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**Europe Economic Crisis and the Rise of Populism, Nationalism, and
Extremism**

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HEATHER CONLEY: Well, good afternoon, everyone. My name is Heather Conley. I'm senior fellow and director of the Europe program here at the Center for Strategic and International Studies. And we are delighted that you are going to join us for I think a very important discussion about the European economic crisis. But we're not going to talk too much about the economics, although that will be an important part of the discussion.

So instead of focusing on the rising borrowing costs and the size of bailouts and firewalls, we're actually going to take a look at the rise in popularity of some populist, nationalist and extremist voices and parties across Europe, and what that means for Europe, what does that mean for the United States and what does that mean for the future of the transatlantic relationship.

The larger question that I hope we dig into today a bit is how do democracies work through major societal restructuring, painful reform and long-term deleveraging. And the other part of the question I think that we need to dig into a little deeper is the unforgiving impact of Europe's debt crisis on its youth. And we're seeing just staggering levels of unemployment among European youth.

Quite frankly, the upcoming May 6th Greek elections will provide us I think with some very important knowledge about how societies, exhausted from austerity, are going to respond. So joining me for this discussion, I am delighted to have four distinguished journalists and keen observers of European politics as well as economics joining us today.

With us, Jim Hoagland – I'm just going to go right down the line here – contributing editor for the Washington Post. We have Chrystia Freeland, Reuters global editor-at-large, Christian Wernicke, U.S. correspondent to Sueddeutsche Zeitung, and last but not least, Christopher Caldwell, senior editor at the Weekly Standard.

However, before we begin and dive into this discussion, we thought it might be helpful to help frame our discussion a little bit. And we have a very brief video clip we would like to show you. So I'm going to have Scott queue that up and we'll take a look. (Video clip.)

All right, let's jump into the discussion here. And Jim, we'd love to start with you. As a Paris-based foreign correspondent for both the New York Times and the Washington Post, as the Washington Post foreign editor and a very valued opinion columnist, you have literally watched the European project evolve over many decades. And you've written extensively on the topic.

I was struck by an op-ed you wrote in November of last year. And it was entitled, "We Are All Greeks." And I think it's important to note that the U.S. is going to go through some similar challenges as we work to reduce our debt and make some structural reforms. But in the op-ed, you noted: "The Greeks are forerunners of what the rest of us are becoming. They have been making promises of low taxes and high benefits that they could never afford to keep."

I thought that that was important. Help us understand the bigger picture at play here, and thank you for joining us.

JIM HOAGLAND: Well, thank you. I should say first of all about that particular column, I wrote it shortly after I had sold a small piece of land that I'd bought in Greece in 1975. So I knew a little bit about how Greeks didn't pay taxes because, since 1975, I'd paid very little in property taxes. So I was writing from a firsthand experience with that.

You know, normally it's the job of an analytical journalist to find the clouds in every silver lining. But after that incredibly downbeat opening, I think it's probably my job to reverse that and perhaps see if there's some glimmers of hope –

MS. CONLEY: Good.

MR. HOAGLAND: – in this dark picture that we received. Otherwise, I fear you will go out of here and commit suicide at the end of it – or even worse, go out and sell all of your stocks before I get a chance to sell. (Laughter.) So I want to look very briefly at the three points I think that we want to concentrate on.

The first is, what kind of changes have been produced and what will be produced in Europe by the economic crisis. Secondly, how well have European leaders managed this crisis so far, and finally, effect on transatlantic relations. There have been a number of structural and I think growing psychological changes in Europe as a result of the financial meltdown that began in 2008 and the economic and debt crisis that have followed that.

The debt crisis will have my undying thanks forever if it does nothing more than having swept the Berlusconi government out of power in Italy, and especially since Mario Monti, a man who is suitably impressed by the task that he faces – but he's not overwhelmed by it – has become prime minister there.

I think something of the same can be said of the well-meaning but ineffectual Socialist Greek government that was swept out after having admitted what the truth was, a sin for which they were punished. In Greece in particular, and it is a country that I spent time in, I think there is a psychological – and a beneficial psychological change beginning to occur.

Greece is finally being forced by this crisis to face up to a system that was corrupt, mismanaged and tremendously inefficient and in which the elite, in particular, participated in that corruption. And that was a little bit of the underlying theme of that column in which I said that Americans who rail constantly against tax increases but are unwilling to use them to pay the bills that we are running up are in essence doing the same thing the Greeks did for 30, 40 years.

Let's see how that goes. The Greeks have also become aware that they have joined a currency that they really can't afford and will probably have to leave. There is the – there are the effects that you heard a little bit about and I think you'll hear more about as we begin to delve into this subject.

Law and order has suffered because of this economic crisis. You've seen violent protests both in Spain and in Greece in particular, countries that have a strong strain of anarchism in their

politics in normal times. There is intensified scapegoating of immigrant populations throughout Europe.

But I think the economic frustrations and disappointment are not yet fueling a new and durable gains – or big gains – among extremist parties. I think it's notable that in France the most likely outcome of the May 6th election is the coming to power of a rather bland, reassuring François Hollande and the Socialists. Hollande began his campaign by promising to be a normal president, which is kind of an amazing thing.

He's drawing a contrast between the very excitable and interventionist Nicolas Sarkozy and a more reassuring figure like himself, he claims. It's notable that the French election result – well, the French campaign as portrayed by a cover on The Economist magazine recently was not about how angry the French are or how they're seeking out radical solutions, but they are in essence in denial about their own economy. And I think that's an accurate case.

So in France – actually the Front National, the extremist right wing party, has lost a little bit during the course of the campaign in terms of percentage polls. The big political phenomenon there has been an energetic leftist professor named Jean-Luc Mélenchon who has gained primarily, and particularly among the youth, because of his energy, because of his charisma, not because he is offering policies that will deal with this problem.

I think the effect of the Greek election, if it is on May 6th, as it probably will be, will be to bring the two major parties, as discredited as they are, back into some kind of power sharing arrangement. More and more I think you see that result in Europe – forced coalition governments.

