Critical and Analytical Thinking of Globalization, the Financial Crisis and the Internal Conflicts to Analyze the Future of the European Union

*[1]İlknur Dede [2]Elif Pınar Başarır and [3]Refi Ratip ÖZLÜ
*[1] Middle East Technical University, MSc, Center for European Studies, Ankara/TURKEY
[2] Middle East Technical University, MSc, Center for European Studies, Ankara/TURKEY
[3] Ankara University, Institute of Science, PhD Student, Ankara/TURKEY

Abstract

This study examines the three concepts of the world politics and economics; the globalization, the financial crisis and the internal conflicts within the Europe by making a critical and analytical thinking to come to the idea for the possible futures of the European Union.
Although the future of Europe seems to be not brilliant due to the recent financial crisis -the greatest test for Europe- it is important not to forget the historical background of the Europe and the trauma of two world wars which hold them together; the "Monnet" method to make the peace forever and the intra-European conflicts impossible in the future. It is concluded that this big idea for the evolution of the European Union and the philosophy of Rome Treaty "ever closer Union" will keep the Europe together. The European Union will stay a long-lasting and challenging organization in the world economics and politics even if the euro-zone fails and the internal conflicts cannot be solved.

Key words: Globalization, Variegated capitalism, Financial crisis, Euro-zone

1. Introduction

The Second World War was a catastrophe for whole Europe but particularly for France and Germany which were great powers of the Western Europe before the war, they lost their high economic and political position and suffered the destructive effects of the war. After the war the nations of Europe were started to search the solutions to overcome the bad effects of the war and to halt the possibility of future wars which may again occur due to great conflicts between Germany and France. The idea behind was that an economic integration was the only way to avoid the future conflicts between France and Germany. Coal and steel were chosen for political and economic reasons; these two industries were decided to be the essential means for preventing any war in the future as well as for the effective achievement of economic and political integration between European states.

The signature of the European Coal and Steel Community following the announcement of Schumann Declaration on May 9, 1950, set in motion the process of European integration, which became the most inspiring political and social movement after World War II. The Schumann Declaration was based on "the Monnet method" of unification architected by the French political and economic adviser named Jean Monnet proposing moving forward, step by step, with technocratic measures of economic integration [1] by which a Franco-German production of coal and steel placed under a common High Authority, within the framework of an organization open

*Corresponding author: Address: Ministry of Food Agriculture and Livestock, General Directorate of Plant Production, Eskişehir Yolu, 9 Km. 14.Kat Ankara/TURKEY, E-mail address: ilknur.dede1@gmail.com and/or ilknur.dede@tarim.gov.tr , Phone: +90 312 2588436

to the participation of the other countries of Europe and bringing the Europe to the possible political unification by firstly safeguarding the peace which was highlighted with the words of Schumann Declaration[1] "*any war between France and Germany becomes not merely unthinkable, but materially impossible*".

Following the foundation of the European Coal and Steel Community, the nations of Europe as presented in the preamble of the Rome Treaty which set up European Economic Community have since "*come ever closer to each other*" through extensive institutional harmonization, removal of trade and capital barriers, establishment of common market and common rules on economic, social and financial policies with the free movement of goods, persons, services and capital during the process of European integration.

This study examines the three concepts of the world politics and economics; the globalization, the financial crisis and the internal conflicts within the European Union (EU) by making a critical and analytical thinking to come to the idea for the possible futures of the EU.

2. Materials and Method

The objective of this paper is to establish a theoretical framework for the concepts of globalization, the financial crisis and the internal conflicts within the EU in order to come to the idea for the possible futures of the Union. A review of literature on the analysis of globalization, the evolution of financial crises and the internal conflicts in the EU has been performed which guide the theory put forwarded in this paper.

In order to make the analysis, first the analytical thinking is used to scrutinize and break down facts and thoughts into their strengths and weaknesses by focusing on the facts and evidence through the review of the literature and by transferring the complex things into simpler constituents. The analytical thinking is followed by the critical thinking by evaluating the data/information and by making a judgment on the possible futures of the European Union.

The theory part of the paper is mostly constructed via reviewing the literature on the analysis of the issue. By this way the concepts of globalization, evolution of the financial crisis and internal conflicts in the EU mostly resulting from the variegated capitalism are described. It is also important to note the crucial importance of the literature review as being a building block for the analysis and critical thinking of the interconnections between globalization, evolution of financial crisis and internal conflicts in the EU which in turn bring the ideas for the possible futures of the EU.

