The Belgian Curtain
Europe after Communism

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EU and NATO - The Competing Alliances

By: [Dr. Sam Vaknin]

Also published by [United Press International (UPI)]

Saturday's vote in Ireland was the second time in 18 months that its increasingly disillusioned citizenry had to decide the fate of the European Union by endorsing or rejecting the crucial Treaty of Nice. The treaty seeks to revamp the union's administration and the hitherto sacred balance between small and big states prior to the accession of 10 central and east European countries. Enlargement has been the centerpiece of European thinking ever since the meltdown of the eastern bloc.

Shifting geopolitical and geo-strategic realities in the wake of the September 11 atrocities have rendered this project all the more urgent. NATO - an erstwhile anti-Soviet military alliance is search of purpose - is gradually acquiring more political hues. Its remit has swelled to take in peacekeeping, regime change, and nation-building.

Led by the USA, it has expanded aggressively into central and northern Europe. It has institutionalized its relationships with the countries of the Balkan through the "Partnership for Peace" and with Russia through a recently established joint council. The Czech Republic, Poland, and Hungary - the eternal EU candidates - have full scale members of NATO for 3 years now.

The EU responded by feebly attempting to counter this worrisome imbalance of influence with a Common Foreign and Security Policy and a rapid deployment force. Still, NATO's chances of replacing the EU as the main continental political alliance are much higher than the EU's chances of substituting for NATO as the pre-eminent European military pact. the EU is hobbled by minuscule and decreasing defense spending by its mostly pacifistic members and by the backwardness of their armed forces.

That NATO, under America's thumb, and the vaguely anti-American EU are at cross-purposes emerged during the recent spat over the International Criminal Court. Countries, such as Romania, were asked to choose between NATO's position - immunity for American soldiers on international peacekeeping missions - and the EU's (no such thing). Finally - and typically - the EU backed down. But it was a close call and it cast in sharp relief the tensions inside the Atlantic partnership.

As far as the sole superpower is concerned, the strategic importance of western Europe has waned together with the threat posed by a dilapidated Russia. Both south Europe and its northern regions are emerging as pivotal. Airbases in Bulgaria are more useful in the fight against Iraq than airbases in Germany.

The affairs of Bosnia - with its al-Qaida's presence - are more pressing than those of France. Turkey and its borders with central Asia and the middle east is of far more concern to the USA than disintegrating Belgium. Russia, a potentially newfound ally, is more mission-critical than grumpy Germany.

Thus, enlargement would serve to enhance the dwindling strategic relevance of the EU and heal some of the multiple rifts with the USA - on trade, international affairs (e.g., Israel), defense policy, and international law. But this is not the only benefit the EU would derive from its embrace of the former lands of communism.

Faced with an inexorably ageing populace and an unsustainable system of social welfare and retirement benefits, the EU is in dire need of young immigrants. According to the United Nations Population Division, the EU would need to import 1.6 million migrant workers annually to maintain its current level of working age population. But it would need to absorb almost 14 million new, working age, immigrants per year just to preserve a stable ratio of workers to pensioners.

Eastern Europe - and especially central Europe - is the EU's natural reservoir of migrant labor. It is ironic that xenophobic and anti-immigration parties hold the balance of power in a continent so dependent on immigration for the survival of its way of life and institutions.

The internal, common, market of the EU has matured. Its growth rate has leveled off and it has developed a mild case of deflation. In previous centuries, Europe exported its excess labor and surplus capacity to its colonies - an economic system known as "mercantilism".

The markets of central, southern, and eastern Europe - West Europe's hinterland - are replete with abundant raw materials and dirt-cheap, though well-educated, labor. As indigenous purchasing power increases, the demand for consumer goods and services will expand.

Thus, the enlargement candidates can act both as a sink for Europe's production and the root of its competitive advantage.

Moreover, the sheer weight of their agricultural sectors and the backwardness of their infrastructure can force a reluctant EU to reform its inanely bloated farm and regional aid subsidies, notably the Common Agricultural Policy. That the EU cannot afford to treat the candidates to dollops of subventioary largesse as it does the likes of France, Spain, Portugal, and Greece is indisputable. But even a much-debated phase-in period of 10 years would burden the EU's budget - and the patience of its member states and denizens - to an acrimonious breaking point.

The countries of central and eastern Europe are new consumption and investment markets. With a total of 300 million people (Russia counted), they equal the EU's population - though not its much larger purchasing clout. They are likely to while the next few decades on a steep growth curve, catching up with the West. Their proximity to the EU makes them ideal customers for its goods and services. They could provide the impetus for a renewed golden age of European economic expansion.

Central and eastern Europe also provide a natural land nexus between west Europe and Asia and the Middle East. As China and India grow in economic and geopolitical importance, an enlarged Europe will find itself in the profitable role of an intermediary between east and west.

The wide-ranging benefits to the EU of enlargement are clear, therefore. What do the candidate states stand to gain from their accession? The answer is: surprisingly little.

All of them already enjoy, to varying degrees, unfettered, largely duty-free, access to the EU. To belong, a few - like Estonia - would have to dismantle a much admired edifice of economic liberalism.

Most of them would have to erect barriers to trade and the free movement of labor and capital where none existed. All of them would be forced to encumber their fragile economies with tens of thousands of pages of prohibitively costly labor, intellectual property rights, financial, and environmental regulation. None stands to enjoy the same benefits as do the more veteran members - notably in agricultural and regional development funds.

Joining the EU would deliver rude economic and political shocks to the candidate countries. A brutal and rather sudden introduction of competition in hitherto much-sheltered sectors of the economy, giving up recently hard-won sovereignty, shouldering the debilitating cost of the implementation of reams of guideline, statutes, laws, decrees, and directives, and being largely powerless to influence policy outcomes. Faced with such a predicament, some countries may even reconsider.

Historical Note

Prior to 1945, Europe's history was bipolar. It was marked by a permanent tension between Bismarckian "balance of power", Berlin Congress-like, alliances - and, when these failed, armed conflict. In the decade following the end of World War II, the continent - both West and East - was under foreign military occupation (Soviet and American).

The Cold War was an alien geopolitical agenda, imposed by the United States and the USSR on a Europe devastated by two horrific conflagrations. The USA deployed its pecuniary prowess (the Marshall Plan, the World Bank, the International Monetary Fund-IMF) and its formidable army to create NATO, almost single-handedly and often against the express wishes of a Europhobic Britain and an Americanophobic France.

The demise of Communism signaled the end of this aberrant and unprecedented phase in European history. Post 1989, continental politics is back to normal. Europe's nation-states are furiously at work forming supranational political and economic alliances intended to offset Germany's dominance either by co-opting it - or by deterring it.

The foreign policy of the kernel of continental Europe (France and Germany) has significantly diverged from that of its erstwhile ally, the USA. Most Europeans are also busy creating an alternative to NATO, now merely a long arm of the US military. NATO's bases are shifting to the former Soviet colonies. No longer a defensive pact, it provides logistical support and peacekeepers to overextended American troops abroad.

Gradually, as NATO is being Americanized, the European Union (possibly with a corresponding military wing) emerges as the only truly European forum. Euro-Atlanticism seems to have served its purpose. The Europeans' main concern now is not Russia but a resurgent Germany, replete with its re-acquired hinterland (namely the new members of the EU in Central Europe).

It is back to the 19th century. Britain is steeped in glorious isolation. France, wary of Germany, is trying to harness it to the common project of the EU. Germany, aware of its economic might, is reasserting itself diplomatically and militarily. The enlargement of the EU eastwards is the price that France had to reluctantly pay to keep Germany inside the European tent.