Briefly on the management side, how have – how have the Europeans managed this crisis? Not very well; I've criticized particularly Merkel in print. A lot of us have, I think, and will probably continue to. But in fact, her sideways movement toward this situation we have today where the German population, the German public is acquiescing in a tremendous expansion of the ECB's – the European Central Bank's role –

Actually she's achieved that; I don't know if she intended to get there but that's where she is. She's kept a lot of powder dry to deal with the economically important countries – that is Italy and Spain – who face the kind of problems that the peripheral countries have been going through. It's time for her to use that leadership, particularly since, as I say, the French Socialists are likely to win. They're on the record as demanding a renegotiation of the budget debt crisis pact and that's going to create a lot of confusion at the beginning.

Final word on transatlantic relations. The European debt crisis has brought Europe to the center of attention of the Obama administration, which is a change from where it was. It really began last June when President Obama hosted Chancellor Merkel for a dinner here in Washington and set out the kind of Europe, the kind of Germany that he would like to see going forward. Up until that point, the president had been through a series of illusory romances, if you will, with China, with India, with the Group of 20, with practically anybody who would come along, except the Europeans.

He is now focused because of the danger – and I’m sure for other reasons as well – but I think it’s important to note he’s focused because of the danger of his own reelection falling prey to an economic collapse in Europe. So he’s sent Tim Geithner repeatedly to Europe. He’s hammered – by and large been a force for good in Europe on this issue, much more active than before. You can see this in his rather open favoring of Sarkozy’s reelection, his new friendship with David Cameron. But it’s not a strategy. It’s a foundation of contacts on which in the second term I hope he will build on that.

I hope this does not come across as Panglossian. It is historically optimistic. I’m a historic optimist because of my own background.

And so I hope that perhaps Europe today faces – is in a crucible and out of that crucible will come the needed change and needed reordering in the European political and economic superstructure. And I think that’s the primary lesson that comes out of the crisis for the Europeans. What they have today doesn’t work.

MS. CONLEY: Jim, thank you so much. Chrystia, as a former U.S. managing editor of the Financial Times and now at Reuters, you’re interviewing some of the top economic and political leaders. I think you’re particularly well-placed to help us understand the economic picture that’s really fueling the political challenges that we’re seeing. I watched you do an interview, I think it was last year during the London riots.

And you mentioned that you really felt, quote, “the really radical austerity program that the Cameron government was imposing was in fact fueling some of those riots.” Chrystia is also the bravest person I know. She went on the Colbert Report to talk about the Europeans debt crisis, and I think that’s extraordinary. So Chrystia, welcome; your thoughts and comments.

CHRYSTIA FREELAND: Well, thank you very much, Heather, and thank you for the invitation. The Colbert thing was indeed terrifying because one of the questions he asked me was that was just at the time that Berlusconi had made that horrible comment about Angela Merkel and he asked me what I thought about it. And that was a hard thing to respond to on TV.

Anyway, thank you for the invitation – wonderful to be here with people who I have read for a long time and I respect very much, including you, Heather.

MS. CONLEY: Thank you.

MS. FREELAND: I want to start just quickly by responding very, very briefly to a couple of Jim’s points and then I’ll make a few of my own. I disagree on Angela Merkel. I think actually given the hand that she was dealt, she has played it in an incredibly politically adept way. If you think of the political constraints she faces within Germany, both the cultural ones and the domestic, political ones, I think she’s done a terrific job of bringing Germany along; I’ll be interested in whether Christian agrees or disagrees with me.

Second thing on – I very much agree with Jim on his crucial U.S. point about how Europe right now, very interestingly, I think, is playing into the U.S. election.

I think – sort of consensus, political-wonky opinion right now is the election is President Obama's to lose. And the two exogenous things which could lose the election for him are believed to be – and I think are – something happening with Iran or the world economy falling apart and probably starting to fall apart in Europe. So I think in a very real way you can say, you know, what happens in Berlin may have a greater impact on the U.S. election than anything that happens in the U.S. in the next six months.

And then, just finally – very interested to hear Jim talking about François Hollande. If you are interested in him and you can read French, I urge you to follow him on Twitter. He's absolutely great on Twitter, really, really fun to follow and a great way without a big time commitment to see what's going on in France.

So then, just a few points. You know, it's a very big question that Heather has asked us to address. And I'm not going to try to give you sort of the ultimate answer., but I'm just going to make four points, things to think about.

The first point is I think the really central thing that this crisis has shown – Jim said it shows that Europe doesn't work. I think one way it shows that Europe doesn't work is actually there's a democracy deficit at the core of the European Union. And that's a very big deal because the European Union was founded in this sort of incredibly idealistic, humanistic sort of set of beliefs about human beings, about their role in society, about how the state had to treat them.

And yet ultimately, and what we're seeing very clearly right now is it was founded in a very non-democratic way. It was a construct of technocrats who knew that they were right but believed that their ignorant people were not quite ready to accept the rightness of their view. And so quite intentionally, you know, sort of a roach motel was created. You can get in, you can't get out – (laughter) – of the economic union.

And you know, it wasn't an accident. They didn't do this by mistake. And very consciously the idea was, you know, the economic union will work so well, we will all love each other so much that in due course we will form a political union. And maybe – you know, the idea was maybe a few crises along the way to push things forward.

Well, that has happened, the crisis part. And you know, what is I think, you know, at the core of some of the stresses that we're seeing in Europe right now is European people are saying, wait a minute, this is supposed to be, you know, this humanistic beacon to the world, but the people who are running the show aren't the people we elected, even – you know, I agree with Jim, who could not be pleased about Monti replacing Berlusconi. But that's hardly the triumph of democracy.

Second big issue that I think Europe is facing today, and this is something that Chris Caldwell has written about a lot – and also someone who, if you're interested in this issue, I urge

you to go find online, David Goodhart, the founding editor of Prospect – is Europeans I think are now confronting the question of is an expensive social welfare state consistent with a heterogeneous society.

Are people willing to pay the high taxes and extend that warm and loving support of their neighbors towards people who are very different from themselves? I think, you know, the European technocrats, and actually a Canadian like me, would like to hope that the answer is yes. But I think what a lot of European societies are finding is it's hard to get to yes when you ask that question.

