The Quadruple Crisis of Europe: Europe and its Changing Role in the International Political Economy

Paul Simon ADAMS*

Abstract

This article examines the causes of and responses to Europe's economic, monetary, and political crises as well as their implications on Europe's position in the global economic order and its ability to shape governance of the international political economy. Europe is in the midst of a quadruple crisis of economic stagnation, debt-fiscal- monetary challenges, national and regional political squabbling, and an increasingly weaker position and competitiveness in the global economy. The pessimism over Europe's current condition is well founded as are dire predictions regarding its future if there is little or no economic growth, fiscal and monetary reforms are not well implemented or supported, and greater solidarity amongst the members of the European Union is not rediscovered. Yet some of the glaring issues facing Europe can be addressed through adaptive policy regimes, positive political leadership and cooperation that would relieve some of the stress upon the short and long-term viability and sustainability of the European economic models. Nonetheless, the impact on Europe's position in the global economy has been and will likely be permanently altered and weakened.

Key Words

European Union, Europe, international political economy, globalization, debt crisis.

The Crises of Europe and its Changing Role in the International Political Economy

Thirty years ago Europe was considered part of the economic "north" of advanced, affluent, and dominating regions where wealth and political economic power was centered. Just a few years ago there was talk of an increasingly dominant Europe in the global political

* Paul Simon Adams is Associate Professor of Political Science at the University of Pittsburgh at Greensburg and an affiliated faculty member of the European Union Center for Excellence and European Studies Center at the University of Pittsburgh. He co-edited *Western Europe and the United States: Foundations of Comparative Politics*, Routledge, 2005 and has published numerous chapters in edited volumes including "Europe and Globalization: Challenges and Alternatives" in Howard J. Wiarda (ed.), *Globalization: Universal Trends, Regional Implications*, Northeastern University Press, 2008 and "Corporatism and Comparative Politics: Is There a New Century of Corporatism?" in Howard J. Wiarda (ed.), *New Directions in Comparative Politics*, Westview Press, 2002.

and economic order. Mark Leonard even suggested that "Europe will run the 21st century".[1] Yet since 2008 the general mood in and about Europe has soured on Irish banks, Greek debt, Spanish unemployment, German monetary intransigence, weak Italian governability, increasing British euroscepticism, and the potential collapse of the common currency. The optimism of 1992 or 2000 is gone and "pessimism reigns".[2] With this crisis eurosceptics and even many past ardent supporters of Europe and integration have predicted the demise of not only the Euro but of Europe as a powerful economic actor and even as an economic union.

Europe's place in a rapidly changing geopolitical economic environment seems to hang in the balance.

The global order has seen a remarkable "big swing" towards emerging countries such as Brazil, India, and China.[3] The decline in the economic power of the West (Europe, North America and Japan) seems destined to continue as the growth rates of emerging states continue to increase, albeit much more slowly, during the last few years of economic recession in the West. In February 2012 Pascal Lamy, current head of the World Trade Organization and former EU Commissioner for Trade, suggests that Europe's "weight" in the global economy will likely shrink from 39% in 2005 to perhaps 25% by 2030. [4] When compared to the more modest drop of North America (US and Canada, due mainly to less demographic decline) from 30% to 28% and the huge gains by China (from 8% to 20%) as well as other emerging market states, the European position appears to be weakening in both absolute and relative terms.[5] For Lamy, there has been no previous instance of such massive changes in global economic development "concentrated in so short a space of time".[6] Tony Barber argues that the combination of debt and preexisting economic decline have essentially halved the medium-term potential growth rate for the European economy.[7] Europe's place in a rapidly changing geopolitical economic environment seems to hang in the balance.

The concept of "Europe" as a whole is to some extent a muddled term. Often Europe means the European Union (EU) but this obviously does not include all Europeans or the entirety of its social, political, and economic activity.[8] Yet the EU has come to symbolize Europe- both politically and economically- despite the many "Europes" that may exist. Gareth Harding has suggested Europe is in the midst of a "triple crisis" including an

economic crisis, a monetary and fiscal crisis, and a political crisis revolving dominantly around the failures to solve the first two crises as well as the broader failure to construct a common European solidarity since the 1990s.[9] This research argues that there is actually a "quadruple crisis" that includes not only the current economic, debt-fiscal-monetary, and political crises but also an even more longstanding crisis of the competitiveness and role of Europe in the global economy as well as the relative power of Europe to shape the future economic order.

The First Crisis

Europe's first crisis, its economic crisis, is obvious when one looks at the very poor degree and speed of European economic growth, its high unemployment rates, the PIIGS (Portugal, Ireland, Italy, Greece, and Spain) debt crises, and even the high debts taken on by United Kingdom to shore up banks and financial sectors in response to the recession of 2008. But the economic crisis also predates 2008 as growth rates in Germany, France, and other European states all began to slow after 2000. Beyond growth rates there have also been fundamental weaknesses or declines in productivity, investment, output, exports, and other "structural flaws" that mark serious and lasting problems of the European economy.[10] The economic crisis went from a chronic to emergent condition with the 2008 market collapse which concurrently brought about, and was then reinforced by, a debt and liquidity crisis amongst the PIIGS states that grew into a Europe-wide monetary crisis which has sapped additional fiscal resources, economic stimulus options, political will, and, possibly more importantly, a sense of European unity or solidarity. The financialization of the banking crises in Ireland and Spain, where governments essentially took over failing banks and paid investors with funds from tax revenues and sovereign bonds, significantly grew the debt forecasts of the two states for the short and long terms. Yet it also immediately suppressed growth and markets by increasing taxes, sapping available credit, and otherwise depressing the economy beyond the banking sectors.[11]

