

COMMON DESTINY *vs.* MARRIAGE OF CONVENIENCE

**What do Britons
and Germans
want from Europe?**

Edited by

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28 ESSAYS INCLUDING 15 PRIZE-WINNING CONTRIBUTIONS

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OUR HISTORY

The King Edward VII British-German Foundation and the König Eduard VII. Deutsch-Britische Stiftung were established in 1911. They are named after King Edward VII (1901-1910), cosmopolitan monarch and bon vivant of German and British heritage.

The founder, Sir Ernest Cassel, himself embodied British-German relations, in that he was born in the German city of Cologne in 1852 but left for the UK at the age of sixteen. Cassel became a successful businessman, heading a group with commercial interests throughout the world. With financial success came social mobility, and Cassel befriended Edward, Prince of Wales – who was to accede to the throne as King Edward VII in 1901.

At the time, social relations between the UK and Germany were close, if tense. Oxford and Heidelberg were regarded as the best universities in Europe, the British had fallen under the spell of Wagner, dachshunds were the dogs du jour, and the most fashionable hat was the Homburg. For their part, Germans adopted horse racing and tweed and developed a love of English detective stories. But these close bonds were soon overshadowed by the economic and political race for European dominance, a battle which culminated in the horror of the Great War.

An influential philanthropist, Cassel was instrumental in founding the London School of Economics, and granted funds to many other ventures throughout his life. After the death of the king in 1911, Cassel made a bequest of £100,000 to establish our foundation in memory of his friend. It was based in London. With a bequest of 2 million Reichsmarks, Cassel also initiated the sister-organisation in Berlin. After 1945, it moved to Hamburg.

The foundations were designed to help British people in need in Germany and Germans in financial distress in the UK. At a time when relations between the two countries were deeply troubled, Cassel hoped to set an example of generosity and reconciliation.

OUR FOUNDER



ERNEST JOSEPH CASSEL, Painting by Anders Zorn, 1886

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Preface

UNITED IN DIVERSITY is the official motto of the European Union. But where do we find the debate necessary to this grand formula?

In our view, diversity is particularly reflected in the way Europe is being discussed by Britons and Germans. Therefore, with this volume, we endeavour to give an intellectual platform for the diverging and controversial British and German voices about Europe. We set out to discuss the crucial question of what it is that we expect from Europe and from the political union to which we both belong.

When we conceived this project, it was our intention to publish a broad range of thought-provoking essays that should be exemplary, engaging and, where possible, new and surprising. As a result, this book is a collection of counter-intuitive as well as more predictable studies and statements. They are as inspiring and imaginative as they are rigorous and bold. We wish to present a source of reference for future debates about the direction our commitment and cooperation in Europe should be taking.

To show that we hope to lead this Anglo-German debate for the benefit of the entire union, we chose as many contributions as there are members in the EU: 28. Along with 15 essays from the KE7 bursary competition 2012/13 (titled 'Common Destiny vs. Marriage of Convenience – what do Britons and Germans want from Europe?') we have invited 13 outstanding figures across the disciplines to present their opinions and feelings.

Following 'Republic vs. Monarchy – How sound is your constitution?' in 2012, this publication is the second in the new KE7 series on British and German perspectives on society in the 21st century. It would not exist without the guiding framework of our two foundations whose mission since 1911 has been to focus on the relations and the co-operation between the United Kingdom of Great Britain and Northern Ireland and, what is today, the Federal Republic of Germany.

First and foremost we would like to thank our sponsors as well as the participants in our 2012/2013 bursary competition. They have provided the foundation for this book. Furthermore, we wish to thank Rowan Barnett at Twitter, Frederick Studemann at the *Financial Times*, Moritz Schuller at *Der Tagesspiegel*, Gebhardt von Moltke and Peter Brock of *Deutsch-Britische Gesellschaft* in Berlin and Düsseldorf as well as their junior organisation Young Königswinter Alumni. Special thanks also go to Christa Müller from *Deutsches Theater* in Berlin. They all have shown passion and patience and provided the inspiration in bringing this time-consuming project to life.

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Previously, Martin served in various posts as a senior staff officer and economic adviser, e.g. at the European Central Bank, at the European Investment Bank, in European affairs policy planning for the German federal ministry of defence and to the EU Special Representative in Kosovo. Martin read philosophy, politics, and economics at Oxford University before graduating at the College of Europe in Bruges. He also did research at Sciences-Po/CERI in Paris and published extensively on the European Economic and Monetary Union.

