand, if you look at the U.S.–Europe relationship, it is more shoulder-to-shoulder.

Hugo Kaufmann: There is a big dichotomy between what we know and analyze and what the average person does, especially in times of unemployment. And, in Europe, there are all these protective labor laws that forbid an employer from letting people go easily. That is a major issue and laws are inimical to free trade, even domestically.

Joseph Quinlan: Yes, and here's an example—Walmart. The company has a successful model that it wants, with some adjustments, to export to Europe. But if it does not work, most likely Walmart's board is not going to approve further expenditures. Also, Amazon wants to take its model to Europe, but it may not work and then it will go somewhere else. Maybe Africa. This is what corporate strategy is about. If you cannot do it successfully, with some tinkering . . . what has been done successfully here then . . . it is not going to happen. These are all FDI-related missed opportunities. Furthermore, companies can probably handle labor and labor disputes and unions, et cetera, but they cannot handle "no free shipping." That is the nub of Amazon's competitiveness. They are a global distributor. That is their core competence. If these U.S. service companies cannot leverage their model, then there is no way forward. That is why we have to be aware of what businesses are doing and thinking.

Giuseppe Ammendola: The work that you coauthored with Dan Hamilton is most clear on the need, that I mentioned earlier, to distinguish between trade and investment in the transatlantic economy. There is one thing that I consider truly amazing: How can people ignore the perceived (and very real) reliability of the political and legal systems found on both sides of the Atlantic? We have these huge inward and outward FDI stocks. And yet, why is it that trade negotiations between the United States and EU are so difficult? FDI is *so crucial* for purposes of understanding the true nature of the transatlantic economy and the benefits of trade. The implicit vote of confidence in each other's economies that these FDI stocks reflect is really evident. Why is it so difficult to explain to each other and to the world the benefits that the economic links across the Atlantic have yielded across the years and could continue doing in the future if we further strengthen them?

Joseph Quinlan: Part of the problem is that *we do not measure global commerce the right way*. The United States is running a $100 billion trade deficit with the EU right now. That is not surprising, they are weak and we are strong and this is part of the business cycle. It is most likely a temporary number, also made more difficult to interpret by the impact of foreign affiliates. This is all related to our lack of understanding of the benefits that derive from trade and open borders and expanding services, which, in turn, are attributable to media lack of interest. No legislator is going to win an election here in the United States by going out and pounding the drum for trade. Moreover, people do not understand that FDI does not chase cheap labor. It looks for wealthy consumers, the rule of law, transparency, ease of doing business, which naturally leads us to Europe in many cases and vice versa.

Nicolas Véron: I want to note how different the perception of Edward Snowden and the NSA [National Security Agency] activities is on the two sides of the Atlantic. This issue is seen as a very big deal in Europe and, to a certain extent, is considered to be a game changer. When I discuss these issues with people in the United States, however, they basically say: "It's nothing." I would like to ask Mr. Quinlan his opinion.

Joseph Quinlan: The Germans are still furious at the United States for what has happened. And Angela Merkel, because of the election, did not want to get into it publicly with President Obama or John Kerry. The Germans are still angry and, of course, this gives some support to French protectionism when it comes to service-related industries. The Snowden question is emblematic of our technological capabilities and, in a technological sense and policy sense, could be hard to bridge. Financial services could "de-globalize" (think about increasing capital controls) and will not be on T-TIP.

Christiane Lemke: How is the agreement actually being negotiated and is the security issue being addressed? The sensitivity to the issue arises for historical reasons.

Joseph Quinlan: Negotiations are moving forward tentatively. One working group in Washington got the air somewhat cleared. The second round led by top negotiators has been delayed because of the U.S. government shutdown. The working groups from various sectors are ready to move forward now and put issues on the table and negotiate. Common ground certainly exists in areas such as safe drugs, car safety, packaging. On the downside, big data and privacy are the elephant in the room that are adding to the problems in telecoms and services. Our low-cost energy can play an important role in rebuilding trust.

Herman J. Cohen: Historically, increases in productivity have gone along with increases in employment. But, hasn't the developed world reached a point where that is no longer the case? Where increases in productivity result in more unemployment? I am reading more and more articles in the press about jobs going unfilled because of education and "the skills situation." Is there a problem with the education systems in the developed world?

