BANQUE
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EUROPE,
THE DAY AFTER…

"Europeans will be saved to the extent that they are aware of their solidarity faced with the same danger": Robert Schuman in Pour l'Europe.

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- In Zurich in 1946, in a speech that has remained famous, ***Winston Churchill*** called for the establishment of the United States of Europe from which, not explicitly, he seemed to exclude the United Kingdom. In 1955, at the Messina Conference, the British tried in vain to nip emerging Europe in the bud. In 1960, they tried, quietly, to promote a European Free Trade Association, EFTA. In 1973, after sixteen years of success for the European Community and after sustaining two vetoes in 1961 and 1967, the United Kingdom joined the six founding members. Today it is voting for a possible exit. A vote for Brexit would not mean the end of Europe. A vote to stay in the European Union would not put an end to the question marks. Brexit or no Brexit, Europe must and can reform to avoid fragmentation or even dissolution.

- What is Europe? Historically, for two thousand years, a region of constant conflicts. Recently, in the past 70 years, a region of peace, and today, the leading economic power in the world. And tomorrow? At a time when the major countries, the United States, Russia, China, India and Brazil, all have a continental scale, and when several are expressing a touchy nationalism, European countries should remember the words that introduce this report, from one of the founding fathers of Europe, Robert Schuman, from Luxembourg, who worked for French-German reconciliation as of 1950. And yet it is essential to hear the grievances of many citizens and understand their lack of interest, to better define new Community projects in security, diplomacy, defence, energy and environmental conservation, and to do so to take the necessary steps to improve fiscal, budgetary and economic coordination.

- Euroscepticism was not born in 2015 but at the end of the 1980s when Margaret ***Thatcher*** made her infamous statement: ***"I want my money back"***. It was amplified by the French and Dutch No votes in the 2005 referendum on the European constitution, and during the latest European elections it was reflected by a very high percentage of abstentions.

- In March 2017, the 60th anniversary of the Treaty of Rome will be celebrated. This will be an excellent opportunity to present reforms to develop a deeper Europe, to go beyond the horizon of a mere free trade area. In a world of numerous challenges, a search for solutions on the federal level must prevail over falling back behind the shelter of national borders.

- Europe is the leading economic power in the world, with around 24% of global GDP in 2014 (according to the IMF) for only 7% of the population, rich with two seats on the UN Security Council, occupied by France and the United Kingdom, a skilled labour force, high-quality infrastructure, a stable institutional framework, four countries among the leading ten in the world,

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the No. 1 global manufacturing power with 20% market share. It is also No. 1 in services, for foreign direct investment, No. 1 with more than 15% for global exports, even 35% counting intra-Community trade, versus 12% for China. And yet, despite all these qualities, it doubts, struggling to assert its unity, and it is often a second-rank political player.

- We shall analyse the criticisms made of Europe, and then emphasize Europe's appeal and the progress that could be made.

1. **The criticisms**:

1.1. ***Criticism of the institutions***:

- ***An inappropriate organization***:

Clearly, the European Union has found it hard to adjust its operation to the most recent enlargements, and the major differences in per capita GDP between the countries of the historical core and the recent entrants have made policy definition more complicated. Slow reaction, difficulty in taking decisions with 28 members, divisions between members and the lack of implementation of decisions are all criticisms expressed by the populations. The decision at the 2009 Lisbon Summit to create a President of the European Council (currently Donald Tusk) to offer greater visibility for the institution is not yet conclusive.

- ***Foreign policy shortcomings***:

Europe should not simply be a large market and an institution which decides, without control, to enact legislation that is poorly perceived. It must be given a soul, it must be able to play a role on the global stage.

The Yugoslav crisis in the early 1990s had shown up the divisions between members. Recently, between a France that is somewhat alone in Sub-Saharan Africa, a Germany which at one time acted as a lone knight in its policy of welcoming migrants, a French-German duo which is struggling to exist in relation to America's hard line on the Ukrainian conflict, and Mrs Mogherini's lack of visibility in her position as head of foreign affairs, the Union finds it difficult to exist in the management of international crises, even in the case of regional conflicts on its doorstep.