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In 2011, Martin published the novel: *Der Tramp. Die Geschichte des Franz S.*

Lost in a dream: An allegory on the crisis, the empire and on the beauty of Europe in three acts



@ke7 what history teaches us about #EU debt crisis: A thought-provoking story by economist and German federal civil servant Martin Heipertz #UKDE

ABSTRACT

In this imaginary essay I wish to go deeper and put current developments of the euro debt crisis into historical perspective. I argue that pre-national, imperial European history from before the 19th century harbours a great wealth of common cultural understanding that, if revisited, could even today facilitate the emergence of a post-national European polity.

I have deliberately sketched this vision as a literary utopia in the form of a fictitious dialogue amongst nations that belong to a Federation of Europe.

This essay represents solely my personal thoughts and is not intended as a piece of political communication.

I was very tired. The *S-Bahn* into Berlin was crowded, but I had got a seat, surrounded by the anonymous mass of commuters. Most of them were reading newspapers and those were, as usual, full of the euro crisis. My smartphone was, as is also usual, overflowing with emails – Greece, Spain, banking union, and this was only the beginning of yet another day. I glanced outside. It was snowing. I fell asleep.

In my dream, three persons took their seats around me. Opposite me a man of an uncertain age and grey complexion, wearing a grey suit and rimless spectacles. His head was bald. Next to him sat a young boy with very old, sad, wise and friendly eyes. The boy wore a strange crown, made of eight plates, the front one topped with a cross and a jewelled arch that sprang to the opposite plate at the back of the boy's head. In his right hand, clad with a red glove full of pearls and jewels, the boy held a sword. A golden ball with a cross was placed in his left hand. Next to me sat a beautiful, blonde girl in her teens, her face was red as if she had come in from the sun and she was dressed in sandals and an ancient Greek chiton which let me sense the delicate shapes of her body.

I.

CRISIS TALKS

The grey man began to speak:

You worry about Europe. But Europe is a utopia, a place that exists neither in geography nor in time but only thanks to mental constructions. What matters about Europe is the idea of Europe.

I am the crisis. Look at me.

I unsettle you and everybody. But what you cannot see is that I am the main cause of Europe's political unification during our time. I am a phenomenon of finance and by myself I do not care about Europe. However, I act as catalyst for the political unification of the formerly segregated nation states that embarked upon monetary union some dozen years ago. My threat of insolvency pertains only to some of them, but its chaotic perception and systemic effects affect them all.

At the same time, remaining separate nation states render them helpless and unable to coordinate their efforts. On their own, they are impotent and you sense this, which is why you worry – and rightly so. Without Political Union, you are all trapped in a vicious circle. Your so-called 'eurozone' appears financially solvent in aggregate terms compared to the US and Japan, but it has remained nonexistent as a political entity.

You are not more than a mere congregation of nation states sharing a single currency. Each of your nation states defines its own interests and course of action. Your governments naturally see me, the crisis, as a conflict of distribution. This perception militates against the fact that those very same nation states are already to a very large and even decisive degree interdependent. Worse still, their obvious interdependence even aggravates the said conflict of distribution, because those countries

whose public finances are under stress derive a crucial bargaining advantage from it. Because of interdependence, creditor countries can be blackmailed to extend ever larger sums in support of the debtors, while any attempts at disciplining the debtors are perceived by them as an imposition of austerity.

I do not need to tell you that the permissive consensus, in your respective polities, to continue their engagement in this vicious circle of indebtedness, moral hazard and austerity is by now limited. Developments are no longer tenable and the situation is reaching one of those points in time that, with hindsight, come to be qualified as 'historic'.

THE HIGH COST OF BORROWING

The grey man paused and looked out of the window. When he resumed, his grey eyes looked straight at me:

The ground for these developments was laid in preceding decades of rising public and private debt in advanced industrialised democracies, combined with outrageous complacency and negligence vis-à-vis the kinds of economic imbalances that have piled up between your countries.

In the future, it will hardly seem intuitive that democratic governance of these times proved no more apt at preserving sustainability than democracy's authoritarian predecessors and competitors. Theoretical explanations of this phenomenon point to causes like the so-called 'deficit bias' of public finances among twentieth-century democracies, implying that voting constituencies of your still parliamentary forms of democracy routinely fall prey to 'fiscal illusion,' inducing voters to tolerate levels of government spending that systematically overshoot public revenues.