One significant flaw of the overarching pessimistic view of Europe is that it fundamentally ignores one of the very points that critics of the European project emphasize; differentiation. Europe not only encompasses member states that are in deep crisis such as Greece, Cyprus, Italy, and Spain but also relatively stronger economies like Germany, Sweden, or the Netherlands which even in the face of crises continue to grow economically

and do not suffer the same levels of ills or high debt. Growth of German Gross Domestic Product (GDP) was 3.7% in 2010 and 2.9% in 2011 (though it was optimistically estimated to grow only 1.0% in 2012 and will likely be lower than that when revisions are complete). Nonetheless, German, Finnish, Dutch, Swedish, Danish, and Estonian economic problems are keenly differentiated from Greek, Cypriot, Spanish, Portuguese, Irish, and Italian concerns. In addition, non-EU members such as Norway, Turkey, and Switzerland, while certainly affected by the crises in Europe, still maintain healthy growth or a decidedly positive economic situation (in Norway's case a hefty bit of sovereign wealth).[12] Even Iceland experienced GDP growth of 2.9% in 2011 and an expected 2.4% in 2012.[13] Turkey's economy grew by nearly 9% in 2010 and 6.6% in 2011.[14] Obviously it is impossible to go into details on the variations between the over forty national economies of Europe in this research. However, the overall growth forecasts for Europe in the near and middle-term future are not strong and Europe's climb out of the previous recession seems to have halted. In February 2012, Pascal Lamy estimated that economic recovery growth rates of 2% or 2.5% were possible prior to the monetary crisis but that the more reasonable prediction is rates of closer to 1% or 1.5% at best.[15] Even those predictions may be optimistic as evidence from late 2011 through early 2013 show the GDP of the Eurozone has shrunk and exports have fallen.[16] Olli Rehn, the European Commissioner for Economic and Monetary affairs predicts growth across the EU of just 0.1% in 2013 and a contraction of 0.3% among the 17 euro zone states.[17]

The overall growth forecasts for Europe in the near and middle-term future are not strong and Europe's climb out of the previous recession seems to have halted.

Beyond mere GDP figures, there are a number of other structural problems in the European economies including high unemployment (especially youth unemployment), negative impacts of austerity measures, increasing deindustrialization, low labor flexibility, and suppressed demand and production. Thus European economic growth is being hampered for a number of reasons, some of which will be discussed in later sections of this research. However, one of the primary culprits is the ongoing second crisis of Europe, the debt-fiscal-monetary crisis, which is weakening investment and stability in the Eurozone

and preventing the use of traditional macroeconomic levers to jumpstart the economies of many European states.

The Second Crisis

Europe's second crisis is constituted of three interrelated and reinforcing debt, fiscal, and monetary problems; longstanding concerns that only needed a recession to unleash their most dire consequences. While not all elements of this tripartite crisis can be fully explored here, some are more likely to impact Europe's position in the global economy than others. The debt crisis began to emerge in the early 2000s immediately after the institutionalization of the euro. As government debt across the Eurozone began to swell, and to the greatest extent by far in Greece, Portugal, and Italy, all that was required to push Europe into crisis was an economic recession, which was duly provided by the bursting of the housing bubble in 2008. As Jerome L. Stein suggests the global crisis "simply aggravated" many European states' "fiscal performance and prospects which had already begun to deteriorate" prior to the 2008 economic downturn.[18] While Stein is speaking directly of the Greek situation here, what he says largely applies to the Italians, Portuguese, and others as well. The fact that the bubble was in housing exacerbated the effects in Europe as inflated property prices and overleveraging of banks in Ireland, Iceland, Spain, Britain, Cyprus, and throughout Europe created a devastating "perfect storm" of economic and debt crises. Ultimately, the debt crises in the PIIGS states brought about a monetary crisis in the Euro area and Europe in general. The downgrading of Greek, Portuguese, and Italian debt made funding more debt or postponing current debt more expensive and difficult, if not impossible, and default became a real possibility in Greece, Portugal, and Italy. This had a much broader impact upon the value of the Euro, the liquidity of European banks and governments, as well as the many investors and banks across Europe leveraged in PIIGS bonds. Hence the debt and fiscal crises may have started in the PIIGS states but the contagion spread across Europe quite quickly as serious concerns about French debt-to-GDP ratios, British banking bailouts, Hungarian and Cypriot bailouts, and other qualms became magnified. Beyond the EU and Eurozone the weakness of the Euro sent investors looking for more stable currencies such as the Swiss franc, which appreciated so dramatically that in 2011 the Swiss Central Bank intervened to cap its value, halting the increase in the cost of Swiss exports which was threatening the national economy.[19]

It should be noted that among European and even the PIIGS economies, there was and is significant differentiation in the levels, types, and impacts of debt crises. The net debt of states like Ireland and Spain were near or even below the EU average and actually far less than those in Greece, Portugal, and Italy prior to the economic crisis in 2008.[20] The economic crises in these states derived from two distinct sources. In Greece, Portugal, and Italy, the crux of problem was government debt. Greece had a public debt of over 115% of GDP by 2009 and 143% in 2010 and may exceed 160% by 2014. To put this in perspective Greek debt was only 22% of GDP in 1980.[21] Nonetheless, since the 1980s, Greek, Portuguese, and Italian debt has been created overwhelmingly by fiscal deficit spending by government. This provided two major barriers to structural reform. First, high and unsustainable long term government debt levels and the threat of default ultimately meant that these states had little cheap credit left and when pushed by the economic recession had almost no chance of escaping default without massive external support and restructuring of debt. Greek fiscal debt had exceeded 3% of GDP almost every year in the decade leading to the collapse. Revised deficit reports show Greek annual fiscal shortfalls at 5.1% in 2007, 7.7% in 2008, and 13.6% in 2009.[22] Second, the government debt (especially in Greece and Portugal) had been used to fuel domestic social programs, wages and benefits, state economic programs, and other projects that required massive reduction and austerity almost immediately. This of course added a political and public dimension to the debt crises which has been fought on the streets of Athens and at the ballot box for the past several years, but has obviously suppressed employment, consumption, revenue collection, and other important day-to-day functions of the Greek economy.

> The impacts of the debt-fiscal-monetary crises are still far from clear and, while having led to some significant reforms within the EU and Eurozone, will certainly need continued vigilance and adaptability to additional threats for years to come.

