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Saving the 'biotope of old Europe'

Abstract

The paper focuses on whether Europe will be able to maintain and preserve its role and values within a world background dominated by troubled crisis and post-crisis processes and effects, a question introduced by George Soros and Gregor Peter Schmitz 's book 'The Tragedy of the European Union. Disintegration or Revival? published by Public Affairs in 2014. We have chosen to start our paper considering on the idea of 'uncertainty as a danger spreading at the world level' (Luce, 2014) then focusing on the importance of Europe preserving its place in the rising multi-polar world order and on the necessity of making use of solidarity values and cooperation inside the European Union, re-stating the original spirit of the union and viewing competitiveness.

Keywords: European Union; financial and economic crisis; power poles; emergent world; European model.

1. Introduction

The Financial Times has recently published, under Edward Luce's signature, an article significantly called "Uncertainty, not China, is replacing US power" (Luce, 2014). The virtue of this article is that it does not focus on what many analysts call "the century competition", the one between the USA and China, but warns against a danger on which very few people think: the danger represented by the uncertainty that appears and spreads, surprisingly fast, at the world level. Where does the uncertainty come from? From many things, from many sources. From a USA power decline that are neither able any more to lead on their own, nor the availability to share the power: "America is behaving like a declining hegemon: unwilling to share power, yet unable to impose outcomes." (Luce, 2014). In the author's opinion, we are already in the early stages of a multipolar economic world, a world where the emergent countries are more and more present and have a more and more important percent. At least at the moment, the more advanced points of this developing world are China and Russia. But, as Edward Luce mentions, "America's ability to sustain a dual containment strategy is an open question" (Luce, 2014).

The surprise for us is that, in this birth process of a new multi-polar order, Europe is not mentioned at all. Does the old continent play a role in this world birth, in defining its values

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and a new direction of international evolution? According to the above-mentioned author, the European contribution is minimal, it is hardly worth to be mentioned. Every time this extremely important and actual issue is discussed, there are the USA to be mentioned as the symbol of the developed world, China and Russia as spearhead of the emergent world while Europe and Japan are rarely mentioned. Is this a reason of complaint or at least of dissatisfaction for the Europeans? The first attempted answer would be a strong 'yes'. How come, Europe, the cradle of the developed world, of the democratic values, is not considered any more a power pole of today's world? This is both wrong and unfair. Then the judgment goes deeper. The crisis, the crisis affected Europe a lot. And the Union – according to the official assessments – is the last parameter of the developed world that is about to get out of the crisis. "Forecast growth in high-income countries remain quite low: 2.8 per cent in the US, 2.4 per cent in UK, 1.7 per cent in Japan, and 1 per cent in the euro zone. If this is right, these economies will not reduce shortfalls in output relative to the pre-crisis trends; in the euro zone, that shortfalls is some 13.4 per cent; in the US 15 per cent; and in the UK 18 per cent. The high-income economies are achieving modest recoveries from devastating slumps, despite extraordinarily accommodating monetary policy" (Wolf, 2014).

The crisis existence and its strong presence in the euro area in the last years could be an argument, but not a strong one. The matter is not the crisis, but the way they have recovered from it. Did the Union exit the crisis another way it came in? It is in this field, that the answer should be found out. At the euro zone and European Union level, there were some measures implemented, measures regarding mainly the deficits, at their level, to prevent the over-indebtedness, but regarding the future evolution of the Union, nothing important occurred. Europe is in the same waiting and of postponing the strategic order answers state. Europe is missing something that was missing before the crisis as well: *the direction*. This is the fundamental weakness of the Union. Here is, if you want, the real crisis – not only the economical and financial one – the European construction, the European model meets.

2. EU seems not to be a real power

A very important support for understanding the European crisis comes from the situation in Ukraine. In our opinion, one of the most important consequences of the situation in Ukraine is the development of the European Union's weakness. From our point of view, maybe the main conclusion- geopolitically speaking – of everything happening in Ukraine is the following: the European Union is not a real power pole, it has not quick and well-thought reactions, it is not a force that could impose its interests and visions. It also has neither the instruments, nor the unitary vision. So it is not a power pole in the true of the term.