Your voting systems and the reliance on political parties and representation through parliaments (rather than the already emerging form of true, direct democratic rule through the internet) cause a systematic underestimation of the public cost of state borrowing. A polity in that condition would carelessly shift onto future generations the burden of servicing and redeeming its debt.

At the same time, the financing of this debt has been facilitated beyond imagination by the abundance of monetary liquidity and an array of financial regulation favouring the accumulation of public debt by the financial sector. In addition, this public debt has been leveraged throughout the financial sector into equally obese amounts of private debt within your economies, corporate and household. Therefore, banks and governments of your age will be seen as two sides of the same, decrepit coin. This entire era is drowning in debt, public and private, and this precisely is the ground that has bred me, the crisis.

To make matters worse for Europe, the incomplete and solely monetary unification of separate nation states with separate fiscal policies produced an average interest rate for the euro that, by definition, did not fit the circumstances of any specific economy. Peripheral countries had, during the early years of Monetary Union, been able to borrow at excessively low interest, allowing them to lose economic competitiveness and wasting an entire generation through low productivity, while core

countries, primarily Germany, had to undergo painful adjustment in real terms at excessively high interest rates, almost pushing it into deflation.

Further still, the money raised through the pervasive and continued build-up of debt was put to little use. Twentieth-century democracies are better than autocracies but still notoriously bad at investing their resources in an economically intelligent way.

Their highly inefficient so-called 'welfare systems' seek to capture voting support by redistributing vast sums to poorer parts of the population in a large mess of spending programmes with limited rationality, while the very substantial and mobile capital gains and non-labour incomes of society's richest segments by and large remain spared from being put to that use. Even worse, some of the political systems of your historic period are captured by particular interest groups behind a feigned mask of democracy, exploiting public resources for their own corrupt, sometimes criminal, purposes.

In sum, excessive indebtedness and other ways of trying to belie the laws of economics have become a pervasive decadence across all advanced economies, in the public sectors of those democratic nation states as well as in their private households and business sectors. In most cases, the aggregate levels of public and private debt in each national economy now stand at, or even drastically above, 200% of the respective national incomes. Unit labour costs have only started to come down. Inequality is rising, state functions imploding.

These problems are not at all limited to the member states of the European Union; in many respects the entire trend is led and in fact caused by the declining United States of America, hitherto the leading Western power. Japan is even worse off. But the institutional and financial fabric of the eurozone proved particularly conducive to the build-up of the problem and, subsequently, is now particularly vulnerable. This is where we are and how my rule began. I, the crisis, have now taken over the helm.

THE RISK OF CONTAGION

I was dazzled by this lecture by the grey man. He sensed my exhaustion and said:

Bear with me, I am almost done. Political complacency and institutional deficiency rendered the eurozone ill-equipped for my arrival in 2007 in the form of a global banking crisis. The bursting of a bubble in the US real estate market, caused by global excess liquidity and regulatory failure, triggered a process of uncontrolled deleveraging across global financial markets and exposed a number of systemically important institutions to bankruptcy.

The banking crisis was only brought under control by shifting large amounts of private financial risk onto public balance sheets. In consequence, the already unsustainable situation of public debt quickly became a problem for those European countries that were most at risk as investors withdrew their funds. As the first of several actor-victims, Greece faced liquidity shortages in late 2009 which rapidly evolved into

full-blown state insolvency. Although most European governments had ample pre-war experience with state bankruptcy, there was massive uncertainty and fear with regard to its possible consequences within the context of Monetary Union, and under the enormous degree of financial leverage obtained since the loosening of all monetary reins at the turn of the millennium.

The fragility of the eurozone's institutional edifice was painfully brought home to national leaders when they realised that a possible failure of Greece could have similar systemic consequences to those experienced in the preceding banking crisis as a result of the Lehman bankruptcy. Exposure of the German and French domestic banking systems to Greek government debt was significant, and, amidst an overall lack of information, there was concrete but unclear risk of contagion throughout the financial system. Additionally, the feedback loops between national banking and public sectors indicated that the solvency crisis could spiral out of control very fast. Given the prevalent uncertainty and sheer fear, political leaders shied away from the restructuring of Greek national debt. Instead, they decided to buy time by bending the so-called 'no bail-out' principle (which had been one of the founding, misguided self-deceits of the monetary union) and extended emergency credits to Athens.

