

Fall of the Berlin Wall 2.0?

Political Effects of and European Responses to the Financial-Economic Crisis

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Summary

What are the political effects of the financial-economic crisis and how should Europe react? The current turmoil might lead to (1) a further decline of U.S. dominance; (2) a redesign of global governance in favour of emerging powers; (3) an increased pressure on Europeans to rise to the challenge of global affairs; (4) more self-contemplation in an increasingly inward looking atmosphere; (5) a re-politicisation of the economy; and to (6) a new battle of ideas within and among countries about what kind of policies are “right” or “wrong”.

In response to the crisis, Europe or rather the EU should (1) promote “effective multilateralism”; (2) speak with one voice in financial institutions; (3) intensify economic cooperation in the framework of a more effective “Economic Union”; (4) develop a more balanced and mature relationship with the U.S.; (5) initiate a coherent globalisation strategy (*Global Europe 2020*); and (6) further politicize European policy-making.

The former German Foreign Minister Joschka Fischer has speculated that the political effects of the current financial crisis will be similar to the fall of the Berlin Wall in 1989. In times of severe crisis, like the one we are undisputedly experiencing at present, apocalyptic predictions come as no surprise. But is Joschka Fischer right or is his prognosis rather exaggerated?

Let us have a brief look back into history. The fall of the Berlin Wall in November 1989 was by all means historic. It led to the end of the Cold War, the re-unification of Germany, the break-up of the Soviet Union, the predominance of capitalism over state-directed economies, the emergence of American hegemonic superpower, the radical political and economic transformation in Central and Eastern Europe, and it eventually resulted in the (incomplete) re-unification of Europe.

Compared to this impressive and yet inconclusive list, will the current global financial and economic crisis have similar political consequences beyond the world of money and business? It is too early to answer this question in a definite manner. One cannot predict how long the crisis will last, nor how brutal it will be. However, one can speculate about the potential key political effects of the current financial and economic turmoil. And, more

importantly, one can ask how Europeans and especially how the EU should react.

From today’s perspective, one can identify the following six major political effects of the current crisis:

- (1) Relative decline of U.S. dominance:** The financial and economic crisis will further diminish the hegemonic power of the United States (U.S.). The confidence in American leadership and the respect for the U.S. had already severely suffered after eight years of President George W. Bush and his administration, who were not able to live up to the challenges they were confronted with after the tragic events of 9/11. The financial crisis, which originated in the U.S. but eventually spread to financial markets and to economies all around the globe, has damaged the reputation and the unique power position of the United States even further – financially, economically and politically. This does not imply that the U.S. will not remain a leading superpower. And the election of President Obama will certainly provide Washington the opportunity for a fresh start. However, its relative power

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and influence, especially when compared to the emerging powers, is in further decline.

- (2) Redesign of global governance:** In the course of the current crisis, the new economic and political powers – especially in Asia – were asked to stand up to the challenge and take up their share of responsibility. The stabilization of the financial system and the pace of economic recovery will strongly depend on the economic performance of the emerging markets. If the new powers rise to the challenge – something we should all hope for –, they will even more vigorously and rightfully ask for an equal and fair share in the future management of global economic and political governance. Institutions like the G7/8 or the current set-up of the UN's Security Council have reached their limits and will have to be reformed and new institutions might have to be established in order to reflect the new global distribution of power.
- (3) Increased pressure on Europeans:** The relative decline of U.S. dominance will weaken the relative weight of the "West" and consequently increase pressure on Europe to rise to the challenges of global affairs. Europeans will be less able to "hide" behind the Americans as they have conveniently and repeatedly done in the past. The newly elected U.S. President and his administration – overwhelmed by the demanding challenges both internally and externally – will ask European partners to increase their share in transatlantic burden-sharing. The Old Continent, and especially the EU, will have to respond quickly and concretely.
- (4) More self-contemplation – national egoism and economic protectionism:** The financial crisis and its economic effects carry the seeds of national egoism and economic protectionism. The fight against low growth, increasing unemployment and tight budgetary constraints will absorb more and more political energy on the national level. And the longer