The EU is not the first common market in the continent's history - neither is the euro its first monetary union. All previous attempts at unification and harmonization ended in failure. There is no reason to assume that the fate of the current experiment will be any different.

The assertion that Western Europe has seen the last of its wars defies history and geography. It is only a matter of time before another European conflict erupts between the big four: Russia, Britain, France, and Germany. The USA will again be forced to intervene, no doubt.

THE WAR IN IRAQ

The Euro-Atlantic Divide

By: [Dr. Sam Vaknin]

Also published by [United Press International (UPI)]

The countries of central and east Europe - especially those slated to join the European Union (EU) in May next year - are between the American rock and the European hard place. The Czech republic, Hungary and Poland, already NATO members, have joined Spain, Britain and other EU veterans in signing the "letter of eight" in support of US policy in the Gulf. NATO and EU aspirants - including most of the nations of the Balkans - followed suit in a joint statement of the Vilnius Group.

The denizens of the region wonder what is meant by "democracy" when their own governments so blithely ignore public opinion, resolutely set against the looming conflict. The heads of these newly independent polities counter by saying that leaders are meant to mold common perceptions, not merely follow them expediently. The mob opposed the war against Hitler, they remind us, somewhat non-germanely.

But the political elite of Europe is, indeed, divided.

France is trying to reassert its waning authority over an increasingly unruly and unmanageably expanding European Union. Yet, the new members do not share its distaste for American hegemony.

On the contrary, they regard it as a guarantee of their own security. They still fear the Russians, France's and Germany's new found allies in the "Axis of Peace" (also known as the Axis of Weasels).

The Czechs, for instance, recall how France (and Britain) sacrificed them to Nazi Germany in 1938 in the name of realpolitik and the preservation of peace. They think that America is a far more reliable sponsor of their long-term safety and prosperity than the fractured European "Union".

Their dislike of what they regard as America's lightweight leadership and overt - and suspect - belligerence notwithstanding, the central and east Europeans are grateful to the United States for its unflinching - and spectacularly successful - confrontation with communism.

France and Germany - entangled in entente and Ostpolitik, respectively - cozied up to the Kremlin, partly driven by their Euro-communist parties. So did Italy. While the Europeans were busy kowtowing to a repressive USSR and castigating the USA for its warmongering, America has liberated the Soviet satellites and bankrolled their painful and protracted transition.

Historical debts aside, America is a suzerain and, as such, it is irresistible. Succumbing to the will of a Big Power is the rule in east and central Europe. The nations of the region have mentally substituted the United States for the Soviet Union as far as geopolitics are concerned. Brussels took the place of Moscow with regards to economic issues. The Czechs, Poles, Hungarians, assorted Balkanians, even the Balts - have merely switched empires.

There are other reasons for these countries' pro-Americanism. The nations of central, east and southeast (Balkans) Europe have sizable and economically crucial diasporas in the united States. They admire and consume American technology and pop culture. Trade with the USA and foreign direct investment are still small but both are growing fast.

Though the EU is the new and aspiring members' biggest trading partner and foreign investor - it has, to borrow from Henry Kissinger, no "single phone number". While France is enmeshed in its Byzantine machinations, Spain and Britain are trying to obstruct the ominous re-emergence of French-German dominance.

By catering to popular aversion of America's policies, Germany's beleaguered Chancellor, Gerhard Schroeder, is attempting to score points domestically even as the German economy is imploding.

The euro-Atlantic structures never looked worse. The European Union is both disunited and losing its European character. NATO has long been a dysfunctional alliance in search of a purpose. For a while, Balkan skirmishes provided it with a new lease on life. But now the Euro-Atlantic alliance has become the Euro-Atlantic divide.

The only clear, consistent and cohesive voice is America's. The new members of NATO are trying to demonstrate their allegiance - nay, obsequiousness - to the sole identifiable leader of the free world.

France's bid at European helmsmanship failed because both it and Russia are biased in favor of the current regime in Iraq. French and Russian firms have signed more than 1700 commercial contracts with Saddam's murderous clique while their British and American competitors were excluded by the policies of their governments.

When sanctions against Iraq are lifted - and providing Saddam or his hand-picked successor are still in place - Russian energy behemoths are poised to explore and extract billions of barrels of oil worth dozens of billions of dollars. Iraq owes Russia $9 billion which Russia wants repaid.

But the United States would be mistaken to indulge in Schadenfreude or to gleefully assume that it has finally succeeded in isolating the insolent French and the somnolent Germans. Public opinion - even where it carries little weight, like in Britain, or in the Balkans - cannot be ignored forever.

Furthermore, all the countries of Europe share real concerns about the stability of the Middle East. A divided Iraq stands to unsettle neighbours near and far. Turkey has a large Kurdish minority as does Iran. Conservative regimes in the Gulf fear Iraq's newfound and American-administered democracy. In the wake of an American attack on Iraq, Islamic fundamentalism and militancy will surely surge and lead to a wave of terror. Europe has vested historical, economic and geopolitical interests in the region, unlike America.

Persistent, unmitigated support for the USA in spite of French-German exhortations will jeopardize the new and aspiring members' position in an enlarged EU. Accession is irreversible but they can find themselves isolated and marginalized in decision making processes and dynamics long after the Iraqi dust has settled. EU officials already gave public warnings to this effect.

It is grave error to assume that France and Germany have lost their pivotal role in the EU. Britain and Spain are second rank members - Britain by Europhobic choice and Spain because it is too small to really matter. Russia - a smooth operator - chose to side with France and Germany, at least temporarily. The new and aspiring members would have done well to follow suit.

Instead, they have misconstrued the signs of the gathering storm: the emerging European rapid deployment force and common foreign policy; the rapprochement between France and Germany at the expense of the pro-American but far less influential Britain, Italy and Spain; the constitutional crisis setting European federalists against traditional nationalists; the growing rupture between "Old Europe" and the American "hyperpower".

The new and aspiring members of NATO and the EU now face a moment of truth and are being forced to reveal their hand. Are they pro-American, or pro-German (read: pro federalist Europe)? Where and with whom do they see a common, prosperous future? What is the extent of their commitment to the European Union, its values and its agenda?

The proclamations of the European eight (including the three central European candidates) and the Vilnius Ten must have greatly disappointed Germany - the unwavering sponsor of EU enlargement. Any further flagrant siding with the United States against the inner core of the EU would merely compound those errors of judgment. The EU can punish the revenant nations of the communist bloc with the same dedication and effectiveness with which it has hitherto rewarded them.

THE WAR IN IRAQ

Bulgaria - The Quiet American

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Last week, Bulgaria, currently sitting on the Security Council, was one of ten east and southeast European countries - known as the Vilnius Group - to issue a strongly worded statement in support of the United States' attempt to disarm Iraq by military means. This followed a similar, though much milder, earlier statement by eight other European nations, including Hungary, the Czech Republic and Poland, the EU's prospective members in central Europe.

The Vilnius Ten - including Albania, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Romania, Slovakia and Slovenia - called the evidence presented to the Security Council by Colin Powell, the US Secretary of State - "compelling". Iraq posed a "clear and present danger" - they concluded.

Bulgaria and Romania pledged free access to their air spaces and territorial waters. The first US military plane has landed today in the Safarovo airport in the Black Sea city of Burgas in Bulgaria. Other members are poised to provide medical staff, anti-mine units and chemical protection gear.

Such overt obsequiousness did not go unrewarded.

Days after the common statement, the IMF - considered by some to be a long arm of America's foreign policy - clinched a standby arrangement with Macedonia, the first in two turbulent years. On the same day, Bulgaria received glowing - and counterfactual - reviews from yet another IMF mission, clearing the way for the release of a tranche of $36 million out of a loan of $330 million.