In Ireland, Iceland, Cyprus, and Spain, the crises were created by private sector failures in the banking systems which had become overleveraged in real estate bubbles that burst and subsequently were bailed out by governments. The bailouts have pushed public debt considerably higher as Irish government net debt

went from just over 12% of GDP in 2007 to 36% in 2009 to an estimated 120% by 2013.[23] The bailouts were borrowed from the EU and International Monetary Fund (IMF) and used to recapitalize Irish banks. In general what this means is that the Irish debt was quite different from the Greek debt and ended with a differentiated response. Ireland's prospects are still quite troubling, but, compared to Greece or Portugal most analysts believe that a few years of austerity and the growth of the economy even in modest terms will lead the Irish situation to stabilize. Notably, through the use of austerity measures and slight rebounds of the economy, the Irish government will likely have a balanced budget or even slight surplus by 2014.[24] Yet there are almost no optimistic accounts of the near future for the Greek or Portuguese economies.

The impacts of the debt-fiscal-monetary crises are still far from clear and, while having led to some significant reforms within the EU and Eurozone, will certainly need continued vigilance and adaptability to additional threats for years to come. The debt taken on by the PIIGS and the United Kingdom will not be easily paid off. The high growth rates enjoyed by the Irish in the 1990s and most other Europeans prior to 2000 are unlikely to return, and the next generation and future governments will be saddled with this debt. The Brussels Pact of February 2012 and subsequent EU actions have addressed many of the fiscal and monetary issues created by the Greek, Portuguese, and Italian debt crises. The creation and implementation of the European Financial Stability Facility (EFSF) in 2010 and the European Stability Mechanism (ESM) by October 2012 were critical steps in addressing this ongoing crisis by allowing the financing and consolidation of the debt into new instruments written by the ESM along with the European Central Bank (ECB), IMF, or other third parties.

The creation of the European Banking Authority (EBA) in late 2010 was also critical if the EU was to effectively deal with situations like Ireland, Spain, and most recently Cyprus (as well as to a great extent the UK) whose crises were spawned by private sector banking failures rather that state-generated spending-derived debt. As Stein suggests, the measurement and implications for private-sector debt ratios are quite different from public debt ratios.[25] It is unclear if these agreements on banking will fully or properly address the fundamental economic weaknesses or overall private and public debts. For instance, while Iceland (not an EU member but certainly indicative of Europe-wide problems) rebounded in terms of public debt and economic growth in 2011 and early 2012, private

sector debt remains enormous with household debt at nearly 200% of disposable income and corporate debt at 210% of GDP.[26] In essence, Europe may be constructing new institutions and policies to deal with part of the causes of the banking, monetary, and debt crises, but it has only recently and incompletely addressed some elements of private sector debt that may be the cause of ongoing economic weakness and future crises in several European states. The creation of the European Securities and Market Authority (ESMA) in January 2011 is a step in that direction but it is still likely that the EU, EBA, ESM, ECB, and ESMA will need to create more robust institutional early warning systems of not only public debt but also of significant excessive private debt to preclude similar private sector failures in the future.

The Third Crisis

Europe's third crisis is a political one that, much like debt and monetary crisis has been obscured to some extent for the past 20 years. This crisis is centered on a longstanding debate about European integration, the proper role and function of the EU and the ECB, increasingly sharp divisions between Europe's member states and tangible and pragmatic divisions amongst the now 28 national governments. Romano Prodi, former Prime Minister of Italy and President of the European Commission has suggested that EU policymakers knew of the likely crises of the Euro currency and that the institutional weaknesses of the stability and growth pact were to some extent to blame.[27] The Growth and Stability Pact was never much of an institutional mechanism to control debt and certainly did little to prevent states from finding creative means to bypass and undermine its efficacy. Roubini and Berggruen argue that the pact also lacked the flexibility to address the "diversity of conditions across the Eurozone".[28] Even Germany, which pushed hardest for the pact, was amongst those states that eventually violated it with little penalty. Gareth Harding concurs that the current Euro crisis "can be traced back to the decision at Maastricht 20 years ago to pursue a monetary union without a fiscal, economic, or political one".[29]

Prodi suggests that ultimately the crisis led to a fundamental choice of either dissolution of the Euro or greater coordination and regulation of fiscal policy especially among the Eurozone states.[30] Prodi and almost all others suggested that the failure of the Euro would have far too negative consequences for the entire EU and that the first steps of fiscal coordination or union were ultimately the only option.[31] Clearly,

the EU failed to respond adequately and with alacrity to the Greek, Portuguese, Spanish, and Italian debt crises as they began to unfold as early as 2008-2009. This is partially a reflection of the lack of political and public consensus in Europe over the fate of the union, and especially the currency union. More importantly, it illustrated the institutional and political limitations of the ECB and the wider EU system which still ultimately reflect a less-than-union of twenty-eight member states with divergent interests, electoral politics, and attitudes towards the integration process. Since 2000, the increasingly divisive rhetoric about the creation of a "core" group of EU members seeking greater integration excluding others, notably in Southern and Eastern Europe and the UK, is indicative of a political crisis that has been brewing since at least Maastricht in 1991 and has become especially prominent since the struggles to ratify the European constitution in 2005. The creation of a "multi-speed Europe" has to some extent already taken place.[32] Steven Erlanger and Matthew Saltmarsh have argued that the bailout process has itself been a reflection of the divisiveness and national self-interests of the member states, suggesting that "every decision" was a "painful, time-consuming bargain" between the 27 national governments. For many, including Simon Tilford, Chief Economist of the Center for European Reform, the "myth of European integration and solidarity" was exposed by the crisis and the lack of a coherent European response.[33]

If economic conditions worsen, the fraying of the community and defection from the rules and principles of the union will likely increase.