Joseph Quinlan: Indeed, there is a big problem, too big to address at this time. Productivity does not lead to unemployment. *Productivity* can lead to unemployment for both skilled and unskilled workers. It is the latter, however, that are most exposed to the competitive winds of automation and robotics. Workers have to be on the right side of technology or they are in trouble. Companies are now training their own workforce using the community colleges. We are going to lose a lot of good jobs to robotics, but we are going to need people to make them and service them. There is a clear mismatch in our labor force and this is a going to be a tough sell for the American public. The unemployment rate is structurally much higher than 7.3 percent among untrained workers. This is undoubtedly a huge issue but productivity still leads to prosperity. However, there can be no doubt that the *gap between the uneducated and educated* has widened in the last five years.

Hugo Kaufmann: The housing crisis of 2007 has reduced people's ability to sell their homes and therefore diminished labor's mobility. We need to distinguish between seasonal, transitional, and structural unemployment.

Joseph Quinlan: Labor mobility is increasing in Europe while it is stagnating in the United States. Spanish workers are going into Germany. Germany has a scarcity of skilled labor. We have a crisis here. When you talk to major companies, Boeing, GE, IBM, and Microsoft . . . the first thing they are telling you is that they do not have enough labor. When it comes to the United States, we need people to pick apples and work for Apple. It is a broad spectrum. From talking with clients who need skilled foreign workers in construction . . . I have the feeling that the next generation of migrant workers do not want to have families somewhere else (Honduras, El Salvador, for instance) and work in the United States. So they are not coming.

At this point, the first session ended.

SESSION II
Is the Union at Risk and Where Do We Go from Here?

Christiane Lemke

Max Weber Chair for German and European Politics, New York University

Discussants:

Edward Goldberg

Adjunct Professor, Globalization & Marketing, Baruch College, CUNY; Center for Global Affairs, NYU

Colette Mazzucelli

Adjunct Associate Professor, Center for Global Affairs, New York University

Professor Bernard Brown moderated the discussion and introduced the main speaker, Professor Christiane Lemke. She began by making four points, summarized below:

1. The euro crisis is not over. This is a "wonderful" situation for political scientists who like to study crises to see how the European institutions are working and identify some of their flaws. The financial markets have calmed down as we heard in the previous session. Several new mechanisms and institutions have been created to address the banking situation and the financial markets. However, the Eurozone crisis has repercussions far beyond the financial markets. The narrative presented by Mr. Véron in the previous session included the institutional crisis of the European Union, but not the political and social crises in membership countries.

   Following the direction of Max Weber, we should first place this crisis in a historical perspective, going back to the fall of the Berlin Wall to the reasons for establishing the euro in the first place. The French president proposed that Germany give up the deutsche mark and adopt the euro to show its deep commitment to the process of European integration. Ironically, today the situation has been reversed. Everyone in Europe feels that Germany is dominating the European Union and "dictating," using that word deliberately, a policy prescription of strict austerity. This has drawn a lot of criticism, particularly in the Englishspeaking world. Among the vocal critics are *The Economist* and economists such as Paul Krugman. This criticism contains some truth—as proof, the economic depression has actually deepened in southern Europe. The recovery will take much longer than normal recoveries usually do, with a longer period of readjustment in southern Europe, creating severe hardship in those societies.

The euro crisis caused a split between north and south in Europe, not between east and west. Many had assumed right after the fall of the Berlin Wall that the central European countries would remain impoverished for a long time. While they did go through a valley in the 1990s, if you look at the performance of Poland or the Czech Republic or the Baltic states, some quite successful models have emerged in that part of Europe—a most unexpected development. Few in 1992 thought southern Europe could fall so far behind.