Partly in response, six members of parliament from the ruling Simeon II national Movement joined with four independents to form the National Ideal for Unity. According to Novinite.com, a Bulgarian news Web site, they asserted that "the new political morale was seriously harmed" and "accused the government of inefficient economic program of the government that led to the bad economic situation in the country."

Following the joint Vilnius Group declaration, Albania, Croatia, Bulgaria and Macedonia received private and public assurances that their NATO applications now stand a better chance. Bulgaria started the second round of negotiations with the military alliance yesterday and expects to become full member next year. The head of the US Committee on NATO Enlargement Bruce Jackson stated: "I'm sure that Bulgaria has helped itself very much this week."

Yet, the recent rift in NATO (over Turkish use of the Alliance's defense assets) pitted Germany, France and Belgium against the rest of the organization and opposite other EU member states. It casts in doubt the wisdom of the Vilnius Group's American gambit. The countries of central and east Europe may admire the United States and its superpower clout - but, far more vitally, they depend on Europe, economically as well as politically.

Even put together, these polities are barely inconsequential. They are presumptuous to assume the role of intermediaries between a disenchanted Franco-German Entente Cordiale and a glowering America. Nor can they serve as "US Ambassadors" in the European corridors of power.

The European Union absorbs two thirds of their exports and three quarters of their immigrants. Europe accounts for nine tenths of foreign direct investment in the region and four fifths of aid. For the likes of the Czech Republic and Croatia to support the United states against Germany is nothing short of economic suicide.

Moreover, the United States is a demanding master. It tends to micromanage and meddle in everything, from election outcomes to inter-ethnic relations. James Purdew, America's ambassador to Sofia and a veteran Balkan power broker, spent the last few weeks exerting pressure on the Bulgarian government, in tandem with the aforementioned Bruce Jackson, to oust the country's Prosecutor General and reinstate the (socialist) head of the National Investigation Services.

Bulgaria is already by far the most heavily enmeshed in US military operations in Asia. It served as a launch pad for US planes during the Afghanistan campaign in 2001-2. It stands to be affected directly by the looming war.

Bulgaria is on the route of illicit immigration from Iraq, Palestine and Iran, via Turkey, to Greece and therefrom to the EU. Last Friday alone, it detained 43 Iraqi refugees caught cruising Sofia in two Turkish trucks on the way to the Greek border.

The Ministry of Interior admitted that it expects a "massive flow of (crossing) refugees" if an armed conflict were to erupt.

The Minister of Finance, Milen Velchev, intends to present to the Council of Ministers detailed damage scenarios based on a hike in the price of oil to $40 per barrel and a 3-4 months long confrontation. He admitted to the Bulgarian National Radio that inflation is likely to increase by at least 1-1.5 percentage points.

The daily cost of a single 150-member biological and chemical defense unit stationed in the Gulf would amount to $15,000, or c. $500,000 per month, said the Bulgarian news agency, BTA. The Minister of Defense, Nikolai Svinarov, told the Cabinet that he expects "maximum (American) funding and logistical support" for the Bulgarian troops. The United States intends to base c. 400 soldiers-technicians and 18 planes on the country's soil and will pay for making use of the infrastructure, as they have done during operation "Enduring Freedom" (the war in Afghanistan).

Bulgaria stands to benefit in other ways. The country's Deputy Foreign Minister, Lyubomir Ivanov, confirmed in another radio interview that the Americans pledged that Iraqi debts to Bulgaria will be fully paid. This can amount to dozens of millions of US dollars in fresh money.

Is this Bulgaria's price? Unlikely. Bulgaria, like the other countries of the region, regards America as the first among equals in NATO. The EU is perceived in east Europe as a toothless, though rich, club, corrupted by its own economic interests and inexorably driven by its bloated bureaucracy.

The EU and its goodwill and stake in the region are taken for granted - while America has to be constantly appeased and mollified.

Still, the members of the Vilnius Groups have misconstrued the signs of the gathering storm: the emerging European rapid deployment force and common foreign policy; the rapprochement between France and Germany at the expense of the pro-American but far less influential Britain, Italy and Spain; the constitutional crisis setting European federalists against traditional nationalists; the growing rupture between "Old Europe" and the American "hyperpower".

The new and aspiring members of NATO and the EU now face a moment of truth and are being forced to reveal their hand. Are they pro-American, or pro-German (read: pro federalist Europe)? Where and with whom do they see a common, prosperous future? What is the extent of their commitment to the European Union, its values and its agenda?

The proclamations of the European eight (including the three central European candidates) and the Vilnius Ten must have greatly disappointed Germany - the unwavering sponsor of EU enlargement. Any further flagrant siding with the United States against the inner core of the EU would merely compound those errors of judgment. The EU can punish the revenant nations of the communist bloc with the same dedication and effectiveness with which it has hitherto rewarded them. Ask Israel, it should know.

THE WAR IN IRAQ

Russia Straddles the Euro-Atlantic Divide

By: Dr. Sam Vaknin

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Russia in 2003

Russian President Vladimir Putin warned on Tuesday, in an interview he granted to TF1, a French television channel, that unilateral American-British military action against Iraq would be a "grave mistake" and an "unreasonable use of force".

Russia might veto it in the Security Council, he averred. In a joint declaration with France and Germany, issued the same day, he called to enhance the number of arms inspectors in Iraq as an alternative to war.

Only weeks ago Russia was written off, not least by myself, as a satellite of the United States. This newfound assertiveness has confounded analysts and experts everywhere. Yet, appearances aside, it does not signal a fundamental shift in Russian policy or worldview.

Russia could not resist the temptation of playing once more the Leninist game of "inter-imperialist contradictions". It has long masterfully exploited chinks in NATO's armor to further its own economic, if not geopolitical, goals. Its convenient geographic sprawl - part Europe, part Asia - allows it to pose as both a continental power and a global one with interests akin to those of the United States. Hence the verve with which it delved into the war against terrorism, recasting internal oppression and meddling abroad as its elements.

As Vladimir Lukin, deputy speaker of the Duma observed recently, Britain having swerved too far towards America - Russia may yet become an intermediary between a bitterly disenchanted USA and an irked Europe and between the rich, industrialized West and developing countries in Asia. Publicly, the USA has only mildly disagreed with Russia's reluctance to countenance a military endgame in Iraq - while showering France and Germany with vitriol for saying, essentially, the same things.

The United States knows that Russia will not jeopardize the relevance of the Security Council - one of the few remaining hallmarks of past Soviet grandeur - by vetoing an American-sponsored resolution. But Russia cannot be seen to be abandoning a traditional ally and a major customer (Iraq) and newfound friends (France and Germany) too expediently.

Nor can Putin risk further antagonizing Moscow hardliners who already regard his perceived "Gorbachev-like" obsequiousness and far reaching concessions to the USA as treasonous. The scrapping of the Anti Ballistic Missile treaty, the expansion of NATO to Russia's borders, America's presence in central Asia and the Caucasus, Russia's "near abroad" - are traumatic reversals of fortune.

An agreed consultative procedure with the crumbling NATO hardly qualifies as ample compensation. There are troubling rumblings of discontent in the army. A few weeks ago, a Russian general in Chechnya refused Putin's orders publicly - and with impunity. Additionally, according to numerous opinion polls, the vast majority of Russians oppose an Iraqi campaign.

By aligning itself with the fickle France and the brooding and somnolent Germany, Russia is warning the USA that it should not be taken for granted and that there is a price to pay for its allegiance and good services. But Putin is not Boris Yeltsin, his inebriated predecessor who over-played his hand in opposing NATO's operation in Kosovo in 1999 - only to be sidelined, ignored and humiliated in the postwar arrangements.

