

# Why a 'Oui' Is Not Enough

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May 30 issue - This Sunday, France votes on a new European Union constitution that few voters have read. It's 300 pages long. Instead, they'll be venting on the European project itself, on the prospect of welcoming new members like Turkey, on French leaders who have pushed for closer union, namely Jacques Chirac. A yes vote is sure to be seen as a reaffirmation of EU policies, and a no will bring predictions of political and economic stagnation, even an unraveling of the union.

The constitution does provide for some important organizational changes, including the establishment of a new EU president and a foreign minister. But no matter what happens on May 29, the sad truth is that the EU's economic and political institutions have become dysfunctional. And nothing in the proposed constitution is dramatic enough to really fix that.

France, Germany and Italy have failed to reform their labor laws so that their workers and firms can become more adaptable to hypercompetition from other nations. The big countries of continental Europe have abolished all pretense of the fiscal discipline that would be necessary to trim astronomical social-security costs. The EU has not been able to scale back its massive agricultural subsidies. It has not invested enough in science and technology. It is stalling when it comes to opening up its member-state economies in areas such as financial services. Caught between the United States and China, Europe is unable to compete successfully with either. It's no wonder that multinational companies such as IBM and General Motors have announced plans to reduce their work forces in Western Europe by more than 10,000 people each, or that firms like Novartis have moved R&D operations across the Atlantic.

While the Brussels bureaucracy has been expanding to accommodate 10 new members, European citizens are feeling increasingly divorced from the supranational entities that have been created. Last summer, for example, voter turnout for the European Parliament was scandalously low. On a national level, leaders like German Chancellor Gerhard Schroder and French President Jacques Chirac have failed to tell their citizens just how much it would take to restore dynamism to the EU.

The implications are ominous. Germany, France and Italy—60 percent of the GDP of the euro zone—could see growth slow from the current, anemic pace of 1.5 percent. Unemployment rates, already in double digits, could move higher. Such conditions would provoke even louder calls for protectionist measures in the world's largest trader, one that accounts for 30 percent of global economic activity. In an era of intense globalization, this would be a serious blow to North America, Asia and other regions.

Under these economic pressures, anti-immigration sentiments, already running high, could get worse. They could be part of growing extremism on both the left and the right that leads to political paralysis all over the Continent. It is also easy to envision an EU that turns inward and loses interest in providing leadership on international

problems from curtailing the spread of nuclear weapons to increasing foreign aid to impoverished Africa.

Finally, the EU model of a regional group dedicated to extensive levels of internal cooperation—while strengthening democracy and eliminating regional wars among its members—has been highly attractive to countries of Eastern and Central Europe, many of which are obsessed with gaining membership (for instance, Turkey and Ukraine). In addition, Asian and Latin American nations have been trying to emulate the EU example in organizations such as ASEAN and Mercosur. The failure of the European Union to deliver on its promise would raise fundamental questions about the viability of these efforts and could lead to resurgent nationalism on three continents.

Other national referendums will follow in June, but because France has been so much at the heart of European integration, its vote is likely to be the most influential. I'd rather see the referendum pass, because the alternative could spook confidence and embolden those who would destroy the EU, making things worse than they already are. But there would also be a problem if a majority of yes votes deluded European governments into thinking that the EU is on track, for such complacency would lead to a continuation of the EU's demise at home and on the world stage.

Whatever happens, therefore, the EU needs a massive jolt in order to make dramatic policy changes. This includes deregulating the workplace and upgrading universities, reining in budgets and farm subsidies, creating one unified market for financial and other services, and enhancing two-way communications not just with member governments but with European citizens. Here's hoping.

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