2. Economic development is uneven within the European Union, the Eurozone, and in each member country, with the divide appearing not only between the north and the south. In countries like France and the UK in the past couple of years, the gap between the wealthy and poor has widened, and social problems have arisen with regard to the integration of immigrants. Even in Germany, which has been able to decrease unemployment, all is not well. The strength of the German economy derives from the medium-size enterprises, a high degree of diversification, traditionally strong machinery and auto industries, and, increasingly, in high-tech and renewable energies. But the younger generation, including university graduates, is experiencing greater and greater difficulty in finding well-paying jobs. Young people are expected to work as unpaid interns or at half salary for full-time hours. Most contracts for the young are short term for long periods. The sense of insecurity, especially among the younger cohort, has increased. This is not to say that people suffer or are really poor. However, changes have been made in the German welfare state, including raising the age of entitlement to social security and pensions from 65 to 67. Thus, even in the wealthier countries, the financial crisis has affected the structure of welfare states and the way in which younger people are integrated into the labor market. The great unevenness in economic development has benefited Germany because it is a highly export-oriented country, has introduced flexibility into its labor markets, and, by lowering wages, has become more competitive. With southern Europe in deep depression, Germany is now increasingly looking to other markets for greater diversification. Trade with China has significantly increased in the past couple of years. The United States is also considered to be a hot market. Chancellor Angela Merkel is hoping that a Transatlantic Trade and Investment Partnership accord will provide easier access to the American market. Two-thirds of Germany's trade is now within the EU; it is looking to China and the United States for greater diversification.

3. The euro crisis has led to an increase in political unrest and mass protest in every European country over the past two or three years, with major protest groups occupying public spaces in many cities. In tandem, the volatility of political parties has increased. Parties are not firmly anchored in society anymore, leading to changes in voting behavior. Voting abstention is growing. About half of young people under the age of 25 do not vote now in German federal elections—a sign of growing disenchantment between government and society.

4. As Max Weber pointed out, legitimacy plays a key role in modern democracies. Decisions not only have to be legal in terms of the rule of law, they also have to be legitimate, meaning that the population accepts decisions made by political leaders or governments and participates actively in political life. In Europe, the populace is moving toward the belief that their governments' and institutions' decisions lack legitimacy. Who is actually making decisions on behalf of the European Union? The European Commission has lost influence. The European Central Bank has not been legitimized—citizens do not fully understand who is representing who in this institution. Although the European Parliament has been given more power, it has been weakened by low voter turnout. Much criticism of the European Council (the heads of government of all member states, which meets without the Parliament) is heard. Citizens do not trust EU institutions, including the Parliament that supposedly represents their interests. As a result, Euroskeptical parties have grown. In recent national elections, Euroskeptic parties have made significant gains. A few examples: the UK Independence Party in Britain; a protest party in Italy (the Five Star Movement led by the comedian Beppe Grillo) obtaining almost 25 percent of the vote with a platform demanding a return to the lira; and the Alternative for Germany Party, without

ever having campaigned before in a state or local election, won 4.7 percent of the vote. This last percentage is significant, even though a representative of the party did not enter Parliament because of the 5 percent hurdle. European parliamentary elections are scheduled for May 2014. If these Euroskeptical parties gain momentum, we may see a situation where perhaps one-quarter of the representatives would like to abolish the very institution to which they were elected. Many observers have always believed that the younger generation is more pro-European than their elders. Many students are highly mobile and have spent time in other countries. However, what cannot be taken for granted is the younger generation's support for European integration. Many who voted for these new parties are young and unemployed or in low-paying jobs, but small-business owners and even professors of finance have cast their vote for these parties. The coming European Parliamentary elections will be a test for the European Union.

The German general election of September 2013 was a great personal success for Chancellor Merkel. Her party (the Christian Democratic Union, along with its sister party, the Christian Social Union) won almost an absolute majority, falling short by five seats. Hence, a coalition will be necessary with either the Social DemocraticParty (SDP) or the Greens. What does the election mean for German policy in the EU? A slight, not a watershed, change. A coalition partner (most likely the SDP) would encourage the idea of supporting the European project in terms of redistribution of wealth and solidarity on the European continent. But Merkel will doubtless hold fast to her belief that austerity and structural reforms are necessary. A shift toward stricter banking controls will probably occur. Whatever the case, Germany will continue to play a major role in the European Union; but it is a reluctant hegemon.

Is the EU at risk? Two schools of thought are present in integration theory: neo-functionalism and inter-governmentalism. For neo-functionalists, the EU advances through crisis, resulting in increasing pressure to integrate and for reforms that strengthen European institutions. For intergovernmentalists, power in the EU rests with the member states that pursue their national interests and then strike a bargain representing the lowest common denominator. Neither theory, in my view, explains the financial crisis, which was met with very hasty and perhaps ill-conceived responses. I consider it (policy-making in the fiscal crisis) to be intense inter-governmentalism with some elements of functionalist ideas. This intensive bargaining among governments is insufficient to resolve the crisis. Better coordination is needed between national parliaments and the European Parliament and between the European Parliament and other EU institutions. Bargaining among member states is not enough to legitimize the European project in the eyes of the citizens. Of greatest importance is how citizens view the European Union and where they would like to see it moving. What is needed is a new definition of what it means to be European—perhaps shared prosperity and shared solidarity across the continent of Europe.

