

Finance, Crisis

and the

Global Power Shift

Financial Crisis, Reforms and their Impact on Geopolitics

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Introductory Remark

This report is based on the conference “The International Financial System and the Global Power Shift - Five Years after Lehman Brothers. A balance of financial reforms and their impact on economy, society, geo-politics and the further perspectives” which had been held in Brussels from 13th – 15th November 2013.

The event was organised by the Rosa-Luxemburg-Stiftung (Brussels Office) in cooperation with Attac France, Finance Watch (Brussels) and WEED – World Economy, Ecology & Development Association (Berlin).

The report does not attempt to represent minutes or an accurate summary of all presentations and the following discussions. Instead we decided - for the sake of accessibility and readability - to produce a structured synthesis, which nevertheless renders the main lines of the conference. Given the importance of the issue, our intention is to involve as many people as possible into this debate. Political developments since November 2013, in particular the Ukraine crisis, confirm dramatically, that this debate is extremely important.

The major arguments of all speakers are taken up in the text. But only in some cases there are direct quotes, which are, of course, identified as such. In several cases the source of quotes is a Power Point Presentation. In some cases data and sources were updated with material, which has occurred after the conference. However, this was done only on the basis of arguments, which had been made in the conference.

As the report was written by one author, it may inevitably contain some subjective perceptions of what had been discussed in Brussels, and of course, the text does not speak on behalf of the participants. All errors are of the sole responsibility of the author.

If the report can trigger some reflections and provoke discussions its purpose has been fulfilled.

Peter Wahl

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Speakers and commentators at the conference were:

Patrick Bond, University of KwaZulu-Natal, South Africa. **Andreas Botsch**, ETUI, Head of the Economics Department, Brussels. **Lisa Donner**, Americans for Financial Reform, Washington. **Cédric Durand**, University Paris XIII. **J.P. Chandrasekhar**, Nehru University, New Delhi. **Pia Eberhardt**, CEO, Brussels. **Daniela Gabor**, University of West England. **Jayati Ghosh**, Jawaharlal Nehru University, New Delhi. **Robert Guttmann**, Hofstra University, New York. **Gus Massiah**, Paris, International Council World Social Forum. **James Meadway**, Counterfire and New Economics Foundation, UK. **Sargon Nissan**, Bretton Woods Project, London (SDR). **Nildo Ouriques** Federal University of Santa Catarina, Florianópolis, Brazil. **Pedro Páez**, Ex-Finance Minister and member of Stiglitz Commission. **Thierry Philipponnat**, Secretary General of Finance Watch. **Dominique Plihon**, University Paris VIII. **Sol Picciotto**, Lancaster University, UK. **Erik S. Reinert**, The Other Canon Foundation, Norway, Tallinn University of Technology, Estonia. **David Santoni**, National University of La Plata, Argentina. **Claude Serfati**, Institute of Economic and social Studies (IRES); University Versailles-Saint-Quentin-en-Yvelines, France

Executive Summary

The interest of this report is about the effects of the financial crisis on the global power architecture and on geopolitics. The concept of geopolitics, in particular its normative dimension, is discussed critically. It is problematic that it is seen as being that normal countries try to acquire as much power as possible, that there is a hierarchy in the international system and that permanent rivalry and power politics are a fundamental dynamics of international relations. Another problem is that military power is the most important component of power (military bias) and that concepts like national interest geopolitical strategies are mainly defined by the dominant elites, whereas ordinary people usually have to pay the bill for the geopolitical ambition of elites. While the normative dimension of geopolitics is rejected the concept is nevertheless used in this report as an analytical tool.

There is a new international order emerging, replacing the unipolar world under the leadership of the US by a polycentric world. The rise of China and other emerging countries, their increasing cooperation in the BRICS and the attempt of Russia to come back as a global player are indicators for this deep going structural change. The process has started and will take a long time. Also the US will remain for a long period the leading power in the world although its relative position is diminishing.

A polycentric world is not automatically better or more stable. On the one hand there might be positive trends, such as less military interventions as there are more limits and risks for the US, but on the other hand, the new system is inherently unstable, if it is not embedded in an architecture of political cooperation.

The financial crash in 2008 served as a catalyst for the changes in the international system. It weakened both the US as the main protagonist of finance capitalism and the EU economically as well as with regard to their image to the rest of the world.

There were some financial reforms to fix the system. But they were restricted to financial stability only, while the root causes of the crisis, such as the dominance of finance over the real economy, endemic finance speculation and the global imbalances were not tackled. The EU was even harder hit than the US. The financial crisis was transformed into a crisis of public finance, which led to the de facto bankruptcy of several member states. The subsequent crisis management of Brussels could not solve the problems. Based on a wrong diagnosis the cure caused even more damage. Several countries in the Mediterranean suffer from a dramatic social crisis. Also major economies such as Italy and France are now under pressure. Given the complex governance structures of the EU the crisis has increased the heterogeneity of the Union with the effect that its future is uncertain. From a geopolitical point of view, the EU has been weakened by its multiple crises and its further perspectives look quite dull. The dream of the EU becoming a superpower in the new emerging world order remains a dream.

At the end, some principles of an emancipatory alternative to the traditional approach of geopolitics are sketched. If the structural changes in the international system should not increase conflict, instability and lead to new wars, a multilateral architecture has to be set up based on democratisation of international relations, mutual respect and cooperation. The world economy has to become more equitable and inclusive and must work for the mutual benefit of all countries and people on the planet.

1. Geopolitics – a problematic concept

The interest of this report is about the effects of the financial crisis on the global power architecture and on geopolitics. In other words, it is linking two areas together, which in day-to-day discussions are normally quite separate from each other. While the crisis and its economic consequences are broadly discussed the debate on its geopolitical dimensions is an issue for quite a specialized community. But this does not mean at all, that it is irrelevant. At the contrary, geopolitical configurations have a deep impact not only on international relations but also affect the domestic developments in societies. It works like a magnet, which aligns iron filings all into the same direction. It is therefore useful to throw a short glance on the concept of geopolitics.