The refusal of Central European countries to receive migrants represents an infringement of the principle of solidarity between Member States and the principle of free circulation, and could justify meditation concerning a two-tier Europe.

- ***Challenges since 2008***:

In the wake of the 2008 economic crisis, the challenges to Europe come both from citizens of the rich northern countries, who are reluctant to pay for those enjoying easy living in the South, and from the citizens of the southern countries, who denounce the reluctance of the North to express solidarity and its interference in their domestic policies. Politically, the rise of populism, on the left, is a challenge to the neo-liberalism prevailing in Brussels and, on the right, criticizes the weakening of national identities, and bureaucracy. These two forms of populism meet one another, politically to stigmatize the elites who are claimed to have confiscated power, and economically to demand protectionism. In the European Parliament, there are now more than 200 of these MPs out of a total of 751, while the liberal right has 219 MPs and the Socialist party 190.

This populist condemnation is not specific to Europe. Its footprint can be found in many countries, whether it be Finland where populists have entered government, Greece with Syriza, Portugal governed by an alliance of Socialists and the radical left, or Poland led by the Eurosceptic Jaroslav Kaczynski. Elsewhere, there are large populist forces in the opposition, UKIP in England which won more than 12% of the vote in the last elections, or the populist right in Denmark which has become the leading opposition party. We could keep on adding examples.

1.2. ***Criticism of economic policies***:

- ***Low growth***:

The Single Market was completed in 1992 with the adoption of the Maastricht Treaty and the transformation of the EEC into the EU (European Union). Since the early 2000s, European growth has been lower than that of competing countries. Research spending, at 2% of GDP, remains lower than that of the United States at 2.7%, and Japan at 3.4%, which partly accounts for the smaller presence of European groups in new technologies and the lack of a European "Silicon Valley". Another reason for the lower growth is population ageing, which is affecting Germany, Spain, Italy and Central Europe in particular.

Since 2008 China's GDP has more than doubled, while that of the EU has changed little. A comparison between the United States and Europe shows that although the initial decline, between the first quarter of 2008 and the first quarter of 2009, was similar, about 5% for per capita production in real terms, the recovery was much faster in the United States. At the end of 2013, the same indicator in the United States exceeded the high of 2007 by almost 3%, but in Europe it remained 2% lower, because of a double dip in 2011. Low investment resulted in low productivity gains, and critics ask what is the use of a Europe which does not protect them from the negative effects of globalization.

- ***The limits of monetary policy***:

Quantitative easing has so far not functioned very well, in other words it has hardly been able to stimulate credit, and hence growth – but that is not specific to Europe.

German savers complain of the low interest rates arising from this policy of liquidity injection, but they forget that in this way Germany is reducing its public debt and will be able to reduce the tax take.

- ***Question marks concerning the negotiation of the transatlantic trade agreement***:

The agreement currently being negotiated between Europe and the United States aims at creating a vast market of 820 million consumers. The negotiations cover agriculture, non-tariff barriers and intellectual property, but exclude defence, healthcare and the audio-visual sector. The Americans, having a deficit of $5bn to $7bn per year in their agricultural produce trade with Europe, want Europe to lower duties on agricultural products, which are generally two times higher than on manufactured goods. Some allege that this possible treaty might lead to social dumping, unilaterally favouring the United States, and consider there is not sufficient information available to evaluate the possible long-term benefits.

1.3 ***The possibility of a Brexit***:

- ***Although emotions could prevail, rational thinking should lead the British to stay in Europe***:

The two British candidacies, in 1963 and 1967, and its admission in 1973 were motivated by a "Trojan horse" type of approach. Not being a member of a Europe that was definitely a success worried the British. Being a member made it possible to influence policies to aim at the establishment of a large market. And, 43 years later, it can be said that the British have perfectly succeeded, because they refused the key deepening measures, membership of the euro and participation in the Schengen agreement.