The bankers were very happy. Bailing out Greece also failed to stop or even slow down the continued withdrawal of funds from peripheral European state debt more generally. Soon after the first move, Germany and others were pressed to agree on a massive bail-out fund for the entire eurozone, big enough to cover the refinancing needs of all peripheral countries for about two years. Then the desire arose to use these funds for recapitalising the peripheral banking sectors.

Meanwhile, the Greek problem lingered on, providing spurts of crisis at regular intervals whenever new funds had to be made available in order to keep the country afloat. The eurozone became trapped in the path dependency of not having allowed Greece to default. Subsequently, the liabilities of insolvent Greece had to be painfully restructured and some of them even converted into transfers. Spain and particularly Italy suffered from the continued tensions, and paid elevated risk premiums on their bonds, which in turn required yet more European support.

The moral hazard attached to this state of affairs was both obvious and immense. Attempts by Germany, the Netherlands and Finland at enforcing so-called 'conditionality' on debtor countries, i.e. incentivising them to regain market funding on their own, seemed repeatedly frustrated, mainly by the impossibility of 'programming' any economy. This programming was particularly impossible under harsh adjustment, but also in part because debtor countries were circumventing the austerity imposed on them as much as possible.

Creditors, after all, had to deal with sovereign nations rather than domestic banking sectors, and realised that they were in no position to exert full influence and control over the use to which their funds were being put. Popular resistance to the perceived expropriation of national

wealth for the refinancing of foreign debt grew rapidly in the creditor countries. Still, debtor countries underwent painstaking attempts at reform and consolidation, paying a high social and economic price and encountering an intense political backlash against the austerity imposed on them. The system now is stretched to the limit and struggling to deal with a potential further aggravation. Thanks to your central bank, you can buy time. But the crisis is not over. Only unity is its solution, so it will persist until and in order for you to unite.

This, my friend, is where we stand right now. Look at my face.

The grey man sighed, fixed his grey eyes upon me one final time and then stared motionless out of the window into the snow falling over Berlin. With resignation in his voice he said, barely audible:

I, the crisis, am nothing but the nasty truth that comes to the fore when politics ignores reality for too long. Politics essentially is about managing change, and I come into play when politics has failed to do its job. Unsustainable trends end. I wish you would use the time well that you have bought. My only hope is that these days you can be changed through finance, rather than war.

II.

THE VOICE OF EMPIRE

Now the young boy with the crown over his old eyes began to speak. His voice was clear like the tone of a bell.

I am the Empire.

Let me explain. Your politicians make for bad historians. They focus on contemporary affairs and they come from a context of post-war economic integration. They are still deeply influenced by an urge to preserve peace among traditionally rivalrous European nations, which all too quickly used to fall out with each other and go to war. Their vision is furthermore blocked by having grown so accustomed to the 19th and 20th centuries' model of the nation state that they find it inconceivable, and certainly not in their vested interests, to think of other forms of democratic polity. To them, democracy since the French Revolution seems to be inextricably intertwined with the nation state. And the result of two world wars is homogenous nation states everywhere, even in the Balkans.

Tragically, Europeans are not aware that their petty national consciousness overshadows centuries of pre-national European history. To be European means to aspire to the Empire. Every European nation harbours the imperial seed. Remember, the first political unification of Europe had occurred in the form of the Roman Empire. Its very notion was a multinational one, if one takes the 'Pax Romana' to encompass all those 'nationes' that had come under the rule of an empire which, at its beginning, had sprung from the constitution of a mere city state.

HISTORIC COMMONWEALTH

Rome's self-image as ruling the entire known world was associated with the institution of the emperor itself, the 'Caesar', directly translated into the German *Kaiser*, and often revered as god-king. With the rise of Christianity, the Roman emperor came to symbolise the worldly ruler of a united (Christian) world in anticipation of the heavenly Empire ruled by God. Despite the later separation of the Roman Empire into Eastern and Western spheres, the imperial idea survived and was bequeathed to the Germanic successors of the West Romans. More so than other kings whose claim to rule was also divine, but ultimately based on thinly veiled military power, the Holy Roman Emperor alone could claim the legitimacy which sprang from divine endowment, thanks to the Empire's convolution with the Church. Until its demise at the hands of Napoleon, the 'Holy Roman Empire of the German Nation' embodied this idea and linked it to a universalist claim to encompass worldly principalities into one transcendent polity before God.