Third sort of big issue that I think Europe is facing – and related to that second one – is a demographic crisis. And you know, that's, you know – I think probably all of us could talk about that, well-known, we understand its parameters, blah, blah, blah. But the interesting twist I would urge you to consider in thinking about Europe's demographic crisis is I think it's also a crisis of autocracy.

My personal theory, and I speak as a working mother of three, is in a Western industrialized scientific society, the only way you're going to persuade women to have a lot of kids is if you are a pretty feminist progressive society. In a patriarchal place like Italy, women just are not going to have kids. There's just way too much work to do, and they have the choice.

And I think it's quite interesting, if you look at the birth rates across Europe, feminist Sweden is one of the few places that is managing to have a reasonable birth rate. France still pretty patriarchal, but the state has taken over the role of the husband in an equal partnership. So I think that that's – (laughter). It's true. So I think that –

MR. HOAGLAND: It's worse than I thought.

MS. FREELAND: So I think that that's sort of an important set of issues to think about when you think about where Europe is right now. And then the final area that I think we should consider – and you know, I've worked and studied in Italy, Britain, but also in Ukraine and Russia.

And so this is a perspective from that eastern periphery of Europe. I think, for me, one of the saddest and most dangerous consequences of the weakening of Europe right now at the core is the impact it is having on the periphery.

When historians look back on Europe in the 1990s, I think they are going to reflect on what a tremendous success the European idea was at bringing Eastern Europe into the civilized, successful world. And the Poles are particularly interesting to talk to about this.

If you talk to someone like Aleksander Kwasniewski or Alex Sikorski – different ends of the political spectrum – the Poles will say to you as soon as Communism collapsed, for us the national uniting mantra was Europe. And we would do whatever it took to get into Europe. We would pass whatever crazy laws they asked us to pass; we didn't even understand the laws, but we would pass them because we knew that that had to be where we were going. And you saw

that in that whole sort of crescent of countries on the eastern periphery – including, actually, Turkey. A lot of Turkey's current success – and again, you know, speak to the Turkish leaders – owes to that – can be traced to that Turkish desire to make themselves more appealing to Europe. And then, that was a very important counterweight to all sorts of dangerous tendencies in those countries.

Now that Europe is both not as shining an example and also much weaker and much less able to devote the attention to the countries along the borderland, I think there is a real risk that we're going to see lots of backsliding there. We're already seeing it in Hungary.

Imagine what Russia, and indeed Ukraine, would look like if Europe were strong, vital, rich, vibrant, able to devote a lot of attention to its eastern border. A lot better. So that's sort of a fourth place where I think we're seeing a very powerful and sort of dangerous to the whole world ripple effect from Europe's woes.

MS. CONLEY: Chrystia, thank you so much. All right, Chris, you've got a tough act to follow. Although your day job is actually reporting the news from the United States as the U.S. correspondent – you were a Brussels-based correspondent from 2002 to 2005 – the early years – as the euro project developed, and also a European correspondent for Die Zeit, and – from 1996 to 2001.

I would love your – obviously, your sense of the internal German dynamics in this, but would also appreciate your perceptions of the growing anti-German sentiment that we're seeing in the south in Europe because of the perception that the chancellor is imposing this difficult austerity, and how does the German foreign policy and economic policy react to that. So we look forward to your comments. Thank you.

CHRISTIAN WERNICKE: Yeah, well thanks, Heather. And thanks for your patience with some very probably German – not ideas, but German references here. I know this thing that I got to tell you at the beginning. It's a little old; I think it's 10 days old. But I've been out in New Mexico on vacation and without Internet. So for me it was new yesterday.

Angela Merkel finally is visiting Greece and she said that border control, which – and they asked her what is your name – Angela Merkel – what is your nationality – German – (well then ?) your occupation – no, no I'm just coming for vacation. (Laughter.) And that's – I've just – the German foreign minister is in town and I spoke to his spokesperson and he said he received that email twice over the last week, and they know they have a problem there.

I'd also like to make basically four points. I'd like to talk a little bit about what's drove the German crisis management of the euro crisis, a few remarks on European future, and since we just heard also some remarks on the European past I guess I'd like to comment on that, as well. And on the populism and finally I think that I would address two or three basic misperceptions that I especially observe here in D.C.

Regarding the German crisis management. I think that nobody in Germany – certainly not the government – had any plan for this crisis. What they are doing now is they – looking

backwards, they try to define what they did as a plan, as a strategy. It is – in a way, it's also a little bit unfair probably to expect a full strategy with this thing because nobody had anticipated this. There certainly was nothing in the drawers in Brussels, either.

So this muddling through what you called kind of like brilliant management of a crisis, I wouldn't be that positive about Madame Merkel. But she – you can now, looking backwards, you can detect some, like, driving forces. And one thing certainly is that the German government is trying now to make Europe a little more German. And they do it with an approach that is very German and fits pretty well, not to Europe but to Brussels.

It is establishing rules, and that's basically the kind of economic thinking, economic policy thinking that's driving the federal republic since its founding 60 – more than 60 years ago. It's what we call in Germany ordoliberalismus – auto-liberalism, which means basically that you set rules and then you let the markets follow these rules.

But this includes – may also include rules that are nitty-gritty sometimes. It, certainly, also includes something that seems so difficult to address in the U.S. – environmental policy, climate change and all this kind of thing.

It's – what you try to do is find market-regulated solutions. But you give clear binding rules and – that's especially Germany and Merkel's problem – you force other people to follow that rules. And the Germans – this kind of auto-liberalistic approach is – worked quite well, at least for the first 30 years of the federal republic. And typically, of course, it's the CDU, the Christian Democrats, who are turning back to this because their founding period was very much saved by that party.

The problem is only that this rule-based economic policy, which you can by decree, by a council of ministers decision, by a European summit decision so that you can – like, you can set it out there. The problem starts when it meets reality and it meets the different European cultures, and certainly different economic – different economic cultures in different countries.