Colette Mazzucelli: I would like to comment on the idea that the financial crisis is still ongoing. Tensions between the rich and poor member states call into question the emphasis on economic and social cohesion in the Maastricht Treaty (1991–1992). German leaders, despite considerable public discontent, are determined to maintain their commitment to the euro and to prevent member states from exiting the Eurozone. This commitment is in contradiction to the climate of opinion at the time of the Maastricht Treaty. In 1991, a cohesion fund was set up, largely in response to Spain's insistence. This fund had a specific intent: to support the interests of the poorer states, enabling them to derive greater benefits from the single market as plans were made to gradually implement monetary and then economic union. However, in 1991, in direct response to German unification, Chancellor Helmut Kohl secured a firm commitment for an automatic transition to the final stage of the European Monetary Union (EMU). He aimed to make the EMU process irreversible, forcing a commitment to a union ahead of member states readiness to join. This is the crux of the matter that we come back to again and again. The member states were obliged to work in tandem toward a goal for which some were more ready than others. As a consequence, the politics of the Eurozone have been "institutionalized asymmetry." An assertive Germany is changing the dynamics that member states, particularly France, expected would play out under the system instituted by monetary and economic union. They believed that their monetary interests would be more, not less, represented by their increased weight on the Executive Board of the European Central Bank. In fact, adoption of the line of strict austerity reduced their influence. Hence, the significance of the mass protest movements across the European continent cited by Dr. Lemke. The rise of these protest movements will make coalition building increasingly difficult and will complicate deliberations of the European Council wherein member states negotiate.

The European project is potentially subject to the vagaries of democracy, namely the calling of national referendums to bring directly to the people decisions once made by national governments in the name of Europe. But, in Germany, referendums are prohibited by the Basic Law. Germany is, therefore, in search of other ways to legitimize the policy decisions made to secure the future of Europe's union. With the rise of Euroskeptic parties, it is the economic climate that will determine how resilient citizen allegiance to the European project is likely to be in the member states. High unemployment is a problem that disproportionately affects the young—who are traditionally counted as the EU's strong proponents. In the face of declining support from the young, one alternative is to look to a grassroots European Union democracy movement as a necessary instrument to encourage criticism, foster constructive debate, and open alternative political channels. The problem of short-term work contracts has become an important part of the economic and social landscape of Germany and is psychologically very disturbing to many citizens. Fear and uncertainty foster Euroskepticism.

Regarding the German general elections in September 2013, the Social Democrats performed poorly, which raises questions about the ability of that party to find a charismatic new leader. The rise of the Euroskeptic party (the AFD, Alternative for Germany) shows that the lines of demarcation along the political spectrum are fluid. A gap exists between what Europe expects from Germany and what Germany is willing to do.

European integration is being strongly affected by the differentiation of interests that marks the bargaining among the member states in this climate of intense inter-governmentalism. The persistent influence of past ideas holds present decision making hostage to historical experience. "The ghosts of inflation and unification past" speak to the need for a twenty-first century narrative of Europe's integration. The European Union is a political project. Young people simply do not accept the old argument. They are far more concerned about their present status and future in uncertain economic times. Therefore, a need exists for envisioning Europe in practical ways and moving it forward with projects. A Europe of projects can enhance continental solidarity by making growth a realistic policy objective across the north-south divide, which is widening both within and between countries. Unless Germany is willing to support cohesion and solidarity, the fault line that is already apparent will continue to widen. What is unclear is if the Franco–German tandem is capable of reviving the commitment to solidarity and cohesion required to bridge differences between north and south. Economic growth as a realistic policy objective and scenario is not likely, unless Europe looks to its partner across the Atlantic and to emerging markets in Asia. The negotiations for a Transatlantic Trade and Investment Partnership (T-TIP) may be a way to "revive the West." Trade security, rather than security defined by NATO [the North Atlantic Treaty Organization], is more likely to anchor transatlantic relations in the global environment during the years ahead. This is especially the case given the difficulties in forging a coherent strategic orientation in Germany and in the European Union as a whole—to which may be added persistent problems with immigration and demographics in a Europe whose population is aging.