2.1. Theory

Globalization is defined as the accelerated integration of capital, production and markets globally, a process driven by the logic of corporate profitability. The globalization system is not

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[1] Schumann Declaration, online at: http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm (access date 29.01.2015)

static but a dynamic ongoing process: globalization involves the integration of markets, policies and technologies in a way that individuals, institutions and governments to profit from new efficiencies and opportunities allowed by globalization [2, 3]. Although globalization has several dimensions; the driving idea behind globalization is free-market [4] that is to say the more it is allowed for the marketing rules and the more economy is opened to the free trade and competition.

Trade liberalization occurs by the removal of barriers or the reduction of tariffs and increases the scope for advantageous exchange. This standard case is referred to as the theory of comparative advantage but in fact it is no different from the usual argument for specialization while the case for free trade is simply the case for market exchange. The same kind of argument for free trade applies to the financial sector. The standard case for financial liberalization [5] is that it would lead to a better allocation of capital by inducing flows of capital from countries where interest rates and yields on financial assets are low, to countries where they are high.

The financial sector expands as it captures profit from new efficiencies and opportunities allowed by globalization [2]. The country or region is favored by international investors; thus the banking system, including government, is well-capitalized and able to expand money-liquidity. Assets increase in monetary value and interest rates are low and this wealth effect encourages consumption, borrowing, business investment, and government spending.

The post–World War II period witnessed a rapid rise in globalization. This evolution was facilitated by reductions in policy barrier under the General Agreement on Trade and Tariffs (GATT) and through unilateral liberalization actions or programs with the International Monetary Fund (IMF) and World Bank. Since the early 1990s, the world has entered into an era of increased multinational corporations and the sharp increase in flow of foreign direct investments and capital by financial liberalization. The grand project of the United States in world affairs has been globalization. Globalization has been so central to the United States and the United States has been so central to world affairs that it has given its name to the new era that has succeeded the Cold War; the contemporary period has been defined as the era of globalization [6].

All the elements identified in defining the process called globalization; expansion and acceleration in the circulation of goods, services and money, emergence of new technologies and financial instabilities can be easily observed during the crises of capitalism as the elements of the process of adaptation to or management of the crisis tendencies. These tendencies were seen recently in the global financial crisis started in the mortgage market of the United States in 2007. First the markets had experienced very strong growth in the early period of the year 2000. However, when interest rates started to rise in 2006, delinquencies of mortgage loans went up dramatically, especially those of subprime loans. Credit crunch, banking crisis, liquidity crisis emerged and then spread globally via bad loans and leverage effects of derivative markets. The crisis deepened into the banking crisis in September 2008 with the Lehman Brothers' bankruptcy [7, 8, 9].

Until the end of 2006, the financial markets in Europe had been booming, risk-related fears were almost non-existent as evidenced by indices of credit default swaps and interest rate differentials between secured and unsecured borrowings. However, when the crisis started in the US, it immediately also infected the European capital market and European banks and other financial institutions with full force. The subprime crisis spread quickly and directly to Europe because 40 percent of the securities backed by subprime mortgages were held by European financial institutions [8]. Much was financed through issues of short-term securities. All over Europe, banks suffered from acute liquidity and imminent solvency problems in 2008.

When the financial crisis seemed to be more or less over and the countries in Europe were recovering from its consequences another finance-related crisis broke out: the government debt crisis. The essence of this crisis was the danger that in some countries on the periphery of Europe the level of government debt had increased so much that these countries seemed unable to maintain their solvency and possibly also to ever pay back their government debts. Greece, Ireland and Portugal and, to a lesser extent, Spain and Italy had experienced difficulties to repay their loans and to raise new capital in order to refinance government debt raised by the interest rates [7, 8]. The crisis turned into the Euro-zone crisis [9] with the structural incompatibilities and institutional design flaws which were already quite evident by 2009 and had become acute in 2010.