The Financial Times has demonstrated clearly how much the UK has benefited from European Union membership. Between 1958 and 1973, per capita GDP in France, Germany and Italy increased by 95%, and in the UK by only 50%. In 1973, the UK was "the sick man of Europe". EU membership obliged the UK to be more competitive. But, thanks to the British influence, Europe is now merely a large market.

At present 13% of the UK's GDP and 50% of exports are destined for Europe whereas less than 10% are destined for Commonwealth countries, according to the Bank of England. 46% of FDI inflows come from Europe, and 9 million jobs depend on exports to the European Union. Conversely, European exports to the United Kingdom do not exceed 2.5% of the EU's GDP.

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Tomorrow, an English market of only 65 million consumers will be of less interest to international investors who, in recent years, set up factories there and exported within the large market. A topical example is the automotive sector, because half of the UK's production is exported.

Tomorrow, outside of Europe, the British will have to renegotiate about fifty trade agreements with third-party countries, which will be a long process.

Tomorrow, outside of Europe, London banks will lose their European passport, so many jobs will be offshored, and business and real estate will suffer the consequences. By way of illustration, of the 300,000 finance jobs in London, 10% are estimated to be euro-related and would no longer have any reason to stay. Tomorrow, outside of Europe, British Airways will have to renegotiate with European countries. All these issues will make the exit a misery, not to mention the risk of seeing the Kingdom break up, with Scotland (8% of the UK's GDP) and Northern Ireland, a great beneficiary of European funds, taking their independence and joining the EU. So why exit when, as noted by the London School of Economics, the British have been in line with the majority vote in 87% of cases, leaving very few cases of disagreement. A break-up of the United Kingdom would not be easy to manage for the breakdown of the debt service charge or the costs relating to pension funds.

- ***The British economic situation in 2015 is characterized by major imbalances***:

Outstripping Greece, the UK's budget deficit is the largest in Europe, the current-account deficit is also the largest, at 5.2% of GDP, and the public debt, at 90% of GDP, is similar to that of France. Meanwhile the savings ratio, at 3.8%, is very low and the household debt ratio, even if it is lower than the 1.8x gross disposable income of 2008, is still 1.5x, far higher than the 1.1x ratio in France.

Since the start of the year, a wait-and-see attitude has prevailed while the statistics have grown worse. If Brexit were to win, sterling would fall heavily, and the BOE would have to do everything possible to contain recessionary tendencies. The rise in long-term interest rates would be limited, because only one-quarter of UK debt is held by foreigners, and the stock market could profit from currency depreciation.

- ***The UK's net contribution is very small***:

The UK's net contribution represents the equivalent of only 0.5% of GDP, the lowest percentage of the major countries. Although the British contribution to the European budget amounts to £18 billion, the "Thatcher rebate" makes it possible to deduct £4.8 billion and the United Kingdom receives £5.8 billion in the form of various aids.

If the UK were to leave, it would discover that Norway and Switzerland pay, per capita, 90% and 50% respectively of the British contribution. In other words, the UK would save little, would lose a lot due to weaker growth, and would lose its power of influence, because in the European Economic Area certain obligations and customs duties would be imposed without any possibility of discussion. A Eurosceptic body, Open Europe, has calculated for example that 93% of European regulations would continue to apply to England in the event of continued membership in the European Economic Area. Not taking part in the European Economic Area, i.e. choosing a bilateral agreement in line with that negotiated by Canada, would cause it to lose the benefit of the European passport for banks, and would therefore be worse. The £18 billion balance of financial services with the remainder of the EU, useful to offset the balance-of-trade deficit, would be drastically reduced in the case of a Brexit.

Some of the demands by David Cameron, such as the abandoning of Article 1 of the Treaty of Rome which provides for "ever-closer union between the peoples of Europe", are unacceptable. Europe was formed around several major principles which the United Kingdom, a voluntary signatory to the Treaty in 1973, cannot bring into question. Examples are the free movement of persons, capital, goods and services. But this is what Cameron wants to challenge by planning to require that foreign workers in the UK must have been residents for four years before being able to receive welfare benefits. Likewise, it is hardly acceptable when he demands a sort of veto in the Eurozone to ensure that the integrity of the single market will be protected.