A lot – and fairly – was discussed about the infringement of the international law through the modification of the South border of Ukraine as a result of the insertion of the Crimea by Russia. It is not our purpose to follow up this perspective – albeit, we consider it a fair one. According to the classic geopolitical approach, the border is a force ratio. Its durability is given by the balance between the forces that "meet" at that border, by the pressure that appears on both sides. The question is: could there be such an event in the years before the crisis? In our opinion, no! Meanwhile, Russia, as a power pole grew stronger and the European Union, even if it has a redoubtable economic power, reduced its international weight. Why and how? Because it is not a genuine Union where the decision can be taken considering the

day of tomorrow and in the mutual interest of its members. Because the Union stays passive for some years now, even when there are difficult situations at its borders. The way the things happened in the former Yugoslav space at the end of the 1990s (eventually, an intervention from the NATO forces was required). Things happened in a similar during the events known as “the Arabic spring”. At the time, some events occurred at its borders and the Europe position was ambiguous, sometimes unclear. We are not saying that the Union is weak; but we might state that the public overview regarding the Union bears such a sign. Furthermore, it is obvious that the Union- at least in the post- crisis years – is not considered a power pole any more, but a zone – a wealthy one, without doubt – but suffering an always postponed reorganization process. Going back to the situation in Ukraine, we wonder: does the Union truly have the proper capacity of reaction a real power center has? We believe it does not. Here would be the main arguments.

The first argument is its economic state. As we have already mentioned, the Union is the last area of the developed world getting out of the crisis. The most interpretations links this difficult economic situation of the Union to the introduction of the single currency on its territory, that lead, in the last few years, to what was called the euro crisis. In this contest, we would like to make some references to a recent editorial publication that actually represents the result of a conversation between George Soros and Gregor Peter Schmitz, the Europe correspondent of a well-known German publication *Der Spiegel* (Soros & Schmitz, 2014). The work is composed of four interviews taken last year and based on four main themes: History, Tragedy, Markets and Future. The famous business man and American analyst consecrated more analyses to the European crisis and EU evolution. From this point of view, we could not say that the work transcends in novelties. There are generally renewed points of view that become “classic”, of the American author. With some evolution that are also significant. For example, during the euro crisis, George Soros theorized a position for Germany integrated in one known formula: „Lead or leave euro”. Either Germany should lead Europe toward some form of mutual debt and bank guarantees, or it should leave the euro and allow other countries to solve the currency’s systemic problems on their own. After the German parliamentary elections from the autumn of the last year, the American author’s position was softly modified; as Anatole Kaletsky remarked, George Soros embraces the idea according to which it would be far better for Germany to become a „benign hegemon” accepting its responsibilities to support the reconstruction of peripheral Europe, as the US supported post-war German reconstruction with the Marshall Plan (Soros & Schmitz, 2014).

We appeal to this work not only because it is a recent publication, because we deal with a writer famous for his competence in financial matters, with an authorized dialogue author, who has the ability to make the most of the speaker, to make them say things that they didn’t necessarily want to say; we appeal to it because the book insists very much on what we could call the duration impact of the euro crisis. The euro crisis registered its peak moment in the summer of 2012, when Mario Draghi made the famous remark „we do whatever it takes”. In some way, the euro crisis was exceeded in the sense that the European Central Bank offered the required support to banks in the euro zone in order to prevent a collapse. This means that the crisis was solved, that the factors that set it off are not acting anymore and, furthermore, that the effects do not keep appearing, preparing other and other tensions. We insist on this matter not only because it represents the main theme of the above mentioned work, but because it stands in the European crisis core and directly affects the importance of the power pole represented by the European Union.

3. Euro was based on a false economic theory

The moment of euro introduction (1999) – decided through the Treaty of Maastricht – was considered a conclusive factor in accelerating the European integration. There was considered that the existence of the single currency would determine a unified continental economy and would represent the most decisive step towards Europe's „ever closer union”. After 15 years from this moment Europe does not appear fine: it is crossed by many fractures and tensions and represents the geographic area where a series of radical political orientations appeared, where a strong Eurosceptical current has been installed, some countries even consider leaving the Union. We will not be able to understand those things without taking into consideration the single currency introduction and its effects.