The Empire's political, financial and often enough also military weakness did not stand in the way of its legal system facilitating the emergence of a central European commonwealth of culture and trade throughout the medieval ages. The Empire was a comparatively peaceful, liberal body politic and the fatal, inter-European struggle for hegemony fell to its militarily more potent component principalities and external competitors. Their worldly strife could not impede the transcendent call of the Empire. But following the *Reformation*, its religiously inspired legitimacy was damaged beyond repair, and it never recovered from the Thirty Years' War. The protestant Swedes were the first to claim hegemonic dominance over central Europe in purely military and political terms. Many other kings from France and Prussia followed, while the Emperor himself and even the Pope were reduced to worldliness, playing their cards just for the houses of Habsburg or the Holy See.

NAPOLEON'S LEGACY

The boy was sad and now looked very weak. His voice, however, was as clear and beautiful as before.

The Empire decayed, like everything that is made by man. None of the major rival kingdoms in continental Europe gained lasting hegemony – until post-revolutionary France under Napoleon. Several aspects stand out concerning Napoleon. First, his autocracy rose from the rubble of the French Revolution's first attempt at democratic rule, which had decapitated the King – *horribile dictu* – and under external pressure had quickly degenerated into the terror of the Jacobins. Second, Napoleon came to rule a France that had emerged from the revolutionary furnace as the world's first nation state. Despite this fact, third, his striving for European hegemony quickly formed a multi-national empire. Fourth, he took account of that by not only disposing of the Holy Roman Empire but paradoxically by crowning himself Empereur, successor to the Holy Roman Emperor, as if the void he had created quickly needed to be filled and was not allowed to remain empty like today. Fifth, resistance to Napoleon gave birth to nationalism across Europe, particularly in the

most contested territories, those of Russia and Germany but also Italy and Spain.

The imperial idea of Europe vanished under Napoleon and the nationalism that he ushered in. The imperial body was already dead but the idea of empire still remained in vestige until the end of the First World War, together with the titles of *Reich* and 'Holy Roman' *Kaiser*, under the protestant Hohenzollern rulers of Prussia and Germany

Following that, the empire was entirely discredited by the preposterous Nazi allusion to it, coinciding with the ultimate excess of nationalism and, almost ironically, the most ferocious attempt at unifying Europe by military means since Napoleon. But both of these attempts, by Napoleon and by Hitler, floundered in the Russian plains – respectively 200 years and 70 years prior to the developments of the debt crisis during the early years of the third millennium that we have set out to explain to you.

The boy with his strange crown was still very sad but looked lively at me as he then continued:

So, nationalism is what definitely killed me, the Empire. I am now truly dead, but no one can be resurrected without having been dead before.

THE DEATH OF NATIONALISM

The boy paused again, smiled first at the grey man then at the beautiful girl, then resumed:

The wars brought about by nationalism in turn killed nationalism itself. The first post-national polity in Europe was, of course, Germany. Rebuilding after the Second World War, Germany had acquired a predisposition to hand sovereignty to the European federal level whenever the state successively regained bits of it. In military terms, both West and East Germany had quickly re-armed only 10 years after the war, but their armies lacked a general staff and were tightly submerged into the command-and-control structures of their respective military alliances. In political terms, Western Germany under American guidance immersed itself in European integration to such an extent that it came to be called an 'economic giant and political dwarf'. Post-1945, Germany had ceased to play a geopolitical role. True to that mould, it readily abandoned monetary sovereignty in 1990 at the very same moment as it regained political sovereignty.

This compromise with France had become possible since France in turn had already lost its monetary sovereignty by pegging its foreign exchange rate to the then German currency, the *deutschmark*. This peg had in fact to be defended by the German central bank, the *Bundesbank*, in a set of serious exchange rate turbulences throughout the 1980s and 1990s. By pursuing monetary integration with a partner that was weak in political terms but strong in economic ones, France expected to grow in relative power. This alliance fell to pieces with the euro's debt crisis. Becoming dependent on German credit, Europe moved into a limbo

from where a return to nation states seemed even less plausible than the emergence of some form of post-national, post-hegemonic European Empire.