And there, the tests are still out there. The problem, of course, is that I see in the long run we have – we are in danger of – Alex would say, put it in more dramatic words – risking the – not only the innocence but also value of the European project, because what we're doing at the moment is we're turning Brussels or Europe into something that looks pretty closely to what the IMF used to be in the '80s for Latin America.

I mean, you are – you – Brussels, and behind Brussels, always anticipating – always seeing Germany as being the bad cop and how long that going to last, that'd be very – very, very difficult to see. And the Germans are aware of that. I just asked the foreign policy – their foreign minister spokesman – you probably all heard about the story about the Greek retiree who killed himself last week because he was so desperate about the economic situation in his own life.

And it's just amazing. You look into, like, almost confused eyes whenever you ask any of these guys, did anybody of the German government send any note of regret or condolences to

Greece? I mean, because this person, this suicide has – I mean, it's – for many people certainly in the periphery of Europe, a symbol. And I don't see the Germans really have – the Germans, the German government has a concept to deal with that.

And just a few points on the populism. There is no danger of this as in an organized form in Germany. I mean, when you look apart from the extreme left, all parties in Germany are basically subscribing to what the German government has forced in or onto Europe. There will be some differences on how you deal with euro bonds, or so on.

But if you think – if you think, let's say, let's assume the next five years, I don't see that from Germany itself, there will be a huge change like of policy as would probably assume if we have a change of government in France.

What it leads to in Germany, it reinforces a tendency – the whole euro crisis – it reinforces a tendency that I as a person who deals mainly with foreign policy and German foreign policy – I regret very much. It reinforces the reluctance to lead. Reluctance to lead is now denounced in European terms as a reluctance to pay.

I mean, when people address now this problem that the Germans are hiding, then the answer is you get, well, what do you mean leadership; they basically want our money, they don't want our leadership. Which is in some cases not even untrue, but in some cases, also – of course, a German argument that reinforces strange positions like not joining – not joining the battle to free Libya last year. And I'm afraid this will – this will have a lasting effect.

I can – I cut it short here just a little bit. Just two remarks on the American perception of the euro crisis. OK, I'm living here in an English-speaking country and I understand that the main sources of the American and Washington people who are still interested in Europe are reading English newspapers. The problem is, many parts of the English press – or the British press or the Anglo-Saxon press or whatever you call it – don't understand the whole project.

And that's somebody, as somebody who's worked eight-and-a-half years in Brussels and had got brainwashed a little bit there, regrets fundamentally. I mean, when you look – the Democratic reaction to what has happened during the last two years in Europe is basically, yes, Obama is afraid that another crisis could cost him reelection. So Germany, don't be so strict. Don't let the Greeks cause any trouble or the Italians or the Spaniards. Open your pockets.

This does not work because that – Merkel, who is doing this balancing act; I think she could have done it much more brilliantly, but in retrospect, she's surviving with it. She has 60 percent approval rating, by the way. The Democrats at the moment are only worried in terms of reelection and they have a more – yeah, they don't understand this historically-founded German angst about too much public debt.

Now, so they don't understand what Merkel's policy basically is. The Republicans don't understand the motives for the German policy. The motives is – are – and that's why it's still a balancing act.

The German government, they make these announcements, and people don't – and that's one of the reasons why they mix manage it because Merkel has created a lot of distrust. But they're coming up with this, like, really fundamental creeds and beliefs that they're doing this – like saving Greece, let's put it this way, for a fundamental belief in the European project itself.

The idea that for utilitarian purpose, you give up the European Union, or you give up the euro, is not something – is not how the people in Berlin think. So a cost-benefit analysis like what I see very much in the Anglo-Saxon press for why do the Germans do that – a real cost-benefit analysis doesn't get the point.

So in a way, yes, the Germans want to keep the price low. But they will pay the price. And at the end, they will pay any price. So in that regard, that is something the Republicans I think in this country really don't get. I mean, when I see that Romney in his foreign policy speech says there are three countries most important for us and this is Israel, U.K. and Mexico, I'm wondering in what world is he living. What is he talking about?

I'm not asking him to say Germany there, but he needs to understand that the European Union needs to be somewhere in the place. And if he wants to get it, then he certainly cannot put the U.K. on place 10 or 12. Thanks. (Laughter.)

MS. CONLEY: Thanks, Chris. All right, closing up, Chris Caldwell, your 2009 book, "Reflections on the Revolution in Europe: Immigration, Islam and the West," was a very important book that looked at how policies are being shaped, and perceptions – and one quote jumped out at me.

You said: "The most important problem in Europe is the fallout from decades of mass migration. The most important moral value in Europe is democracy. There is sometimes a striking lack of confidence in the latter's capacity to address the former."

And I'd love your thoughts, not only on all of our other panelists' wonderful insights and comments, but particularly as you see the immigration debate in Europe. And Jim talked about the scapegoating – President Sarkozy's very strong anti-immigrant message of the last few weeks. Help us put that into some context.

CHRISTOPHER CALDWELL: Yeah, well thank you for – thank you for having me. I think democracy is a big part of this story. But I would say I think that populism has undergone a shift in the last – both populism and our understanding of it have undergone a shift in the last 10 years or so. It has changed focus.

I would say 10 or 15 years ago when we worried about populism, we worried about movements that, although they played by democratic rules, showed some kind of anti-democratic sentiment or some kind of anti-democratic lineage that made them suspect and made us wonder what would happen when they came to power.

And these would be groups like the National Front in France, Joerg Haider's party in Austria, the Vlaams Belang, the Vlaams Belang in Flanders. We looked at these parties. We

saw a certain xenophobia, a certain discomfort with the new, multicultural societies that were developing in Europe. They were unsavory people. I don't think that that's the big focus of populism today.

Something has changed. I would say this does not mean that the fallout from decades of mass immigration are not a problem. It is a huge problem. Europe is not equipped to handle a multicultural society in a way that the United States has. It's neither content with having parallel societies of minorities in its midst nor is it content with melting these people into the main culture.

It doesn't have an answer to this. And as a result, even in the midst of the finance crisis, you see anti-immigrant parties doing pretty well, like – as in Sweden for instance – parties like Jobbik, which is a minority party and is not in the government in Hungary but which is an extremist party.