In George Soros' opinion, the single currency introduction was lead by a false interpretation: that one according to which the deficits can come only from the governmental costs zone, from the public costs. The crisis showed that this is a source, but in the same way the deficits can come from the private sphere, from the bank exceeds, for example. „The Maastricht Treaty needs a general overhaul. It was based on a false economic theory, championed mainly by the Bundesbank and the German government. The treaty took it for granted that only government borrowing could produce chronic deficits and destabilize the currency union. That was a serious mistake. Only Greece had a genuine fiscal crisis. In Spain and Ireland, the crisis was caused by housing booms and banking excesses” (Soros & Schmitz, 2014, p.35).

Why have we insisted in highlighting this aspect, a very important one in our opinion. When from the entire project, only one cause is accepted – which is confirmed, but only in one country – then the treatment, the prescription melts two things: the initial interpretation (according to which the problems can appear only in the governmental and public area) and the country where this really happened (in this case, Greece). This is why, the European recipe for treating the crisis was created starting from those cases representing half of the truth. Because the diagnostic was the profligacy, the solution limited to cutting the public costs. This policy fitted to Greece, but not to Ireland and Spain. In Spain, for example, the public debt was very small. Here, the real estate boom was the cause. As for Ireland, the cause was the bank's over-indebtedness, the reckless expenditures of the banks. But those countries were “sick” of something else. The prescription that came from the situation in Greece was applied to them, as well. It is like someone suffers of kidneys and he takes a treatment for the lungs.

If we are to speak about a common element of the entire euro crisis, then this one is the bank involvement. In different forms, the banks grew over-indebted and their saving could be done only through the transfer of their debt to the public debt. Thus, the so called “sovereign debt” appeared. The bank senselessness was transferred to the shoulders of all citizens. We do not know if this is a solution. Probably, not. Things happened in the USA, in a similar way but with some significant differences. The first one is related to the reaction promptitude. In the USA, the banks which were too indebted went bankrupt, the other ones were recapitalized. This was a priority of the American strategy of going out of the crisis. This is also why America is more advanced from the point of view of the recovery process. In the EU it lasted a lot until the bank involvement was recognized. This is why the measures for the banks recovery were adopted in the USA in 2009, while in Europe they occurred only in 2012. In this context, we discuss this matter tightly related to what we have announced at the beginning: the European power pole. What is the message that a power provides when it sees with such a delay the illness suffering from, when it prescribes a treatment with the same

great delay? The analysis made by the American author in this field inspires respect. Because it is correct and realistic.

4. A "lost decade" for Europe, too?

The second "floor" of this analysis is represented by the solution quality, by the efficiency of the answer formulated at the European level. Here, we confess from the beginning, that we partially agree with the American author. This floor is very complicated and there are more elements which coexist within it, all related with the faults of single currency design flaw and with the interpretation of the euro crisis' causes. The first issue is represented by the so called "financial austerity" and the financial disciplines. Is it the financial austerity a solution for Europe? George Soros answers no and brings strong arguments in this respect. The essential problem in solving a crisis is stimulating the consumption, turning on the development engines. This is the American approach. For Europe, this truth needs to be detailed. When in some countries big debts were accumulated, balancing the public costs, "stretching one's legs according to the length of his coverlet" represent a very important reference, at least for a period of time. Everybody acted in the same way, at least in the first years of crisis. The problem here is that Europe is late again with the details and even with changing this answer. Even after the IMF – known for the austerity of its policies – admitted that the austerity can postpone the economic recovery and that, as an official position, it cannot be sustained any more. Nevertheless, the change of the European position is late. And it is late because the German consent has not been obtained yet.