Edward Goldberg: This conference is being sponsored by the National Committee on American Foreign Policy. So what do the Eurozone crisis and the viability of the European Union have to do with America? It is a "tilt to Europe." Economically, the United States is in one of the better positions in the world. We are soon to be energy independent—which means a lot. A German minister remarked recently that Europe might not be able to keep up because of cheaper energy in the United States, which has one of the youngest populations in any industrial society. Other assets are a knowledge base and entrepreneurial culture particularly suited to an industrial world. On the other hand, our GDP as a percentage of global income shrank from 31 percent in 2000 to 22 percent today—obviously not because we have done anything wrong, but because the rest of the world has become richer through globalization. A tilt to Europe would allow us to punch above our weight. The transatlantic economy is the largest in the world at the moment. The United States and Europe do $2.6 billion a day in trade with each other. The American FDI in Europe is $2.1 trillion, while European FDI in the United States is $1.6 trillion. With no other area in the world do we have such shared commonalities or shared cultures. It is a natural relationship. Should we not put more effort into pivoting toward the EU?

Germany has been called the engine of the EU—is it evolving into a merchant state, rejecting its past history in terms of projection of power? Today, it does not wield power in the ways that, say, Russia does. Mr. Putin is following nineteenth-century rules, while Germany acts almost like Venice in the fourteenth century. It is a trading state, an example of "soft power" (to use Joseph Nye's term). Germany now trades with China more than with anyone else. For the EU as a whole, an American tilt toward Europe would assume great importance.

We should look seriously into the problem of "contagion," as demonstrated by the speedy spread of the banking crisis in the EU and the debt crisis in the United States. There are no rules for fighting contagion. The International Monetary Fund (IMF) and World Bank were set up to resolve problems created by World War II; we have outgrown these institutions. We need to create institutions to mitigate the risks that arise from economic contagion. As for the German elections, Merkel's victory was a testament to her political skill in striking a balance between national sovereignty, globalization, and the needs of a merchant state. She had to save what could have been a sinking Eurozone and continue to succeedeconomically all the while carrying German public opinion with her.

Christiane Lemke: Professor Mazzucelli mentioned the cohesion fund, which is an interesting instrument in the European Union for redistribution of wealth. The purpose is to help regions that are less developed move up. Why did this work in some regions, but not others? In Spain and Italy, the cohesion fund helped develop infrastructure projects to promote tourism as a major income source, but it never helped southern Italy. The comparison calls attention to the capability for distributing and making use of the funds. Cohesion funds often work well, but we also need to address the issue of the administrative structures in recipient countries or regions. This is a key issue in a number of countries, including southern Italy, Greece, and southern East Europe. Lessons can be learned from the experience of the IMF in aiding economic development in other parts of the world.

As for the chancellor's personal success in the recent elections, some people have problems with women as leaders. Merkel has a personal style that invites criticism, for example, that she is not charismatic. The disrespectful term "*motti*" [mommy] used by some is uncalled for. Merkel has a leadership style that might be called "soft authoritarianism." She is firm, focused, and not involved in any scandals. Her policy style is a mixture: determined yet pragmatic. She downplays her power and is modest in appearance. All this is unusual and new.

Germany is much more than a merchant state. German foreign policy is interesting and different from the traditional power state of the nineteenth century. Germany's foreign policy follows more along the lines of Joseph Nye's observations on soft and smart power. The German political establishment firmly believes in emphasizing diplomacy over military means, especially in terms of conflict mitigation and resolution. She is happy to see her country change significantly.

The workshop was then opened to general discussion. Among the topics covered were: the political dimensions of the European Union crisis; the Transatlantic Trade and Investment Partnership (T-TIP); the "pivot" to Asia; and the EU's cohesion policy. Below are the highlights.