Russia wants a free hand in Chechnya and to be heard on international issues. It aspires to secure its oil contracts in Iraq - worth tens of billions of dollars - and the repayment of $9 billion in old debts by the postbellum government. It seeks pledges that the oil market will not be flooded by a penurious Iraq. It desires a free hand in Ukraine, Armenia and Uzbekistan, among others. Russia wants to continue to sell $4 billion a year in arms to China, India, Iran, Syria and other pariahs unhindered.

Only the United States, the sole superpower, can guarantee that these demands are met. Moreover, with a major oil producer such as Iraq as a US protectorate, Russia becomes a hostage to American goodwill. Yet, hitherto, all Russia received were expression of sympathy, claimed Valeri Fyodorov, director of Political Friends, an independent Russian think-tank, in an interview in the Canadian daily, National Post.

These are not trivial concerns. Russia's is a primitive economy, based on commodities - especially energy products - and an over-developed weapons industry. Its fortunes fluctuate with the price of oil, of agricultural produce and with the need for arms, driven by regional conflicts.

Should the price of oil collapse, Russia may again be forced to resort to multilateral financing, a virtual monopoly of the long arms of US foreign policy, such as the International Monetary Fund (IMF). The USA also has a decisive voice in the World Trade Organization (WTO), membership thereof being a Russian strategic goal.

It was the United States which sponsored Russia's seat at table of the G8 - the Group of Eight industrialized states - a much coveted reassertion of the Russian Federation's global weight. According to Rossiiskaya Gazeta, a Russian paper, the USA already announced a week ago that it is considering cutting Russia off American financial aid - probably to remind the former empire who is holding the purse strings.

But siding with America risks alienating the all-important core of Europe: Germany and France. Europe - especially Germany - is Russia's largest export destination and foreign investor. Russia is not oblivious to that. It would like to be compensated generously by the United States for assuming such a hazard.

Still, Europe is a captive of geography and history. It has few feasible alternatives to Russian gas, for instance. As the recent $7 billion investment by British Petroleum proves, Russia - and, by extension, central and east Europe - is Europe's growth zone and natural economic hinterland.

Yet, it is America that captures the imagination of Russian oligarchs and lesser businesses.

Russia aims to become the world's largest oil producer within the decade. With this in mind, it is retooling its infrastructure and investing in new pipelines and ports.

The United States is aggressively courted by Russian officials and "oiligarchs" - the energy tycoons. With the Gulf states cast in the role of anti-American Islamic militants, Russia emerges as a sane and safe - i.e., rationally driven by self-interest - alternative supplier and a useful counterweight to an increasingly assertive and federated Europe.

Russia's affinity with the United States runs deeper that the confluence of commercial interests.

Russian capitalism is far more "Anglo-Saxon" than Old Europe's. The Federation has an educated but cheap and abundant labor force, a patchy welfare state, exportable natural endowments, a low tax burden and a pressing need for unhindered inflows of foreign investment.

Russia's only hope of steady economic growth is the expansion of its energy behemoths abroad. Last year it has become a net foreign direct investor. It has a vested interest in globalization and world order which coincide with America's. China, for instance, is as much Russia's potential adversary as it is the United State's.

Russia welcomed the demise of the Taliban and is content with regime changes in Iraq and North Korea - all American exploits. It can - and does - contribute to America's global priorities. Collaboration between the two countries' intelligence services has never been closer. Hence also the thaw in Russia's relations with its erstwhile foe, Israel.

Russia's population is hungry and abrasively materialistic. Its robber barons are more American in spirit than any British or French entrepreneur. Russia's business ethos is reminiscent of 19th century frontier America, not of 20th century staid Germany.

Russia is driven by kaleidoscopically shifting coalitions within a narrow elite, not by its masses - and the elite wants money, a lot of it and now. In Russia's unbreakable cycle, money yields power which leads to more money. The country is a functioning democracy but elections there do not revolve around the economy. Most taxes are evaded by most taxpayers and half the gross national product is anyhow underground. Ordinary people crave law and order - or, at least a semblance thereof.

Hence Putin's rock idol popularity. He caters to the needs of the elite by cozying up to the West and, in particular, to America - even as he provides the lower classes with a sense of direction and security they lacked since 1985. But Putin is a serendipitous president. He enjoys the aftereffects of a sharply devalued, export-enhancing, imports-depressing ruble and the vertiginous tripling of oil prices, Russia's main foreign exchange generator.

The last years of Yeltsin have been so traumatic that the bickering cogs and wheels of Russia's establishment united behind the only vote-getter they could lay their hands on: Putin, an obscure politician and former KGB officer. To a large extent, he proved to be an agreeable puppet, concerned mostly with self-preservation and the imaginary projection of illusory power.

Putin's great asset is his pragmatism and realistic assessment of the shambles that Russia has become and of his own limitations. He has turned himself into a kind of benevolent and enlightened arbiter among feuding interests - and as the merciless and diligent executioner of the decisions of the inner cabals of power.

Hitherto he kept everyone satisfied. But Iraq is his first real test. Everyone demands commitments backed by actions. Both the Europeans and the Americans want him to put his vote at the Security Council where his mouth is. The armed services want him to oppose war in Iraq. The intelligence services are divided. The Moslem population inside Russia - and surrounding it on all sides - is restive and virulently anti-American.

The oil industry is terrified of America' domination of the world's second largest proven reserves - but also craves to do business in the United States. Intellectuals and Russian diplomats worry about America's apparent disregard for the world order spawned by the horrors of World War II. The average Russian regards the Iraqi stalemate as an internal American affair. "It is not our war", is a common refrain, growing commoner.

Putin has played it admirably nimbly. Whether he ultimately succeeds in this impossible act of balancing remains to be seen. The smart money says he would. But if the last three years have taught us anything it is that the smart money is often disastrously wrong.

THE WAR IN IRAQ

Germany's Rebellious Colonies

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

The EU and NATO - The Competing Alliances

The Skoda Model

The Czechs' Indian Gambit

Europe's Four Speeds

Switching Empires

Eastern Advantages

Invited by a grateful United States, the Czech Republic on Saturday sent a representative to meet with Iraqi opposition in Kurdish north Iraq. The country was one of the eight signatories on a letter, co-signed by Britain, Italy, Spain and the two other European Union central European candidate-members, Poland and Hungary, in support of US policy in the Gulf.

According to The Observer and the New York Times, American troops in Germany - and the billions of dollars in goods and services they consume locally - will be moved further east to the Czech Republic, Poland and the Baltic states. This shift may have come regardless of the German "betrayal". The Pentagon has long been contemplating the futility of stationing tens of thousands of soldiers in the world's most peaceful and pacifistic country.

The letter is a slap in the face of Germany, a member of the "Axis of Peace", together with France and Belgium and the champion of EU enlargement to the east. Its own economic difficulties aside, Germany is the region's largest foreign investor and trading partner. Why the curious rebuff by its ostensible protégés?

The Czech Republic encapsulates many of the economic and political trends in the erstwhile communist swathe of Europe.

The country's economic performance still appears impressive. Figures released yesterday reveal a surge of 6.6 percent in industrial production, to yield an annual increase of 4.8 percent. Retail sales, though way below expectations, were still up 2.7 percent last year. The Czech National Bank (CNB) upgraded its gross domestic product growth forecast on Jan 30 to 2.2-3.5 percent.

But the country is in the throes of a deflationary cycle. The producer price index was down 0.8 percent last year. Year on year, it decreased by 0.4 percent in January. Export prices are down 6.7 percent, though import prices fell by even more thus improving the country's terms of trade.

The Czech koruna is unhealthily overvalued against the euro thus jeopardizing any export-led recovery. The CNB was forced to intervene in the foreign exchange market and buy in excess of 2 billion euros last year - four times the amount it did in 2001. It also cut its interest rates last month to their nadir since independence. This did little to dent the country's burgeoning current account deficit, now at over 5 percent of GDP.