Unsurprisingly, the other nations feared German resurgence, and at first mistrusted her proposal for Political Union. It took time for them to understand that Germany had indeed left behind the status of a mature, sovereign nation state since the Second World War and instead represented the post-national polity that was chosen to show the path of historic development towards post-national post-hegemony for the entire European continent, a path unblocked by the crisis and lying open to all other nations of Europe.

GERMANY'S DILEMMA

The boy was now beaming and rocked back and forth on his S-Bahn chair as if he was very excited.

Talk of Political Union had subsided in Europe with the failure of Maastricht and its foundation of a politically amputated Monetary Union, but some reminiscence of the integrationist dream resurfaced in Germany three years into the debt crisis. The German leadership understood that it was faced with four radically different and extreme options: (i) abandoning monetary union and re-introducing a national currency, (ii) gradually but unconditionally giving in to the claims of the other member states for debt mutualisation, (iii) doing so under the condition of and in exchange for the eurozone achieving political union, and (iv) providing bridge loans to bankrupt member states while ensuring that these would be redeemed thanks to consolidation and reform.

Option (ii) was self-defeating, while option (i) was excluded for two reasons. Firstly, debt mutualisation through fiscal and monetary channels had by 2012 already reached a point where the price of Germany's exit would be prohibitive. This option was gone before the Germans even dared to think of it.

Relinquishing the chance to dismiss the euro by then had become a 'sunk cost', in economists' parlance; hence a German exit had become irrelevant as an option. In addition, by giving in to popular demand and allowing the demise of the euro, the cornerstone of the unfinished integration of Europe, Germany would betray her national interest in terms of post-war integration. 'If the euro fails, Europe fails' shows that Germany is well aware of her choice between a European future and the nationalist past. Hence, the options were narrowed down to either (iii) or (iv).

In 2013, the jury is still out. European integrationists or federalists favour option (iii) and argue that Germany should use the financial dependency of the other governments and recalcitrant integrationists to push decisively for political union. Intergovernmentalists, however, are adamant to stick with option (iv), insisting that Germany only extended credit lines that would have to be serviced and returned.

It is obvious that the viability of both options hinge on their feasibility and that the feasibility of option (iv) is determined by a

‘programme country’ acquiring ‘competitiveness’ and sufficiently solid state finances, allowing it to return to market-based refinancing, which in turn would enable it to service and redeem its debt to Germany and the other creditor countries. Option (iv) does not work if people revolt against ‘austerity’. Rather than taking a strategic choice, German politicians throughout 2013 will pursue both options at once. They at the same time insist on the credit nature of the financial assistance that Germany provided, while they also propose empowering the European Commission (the precursor of the Government of the European Federation) with veto rights over national fiscal policies, subject to accountability to the European Parliament and under the legitimacy of a directly elected European President.

In fact, history will choose. These ideas of further integration, of course, do not immediately resonate and very few citizens at this time already intuitively understand that this could well be the founding moment of the nascent federation, tapping into centuries of hitherto submerged, ancient European pre-national, imperial memory. After all, a European President, legitimised by the democratic sovereign, will be no less than heir to the divinely endowed Holy Roman Emperor. They could be mighty or powerless – as long as such an office and such a person existed, it was possible to maintain the ‘idea’ of the Empire, the *Reichsgedanke*.

MEMORIES OF EMPIRE

I can resurrect, you see. A populace has better memory than its politicians, and therefore my former nations will now start to remember me and slowly wake up to their imperial destiny, be they in Germany, Italy or Spain, but also going back to encompass the Netherlands and even France. All these nations come from the same source. And, for the first time in history, they can build their Empire together!

Let me finally tell you what should happen to the proposal for political union that in these days emerges in Germany and other countries as well. The nascent Empire (under the formal name of ‘European Federation’) and its constituent nation states, regions and free cities will coexist as legal persons and respect each other’s prerogatives. Certain prerogatives will fall to the federation, and these will first and foremost include monetary policy and the right to veto any conduct of national fiscal policy that risks damaging the interests of the other nations of the federation. The federation will also bear responsibility for external defence and security affairs as well as foreign policy. Everything else belongs to the national level, to the regions and to the free cities of the Empire. And it is thus that the euro crisis of this early millennium is now finally turning into the dawn of what humanity will one day call ‘Pax Europaea’. And, by disentangling the Single Market of the wider European Union from the nascent European Federation, even the United Kingdom will be reconciled and, for the first time in history, look benevolently on the emergence of a continental block while itself remaining in the outer ring formed thus by European integration.

