

## The European Triple Crisis of 2010

by *Brendan Simms*

The concept of crisis is well established in historiography and political science. It probably first gained currency in the famous discussion on the ‘general crisis of the seventeenth century’, proposed by *Hugh Trevor-Roper*.<sup>1</sup> Then there were the spin-offs such as *Peter Clark’s* collection on the crisis of the 1590s.<sup>2</sup> Social historians also like to group together revolutionary crises, such as those which rippled across Europe in 1830, 1848 and 1968. Students of diplomacy, for their part, link such simultaneous crises as the Swedish Revolution and the First Partition of Poland in 1772, the famous double-crisis of Suez and the Hungarian Rising of 1956, and that of 1962, the year in which the United States and the Soviet Union went to the brink, while India and China actually did come to blows in the Himalayas. Last but not least, economic historians look at the Stock Market Crash of 1873, the even greater Wall Street Crash of 1929, the Oil Shock of 1973/74, and the Stock Market Crisis of 1987. Various journalists, financial commentators, and political scientists have already begun a first stab at understanding the great financial crisis which hit the western world in the autumn of 2008. *Andrew Gamble*, for example, has spoken of a “Capitalist Crisis”.<sup>3</sup>

I have no idea what historians will say about the first half of 2010, or what lies ahead before the twelve months are over, but it strikes me that this year has already seen a *triple crisis of European integration, German geopolitics, and Britain’s position in Europe* which will fundamentally shape the new decade.

If the crisis which struck the United States in 2008 began at the heart of its financial system in New York, the economic turbulence roiling Europe today began on the periphery of the Union. By the end of last year, the larger states had weathered the financial fallout from across the Atlantic. Smaller countries such

- 1 *Trevor-Roper, H.*: The General Crisis of the Seventeenth Century, in: *Aston, T.* (ed.): Crisis in Europe, 1560-1660, New York, 1965.
- 2 *Clark, P.* (ed.): The European Crisis of the 1590s. Essays in Comparative History, London, 1985.
- 3 *Gamble, A.*: The Spectre at the Feast. Capitalist Crisis and the Politics of Recession, Basingstoke, 2009.

as Ireland had restored confidence, albeit at great social cost, through a severe programme of retrenchment. Germany and her steady chancellor *Angela Merkel* seemed to have had a “good” crisis and the general sense was that the Eurozone, at least in its Franco-German rather than its “Club Med” incarnation, was better equipped to cope with the global financial storms than the “Anglo-Saxon” and Anglo-Celtic (if one includes Ireland) turbo-capitalism of the past three decades. Then the Greek crisis struck, exposing not only the failure of the EU to do its financial “homework” before admitting that country to the Eurozone on the strength of manipulated statistics, but also the vulnerability of the Union to a sovereign debt default at the geographical margins.

All this has thrown the old debate about the future of the European project into sharp relief. One side argues that the way forward is through inter-governmental cooperation without threatening national sovereignty of member states. The other holds that only complete political integration, which merges the individual states into a new supra-national entity, can generate the cohesion necessary to tackle the challenges which lie ahead. At the moment, the Italian political scientist *Sergio Fabbrini* argues, Europe is a union of states rather than a state. One could add that the term “European Union” is therefore a misnomer. It might be better to refer to the “European Confederation”, because its structure more closely resembles that of the German Bund after 1815, than the United States after 1787. Be that as it may, *Fabbrini* claims that we therefore have to develop a new understanding of the European Union’s foreign and fiscal policy. It is a “compound democracy”,<sup>4</sup> an association of democratically-elected governments which itself has no government and demos, and – so *Fabbrini* avers – can never have one to avoid the risk of permanent majorities. Unlike classic unions, which come together to concentrate power, the EU is designed to defuse it.

This analysis hits the nail on the head as far as the present reality is concerned, but recent events have tested its prescriptive strength. Many European politicians believe that the economic crisis requires a radical rethink of the Union’s constitutional architecture. There are essentially two options. One – which was floated by France and Germany – is to create a ‘two-tier’ Euro system. This would group together robust northern European countries such as (possibly) France, Germany, Holland, Austria, Denmark and Finland, while relegating the weaker Greece, Spain, Italy, Portugal and perhaps even Ireland to the sickly “southern” tier.

4 Cf. *Fabbrini, S.*: *Compound Democracies. Why the United States and Europe Are Becoming Similar*, Oxford, 2007.

Unsurprisingly, this scheme does not appeal either to ardent integrationists within the EU bureaucracy, or the candidate countries for relegation. To them, the answer lies in a tighter form of political and economic governance for the Union as a whole. The slogan “integrate or die” has been heard not only in the council chambers of Brussels and the capital cities, but also among the publics facing economic Armageddon on Europe’s periphery. Indeed, the European Commission’s proposal that there should be greater supervision of budgets at EU level – in effect creating a financial panopticon diluting national sovereignty – secured 49 per cent approval in Ireland, with only 36 per cent opposed and 15 per cent undecided.<sup>5</sup> The days when the Irish Finance Minister, *Charlie McGreevy*, lectured his European counterparts on the need to reduce taxes, and when the Irish deputy Prime Minister, *Mary Harney*, described her country as “closer to Boston than Berlin”, are clearly over.