THE POLITICAL DIMENSION

George Schwab: I am intrigued by statements that the United States should pivot to Europe rather than to Asia. In dealing with Europe, the United States has three major channels: NATO; the European Union; and the politically sovereign nations—almost all of which are members of either or both institutions. The United States today pays about 75 percent of the costs of NATO. What is the contribution of the sovereign European states to the common defense of the Western world? No one wants to spend more money on defense. Close ties exist between the United States and Europe economically, and we share common values. But a close political tie is lacking. We have not retreated from Europe in terms of cultural and economic activity. In terms of political realism, we must pay more attention to the Pacific because of tensions involving China and countries with which we have strategic commitments (Japan, South Korea, Australia, New Zealand, et al.). This kind of turbulence does not exist in Europe. Russia today does not constitute a threat to Western Europe. I would like to open up discussion on the general political dimensions of the Eurozone and larger European Union crisis, especially its implications for American foreign policy.

Helena K. Finn: A European minister touring the United States recently said that the United States and Europe should be pivoting together toward Asia. Inherent in that observation is support for T-TIP.

Richard R. Howe: There has been little discussion in the workshop about relations between the United States and Europe. Attention has been focused on problems within Europe. Negotiations for T-TIP are taking place, but it is not a big deal. Dr. Schwab spoke about NATO, but then said that Russia is not really a threat anymore. NATO seems to me to be an ancient institution at this point. It has stayed on but has lost its mission. No one wants to give it up; on the other hand, the Europeans don't want to put any more money into it. The reality is that our relationship with Europe is pretty good. There are a lot of economic, social, and cultural relations between the United States and Europe. We have greater problems internally than in terms of transatlantic relations. The fundamental point is that the American relationship with Europe is successful now. The pivot to Asia was a turn away from the Middle East, not away from Europe. Its purpose was to focus our military and think about an area (Asia) where we have fallen behind a little.

Christiane Lemke: European–U.S. relations and perceptions are good. According to public opinion surveys, attitudes of Europeans toward the United States seem favorable. We have more and more intense relations in the cultural and academic fields than we have ever had. Despite disagreement on some values, for example, on the use of drones, transatlantic ties are good.

As for NATO, one of the fascinating developments after the Berlin Wall came down is NATO's survival—even though it was created to defend against the Soviet Union. It was a very attractive defense organization for central European countries and all were eager to become members. However, its role needs to be redefined. The European Common Defense Policy is an attempt to delineate priorities and instruments in security and defense, including NATO. Europeans are deciding which conflicts are crucial. In Europe, awareness has increased that North Africa and the Middle East are vital areas. In its defense policy, Europe will not look as far as North Korea or perhaps Iran. Cooperation between the EU and the United States in an approach to Asia is a great idea. The United States and Europe have in common the belief that economic growth best takes place in a democratic context. Both are skeptical of the Chinese model that attempts to combine a communist regime with growth.

Janis Mazeiks: I have observations on three separate issues:

1. Implied in today's discussion is that the American interest is served by the EU being strong. America can pivot toward Asia only if Europe is strong and stable. This discussion of a pivot toward Asia would not be possible if the European situation were messier. At the same time, we value highly U.S. strategic engagement in Europe.
2. NATO is looking for a new role, but we do very much appreciate the classic model. For example, five NATO planes are continually flying over the Baltic States, performing miracles in keeping that airspace calm and clear.
3. One area in which we can partner is Central Asia. America has strong interests in this area, particularly related to Afghanistan. We Europeans can contribute because Europe is seen there as a benevolent force bringing knowledge and technologies that are not perceived as a threat. Many other players are seen as a potential or real threat.

Edward Goldberg: Economics cannot be discounted in today's world as being a power factor. The world has changed in that respect. By increasing our relationship with Europe, we multiply our weight in the world. Our political leaders should speak more about the reasons for a tilt toward Europe. The American people believe our most important trade relationship is with China. We might owe China more money than we owe Europe, but we trade two to three times more with Europe than with China. Normally, our trade with Europe is balanced. We are competing with an Asian economic model that draws its force from the huge populations of these countries. Strengthening the European relationship makes the most sense for the United States.

George Schwab: I am talking about security and defense. Here, Europe is lacking and we are carrying the burden in NATO. Perhaps we need to devote a session to redefining the role of NATO. What do the European sovereign governments contribute?

Edward Goldberg: Whose oil going through the Malacca Straits are we protecting? The oil comes from Arabia and goes mainly to China, Japan, and South Korea. Virtually all trade between China and Europe passes through this area. Is China contributing anything for American naval operations there? No. Is Taiwan contributing? No. The United States is providing the protection, and no one else is contributing.

George Schwab: That is exactly the point. Shouldn't the Europeans contribute?