However, I think the main energy of populism in Europe has shifted. And I think that what populists in Europe are worried about most now is Europe. I think the main – the main – and by Europe, I mean the European Union. I think the main area of populist resurgence in Europe lately has been on the French left. And what the French left has done in the last year is really quite impressive.

You know, you had Arnaud Montebourg running as a great underdog in the first ever French Socialist party. And he ran on a platform of what he called de-globalization. And he got a good – he got a shockingly high percentage of the vote. OK, so the Socialists now have their party. François Hollande – their candidate, François Hollande. And you have a candidate, Jean-Luc Mélenchon, who calls himself an apostle of Chavez in Venezuela – and this morning, that the endorsement of Korea and Ecuador, and is putting 70,000 people in the streets in Toulouse. This is really something.

What are these people upset about? What Mélenchon says he's upset about is the fiscal union that the European Union wants to impose to get out of the debt crisis. And Mélenchon describes the resistance to this fiscal union as a devoir – as a patriotic duty. I think Mélenchon is sometimes a little bit confused about the European Union. He wants to nationalize. He likes the idea of getting rid of the nation-state but he still wants the nation-state around so it can do the one thing that nation-state is in his mind there for which is nationalizing industries. And it's a sort of similar contradiction to the one that the German Left Party has. They have similar rhetoric.

Nonetheless, this is really – this is really what's happening in populism now. And it's shocking that Mélenchon has risen towards, you know, 15 percent of the vote. I think democracy, as some of us have discussed, is really central to this. And everyone on this panel seems to have – to share the view of how could we not be pleased to see Silvio Berlusconi replaced by Mario Monti.

Well, I'm not pleased. I think what you have is a democratically-elected head of state – or head of government replaced by a non – or a semi-democratically elected head of government.

I will freely admit that Mario Monti is the better economist. I will freely admit that if I had to choose one of the two men to babysit my teenaged daughters, it would be Mario Monti.
(Laughter.)

But the question is not, you know, who is the better guy. And there's a disturbing drift – this is disturbingly part of a pattern of a sort of exit from democracy. You have this. You have the – I mean, you have the departure of Papandreou and his replacement by – Papademos came after Papandreou suggested holding a referendum on a debt agreement that would bind his people for at least a generation.

Then you have the very troubling thing that the German finance minister said on a – it was only on a radio show in Germany a month ago. But what he said was that Greece ought to consider suspending his – suspending its elections in order that it could install a more technocratic government along the lines on the ones that – the one that you had in Italy.

So I think we do have a – I think we have a basic problem with democracy here. Populism now is not about – there are invidious parties, but I think the real energy of populism in Europe comes from people who feel that their hands have been taken off the levers of controlling government and they want to get them back on somehow. So I have more today, but let's – maybe we can open it up from there.

MS. CONLEY: Absolutely. Thanks, Chris, so much. Thank you all for some really insightful comments. Chrystia, I've never heard Europe referred to as the roach motel. So that's a new one.

MR. CALDWELL: Beautiful.

MS. CONLEY: I have to drop that one down. What I'd like to do is I'd like to pose – take the moderator's prerogative, pose a few questions and then really open up the floor for a good discussion and debate. One, I want to sort of – my first question, I want to get down to the practical. Let's do a very quick diagnostic of the upcoming Greek election.

And I think there was a reason why Minister Schäuble was thinking along the lines of perhaps Greece should push the elections off. Right now, if you believe the polls, it looks like over eight parties will enter parliament from the extreme right – the Golden Dawn – to the extreme left – the Communist KKE Party, which is a very strident Stalinist.

I think it's one of the last Communist parties that truly is Stalinistic. They're going to potentially be in parliament. Many of these smaller parties do not support future bailouts. Now, come June, the Greek parliament has to pass an additional 14 billion euros in cuts for its next tranche of funding. Is this where democracy and austerity are going to collide?

If again, as Chris said, you know, the rules-based approach that this – that Brussels and Berlin is foisting, what happens when the country just says no more, no more – and that would argue, OK, we're going to – you know, is there a disorderly default or a structured default or an exit out of the euro?

But what happens when the democracy just says, no, I'm not going to this. I'd love to just go quickly down the panel, Jim, just starting with you, just sort of any reaction to this. And interestingly, the second round of the French elections also will be on May 6th. So if Monsieur Hollande is the winner, we'll have two very powerful messages from Europe about how the project will proceed. Jim?

MR. HOAGLAND: If your vision comes true, the markets will go to hell –

MS. CONLEY: I fear.

MR. HOAGLAND: – on May 7th.

MS. CONLEY: I fear Monday is not going to be a good day, Monday, May the 7th.

MR. HOAGLAND: In fact, the markets even after the first round, April 22nd of the French –

MS. CONLEY: Yes, will react negatively.

MR. HOAGLAND: – will react to the Socialists being likely winners. On your Greek vision, what choice do we have? I mean, I don't think the Greeks have a lot of choice. I – what I see happening in that event, the one you've sketched out, is that Greece will go into a form of default – it's already in a form of default, in fact – and will be isolated from the eurozone and will eventually fairly quickly leave the eurozone. I think that result is going to happen anyway. But it can happen in a much more orderly fashion. So I think this is not necessarily fatal to Europe. I'll pass it on.

MS. CONLEY: Chrystia?

MS. FREELAND: Well yeah – no, I think that's a really important point. I guess the only things that I would add are it's not necessarily, you know, framing it as a collision between democracy and austerity. It's one way to frame it. Another way to look at it is what are the different interests are play.

And one set of interests is Greek interests versus European interests, and one negotiation which is going on is the Greeks negotiating with the rest of Europe. How much of the bill are we going to pay and how much of the bill are you going to pay? And actually, in that negotiation, you know, at certain moments the Greeks have had a pretty strong hand because, you know, Greece is small relative to the size of Europe or even the size of Germany. There have been moments when it would have been pretty cheap actually to just bail Greece out a hundred percent and not have the crisis continue. So, you know – and it's not dumb or undemocratic or un-technocratic of the Greeks to try to cut the best possible deal they can.

