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**Albrecht Dürer, Self-Portrait at 28, 1500**

Dürer's rise to fame marked the beginning of a new era in European art. Born into a goldsmith's family in Nuremberg, then a major European trading centre with a strong Humanist community, he was the first of many German artists to travel to Italy and study Renaissance art at its source. Fascinated with its theoretical foundation, he spent a large part of his life trying to systemize natural phenomena and puzzling over the nature of beauty. In true Renaissance fashion, he occupied himself with a wide range of subjects, including geometry, perspective and a seminal theory of human proportion. Self-portraits not part of a larger religious scene were a novelty at the time, and the self-confidence evident in this painting is not just that of a well-travelled, successful man. It also reflects a new understanding of humanity's position in a universe that is still ruled by God but subject to natural laws that allow human beings to explore, manipulate and control it.

# Europe's three crises

by **John Richards and Henry Milner**  
Co-publishers, Inroads

THE DEADLY BOMBING OF MADRID TRAINS ON MARCH 11 IS THE MOST VISIBLE symbol thus far of several crises that have converged to shake European self-confidence.

Foremost among these crises is the eruption in the lives of bourgeois Europeans of the seething discontent in the Muslim world. Pious militant Muslims have challenged French republican traditions of *laïcité*, prompting legislation to ban the wearing of religious symbols in schools. Criticism of Israel (by Muslim and non-Muslim leaders) now veers into anti-Semitism; synagogues in France have been burned. A survey of Muslims in Britain concluded that one in eight thought future Al Qaeda attacks on America would be justified. London police recently captured large quantities of bomb-making materials. Islamic militancy has been disrupting life in the usually calm cities of Belgium and the Netherlands.

Another crisis, less traumatic but important, is the unresolved tension over the future of the European Union (EU). At one extreme are the federalists who believe the logic of history calls for the EU to evolve into a superpower able to counter unipolar U.S. hegemony. At the other extreme are the Eurosceptics who view the Union as a pragmatic free trade arrangement devoid of supernational aspirations. Debates over the proposed EU constitution and the position in it of the ten new Eastern European members have brought this crisis to the fore.

From Sweden to Italy, continental Europeans enjoy the world's most generous social programs. To date, these welfare states have generated prosperous, relatively egalitarian societies. But ...

The welfare state has given birth to a third crisis. As the European population ages and the birth rate remains low, demographic projections imply an inexorably rising ratio of non-taxpaying older people to taxpaying workers. Over the last two decades, European electorates have resisted increases in tax rates, while at the same time rejecting politicians proposing to curtail public services, bargain aggressively with public sector unions or impose user fees. The combination of these demographic and political realities has placed France and Germany in the embarrassing position of violating the Maastricht Treaty's deficit rules – rules on which they had insisted as preconditions for the credibility of the euro. Without major changes in the structure of European social services, far worse fiscal imbalance looms over the coming decade.

These three crises are intimately interwoven. Thus, the demand to join the EU by Turkey, a large Muslim country, entails the first and second. The British, who tend to view the EU as a trade arrangement, support Turkey's application. The French aspire to lead a politically integrated Europe, are traumatized by the rise of politicized Islam within France, and view Turkey as yet another impediment to furthering political union among core EU members.

Unemployment among Muslim immigrants illustrates the interweaving of the first with the third crisis. The generosity of European welfare states attracts immigrants, including many Muslims from North Africa and the Middle East. Concentrated in poor, ethnically homogeneous neighbourhoods, often with poor-quality schools, children of these immigrants often fail to achieve the education levels required to earn reasonable incomes. Consequently, they suffer high

unemployment – above 25 per cent in many European countries – and disproportionately rely on social assistance and public housing. The combination of a deep cultural cleavage and chronic unemployment creates recruits for politicized Islamic movements. In reaction, many “old-stock” Europeans have come to embrace the anti-immigration politics of the political right.

### **The first and second crises –**

These crises and their interrelationship are far too complex for our section on Europe to survey comprehensively. However, individual articles shed light on aspects of the crises and how Europeans are grappling with them. Consider first the matter of making constitutional sense of the new Europe of 25.