Much of this can be seen in the early failures of the EU and ECB to contain the growing crisis. In February 2010, the EU failed to manufacture a bailout plan for Greece which could have at least minimized some of the symptoms of the emerging crisis. Even after the EU came to an agreement on the Greek bailout in April 2010, it was clearly too little too late. The May 2010 €500 billion effort to save the currency also seems in retrospect to have been a decision that was politically difficult, slow, and ultimately insufficient. By August 2011, Greece had received several more bailouts and the ECB was buying Spanish and Italian bonds signifying a much more robust response to the now fully recognized set of crises. By late 2011, the bulking up of the EFSF allowed the EU to make precautionary loans, highlighting the growing recognition that preventative

measures were necessary to stem the contagion growing in other member states like Hungary and to recapitalize European banks. In December 2011, a summit in Brussels finally agreed (though the British opted out) to a fiscal pact that limited national budget deficits and extended the power of the Commission on issues of tax rate harmonization and other budgetary concerns. The creation of a permanent and more robust ESM to ultimately replace the EFSF was a critical measure adopted in the summit. This did not fundamentally constitute what Harding suggested was a move towards a "kind of United States of Europe"; an idea which is not particularly favorable with Europe's leaders or its masses.[34] Rather this was a practical extension of European Monetary Union and EU treaties for which the political will could not be found 20 years ago. Nonetheless, after significant delay, dithering, and indecisiveness, the EU and ECB made clear efforts at a "credible long-term strategy" towards greater fiscal and political union.[35] The chief of the ECB, Mario Draghi, suggested that this was the only course and that Europe must "make a quantum step up in economic and political integration" so as to fundamentally address not only the short-term but long-term implications of the current economic, debt, and monetary crises.[36] The adoption and implementation of Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (usually known simply as the Fiscal Compact) was a gargantuan step forward in the institutionalization of fiscal and monetary policy unification in the Eurozone. Nonetheless, this has not ended the political or economic crises in a meaningful way and it is unclear if the pact will receive the kind of compliance required if it is to avoid repeating the failures of the post-Maastricht Growth and Stability Pact.

Complicating this economically-driven political discontent is the perceived democratic deficit of the EU which afford its citizens little opportunity to directly influence events and decisions taken at the European level.

Europe's political crisis seems to have been largely consequent on its economic and fiscal crises. While economic growth was strong (or at least stronger than it was in US growth) and economic prosperity continued in the 1990s, commitment to the European integration project and the common currency were concurrently strong. Between 2001 and 2007 however, slow growth in France and Germany was dwarfed by US growth of nearly 5%.

As European per capita growth slowed, productivity growth was simultaneously halved.[37] The single currency also has not had the impact that it was boasted to possess. Eichengreen and Boltho argue that the common currency has had at best a "very small effect on the area's growth rate or even level of output".[38] Rosato argues that the future of the EU rests with the "health" of the European economy. If economic conditions worsen, the fraying of the community and defection from the rules and principles of the union will likely increase. Even in the best-case scenario, Rosato does not expect Europe to significantly advance, but rather to merely "muddle along".[39]

Complicating this economically-driven political discontent is the perceived democratic deficit of the EU which afford its citizens little opportunity to directly influence events and decisions taken at the European level. While the Lisbon Treaty did increase the ability of the public to directly petition the Commission and provided greater connectivity between citizens and the European Court of Justice and European Parliament, the strong and ever-present "disconnect" between the policymakers and citizens of the union is not so easily solved. Even more problematically, the centralization of EU authority in fiscal, monetary, banking, bond issuing, and austerity has driven additional wedges between citizens and the union. Of course this is often exacerbated by national and local politicians who play the "Blame Brussels" card on every local and domestic problem. Nonetheless, the democratic deficit and increasing euroscepticism have contributed to the difficulty of achieving political solutions to the crises. The skeptical responses to the growing authority of EU have been harshest in those states where the impact of austerity is strongest. The results of recent Greek and Italian elections favoring anti-austerity and even anti-system parties suggests a major ongoing political roadblock to cooperation, integration, and an end to the crises.

> The recession of 2008 and the fiscal-monetary crises that have followed have driven even deeper wedges between member states.

That said, Harding and others critics of the EU and the project of "Europe" tend to emphasize its weaknesses and failures rather than its successes. Clearly there is no political consensus on a federal Europe or a United States of Europe. Even from the start of the European integration process in the 1940s, such a program was only ever the dream of a few visionary, but often marginalized, policymakers.

Predominantly, the process of integration has been more pragmatic, institutional, and for the most part effective at creating a more singular market, increasing intra-European investment and trade, creating a common external trade identity, and making important but modest steps in collective governance. As Roubini and Berggruen suggest, the goal of European leadership must be to help build some unity and consensus by reminding the European public of "the absence of war, the freedom of mobility, and the rising prosperity" that Europe helped usher in after World War II and the Cold War.[40] Yet coherence and leadership in Europe have seemed to be in as short supply as liquidity during much of this period. As many have noted, even prior to the recession of 2008, EU economic decline has led to significant divergence in member states adherence to the rules of the single market and monetary union. Greece and Portugal were regular violators of the growth and stability pact, and Germany and France flaunted the rules between 2002 and 2005. Lacquer, Rosato, and Gillingham have all illustrated increasing tendencies toward state protectionism and willingness to "bend EU rules" for short term protection of domestic firms, employment, or political expediency.[41] The recession of 2008 and the fiscal-monetary crises that have followed have driven even deeper wedges between member states. Hence, while there is little serious concern that the EU will dissolve, there is increased expectation that it will become a considerably weaker and less unified actor as member states or subgroups of members hollow out the solidarity and authority of the union. Certainly there is now more serious talk about the viability of the union and especially the common currency. A Greek exit from the Euro, once viewed as unlikely and potentially disastrous, seemed almost imminent by the summer of 2012 though a bit less so by 2013. Poland had delayed adoption of the Euro for the foreseeable future and the United Kingdom's willingness to consider withdrawal from the union, however fanciful, is troubling. This bodes poorly for Europe as a community of mostly smaller economies (with the exception of Germany) dwarfed by those of the United States, China, Japan, and many emerging economies like Brazil and India. These crises add up to a potentially significant weakening of Europe's relative and absolute influence in the governance of the international economic order and a higher recognition of Europe's fourth crisis- its management of the forces of globalization.

