

By George Friedman

Everyone is wondering about the next disaster to befall Europe. Italy is one focus; Spain is also a possibility. But these crises are already under way. Instead, the next crisis will be political, not in the sense of what conventional politician is going to become prime minister, but in the deeper sense of whether Europe's political elite can retain power, or whether new political forces are going to emerge that will completely reshape the European political landscape. If this happens, it will be by far the most important consequence of the European financial crisis.

Thus far we have seen some changes in personalities in the countries at the center of the crisis. In Greece, Prime Minister George Papandreou stepped aside, while in Italy Prime Minister Silvio Berlusconi now has resigned. Though these resignations have represented a formal change of government, they have not represented a formal policy change. In fact, Papandreou and Berlusconi both stepped down on the condition that their respective governments adopt the austerity policies proposed during their respective tenures.

Europeanists dominate the coalitions that have replaced them. They come from the generation and class that are deeply intellectually and emotionally committed to the idea of Europe. For them, the European Union is not merely a useful tool for achieving national goals. Rather, it is an alternative to nationalism and the horrors that nationalism has brought to Europe. It is a vision of a single Continent drawn together in a common enterprise - prosperity - that abolishes the dangers of a European war, creates a cooperative economic project and, least discussed but not trivial, returns Europe to its rightful place at the heart of the international political system.

For the generation of leadership born just after World War II who came to political maturity in the last 20 years, the European project was an ideological given and an institutional reality. These leaders formed an international web of European leaders who for the most part all shared this vision. This leadership extended beyond the political sphere: Most European elites were committed to Europe (there were, of course, exceptions).

### Greece and the Struggle of the European Elite

Now we are seeing this elite struggle to preserve its vision. When Papandreou called for a referendum on austerity, the European elite put tremendous pressure on him to abandon his initiative. Given the importance of the austerity agreements to the future of Greece, the idea of a referendum made perfect sense. A referendum would allow the Greek government to claim its actions enjoyed the support of the majority of the Greek people. Obviously, it is not clear that the Greeks would have approved the agreement.

Led by German Chancellor Angela Merkel, the European elite did everything possible to prevent such an outcome. This included blocking the next tranche of bailout money and suspending all further bailout money until Greek politicians could commit to all previously negotiated austerity measures. European outrage at the idea of a Greek referendum makes perfect sense.

Coming under pressure from Greece and the European elite, Papandreou resigned and was replaced by a former vice president of the European Central Bank. Already abandoned by Papandreou, the idea of a referendum disappeared.

Two dimensions explain this outcome. The first was national. The common perception in the financial press is that Greece irresponsibly borrowed money to support extravagant social programs and then could not pay off the loans. But there also is validity to the Greek point of view. From this perspective, under financial pressure, the European Union was revealed as a mechanism for Germany to surge exports into developing EU countries via the union's free trade system. Germany also used Brussels' regulations and managed the euro such that Greece found itself in an impossible situation. Germany then called on Athens to impose austerity on the Greek people to save irresponsible financiers who, knowing perfectly well what Greece's economic position was, were eager to lend money to the Greeks. Each version of events has some truth to it, but the debate ultimately was between the European and Greek elites. It was an internal dispute, and whether for Greece's benefit or for the European financial system's benefit, both sides were committed to finding a solution.

The second dimension had to do with the Greek public and the Greek and European elites. The Greek elite clearly benefited financially from the European Union. The Greek public, by contrast, had a mixed experience. Certainly, the 20 years of prosperity since the 1990s benefited many - but not all. Economic integration left the Greek economy wide open for other Europeans to enter, putting segments of the Greek economy at a terrific disadvantage. European competitors overwhelmed workers in many industries along with small-business owners in particular. So there always was an argument in Greece for opposing the European Union. The stark choice posed by the current situation strengthened this argument, namely, who would bear the burden of the European system's dysfunction in Greece? In other words, assuming the European Union was to be saved, who would absorb the cost? The bailouts promised by Germany on behalf of Europe would allow the Greeks to stabilize their financial system and repay at least some of their loans to Europe. This would leave the Greek elite generally intact. The price to Greece would be austerity, but the Greek elite would not pay that price. Members of the broader public - who would lose jobs, pensions, salaries and careers - would.

Essentially, the first question was whether Greece as a nation would deliberately default on its debts - as many corporations do - and force a restructuring on its terms regardless of what the European financial system needed, or whether it would seek to accommodate the European system. The second was whether it would structure an accommodation in Europe such that the burden would not fall on the public but on the Greek elite.

The Greek government chose to seek accommodation with European needs and to allow the major impact of austerity to fall on the public as a consequence of the elite's interests in Europe - now deep and abiding - and the ideology of Europeanism. Since by its very nature the burden of austerity would fall on the public, it was vital a referendum not be held. Even so, the Greeks undoubtedly would seek to evade the harshest dimensions of austerity. That is the social contract in Greece: The Greeks would promise the Europeans what they wanted, but they would protect the public via duplicity. While that approach might work in Greece, it cannot work in a country like Italy, whose exposure is too large to hide via duplicity. Similarly, duplicity cannot be the ultimate solution to the European crisis.