Edward Goldberg: The businesspeople in Europe and Asia are not contributing to the cost of our military in protecting their commerce. At least the Europeans are paying 25 percent of the cost of NATO.

George Schwab: If we are talking in terms of a greater cohesion, it must not only be economic and cultural. We must also partner in the political field where, in the final analysis, it really counts.

COHESION POLICY

Judith Hernstadt: About the economic, social, and political strength of Europe—in some countries, people are reluctant to pay taxes and do not respect the government. In Greece and Italy, for example, transfer of money from the EU and advice about building infrastructure have been helpful. But serious, long-standing social and economic ills persist. What programs or potential for change might enable the weaker countries in Europe to be better financial partners in the future?

Christiane Lemke: When countries apply to join the EU, a very complex accession process is set in motion. Negotiations go on for 10 years in most cases. Advisers are sent to these countries to make sure they have appropriate legal and administrative structures in place before they join. Projects vary from country to country. Some countries are successful in applying for cohesion funds and putting programs into motion; others are not. At this point, I do not see a program to ensure that sovereign countries like Greece, Italy, or Spain will pick up in that regard. NATO and the European Union

Bernard E. Brown: I would like to return to the previous discussion of the European contributions to security. The countries of Europe have more men and women under arms and in uniform than does the United States. Europe as a whole spends more on defense than Russia and China combined. Why isn't it more effective? The problem is that it is not rationally organized at a central point. As for NATO, during the cold war the United States paid about half the cost of running the organization and European states paid the other half. Now the balance has shifted, and the United States pays roughly three quarters of the cost—still a small part of the total Defense Department budget. Something has to be done to redress the balance; but this is a relatively minor problem.

The central issue is the nature of the European Union itself. The EU is frequently described as a combination of intergovernmental and supranational elements. Is the EU gradually coalescing into a genuine state enjoying democratic legitimacy and wielding executive power that is independent of the will of the political leaders of the member states? Or is it and will it remain what Jacques Delors called "a federation of nation-states" in which political legitimacy and power rest primarily with the member states? As was previously pointed out, to be effective, political institutions must enjoy legitimacy—the deep acceptance of the governed. The hybrid structure of the EU has different levels of legitimacy, depending on the institutions involved. The European Parliament has strictly limited powers, which may explain the low turnout at elections. Commissioners are chosen by the nation-states after intense bargaining. The democratic legitimacy of the EU then derives primarily from the democratically elected political leaders of the member states, who meet together in the European Council. In the past, the creation of a unified and regulated free trade zone was a success, resulting in popular support for the EU on the economic level. But the financial crisis beginning in 2008, leading to catastrophic economic conditions in peripheral states has dealt a severe blow to popular support for the EU. The effort to create a coherent and meaningful European common foreign and defense policy has been only moderately successful. Working out a global bargain on matters involving 28 sovereign nations is extremely difficult if not impossible.

Hugo Kaufmann: Could the previous speaker define what is meant by a more effective Europe in NATO? What would Europe be expected to do differently?

Bernard E. Brown: NATO has proven itself to be compatible with the basic structure of power in the world. It is an alliance and association of sovereign nations that have agreed to discuss, within a common structure, appropriate action to be taken in case of a military attack on any member. NATO is not just a treaty but also an organization. Constant dialogue by permanent representatives of member states takes place within the North Atlantic Council. As by far the leading power, the United States generally takes major initiatives. But all the others also take initiatives and no member state is required to agree to decisions or to participate in military actions. No official European caucus as such exists within NATO. Since the French reentry into the integrated military command in 2010, more initiatives have been taken by European states (especially France and the UK), for example, in Libya and Mali. NATO has been working fairly well considering the problems of a relationship between a country that is a state (the U.S.) and a continent (Europe) that is not a country but rather a federation of nation-states.

Christiane Lemke: What is Europe and what do we mean by Europe? Several countries in the EU are not members of NATO. Sweden, for example, contributes to peacekeeping missions in the UN framework. Nations also have very different histories and perceptions about what defense policy is and how they define it. Europeans should bargain intensely and come up with a sustainable program for the European Union. Let's assume that the European Union is on its way to becoming the United States of Europe. Then sovereignty can be transferred to a central authority. If national interests are emphasized, a strong European common foreign policy will not be possible.

