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THE end of the year always prompts questions about what the most important issue of the next year may be. It's a simplistic question, since every year sees many things happen and for each of us a different one might be important. But it is still worth considering what single issue could cause the world to change course. In my view, the most important place to watch in 2013 is Europe.

Taken as a single geographic entity, Europe has the largest economy in the world. Should it choose to do so, it could become a military rival to the United States. Europe is one of the pillars of the global system, and what happens to Europe is going to define how the world works. I would argue that in 2013 we will begin to get clarity on the future of Europe.

The question is whether the European Union will stabilize itself, stop its fragmentation and begin preparing for more integration and expansion. Alternatively, the tensions could intensify within the European Union, the institutions could further lose legitimacy and its component states could increase the pace with which they pursue their own policies, both domestic and foreign.

**The embattled European project**

It has been more than four years since the crisis of 2008 and about two years since the problems spawned by 2008 generated a sovereign debt crisis and a banking crisis in Europe. Since that time, the crisis has turned from a financial to an economic crisis, with Europe moving into recession and unemployment across the Continent rising above 10 percent. More important, it has been a period in which the decision-making apparatus created at the founding of the European Union has been unable to create policy solutions that were both widely acceptable and able to be implemented. EU countries have faced each other less as members of a single political entity than as individual nation-states pursuing their own national interests in what has become something of a zero-sum game, where the success of one has to come at the expense of another.

This can be seen in two ways. The first dimension has centered on which countries should bear the financial burden of stabilizing the eurozone. The financially healthier countries wanted the weaker countries to bear the burden through austerity. The weaker countries wanted the stronger countries to bear the burden through continued lending despite the rising risk that the loans will not be fully repaid. The result has been constant attempts to compromise that have never quite worked out. The second dimension has been class. Should the burden be borne by the middle and lower classes by reducing government expenditures that benefit them? Or by the elites through increased taxation and regulation?

When you speak with Europeans who support the idea that Europe is in the process of solving its problems, the question becomes: What problem are they solving? Is it the problem of the banks? The problem of unemployment? Or the problem of countries' inability to find common solutions?

# Europe in 2013: A year of decision



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More to the point, European officials have been working on this problem for years now, and they are among the best and brightest in the world. Their inability to craft a solution is not rooted in a lack of good ideas or the need to think about the problem more. It is rooted in the fact that there is no political agreement on who will pay the price geographically and socially. The national tensions and the class tensions have prevented the crafting of a solution that can be both agreed upon and honored.

If the Europeans do not generate that sort of solution in 2013, it is time to seriously doubt whether a solution is possible and therefore to think about the future of Europe without the European Union or with a very weakened one. If, however, Europe does emerge with a plan that has general support and momentum behind it, then we might say that Europe is beginning to emerge from its crisis, and that, in turn, would be the single most important thing that happens in 2013.

At this point, a reasonable person will argue that I am ignoring the United States, which has different but equally significant economic problems and is also unable to generate consensus on how to solve them, as we have seen during the recent "fiscal cliff" affair, which will have many more iterations. But as valid as the comparison is on the financial level, it is not valid on the political level. The United States does not face the dissolution of the republic if it follows contradictory policies. The United States is more than two centuries old and has weathered far worse problems, including the Civil War and the Great Depression. The European Union is only about 20 years old in its current form, and this is its first

significant crisis. The consequences of mismanaging the US financial system are significant to say the least. But unlike Europe, the consequences are not an immediate existential threat.

**The other costs of the crisis**

It is the political dimension that has become the most important, not the financial. It may well be that the European Union is in the process of dealing with its banking problems and might avoid other sovereign debt issues, but the price it has paid is both a recession and, much more serious, unemployment at a higher rate than in the United States overall, and enormously higher in some countries.

We can divide the European Union into three categories by measuring it against the US unemployment rate, which stands at about 7.7 percent. There are five EU countries significantly below that rate (Austria, Luxembourg, Germany, Netherlands and Malta). There are seven countries with unemployment around the US rate (Romania, Czech Republic, Belgium, Denmark, Finland, the United Kingdom and Sweden). The remaining 15 countries are above US unemployment levels; 11 have unemployment rates between 10 and 17 percent, including France at 10.7 percent, Italy at 11.1 percent, Ireland at 14.7 percent and Portugal at 16.3 percent. Two others are staggeringly higher -- Greece at 25.4 percent and Spain at 26.2 percent. These levels are close to the unemployment rate in the United States at the height of the Great Depression.