The boy seemed both exhausted and very pleased.

I, the Empire, am the principle of universality applied to the political realm. This is my father.

He was looking at the grey man of crisis and change

And this is my sister.

He looked at the girl.

III.

EUROPE’S RALLYING CALL

At last the fine, hot-skinned girl got up, stepped onto her seat and said impassionedly:

I am Europe.

I had thought so, and I was not surprised that she pronounced her name in Greek: ‘Ευρώπη/Európē’. She was so beautiful that I had to force myself to look at the grey man rather than into her face, so that I could concentrate on what she was saying. She began to sing in a voice so clear that all the commuters around us let their newspapers sink down in their hands, looked up and finally also rose to their feet in agitation. Her song was this:

Citizens of Europe, rise up! This is not just a financial crisis. This is first and foremost a crisis of confidence, and it can bring ruin on all of you if it is not solved.

But an act of your will, Europeans, can overcome it.

The idea of Europe was born in the minds of those who rediscovered the classical world, of those who imposed the force of reason over superstition. It inspired those who fought against totalitarianism and who perished for the ideals of freedom and justice.

European unity is our highest creation. Erected over the ruins of centuries of war and guided by the vision of those who resisted totalitarianism in our nations, European unity has given us democracy, prosperity, security and equity. But this union of ours is still incomplete, like an arch without its keystone. This keystone, be assured, is political union in the form of a federation of Europe’s proud nations.

Let us now at last complete our union through a federation of European nations, lest this crisis destroys our future.

The keystone is lying ready on the ground, before the eyes of architects who have until now been dithering and squabbling while the arch is

lashed in the storm. These architects are our governments, and they were occupied by national parochialism, they were frightened and clinging to the past. But we now call upon them to proceed.

We need one joint sovereign to back our currency, the euro. Without this common sovereign, our currency risks falling apart, bringing to ruin the wealth that it stores.

Europeans, your hour has come!

The time of diplomacy is over. Too often our governments have failed in their duty to unite us. Only you, citizens of Europe, can take the keystone in your own hands and crown that splendid arch.

A federation of European nations is a moral, historical, political and economic necessity. Without it we will lose our prosperity, our security and our values of freedom and democracy. For the nation state is no longer the place where freedom resides, in the modern world. We need this federation of our nations, no longer a coalition of governments.

Peoples of Europe, find courage!

Be confident in your brothers and sisters across all those proud nations of Europe!

See what unites us, and overthrow whatever keeps us apart!

Let love grow amongst you into courage and strength!

Unity is our future. We live under the same sky and share a common history and culture. We are one in the words of our poets, our respect for faith and beliefs, our values of justice and freedom.

Only invidious national divisions stand between us and our future. But we want to live in peace and prosperity and we shall fight for these ends, propelled by the will of destiny. We must not allow the relics of the past to spoil our future!

Unité, citizens of Europe, *unité*!

In this moment of history, we, the citizens of Europe, will now and forever create our Federation of European Nations.

This federation will uphold our human rights and fundamental freedoms. It will reflect our civilisation and guarantee our way of life. It will lay down the foundations for our economic prosperity, according to principles of justice and solidarity. It will protect and amplify the wealth of our nations now so greatly endangered. And it will have one army and

UNITY IS OUR FUTURE

LET US CREATE A EUROPEAN FEDERATION!

one foreign policy, to protect our peace and to embody the European idea before the rest of the world.

We can end the present crisis by founding our Federation of European Nations, because it will be the credible sovereign of our currency the euro. Replacing the outdated constellation of 17, soon 18, national sovereigns, this joint and common sovereign will return to us the stability and prosperity that we now stand to lose.

This crisis is hence the choice between chaotic fragmentation on the one hand and united strength on the other. The strength of our federation will protect our markets and economic endeavours, so that we can return to our professions and earn the merits of our travails.

Be not misled by the sirens of our national past. This struggle is not about austerity or growth. This struggle is about the future of Europe. We stand at the brink of ruin. Indecision and pettiness threaten everything that we have achieved. Let us now unite and stand up against decadence and decay. We are not impotent. We, the citizens of Europe, shall act.