Unemployment in January broke through the psychologically crucial barrier of 10 percent of the workforce. More than 540,000 bread earners (in a country of 10 million inhabitants) are out of a job. In some regions every fifth laborer is laid off. There are more than 13 - and in the worst hit parts, more than 100 - applicants per every position open .

Additionally, the country is bracing itself for another bout of floods, more devastating than last year's and the ones in 1997. Each of the previous inundations caused in excess of $2 billion in damages. The government's budget is already strained to a breaking point with a projected deficit of 6.3 percent this year, stabilizing at between 4 and 6.6 percent in 2006. The situation hasn't been this dire since the toppling of communism in the Velvet Revolution of 1989.

Ironically, these bad tidings are mostly the inevitable outcomes of much delayed reforms, notably privatization. Four fifths of the country's economy is alleged to be in private hands - a rate similar to the free markets of Estonia, Slovakia and Hungary. In reality, though, the state still maintains intrusive involvement in many industrial assets. It is the reluctant unwinding of these holdings that leads to mass layoffs.

Yet, the long term outlook is indisputably bright.

The ministry of finance forecasts a rise in the country's GDP from 59 percent to 70 percent of the European Union's output in 2005 - comparable to Slovenia and far above Poland with a mere 40 percent. The Czech Republic is preparing itself to join the eurozone shortly after it becomes a member of the EU in May 2004.

Foreign investors are gung ho. The country is now the prime investment destination among the countries in transition. In a typical daily occurrence, bucking a global trend, Matsushita intends to expand its television factory in Plzen. Its investment of $8 million will enhance the plant's payroll by one tenth to 1900 workers. Siemens - a German multinational - is ploughing $50 million into its Czech unit. Siemens Elektromotory's 3000 employees export $130 million worth of electrical engines annually.

None of this would have been possible without Germany's vote of confidence and overwhelming economic presence in the Czech Republic. The deteriorating fortunes of the Czech economy are, indeed, intimately linked to the economic stagnation of its northern neighbor, as many an economist bemoan. But this only serves to prove that the former's recovery is dependent on the latter's resurrection.

Either way, to have so overtly and blatantly abandoned Germany in its time of need would surely prove to be a costly miscalculation. The Czechs - like other central and east European countries - mistook a transatlantic tiff for a geopolitical divorce and tried to implausibly capitalize on the yawning rift that opened between the erstwhile allies.

Yet, Germany is one of the largest trading partners of the United States. American firms sell $24 billion worth of goods annually there - compared to $600 million in Poland. Germany's economy is five to six times the aggregated output of the EU's central European new members plus Slovakia.

According to the New York Times, there are 1800 American firms on German soil, with combined sales of $583 billion and a workforce of 800,000 people. Due to its collapsing competitiveness and rigid labor laws, Germany's multinationals relocate many of their operations to central and east Europe, Asia and north and Latin America. Even with its current malaise, Germany invested in 2001 $43 billion abroad and attracted $32 billion in fresh foreign capital.

Indeed, supporting the United States was seen by the smaller countries of the EU as a neat way to counterbalance Germany's worrisome economic might and France's often self-delusional aspirations at helmsmanship. A string of unilateral dictates by the French-German duo to the rest of the EU - regarding farm subsidies and Europe's constitution, for instance - made EU veterans and newcomers alike edgy. Hence the deliberate public snub.

Still, grandstanding apart, the nations of central Europe know how ill-informed are recent claims in various American media that their region is bound to become the new European locomotive in lieu of an aging and self preoccupied Germany. The harsh truth is that there is no central European economy without Germany. And, at this stage, there is no east European economy, period.

Consider central Europe's most advanced post-communist economy.

One third of Hungary's GDP, one half of its industrial production, three quarters of industrial sales and nine tenths of its exports are generated by multinationals. Three quarters of the industrial sector is foreign-owned. One third of all foreign direct investment is German. France is the third largest investor. The situation is not much different in the Czech Republic where the overseas sales of the German-owned Skoda alone account for one tenth the country's exports.

The relationship between Germany and central Europe is mercantilistic. Germany leverages the region's cheap labor and abundant raw materials to manufacture and export its finished products. Central Europe conforms, therefore, to the definition of a colony and an economic hinterland. From a low base, growth there - driven by frenzied consumerism - is bound to outstrip the northern giant's for a long time to come. But Germans stands to benefit from such prosperity no less than the indigenous population.

Aware of this encroaching "economic imperialism", privatization deals with German firms are being voted down throughout the region. In November, the sale of a majority stake in Cesky Telecom to a consortium led by Deutsche Bank collapsed. In Poland, a plan to sell Stoen, Warsaw's power utility, to Germany's RWE was scrapped.

But these are temporary - and often reversible - setbacks. Germany and its colonies share other interests. As The Economist noted correctly recently:

"The Poles may differ with the French over security but they will be with them in the battle to preserve farm subsidies. The Czechs and Hungarians are less wary of military force than the Germans but sympathize with their approach to the EU's constitutional reform. In truth, there are no more fixed and reliable alliances in the EU. Countries will team up with each other, depending on issue and circumstances."

Thus, the partners, Germany and central Europe, scarred and embittered, will survive the one's haughty conduct and the other's backstabbing. That the countries of Europe currently react with accommodation to what, only six decades ago, would have triggered war among them, may be the greatest achievement of the Euro-Atlantic enterprise.

How the West Lost the East

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

The Caveman and the Alien

The Expat Experts

To Give with Grace

The Pettifogger Procurators

Why is America Hated

The Pew Research Center published last week a report expansively titled "What the World Thinks in 2002". "The World", reduced to 44 countries and 38,000 interviewees, included 3500 respondent from central and east Europe: Bulgaria, the Czech Republic, Poland, Russia, Slovakia and Ukraine. Uzbekistan stood in for the formerly Soviet central Asia. The Times-Mirror 1991 survey, "The Pulse of Europe" was used as a benchmark.

With the implosion of communism in 1989 and the disintegration of the Soviet Union in 1991, large swathes of central and eastern Europe found themselves devoid of an internal market, an economic sponsor, or a military umbrella.

The countries of central Europe - from Slovenia to Hungary - and the Baltic dismissed the communist phase of their past as a "historical accident" and vigorously proceeded to seek integration with Western Europe, notably Germany, much as they have done until the rise of Fascism in the 1930s.

The polities of eastern Europe bitterly divided into the "nostalgics" or "reactionary" versus the "European", or "progressive". The first lot - including Russia, Ukraine and Belarus - sought to resurrect an economic incarnation of the former USSR. The latter - notably Poland - reclassified themselves as "central Europeans" and emulated the likes of the Czech republic and Hungary in a desperate bid to curry favor with the European Union and the United States.

The Pew report reveals that the concerns of the denizens of central and east Europe are varied but closely aligned with the global agenda. In this sense, the iron curtain has, indeed, lifted and total integration has been achieved despite massive economic disparities. The publics of the former Soviet Bloc place surprisingly great emphasis on the environment, for instance - hitherto thought to be a preoccupation of their more affluent neighbours to the west.

Consider the war on terrorism.

People in Russia are vehemently opposed to the use of force to dislodge Saddam Hussein. They regard the Israeli-Palestinian conflict as a greater threat to peace in the Middle East.

They are convinced that the USA is bent on war in the Gulf to secure its oil sources. Europe is likely to pay the price, say the Russians, by becoming a target for international terrorism.

Yet, in a sweeping reversal of sentiment, Russians now regard the world as safer with a single superpower. In Uzbekistan, whose crumbling economy has enjoyed a fillip from the presence of 1500 US troops, support for America's military campaigns is understandably high.