The point that the European military is not rationally structured is well-taken. If the military capabilities of Britain and France were combined, much more could be done, as was seen in their operations in Libya and Mali. More should be done about making a common defense and foreign policy. What would be necessary is to come to an understanding, pool our capabilities in military production and defense, and make strategic decisions. If Europeans take over more responsibilities, what would the Americans say? It would take away from American power. Right now the United States sees itself as the only power capable of fighting major wars. If the Europeans increased their share of the NATO budget, is that in the interests of the United States?

Bernard E. Brown: That is not the issue. NATO could continue to function as it does now. The question we have to ask is why, after a quarter century of concerted effort by the EU to create a meaningful foreign and defense policy, the results have been so disappointing. As French president Jacques Chirac once observed, foreign policy cannot be made by over two dozen foreign ministers of sovereign states. Of course, it would be different were there a real pan-European state supported by an enthusiastic underlying popular consensus. This called to mind the old vaudeville joke: "If we had ham, we could have ham and eggs, if we had eggs." The ingredients are not there.

On that culinary note, time was up and the conference adjourned.

POLICY RECOMMENDATIONS:
A Marshall Plan Moment

In light of the discussion in our conference on the Eurozone crisis, the viability of the European Union, and ongoing negotiations for a Transatlantic Trade and Investment Partnership (T-TIP), the National Committee on American Foreign Policy makes the following recommendations.

ANALYZE, DON'T PATRONIZE

Resolution of euro currency problems requires a banking union, which in turn requires a fiscal union, then an economic governance for the whole of the European Union, and finally a more effective political union. The United States has to be able to adjust to any situation created by the Europeans, ranging from a truly federal state, through various types of federations and confederations within which power is located mainly in the member states, down to separate regimes for the Eurozone and those members states outside of it, and even to possible failure and breakup. The mature nations of Europe are not in the same position today as were the newly independent thirteen American states of 1787 or of the American Union when Fort Sumter was attacked in 1861. Policy prescriptions by the U.S. government (not including observers in civil society, of course) would be counterproductive. It is not up to Americans to tell Europeans how to govern themselves (or the other way around). But what happens in Europe does not stay in Europe. We have to prepare to deal with any eventuality.

A MARSHALL PLAN MOMENT?

The over 800 million people of the United States and the European Union together account for about one-half of the global economy, fairly evenly divided between the two sides of the Atlantic. They also constitute the core group of the world's democracies, sharing fundamental values of free elections, constitutional government, rule of law, and free markets; and they boast roughly similar wage levels and living standards. Negotiations now underway in Washington and Brussels for a Transatlantic Trade and Investment Partnership would provide a welcome stimulus to economies on both sides of the Atlantic. More important, they would have geopolitical consequences potentially as transformative as the Marshall Plan immediately after World War II. Recent events in Ukraine offer a glimpse of what is at stake. The major foreign policy initiative of the European Union (EU) for the past few years has been an effort to forge an association with a few former republics of the unlamented Soviet Union, notably Ukraine. The Putin government is applying enormous pressure on Ukraine to enter instead a Russia-centered economic bloc, threatening sanctions (closing frontiers, cutting off gas supplies, etc.) otherwise. Russia seems to have gained the upper hand, but there is widespread popular support for an accord with the EU; the balance could still swing either way. Within the European political class, in both the Commission and among leaders of the EU member states, many believe that there is a potential "game changer." The allure of an association with the EU would be irresistible if Ukraine could thereby have access to an integrated Western economic community, including the United States. (See commentary by Pierre Rousselin, the well-informed foreign policy editor of *Le Figaro,* 17 October 2013.) A prosperous and viable transatlantic economic community, based on shared democratic values and best practices, would be an ever more desirable partner for all participants in the global economy.

A NEW BI-PARTISANSHIP

A transatlantic economic partnership will not come about unless popular support is mobilized by political leadership on both sides of the Atlantic. Like the Marshall Plan (note that it was not called the Truman Plan), it would not be a victory of the party controlling the presidency, nor of the party controlling the Congress or one of its branches; but an accomplishment of the entire country. The National Committee on American Foreign Policy calls for formation of a task force consisting of leaders in both parties, along with key figures in civil society (business, finance, labor, and universities) to spearhead creation of a new Atlantic Charter. The nature and future of globalization is at stake. The time is right. We are at a "Marshall Plan moment."

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