For advanced industrialized countries -- some of the most powerful in Europe, for that matter -- these are stunning numbers. It is important to consider what these numbers mean socially. Bear in mind that the

unemployment rate goes up for younger workers. In Italy, Portugal, Spain and Greece, more than a third of the workforce under 25 is reportedly unemployed. It will take a generation to bring the rate down to an acceptable level in Spain and Greece. Even for countries that remain at about 10 percent for an extended period of time, the length of time will be substantial, and Europe is still in a recession.

Consider someone unemployed in his 20s, perhaps with a university degree. The numbers mean that there is an excellent chance that he will never have the opportunity to pursue his chosen career and quite possibly will never get a job at the social level he anticipated. In Spain and Greece, the young -- and the old as well -- are facing personal catastrophe. In the others, the percentage facing personal catastrophe is lower, but still very real. Also remember that unemployment does not affect just one person. It affects the immediate family, parents and possibly other relatives. The effect is not only financial but also psychological. It creates a pall, a sense of failure and dread.

It also creates unrooted young people full of energy and anger. Unemployment is a root of anti-state movements on the left and the right. The extended and hopelessly unemployed have little to lose and think they have something to gain by destabilizing the state. It is hard to quantify what level of unemployment breeds that sort of unrest, but there is no doubt that Spain and Greece are in that zone and that others might be.

It is interesting that while Greece has already developed a radical right movement of some size, Spain's political system, while experiencing stress between the center and

its autonomous regions, remains relatively stable. I would argue that stability is based on a belief that there will be some solution to the unemployment situation. Its full enormity has not yet sunk in, nor the fact that this kind of unemployment problem is not fixed quickly. It is deeply structural. The US unemployment rate during the Great Depression was mitigated to a limited degree by the New Deal but required the restructuring of World War II to really address.

This is why 2013 is a critical year for Europe. It has gone far to solve the banking crisis and put off a sovereign debt crisis. In order to do so, it has caused a serious weakening of the economy and created massive unemployment in some countries. The unequal distribution of the cost, both nationally and socially, is the threat facing the European Union. It isn't merely a question of nations pulling in different directions, but of political movements emerging, particularly from the most economically affected sectors of society, that will be both nationalist and distrustful of its own elites. What else can happen in those countries that are undergoing social catastrophes? Even if the disaster is mitigated to some degree by the shadow economy and emigration reducing unemployment, the numbers range from the painful to the miserable in 14 of Europe's economies.

**Europe's crossroads**

The European Union has been so focused on the financial crisis that it is not clear to me that the unemployment reality has reached Europe's officials and bureaucrats, partly because of a growing split in the worldview of the European elites and those whose experience of Europe has turned bitter. Partly, it has been caused by the fact of geography. The countries with low unemployment tend to be in Northern Europe, which is the heart of the European Union, while those with catastrophically high unemployment are on the periphery. It is easy to ignore things far away.

But 2013 is the year in which the definition of the European problem must move beyond the financial crisis to the social consequences of that crisis. Progress, if not a solution, must become visible. It is difficult to see how continued stagnation and unemployment at these levels can last another year without starting to generate significant political opposition that will create governments, or force existing governments, to tear at the fabric of Europe.

That fabric is not old enough, worn enough or tough enough to face the challenges. People are not being asked to die on a battlefield for the European Union but to live lives of misery and disappointment. In many ways that is harder than being brave. And since the core promise of the European Union was prosperity, the failure to deliver that prosperity -- and the delivery of poverty instead, unevenly distributed -- is not sustainable. If Europe is in crisis, the world's largest economy is in crisis, political as well as financial. And that matters to the world perhaps more than anything else.

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# Recipe for a post-hegemonic US

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GOVERNANCE in the United States is at a standoff. The crisis over the federal budget has led many people around the world to wonder if Americans haven't lost their minds. Ultimately, as Winston Churchill infamously observed, they may be counted on to do the right thing after exhausting all other options. But this hardly is sound policy with every new vote in Congress. Maybe the latest crisis is symptomatic of a deeper and even more serious problem.

The future of the United States and the American experiment seems bleak. The optimism for which Americans are known comes less readily. While pessimism is nothing unique in American history widespread since the time of the Puritans its prevalence today is spread by the realization that the country's position of global superpower may soon be lost.

This realization, regarded as a "post-hegemonic" fact, is no longer controversial. All empires vanish eventually. Hegemony indeed may be a form of imperialism it's been called an empire with good manners but that's beside the point. American hegemony may be giving way to some other post-hegemonic condition. It is to say where it will lead, or what it signifies.