The Fourth Crisis

Philip Stevens suggests globalization has "intensified and accelerated shifts in competitive advantage" across the

globe leading to stunning economic changes within Europe.[42] Hence, Europe is also in the midst of a fourth crisis which encompasses its overarching competitiveness and role in a globalizing and integrated international economic order. The European contribution and response to economic globalization has been particularly idiosyncratic and uneven. In some ways Europe is the most globalized, most integrated, and most prepared economic actor in an era of increasing global interconnectivity in trade, finance, and information.[43] On the other hand, Europe's demographics, extensive welfare state, agricultural policy, and other more protectionist elements suggest a Europe that is not able or willing to compete on many levels. This has had the effect of making globalization one of the most divisive policy areas for European governments and the EU, who are all torn between the struggle for greater globalization of European markets and protectionism in response to the very same trends. While Philip H. Gordon suggests that most Europeans are right to believe that the EU "can protect them from the downsides of globalization" the situation is far more complicated.[44] Europe has also been integral to and a champion of the globalization process. As Lamy espouses, "we can hardly call Europe a victim, indeed so far it has rather profited from the globalisation process".[45] The collapse of the Doha rounds over US-Japanese-European intransigence on agricultural subsidies and ongoing EU-US trade skirmishes both highlight the tension between globalization and protectionism.[46] In essence, the relationship between Europe and globalization poses serious dilemmas in assessing Europe's role in the governance of the international economic order. Until recently, Europe was perceived an "economic superpower" with a strong and unified voice in the shaping of global economic accords through its role as a negotiator in rounds of GATT and WTO talks, and as home to the world's largest single economic community. However, the three previously discussed crises of Europe have effectively begun to fuel an ever more calamitous fourth crisis. In several key ways, Europe's current and future place in the global economy and as a force in providing governance of the world economy is in doubt.

The collapse of the Doha rounds over US-Japanese-European intransigence on agricultural subsidies and ongoing EU-US trade skirmishes both highlight the tension between globalization and protectionism.

Europe's Demographic Deficit

One key element of Europe's perceived weakness is its demographic implosion combining lower birth rates and increasingly aging populations. A fundamental challenge for Europe is how to respond to the threat posed by aging societies to a once generous, perhaps overgenerous, social compact. Commentators like Walter Laqueur have stressed that Europe's low fertility rate is a reflection of its decadence, yet the demographic decline of Europe is a precursor to similar rates emerging not only in advanced states in North America but also fast-growing economies in Latin America and Eastern Asia (though Japan and South Korea are shrinking and aging at an even more pronounced rate and China is itself in the midst of an ever-faster demographic transition towards an aging society).[47] The current birthrate in the EU is 1.5 children per woman, well below the 1957 average of 2.1 in the countries that today make up the union.[48] The dilemma for Europe is two-fold. First, how do aging societies sustain advanced welfare states with a much lower percentage of the population in the workforce? Second, can Europe compete with demographically younger and growing states?

The EU will lose approximately 50 million inhabitants by 2050 due to disproportions in the death and birth rates- equal to the population of Poland and Greece combined. Immigration may provide some relief from this decline but it would produce stability at best in most European states. Klingholz argues that immigration is likely to maintain Europe's population at a fairly constant rate and even allow some slight growth until it reaches its peak in 2035. Nonetheless, Europe's share of the world's population will decline as relative growth rates continue to be more robust in Africa, Asia, and the Americas. The median age in Europe was 31 in 1950 and will be 48 by 2050. The workforces of most European states will continue to shrink, and the population of those 60 and older will rise to over 50% sometime in the next 20 years.[49] The effects of demographic decline within Europe are not equal and in fact might be a bit overstated. The demographic losses will be primarily in the areas of economic weakness and remoteness rather than in the high-performing urban economies. Populations are likely to shrink dramatically in rural areas and weaker Southern and Eastern European states in the near future. In such areas across Europe, workers and immigrants will migrate to the larger cities and the stronger economies. Indeed, the

demographic collapse is less pronounced in the United Kingdom, France, and Norway.[50] Furthermore, once the baby boom generation begins to reach the end of its lifespan from 2045 onward, the pressures on the welfare state will likely start to be reduced.[51] Nonetheless, the short and middle-term implications of this demographic transition are tremendous given the structure of social benefits.

Europe needs to better integrate migrant communities into their societies so as to make them more productive and value-adding elements of their economies.

It is clear that European states need to adapt pension, health care, and other retirement and elderly benefits to the new reality of a much older and less workforce-oriented population. Europe is already beginning to do so in many modest ways. Extension of the retirement age, while unpopular with workers who have grown used to a generous pension and retirement system, is already underway in a number of European states. As Klingholz suggests, there really is no 'solution' to the demographic decline in Europe but there is certainly room for, and an immediate need for, adaptation. Europe needs to better integrate migrant communities into their societies so as to make them more productive and value-adding elements of their economies. Europe is already highly culturally, linguistically, and ideologically diverse, but to fully harness the immigrant portion of the population it must ensure that it has the education and skills necessary to contribute to Europe's long-term economic sustainability, rather than burdening it with high unemployment and a low-skilled workforce.[52]

The current retirement age in half of the EU countries is below 60, and in many it is even lower for women. The European employment rate for 55-64 year-olds is only about 40%. Due to increases in life expectancy, Europeans may begin to enjoy retirement years that exceed their working years. This is unsustainable. One argument for early retirement has been its ability to alleviate unemployment and increase efficiency by hiring younger and lower paid workers, but these assumptions are not well-supported. The burden of the retiree is placed collectively upon all workers and employers in most welfare states. Research has also shown that the countries with the highest employment rates of 55-64 year-olds (Norway, Sweden, and Switzerland) also have the lowest youth unemployment.[53] Older workers may be quite productive and may actually create more jobs.