the financial crisis and global recession will remain with us, the more national egoisms will flourish. Policy-makers will be increasingly inclined to concentrate on national affairs, especially on issues related to the immediate concerns of their electorates about their jobs, savings and pensions. Some governments might be keen to shield national economies as French President Nicolas Sarkozy's initiative aiming to protect European industries from foreign takeovers has already indicated. Others will argue that globalisation, more free trade and open markets are the right recipe to quickly overcome the economic crisis. In an increasingly inward looking atmosphere states will be less inclined to spend their political energies and capital on issues that, at first glance, may seem to be less pressing such as climate change, the fight against global poverty or the management of international crises. Consequently, there will be less and less enthusiasm and resources for diplomacy and for security related engagements.

- (5) Re-politicisation of the economy:** The financial turmoil has shaken national and transnational economic policies. Seemingly old-fashioned arguments of the political left, who have always advocated a stronger role of the state, have now become *en vogue*. Who would have thought a couple of months ago that policy-makers around the globe would elaborate bail-out plans including massive and unprecedented state intervention in order to save the financial system from meltdown and major companies from going bust? The perverse effects of over-excessive capitalism and greed were painfully revealed and made the impossible possible. Overall, one can witness the end of the depoliticisation of the economy as experienced since the early 1990s, when capitalism had triumphed over socialism and the political management of the economy

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seemed more and more an exercise of unideological administrative politics.

- (6) **A new battle of ideas and sources of political instability:** The re-politicisation of the economy will lead to a new battle of ideas within and among countries about what kind of policies are “right” or “wrong”. Within countries established political parties will come under pressure, if governments fail to (quickly) solve or at least cushion the effects of the crisis. In some countries, old and perhaps even newly established parties especially on the political left might profit in elections. Parties on the right will have to adapt their political rhetoric and their manifestos to the new public sentiment in order to not risk losing voters. Populism might flourish, as easy answers to enormously complicated problems become more attractive. In sum, political stability and predictability within many countries might suffer. However, the battle of ideas and concepts will not stop at national frontiers. Different and in many cases contradicting views about how to respond concretely to economic recession will create political tensions among states as the differences within the EU between the governments of France and the United Kingdom on the one side and Germany on the other have already shown. The effects of this development will hamper the undisputed necessity to find ways to jointly manage the current crisis.

One cannot definitely argue whether the financial and economic crisis will lead to historic consequences similar to the fall of the Berlin Wall as Joschka Fischer declared. However, the political effects will without any doubt be severe. Consequently, there is a need to draw the right conclusions from the current global tsunami and ask how Europe should politically react – beyond the present priority of immediate crisis management. In effect, the current turmoil might even prove beneficial as it increases pressure to implement long overdue reforms. But what should

Europe, what should the EU do? Six points seem particularly important:

- (1) **Promote “effective multilateralism”:** Europeans should most actively support a more balanced distribution of influence in the system of global economic and political governance. Despite its own rhetoric, which since the adoption of the European Security Strategy in 2003 highlights the goal of “effective multilateralism”, the EU has not been leading attempts to adapt global institutions to new political and economic realities. Most importantly, the Old Continent has not been ready to reduce Europe’s over-representation in international institutions, which has become an outmoded legacy of the past. In the light of the current crisis, Europeans should lead attempts to reform global governance structures, if they want their call for “effective multilateralism” to be credible. At first glance, a reduction of Europe’s shares might seem to weaken the Old Continent’s position within international organizations. But this assumption is flawed. As one of the key forces and beneficiary of economic globalisation, Europe has become highly interdependent with the outside world. As a consequence, Europe should be particularly interested in an effective and crisis-resistant system of global governance. The latter requires that the newly emerging powers – in particular Brazil, China and India – become more responsible shareholders and increase their engagement in the management of global economic and political affairs. However, the new powers will only be ready to do so in exchange for a greater say in global affairs. And Europe should support a more balanced distribution of shares, influence and power within international institutions even if this means that the Old Continent will have to “surrender” some of its old privileges. Europeans and other countries of the “old West” should not postpone the adaptation of