I think the other issue, and we probably won't be able to get into this so much, but there are lots of different national interests at play. And one of the things that I think it is really

important to look into when you're looking at how different European countries are handling these economic choices – these economic choices, is figure out what are the vested economic interests.

In Greece in particular there are significant business interests who happen to also be big media owners who have a lot of debt – debt particularly to the government, which would be much easier to pay off if it was denominated in a devalued drop month. And so, you know, these – it's not – it's not monolithic, you know, just as the politics of any nation aren't.

MS. CONLEY: Chris?

MR. WERNICKE: Just what he said; that's exactly the point. We could have solved this crisis in a much cheaper way if we had had a strategy that we now define as a strategy in late 2010 – the price would have been much lower. And I think that's a very historic mistake from Ms. Merkel.

MS. FREELAND: I agree.

MR. WERNICKE: But apart from that, picking up a point that Christopher made. Yes, the new populism is more on the left side. Yes, the new populism is partly anti-EU, but is anti-EU because the EU didn't manage the main thing they were trying since at least the mid-'90s and that is – and that's, for example, a slogan that the Schroeder government got elected by.

And we try to remember, Kohl, after 16 years in power he was this what we call heart of Jesus European – (inaudible, background noise) – and people got really tired of him in – also, in that respect. Nowadays, (now ?) a lot of people turn into Kolh-ianas (ph) because they are really disappointed by Chancellor Merkel. Now anyway, Schroeder came up with this different, new approach on Europe.

He didn't like Europe at all in the beginning anyway. But he had to address the issue. So he said, we now on – we don't do Europe because of the past; we do it for shaping the future. Shaping the future meant shaping globalization. And that was a theme that Tony Blair also had. That was a theme that Jospin in France had. And (someone like ?) Persson in Sweden was a leading guy on this.

And basically, so the populism today is basically, I think, a reaction to the failure of the European democratic left to address this particular issue. They, at the end – especially now in the euro crisis, Europe is seen as the Europe of the bankers and the capitalists, and it's doing the bailout not – not even for the Greeks, but for the Germans or the French banks or the city or whatever. And that kind of populism is dangerous.

I don't think it's so new. When I covered the referendum in France in 2005 that desperately went wrong – and one of the leading liars in this campaign was Mélenchon, already in that campaign. I mean, I remember traveling around with Danny Cohn-Bendit in, like, federal, European and green and former student rebellion leader having a T.V. discussion with Mélenchon. And, I mean, every second argument Mélenchon was using was just, in terms of

fact, totally wrong. But he was successful. He won. And he may win this time again. And that is indeed something that worries me much more than the result of the Greek crisis because I think part of the effort that we have seen in the last three, four, five months is to build up this firewall is a firewall towards the southeast. And it means, yes, we may risk to lose Greece, but we want to make sure there's no ripple effect.

MS. CONLEY: Chris?

MR. CALDWELL: Yeah, I think to address Greece first, Greece has some acute, as we know, financial problems. It's in primary deficit. If it doesn't pass those measures and it can't access markets, then you have an immediate acute crisis of the sort that you actually need to, sort of, like send care cards. You need charities in there therefore. However, the basic principle that the best way to, you know, regain competitiveness is to devalue a currency remains true.

And in the medium term – I mean, like after a mere period of months – I think that an exit from the Eurozone would strengthen Greece. And because of that initial shock, it would be just a mighty – it would be a roaring recovery of Greece. And it's – you know, it's much easier than European leaders like to admit or publicize now for these countries that default and understand why they've defaulted to re-access credit markets.

And that certainly happened to Latin American countries in the '80s and it happened in Southeast Asia after 1998. So I think the real danger for Europe is not that Greece could fail but that it could succeed, you know, which would create a whole different set of incentives inside the currency zone. And that's where Greece's negotiating power comes from, because I think the many good economists in the Greek government understand this.

About Europe – I mean, I think the general problem with Europe is that no one got what they wanted out of it in the end. I mean, the French thought – the French thought that the way Europe was configured, with Germany silenced by its sort of historic – its debt towards history after World War II – that France's voice would just be – that Europe would just be a megaphone for France. It would be a big France.

After, you know, after the Schroeder government came to power and Germany began again to reassert itself, you had eastern expansion which I think was an absolutely pivotal moment. And it's why – in France, it's why Ukraine would never be considered in the EU, because France has seen that what's happened is that this has created a powerful bloc of – you know, not just a workforce but also a lot of financial strategic depth for Germany.

And Germany is now the most powerful country in Europe. But Germany is very unhappy that it's stuck in this union whose purpose is actually to suck money out of Germany to pay for these things that are dreamed up in other countries. So I don't think that anyone is happy with this construct.

MS. FREEDMAN: Can I just add one thing to this point –

MR. CALDWELL: Yeah.

MS. FREEDMAN: – about the poor Germans because I do think that it misses one profound economic advantage that the Germans have from the EU and from the euro, you know, which is – a way to think about it is, within Europe, Germany plays the role of China.

And the EU was constructed perfectly to allow Germany to do that. And so, you know, it's a little bit rich of the Germans, you know, to be tsk-tsking those bad southern Europeans because without the bad southern Europeans, you couldn't have had this very powerful export-led growth of Germany, so.

MR. WERNICKE: No, it's true. I mean, that's part of the failure from Chancellor Merkel that she's not clearly enough explaining that there are two sides of an economic imbalance. One, they don't produce enough. They don't save enough. And on the other side, you have this country in which 60 percent of its exports are going to EU partner countries; probably more than that. I've got a little bit the old figures in there. But of course, and the other part is of course the European – I mean, what would happen if the euro failed? I don't think it will, unless you consider the loss of Greece would be an eventual failure already.

But look at the exchange rate. What would it be if the Germans would stand alone on the deutschemark? I mean, you will not be able to afford a BMW or Mercedes in the United States anymore, and the Germans won't sell it anymore. So in that regard, that's absolutely true. European integration is subsidizing German exports in a huge way and then – now, it's payback time, yeah.