The strongly social democratic model of the European political economy may also hinder its competitiveness in the current context of neo-liberal globalization.

The demographic crisis in Europe is not one that can be solved in a conventional manner. While migration to Europe may alleviate some of the pressures created by aging societies it may also reinforce problematic social externalities such as failures of assimilation, anti-immigration movements, and the immigration-unemployment connections made by many working class Europeans. Yet as Klingholz suggests, while the demographic implosion provides enormous challenges, it is also a problem that is quite likely to be amenable to social policy reform and adaptation.[54]

The European Welfare System

The European welfare state is itself a problem for Europe's continued leadership role in the global economy. The strongly social democratic model of the European political economy may also hinder its competitiveness in the current context of neo-liberal globalization. The higher costs of taxation, labor, regulation, and social benefits may make Europe far less competitive in a global market. Social expenditures make up approximately 15% of GDP in the US, but over 25% in Europe. Total state spending averages nearly 48% of GDP in Europe compared to only 36% in the US.[55] While the European model of social democracy and its ideal of greater social egalitarianism and justice are popular and fiercely defended, it is expensive, potentially less efficient, and perhaps a comparative disadvantage. As Thomas Friedman suggested, the French are trying to preserve a "35-hour work week in a world where Indian engineers are ready to work a 35-hour day".[56] Magnus Ryner argues that the effects of social democracy and European welfare systems have had a "corrosive" impact on Europe by creating an environment of economic stagnation and creating the conditions for the economic and financial crises, themselves an indictment of the social democratic "Third Way" in Europe.[57] Ryner argues that "social democracy generates diseconomies that ultimately manifest themselves in a lack of competitiveness, balance of payment deficits, and capital flights" and "undermines the institutional conditions for a politics of productivity, whereby technological change is generated and channeled so as to generate positive sum solutions that facilitate healthy profit

and social wage rates" citing as evidence "the European political economy in the wake of the financial crisis".[58]

Many have suggested that Europe needs to rethink working hours and scale back from the reduction of the work week that has occurred in many European states since the 1960s. The general consensus is that globalization and the pressures of competition will force European states to reduce guaranteed vacations, reestablish at least a 40-hour work week, and make other tough choices to remain economically competitive and viable. Yet Brian Burgoon and Damian Raess suggest a fairly "uneven" set of consequences on working hours in Europe from the forces of international trade, investment, and migration.[59] The expectation that extra working hours necessarily equal productivity has not always been strongly and empirically supported. Burgoon and Raess illustrate that, in many states, and especially in those with neo-corporatist partnerships between labor and management like Germany and the Netherlands, there is already significant flexibility in working hours as well as wages when faced with global competition and a changing global environment. Burgoon and Raess have shown that, especially in the German economy, "greater foreign investment and trade tend to trigger deeper concessions in works council bargaining" and certainly result in greater wage and work flexibility.[60]

Europe's crises do have serious consequences for the global economy and especially for economies with strong trade and investment ties to Europe.

Labor flexibility, slimming the welfare state, modestly increasing retirement ages, and other reforms to the social insurance system are clearly needed Europe. Yet, states that have already begun to make such reforms and changes, including the UK, Sweden, the Netherlands and Germany, have demonstrated viable routes to possible success. The German Agenda 2010 program begun under former chancellor Gerhard Schröder has helped increase labor flexibility, reduce strain on the welfare state, keep wages in check, and can certainly be cited as one reason for generally good numbers on German growth and employment over the past few years. The Netherlands has also been active and innovative in reducing costs in healthcare and other social provisions. Yet these efforts have not been without political costs. Attempts by President Jacques Chirac and the Gaullist-led parliament of France to liberalize the system of employment contracts for younger workers resulted

in massive strikes and demonstrations that shut down the country for weeks in the spring of 2006. Somewhat minor reforms meant to liberalize employment, healthcare, and pension benefits in Germany sparked noticeable dissent and numerous strikes on several occasions between 2003 and 2006, and the implementation of Agenda 2010 ultimately contributed to Schröder's electoral defeat in 2005.[61] Austria suffered its first general strike in over 50 years when the Schüssel-led government attempted to reform the state pension and retirement age in 2003. Despite the short-term public clamor, it seems clear that these difficult but necessary reforms were needed to ensure future growth without scrapping the European welfare state model altogether.

The Role of the EU in Managing Globalization

Most Europeans have believed that a strong EU "can help them take advantage of globalization's benefits while shielding them from its negative effects".[62] Gordon suggests that the EU could play four important roles in managing globalization for Europe. First, by providing a large, single market, the EU could share the benefits of globalization amongst many states of similar economic development and commitment to social and environmental concerns. Second, the EU could protect member states and citizens from the inequalities and vagaries of globalization by providing structural funds and safety nets for the "losers" in the globalization process. Third, it could increase European leverage in world trade and economic negotiations by pooling European states' power and resources acting as a genuine equal to the United States, China, and other larger state economic actors. Fourth, Europe could potentially mitigate the most dramatic effects of unregulated neoliberal globalization by regulating and protecting agricultural and cultural assets.[63] Nevertheless the question is whether Europe has actually been fulfilling these roles over the past decade and whether the current crises essentially reduce Europe's ability to protect and sustain their existing modes of operation.

> The future of Europe and its role in the international political economy is one of concern for all, not just Europeans.