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the system of global governance, as their leverage is now still strong enough to (co-)determine the terms of reform. More concretely, Europeans should most actively support the following: (i) A reform of the International Monetary Fund (IMF) and the World Bank by increasing the shares assigned to the newly emerged economies (see also point 2 below). In addition, the EU should signal its willingness to abandon the principle that the IMF must always be headed by a European. (ii) An increase of the number of permanent members of the Security Council so that the UN's most powerful body mirrors a more fair geo-political representation of world regions (especially Africa and South America) and the emergence of new political powers (i.e. Brazil and India). (iii) The permanent inclusion of new members in the G7/8 and the extension of the role of the G-20. The latter has already increased its significance in the course of current crisis management and one can expect that the G-20 will remain a cornerstone of future global economic governance.

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(2) **One voice in financial institutions:** The EU or the Eurozone should pursue a single representation in global financial institutions (International Monetary Fund (IMF) and World Bank) and in informal groupings such as the G7/8 or G-20. No single EU member – not even the biggest and strongest ones – can have a decisive impact when it acts on its own. Speaking with one voice would increase Europe's clout in global financial affairs allowing it to pursue its interests more effectively. The conclusions of the G-20 Summit on November 15, 2008, which laid down a comprehensive framework for the reform of global financial markets, prove just that: The leaders of the Group of Twenty adopted a statement that reflects to a great extent the proposals the EU had formulated at an extraordinary summit one week earlier. Moreover, single representation would put

severe pressure on member states themselves to define the EU's interests and position as a prerequisite for speaking with one voice. Finally, single representation would free up space to increase the shares of newly emerged economies such as Brazil, China and India. As an effect, the latter would carry more weight, but also more responsibility as shareholders.

(3) **Need for a stronger "E" in EMU:** The EU members need to intensify economic coordination and cooperation. The financial crisis revealed that the EU and especially the countries of the Eurozone cannot afford to have an Economic and Monetary Union (EMU) without a more effective "Economic Union". In the initial phase of the crisis, single EU countries adopted policies without considering the (potential) collateral damage for partner countries within the Union. It was only because of the severe gravity of the situation and the assertiveness of President Nicolas Sarkozy representing the French EU Presidency that the member states effectively coordinated their immediate reactions to the crisis. However, beyond mere crisis management, there is a more general need to intensify economic cooperation by coordinating national macroeconomic policies more intensively. But in view of the need for a higher level of economic governance, the EU is stuck in a mental trap dominated by simplifications and prejudices. On the one side, there is France, who for years now is advocating a *gouvernement économique*, a proposal the Sarkozy government is promoting even more rigorously in the light of the current crisis. However, it is still not clear what the French really have in mind beyond their old wish to limit the independence of the European Central Bank (ECB) and their general inclination for a stronger role of the state. On the other side, there is Germany, who is strongly opposing more economic

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governance exactly because it fears a weaker role of the ECB, whose independence it regards as sacrosanct. And there is also the German *Angst* that Berlin's net contribution to the EU budget might increase even further in the framework of a more extensive form of European economic governance. The need for a stronger "E" in EMU requires both sides to be more innovative in order to find ways to extend macroeconomic cooperation concerning e.g. the coordination or setting up of financial support programmes for industries heavily affected by an economic downturn, or the granting of tax reliefs and/or the realization of big transnational infrastructure and R&D projects aiming to boost the European economy. In the history of European integration a compromise between France and Germany has more than once laid the grounds for an agreement also on the European level. The elaboration of joint proposals on how to intensify economic governance within the EU provides a good opportunity to add another example to the already impressive list. But in order for this to happen both the French and the Germans have to overcome old stereotypes!