### The Real European Crisis

And here we come to the real European crisis. Given the nature of the crisis, which we have seen play out in Greece, the European elite can save the European concept and their own interests only by transferring the cost to the broader public, and not simply among debtors. Creditors like Germany, too, must absorb the cost and distribute it to the public. German banks simply cannot manage to absorb the losses. Like the French, they will have to be recapitalized, meaning the cost will fall to the public.

Europe was not supposed to work this way. Like Immanuel Kant's notion of a "Perpetual Peace," the European Union promised eternal prosperity. That plus preventing war were Europe's great promises; there was no moral project beyond these. Failure to deliver on either promise undermines the European project's legitimacy. If the price of retaining Europe is a massive decline in Europeans' standard of living, then the argument for retaining the European Union is weakened.

As important, if Europe is perceived as failing because the European elite failed, and the European elite is perceived as defending the European idea as a means of preserving its own interests and position, then the public's commitment to the European idea - never as robust as the elite's commitment - is put in doubt. The belief in Europe that the crisis can be managed within current EU structures has been widespread. The Germans, however, have floated a proposal that would give creditors in Europe - i.e., the Germans - the power to oversee debtors' economic decisions. This would undermine

sovereignty dramatically. Losing sovereignty for greater prosperity would work in Europe. Losing it to pay back the debts of Europe's banks is a much harder sell.

### The Immigrant Factor and Upcoming Elections

All of this comes at a time of anti-immigrant, particularly anti-Muslim, feeling among the European public. In some countries, anger increasingly has been directed at the European Union and its borders policies - and at European countries' respective national and international elites, who have used immigration to fuel the economy while creating both economic and cultural tensions in the native population. Thus, immigration has become linked to general perceptions of the European Union, opening both a fundamental economic and cultural divide between European elites and the public.

Racial and ethnic tensions combined with economic austerity and a sense of betrayal toward the elite creates an explosive mixture. Europe experienced this during the inter-war period, though this is not a purely European phenomenon. Disappointment in one's personal life combined with a feeling of cultural disenfranchisement by outsiders and the sense that the elite is neither honest, nor competent nor committed to the well-being of its own public tends to generate major political reactions anywhere in the world.

Europe has avoided an explosion thus far. But the warning signs are there. Anti-European and anti-immigrant factions existed even during the period when the European Union was functioning, with far-right parties polling up to 16 percent in France. It is not clear that the current crisis has strengthened these elements, but how much this crisis will cost the European public and the absence of miraculous solutions also have not yet become clear. As Italy confronts its crisis, the cost - and the inevitability of the cost - will become clearer.

A large number of elections are scheduled or expected in Europe in 2012 and 2013, including a French presidential election in 2012 and German parliamentary elections in 2013. At the moment, these appear set to be contests between the conventional parties that have dominated Europe since World War II in the West and since 1989 in the East. In general, these are the parties of the elite, all more or less buying into Europe. But anti-European factions have emerged within some of these parties, and as sentiment builds, new parties may form and anti-European factions within existing parties may grow. A crisis of this magnitude cannot happen without Tea Party- and Occupy Wall Street-type factions emerging. In Europe, however

- where in addition to economics the crisis is about race, sovereignty, national self-determination and the moral foundations of the European Union
- these elements will be broader and more intense.

Populist sentiment coupled with racial and cultural concerns is the classic foundation for right-wing nationalist parties. The European left in general is part

of the pro-European elite. Apart from small fragments, very little of the left hasn't bought into Europe. It is the right that has earned a meaningful following by warning about Europe over the past 20 years. It thus would seem reasonable to expect that these factions will become much stronger as the price of the crisis - and who is going to bear it - becomes apparent.

The real question, therefore, is not how the financial crisis works out. It is whether the European project will survive. And that depends on whether the European elite can retain its legitimacy. That legitimacy is not gone by any means, but it is in the process of being tested like never before, and it is difficult to see how the elite retains it. The polls don't show the trend yet because the magnitude of the impact on individual lives has not manifested itself in most of Europe. When it does show itself, there will be a massive recalculation regarding the worth and standing of the European elite. There will be calls for revenge, and vows of never allowing such a thing to recur.

Regardless of whether the next immediate European crisis is focused on Spain or Italy, it follows that by mid-decade, Europe's political landscape will have shifted dramatically, with new parties, personalities and values emerging. The United States shares much of this trend, but its institutions are not newly invented. Old and not working creates problems; new and not working is dangerous. Why the United States will take a different path is a subject for another time. Suffice it to say that the magnitude of Europe's problems goes well beyond finance.

The European crisis is one of sovereignty, cultural identity and the legitimacy of the elite. The financial crisis has several outcomes, all bad. Regardless of which is chosen, the impact on the political system will be dramatic.

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