Initially the concept of geopolitics meant that there is a link between the geographical situation of a country and its foreign policy. A well-known example is the interpretation of Prussian – later on imperial German - foreign policy in the nineteenth century as a result of its medium position between Russia in the East and France and the UK in the West. German foreign policy should therefore aim at balancing or bridging between East and West. Bismarck was the most prominent representative of this geopolitical approach. At present, a similar debate has emerged over the Ukraine (Kissinger 2014, Trenin 2014). But although today, too, the geographic situation of a country might not be completely irrelevant – for instance neighbourhood between countries is still an important factor¹ - for complex modern societies geography is only one factor among many others.

Today, the concept of geopolitics is still used - however in a double sense:

- a. as an analytical tool for the international system and the relations between states and groups of states;
- b. as a strategy and normative orientation for foreign policies of a country.

In the contemporary use, the concept is more or less used as a synonym for power relations and power politics between countries or groups of countries. And power is based in this context on the following sources:

- a. military power,
- b. economic strength,
- c. political and diplomatic influence,
- d. cultural attractiveness (soft power).

Of course, all these factors are interrelated among each other. From this, the balance of power and its modifications have a decisive influence over the evolution of the international system with respective repercussions on domestic developments in each country.

From an emancipatory point of view, the geopolitical discourse has several problematic dimensions. There are basic and unquestioned assumptions, which work as implicit normative orientations, such as the belief that:

- it is normal or even natural that countries are always seeking to acquire as much power as possible,
- that a hierarchy in the international system is normal or even natural,
- that every country should hence strive to reach the highest possible ranking in that hierarchy,

¹ In that sense the different processes of regional integration in Europe (EU), Latin America (Mercosur, ALBA) and others can be interpreted in terms of geopolitics.

- that permanent competition and rivalry is therefore a fundamental dynamics of international relations,
- that dynamics which are different from or opposed to competition such as co-operation and alliance-building are subordinated to the overarching ratio of competition,
- that military power is the most important component of power (military bias),
- that the use of military power – be it as a threat (deterrence), be it as a real war – is a legitimate tool of foreign politics,
- that there is something like a national interest, which would be shared by all members of a society, irrespective of their social position and political, ideological and other orientations, thus hiding that geopolitical strategies are defined by the dominant elites, while ordinary people usually have to pay the bill for the geopolitical ambition of elites.

If the logic of geopolitics is hegemonial in a society it has consequences also inside the resp. society. One of the most frequent ones is the perception of the own country as being automatically “the good one,” as reflected in the famous dictum „*In matters of foreign affairs, my country may she ever be right, but right or wrong, my country, my country!*“ attributed to the US naval officer Stephen Decatur jun. in 1805. Geopolitical thinking is hence often interconnected with patriotism, nationalism, chauvinism and similar narratives, which construct collective identities as superior over others. A recent example for this view was expressed in a keynoted address on foreign affairs by Barack Obama in May 2014: “*So the United States is and remains the one indispensable nation. That has been true for the century passed and it will be true for the century to come. ... I believe in American exceptionalism with every fiber of my being.*” (Obama 2014).

By defining the own nation and its interests as particular “great” and “good,” other countries are easily turned into “the bad ones.” And as “the others” normally behave reciprocally and respond to the ambition of US-exceptionalism and missionary ambition with their own concepts of superiority, conflict - and in the final consequence war - is inherent in geopolitics. At present we can study in the Ukraine crisis these mechanisms like in a schoolbook.

Although geopolitics as a strategic and normative concept is highly problematic for an emancipatory approach to international relations, it is a matter of fact, that it is a fundamental reality in the international system. In spite of its ideological character it meets – like all ideologies, otherwise they would not work – certain aspects of reality, as practically all nation states all over the world act inside the coordinates of geopolitics – whether we like it or not. We therefore use it here as an analytical tool, while rejecting its normative dimension. Alternatives will be raised in the last chapter.

2. From a unipolar world to a polycentric system

After World War II the international system was characterized by a bi-polar configuration. There were two super powers, the US and the Soviet Union. Both had their “camp,” i.e. a group of satellites and close allies. The bipolarity was not only playing between the two blocs, but was also influencing heavily on the domestic situation. A third group, the Non-Aligned Movement, tried to manoeuvre between the two poles. But the basic determinant in this system was bipolarity. After the break down of the Soviet Union and its camp the only super power left were the US, and therefore the idea emerged that the end of history would have reached, with the liberal capitalist

order to become the only model world wide. (Fukiyama 1992). However, the unipolar world was historically a very short period, and independently and before the 2008 financial crash the international system had started to shift towards a polycentric world. The main features of this shift were:

- the economic rise of China. Never ever in human history a big country had developed in such a short period into a industrialized country. Today, China is the world's second economy. In a few years the country will pass the US. Increasingly the economic rise is also reflected in China's military power and political influence in the international arena.
- Russia, which after the disruption of the Soviet Union, had fallen into a dramatic economic, political and moral crisis – while keeping most of its military nuclear potential - was stabilised internally under Putin's first presidency. Under his second presidency, Russia tries to come back on the international theatre and plays quite an important role in several conflicts such as Syria, Iran, the Snowden case and the Ukrainian crisis.
- Brazil, India and other emerging economies such as Mexico, Indonesia, Argentina, Turkey, Saudi Arabia and South Africa were becoming major players in the international system.
- The emerging powers have been co-opted into new multilateral structures, such as the G20.
- The emerging powers are organising themselves in separate pluri-lateral institutions, such as the MERCOSUR in Latin-America or the BRICS.²

There is now a large consensus that the world is heading towards a polycentric system, with the US and China as two superpowers and a corona of global players such as Russia, India, Brazil and others. A study of *Goldman & Sachs* for instance comes to the conclusion, that in 2050 from the present G7 only the US will be among the five biggest economies in the world which then would consist of China, US, India, Brazil and Russia (Goldman & Sachs 2009). Of course, such long-term forecasts are always tainted with uncertainties and modifications will occur, but the general trend will remain. The process has been initiated and will not be stopped.