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(4) **Strategic partnership with the U.S.:** The United States was, is and should remain Europe's key strategic partner. Both sides should cherish the high value of transatlantic relations in a new polypolar environment characterized by a relative decline of the "old West" due to the emergence of new (Brazil, China, India) and the re-emergence of old (Russia) economic and political powers. However, the transatlantic relationship must rest on more equality. Fortunately, the U.S. and the EU seem now more ready to define a more mature relationship. Both sides appear to have learned their lessons during the painful years of George W. Bush and his administration. The U.S. has witnessed the limits of unilateralism as Washington has lost compassion, respect and influence following

the Iraqi disaster. On the other side of the Atlantic, (some) Europeans have proven that they don't always follow suit. But at the same time they have experienced that saying "no" to Washington is not cost-free: transatlantic relations were damaged, NATO has suffered, and Europeans had to realize that they would have to bear the negative consequences of the Iraqi adventure even though many EU capitals had opposed the decision to remove Saddam Hussein by military force. In a more balanced transatlantic relationship both sides will have to change attitudes. The Americans will have to listen to Europeans more carefully and take their positions more into account if they wish Europe's collective support. In addition, the new U.S. administration needs to understand that a "strong EU", which is able and willing to share more responsibility in the management of global affairs, is in its own interest. On the other side, Europeans will have to get their act together, if they want to be taken seriously in Washington. They will have to overcome their internal differences – especially concerning their foreign policy towards the U.S. and Russia – and self-confidently define their strategic priorities and interests. But this will not be enough: Europeans must be ready to defend these priorities and interests globally even if this at times will be risky and costly. Soon after coming into office President Obama will ask his European partners to assume more responsibility. And if Europeans want their priorities and policy proposals to be considered – for example concerning climate change, Iran or Afghanistan – they will have to offer something in return. If the EU is not able to do so, Europeans should stop complaining that Washington doesn't take them seriously!

(5) **Globalisation strategy – Global Europe 2020:** The current global financial and economic tsunami makes one thing more

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evident than ever before: The future of Europe is more and more dependent from things that occur or at least have their origins far away from the Old Continent. As a consequence, the EU and its members cannot afford to be inward looking – even if at times it seems tempting to turn one's back away from the complexity of problems "out there". On the contrary, Europe needs to get more actively engaged in the management of globalisation, if it does not want to risk gradual marginalization and thus the inability to influence events.

The negative effects of globalisation are not limited to the economy. We are at least equally affected by harmful consequences resulting from (i) the *globalisation of security*, which became all too obvious after the tragic events of 9/11 and its aftermath, (ii) the *globalisation of the environment*, which requires global responses to problems related to global warming or the increased scarcity of water, or (iii) the *globalization of society*, as the negative effects of poverty and the increasingly unequal distribution of wealth within and among countries and regions foster social unrest, mass migration and transnational organized crime etc. The forces of globalisation affect citizens in almost every sphere of their life. And no nation-state is able to cope with the negative effects of a more interdependent world on its own. Even the greatest powers risk being ineffective – including the countries of grand old Europe. This is not to say that Europeans are not trying their best to meet the diverse challenges of globalisation. In effect, European integration is not only one of the greatest forces behind globalisation it is also the most appropriate response to globalisation. But European efforts to manage the "dark sides of globalisation" are insufficient for three main reasons. First, the EU's actions are highly dispersed and there is no holistic strategy linking policies such as the 20/20/20 goals concerning climate change, the migration pact or neighbourhood and

enlargement policies. Second, the EU is not proactive, but rather finds consensus and reacts only after a crisis has broken out (e.g. financial crisis) or after certain developments can no longer be denied (e.g. climate change). Third, the EU and its member states have not been able to communicate to citizens that European integration is the adequate response to limit the negative economic, environmental, social and political effects of globalisation.

What the EU needs is a proactive globalisation strategy as the basis of an ambitious albeit realistic new big project: A *Global Europe 2020* strategy equivalent to the single market project *Europe 1992* in the late 1980s/early 1990s. The *Global Europe 2020* strategy needs to set the aims and priorities in those policy fields, which are most affected by globalisation and which are most decisive when it comes to strengthening the EU's ability to effectively manage global interdependence. In more concrete terms, the policy fields addressed might include and link the EU's climate and energy policy, foreign, security and defence policy, development policy, enlargement and neighbourhood policy, trade policy, economic and monetary policy, industrial policy, and/or migration policy. The details of the globalisation strategy should be elaborated and proposed by the European Commission represented by a Vice-President responsible for the *Global Europe Project* on the basis of a mandate spelled out by the European Council. The European Parliament, the Reflection Group chaired by former Spanish Prime Minister Felipe González as well as non-governmental organizations including trade unions, employer associations, universities, think-tanks and other NGOs should submit proposals. The strategy should include concrete policy measures, a concrete timetable varying from policy field to policy

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field, and a communication strategy including something equivalent to the Cecchini Report, which analyses the costs and benefits of the *Global Europe 2020* project. In addition, member states could develop national globalization strategies linked to the implementation of the EU's globalisation strategy including national action plans. Finally, the policy priorities set by the *Global Europe 2020* project should determine the main orientations and priorities of the EU's future financial framework.

