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# The Return of History in Europe

Europe's Golden Age—an unprecedented period of peace, social stability, and prosperity that followed World War II—may be coming to an end. The very foundations of the European edifice have trembled at times in the last two years; even now, a worst-case scenario of collapse of the European project is not impossible. But if, as expected, Europe as we know it muddles through the Eurocrisis, it will not be the same. It will not be as happy and peaceful a place as before. In hindsight, the European settlement after World War II may not have constituted the beginning of a new European epoch, but a particularly auspicious chapter that is now closing. What remains to be seen is what might take its place. History is returning to Europe.

The post-war European paradigm was based on three pillars: economic policy and social security which would transcend the old divisions between socialism, liberalism, and conservatism (the welfare state and planned economy would prevent another economic depression and end the social insecurity and class conflict that had spawned disaster in the 1930s); a solution to the German problem through European integration under Franco–German leadership; and close security ties between Europe and the United States. The first two were intrinsic to the European model, the last a result of the Cold War. With the end of the Soviet Union, things had to change so the Golden Age could remain. Now, the Eurocrisis has again forced Europe to reconsider the assumptions upon which it based its structures for the last two decades. The manner in which it resolves the crisis will determine whether Europe transitions to a Silver Age,

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based on a resurgent continent; a Bronze Age of muddling through; or an Iron Age of disarray.

## Expanding the Golden Age

Europe faced two key questions at the end of the Cold War: what to do with a unified Germany and what to do with an independent Eastern Europe? The answer to the first question—in order to prevent a possible German *sonderweg,* or "special path" of social and political order along the lines of Nazi Germany—was to tie Germany to Europe with hoops of steel through the European Monetary Union (EMU), which provided for a common European currency and a European Central Bank. The united Germany would also continue within NATO.

Economic methods would be used to secure political goals, but those methods were wanting. The authors of the Maastricht Treaty—French President François Mitterrand, German Chancellor Helmut Kohl, and German Foreign Minister Hans-Dietrich Genscher—were not economists but statesmen. Their focus was on the overriding political goal. There was widespread fear of German intentions at that time—witness the talk of a new Rapallo (a treaty between Germany and the Soviet Union in 1920 which provided for secret cooperation between the two pariah nations). As we all know now, but few of us realized then, the economic basis of the EMU was not secure, and the subsequent unwillingness of Germany and France themselves in the early 2000s to abide by the Stability Pact (which was supposed to govern the financial behavior of the Eurozone) sent an unfortunate message to others that they could disregard it as well.

As for the former Warsaw Pact nations, the goal was first to protect them from a possible revanchist Russia and to stabilize fragile democracy by expanding NATO. Once they made the transition to a market economy, they could eventually join the European Union. Presumably, EU deepening would precede widening so that EU governance could function effectively at around 30 members. An EU framework which was once confined to the West would now embrace all of Europe; NATO would no longer have to keep the Russians out, but might serve—as the dictum had it—to keep the Americans in and the Germans down.

Unfortunately, the effort to redesign EU governance was not a great success. The process continued to be complex and cumbersome, and the democratic deficit (the failure to create a democratically-elected European government) remained. Because of popular suspicions of this technocratic system, important treaties were sometimes voted down in referenda. For example, Denmark rejected the Maastricht Treaty in 1992 and both France and the Netherlands rejected the European Constitution in 2005. Since it was not possible to dissolve the people and elect another, EU leaders were forced to find ways of circumventing unacceptable referendum results. And when the bare essentials of the EU "constitution" were finally adopted in 2009, providing the European Council with a three-year presidency, the European Union's grand electors made sure to choose a man—Belgium's Herman Van Rompuy—unknown to the vast majority of the continent and unlikely to threaten their power.

The Yugoslav crisis of 1992–1995 has some parallels with today's Eurocrisis. It occurred just after the creation of the European Union, at a time of great confidence about the future, epitomized by the phrase "this is the hour of Europe." It involved Germany's first great effort to act like a "normal" nation through its unilateral recognition of Croatian independence, which backfired. When armed conflict broke out, Europe lacked the unity or the military capability necessary to respond, even though European leaders believed that the new Balkan Wars challenged the major premise of European integration—that the existence of the European Union would make war on the continent impossible. In the end, resolution of the crisis required U.S. intervention, late in the game. What is different now in the Eurocrisis, however, is that the United States, beleaguered at home and abroad, has neither the means nor the willingness to ride to the rescue of others.