MS. CONLEY: All right, let's bring you into the conversation. A question back here – and Harland here? We're going to wait for microphones to come to you. Alex, why don't you come here and then Richard from back there? If you can give us your name and your affiliation please?

Richard, go right ahead. Sorry, we're a little tight in here so we're going to have to get those microphones passed around. We'll just pass it. There you go. Please, sir.

Q: (Inaudible) – representing here myself. My question is very simple. Everybody agree(s) that Europe doesn't work and it needs to be fixed. What if it's going to be – if we fail to fix it, if the Europeans fail to fix themselves, what is the worst case scenario for Europe in five years – let's say, within the next five years?

MS. CONLEY: Why don't we take a couple of questions and then we'll bundle them up for you. Harlan, please?

Q: I'm Harlan Ullman, a recovering banker. (Laughter.) My question has to do with the financial crisis. At the very end of 1999, as you will recall, Congress in the depth of night legalized credit default swaps, which had been made illegal in 1908 after the 1907 financial crisis here. The ECB – European Central Bank – has just released over a trillion euros in long-term repo options. Do you see these as economic aspirin or powerful economic antibiotics or a lethal overdose of speed?

MS. CONLEY: These metaphors are great. Yes, Sally, please, back there and then we'll answer the questions.

Q: I'm Sally McNamara, representing myself. And I'm recovering from a stint where I used to be employed by the European Union. (Laughter.) I've got a question about something Herman Van Rompuy said but as a Brit living in America I feel I must make a quick remark to my German friend on the panel who took Mitt Romney to task for saying that Britain is a critically important ally.

Every single person on that panel said that Europe is now on President Obama's radar, but entirely for negative reasons. If the EU is on his radar and giving him a giant headache, why on Earth wouldn't you think the U.K. is even more of a special ally than we have said in the past? Britain shares more in common with America in terms of social, cultural, military values than the EU ever will. The EU is a manufactured entity.

And it's about to collapse, by all accounts, and from everyone on the panel. (Laughter.) Second of all, you also said the British press don't really understand the EU. Well, having worked in the EU, I think the British press are the only people who do understand the EU and that's the problem. My question goes to something Herman Van Rompuy said.

Herman Van Rompuy said that if the euro collapses, then the whole EU collapses. Dare we hope for such a thing or is Chris Caldwell right that if Greece does leave the euro, it will become a huge success and the European project might be exposed for what it is anyway and that's a giant 1950s solution to a 1960s problem. It is not an entity for the modern world.

MS. CONLEY: Sally, thank you. Wow, good food for thought. Boy, this is –

MR. CALDWELL: Excuse me, are panelists allowed to applaud?

MS. CONLEY: (Laughter.) No, no you're not, only at the end of the session. Let's see, we've got – it's like take an antidepressant and call me in the morning – worst case scenario for five years, are LTROs an aspirin – I think the fever is starting to come back if they were – and well, Chris, you're on your own with the Anglo-Saxon press issue and the U.K. So Jim, we'll just head down that line?

MR. HOAGLAND: Well, I think what our conversation and the questions have made very clear is that muddling through – simply buying time – is no longer a sufficient approach for Europe. We can debate whether Merkel has been brilliant or absent. But the fact is that she now faces the time when she has to exert leadership or we will be facing a move toward a worst-case scenario in Europe.

Over five years, what's the worst case I can think of? Renationalization of the economies and of defense, leading to the demise of NATO. That to me is a pretty – and a lot of economic turmoil, not only for Europe but for world markets. I don't think that, as I've said, Greece

leaving the euro is anything like the worst-case scenario. In fact, I think – I basically agree with Christopher Caldwell, although I don't see a strong economic resurgence by Greece.

About three or four years ago, I asked the then Greek economic minister what about their plans – this is before the crisis. And he said, oh, we have a bright economic future. We have tourism and we can increase our olive oil exports. And I got some sense Greece just does not have the exports to take advantage of a devaluation. They will be much more hurt by it.

I was talking last night to one of the foreign ministers who's in town for the G-8 meeting and I was disturbed, actually, to learn that there will be no discussion at this G-8 foreign ministers meeting of the discussion we're having here today. There will be no discussion of the political effects of the economic crisis.

And I think that's too bad. I think that's really a way to get to a worst case scenario. And in terms of aspirin or speed – (laughter) – Harlan, you always put your finger right on the problem – we have to stop muddling through and we have to have a strategy to pay our way out, I agree.

MS. CONLEY: Chrystia?

MS. FREELAND: So just touching on a few of the things that have been raised on, sort of, the nightmare scenario. My nightmare scenario is a little bit more basic. And it is, you know, if you were to have a disorderly collapse of the euro and not the peripheral countries. You know, I think that everyone now can paint a scenario even if, you know, they don't like to of a pretty strong firewall separating a Greek default and exit from the euro from the rest of Europe.

But imagine a disorderly collapse of the euro, default by some big countries like Italy or Spain. Then I think you have a global financial crisis that is bigger than the Lehman crisis. And we've already seen what the Lehman crisis was able to do to the global economy. The global economy is now also much weaker.

So for me, you know, my disaster scenario is much more a short-term one – that if things really fall apart at the center, then it's not so much what does this mean for Europe 10 or 20 years down the road, it's what does it mean for the world economy the next day?

And I think maybe it wouldn't be a Lehman-type disaster. But if there's even a 20 percent chance it's a Lehman-type disaster, I think that should be pretty terrifying for everybody.

And then just a comment on this question of Europe and the euro, and will it survive. I do think that we all have to listen quite closely to what Christian has to say because I think that those of us who aren't European and aren't continental European often don't really get – yes, frankly, the idealism and the faith and the belief that was at the core of the European project. I think the Germans and the French in particular believe in it very passionately. Lots of new Europeans do, too. You know, I mentioned the Poles. They're fervent Europeans. And I think for those of us outside – you know, I'm not American; I find American patriotism and passionate belief in American exceptionalism to be something I don't fully partake of – but I admire and I

see how it is such a powerful lifeblood of the American project. There's a little bit of that going on in Europe. And I think we shouldn't discount it entirely.