The above proposal is certainly ambitious. And one can easily argue the case that the EU 27 would never be able to reach agreement. After all, the EU is not even capable of ratifying a new treaty! So why should the EU members be able to compromise on such an ambitious new project? Besides the above mentioned inherent reasons in favour of a *Global Europe 2020* project, there are number of political reasons, which support the idea: (1) The current financial and economic crisis has created the ripe political atmosphere to define a new grand project as political elites have come under pressure to find a comprehensive and adequate response to address the gravity of the current turmoil. (2) The definition of a globalisation strategy would follow a functional approach aiming to provide policy solutions to concrete challenges while avoiding normative debates about Europe's *finalité*, which are anyhow doomed to failure due to the irreconcilable conceptual schism within and among member states concerning the finality of European integration. (3) The development of a *Global Europe 2020* project would provide the EU with a new *raison d'être* explaining to citizens why it makes sense to further deepen European integration. (4) The formulation of a globalisation project would allow the 27 member states to work out package deals across different policy areas. (5) The elaboration of a *Global Europe 2020* project would provide "real reasons" to engage in

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national and Europe-wide debates about the EU's policy priorities – something no EU or national communication strategy will ever be able to achieve through mere information campaigns or artificially organized debates about Europe.

(6) **More politicization:** Last but not least, Europe will only be able to rise to the complex challenges, if the EU regains the confidence and support of its citizens. The elaboration of the above mentioned *Global Europe 2020* project will help in this respect, but it will not be sufficient. To enhance its legitimacy the EU must also ensure that citizens enjoy greater democratic participation. The key to this is the progressive politicization of European policy-making as the next decisive step toward a more mature political system. Politicization means (i) ensuring that the principle of opposition, which is the lifeblood of any political system, becomes firmly entrenched in the EU, (ii) discussing publicly differences of opinion concerning specific European policy issues, (iii) Europeanizing national political debates, (iv) personalizing European politics on both the European and the national level, and (v) dramatizing European elections by enabling EU citizens to exert an influence on the appointment of the Commission President via the elections of the European Parliament. European elections in June 2009 provide the next chance to politicise the debate. However, European political parties don't seem ready to rise to the challenge, as they seem unable – or unwilling? – to organize Europe-wide campaigns led by prominent political figures leading the individual political trails. But it would be too easy to merely blame European political parties, who in the final instance represent the accumulation of national parties on the European level. The problem is more complex. And one of the core reasons behind the inability to run

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genuine European campaigns has to do with the circumstance that national parties are not willing to surrender their prerogatives and power. However, this resistance might in the end prove short-sighted, if citizens turn their back on Europe or if new political parties or movements, such as Libertas, seize the opportunity and successfully fill the gap.

The implementation of the above six proposals will require someone to take the lead. But where should leadership come from? This question or rather this problem is not new. It is with us at least since the 1990s. But in the last years one explanation has become more and more popular: The EU 27 got stuck in an almost permanent state of crisis, because it became too big and because the number of “Eurosceptics” both among and

within member states has grown. There might be some truth to this argument, but it doesn’t tell the whole story. Putting the blame merely on the “no camp” is too simple. Those who support “more Europe” (deepening) are co-responsible for the EU’s current malaise. The “yes camp” – including politicians, economic leaders, academics, think tankers and other representatives of organised civil society – has not been able to propose a “positive narrative”, attractive enough to revitalize the support of citizens for the European project. The current financial and economic crisis might provide the “yes camp” an ideal opportunity to define their functional vision of Europe’s future. If they fail to do so, they should not accuse populists and nationalists for exploiting their weakness.

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