The failure of response to the financial crisis in Europe was described by the term variegated capitalism. This is a form of methodological nationalism in which national states define the scope of different models on growth, regulation and welfare. This explains of crisis in the Euro zone in terms of ‘good’ versus ‘bad’ national models (e.g., Germany versus Greece). The six founding members of the European Economic Community (EEC) were belonging to first wave of ‘varieties of capitalism’. The variegation of European economic space has increased with every mode of integration. The eastern enlargement in 2004 brought another variegation of capitalism with ten acceding countries eight of them being former communist Countries from the Eastern and Central Europe and having different economies and policies. There are significant differences between the economies that undertook the most marked neo-liberal regime shifts (Iceland, the UK, Spain and Eastern and Central Europe) and those that inclined more towards neoliberal policy adjustments (notably the Benelux economies, France, Germany, Austria and Switzerland). Southern Europe is different again but its crisis-tendencies and crisis dynamics are inseparable from the broader European Union picture [9,10].

The new Europe has become a union of two poles, on one side the northern countries (particularly Germany, France, UK) which has the power to be recovered despite the crisis with people living in prosperity and at the other side the southern countries (particularly Greece, Italy, Spain) which are severely influenced with the crisis and cannot recover without financial support. There is also another form of ecological dominance on a European scale but is also central to the global dynamic of variegated capitalism. This is the dominance of Germany because of its economic size and its shaping factor for the European integration and Euro-zone [9,10].

3. Results

The globalization of financial markets helped out creating conditions that infect the other economies of the world particularly the EU and resulted in the devastating global financial crisis.

The crisis emerged first in the US economy as subprime crisis then immediately spread to the EU banks and converted to the government debt crisis and lastly became the Euro-zone crisis due to the inadequate and weak institutional and political structures of the single currency.

The high level of diversity and conflicts between the different European countries intensified the severity of the crisis. The efficient and effective crisis management and crisis resolution was hard to accomplish because of the conflicting interests associated with variegation of capitalism. The lessons of the Euro zone crisis showed that Germany’s hegemony is an important factor for the future of Europe.

4. Discussion

The global financial crisis was so deep and severe that resulted in important geopolitical consequences. The successful movement toward market liberalization has stopped and a new period of credit crunch, banking crisis, state intervention and debt crisis has started. In addition, the crisis has mirrored the weaknesses within the European Union. The absence of a strong and institutionalised single currency and fiscal policy has increased the severity of the situation.

It is defended that the era of laissez-faire economics has ended [11] and a page has been turned since 2009. The Anglo-Saxon financial system has been seen as having failed throughout the world, including in the United States. The world entered a new global phase marked by less leadership, less coordination and less coherence.

The Daily Star pointed out in 2009 that the world economy shrank for the first time since 1945, and the crisis could spell the beginning of the end of globalization [4]. It is stated that globalization reflected its exhaustion as a mode of crisis management [12] and the uncertainties about the future of globalization is linked to this exhaustion.

The formation of Euro-zone was defined as an immediate origin of the malformed currency union and at the epicenter of European crisis [13]. Following the fall of the Berlin Wall, France alarmed by the prospect of German reunification and pushed to a timetable for the economic and monetary union. The true purpose of the Euro-zone apart from the known objective of monetary union was to bind a united Germany, into a more united Europe and was to enable France to regain more control over its own currency and even win some leverage over Germany which resulted in the discussions of the fiscal union ending as a sick child.

Another different view for the concept of Euro-zone and the crisis states that the euro has rested on a gamble from the start [14]. The main motivation for a single currency of European Countries in that time, contrary to popular belief, was neither to aid its reunification nor to realize an idealistic federalist scheme for European political union. Germany held the main motivation for a single currency to promote its own economic welfare through open markets, a competitive exchange rate, and anti-inflationary monetary policy. On the other hand France, Italy, Spain, and other countries having weaker currencies viewed monetary union in part as a means to emulate Germany's success by committing themselves to low inflation and low interest rates, reforming the structures of their economies and encouraging cross-border investment.

The differentiation and fragmentation as well as the varieties of capitalism have already divided the EU into three groups; "eurozone", "pre-ins" and "outs" [15]. Poland wants above all to be at the heart of EU decision-making and has the potential to shape the EU agenda more than any other of the "outs" or "pre-ins". On the other hand, the "British test" is different: it is to keep the country in the EU without risk. British expectations run in exactly the opposite direction to those expressed by Warsaw while Poland does not question the need for the euro-zone to be more integrated but wants to "keep the foot in the door" to join the European Monetary Union (EMU) at a later stage. It is extremely difficult to meet the demands of both Poland and the UK at the same time while these choices will influence the developments within the euro-zone and the future of EU.