Yet, the most startling and unambiguous revelation was the extent of anti-American groundswell everywhere: among America's NATO allies, in developing countries, Muslim nations and even in eastern Europe where Americans, only a decade ago were perceived as much-adulated liberators. "People around the world embrace things American and, at the same time, decry U.S. influence on their societies. Similarly, pluralities in most of the nations surveyed complain about American unilateralism."- expounds the report.

The image of the Unites States as a benign world power slipped dramatically in the space of two years in Slovakia (down 14 percent), in Poland (-7), in the Czech Republic (-6) and even in fervently pro-Western Bulgaria (-4 percent). But it rose exponentially in Ukraine (up 10 percent) and, most astoundingly, in Russia (+24 percent, albeit from a very low base).

Still, rising anti-Americanism may have more to do with a nonspecific wave of gloom and dysphoria than with concrete American policies. "People who are less well off economically are more likely than those who are more financially secure to dislike the U.S." - says the report.

Only two fifths of Czechs are satisfied with their own life or with the state of their nation. Three quarters are unhappy with the world at large. The figures are even way lower in Slovakia, Poland and Ukraine. Only Uzbeks are content, probably for want of knowing better.

In Russia, less than one fifth are at ease with their life, their country, or the world. Bulgaria takes the prize: a mere 8 percent of Bulgarians find their life gratifying. One in twenty five Bulgarians is optimistic regarding his or her nation. One in eight approves of the world.

East Germans are far more pessimistic than the Wessies, their brethren in the western Lander. East European are exceedingly displeased with their income, though they find their family lives agreeable and, in the lands of vertiginous unemployment levels, their jobs appealing.

Nine in ten Ukrainians, Bulgarians, Poles and Slovaks maintain a negative view of their national economies. In Russia the figure is 83 percent and even in the Czech Republic it is 60. Three quarters of east Europeans surveyed - including east Germans - do not believe that economic conditions will improve.

"Will my kids go hungry? Will they be stuck with my debts? … It looks bad and it can only get worse. I mean, you can hope it will get better but it does not look good" - muses a forlorn 69-years old Polish farmer.

Incredibly, these dismal figures reflect a rise in satisfaction throughout the region since the demise of communism in 1989-91. Significantly, the young are double as hopeful than those older than 35. Between one third (Bulgaria, Czech Republic) and one half (Ukraine, Slovakia and Russia) of respondents of all age groups believe in a better future - far outweighing the pessimists. Only in Poland are the majority of people are anxious for the future of their children.

Still, "while Eastern Europeans feel their lives are better off since the collapse of communism, many say they have lost ground over the past five years. A majority of Bulgarians (55%) believe their lives are worse today, as do pluralities in Ukraine, the Slovak Republic and Poland. Again, Czechs are the exception – 41% think they have made progress while 27% believe they have lost ground. Russians are divided on this point (37% say they have lost ground, 36% feel they have made progress)."

Poverty is a potent depressant. The greater part of Russians and Ukrainians reported that "there have been times in the past year when they had too little money to afford food", medical care, or clothing. So did half the Bulgarians, one third of the Poles and one sixth of Slovaks. Ninety-two percent of the Bulgarians interviewed identified economic problems as having the most effect on their lives.

Similar figures obtained in Russia (85), Ukraine (79) and Poland (73). These data are as bad as it gets. Senegal, Mali and Bangladesh are in the same league. The situation is better in Slovakia (63 percent). At 46 percent, the Czech Republic proved equal to the much richer United Kingdom and United States.

People everywhere do not blame their economic predicament on inapt administrations, or on specific leaders. Vladimir Putin is much more popular in Russia than his cabinet but the government get good marks. The leadership in Slovakia, the Czech Republic, Bulgaria, suffered precipitous drops in popularity since 1991. East Europeans - except the Russians - also rate the European Union higher than they do their own authorities. In Slovakia the ratio is a whopping three to one.

With the notable exceptions of Ukraine and the Czech Republic, east Europeans approve of their religious leaders. Ukrainians distrust their military - but all other nationalities are fond of the armed forces. The media and journalists are universally highly rated as positive social influences.

Russians and Uzbeks are concerned about lack of housing. Health is a universal headache: two fifths of Russians, one third of Poles and Czechs and one quarter of Slovaks listed it as such. Central and east European education still yields superior results so only one fifth of Russians find it worrying. Respondents from other countries in the region did not.

Between two thirds and four fifths of the denizens of the crime-infested societies of the countries in transition registered delinquency as a major scourge, followed by corrupt political leaders, AIDS and disease, moral decline, poor drinking water, emigration, poor schooling, terrorism, immigration and ethnic conflict.

East Europeans are as xenophobic as their counterparts in the West. Between half and three quarters of all respondents - fully 80 percent in the Czech Republic - thought that immigrants are a "bad influence on the country". Only Bulgaria welcomes immigration by a wide margin. But nine of ten Bulgarians decry emigration - Bulgarians fleeing abroad. Three quarters do so in Slovakia, Ukraine, Poland and the former East Germany.

Ironically, the more xenophobic the society, the more concerned its members are with ethnic hatred. Almost three fifths of all Czechs identify it as the major problem facing the world today. Other east Europeans are equally worried by nuclear weapons, the gap between rich and poor, the environment and infectious diseases.

The survey reveals both the failure of transition and a decisive break between central and eastern Europe. The shared brief episode of communism failed to homogenize these parts of the continent. Central Europe - including Slovenia - with its history of industrial capitalism, modern bureaucratic governance and the rule of law - is reverting to its historical default. It is being reintegrated into the European mainstream.

The countries of east Europe - Poland included - are unable to catch up. Their transition is tortuous and unpopular among their subjects. Their lot is, indeed, improving but glacially and imperceptibly. They are being left behind by a largely indifferent West. Their erstwhile central European co-inmates in the gulag of communism are now keen to distance themselves. They are considered a drag and an embarrassment. Their unquenched hopes for a better future are smothered by insurmountable economic and social problems.

European enlargement is likely to stall after the first intake of 10 new members in 2004. Those left out in the cold are excluded for a long stretch. Rather than relying on the double panacea of NATO and the EU, they would do well to start reforming themselves by bootstrapping. Surveys like these are timely reminders of this unpleasant reality.

Left and Right in a Divided Europe

By: [Dr. Sam Vaknin]

Also published by [United Press International (UPI)]

Even as West European countries seemed to have edged to the right of the political map - all three polities of central Europe lurched to the left. Socialists were elected to replace economically successful right wing governments in Poland, Hungary and, recently, in the Czech Republic.

This apparent schism is, indeed, merely an apparition. The differences between reformed left and new right in both parts of the continent have blurred to the point of indistinguishability. French socialists have privatized more than their conservative predecessors. The Tories still complain bitterly that Tony Blair, with his nondescript "Third Way", has stolen their thunder.

Nor are the "left" and "right" ideologically monolithic and socially homogeneous continental movements. The central European left is more preoccupied with a social - dare I say socialist - agenda than any of its Western coreligionists. Equally, the central European right is less individualistic, libertarian, religious, and conservative than any of its Western parallels - and much more nationalistic and xenophobic. It sometimes echoes the far right in Western Europe - rather than the center-right, mainstream, middle-class orientated parties in power.

Moreover, the right's victories in Western Europe - in Spain, Denmark, the Netherlands, Italy - are not without a few important exceptions - notably Britain and, perhaps, come September, Germany. Nor is the left's clean sweep of the central European electoral slate either complete or irreversible. With the exception of the outgoing Czech government, not one party in this volatile region has ever remained in power for more than one term. Murmurs of discontent are already audible in Poland and Hungary.