The most serious problem that appeared after introducing the single currency is that the single currency existence means single standards for all the states that adopted the euro. The question is: do all those states have economic performance somehow similar? Through the Treaty of Maastricht there were stipulated some deficit limits – that in time were broken by France and Germany themselves – but the long term effects of the competitiveness differences between the States members of the euro zone were neglected. The currency is common, but for each state, it appears as "foreign", i.e. nobody can change its flow (as a state would do with the national currency; it can depreciate it in order to increase the competitiveness of the exported products). This flow is now stable. Then who does obtain the advantage from the existence of the single currency? The answer seems to be: the states having a high competitiveness of their products. At this point, we want to mention something very important.

In 2003, Gerhard Schroeder launched an essential document for Germany: Agenda 2000. What did it foresee? A growth of the overall competitiveness of the German economy. The announced purpose of this programmatic document was to deal with the requests of the financial markets and to maintain – as much as possible – the conquests of the social state. With the trade unions' consent, Germany started an onset in order to increase the competitiveness: sternly reduced the social costs, maintained a substantial reform that finally lead to the massive import development. Two elements can be probative. In the last century of the last decade, the unitary costs with the labour force were smaller in France than in Germany. In the last century, this relation went on the other side. At the end of 2013, the commercial surplus of Germany was of about 213 billion euro, the equivalent of the China's commercial surplus.

What was the European impact of the above mentioned measure? Extremely high and not necessarily positive. The German export capacity increased, but this increase occurred due

to the countries from the euro zone as well, countries with weaker competitiveness. When you have a single measure – the currency – the competitive ones win and the weak ones lose. The Greek economy cannot run in the same race as the German one. As you can not ask a 50 years old person to run in a race with a 20 years old one. If we correlate this with another reality, namely the different cost of the credit in the member countries, we will realize the real problems the less competitive countries deal with. When you contract a loan in a country with debts, it will be much more expensive than in Germany. Then, how can that country rise? The lately adopted measures considering austerity, financial discipline – even though justified – hinder the recovery effort. It has been said, sometimes polemically, that Germany should also strive as a result of reunification and for the materialization of Agenda 2010. This is true, except that Germany benefited from a context characterized by economic growth, even economic boom. Now, the countries facing difficulties are pressed by the effects of economic crisis. This is why, the American author is entitled to say: “When the financial markets re-imposed interest rate differentials, they effectively relegated the weaker countries to the status of heavily indebted Third World countries. This is how they came to be called “periphery” and Germany became the center. The periphery is now at a disadvantage that it will never be able to overcome. And to make matters worse, the weaker countries became saddled in the first decade of the euro’s existence with much more debt than a Third World country would ever have been able to accumulate” (Soros & Schmitz, 2014, pp. 28-29).

It is a completely new situation for Europe. The explanations of this situation are, generally, projected on the existence of the single currency. We do not consider such a demarche right or opportune. It is not that the single currency bears responsibility, but the fact that it was not accompanied by merchandise preventing such gaps. That the Union remained a half way house. That the beginning values of the Union have been left slightly. That the important decisions are taken especially on national level and not on the level of the Union and in its lasting interest. This is why, although they are integrated to one of the most developed areas of the world, the European states confronting with financial difficulties somewhat repeat the experience of the countries in Latin America in the 80s. This put them in the same position as the countries in Latin America after 1982, when they could not pay their debt denominated in US dollars. That led to a lost decade for Latin America, and Southern Europe now faces a similar fate” (Soros with Schmitz, 2014, Public Affairs, pp.40-41).

5. Could Poland be the new France?

It is obvious that the position of the Union is more and more influenced by the position of Germany, as its main creditor. For a reader of this part of Europe, it is triggering to reproduce a question and an answer which could interest the inhabitants of the region.

Schmitz: If the Franco-German axis continues to weaken, as you are suggesting, could Poland be the new France?

Soros: Poland has emerged as the soundest of the Eastern European countries in many ways. There is also a great determination in Eastern Europe not to become dominated by Russia and finally to fully participate in the Eurozone. Poland’s partnership with Germany could eventually come to rival the Franco-German alliance” (Soros & Schmitz, 2014, pp. 51-52).