The BRICS are consciously promoting the change. They have decided to establish a common development bank and a *Contingent Reserve Arrangement (CRA)* with an initial size of US\$ 100 billion. This is meant to create an alternative to the IMF's and the World Bank's lending and their conditionalities. They complain expressis verbis about the reluctance of the West to democratize the IMF: "*We remain disappointed and seriously concerned with the current non-implementation of the 2010 International Monetary Fund (IMF) reforms.*" (BRICS 2014).

They also express their consensus on some basic issues of international security, which are critical towards the present Western policies: "*We condemn unilateral military interventions and economic sanctions in violation of international law and universally recognized norms of international relations.*" (BRICS 2014). This is for instance directed against the US-Intervention in Iraq and the policies of economic sanctions against Russia. Also, they criticise the abuse of human rights and democracy for geopolitical purposes as they see "*the necessity to promote, protect and fulfil human rights in a non-selective, non-politicized and constructive manner, and without double standards.*" (*ibid*) This is clearly directed against the concept of "*Responsibility to Protect*" which is used by NATO as legitimisation of military intervention, as in the

² Brazil, Russia, India, China, South Africa

case of Kosovo without consent of the UN Security Council.

3. Risks of the upcoming order

Of course, such shifts in the international system are complex processes and do not happen over night - unless they are produced by war, civil wars or revolutions. The US will remain for a long period the strongest power in the world. Its military potential will be out of reach for decades for any competitor. Also the US-economy is still strong and has in particular in strategic key sectors, like the digital industry, a leading position.

Obviously, the US has recognized the challenge and has openly declared the will to defend its leadership also in the 21st century. In the above mentioned speech Obama clearly said: *“The question each of you will face, is not whether America will lead, but how we will lead -- not just to secure our peace and prosperity, but also extend peace and prosperity around the globe.”* (Obama 2014).

3.1. No automatic turn towards the better

It is important to underline, that the structural shift in itself says nothing about whether this will have positive or negative effects for the international system. The future is open and it would be naïve to believe that the world automatically changes towards the better with the rise of new powers.

Also the rising powers are a heterogeneous group with conflicting interests among each other. (Bond 2013). There is for example a long-standing rivalry between India and China, and although there is recently a rapprochement between Russia and China there is also some potential for conflict between both countries.

Another question is *“whether the BRICS or the G20 will ignore or substitute for the views of the G77 or larger bodies of developing countries whose voices are only too rarely heard in international policy discourse.”* (Gosh 2013).

Furthermore, a polycentric system is inherently more unstable. The increasing number of actors and interests makes it also more complex and more difficult to manage, in particular in case of crises. Looking back to the second half of the 19th century, we had a similar configuration in Europe. There was the so-called European pentarchy, with the British Empire as a kind of *primus inter pares*, then France, Germany, tsarist Russia and the Austrian-Hungarian Empire. The rise of the newcomer Germany – economically as well as in military terms – changed the balance of power and destabilised the old order. This was one of the basic structural factors, which – among other factors – led to World War I.

Although history does not repeat itself neither does it work like a mechanical clockwork, which leads to an inevitable end, new conflicts may arise in a multi-polar world and the risk of wars might increase. It is inherent to the dynamics of change that the “old” powers try to maintain their leading position, while the upcoming ones are challenging it. The crisis in the Ukraine clearly shows these symptoms. Although the complex conflict has several important domestic dimensions, such as protest of people in all parts of the country against the lack of democracy, corruption, the power of the post soviet oligarchs and the split of the country into a Ukrainian and a Russian speaking culture, the geopolitical dimension is penetrating all these factors (Trenin 2014).

As far as the economic orientation is concerned, the picture among the BRICS is mixed. All five countries are capitalist economies. But while China and to a lesser

extent Russia have still a strong state interventionist orientation of their economy, India and South Africa are increasingly following a neoliberal agenda, where the economy is largely left to market forces, while Brazil is somehow in between. In particular with its state owned oil company and its social policies (bolsa familiar, fame zero) Brazil's success in pulling some 20 million people out of absolute poverty come next to China. Also China's strict regulation of the financial sector is in so far interesting as it was not only shielding the country against the direct spill over of the financial crisis, but maintains the command of politics over the economy. Also the long-term goal to establish the Chinese currency as international money and to reduce the influence of the Dollar as the global currency has an immediate geopolitical dimension (Serfati 2013).

But in spite of certain differences in the economic model of the BRICS none of the five is challenging the capitalist development path as such. One has to acknowledge that alternatives to capitalism, as they are discussed among many civil society actors and social movements, are not advocated by the BRICS. (Bond 2013). This is particularly relevant, when it comes to global problems, such as climate change. Already under conditions of the unipolar US-hegemony they could not be solved. Increasing competition in a polycentric system will absorb material and intellectual capacities and reduce the ability to get this type of problems under control.

However, a certain diversity in the economic models even inside the capitalist system weakens the monopoly of neo-liberalism and gives new policy space to promote further reaching, emancipatory alternatives.

3.2. Less military interventions?

Nevertheless there might also be other positive effects. The most important could be that the pretention of the US, to intervene everywhere in the world with its military force will encounter more resistance. The results of the US wars, which were waged during the period of the unilateral hegemony speak for themselves. The war in Iraq lead by the US with a "*coalition of the willing*"³ has not only left behind more than 150.000 people killed – most of them civilians – but also a failed state, which has become a destabilising factor for the whole region today. With the establishment of a fundamentalist Islamic state in parts of Syria and Iraq the US is confronted with the contrary of its intentions. The balance is similar for Afghanistan and Libya, where the "*war on terrorism*" and regime change have lead to the contrary of the official intention to establish democracy and human rights. Just like Iraq, today Afghanistan and Libya are failed states too.

The failure of the military interventions has triggered an internal debate in the US, whether the country should not concentrate more on its domestic problems such as the social problems, in particular the decline of the middle class and the increasing gap between rich and poor, or the degradation of the infrastructure.