To conclude this section, three risks cannot be overlooked. The first is the discontinuation by one or more countries of their participation in a common policy, e.g. regarding the Schengen agreement. The second risk is that a country could leave the Eurozone: Greece could have been a textbook case. The third risk is that a country could leave the European Union, on the assumption of a Brexit. None of this would be fatal, but Europe would need a real shake-up.

2. **The attraction of Europe**:

- ***Excessive criticisms***:

With regards to criticism of the functioning of the Commission, which is accused of being uncontrolled and which was mocked in his time by Helmut Kohl (who complained that it could produce directives on the size of poultry cages), it can be objected that the 28 commissioners are approved by the Parliament and that the directives drawn up by the Commission result from a delegation by the Parliament and only cover fields considered non-essential by the Parliament.

Many reproach the Commission for its bureaucratic nature, but the ratio between the number of civil servants (34,000) and the number of EU inhabitants (500 million) is in fact low. Many criticize the Commission for its undemocratic nature, but since 2014 elections to the European Parliament have influenced the choice of President of the Commission. It could probably be decided to elect the President of the European Council. Many criticize the institutions for non-transparent operation, but this criticism is often unjustified. Consider the example of a very controversial subject, the negotiation of the TTIP, a partnership between the United States and Europe aiming to lower non-tariff barriers between the two leading powers on the planet. Admittedly, it is the Commission that is conducting the negotiations, but it must consult the member countries, and European MPs have access to the drafts of the documents under discussion.

- ***A key actor in globalization***:

Europe, the leading commercial power, has been a key actor in globalization from which it has benefited over the past thirty years. As recently as between 2001 and 2007, European consumers contributed four times more than Chinese consumers to global growth (0.4 versus 0.1 percentage points). Europe has succeeded in producing an area which combines competitiveness, social protection and less inequality than the United States or some large emerging countries. Of all the regions, it is Europe which is the most integrated, because 70% of trade takes place inside the zone, compared with 50% on the American continent for NAFTA members and 50% for Asian countries.

- ***A resurgence of competitiveness in the southern countries***:

The Lehman Brothers failure revealed rather than caused the problems of several Eurozone countries.

Between 2000 and 2008, hourly labour costs in the manufacturing sector had increased by around 50% in Greece, 42% in Portugal, 38% in France, 34% in Spain and 31% in Italy, when they had increased by only 11% in Germany (source: ECB). Between 1999 and 2009, the pay of Greek civil servants had increased by 120%.

It is easy for the Greeks to blame the Community institutions, but the primary cause of their difficulties is the lack of competitiveness of the economy, insufficient specialization in growth sectors, the shortcomings of the education system, and the small number of workers, 4 million, compared with the number of pensioners, 2.5 million, not to mention 1.5 million unemployed. An exit from the Eurozone, hence a collapse of the drachma, would have made no sense in a country which imports more than 80% of its consumption and whose exports of goods account for only 17% of its GDP, while service exports do not exceed 12% of GDP. Aid mechanisms have finally been established, but competitiveness and compliance with common rules (Stability Pact) are prerequisites for development along more federal lines.

- ***A growth recovery***:

The rate of economic growth, which declined sharply during the 2008 crisis, is no longer very remote from that of the United States. The unemployment rate has fallen to 9.3% for the EU and 10.5% for the Eurozone, and it has been possible to avoid deflation even when the inflation rate was negative. This was due to the fall in the oil price, which can be likened to a boost in purchasing power for consumers. The European Union is still the leading destination in the world for foreign direct investment, because it is an essential market.

Of the PIIGS, Ireland has posted the most remarkable recovery and has practically halved the unemployment rate from the 15.2% level reached in 2012.

Manufacturing production has posted a recovery, but there is nevertheless a sharp contrast between the Central European countries which are growing strongly, Germany and the Scandinavian countries which have maintained their strong industrial base, the southern countries where the recovery is significant but recent, and France and the United Kingdom where growth is modest.

Consumption is boosted by an acceleration in household borrowing. This is also perceptible in Southern Europe despite a decline in living standards post-2008.