MS. CONLEY: Chris?

MR. WERNICKE: And about the drug – speed or aspirin – I'm really not good in medicine. (Laughter.) I just – I mean, reading what other people say about or, like Warren Buffet or so, who thinks this is really dangerous medicine, I'm skeptical about it. I think it's partly a reaction to the German incapability of coming – of coming up with constructive solution to the problem – euro bonds or whatever kind of way. I mean, basically what they are now tolerating, the ECB buying up public debt, is something according to the letters of the treaty is not legal. I mean, I'm amazed. This is a real violation of the auto-liberal approach the Germans usually follow because – but if this is by intention, I hope that they find a better solution. And in that regard a different kind of government in Germany, contradicting myself, may have an effect. But that will only happen, like, in one-and-a-half years. I mean, that means legalization of euro bonds, for example.

Now, the main point – the worst-case scenario – yeah, I'm not an optimist, but I'd like to sort of speak about best case scenario. But the worst case scenario for me is that it goes on like this, because this muddling through is annoying many, many people in Europe. But it's also annoying the markets, and they're losing the gain. The way how they do it now is, I think, if we go on like that for five – another five years, it is – that is for me the worst-case scenario. So you have to come back up. You have to dare to think in concepts again. I don't know when you can do that because now we have the cycle with the French election. Then in one year we have the German elections coming up. But that shouldn't bother them so much because on European issues there is more consensus than in other countries.

The third point I would like to make, coming back to the question also of democracy and the deficit of democracy in European affairs – and I am of course taking – picking up the gauntlet here with my British friends, yes, there is a democratic deficit in Europe, and yes, I would like to see it solved, as well. There were several attempts to do that.

One idea, for example, is get the guys in Brussels finally elected. What a great idea. But then, of course, whenever this idea is projected in negotiations – for example, I was having the ambivalent privilege to follow three, four, five years of constitutional discussions in Europe in Brussels in the convention. And whenever democracy were about to turn real, like getting the president of the European Commission directly elected from the European people, there were certainly the same people who always complained that Brussels is not democratic enough; they were objecting to this idea because they said this gives too much power to Brussels. So you can't have it both ways. I mean – this is not my regular job.

But just in this regard, I'd like to point out we just got a new president in Berlin. And in his acceptance speech, or in his first big speech in front of the parliament, what he said there was – he was quoting an old phrase from Willy Brandt. Actually, he really didn't quote it. He changed it. Willy Brandt, when he got into power in 1969, he said the slogan: “At risk, more democracy.”

That was the kind of starting – restarting German democracy after the foundation had been laid, especially with the so-called economic miracle. What Gauck, the new president from eastern Germany, said: Risk more Europe. And that's exactly the kind of thing that 60, 70 percent, maybe 80 percent at least in abstract terms still in Germany applaud to. And I think a huge majority in continental Europe – and by the way, most interestingly, increasingly in the new member countries.

I mean, one of the real winners – this is my last point – one of the real winners of the whole European debate in the last three years is Poland. I mean, they have the most creative ideas. They come up with the best speeches and they even go to Berlin and say what the Germans don't dare to say, that the Germans are the indispensable nation. I mean, that's – in that regard, there is hope that we don't have a five-year worst scenario.

MS. CONLEY: Chris, you have the last word.

MR. CALDWELL: The last word, well, I guess, what do we have here. We have worst-case scenarios. Since we're in a panel talking about populism and popular anti-democratic movements, there's one that would come to people's minds and that would be a – an anti-democratic movement sort of gaining power or something like it. I think the likelihood of that is so low, and I'll tell you why.

I think the last time you had a real movement in Europe that had elements of the street uprising was in the 1960s – if you don't count the terrorism of the '70s. But at the time, the generation that carried it out, the baby boomers, were demographically speaking a huge generation. They're not quite as big in Europe as they are here.

But here, once the baby boomers became adults, they made up 38 percent of the voting public, which means that they made up 38 percent of the purchasing power in the market. And so I think there is an intuition among this generation that they were about to – that they had a huge amount of latent power. The present generation – I mean, the generation that always makes trouble is people between 15 and 30 years old, right? The present generation is very small. It's a tiny generation.

And so you could say, you know, the weight of the electorate and the weight of the sentiments of people is still in the baby boom. It's in people nearing the end of their, you know, productive lives saying, just bring on the benefits please.

So I don't see that as a big – I don't see any kind of radicalism as a danger. What I do see as a danger – I think, to pick up on something Jim said – Europe's really weakening militarily and this military self-weakening is being carried out in Europe.

I mean, I think that Belgium has closed over half its army bases and things like that. Austria doesn't have tanks anymore or it won't shortly; these kind of things. I think this is all being carried out in ignorance of the American budget constraints, and it assumes a backstop that might not be there in 10 years. That's a danger.

LTROs, I'm not the macroeconomist who, you know, could answer that question well. But I agree it has something to do with democracy. When we talk about Merkel's sort of tightrope walk and things, what we basically – I think the question we have to ask is: Who does she fear more? Does she fear the political leaders of Europe or does she fear her electorate? I feel a hundred percent certain she fears the political leaders of Europe more than her electorate.

But I think that got complicated by the German courts which said that there now has to be a vote on any bailout. And that caused a cascade of consequences, when the Germans on the European Central Bank – first Weber, then Stark – said that they would not go along with the plan to buy debt in secondary markets. I think that closed off an avenue. And at the end of the day, the LTROs were the only way of bringing relief that Monti could – through which Monti could circumvent German democracy. That's why we have them. But I don't think it makes them good over the long term.

MS. CONLEY: Chris, thank you so much. I'm going to have to – I'm sorry, we're a little over time, but to pick up your mantra, let's keep talking about this subject. It is very important, both the economics and the politics. Let's watch some important elections coming up in France and in Greece. But more to come.

And let's keep reading these four colleagues and their insights. They have helped us so much. Please join me in thanking our panel. (Applause.) And this concludes the Global Security Forum. Thank you for being with us today. You were a fantastic audience. And we can just go to the left there. Thank you all so much.

(END)