At the same time there are contradicting trends, such as the demonstration of military power in the Pacific region and the expansion of NATO military presence at the Russian borders, including the intention to deploy an anti-missile system already long before the conflict over the Ukraine had started. But if one takes military expenditures as an indicator, US interventionism meets increasing difficulties. Although the US still spends approximately three times more than China as the second ranking (see figure 1), the US reduced its expenditures by 7,8% in 2013. Most of the reduction can be

³ The coalition comprised some 40 countries, among them the UK, Japan, Poland, Australia, Italy, Spain, Portugal, the Baltic States, Ukraine, Georgia, Eritrea, Nicaragua, while the most prominent non-participants were France, Germany and Russia.

attributed to the withdrawal of US troops from Iraq and Afghanistan. On the other hand the BRICS and some other emerging countries have considerably increased their military expenditures in the last decade. China by 170%, Russia by 118%, Brazil by 48% and India by 45%.

Figure 1. The 15 countries with the highest military expenditures 2013

Rank		Country	Spending, 2013 (\$ b.)	Change, 2004–13 (%)	Spending as a share of GDP (%) ^a	
2013	2012				2013	2004
1	1	USA	640	12	3.8	3.9
2	2	China	[188]	170	[2.0]	[2.1]
3	3	Russia	[87.8]	108	[4.1]	[3.5]
4	7	Saudi Arabia	67.0	118	9.3	8.1
5	4	France	61.2	-6.4	2.2	2.6
6	6	UK	57.9	-2.5	2.3	2.4
7	9	Germany	48.8	3.8	1.4	1.4
8	5	Japan	48.6	-0.2	1.0	1.0
9	8	India	47.4	45	2.5	2.8
10	12	South Korea	33.9	42	2.8	2.5
11	11	Italy	32.7	-26	1.6	2.0
12	10	Brazil	31.5	48	1.4	1.5
13	13	Australia	24.0	19	1.6	1.8
14	16	Turkey	19.1	13	2.3	2.8
15	15	UAE ^b	[19.0]	85	4.7	4.7
Total top 15			1 408			
World total			1 747	26	2.4	2.4

[] = SIPRI estimate.

^a The figures for military expenditure as a share of gross domestic product (GDP) are based on data from the International Monetary Fund (IMF) World Economic Outlook database, Oct. 2013.

^b Data for the United Arab Emirates (UAE) is for 2012, as figures for 2013 are not available.

Source: SIPRI 2014

It is too early to make reliable forecasts on the US-behaviour in the coming years. In case the tensions at several hotspots of crisis increase things can change rapidly. Also the outcome of the next US presidential elections could turn the trend if the Republicans should win.

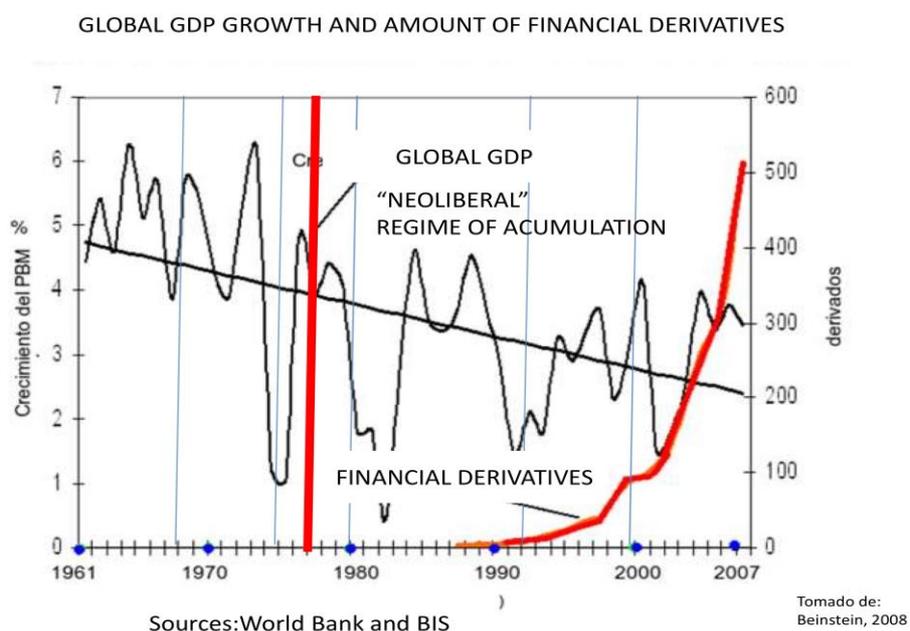
Furthermore, it should be kept in mind that it is the strategy of the US to increasingly involve NATO partners in military burden sharing. So, a reduction on one end might be compensated by an increase at the other. The recent debate in Germany on “*taking over more responsibility*” fits very well into this picture. Also in Japan the situation might change, after the government of Shinzo Abe has adopted a “re-interpretation” of article 9 in the Japanese constitution, which initially was banning warfare for Japan “for ever.” While China, which had been several times victim of Japanese aggressions since the 19th century, voiced concern, Washington was satisfied with the decision.

4. The financial Crisis – a Nail in the Coffin of US-Hegemony

Globalisation was the key feature of the nineties and the first half of the first decade in the 21st century. Globalisation is a complex phenomenon, which has economic, communicational, cultural and technological dimensions of tremendous range, which cannot be dealt with in this report.

However, its economic core was the disappearance of national borders for the free flow of capital and the emergence of a real free, global financial market. With a mouse-click, billions of Dollars could be moved from one corner of the planet to another. This allowed for a tremendous quantitative expansion of capital as well as for new business models. While in 2008 the global GDP was 62 trillion US the only volume of credit derivatives was 596 trillion USD, i.e. almost ten times more (see figure 1)

Figure 2.⁴ The expansion of finance



The economic mainstream speaks of *financialisation*, other schools of thinking call it *finance or asset driven economy*, *finance capitalism* or in a Keynesian metaphor: *Casino capitalism*.

Independently from how it is named, in substance the new system became the biggest and dominant sector of the economy and profits in that sector were considerably higher than elsewhere. The multilateral institutions under Western leadership such as the G8, the IMF and the World Bank tried their best to make this new type of accumulation the model for the rest of the world. When first symptoms of crisis emerged, as in the case of the Asian financial crisis in 1997/98, the crash of the LTCM Hedge Fund in 1999 and the Dotcom crisis in 2000, they were attributed to a *crony capitalism* in Asia or to some exceptional accidents, and the system was further deepened and praised as the summit of economic progress.