Left and right are imported labels with little explanatory power or relevance to central Europe. To fathom the political dynamics of this region, one must realize that the core countries of central Europe (the Czech Republic, Hungary and, to a lesser extent, Poland) experienced industrial capitalism in the inter-war period. Thus, a political taxonomy based on urbanization and industrialization may prove to be more powerful than the classic left-right dichotomy.

THE RURAL versus THE URBAN

The enmity between the urban and the bucolic has deep historical roots. When the teetering Roman Empire fell to the Barbarians (410-476 AD), five centuries of existential insecurity and mayhem ensued. Vassals pledged allegiance and subservience to local lords in return for protection against nomads and marauders. Trading was confined to fortified medieval cities.

Even as it petered out in the west, feudalism remained entrenched in the prolix codices and patents of the Habsburg Austro-Hungarian empire which encompassed central Europe and collapsed only in 1918.

Well into the twentieth century, the majority of the denizens of these moribund swathes of the continent worked the land. This feudal legacy of a brobdignagian agricultural sector in, for instance, Poland - now hampers the EU accession talks.

Vassals were little freer than slaves. In comparison, burghers, the inhabitants of the city, were liberated from the bondage of the feudal labour contract. As a result, they were able to acquire private possessions and the city acted as supreme guarantor of their property rights. Urban centers relied on trading and economic might to obtain and secure political autonomy.

John of Paris, arguably one of the first capitalist cities (at least according to Braudel), wrote: "(The individual) had a right to property which was not with impunity to be interfered with by superior authority - because it was acquired by (his) own efforts" (in Georges Duby, "The age of the Cathedrals: Art and Society, 980-1420, Chicago, Chicago University Press, 1981). Max Weber, in his opus, "The City" (New York, MacMillan, 1958) wrote optimistically about urbanization: "The medieval citizen was on the way towards becoming an economic man ... the ancient citizen was a political man".

But communism halted this process. It froze the early feudal frame of mind of disdain and derision towards "non-productive", "city-based" vocations. Agricultural and industrial occupations were romantically extolled by communist parties everywhere. The cities were berated as hubs of moral turpitude, decadence and greed. Ironically, avowed anti-communist right wing populists, like Hungary's former prime minister, Orban, sought to propagate these sentiments, to their electoral detriment.

Communism was an urban phenomenon - but it abnegated its "bourgeoisie" pedigree. Private property was replaced by communal ownership. Servitude to the state replaced individualism. Personal mobility was severely curtailed. In communism, feudalism was restored.

Very like the Church in the Middle Ages, communism sought to monopolize and permeate all discourse, all thinking, and all intellectual pursuits. Communism was characterized by tensions between party, state and the economy - exactly as the medieval polity was plagued by conflicts between church, king and merchants-bankers.

In communism, political activism was a precondition for advancement and, too often, for personal survival. John of Salisbury might as well have been writing for a communist agitprop department when he penned this in "Policraticus" (1159 AD): "...if (rich people, people with private property) have been stuffed through excessive greed and if they hold in their contents too obstinately, (they) give rise to countless and incurable illnesses and, through their vices, can bring about the ruin of the body as a whole". The body in the text being the body politic.

Workers, both industrial and agricultural, were lionized and idolized in communist times. With the implosion of communism, these frustrated and angry rejects of a failed ideology spawned many grassroots political movements, lately in Poland, in the form of "Self Defence". Their envied and despised enemies are the well-educated, the intellectuals, the self-proclaimed new elite, the foreigner, the minority, the rich, and the remote bureaucrat in Brussels.

Like in the West, the hinterland tends to support the right. Orban's Fidesz lost in Budapest in the recent elections - but scored big in villages and farms throughout Hungary. Agrarian and peasant parties abound in all three central European countries and often hold the balance of power in coalition governments.

THE YOUNG and THE NEW versus THE TIRED and THE TRIED

The cult of youth in central Europe was an inevitable outcome of the utter failure of older generations. The allure of the new and the untried often prevailed over the certainty of the tried and failed. Many senior politicians, managers, entrepreneurs and journalists across this region are in their 20's or 30's.

Yet, the inexperienced temerity of the young has often led to voter disillusionment and disenchantment. Many among the young are too identified with the pratfalls of "reform". Age and experience reassert themselves through the ballot boxes - and with them the disingenuous habits of the past. Many of the "old, safe hands" are former communists disingenuously turned socialists turned democrats turned capitalists. As even revolutionaries age, they become territorial and hidebound. Turf wars are likely to intensify rather then recede.

THE TECHNOCRATS / EXPERTS versus THE LOBBYIST-MANAGERS

Communist managers - always the quintessential rent-seekers - were trained to wheedle politicians, lobby the state and cadge for subsidies and bailouts, rather than respond to market signals. As communism imploded, the involvement of the state in the economy - and the resources it commanded - contracted. Multilateral funds are tightly supervised. Communist-era "directors" - their skills made redundant by these developments - were shockingly and abruptly confronted with merciless market realities.

Predictably they flopped and were supplanted by expert managers and technocrats, more attuned to markets and to profits, and committed to competition and other capitalistic tenets. The decrepit, "privatized" assets of the dying system expropriated by the nomenclature were soon acquired by foreign investors, or shut down. The old guard has decisively lost its capital - both pecuniary and political.

Political parties which relied on these cronies for contributions and influence-peddling - are in decline. Those that had the foresight to detach themselves from the venality and dissipation of "the system" are on the ascendance. From Haiderism to Fortuynism and from Lepper to Medgyessy - being an outsider is a distinct political advantage in both west and east alike.

THE BUREAUCRATS versus THE POLITICIANS

The notion of an a-political civil service and its political - though transient - masters is alien to post communist societies. Every appointment in the public sector, down to the most insignificant sinecure, is still politicized. Yet, the economic decline precipitated by the transition to free markets, forced even the most backward political classes to appoint a cadre of young, foreign educated, well-traveled, dynamic, and open minded bureaucrats.

These are no longer a negligible minority. Nor are they bereft of political assets. Their power and ubiquity increase with every jerky change of government. Their public stature, expertise, and contacts with their foreign counterparts threaten the lugubrious and supernumerary class of professional politicians - many of whom are ashen remnants of the communist conflagration. Hence the recent politically-tainted attempts to curb the powers of central bankers in Poland and the Czech Republic.

THE NATIONALISTS versus THE EUROPEANS

The malignant fringe of far-right nationalism and far left populism in central Europe is more virulent and less sophisticated than its counterparts in Austria, Denmark, Italy, France, or the Netherlands. With the exception of Poland, though, it is on the wane.

Populists of all stripes combine calls for a thinly disguised "strong man" dictatorship with exclusionary racist xenophobia, strong anti-EU sentiments, conspiracy theory streaks of paranoia, the revival of an imaginary rustic and family-centered utopia, fears of unemployment and economic destitution, regionalism and local patriotism

Though far from the mainstream and often derided and ignored - they succeeded to radicalize both the right and the left in central Europe, as they have done in the west. Thus, mainstream parties were forced to adopt a more assertive foreign policy tinged with ominous nationalism (Hungary) and anti-Europeanism (Poland, Hungary). There has been a measurable shift in public opinion as well - towards disenchantment with EU enlargement and overtly exclusionary nationalism. This was aided by Brussels' lukewarm welcome, discriminatory and protectionist practices, and bureaucratic indecisiveness.

These worrisome tendencies are balanced by the inertia of the process. Politicians of all colors are committed to the European project. Carping aside, the countries of central Europe stand to reap significant economic benefits from their EU membership. Still, the outcome of this clash between parochial nationalism and Europeanism is far from certain and, contrary to received wisdom, the process is reversible.