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The EU's fragile governance mechanism has thus certainly not been well suited to dealing with the sudden Eurocrisis. There was still no European government that looked at problems from a continental point of view. The most powerful force in EU governance was the European Council, composed of representatives of the European states, which reflected national interests first. The European Union had one opportunity to stop the Eurocrisis before it started: it needed to give unequivocal support to the Greek government when it was first challenged by markets in early 2010 and then insist on Greek reform. In the absence of European fiscal union, such a response would have required either a powerful feeling of solidarity on the part of European states or an intuition of how the Greek crisis could become a generalized European crisis. Neither existed. Lack of an effective European government explains much of the European Union's disastrous too little, too late approach.

## Breakdown of the Three Pillars

The three pillars on which the post-war European settlement was based have been eroding for a generation. That is most obviously true of the third pillar, close security ties between the United States and Europe. Only now

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is Europe finally experiencing the full consequences of the dissolution of the threat once posed by the Soviet Union. During the Cold War, close security ties with the United States were an existential concern to Europe. After the Cold War, many old NATO members still prized the alliance as a kind of catastrophic health insurance policy against a resurgent Russia; new members, which had just escaped Russian clutches, saw in Article V—that an armed attack against one or more NATO members is considered an attack on them all—a guarantee of their own survival. After the Cold War, a passionate three-way debate among France, Germany, and the United Kingdom ensued over the respective roles of NATO and the European Security and Defense Policy (EDSP), an effort to give the EU its own security and defense capability. The United Kingdom and France both believed in the importance of security and defense, but disagreed as to whether NATO or ESDP should be the primary focus. Germany seemed ambivalent on the doctrinal question, but its unwillingness to create a modern and deployable military guaranteed that Europe would punch below its weight. Future generations will find it hard to grasp the passionate nature of that debate, which is now over and almost forgotten. Then came the rift within Europe, and between Europe and the United States, over the 2003 Iraq War. In retrospect, its real significance may have been to prepare the ground for the declining salience of security relations between Europe and the United States.

The real issue is no longer the nature of security relations between the United States and Europe, but whether Europe has much interest in maintaining a serious defense capacity. In the absence of existential security threats to Europe, it seems that Germany has won the debate—most EU nations envision Europe as a big Switzerland. The United Kingdom and France are the exception; they continue to play a role in global affairs (e.g. Libya), because even with reduced defense spending, they are among the few nations in the world that can project power. But that ability will probably decline as military budgets shrink, and as Asian defense spending begins to exceed European.

Since the focus of U.S.–European ties was security and defense, relations with the United States no longer seem of transcendent importance to Europe. The United States has made it clear that although it is willing to counsel Europe about the Eurocrisis, it is not willing to pony up funds to bail out the Eurozone. Nor are relations with Europe as central to an America that talks about turning its focus toward Asia. The post-war relationship almost ended with a bang (Iraq); it now appears to be ending with a whimper. Rumors of its death may prove to be overstated, however, especially given rising tensions in the Middle East. But whatever happens, the "beautiful friendship" that tied together the United States and Europe for three quarters of a century has lost its centrality. What about Europe's other two pillars?

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### Collapse of the European Economic and Social Model

The unstated premise of the first pillar, post-war European economic policy, was the belief that global economic competition would take place among the old industrial nations, all of which had similar social safety nets and labor costs. In the past, globalization had meant the extension of European power to the rest of the world in the quest for markets and resources. But in the last two to three decades, globalization has meant the rise of Asia, especially China, as a competitor, starting with low-tech areas and working their way up. Some countries, like Germany, remain competitive in industrial sectors, in part because of the quality of their exports and in part by cutting relative wages and costs. But much of Europe has not done well.

Just as in the United States, well-paid lifetime jobs in manufacturing are diminishing. While a "labor aristocracy" retains job security and good wages, a second-tier labor market has been created with lower wages, fewer benefits, and little job security. Inequality is increasing, though at a slower pace than in the United States. The much-touted Lisbon Agenda (an effort to deal with low productivity and economic stagnation beginning in 2000) was not much of a success. Well before the Great Recession of 2008, Europe was plagued by persistent unemployment and slow growth, especially in Southern Europe. In relative terms, Europe has been getting less competitive and poorer.