All this was accompanied by “intellectual capture” and “group thinking,” as the Independent Evaluation Office of the IMF calls it (IMF 2011), i.e. a conformism, which was shared by the mainstream academia, politicians and media, who believed that the markets would be able to regulate themselves.

⁴ Taken from the power point presentation of Pedro Paez at the Brussels conference 13-15 November 2013.

While finance capitalism was on the rise, it contributed to foster the global hegemony of the US. The system had emerged to a large extent in the US. Its logics and dynamics worked as a transnational economic power network. The US were the biggest player on financial markets and other factors such as the role of the US-Dollar as world currency and “safe haven” were pillars in its role as leading power in the world. This was not only a source of economic strength, but also a component of the soft power of the US. Finance capitalism was – with the exception of the few critical voices from heterodox economists, left politicians and sectors of civil society – seen as the most innovative and advanced model of economy in the world.

With the 2008 crash this turned into its contrary. What was seen as an advantage turned into a handicap. The crisis was triggered in the US and spread over to the EU. It affected the real economy and world trade and by contagion through finance and/or real economy hit the entire world economy. It was the deepest financial crisis since the *Great Depression* in the 20th century. Although it appeared at first glance to be a real estate bubble (so-called subprime crisis), it was in fact a systemic crisis of finance capitalism.

At the same time the crisis served as a catalyst to make surface structural problems, which had existed already before the crash, in particular the federal deficit (1.1 trillion USD in 2012), the foreign trade deficit and the dramatically increasing gap in income and wealth inside the US society. Parallel to that a blockade of the democratic institutions of the country occurred. Due to the deep split in the US society over the handling of the public debt between the conservative-fundamentalist current, represented by the so-called *Tea Party Movement* and the *Republican Party* on the one side, and the *Democratic Party* on the other, the US was at the brink of bankruptcy in 2013. Government institutions had to be shut down for some weeks, civil servants did not receive their salary and only a last minute compromise prevented a disaster with global repercussions. The world’s only super power showed weaknesses as they are normally attributed to a banana republic.

Under the impression of the financial crash 2008 there was some readiness of the elites to reform the system and strong statements about the need for reforms were made. In the Pittsburgh G20 Summit declaration one can read sentences such as: “*We are confronted with the greatest challenge to the world economy in our generation. ... We want growth without cycles of boom and bust and markets that foster responsibility not recklessness. ... We will not allow a return to banking as usual.*” (G20 2009).

And in fact, the Obama administration succeeded to adopt a relatively ambitious reform programme (Dodd-Frank Act) in 2010, which was meant to repair the worst flaws and to stabilize the system. Its most far-reaching component was the so-called Volcker rule, which intends a separation of investment banking from normal business banking.

However, after the Republicans had gained the majority in the House of Representatives they did everything to undermine and to block the implementation of the reforms. As a result, many good intentions have been watered down and the reform remained stuck half way.

An important effect of the crisis is that the international hegemony of the US-Dollar, which is a central pillar of the US power architecture, is increasingly challenged. Several countries, among them China and Russia, are shifting a considerable share of their currency reserves away from the Dollar. They also have started to bilateral trade relations, which are based

The above mentioned Development Bank and the reserve fund of the BRICS could not only become an alternative to the US dominated IMF and World Bank but might also weaken the role of the Dollar in the long run.

Taken together, all these factors are a heavy blow to the economic and political position as well as for the image of the US in the world. They accelerated the erosion of the unipolar system and served as a catalyst for the shift towards a polycentric world.

The US has of course realized this and tries to develop a response. While insisting on its leading role (Obama 2014) adjustments in the global strategy will be made, such as giving more attention to the Asian and Pacific region, while shifting more responsibility to European allies and deepening the division of labour with European allies in particular with view on Eastern Europe, the Caucasian regions and Russia. This is not only seen under a military and security perspective but also economically. The US wants to strengthen its economic power and the one of its allies.

Therefore, the promotion of the *Transatlantic Trade and Investment Partnership* (TTIP) with the EU and a similar Trans Pacific Partnership with eleven countries in Asia with the explicit exclusion of China are not only intended to foster the economic influence of the US “*but have clearly a geopolitical dimension.*” (Eberhardt 2013) Both agreements are intended to improve growth, to further integrate the Western economies and their allies and to serve global standard setting through the West.

5. The EU in an existential crisis

September 25th 2008, ten days after the bankruptcy of Lehman Bros., German finance minister at that time, Peer Steinbrück (Social Democratic Party - SPD) declared in the Bundestag, that the German banking system would be “*robust in international comparison*” and that a program to save the banks would “*not be necessary.*” (Steinbrück 2008). Only some days later he was overhauled by reality. The crisis had fully reached Europe, and it was hitting the EU particularly hard. One reason for this is the fact that the City of London is besides Wall Street the second pole of global finance capitalism. Another one is that also on the continent the EU had made considerable efforts to liberalise and deregulate financial markets in order to align with the trend defined by the US and the UK. But given that the EU is peculiar and heterogeneous blend of nation states with supranational elements, its vulnerability to external shocks is greater.

Hence, it became immediately clear that the EU was not able to respond adequately to the crisis at supranational level. There were no legal, financial and institutional devices, which could react to such a crisis. Therefore it was left to the member states, which independently from each other tried to save their own banks and started stimulus programs to buffer the effects of the financial crash on real economy and employment.

5.1. Financial crisis transformed into public deficit

However, it soon turned out that this was overstressing the capacities of some member states, and in spring 2010 Greece stood at the brink of bankruptcy. Also Ireland and Portugal (and in 2013 Cyprus) were de facto insolvent. In a difficult political process rescue packages from other Euro countries were tied together to prevent a total collapse. But things became even worse, when the two other and bigger economies of the Mediterranean came under heavy pressure from speculative attacks by

the financial markets. The financial crisis was transformed into a crisis of public debt (see figure 3)

Figure 3.⁵ The explosion of public debt after the financial crash in the EU



In spite of a highly complex set of new instruments to get public debt under control (*ESM, Stability Pact, Two Pack, Six Pack* etc.) the statistics show not only a further increase of the debt rate in the crisis countries - in Greece for instance from 154,8% in 2013 to 172,6 or in Spain from 73,5% to 80,7% - but also a gloomy perspective for the next years. Spain will increase its debt ratio until 2018 up to 91%, Portugal will remain at 118% until 2016 before a slight improvement is foreseen and Ireland, which is always portrayed as the proof for successful crisis management will still have 100% in 2018 (IMF 2013).