European Council President Herman Van Rompuy has stated that the economic and fiscal crises have "revealed" Europe's weaknesses and illustrated that European "structural growth is too low to create new jobs and sustain our social systems".[64] Yet

for many states in Europe, globalization may have lessened the ability to respond in typical European manner to economic demands and crises that balance interests of labor, business, and the state. As Lamy suggests "globalisation has unhinged the balance by taking away all the domestic levers" by which Europeans developed and implemented the economic policies for much of the 20th century.[65] Clearly the ability of the EU and its 28 member states to make policy changes to boost the European economy as a whole has become significantly more constrained since the 1990s. Yet, it seems clear that, as a multitude of smaller economies, there is even less leverage and influence for Europe on the global economic stage. For former German Chancellor Schröder "either Europe develops into a political union and becomes a truly global player, or it moves backwards as a continent of nation states that have neither political nor economic clout on the global level".[66] Schröder identified the 2009 UN Climate Change talks in Copenhagen as an illustration of the relative weakness of a divided Europe versus China or the United States who ultimately made the key decisions.[67] Gordon argues that the EU continues to be "an imperfect tool for managing globalization", though it nonetheless remains, at least for the moment, "an indispensable one".[68]

The Futures of Europe in the International Political Economy

Europe's position in the international political economy is one that has been changing for the last 20 years, though the current crises has to some extent accelerated the process and brought the extent of the change into relief. Current assessments of Europe's future role in the international economic order are predominantly pessimistic. Gareth Harding seems to suggest a particularly dismal view for Europe in light of the triple threat of economic, fiscal, and political crises, yet the worst-case scenario for Europe seems to be overstated in numerous significant ways.[69] First, Europe is not uniformly experiencing the same levels of economic or debt crisis. Recovery will be difficult and there will be the lasting pain of ongoing recession and crises for many states like Ireland, the United Kingdom, Cyprus, Italy, and Spain. Recovery may be impossible for states like Greece or Portugal, whose debt is clearly unsustainable and for whom default is perhaps only avoidable with massive intervention by funds from the troika of the EU, ECB, and IMF. Nevertheless, Lamy suggests that Europe may actually be in better long-term condition than the US or Japan;

Europe's market share of international trade has remained stable at about 20%, though declining perceptibly between 2011 and 2013, while those of the US and Japanese have shrunk considerably. A weakened euro has some benefits to the European economy in terms of increasing the price competitiveness of European exports; still a strong component of many European economies including Germany, the Netherlands, France, and Italy.[70] In fact, the EU's foreign trade surplus in industrial goods has tripled over the last decade.[71] Nevertheless, many of these numbers have shrunk in the last two years and Europe is hardly assured of a recovery.

Conclusion

Europe and the EU have a crucial role to play in the current and future global economies and the current era of economic reconstruction and reorganization. Despite the dearth of optimism and the dire current conditions, the reports of Europe's death have likely been exaggerated. To some extent, the four crises of Europe overlap and reinforce one another. Europe's declining position in the global economy, intense welfare-state, monetary and fiscal dilemmas, public unhappiness, and political quagmires are all components of a complex and changing global economic environment and Europe's transitioning role in the global economic order. Fernando Henrique Cardoso suggests that the uniqueness of the European crisis of debt and monetary collapse is that, unlike the crises of the developing world countries such as Brazil, Mexico, or Thailand in the 1980s and 1990s, it is at "the center and not at the periphery of the system" and hence greatly increases "global risks and repercussions".[72] Europe's crises do have serious consequences for the global economy and especially for economies with strong trade and investment ties to Europe. The scope and scale of the economic crises and the concurrent decline in political unity and consensus may make the current conditions in Europe "lethal" if major changes and agreements are not quickly and properly implemented and political unity recovered.[73] Hence, a crisis in Europe is a crisis for everyone, including the United States and much of the developing world. In essence, the future of Europe and its role in the international political economy is one of concern for all, not just Europeans.

Endnotes

1 Mark Leonard, *Why Europe Will Run the 21st Century*, New York, Public Affairs Books, 2005.

2 Sebastian Rosato, "Europe's Troubles: Power Politics and the State of the European Project", *International Security*, Vol. 35, No. 4 (Spring 2011) p. 45.

3 Jean-Michael Severino and Olivier Ray, *Le grand basculement, la question sociale a l'echelle mondiale,* Paris, Odile Jacob, 2011, pp.1-4.

4 European Commission, *The World in 2025: Rising Asia and Socio-Ecological Transition*, Luxembourg, Office for the Official Publications of the European Communities, 2009; Pascal Lamy, "The Future of Europe in the New Global Economy", *Tribune de Notre Europe,* 2 February 2012, p. 1.

5 Lamy, "The Future of Europe in the New Global Economy", p. 1.

6 Ibid., p.3.

7 Tony Barber, "Rebuilding Europe's Economic Potential", *European View*, Vol. 9, No. 1 (June 2010), p.12.

8 William Biebuyck and Chris Rumford, "Many Europes: Rethinking Multiplicity", *European Journal of Social Theory*, Vol. 15, No. 1 (February 2012), pp. 4-5.

9 Gareth Harding, "The Myth of Europe", *Foreign Policy*, No. 191 (January-February 2012), p.76.

10 World Trade Organization, "Trade to Remain Subdued in 2013 after Sluggish Growth in 2012 as European Economies Continue to Struggle", at http://www.wto.org/english/news_e/pres13_e/pr688_e.htm [last visited 25 April 2013].

11 For more depth on the Irish and Spanish financializations and their impacts, see, Seán Ó. Riain, "The Crisis of Financialisation in Ireland", *The Economic and Social Review,* Vol. 43, No. 4 (Winter 2012), pp. 497- 533; Charles Powell and Federico Steinberg, "The Pain in Spain: Light at the End of the Tunnel?", *International Spectator: The Italian Journal of International Affairs*, Volume 47, Issue 4 (December 2012).

12 Norway's significant revenues from oil production are partially invested in a sovereign wealth fund that the state can ultimately rely upon for current and future uses. For more on its growth in 2012 see, Joachim Dagenborg and Balzas Korany, "How Norway's $710-billion wealth fund earned 13.4 per cent last year", *Globe and Mail,* at http://www.wto.org/english/news_e/pres13_e/pr688_e.htm [last visited 25 April 2013].

13 Ambrose Evans-Pritchard, "Iceland's Viking Victory", *Telegraph*, 17 February 2012.

14 International Monetary Fund, "Turkey and the IMF", at http://www.imf.org/external/country/tur/index.htm?type=9998 [last visited 8 March 2013].