This relative economic decline undermines the welfare state. There is simply less money to fund it. Besides, the welfare state is becoming more, rather than less, costly. Demography is its greatest enemy. As workers live longer and retire earlier, the burden on pension and health systems increases. Unemployment in turn lowers revenues and increases payouts in the form of unemployment insurance. Moreover, in no country in Europe is the birth rate at a replacement level; it is lowest in Southern and Eastern Europe and in Germany and Austria. The dependency ratio, the ratio of the working versus the non-working populations, is becoming exceedingly unfavorable and unsustainable.

"Reform" of the welfare state means only one thing to most people: loss of benefits—a change which people resist at the ballot box or in the street.

> Europe has been getting relatively less competitive and poorer, undermining the welfare state.

Unfortunately, there is a link in European minds between the legitimate protections afforded by the welfare state and maintaining what can only be termed rackets, like closed professions, and outrageously early retirement in some sectors. Populations often unite against any efforts at reform for fear that their own benefits would become the next target. In the face of such resistance, is it surprising that most Eurozone governments chose the path of least resistance—borrowing—thus embarking on the primrose path to the Eurozone bonfire? They could do so because even former sinner nations could take advantage of advantageous interest rates previously limited to virtuous Northern Europe. Such was the case with Greece. But before the Great Recession, although Greece's underlying economic and financial problems were widely known, there was no sense of crisis. Nor was there a pervasive feeling that the nation and its leaders were hopeless and corrupt. All that came only after the Great Recession, which made Greek debt unsustainable.

If the threat of downward mobility, of declining standards of living, was already real before the Eurocrisis, it became obsessive as a result of it. As markets attacked the "PIIGS" (Portugal, Ireland, Italy, Greece, and Spain), they were told that the only way to salvation—and the precondition of aid from the EU, International Monetary Fund, or European Central Bank—lay in austerity policies. And the result of these policies has been to create a recession which drove down government revenues and increased unemployment. In short, the European Union, rather than serving as an instrument of social advancement, became a mechanism for social regression. Mass unemployment, poverty, and despair have returned to haunt EU members.

One result of the Eurocrisis has been the reemergence and strengthening of the extreme right—and to some extent, the extreme left. First, governments are blamed for the crisis; later, voters blame the system and turn to extremist parties. The result is that their rhetoric—xenophobic, anti-immigrant, anti-European, and extreme nationalist—becomes acceptable to polite society. Much of their ideology can be traced back to extremist movements of the 1930s: anti-Semitism is usually replaced (if only for tactical reasons in some cases) by anti-Muslim slogans. Respectable conservative leaders like Nicolas Sarkozy stole the ideas and rhetoric of the National Front, his more conservative rival on the right, ostensibly to contain it electorally, but who was the real winner in the long term? Certainly not Sarkozy. What will happen in Greece, Portugal, or even Spain, countries which until fairly recently were ruled by right-wing dictatorships, or in Eastern Europe, where half a century of communism put neo-fascist spores into deep freeze? For example, Hungary today is ruled by a rightist government with authoritarian tendencies, and the radical right *Jobbik* movement, with 17 percent of the vote, even bears some resemblance to Hungarian fascism of the 1930s.

Thus, with the Great Recession and the Eurocrisis comes a return of history. The demons of the past—like ethnic tensions, nationalism, racism, and extremism—are not dead. Instead, the very things that the European Union was created to prevent begin to achieve respectability. European integration began with a rejection of the laissez-faire policies that doomed Germany and much of Europe from 1930–1933. The principal irony is that Germany unwittingly is now driving policies that revive the zombies of extremism past.

**Germany's Ascent**

There is, of course, a second irony. European integration was created to guarantee that Germany would never again dominate Europe. Yet today, Germany does seem to dominate Europe, albeit unwillingly for the most part. To be sure, as Timothy Garton Ash puts it, it's a different kind of Germany: "It is free, civilized, democratic, law-bound, and socially and environmentally conscious. It's far from perfect, obviously, but as good as any big country in Europe—and the best Germany we've ever had."[1] Unfortunately, this different kind of Germany is nevertheless promoting policies that are undermining Europe. One reason is that the Franco–German partnership has become unbalanced in Germany's favor. This is driven by several factors.

The first is that when the European Union is preoccupied by the Eurocrisis, the country with the greatest financial clout gains importance. With France's loss of an AAA rating from Standard and Poor's, its relative weight within the duo is further diminished. Although France has the second-largest economy in the Eurozone, its declining competiveness, levels of unemployment, and deficit have weakened it compared to Germany.