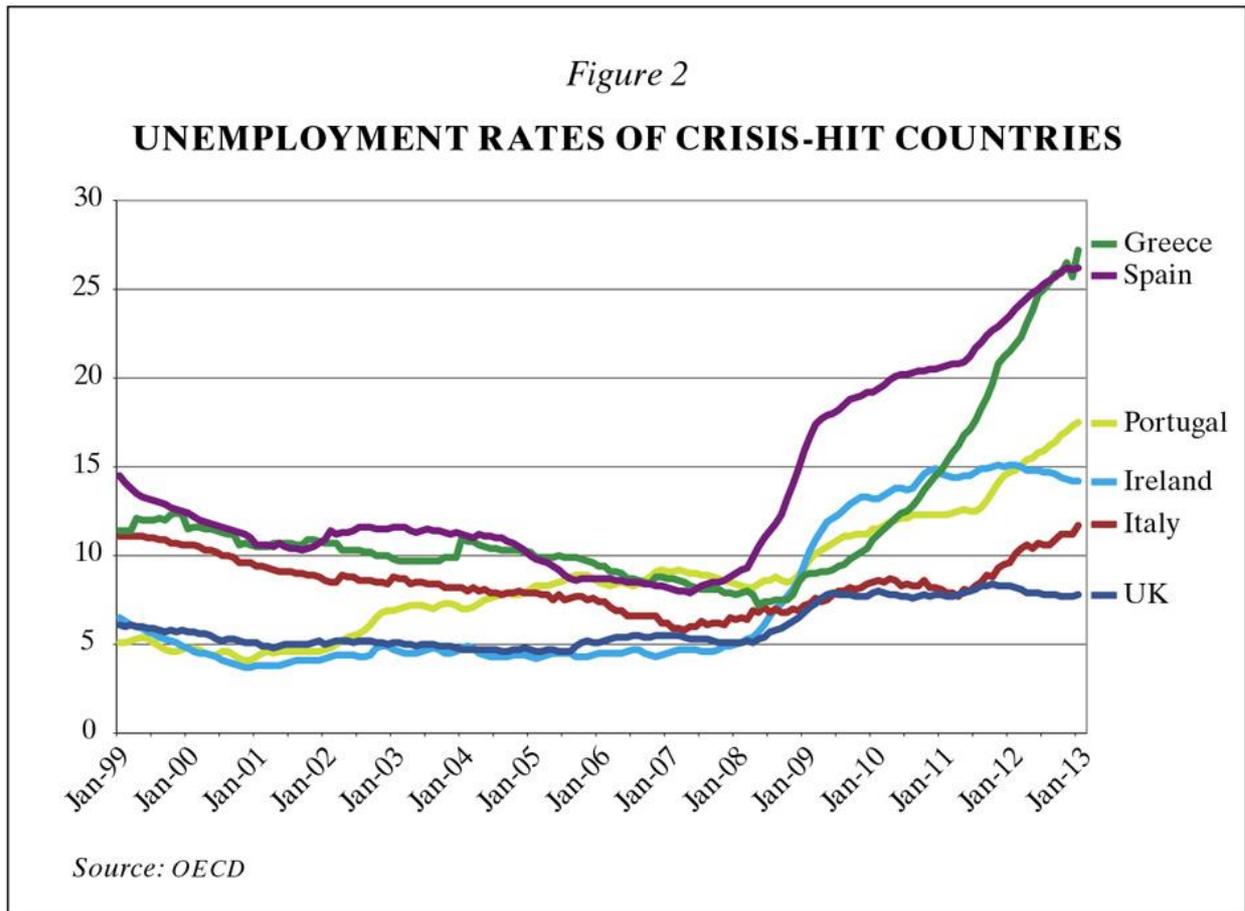
And even the favourite indicator of mainstream economists, the growth rate, is too low to trigger an overall improvement with 1% forecasted for 2014. Jobless growth if at all is the perspective. Even Germany, which is considered to be the economic engine of the Euro area, had a ridiculous growth rate of 0,4% in 2013 and for 2014 1,6% are predicted. With the backfiring of EU sanctions against Russia this forecast may, however, be too optimistic.

5.2. A social disaster

But while the banks were rescued with approximately 1,3 trillion Euros, the people in the crisis countries soon ran into a social disaster, which nobody would have expected in Europe in the 21st century. Unemployment was skyrocketing, poverty increased drastically and millions of people found themselves confronted with misery.

⁵ Taken from the power point presentation of Andreas Botsch at the Brussels conference 13-15 November 2013.

Figure 4.⁶ Unemployment in the EU



The unemployment rate in the Euro zone was in December 2013 at 12%, these are 19 million people, approximately as much as the entire population of Austria and Belgium taken together. Greece had 27,8% and Spain 25,8%. Looking at youth unemployment the situation is even more catastrophic. The Euro zone average is at 23,7% with Greece (57,9%) and Spain (55,25) on top (Eurostat 2014).

And last but not least, since the outbreak of the crisis the poverty rate in the EU has increased up to 23%, affecting 116 million people (Botsch 2013).

The social problems are not only social, but can easily turn into a loss of political confidence in the EU, an erosion of political loyalty and even political unrest and instability. The rise of right wing populist movements and parties is already a sign that points at these risks.