15 Lamy, "The Future of Europe in the New Global Economy", p.5.

16 Katie Allen, "Eurozone Edges Closer to Recession", *Guardian,* 6 March 2012; World Trade Organization, "Trade to Remain Subdued in 2013 after Sluggish Growth in 2012 as European Economies Continue to Struggle".

17 James Kanter, "Renewed Signs of Europe's Economic Weakness", *New York Times*, 21 February 2013.

18 Jerome L. Stein, "The Diversity of Debt Crises in Europe", *Cato Journal*, Vol. 31, No. 2 (Spring/Summer 2011), p. 210.

19 Peter Garnham and Haig Simonian, "SNB Stuns Market with Franc Action", *Financial Times,* 6 September 2011.

20 Stein, "The Diversity of Debt Crises in Europe", pp. 200-201.

21 International Monetary Fund, "Fiscal Monitor Database", at http://www.imf.org/external/ns/cs.aspx?id=262 [last visited 6 March 2013].

22 Stein, "The Diversity of Debt Crises in Europe", p. 210.

23 International Monetary Fund, "Ireland: First and Second Reviews Under the Extended Arrangement and Request for Rephasing of the Arrangement- Staff Report of May 2011", at http://www.imf.org/external/pubs/ft/scr/2011/cr11109.pdf [last visited on 6 March 2013].

24 Ibid.

25 Stein, "The Diversity of Debt Crises in Europe", p.199.

26 Evans-Pritchard, "Iceland's Viking Victory".

27 Romano Prodi, "A Big Step Towards Fiscal Federalism in Europe", *Financial Times,* 21 May 2010.

28 Nouriel Roubini and Nicolas Berggruen, "Only Full Integration Can Save Europe", *New Perspectives Quarterly*, Vol. 28, No. 4 (Fall 2011), p.15.

29 Harding, "The Myth of Europe", p.81.

30 Prodi "A Big Step Towards Fiscal Federalism in Europe".

31 Ibid.

32 "Coalitions for the Willing", *Economist,* Vol. 382, No. 8514 (February 2007), p.55.

33 Steven Erlanger and Matthew Saltmarsh, "Greek Debt Crisis Raises Doubts about the European Union", *New York Times,* 7 May 2010.

34 Harding, "The Myth of Europe", p.81.

35 Roubini and Berggruen, "Only Full Integration Can Save Europe", p.14.

36 Ibid.

37 Rosato, "Europe's Troubles", p. 74.

38 Barry Eichengreen and Andrea Boltho, "The Economic Impact of European Integration", *CEPR Discussion Paper*, No. 6820 (May 2008), p. 38.

39 Rosato, "Europe's Troubles", p. 83.

40 Roubini and Berggruen, "Only Full Integration Can Save Europe", p.16.

41 Walter Lacquer, *The Last Days of Europe: An Epitaph for an Old Continent*, New York, Thomas Dunne Books, 2007, p. 200; John Gillingham, *Design for a New Europe*, Cambridge, Cambridge University Press, 2006, p. 19; Rosato, "Europe's Troubles", p. 74-75.

42 Philip Stevens, "A Future for Europe Shaped by Museums and Modernity", *Financial Times,* 28 April 2006.

43 Paul S. Adams, "Europe and Globalization: Challenges and Alternatives", in Howard J. Wiarda (ed.), *Globalization: Universal Trends, Regional Implications*, Boston, Northeastern University Press, 2007, p. 119.

44 Philip H. Gordon, "Globalization: Europe's Wary Embrace", at http://yaleglobal.yale.edu/content/globalization-europes-wary-embrace [last visited 16 October 2013].

45 Lamy, "The Future of Europe in the New Global Economy", p.4.

46 Adams, "Europe and Globalization", p. 121.

47 Lacquer, *The Last Days of Europe.*

48 Reiner Klingholz, "Europe's Real Demographic Challenge", *Policy Review*, No. 157 (October & November 2009), pp.61-62.

49 Ibid., pp.62-65.

50 Ibid., pp.63-64.

51 Ibid., p.64.

52 Ibid., pp.65-69.

53 Ibid., p.68.

54 Ibid., pp.64-70.

55 Gordon, "Globalization: Europe's Wary Embrace".

56 Thomas Friedman, "A Race to the Top", *New York Times,* 3 June 2005.

57 Magnus Ryner, "An Obituary for the Third Way: The Financial Crisis and Social Democracy in Europe", *Political Quarterly*, Vol. 81, No. 4 (October-December 2010), pp. 560-561.

58 Ibid., pp. 556-557.

59 Brian Burgoon and Damian Raess, "Does the Global Economy Mean More Sweat? Trade, Investment, Migration, and Working Hours in Europe", *Socio-Economic Review*, Vol. 9, No. 4 (October 2011), p. 701.

60 Damian Raess and Brian Burgoon, "The Dogs that Sometimes Barks: Globalization and Works Council Bargaining in Germany", *European Journal of Industrial Relations*, Vol. 12, No. 3 (November 2006), p. 287.

61 Gerhard Schröder, "A Robust Vision of Europe", *New Perspectives Quarterly*, Vol. 28, No. 4 (Fall 2011), p. 11.

62 Gordon, "Globalization: Europe's Wary Embrace".

63 Ibid.

64 Barber, "Rebuilding Europe's Economic Potential", p.12.

65 Jon Bloomfield, "Revitalising Europe", *Soundings*, No. 40 (Winter 2008), p.70.

66 Schröder, "A Robust Vision of Europe", p.13.

67 Ibid.

68 Gordon, "Globalization: Europe's Wary Embrace".

69 Harding, "The Myth of Europe", pp.76-80.

70 Roubini and Berggruen, "Only Full Integration Can Save Europe", p.15.

71 Lamy, "The Future of Europe in the New Global Economy", p.4.

72 Fernando Henrique Cardoso, "Europe Faces Crisis Brazil Solved", *New Perspectives Quarterly*, Vol. 28, No. 4 (Fall 2011), p.17.

73 Jill Treanor, "George Soros: Eurozone Crisis has Entered a 'More Lethal Phase'", *Guardian,* 12 April 2012.