We shall take to the streets and declare our will to establish this federation in a constitutional act, based on reasoned discussion. We demand our governments to lay out a plan for us to congregate and to agree on a constitution that will determine the powers of this Federation, of its states, its regions and its cities. This constitution shall be approved by popular referendum in all our nations.

The European Federation thus created will advance our joint aspirations and common interests, and below its powerful arch the magnificent diversity of our peoples and cultures will flourish.

Therefore, rise up, citizens of Europe, and declare your will and determination!

The hour of history has come. To allow our nations to flourish we must overthrow those dying structures of the past. We must not tolerate the dithering of our politicians: they must hear our voice! And we shall act now, before it is too late.

This, citizens of Europe, is your hour. Do no longer rely on the powers of the past but grasp the future in your hands. Rise up and take to the streets!

My phone rang. I woke up. The *S-Bahn* was driving into Potsdamer Platz, I had to get off. There was no grey man, no young boy with a crown and no beautiful girl in the seats around me.

I must have been dreaming.

IV.

EPILOGUE The *finalité* of European integration is a field for visionaries, and therefore nothing that would play a prominent role in the day-to-day preoccupations of crisis-managing practitioners. While acknowledging the crisis as an unmistakable symptom of the fact that the eurozone's institutional status quo was no longer tenable, we tend to be more concerned about guiding its instability into a new steady-state rather than worrying about the dimensions of the latter amidst the broader political, legal or even historic picture. Instead, we find ourselves in the mode of 'muddling through', primarily preventing, whenever necessary, developments from spiralling out of control.

Being comfortable with such incremental and pragmatic, by definition messy, problem-solving 'step-by-step' is certainly one thing that Germans should learn from Britons. This is not the time to apply a pre-cooked plan to the solution of thoroughly studied problems. It is the time to address the next urgent question whenever it comes up and with the means available, reinventing your toolbox of applicable instruments as you go along. Only with the benefit of hindsight and at those rare moments of calm can one look back and clearly see that each brick laid down in great haste and without an overarching plan has actually found its place and destiny within a new edifice that slowly is starting to take shape.

My greatest worry at this juncture is not the lack of clarity as regards the design of some future European Federation. The greatest current problem – besides all the practical demands of managing a sovereign debt crisis among different sovereigns sharing the same currency – is the parallel, prevalent and indeed much more dangerous and fundamental crisis of democratic legitimacy in Europe. The uneasiness of British liberalism and nationalism with the increasing powers of 'Brussels' and the rise of non-conformist and inherently non-cooperative political movements across Europe are but two of many symptoms of the fact that what indeed is most in need these days is the popular, democratic assertion of the public space. This public space is distancing itself ever farther from the cognitive grasp of the layman, and its complex transgression is evolving at the mind-numbing speed of a natural phenomenon beyond human control.

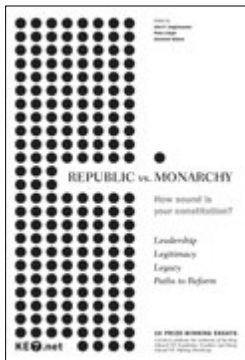
Our efforts at overcoming the debt conundrum have worsened this crisis of legitimacy. Propping up the problem-solving capacity of European institutions has outdistanced the required increase of democratic control and accountability. The failure and decay of sovereign nation states (expressed in their shortfall of credit and dreaded "austerity" as its inevitable consequence) has only contributed to the erosion of democratic governance, while a new, federal seat of democracy at the European level has remained as elusive as ever. The institutional genesis of true, European democracy has hence not kept pace with the growing technical body that is trying to come to terms with the monetary, fiscal and financial sins of the past.

It may be asking too much from the protagonists of sovereign nation states to enact their own demise, and I realise there is currently no 'political entrepreneur' around to kiss awake the sleeping beauty of Europe's demos. Estrangement and discontent with the political establishment may be the

only unifying grassroots theme at this moment, linking people together across former borders through the internet.

Maybe at this point there is only one thing that the practitioners of continental crisis-management, the dreamers of European federalism, the detached adherents to British sovereignty who still wish the eurozone well and the estranged crowds in the streets of Rome, Nicosia and Dublin can agree upon. But this one thing is far from being the worst point of departure: Change.

For example: Treaty Change.



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The book was published in April 2012. (ISBN 9 7839 8150 3500)

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