Creating institutions that allow 25 sovereign countries – diverse in size, language, economic standards, political ideology and degree of identity with European institutions – to work together is one of the great challenges of our time. The draft constitution is the latest round in a series of efforts to bring about a workable compromise. Last year, Spain, backed by Poland, refused to accept the draft constitution's proposed weighting of votes in the EU's most powerful body, the European Council. The conflict risked bringing the exercise to a halt.

Whatever the differences among EU leaders over the war in Iraq and policy toward Israel, they all fear the use of terror to intimidate democracies. The Madrid bombing has catalyzed pan-European cooperation to counter terrorist organizations. Unity on this theme may extend to the new constitution. The new Socialist Spanish government, seconded by Poland, says it is ready to accept the proposed voting formula.

But while the Madrid bombing has enhanced chances of constitutional agreement, the matter is far from settled. Any compromise reached at this June's meeting of the European Council will have to be ratified by member states, several of which are required to resort to referendums. Britain, a country whose citizens have always been ambivalent about ceding jurisdiction to Brussels, recently joined the list of those intending to subject any draft constitution to a referendum.

The impasse over the vote-weighting formula resulted from decisions at a meeting of the European Council in Nice in December 2000. At Nice, politicians adopted new rules on qualified majority voting for an expanded EU by simply extending the rules governing the existing 15-member body. The generous voting weight of medium-sized Spain was retained and extended to Poland, so that each had almost as many Council votes as did Germany (27 compared to 29), with less than half Germany's population. The decision at Nice made efficient decision-making close to impossible.

Understandably, Germany led a campaign to undo the Nice formula and render the EU more effective. The Council set up a 105-member European Convention, chaired by former French president Valéry Giscard d'Estaing, with a mandate to propose a new EU treaty. Successive treaties, it was argued, had created overlapping legal texts that needed to be consolidated into a single document. In July 2003, the Convention presented to the Council a draft treaty to establish a Constitution for Europe. Because the Convention acted through consensus, seeking wording acceptable both to those who desire a federal Europe and to those who do not, the final text inevitably contained ambiguities.

On the voting formula for the Council, the draft constitution proposes replacing the complex system of weighted votes with a double majority rule: a law would be passed if supported by a majority of countries, representing three fifths of the EU's population. This proposal obviously deprives Spain and Poland of the advantage they had secured in Nice – hence their initial opposition to the constitution. As an aside, the formula bears a similarity to the “7/50 rule” for Canadian constitutional revision, whereby changes require approval by two thirds of the provinces representing at least 50 per cent of the Canadian population.

In terms of awarding more power to EU institutions, the most important proposal is to end member states' veto over matters of justice and home affairs. Under the proposed constitution, EU policy on refugees and asylum will be decided by majority vote. Criminal law for serious crimes having cross-border implications – such as drug-trafficking and corruption – is to be harmonized. National governments will continue, however, to exercise a veto over EU foreign policy, to control their own armed forces, and to raise their own taxes.

The draft proposes an awkward formula for the EU executive (the European Commission). It will be composed of 15 voting European commissioners and 15 nonvoting commissioners, with countries taking turns occupying each type of position. It also gives more legislative power to the European Parliament, which gains the right to participate as an equal to the Council in deciding on matters of justice, agriculture and even the EU budget. While there is no unanimity over these proposals, there is room for compromise.

It now seems that the EU will probably muddle through and adopt a constitution, while leaving longstanding differences unresolved. Cumbersome procedures and awkward asymmetries – such as Britain, Denmark and Sweden refusing to adopt the euro – remain. Yet muddling through is not necessarily a bad thing. Perhaps the best way to see the achievements of European integration is to leave the cacophony of Brussels and observe Europe's regions.

Two articles in this section examine developments that have taken place in Britain. John Loughlin argues that neither devolution of power to Scotland and Wales nor the Good Friday Agreement in Northern Ireland would have been possible had Britain and Ireland not joined the EU.

One factor making possible the agreement in Northern Ireland was the responsible role of the Irish Republic. This in turn was due, in no small measure, to the prolonged economic expansion of the “Celtic Tiger” made possible by its EU membership. Loughlin argues further that the EU environment fostered workable compromises – in the form of devolution – to the national question in Scotland and Wales.