- ***Budget rebalancing***:

In 2015, the EU's budget deficit was only 2.6%, and that of the Eurozone 0.1%. It is true that there are major disparities between Germany, which is in surplus, and the United Kingdom, with a deficit of more than 4%, and between Germany which has reduced its public debt to less than 70% of GDP and the United Kingdom or France which are close to 100% while Italy is already at 130%.

Several vulnerable countries - Ireland, Portugal which obtained from privatisations the equivalent of 5% of its GDP, and Greece - have managed to post a primary surplus, i.e. a budget surplus before paying interest on the debt. Along the same lines, for the first time in eight years Italy has managed to reduce its public debt. As a consequence of this rebalancing effort, public-sector employment has fallen significantly in the southern countries and Greece, corporate taxes have been increased from 26% to 29% and VAT from 13% to 24%.

- ***A monetary policy success***: 2 aspects = the euro and liquidity injection.

The euro is a success, because the pre-existing systems before the creation of the euro were not working well. Remember the exchange rate fluctuations and devaluations of the pound sterling, the peso and the lira in 1992. One dare not imagine what would have happened to the economies of southern Europe in 2009 without the benefit of the euro. Leaving aside all the criticisms, the euro is a credible response to international monetary instability. What would be the use of removing customs duties if currency fluctuations could wipe out the gains produced? The euro was therefore a necessity and, far from disappearing as many doomsayers predicted, the Eurozone has in recent years received four new members, the three Baltic countries and Slovakia, and has 340 million inhabitants, i.e. slightly more that the population of the United States. Devaluing is an attempt to regain competitiveness rapidly, but at the cost of an impoverishment, because imports are more expensive.

The euro has brought stability and savings on currency hedging, but exchange-rate rigidity may handicap the weakest or force them to implement painful cost cutting policies, recent examples being Greece and Spain.

A convergence in per capita GDP might have been expected from the euro, but there has been a crystallization of differences.

The policy of weakening the euro has been impeded by the level of the Eurozone's current-account surplus, at 3.7%, which reflects the size of the German surplus, at around 8% of GDP, and can hardly cover up the competitiveness problems of some southern European countries.

The euro is the second most commonly used currency in the world, for 30% of trade, and it represents 20% of foreign exchange reserves. It is the most complete example of federalism in Europe. There is substantial liquidity injection, now €80 billion per month, and the ECB's balance sheet as a percentage of GDP will soon be larger than the Fed's. This liquidity injection has sharply eased interest rates in all the countries, especially in southern Europe. This monetary stimulation will persist, because the target of a 2% inflation rate has not been reached.

- ***A German locomotive***:

At present, Germany produces 20% of the EU's GDP, France and the United Kingdom 14% each, Italy 12%, Spain 8% and Poland 5%, while the other countries are far smaller. Germany especially dominates trade outside the Eurozone, because it accounts for almost 30% of it while the next three account for only 10%. The German balance-of-trade surplus amounts to 8% of GDP, exceeded only by that of the Netherlands, at 10% of GDP. But Germany invests insufficiently in education and infrastructure, which explains the high level of savings. Therefore, many consider that by accumulating these surpluses Germany exports deflation.

3. **Eight conceivable steps forward:**

3.1 ***Make changes in the operating rules*****:**

- ***The institutions*****:**

Europe must not be ***"A ship out of control without a captain", as Valéry Giscard d'Estaing deplored***. The institutions were designed for a Europe of Six and are highly inappropriate for the Europe of 28. It is necessary to reduce the number of members sitting on the Commission, discard the rule of one commissioner per country, abandon equality between small and large countries, reduce the number of members of the European Parliament (currently 732), establish a finance minister for the Eurozone, and abolish the rule of unanimity on subjects such as taxation.

- ***The two circles*:**

Perhaps there should be a move toward a two-tier Europe, with a hard core which could develop integration, consisting of the original member countries plus Spain, Austria and Portugal.