5.3. The causes underlying the crisis

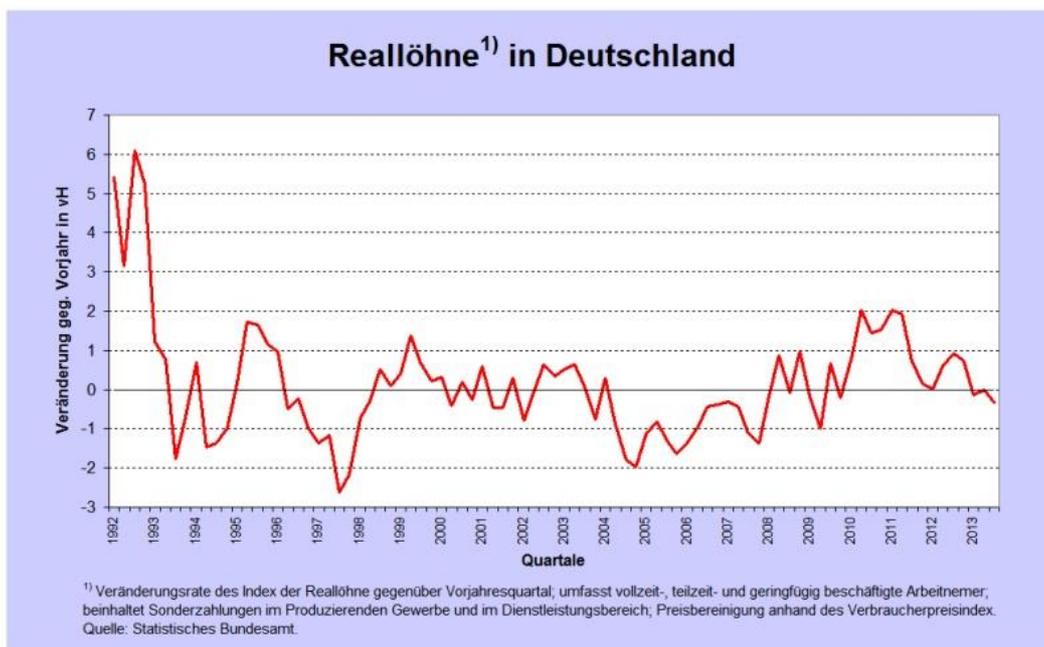
As in the US, also in the EU the crisis made surface some deep-rooted structural problems, which had been smouldering long before 2008. In particular the Euro as a common currency proved to be poorly designed. A common currency of countries,

⁶ Taken from the power point presentation of Andreas Botsch at the Brussels conference 13-15 November 2013.

which are economically as different as Portugal and the Netherlands, Germany and Spain without a common state, without a central bank which has the mandate for which central banks have been invented - i.e. to rescue a country when it is threatened by bankruptcy – is economically unsustainable (Flassbeck/Lapavitsas 2013).

For some years, the poor construction seemed to work. Under the cover of the common currency also economically weaker countries could even lend money at the same interest rate as the big players. Also salaries and unit labour costs in these countries went up. But at the same time as a result of the austerity policies (Hartz IV) of the Social Democrat/Green government of Schröder unit labour costs in Germany went down and real wages stagnated (see figure 5) already before the crisis.

Figure 5.⁷ Real wages in Germany



As a result of this diverging economic trends the competitiveness of the Mediterranean countries was suffering heavily and strong trade and balance of payments deficits occurred. At the same time they could not use the standard macroeconomic tool, which in such cases is normally applied: devaluation of the own currency. Therefore “internal devaluation,” i.e. reduction of unit labour costs and hence wages remained the only way out.

5.4. The cure which kills the patient

For the mainstream interpretation, the root causes of the crisis were not the faulty design of the currency union, the imbalances inside the Euro zone and the excesses of finance capitalism, but the lack of fiscal discipline. The therapy followed this wrong diagnosis and financial assistance for countries under threat of bankruptcy was tied to strict programmes of austerity were set-up, whose main components were drastic

⁷ Taken from the power point presentation of Andreas Botsch at the Brussels conference 13-15 November 2013.

reduction of public spending, fire-selling of public assets, privatisation of public services and reduction of labour costs. The EU used „*the wrong macro-economic answer to structural problems.*“ (Botsch 2013).

Greece, Portugal and Ireland lost de facto the sovereignty over their macro-economic policies and had to abide to the dictate of the “Troika,” a non-elected body composed of the *European Commission*, the *IMF* and the *ECB*. Cédric Durand is speaking of a “*bureaucratic caesarism.*” (Durand 2013). Their crisis management came at the expense of the socially weak strata of society, while the responsibility of the surplus countries, in particular Germany, was not really addressed.

But austerity does not work, at the contrary. In spite of all the human suffering in the crisis countries, a real recovery is not in sight. At the contrary : „*If austerity continues, the cycle will break down for the third consecutive time (triple dip)*“ (Botsch 2013).

But the structural problems of the EU economies are not restricted to the countries under Troika control:

- France, the second economy in the Euro-zone, is in a critical situation, as public debt goes up and unemployment has reached 12%. The country has lost considerable shares in world market and undergone a long process of deindustrialisation. While Germany has still a share of 27% added value France is only at 12 %.
- The situation for Italy, the third economy in the Euro-zone is even worse, as public debt is at 132% of GDP, more than the double of the 60% threshold of the Maastricht criteria and unemployment is at 1,6%. Additionally Italy has to cope with the large development gap between North and South and political instability, including a strong euro-sceptical movement.

The crisis management has deepened a path dependency, which will be difficult to be altered. The hopes of many trade unions, social democratic and left political parties for a “Social Europe,” which have been frustrated now since 25 years remain out of reach.

5.5. EU Financial Reforms – no ambition, too little, too ineffective too unsystematic

At the end of his term, EU commissioner Michel Barnier (who was responsible for the financial reforms) presented a list of some 40 projects (Barnier 2014). According to this 31 reforms would have been implemented, ten would still be in the legislation procedure and only one in its preparatory phase. An impressive list! But if one looks closer it becomes obvious that Barnier’s spin-doctors have produced a nice façade with not very much behind. The reforms have been without major ambition. They were restricted from the beginning to financial stability, as laid down in the *de Larosière Report*, which was meant to be “a *pragmatic, sensible European cooperation for the benefit of all to preserve an open world economy.*” (de Larosière 2009: 4). Or “*Overregulation should be avoided.*” (p.13) In other words, „*These reforms do not change the dominant paradigm of finance & banking.*“ (Plihon 2013).