Charlie Jeffery looks at recent political developments through an analysis of the results of the 2003 elections in Scotland, Wales and Northern Ireland. The Scottish Parliament and Welsh Assembly have functioned well, though they have not lived up to – perhaps unreasonable – early expectations. However, the 2003 election marked the breakdown of power-sharing in Northern Ireland. Operations of the Northern Ireland Assembly remain suspended. The co-operation needed for a coalition of elected representatives of the Protestant unionist community and the Catholic nationalist

community has proven unattainable.

In the role played by divergent ethnic-religious nationalisms, Ireland shares features with Belgium. Paul Lucardie describes the emergence of a Flemish ultranationalist movement, the Vlaams Blok. Lucardie's main focus is on more dramatic developments in Belgium's neighbour, the Netherlands, where Pim Fortuyn's LPF enjoyed a meteoric rise and fall. Fortuyn was a flamboyant gay intellectual-turned-politician, the antithesis of the staid image that characterizes the Dutch. His ideas evolved from Marxism to espousal of a libertarian critique of Dutch corporatism. His demise at the hands of an assassin is the stuff of melodrama. Central to his phenomenal rise was his proposal to solve the first of the three crises. Fortuyn argued for limits to immigration into the Netherlands and less tolerance of immigrant cultural norms. He wanted more aggressive policies to integrate immigrants into employment, into adoption of the Dutch language and into acceptance of Western norms of sexual tolerance.

The country that has engaged the debates over public policy toward Muslims most intensely has been France. The immediate catalyst for debate has been the law, adopted by the National Assembly in February, to ban the wearing of conspicuous religious symbols at school.

Given the importance of this issue, we have assembled four contributions. Riva Kastoryano, a researcher with France's Conseil National de Recherche Scientifique, has written extensively on European immigration. She launches the discussion with an article that summarizes the history of the “veil affair” in France and lays out the implications of what she calls the “transnational nationalism” of militant Islam. Three

regular Inroads contributors – Linda Cardinal, Laurent Dobuzinskis and Philip Resnick – respond. Taken together, this collection offers perhaps the most thorough exploration, with a Canadian perspective, of policy dilemmas arising from the challenge of integrating Muslim immigrants.

### – And the third

Swedish economist Richard Murray's contribution is inspired by the third crisis: paying for the welfare state. He has written a sober assessment of the fiscal pressures impinging on Sweden: a rising share of people beyond working years, who will make increasing demands on tax-financed health services; generalized expectations of improved quality of public services; demands for infrastructure investments; rising unit costs of public services; and finally, constraints blocking further increases in the tax share of GDP.

These pressures have arisen across the industrial world. After a few years of fiscal surplus at the end of the 1990s, the typical (median) country of the Organisation for Economic Co-operation and Development (OECD) is again in deficit.

One of the attractive features of Swedish public discourse is an ability to address honestly the painful tradeoffs that politicians must make. Relative to many countries – including Canada – Sweden makes decisions with minimum political fuss. Contrast Canadian and Swedish responses to deficits in the early 1990s.

After 15 years of continuous deficit financing, Canadian politicians in the late 1980s had yet to agree how to balance budgets. When the recession of the early 1990s hit, federal and provincial revenues fell and

social insurance payments rose. The aggregate public sector deficit peaked in 1992 at 9 per cent of GDP. In 1993, we elected Jean Chrétien on a platform that damned as mean-spirited the timid efforts of his predecessor to balance the federal budget. Only when foreign financial markets in 1994 threatened a selloff of Canadian public debt – as befell Mexico – did the federal cabinet accept the obvious: voter resistance to tax increases was profound; financial markets mistrusted government fiscal projections; and fiscal redress required spending cuts.

The recession of the early 1990s was more severe in Sweden than in Canada. A combination of a burst speculative real estate bubble, an overvalued krona and a decline in export demand led to massive increases in unemployment. In 1993, the Swedish deficit peaked at 11 per cent of GDP. With relatively little political turmoil, the Swedes reduced public spending and restored fiscal equilibrium by the late 1990s. In contrast to Canada's two decades of continuous deficits, continuous Swedish deficits lasted only seven years.