The current European Union of 28 countries is a mixture of extremely different countries. It includes countries that are predominantly Protestant like Sweden and Catholic countries like Poland, as well as mainly atheist countries like the Czech Republic. It also includes countries that have a civil law tradition like France and common law countries like Ireland. It includes countries with good fiscal discipline like Germany and Denmark and countries with big debt burdens like Greece. The umbrella of EU membership has not eradicated the national peculiarities and it has not managed to form a European people, out of the many different nationalities. The different national governments with their own governmental structures and legal systems certainly mean that European sovereignty is also missing [16].

The varieties and internal conflicts are a big problem going the heart of the European problem. It has been also experienced in voting of the Constitution. To cope with both the deepening of the EU, through monetary union and its widening through the historic enlargement to Eastern Europe, it was proposed a new set of institutional arrangements for the EU's states. But in referendums, voters in France and the Netherlands rejected the Constitutional plan.

Consequently, Europe is in a dysfunctional triangle [13] between national politics, European policies and global markets. The Treaty of Lisbon, which came into force in 2009, gave more powers to the directly elected European Parliament. But decision-making in today's EU still consists mainly of national politicians for example nationally appointed Commissioners in the European Commission where all laws are proposed and made. There are Europe-wide political groupings based on those in the European Parliament but there are not completely European politics they are somehow nationals.

The recent crisis was the greatest test yet of European unification, however, it is not the first and will not be the last. There have been crises since the emergence of this big project of Europe. We could not forget the Gaulle crisis, resulting in the empty chair of France while the membership of the United Kingdom was discussed, the agriculture based crisis when the butter mountains and milk lakes occurred and the reforms on the Common Agriculture Policy were strongly needed or the internal conflicts between Member States when the Eastern enlargement was on the agenda and the financial burden for Europe when this "*big bang"* enlargement [17] happened in 2004.

A brief overview of ‘‘EU-is-collapsing’’ literature [18] suggests that every decade since the creation of the Common Market in the 1950s has witnessed repeated claims that the EU was either dying or about to collapse. However it is emphasised that none of these claims has been proven true. Looking back to the history of the EU it can be seen that these claims are to be consistently wrong since the EU will celebrate its 65th year on 9th of May 2015 as being the longest lasting and by far the most accomplished case of economic and political integration in the world with supranational character. Whatever the outcome of the crisis would, the EU will remain without rival the most ambitious and successful example of voluntary international cooperation in the world history.

Although it has been seen great conflicts and crises during the process of European unification, an international organization like the EU which was founded in order to make the catastrophe memory of World War II and to make Europe a place of peace and prosperity will exhibit great resilience and impressive staying power [18].

It can be never said about the collapse of the EU but it can be discussed the variegation of capitalism occurred after each enlargement process and internal conflicts within the Europe and the ways of finding the solutions for the crisis. The European Union will stay a long-lasting and challenging organization in the world economics and politics even if the euro-zone fails and the internal conflicts cannot be solved.

5. Conclusions

The grand project of the United States in world affairs has been globalization by which world entered into an area of increased multinational cooperation and sharp increase in flows of foreign direct investment. The banking and financial crisis first initiated in the United States, has economic and monetary consequences first but they influence the balance of economic power in the world and resulted in severe geopolitical consequences. The crisis has mirrored the financial weaknesses of the European Union, the absence of a well-established single currency policy and less powerful European Central Bank than expected.

The three strongest EU nations - France, Germany and the United Kingdom - have disagreed on a response to the crisis. The euro crisis is a development toward the leveling off of the European integration.

There are numerous reasons for this weaker European response for crisis however the most obvious one is that there is inherent difficulty of reaching agreement among extremely different countries. First of all the variegation of European economic space has increased with every mode of integration and enlargement. Besides, the co-existence of different variegated capitalism aggravated the problem. Moreover the integration process comes to a position that has been highly influenced by a triangle of national politics, European policies and global markets.

The future of Europe seems to be not brilliant under the pressure of internal conflicts and financial recession. However, it is important not to forget the historical background of the Europe and the trauma of two world wars which hold them together; the “Monnet” method to make the peace forever and the intra-European conflicts impossible in the future. It is concluded that this big idea for the evolution of European Union and the philosophy of Rome Treaty “ever closer Union” will keep the Europe together. Although the recent crisis is the greatest test in the European unification history, it is not the first and will not be the last, the European Union will be a long-lasting and challenging organization in the world economics and politics even if the euro-zone fails and the internal conflicts cannot be solved.

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