A second reason is the decline of the power of the French presidency. The constitution of the Fifth Republic concentrates power in the hands of the president, a power wielded effectively by Charles de Gaulle (1958–1969) and many of his successors. The embattled end of Jacques Chirac (who left office in 2007) weakened the presidency; Nicolas Sarkozy, although nominally a member of the same party as Chirac, made himself the anti-Chirac. Unfortunately, Sarkozy, no master of grand strategy, knew more what he was against than what he was for. His manic approach to governing, putting himself out front rather than allowing the government to govern and the administration to administer, damaged him. In trying to do everything himself, he failed to do what mattered most—reform the excesses of the welfare state and modernize the labor market.

A third reason was that under Sarkozy, France ceased to be the proponent of the old French thesis on Europe. Since de Gaulle, France has incarnated the vision of a European Europe vis-à-vis an American-led Atlantic Alliance. For decades, France managed to balance this advocacy with a willingness to work with the United States in times of crisis. This required careful modulation of rhetoric and doctrine on one hand, and practical cooperation on the other. France benefited from Germany's ambivalence to act like a European leader, thereby increasing its weight within the Franco–German partnership.

When Jacques Chirac overplayed the French hand on Iraq, he split Europe and damaged Euro–Atlantic relations. Sarkozy rightly wished to repair the damage, but he did so by completely abandoning the French thesis, leaving France with no grand global concept. To be sure, it can be argued that France's "thesis" was really no more than tactical: balancing the United States did not amount to a global strategic concept. But the point is that the old Gaullists (and socialo-Gaullists like former Foreign Minister Hubert Védrine) were right when they complained about France's 2009 full re-entry into NATO. As a "normal" European nation, France lost much of its influence. Sarkozy abandoned one global strategy without having a replacement.

Under Sarkozy, a weakened France obstinately stuck to the Franco–German partnership in the hope of appearing Germany's equal, and Germany held to the relationship to avoid appearing like a European hegemon. Some argue that Sarkozy influenced German Chancellor Angela Merkel in the direction of policies embodying greater European solidarity. But by trying to maintain an exclusive relationship with Germany, France may in fact have weakened its own position. Both Sarkozy and Merkel had an interest in pretending that France is Germany's equal and that the Franco–German relationship is still central.

The election of François Hollande as president of France in May 2012 has resulted in a change of French policy. Hollande has strongly opposed German emphasis on austerity and stressed the importance of growth. With his election, other European leaders, like Italy's respected technocrat Premier, Mario Monti, have become more vocal in their desire to escape the austerity trap, and Hollande has used their support to push back against Merkel. What remains to be seen is how much leverage France has and whether European resources and political will are adequate for a bold, new policy. A rupture of the Franco–German relationship would certainly pose a threat to France, but would pose an even greater threat to Germany, who would be exposed to the creation of what Bismarck termed the "nightmare of coalitions"—France aligned with other major powers, in this case within the European Union.

Hollande is right; it is important to reverse the current trend that sees austerity as the solution to the Eurocrisis. And more than cosmetic change is necessary. EU policies exacerbated the fiscal problem and created a full-scale economic and social crisis. They are even worse than the policies of the 1930s. When governments employed deflationary policies at that time, they sincerely believed that they were the only ones compatible with the laws of the capitalist system; they were not doing so to punish the victims. EU policies recall the early stages of the Industrial Revolution, in particular the English New Poor Law of 1834. Its justification was the belief that those who failed had failed because of their own moral defects; they faced the choice of destitution or the poorhouse. Presumably, such a choice would inculcate the virtues of thrift.

The European Union's bailout of Greece is tantamount to giving Greece the choice of annihilation or the poorhouse, *pour encourager les autres*. Unfortunately, austerity policies create a recessionary spiral in which it is nearly impossible for growth to resume. Such a punitive approach creates a grim Dickensian vision for the Europe of tomorrow. Only intense fear can explain why European states were so willing to stigmatize the victims rather than express solidarity. Surely, it makes no sense to talk about "the Greeks" as if all Greeks bear morally equal responsibility for the crisis, while forgetting about foreign banks which eschewed due diligence and the fact that the leaders of the "Triple A" states seemed quite unconcerned before the crisis.

## The Next European Age

So what is Europe's future? At the risk of simplification, it can be encapsulated in three possible scenarios identified earlier: a Silver Age, based on a resurgent Europe; a Bronze Age based on muddling through; or an Iron Age based on disarray (of course, these kinds of scenarios are too neat to be predictive).