One conclusion about contemporary fiscal reality is that electorates in OECD countries want a halt to the tax increases that accompanied the growth of the welfare state. (As a general rule, about two thirds of public spending in industrial countries is for programs at the core of the welfare state: health care, education, social assistance, old age security, and unemployment insurance.) The politics of containing spending within the tax revenue available has been contentious, as groups committed to further spending increases battle groups refusing higher taxes. Canada's tax/GDP ratio peaked in the early 1990s slightly below 45 per cent. In recent years

it has fallen back to about 40 per cent, the same ratio that Brian Mulroney inherited from Pierre Trudeau in the mid-1980s. The tax/GDP ratio of the typical OECD country (as measured by the median) behaved similarly: it rose slightly, declined slightly, and ended the two decades within one percentage point of where it was in the mid-1980s.

Murray refers to pressure to lower taxes that Sweden faces from its European Union partners with lower tax rates. This pressure is about to become more acute with ten new EU member countries having modest welfare states. A comparable problem exists for Canada since we are adjacent to the United States. The U.S., traditionally a low-tax country, has become an even lower-tax country in recent years as a result of George W. Bush's tax cuts. The cuts are evident from the decline in the U.S. tax share of GDP from about 35 to 30 per cent since 2000. Like Molière's character, unaware he was speaking prose, Bush has become a Keynesian, defending his (highly regressive) tax cuts as appropriate means to stimulate the U.S. economy. Given the magnitude of the cuts and the projected growth in U.S. public debt, there may be a U.S. fiscal crisis later this decade.

Where does Canada fit in terms of spending? In the 1980s, Canada was close to the median; for a few years in the early 1990s, we were more generous than the typical country; since the mid-1990s, we have been among the less generous. Canada's public-sector spending has now returned to the share of GDP prevailing in the mid-1970s. Given that Canada is now among the leaner welfare states, the case for further reducing the relative size of government is weak.

Both countries – Canada and Sweden – are at this point doing somewhat better than the typical OECD country in terms of budgeting: both enjoy small positive public-sector balances (in terms of national income accounting). But all OECD countries – in Europe, North America and Asia – face the third crisis of rising costs of social services, expectations of improved quality of service, entrenched public sector unions and resistance to further tax increases.

In Canada, what should we learn from all this?

On the taxing side, the priority is not to reduce overall taxing effort but to design more efficient taxes able to generate roughly the present tax/GDP ratio with fewer distortions of economic activity.<sup>1</sup> On the spending side, we must make tradeoffs if government social programming is to remain credible. Perhaps the most painful decisions concern health care spending. Must we run current budget surpluses and lower the debt/GDP ratio over the next decade to accommodate projected increases in spending on health care for the old? Do we allow a larger “second tier” of private care, or in other words privatize at least some portion of the health market? And, if so, which portion? How do we ration the health care of terminal patients? Do we, as Murray suggests, levy user fees for some publicly financed health services? Do we experiment with “internal markets” (an innovation pioneered in Scandinavia) to generate competition between health providers within the public sector? On these and other questions, Richard Murray's article has good advice for Canadians as well as Swedes. ■

<sup>1</sup> On this subject, we recommend Jon Kesselman's *Tax Design for a Northern Tiger*, a monograph published by the Institute for Research on Public Policy in March.



Artemisia Gentileschi, *Judith Beheading Holofernes*, ca. 1625

Ever since Gentileschi's rise from art-historical obscurity a few decades ago, much has been made of the connection between her life and the matter-of-fact depiction of violence in this painting. Although her personal experiences would certainly have influenced Gentileschi's art, the subject itself was not unusual; in fact, it was a staple of the Catholic Baroque. The Apocryphal story of the Jewish widow who sneaks into the enemy camp with her maid and avenges her husband's death was treated by virtually every Italian painter of the day: it gave artists an opportunity to showcase the dramatic light effects and general theatricality favoured by a Catholic Church keen on taking advantage of the Protestant aversion to religious imagery. What is remarkable here, apart from the hyperrealistic depiction of two women murdering a man with no sign of hesitation or remorse, is the absence of God's helping hand: whatever is being accomplished here is accomplished by humans. In treatment, if not in subject matter, this is an entirely secular painting.