So far, the Euro crisis has largely passed Britain by. Its potential implications, however, are enormous. This is not just a matter of the economic fallout of a Eurozone collapse, which would damage British exports. It is not even primarily a question of Britain’s financial exposure to the new Euro bailout fund, to which London is committed – albeit not as extensively as the members of the currency itself – on the strength of her obligation to EU disaster management. The real issue is how Britain will react to any new integrationist heave in response to the growing financial crisis. Unlike in Ireland, the proposal that the EU budget Commissioner be permitted to scrutinise national budgets has provoked derision. As *Marta Andreasen*, a member of the United Kingdom Independence Party for South East England, has pointed out, this process would allow, say, “the Greek finance minister (...) to question how much the British Chancellor spends on equipment for troops in Afghanistan, or the Portuguese minister might tell the French that they should reduce their unemployment benefits.”<sup>6</sup>

All this looms at a time when Britain has its first Eurosceptic government – at least as far as the Foreign and Defence Secretaryships (held by *William Hague* and *Liam Fox*, respectively) are concerned – for some thirteen years. Mr *Hague* has been surprisingly muted on the subject of Brussels recently and has even spoken of Europe as a force multiplier, but his attitude towards further integration is certainly hostile. It may be in the end that London will not just avoid joining the Euro, but will actually seek to escape liability for the collapse of that

5 Cf. *Irish Times*, 12.06.2010.

6 Cf. *Andreasen, M.*: As Crisis Bites, EU Grabs for Power, in: *Sunday Telegraph*, 20.06.2010.

project by leaving the Union altogether. Just what effect that would have on relations between the (Northern) Irish, Welsh and Scotch peripheries and Westminster, is impossible to say. One way or the other, the stakes are high.

In the end, however, the question of European economic integration will be determined by Berlin. Germany has been affected by the crisis, but not as badly as some. The German banks worst hit by the crash were those which exploited the laxer regulatory system in places like Ireland to indulge in practices which were illegal at home, and then got their fingers burnt. Economically, therefore, Germany is vulnerable through losses in her exports; politically, she is even more exposed as the financial guarantor of last resort of the whole system. For about fifty years since the signing of the Treaty of Rome in 1957, Germany was happy to oblige. European integration enabled her to propitiate guilt about the Nazi period, secure economic benefits for her productive industries, promoted Franco-German reconciliation, and served as a vehicle for the covert articulation of national ambitions that otherwise dared not breathe their name.

German enthusiasm for the European project had already began to wane a few years ago, but the Euro crisis has brought matters to a head. In part, this reflects popular outrage at the thought that German taxpayers might have to extend their pensionable age in order to allow the Greeks to retire early. It also reflects a sense which is growing in Germany – as across the Union – of a fatal “democratic deficit” at the heart of the European project. The critical factor, however, is the generational shift in German politics since the late 1990s. The chancellors of today – and the nation collectively – have stepped out of the shadow of the past, and they no longer automatically subscribe to the pieties of the immediate post-war generation. In 2002-2003, for example, *Gerhard Schröder* broke with *George W. Bush* over Iraq in a way that would have been inconceivable for *Ludwig Erhard*. The last few years have seen clashes between *Angela Merkel* and the French President *Nicolas Sarkozy* which would have been unthinkable in the time of *Francois Mitterand* and *Helmut Kohl*. And now, in the past few months, Berlin has shown extreme reluctance to jump into the final breach over the Euro; indeed, Chancellor *Merkel* has been punished for her belated willingness to bail out the Greeks with German taxpayers’ money by an election defeat in the key region of North-Rhine Westphalia.

Germany, in other words, no longer seems to need the EU, or at least now longer as badly. It is surely for this reason that, as *Jean-Claude Juncker* has remarked, one now misses a German willingness “to take domestic political risks for Europe”. Indeed, the German political philosopher *Jürgen Habermas* has

charged in a recent interview that Frau *Merkel* had “squandered much of the capital of trust accumulated by her predecessors over four decades.” He argues that “after *Helmut Kohl*, our political elites underwent a sweeping change in mentalities.” In particular, this involved a return to “normality as a nation-state,” effectively wanting to be “like the others,” which excused Germany from her special role and responsibility in driving the European project forward, or even just preventing its collapse.<sup>7</sup> Likewise, the Labour MP and former British Europe Minister *Denis MacShane* has pointed to the “triple stalemate” arising from Frau *Merkel’s* domestic woes, which is undermining the Chancellor’s ability to grip problems at the European level. “To solve Greek-style crises,” he writes, “Europe needs more power over national governments. To keep the Eurozone afloat,” however, “Germany has to put off the tax cuts German voters clearly want. Yet, [t]o get EU growth going, Germany cannot do all the exporting.” In short, *MacShane* concluded, “the lack of leadership in Germany clouds the EU’s future.”<sup>8</sup>

