

Why Europe failed, Part 8

By Oliver Hartwich, 14 September 2015

This is the eighth and final chapter covering Oliver Hartwich's essay "*Why Europe Failed*", an analysis of an ageing Europe, burdened by the size of its welfare state. He draws cautionary lessons for New Zealand's policy makers. You can read the full version [here](#).

This eighth section is titled "European lessons for New Zealand". Part I is [here](#). Part II is [here](#). Part III is [here](#). Part IV is [here](#). Part V is [here](#). Part VI is [here](#). Part VII is [here](#).

A sketch of Europe's current problems

This essay was meant to draw a rough sketch of Europe's current problems and put the grand European integration experiment into its historical context. In doing so, it discussed the result of a power play in European politics that started during the Cold War and embraced Germany to control it.

But the European integration project always suffered from an inherent flaw. There never was a European demos to drive the political and economic integration. European integration has always been a top-down, elite driven project. National interests have not been superseded by a European vision. On the contrary, national interests and egotisms are still alive in Europe. Though this integration project has never been too popular with ordinary voters, any dissent has been sedated by the stunning growth of the welfare state.

A once war-torn continent has been politically stable and strife free for 70 years

Despite these shortcomings, the EU has achievements to be proud of. The biggest one is the creation of a common market in which people, goods, capital and services can cross borders easily. The Schengen Agreement allowing for passport-free travel across the continent is another success. A once war-torn continent has been politically stable and strife free for 70 years.

But Europe is also battling socio-economic realities on many fronts. Its governments are heavily indebted, and its populations are ageing and shrinking. The euro crisis has brought many of Europe's previously hidden economic problems to the fore.

For us in this part of the world, the tyranny of distance from Europe has finally turned into a blessing. Now we have to make sure we do not repeat Europe's mistakes. But what are those European mistakes that can be avoided in New Zealand? And what are the lessons we can learn from Europe's integration disaster?

Fortunately, there are some elements of the European experience that will never have an equivalent in a New Zealand context. New Zealand's geographic isolation means it will not enter into any arrangements that will undermine its sovereignty and democracy as a nation-state. The only exception is its special relationship with Australia, which has become more integrated over the past three decades of Closer Economic Relations. But even in New Zealand's relationship with Australia, integration is unlikely ever to pass the threshold of shared political institutions or monetary union (even though it used to be discussed in the past).

Elites have captured the political decision-making process

New Zealand should nevertheless pay close attention to two aspects of the developments in Europe. First, the way in which elites have captured the political decision-making process should be avoided here. Second, the rise of the European welfare state is a cautionary example.

Seen from the outside, the degree to which European affairs are not controlled by the peoples of Europe but by a narrow political elite is shocking. European voters are not presented with a clear choice on the course of European integration.

One should be careful not to equate democracy with good governance, the rule of law, or even individual liberty. Having said that, a well-functioning democracy can support all of these goals. Europe's democracy, however, can only be called deficient. European integration meant that an extra level of decision-making has been placed between Europe's citizens and their leaders. Ordinary Europeans are far removed from the most important decisions affecting their continent. They have no direct or meaningful say on issues such as Europe's monetary union, agricultural policy, or foreign relations. There are simply no elections that would be fought over such issues.

Europe's leaders have shown an elitist streak

New Zealand would do well to avoid letting its political elites from becoming as distant from voters. In a small country such as ours, this temptation may be easier to resist than in a densely populated continent such as Europe. But it is not just size that matters but attitude. Europe's leaders have shown an elitist streak that we should never let any politician get away with in New Zealand.

Europe's first lesson: distrust the distant political elites

The more we can strengthen the connection between citizens and their representatives, or rather citizens and political decision-making, the better. This means more elements of direct democracy and greater devolution of political power to the community and local government. Seen in this light, the creation of the Auckland super city and further attempts to amalgamate councils are all steps in the wrong direction. They remove government from the people it is supposed to serve. Europe's first lesson is to distrust the distant political elites.

The second lesson: be watchful of the rise of the welfare state

The second lesson is to be watchful of the rise of the welfare state. In Europe, the welfare state was a means of buying political power. Of course, the bribed electorate always paid for its own bribes. However, the arrangement worked for as long as new spending commitments could be financed through higher taxes, more debt, or indeed a combination of both. As government spending has now reached around 50% of GDP, and as the debt load stands at worrying levels, the European welfare state model has reached its limits. Europe's demographic change will make it even harder to maintain the welfare state in the future.

New Zealand needs to avoid a replay of this 'welfare state and debt' disaster. Fortunately, our own spending and debt levels are substantially below Europe's. But our society will age too, and there is always a temptation for politicians to buy their way to power through the welfare state. Europe shows where such policies can lead to.

In their report *Guarding the Public Purse*, Bryce Wilkinson and Khyaati Acharya have shown how demographic change will affect New Zealand's public finances over the coming decades.

One of their observations was that under current policies, government spending on social welfare, including health and education, was projected to rise from 24.6% to 28.2% of GDP between 2011 and 2061, due to ageing alone.²¹ This would move New Zealand to levels currently experienced in Europe.

In New Zealand we have the luxury of being three or four decades behind Europe's demography curve. But this does not have to mean that we will be experiencing Europe's problems 30 or 40 years later. It should mean that we have 30 or 40 years of finding ways to prevent a European replay by finding different answers to the challenges facing Europe today.

Conclusions

The standout reasons for Europe's decline are its elitist political system and its inflated welfare state – and the interrelations between these two.

Europe no longer rules the world. Nor can it hope to regain the dominant position it once enjoyed. Europe's decline is entirely self-inflicted. It is a continent that first destroyed itself in two world wars. It then weakened itself by inflating the activities of the state while creating a bureaucratic, isolated, and elitist superstructure in the form of the EU. It also wrecked its monetary system by introducing a common currency that was never going to work and caused more problems than it ever solved.

In many ways, Europe is a case study in how not to conduct one's economic and political affairs, which makes it all the more worthwhile to pay attention to European affairs so we do not repeat their mistakes here. But don't hold your breath. Short-term political gains through welfare spending is too tempting for politicians anywhere and too beguiling for voters.

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This is part VIII and final installment of a serialisation of his essay "*Why Europe Failed*". Part I is [here](#). Part II is [here](#). Part III is [here](#). Part IV is [here](#). Part V is [here](#). Part VI is [here](#). Part VII is [here](#). You can read the full integrated version [here](#).