Perhaps one should place in a second circle countries such as Poland and Hungary which are willing to accept generous subsidies from Europe, with €15 billion per year for Poland, but which refuse to receive refugees. Thanks to Europe, these countries have benefited from a fantastic catch-up in their living standards, but infringe basic democratic principles. There is a clear dividing line between the West, which has a tradition of welcome, and the East, which is tempted by withdrawal.

- ***Representation:***

The European Union has a legal personality since the Treaty of Lisbon in 2009, and this should be exploited to make changes in representation. At the IMF, France, the United Kingdom, Italy and Germany have kept their quotas, but they could be replaced by the European Union, assigning to it a representation equivalent to that of the United States. The same could be done at the World Bank and the G20.

3.2 ***Consolidate the banking union*:**

Between 2008 and 2013, the recapitalisation of European banks required more than €400 billion.

The creation of the banking union at the end of 2014 was a complement to monetary union. 128 banks, representing about 80% of the assets of the European banking sector, benefit from an SSM, or "Single Supervisory Mechanism", and an SRF, or "Single Resolution Fund" which avoids the need for taxpayers to bail out banks. Two weaknesses to be remedied are the inadequacy of the aid fund, which will ultimately amount to only €55 billion, and the reluctance of the banks in each country to acquire the national debt of the other countries or to lend to one another.

3.3 ***Focus monetary policy in order to facilitate investment by SMEs*:**

Buying corporate bonds is an astute choice to lower the cost of borrowing, but bank credit remains weak. Small enterprises must benefit from these stimulation measures, because therein lies the potential for job creation.

3.4 *Increase the European budget to stimulate potential growth*:

At present, the European budget does not exceed 1% of GDP, €900 billion over six years, which is 3% lower than in the six years 2007-2013, whereas in the United States the federal budget amounts to 18% of GDP. In the United States, states such as Delaware pay the federal government each year the equivalent of 10% of their GDP, whereas states such as New Mexico receive the equivalent of 10% of their GDP. With such a system the Irish budget deficit and the Greek deficit, at one time close to 10%, would not have been problems.

Allowance must be made for the reservations of the surplus countries such as Germany, which will not be prepared to contribute each year for the same countries, and it is therefore essential to share a few golden rules on competitiveness. Progress should gradually be made toward such a system.

The aim in increasing this budget should be to raise the growth potential. One possibility is public investment in infrastructure projects. The Juncker Plan, for €300 billion, should be considered as an initial approach and could be supplemented by EU borrowing on a federal level.

3.5 *Promote research*:

Apart from the Nordic countries, where research spending as a percentage of GDP compares with the level of Japan, at 3.4%, the other countries, including Germany and Austria at 2.7%, are below this level. Examples are France, at 2.2%, the United Kingdom at 1.7%, and especially Italy and Spain, at only 1.2%.

European budgets could be voted to invest in several growth sectors.

The same holds for efforts required for education as a factor of competitiveness, even though the countries already spend more than 5% of their GDP.

3.6 *Ensure tax convergence*:

Tax competition hampers the functioning of the single market. The tax policy of the member countries must be harmonized. This principle is easy to state but not easy to apply, because each country has its tax tradition. The history of taxation (and England is an excellent example) is to some extent the history of royalty giving up its absolute power, and to some extent the parallel growth in the power of parliaments. In Europe at present, the breakdown of tax revenues differs greatly from one country to another. Some countries focus on personal income tax, others on corporation taxes, etc. Some, like France and Denmark, expect a lot from taxes, while others expect little.

- ***VAT*:**

VAT is already a major tax in all the countries of the Community, and above all this tax is determined according to tranches, with a minimum of 15% approved by each country and a maximum which has increased everywhere since 2008. Harmonization has also been achieved for customs duties.

- ***Corporation tax*:**

A principle of no double taxation for companies was established in 1990, but it would be possible to go further and reach an agreement on the taxation of multinational firms according to the location of their business.

Also, discussions are underway on the taxation procedure for digital platforms, probably based on the location of their customers.

It could also be decided to standardize the tax base for the calculation of corporation tax, leaving each government free to determine the tax rate. Finally, it is possible to go further in restricting tax benefits for certain sectors, to avoid skewing competition. This combination, standardization of a tax base but freedom to set the rate, and hence competition, makes a lot of sense, because being more ambitious could cause the whole process to fall through.