6. Freedom is not for free

When talking about the existence of a power pole, about its reaction force, defensive and discouragement capacity are essential. The theme was so much discussed regarding the Union that we do not feel the need to retake it. We only wish to signal the impact the crisis had in the defensive capacity field on European level, mentioning that, when we speak of the Union's defensive capacity, we consider the defensive capacity of the member states. Here, the national endeavor and national strategy are even more significant than in the economic field. Here is what Gideon Rachman says about this topic (Rachman, 2013). Britain's Royal Air Force now has just a quarter of the number of combat aircraft it had in 1970s. The Royal Navy has 19 destroyers and frigates, compared with 69 in 1977. The British Army is scheduled to shrink to 82000 soldiers, its smallest size since the Napoleonic wars. In 1990, Britain had 27 submarines (excluding those that carry ballistic missiles) and France had 17. The two countries now have seven and six respectively. In Europe only two countries meet the NATO target of devoting 2 per cent of gross domestic product to defense – one is Great Britain and the other is Greece. Spain devotes less than 1 per cent of GDP to military spending. Much European military spending goes on pensions or pay, not equipment... About 75% of Belgian military spending now goes on personnel which generated a joke about the Belgian army as being an unusually well armed pension fund.

The US is fed up with a situation in which America alone now accounts for about three-quarters of NATO's defend spending. The US is also determined to concentrate more of its military might in the Pacific. The US Navy currently devotes 50 per cent of resources for the Pacific and 50 per cent to Europe and Middle East. In future, Asia will get 60 per cent. As sociologists say, when a situation is analyzed, not only the digits are important, but especially the tendencies. From this point of view, the tendencies in the field of defense on European and Asian continents are instructive: while European defense spending has gone down by roughly 20 per cent over the past decade, Chinese defense spending has risen by almost 20 per cent. In 2012, for the first time in centuries, Asian nations spent more on military force than European countries.

The dissatisfaction is more and more visible, even the irritation of the American party, insuring about three fourths of the expenses made within NATO regarding the modest effort made in this regard by the European partners. In the recent visit made by the American president, in the four Asian states, the American president Barack Obama made a clear specification: Freedom is not for free. The meaning can not be completely deciphered unless we correlate it to the situation from Ukraine and with the slower and less decided reaction of the Union.

7. We need to recapture the spirit of solidarity

The European Union needs more than ever a new direction guiding its evolution. A strategic answer to the multiple problems it deals with. Why this response is not intervening? Because a strategic response assumes an insight for formulating the synthesis, for offering the response. Or this is not clear or not recognized. Where is the European construction heading? The Union deals, concomitantly, with two existential problems. One from inside and expressed by the more and more pronounced differences between the member states, between north and south, between west and east. If these differences are not diminished, then the Union can not

survive. From this point of view, George Soros is right to emphasize: “We need somehow to recapture the original impulse that led to the creation of the union, the spirit of solidarity and cooperation” (Soros & Schmitz, 2014, p. 29). Here, the American author meets a leading personality of Europe, with Jurgen Habermas. “What worries me most is the scandalous social injustice that the most vulnerable 103 social groups will have to bear the brunt of the socialized costs for the market failure...Unlike the shareholders, they will not pay in money values but in the hard currency of their daily existence” (Habermas, 2012, pp. 102-103).

At the same time, especially from the emergent world a very serious challenge comes: the need to increase competitiveness. If it does not consider this new request, as important as the solidarity, Europe will fall as an economic force and, also, as a power pole. It just cannot hold its standard of living. Therefore, the Union must be supported by two essential pylons: one represented by the solidarity values, the other one by competitiveness ones. There is no importance hierarchy between the two sets of values. It is important that a value were not performed at the expense of the other. But what has happened lately is the abandonment of solidarity values. And we can not admit that this is in the benefit of competitiveness. It is rather about the influence of financial markets in Europe’s life, about a priority awarded to the profit in the damage of social balance. If the Union embraces the neoliberal vision, then the tensions between the states and inside the same state will amplify. The result shall be the more and more obvious removal of the initial creed. This is why the recovery of the beginning values, when the solidarity and cooperation were dominants, is not an additional objective, a purpose among other purposes. It is the condition that the Union – with its development model – exists. So, we need to save the “biotope of old Europe”.

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