But even if we measure the success of the reform process only according to the criteria set by de Larosière, the results are meagre. Of course, it is fair to say that there is more than nothing, but all in all the reforms:

- are too little,
- have too limited effect,
- are full of exemptions,

- can easily be circumvented by the finance industry,
- and have too much a piece-meal character

to be an adequate response to the depth and range of the crisis.

A typical example for the small ambition is the regulation of rating agencies. At the beginning there was a discussion that the monopoly of the three US agencies (Standard & Poor, Moody's, Fitch) should be broken and a European agency under public scrutiny should be established.

The new supervisory structure, which had been established in 2011 was immediately a failure. Nor did they find out that many Spanish banks are practically "*Zombie banks*," i.e. de facto bankrupt but kept artificially alive by their government and through balance sheet tricks. Neither did the new supervisors detect the fraud with the LIBOR, in which almost all big European banks were involved. Therefore only some months later preparations for a separate supervision in the Euro zone attached to the ECB were set up, which will enter into force in 2014.

Even in such decisive sectors like the regulation of capital adequacy (CRD IV) based on the so-called Basle III accord, EU measures remained far below what would be required and what others have achieved, for instance the US or Switzerland. Other important issues like the *big too fail problem* have even not been tackled.

As a result, the „*EU's economy is more 'financialised' than ever, with total assets (=size) of EU financial institutions now more than 350% of EU GDP*“ and there are "*more derivatives traded now than before the crisis.*“ (Botsch 2013) In other words, the Euro zone financial sector remains an explosive terrain where a new crash can erupt any time.

5.6. Dull perspectives for the EU

All these factors taken together lead to the conclusion that the EU will continue to be confronted with its economic and social problems for several years. Even a long period of stagnation, as Japan is going through cannot be excluded.

But that's not all. Like often in such situations the economic and politic problems also produce political problems, which come on top of the already existing challenges. As already mentioned above, the emergence of right wing movements and parties and their success in domestic elections and the European elections in May 2014 are an indicator for that. The fact that in France, the UK and Denmark such parties were number one came as a real shock. Also in other countries, these trends are increasing as a consequence of the crisis, such as in Austria, Belgium, the Netherlands, Italy and the UK.

Another major problem are the independence movements of national minorities, such as in the UK (Scotland), Spain (Catalonia) and Belgium (Flanders).

Finally, there is the British desire to leave the EU. In the UK it is not only the *UK Independence Party (UKIP)*, but also a strong sector of the *Tories* want to leave the EU. Even if the UK would not leave the EU after a referendum in 2015 the centrifugal tendencies and contradictions inside the union are increasing.

This can also clearly be seen in the EU foreign policy. As the cases of the US war against the Iraq in 2003, the intervention in Libya 2012, the civil war in Syria and the Ukrainian crisis have shown, national interests have priority over a common foreign policy. This is particularly relevant for the big players, such as the UK, France, Italy and Germany. In particular the UK and France have been big powers until to the sixties of the twentieth century, when their colonial empire was definitively disrupted. As

a relict from these times both are still permanent members in the UN Security Council. There is still a strong desire to maintain this exceptional status and not to share it with the EU. The UK also maintains an exclusive strategic partnership with the US.

A new element comes into play as a result of the crisis: thanks to its economic strength, Germany has gained a tacit hegemony in the crisis management. This is particularly difficult for France. When the European integration was started after World War II, it was unofficially taken for granted, that France would be the leading force. After German reunification and with the recent EU crisis, this has changed. Under these circumstances France is very much interested to keep up its status as a major and independent power.

This configuration of interests will not disappear in the near future. Therefore, there will be no substantial change towards a real common foreign policy of the EU. The dream of the EU as a superpower will remain a dream. In the light of 500 years of European dominance over the world with all its colonial exploitation and plundering, slavery, massacres and imperialist crimes this might not be bad news for the world.

6. Emancipatory alternatives

The deep changes in the international system will need an appropriate security architecture. A new cold war, the formation of military and economic power blocs must be avoided. The geopolitical paradigm, where each nation state is in competition with others and tries to improve its position at the expense of others must be replaced by a democratization of the international system where reciprocity, mutual respect, cooperation and political conflict resolution are the guiding principles. The rule of law in international relations must be strengthened. There must be specific efforts to make superpowers, in the first place the US, follow the rules.

This involves also a strengthening of multilateralism and democratic mechanisms of global governance. In particular the UN – of course with some substantial reforms - should be given priority over clubs such as the G7 or the G20, which serve hegemonial interests of one superpower or a group of powers.

Peace keeping, détente in hot spots of crisis and disarmament must be placed on top of the international agenda.

To reach all these goals, there is no need to reinvent the wheel: basically the UN Charta provides almost all necessary instruments and positive experiences such as the policy of detente in Europe during the seventies of the 20th century can serve as a model. The fundamental problem however is enforceability of these tools.

Economic cooperation has also a security dimension as we can see in the debate over sanctions in the Ukraine conflict or in Western Europe, where after two horrible world wars economic integration was used as a tool to prevent armed conflicts. This has worked now for almost 70 years. Also the rest of Europe including Russia and other regions should follow this example.

Special attention has to be given to the least developed countries, most of them in Africa. The eradication of poverty as stipulated in programmes such the *Millennium Development Goals* must be tackled with much more energy and resources as by now.

The structures of the world economy must be considered as a global common good, which must be accessible for all. This means also, that the principle of competition should be restricted to the area, where the early market theoreticians had put it forward: the competition between enterprises. Competition between nation states or groups of nation states as it is promoted by the neoliberal paradigm and implemented

practically from the EU deepens existing asymmetries and creates new international tensions. It must be replaced by cooperation with mutual benefit. The international finance system and the world trade order have therefore to be reformed with the aim to promote first of all an equitable distribution of wealth and prosperity for all citizens of the planet.

For the emancipatory forces it is important to deconstruct the problematic dimensions of geopolitics as they have been described above and to strive for alternatives to the traditional power politics. Of course, this is not an easy task and it will be a long and complicated process to reach this goal. But otherwise the emerging polycentric world order might lead to conflicts and wars, which would come at an intolerable high price.

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