> Europe's future can be encapsulated in three possible scenarios.

In a Silver Age, a resurgent Europe would rise to the challenge of the Eurocrisis and rethink its policies and institutions. Europe would come to conceive of itself as one, and go through the same kind of transition the United States undertook in 1787, from Articles of Confederation to federal constitution. An elected European government would be responsible to a European people. Europeans would think in terms of European, not national, interest. Leaders would follow Alexander Hamilton's example by Brussels instituting a one-off assumption of the debts of the states.

There is apparently some thinking in the German Chancellor's office of creating a political Europe with an elected presidency. But the purpose would seem to be to enforce greater fiscal discipline. Creating "more Europe" to enforce such policies would be more likely to destroy the European Union than to save it. A resurgent European Union would have to focus on making reforms that encourage competitiveness, but do so in order to maintain the kind of society that guarantees prosperity, social security, and equality. In short, it would have to return to the roots of what European integration was about. It would have to deal with the underlying causes of population decline: lack of gender equality, insufficient public support to reconcile work and employment for women, and job insecurity for young people. Clearly, this will be much more difficult in an age of globalization where Europe (like the United States) must compete with low-cost producers. That is why the best that can be hoped for is a Silver Age.

Berlin seems to lack the tact and altruism needed for leadership, as many Germans do not want that role, and German leadership is not palatable to the rest of Europe. Germany's greatest contribution to European stability would be to lead Europe toward genuine federalism, in which its dominance would disappear and a European government would replace it. Such an approach would not contradict past German support for federalism. In turn, France would have to give up its old fixation on an inter-governmental Europe based on its own nationalist obsession. After all, it was de Gaulle who blocked the further development of European federalism in the 1960s. This scenario is not impossible, but it would be very difficult. Adversity may bring out the best in nations, but it often reinforces the worst.

At the other extreme, the Eurozone also could partially or fully collapse, bringing on an Iron Age. Under a worst-case scenario, this could also mean the collapse of the European Union. At a minimum, it would imply its weakening. The failure to resolve the Greek crisis (even with the second bailout in May 2012), the precarious situation of other EU states (especially Spain), the ineffective nature of EU decisionmaking, and new eruptions of market hysteria all could contribute to such an outcome, which might be set off by an exogenous event, like war with Iran. Considering how close catastrophe has come in the past two years, this worst-case scenario cannot be excluded. Since the Eurocrisis is far from over, there is still time for the worst. The collapse of the Eurozone might begin on the periphery; it could result in civil strife, the collapse of democratic political systems, and even takeovers by extremist authoritarian or fascist parties. It would almost certainly lead to a further decline in birth rates, which would prejudice the long-time survival of European states. Fortunately, it probably would not result in wars between European states.

The most obvious path, however, is muddling through, a kind of Bronze Age. But muddling through is not a promising scenario, because it implies the continuation and even worsening of current negative trends. This scenario implies a long, continuing Eurocrisis. Half measures avert immediate crises but nothing ever seems to be solved. Greece may still default; the situation in many other nations, like Portugal, Greece, and Spain is precarious. Simmering social discontent in many states may erupt in violence or lead to extremist parties growing even larger and predominant. Europe will become less capable of playing a global role. The European Union's vast soft power—based in part on its capacity for enlargement and in part on its role as a model for post-Westphalian sovereignty—will atrophy. On the other hand, economic growth may eventually enable a diminished Europe to emerge from the crisis.

Nothing will hurt Europe more than participating in the destruction of one of its member states, Greece, whose bailout may save EU banks but lead to the collapse of Greek society. Greece's problems can no more be contained than can an epidemic. Europe's unwillingness to act quickly and decisively to save one of its member states, albeit a prodigal son, could come back to haunt it.

If this analysis is correct, then Europe's Golden Age has passed and Europe is embarking on a new chapter. If the leaders of European states recognize that altruism and solidarity is the best way of pursuing their own self-interest, a Silver Age may follow—a more difficult age to be sure, but still a good one. If they can only muddle through, but manage to avoid disaster, Europe faces a Bronze Age. However, if they are unlucky and fail, Europe might fall into an Iron Age—all the more intolerable in comparison with the Golden Age which has now come to an end.

## Note

1. Timothy Garton Ash, "Angela Merkel Needs All the Help She Can Get," *The Guardian*, February 8, 2012, http://www.guardian.co.uk/commentisfree/2012/feb/08/angela-merkel-all-help-can-get.