If generational shifts are part of the explanation, the deep roots of this development are to be found in the profound shifts in European geopolitics since the fall of the Berlin Wall. Not only does the Soviet Union no longer exist, but thanks to Poland’s membership of NATO, Berlin enjoys a substantial buffer between itself and *Vladimir Putin’s* Russia. From being a strong supporter of NATO’s eastwards expansion, sponsoring applications from Warsaw and the Baltic states, Germany is now a firm opponent of further entry, at least for the moment. The Ukraine and especially Georgia found this out to their cost in 2008. All this is well-known if little understood. Its significance for Germany’s attitude towards the EU lies in the fact that European economic and political integration and European security – though separated by the creation of NATO – were always seen as inextricably connected; the Union’s attempt to reforge the link through the ‘Common Foreign and Security Policy’ is proof of that. And traditionally, no country stood to become more secure through European integration, hence Bonn’s support, for example, for the European Defence Community scheme of the early 1950s. The best that could be expected then was German unification within the framework of a united Europe and a protective western alliance, which would deter the Soviet Union and its satellites.

7 See “Merkel has Depleted Her Capital of Trust within EU” (interview with *Jürgen Habermas*, *Irish Times* 12.06.2010, 15.

8 *MacShane, D.*: The Real European Stalemate. It’s in Germany, not Britain, in: *Newsweek* 24./31.05.2010, 18.

Now it seems that Germany can have it all: a European common market, German unification, NATO security guarantees, and a substantial eastern buffer, while giving less and less in return. This may be a risky calculation, of course. At the moment, Germany is swaddled in protective NATO and EU clothing: were this to be stripped away, she would very soon find herself exposed again to the rough and tumble of the world outside. But whether it is justified or not, the potential implications of Germany's shifting attitude to the EU and European integration generally are enormous. We expect Unions to disintegrate because of centrifugal tendencies on the periphery. It would not have been a complete surprise, for example, if a Eurosceptic government had taken Britain out of the EU over the past thirty years, or if the Greeks, Spaniards, Portuguese and even the Irish decided to exchange the Euro for their old currencies in order to stave off financial disaster and restore competitiveness. What nobody has reckoned with is the phenomenon of "central secession." This proved particularly lethal in the case of the former Yugoslavia, where governments and analysts were so preoccupied with Slovene and Croat separatism that they failed to see that the real dynamic was coming from Belgrade, the heart of the confederation.<sup>9</sup>

At the moment, a full-scale central secession from the Union is remote. Germany is not Serbia, Berlin is not Belgrade, and Frau *Merkel* is certainly not *Slobodan Milosevic*. The problem lies in the fact that Germany's undeniable disenchantment with Europe will be disruptive, even if she does not behave badly. It used to be a commonplace among students of the German question – once exaggerated but now completely forgotten – that a Germany cut loose from her moorings would upset the European equilibrium through her political and economic weight. If the Greek public rails against German "dictation" now, how much more agitated will it become if the influence is exerted unilaterally from Berlin, rather than through the consensual channels of the EU?

On the other hand, German weakness rather than assertion may have an equally profound effect. As the British-based analysts *Luis Simon* and *James Rogers* have just pointed out, there has been a reduction of US power and interest in Europe under President *Obama*, who has not only shown little interest in expanding NATO further, but also controversially withdrew under Russian pressure

9 Cf. *Conversi, D.*: Central Secession: Towards a New Analytical Concept? The Case of Former Yugoslavia, in: *Journal of Ethnic and Migration Studies*, 26 (2000), 333–355.

from plans to establish a missile shield in Poland and the Czech Republic.<sup>10</sup> They argue that this policy has created a security vacuum on the North European plain. Germany – still very much a ‘civilian power’ – will be unable to fill it. It may be that, as the authors demand, Britain steps into the breach and pushes forward European military integration, but seems unlikely under the present British Foreign and Defence Secretaries. More probably, as *Edward Lucas* has recently claimed, we shall see Russian attempts to increase their influence in central and eastern Europe.<sup>11</sup>

Where all this leads to is completely unclear. In September of this year, Spain will have to refinance its foreign debt. If the markets have serious doubts about its ability to repay, and if the EU crisis funds are insufficient to see off the speculators – or are not deployed to do so – then Spain will default. This might trigger the sovereign debt crises along the southern periphery of the Union that Brussels fears so much. If the European Union has not given itself the political and administrative architecture to deal with these threats by then, in other words, to use *Fabbrini’s* terms, if Europe fails to become a single rather than a compound democracy, there will be inter-governmental mayhem over who is to pay for it all, and how the collapse of the Eurozone is to be managed. This might well drive Germany back to the *Deutschmark*, and towards the policy of oscillation in central Europe which its own and all other western elites have feared for so long. One way or the other, it seems that though dramatic the crises of 2008–2010 have been so far, the real drama still lies ahead.

10 *Simon, L./Rogers, J.*: The Return of European Geopolitics. All Roads Lead through London, in: *Journal of the Royal United Services Institute*, 155 (2010), 58–64.

11 *Lucas, E.*: *The New Cold War*, London, 2008.