3.7 ***Define an energy policy*:**

- ***A European energy policy is still to be achieved.***

This is a key issue, because Europe is dependent on imports for its energy. The overall dependence rate is 54%, reaching 87% for oil. The countries least dependent on outside supplies, with less than 20% of their needs, are France and the Netherlands, the former benefiting from nuclear power and the latter from gas.

This is a key issue, because all the countries have the same energy transition agenda. Europe emits 11% of greenhouse gases, which is less than the United States and China, each at 20%, but coordinated action is necessary.

Access to cheap energy is a source of purchasing power for consumers and one of the conditions of business competitiveness. Just look at the benefit the United States derives from the production of shale oil to revive its petrochemicals industry.

– ***Divergant policies:***

Between France which gives priority to nuclear power, the UK which invests in coal, Italy which is punting on gas and Scandinavia, with hydroelectric power, the spectrum of interests is wide-ranging.

Between the UK which invests massively in nuclear power and Germany which has decided to abandon it, convergence is not easy, and Germany did not consult its partners.

Between Poland and the UK which want to explore for shale gas, and France which prohibits it, there is clearly a long way to go to define a joint policy.

Between the heavy dependence of countries like Poland on Russian gas and the low dependence of a country such as France, there are different sensibilities.

Between gas production which will decline in Europe and the potential off the coasts of Cyprus, there is probably a path to be explored.

- ***The objectives:***

In 2007, the European Commission published a report setting objectives for an energy policy, but this remained a dead letter and it must be admitted that it is a policy that is costly and slow to generate returns.

It is therefore essential to develop energy routing and storage infrastructure, because that helps to reduce the EU's dependence on outside sources. Facilitating the export of solar energy from Spain would be beneficial for producers and consumers.

The European Union is expected to invest €2,000 billion over the next twenty years. For Germany alone, the discontinuation of the nuclear industry and the choice of renewables will cost more than €200 billion. For others, such as Spain, Poland and Romania, their projects have had to be revised downward. These investments, slow to generate returns, and which cannot easily be invoiced to consumers, should be able to benefit from Community financing on a public-private partnership basis, with a guarantee from the European Investment Bank, and should take advantage of the current low interest rates.

In addition to investing in renewable energies, in order to reduce greenhouse gas emissions it is essential to set a minimum price per tonne of carbon, because the price in recent years, around $10/tonne, in no way constituted an incentive to reduce pollution.

Finally, a vast plan could possibly be financed by the EU to facilitate energy savings in urban transport systems and finance thermal renovation of public buildings, which would boost employment in many medium-sized enterprises.

All these themes should create jobs and receive a positive response from citizens.

3.8 ***Potential in defence and security:***

By defence policy shortcomings is meant the defence and security effort at the borders. The two are inseparable. If Europe had been more active in Syria militarily and diplomatically, the refugee crisis would possibly not have taken on such proportions.

- ***Military spending*:**

While military spending worldwide is increasing, e.g. in China, Russia and many other countries, spending in Europe is declining. On the eve of the 21st century, Europe accounted for 30% of global spending; today the percentage is half of that.

Apart from France and the United Kingdom, few members devote 2% of their GDP to this effort. China increased its military spending from $100 billion in 2007 to around $580 billion in 2014, while the United States remains at $600 billion, but the European Union invests only $230 billion, of which just over $60 billion for France, slightly less for the United Kingdom and just over $40 billion for Germany.

But there is hardly any trace of coordination of the effort, a distribution of roles or a specialization.

- ***A need for Europe*:**

Many countries think they can benefit from the NATO umbrella, which is a more debatable wager at a time when the Americans are turning their eyes toward Asia and apparently no longer see Europe as a priority. NATO, which has 34 member countries including 21 in Europe, is thus suffering from the increasingly frequent divergences between Europe and the United States, a fact which should lead the Europeans to coordinate their efforts. Bear in mind Donald Trump's recent statement that if Europe does not want to pay for its defence, then American soldiers will leave Europe.