"After forty, all life is a matter of saving face," Thomas Heise has written. "For those whose successes have run out early, the years are measured less by the decreasing increments of honors achieved, than by the humiliations staved off and the reversals slowed." This diagnosis for America itself, increasingly difficult to refute, raises the simple question: Will life go on as before, only with less ostensible concern for the rest of the world, or more?

more "normal" nation. Normality resides in the eye of the beholder. Each nation is as normal or as abnormal as its people and observers imagine it to be. Many Americans still regard superpower status as being normal, however unpopular the burdens of global leadership are at times. The power of the US dollar, visa-free travel throughout much of the world and the global prevalence of English are still widely taken for granted, despite the country's difficulties.

Yet this moment may represent a major psychological, even metaphysical, shift in the way that Americans relate to the rest of the world. To understand the change we must begin with perceptions.

The sheer size of America's military and economy, its commercial and technological success, and the global penetration of its culture have underwritten a high standard of living and influence over others. Earlier, its reputation as a dynamic, free, prosperous nation in the words of William Penn, a "good poor man's country" allowed some people to champion a special destiny for the proverbial people of plenty. This was later matched by the growth of the nation's physical power.

Anyone who seeks to understand this history must start with the centrality of dichotomies in American life. It is still common to speak of "America and the world" as though the two exist separately in space and time. This can be traced back to the first such dichotomy: the New World and the Old. Related to it was one between civilization and barbarism. As Jay Sexton has shown in his recent history of the Monroe Doctrine, it did not take long for the two to

merge into another defined more by latitude than by longitude, that is, a "North vs. South distinction of 'civilized' and 'uncivilized' peoples." No longer was the United States merely a good poor man's country, no longer just a refuge and a symbol of hope for those who endure oppression and poverty. It also had, collectively, a civilizing mission of its own.

In fact this wasn't too different from most contemporary imperial states. But many Americans insisted otherwise. Henry James, for example, supposedly said that



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empire civilized the British but barbarized Americans. An exceptional America, in other words, must be preserved against rather than with the rest of the world. So the United States became a much bigger global player but Americans have held on to a basic dichotomy which at once justifies their success and divides them from the less fortunate. They have also invoked their country's exceptional nature, paradoxically, in claiming that the so-called win-win principle is unique to America.

Meanwhile the loss of the nation's hegemony has come to be seen by both Americans and non-Americans as leading away from gentility and progress. It is not merely a result of a smaller pie. Rather it's due to the combination of socioeconomic and demographic disparities with rapid political and economic change at home and abroad. The Organisation for Economic Cooperation and Development has predicted that China and India alone will account for some 50 percent of world GDP in 2060, as opposed to about 25 percent today, and

both countries' economies are expected to be larger than America's. Yet, the anticipated GDP per person in each country would still be a fraction of America's: China's about one-half, India's about one-third.

Critics in the circumstances may welcome the idea of the United States descending to a state of pre-modern or post-modern, post-industrial dystopia dominated by reactionaries. A glance at the front pages of many US newspapers suggests they have a point. By most measures, America is

less violent and poverty stricken than at many other moments in its history. But that's not the perception. One reason may be that there is less to offset it. The high-mindedness that the media once adopted as a matter of course has faded as broadcast and newspaper audiences have shrunk. More resemble tabloids in form and content. They also resemble, at least in their partisanship, the press of the 18th and 19th centuries. James was wrong: high-mindedness and hegemony go hand in

hand, even in America. But can one survive without the other? And what shall follow?

Political scientists G. John Ikenberry, Robert Keohane, Charles Kupchan, Fareed Zakaria and others have addressed the latter question at length in a contemporary context, for the most part structurally from the outside in. A few others, notably the British journalists Anatol Lieven and Edward Luce, have done so culturally from the inside out. The civilizing process is not always neatly cyclical. Many of the stereotypical adjectives associated with the American character restless, competitive, acquisitive, mobile, free-spirited, informal, inventive, expansive would appear to mar the evolution of a modest, quiet country at peace with itself in the world, content to cultivate its own garden. Somewhere there must be another frontier.

In an ideal post-hegemonic world, a vibrant American economy and society would continue to combine cultural inclusion, diffusion and diversification with the kind of prosperity and competition that many Americans embrace. Doing so humbly, as George W. Bush suggested, is not ideal, however: Self-professed humility results too easily in charges of hypocrisy. The US is still a big country; it can afford a few mistakes; it needn't magnify them by conflation with the national ego. A better policy would be to allow America's creative talent, sense of fair play and pragmatism to continue to flourish, minus the dichotomies. It is mainly up to Americans to decide if this can work on a smaller global scale and to start planning ahead before their country turns upon itself, irreparably.

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