- ***Europe has strengths*:**

Four of the ten leading global firms in the sector are European, and the quality of French, British and Swedish equipment is undisputed. Germany and France are the main producers of military hardware in Europe and should develop joint projects, such as the new heavy combat tank, or reinforce the Franco-German brigade. Pooling efforts would make sense. Admittedly, defence was excluded from the Treaty of Rome, and probably a joint army is a dream. The definition of a joint strategy would definitely be a prerequisite, but it seems very likely that this would be favourably received by public opinion.

- ***The Schengen Area and border security*:**

This policy, initiated by five countries in 1985, provided for the gradual removal of border controls, and was a real success. Today 22 of the 28 EU Member States take part in this, and four outside countries, Switzerland, Norway, Iceland and Liechtenstein, are also involved.

The Frontex agency was accordingly set up in 2004 to ensure the control of Europe's external borders. Although the sudden influx of refugees and the initial slow pace of response, or rather the uncoordinated response of countries, the erection of "walls" and the reintroduction of national border controls, may have aroused fears of a dismantling of the agreements, a salutary shake-up occurred. It must be said that one million refugees for a population of 500 million is only 0.2%.

The December 2015 agreement increases the resources of Frontex, provides for the establishment of a European corps of border guards and increases the number of personnel, but countries will not exchange their information without reservations overnight. It should be realized that, apart from its political aspect, Schengen has facilitated the economic integration of the countries, free circulation in all its components. It is essential to move forward and create a uniform asylum status.

Conclusion: ***"Europe will be achieved in crises and it will be the sum total of the solutions provided to those crises" - Jean Monnet.***

- We began with Maurice Schuman, and we thus end with the second founding father of Europe, Jean Monnet. Europe is at a halfway stage: it has reduced countries' sovereignty but it has not established a federal government. Faced with crises, it has nevertheless been more like the reed than the oak, bending but not breaking. To stay with ***La Fontaine's*** *fables*, recall his warning in The Old Man and his Children: *"Every power is weak unless it is united"*. Let's wager that, on the edge of the abyss, leaders will continue to find solutions, and let's hope that they will be more proactive in integration.

- ***Consequences of a possible Brexit*****:** For Europeans, an exit by Britain should be an opportunity for a stimulus package. 16 new members in 18 years was too much or too fast. Efforts should be made to promote stronger integration of a West European hard core, before risks of referendums, of uncertain outcome, arise in the Netherlands or elsewhere.

- ***From the political and diplomatic viewpoint,*** it is necessary to choose between enlargement and deepening, between a free trade area and a politically integrated area. The first approach means dilution of the European identity and the inevitable end of Europe. If Europe is unable to assert a leadership in line with its status as the leading economic power in the world, if it persists in its divisions, it will lose its power of influence. Europe cannot be reduced to policy statements on issues of human rights, which are undoubtedly important but which are far from being the whole solution in international relations. No country can combat the terrorist threat alone, and improved European coordination is essential. When a crisis such as the sudden influx of refugees occurs, Europe must be the solution and not the problem. When insecurity arises on the borders of Europe, in Ukraine or in the Middle East, when terrorism rages, Europe must be able to play a role. In defining relations with the great powers, the United States, China and Russia, Europe must be able to speak with one voice.

- ***From the economic viewpoint***, the ambition, in a time frame of about ten years, should be to achieve a budgetary and tax union of a homogeneous core group of countries which could benefit from supranational loans and reinvest in research, infrastructure and energy. This type of union would preserve the sovereignty of each country on such fundamental issues as social protection, education, health and local taxes. Europe must provide responses to the challenge of the digital economy for taxation, the challenge of Uberization of the economy for the status of employees and the financing of social protection, and the challenge of redefining its economic and social model. ***Angela Merkel said that "Europe represents 50% of the world's welfare spending and 7% of its population".*** Rapid economic change is causing major shocks of adaptation in the working population, but the system of social cohesion is a strength to be adapted and held onto.

- ***From the societal viewpoint,*** in response to the major climatic challenges, Europe must also develop joint positions.