THE CENTRALISTS versus THE REGIONALISTS

The recent bickering about the Benes decrees proves that the vision of a "Europe of regions" is ephemeral. True, the century old nation state has weakened greatly and the centripetal energy of regions has increased. But this applies only to homogeneous states.

Minorities tend to disrupt this continuity and majorities do their damnedest to eradicate these discontinuities by various means - from assimilation (central Europe) to extermination (the Balkan). Hungary's policies - its status law and the economic benefits it bestowed upon expatriate Hungarians - is the epitome of such tendencies.

These axes of tension delineate and form central Europe's political landscape. The Procrustean categories of "left" and "right" do injustice to these subtleties. As central Europe matures into fully functioning capitalistic liberal democracies, proper leftwing parties and their rightwing adversaries are bound to emerge. But this is still in the future.

Forward to the Past
Capitalism in Post-Communist Europe

By: Dr. Sam Vaknin

The core countries of Central Europe (the Czech Republic, Hungary and, to a lesser extent, Poland) experienced industrial capitalism in the inter-war period. But the countries comprising the vast expanses of the New Independent States, Russia and the Balkan had no real acquaintance with it. To them its zealous introduction is nothing but another ideological experiment and not a very rewarding one at that.

It is often said that there is no precedent to the extant fortean transition from totalitarian communism to liberal capitalism. This might well be true. Yet, nascent capitalism is not without historical example. The study of the birth of capitalism in feudal Europe may yet lead to some surprising and potentially useful insights.

The Barbarian conquest of the teetering Roman Empire (410-476 AD) heralded five centuries of existential insecurity and mayhem. Feudalism was the countryside's reaction to this damnation. It was a Hobson's choice and an explicit trade-off. Local lords defended their vassals against nomad intrusions in return for perpetual service bordering on slavery. A small percentage of the population lived on trade behind the massive walls of Medieval cities.

In most parts of central, eastern and southeastern Europe, feudalism endured well into the twentieth century. It was entrenched in the legal systems of the Ottoman Empire and of Czarist Russia. Elements of feudalism survived in the mellifluous and prolix prose of the Habsburg codices and patents. Most of the denizens of these moribund swathes of Europe were farmers - only the profligate and parasitic members of a distinct minority inhabited the cities. The present brobdignagian agricultural sectors in countries as diverse as Poland and Macedonia attest to this continuity of feudal practices.

Both manual labour and trade were derided in the Ancient World. This derision was partially eroded during the Dark Ages. It survived only in relation to trade and other "non-productive" financial activities and even that not past the thirteenth century. Max Weber, in his opus, "The City" (New York, MacMillan, 1958) described this mental shift of paradigm thus: "The medieval citizen was on the way towards becoming an economic man ... the ancient citizen was a political man".

What communism did to the lands it permeated was to freeze this early feudal frame of mind of disdain towards "non-productive", "city-based" vocations. Agricultural and industrial occupations were romantically extolled. The cities were berated as hubs of moral turpitude, decadence and greed. Political awareness was made a precondition for personal survival and advancement. The clock was turned back.

Weber's "Homo Economicus" yielded to communism's supercilious version of the ancient Greeks' "Zoon Politikon". John of Salisbury might as well have been writing for a communist agitprop department when he penned this in "Policraticus" (1159 AD): "...if (rich people, people with private property) have been stuffed through excessive greed and if they hold in their contents too obstinately, (they) give rise to countless and incurable illnesses and, through their vices, can bring about the ruin of the body as a whole". The body in the text being the body politic.

This inimical attitude should have come as no surprise to students of either urban realities or of communism, their parricidal off-spring. The city liberated its citizens from the bondage of the feudal labour contract. And it acted as the supreme guarantor of the rights of private property. It relied on its trading and economic prowess to obtain and secure political autonomy. John of Paris, arguably one of the first capitalist cities (at least according to Braudel), wrote: "(The individual) had a right to property which was not with impunity to be interfered with by superior authority - because it was acquired by (his) own efforts" (in Georges Duby, "The age of the Cathedrals: Art and Society, 980-1420, Chicago, Chicago University Press, 1981). Despite the fact that communism was an urban phenomenon (albeit with rustic roots) - it abnegated these "bourgeoisie" values. Communal ownership replaced individual property and servitude to the state replaced individualism. In communism, feudalism was restored. Even geographical mobility was severely curtailed, as was the case in feudalism. The doctrine of the Communist party monopolized all modes of thought and perception - very much as the church-condoned religious strain did 700 years before.

Communism was characterized by tensions between party, state and the economy - exactly as the medieval polity was plagued by conflicts between church, king and merchants-bankers. Paradoxically, communism was a faithful re-enactment of pre-capitalist history.

Communism should be well distinguished from Marxism. Still, it is ironic that even Marx's "scientific materialism" has an equivalent in the twilight times of feudalism. The eleventh and twelfth centuries witnessed a concerted effort by medieval scholars to apply "scientific" principles and human knowledge to the solution of social problems. The historian R. W. Southern called this period "scientific humanism" (in "Flesh and Stone" by Richard Sennett, London, Faber and Faber, 1994). We mentioned John of Salisbury's "Policraticus". It was an effort to map political functions and interactions into their human physiological equivalents. The king, for instance, was the brain of the body politic. Merchants and bankers were the insatiable stomach. But this apparently simplistic analogy masked a schismatic debate. Should a person's position in life be determined by his political affiliation and "natural" place in the order of things - or should it be the result of his capacities and their exercise (merit)? Do the ever changing contents of the economic "stomach", its kaleidoscopic innovativeness, its "permanent revolution" and its propensity to assume "irrational" risks - adversely affect this natural order which, after all, is based on tradition and routine? In short: is there an inherent incompatibility between the order of the world (read: the church doctrine) and meritocratic (democratic) capitalism? Could Thomas Aquinas' "Summa Theologica" (the world as the body of Christ) be reconciled with "Stadt Luft Macht Frei" ("city air liberates" - the sign above the gates of the cities of the Hanseatic League)?

This is the eternal tension between the individual and the group. Individualism and communism are not new to history and they have always been in conflict. To compare the communist party to the church is a well-worn cliché. Both religions - the secular and the divine - were threatened by the spirit of freedom and initiative embodied in urban culture, commerce and finance. The order they sought to establish, propagate and perpetuate conflicted with basic human drives and desires. Communism was a throwback to the days before the ascent of the urbane, capitalistic, sophisticated, incredulous, individualistic and risqué West. it sought to substitute one kind of "scientific" determinism (the body politic of Christ) by another (the body politic of "the Proletariat"). It failed and when it unravelled, it revealed a landscape of toxic devastation, frozen in time, an ossified natural order bereft of content and adherents. The post-communist countries have to pick up where it left them, centuries ago. It is not so much a problem of lacking infrastructure as it is an issue of pathologized minds, not so much a matter of the body as a dysfunction of the psyche.

The historian Walter Ullman says that John of Salisbury thought (850 years ago) that "the individual's standing within society... (should be) based upon his office or his official function ... (the greater this function was) the more scope it had, the weightier it was, the more rights the individual had." (Walter Ullman, "The Individual and Society in the Middle Ages", Baltimore, Johns Hopkins University Press, 1966). I cannot conceive of a member of the communist nomenklatura who would not have adopted this formula wholeheartedly. If modern capitalism can be described as "back to the future", communism was surely "forward to the past'.

Transition in Context

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

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The implosion of communism was often presented - not least by Francis Fukuyama in his celebrated "The end of History" - as the incontrovertible victory of economic liberalism over Marxism. In truth, the battle raged for seven decades between two strands of socialism.

Social democracy was conceived in the 19th century as a benign alternative to the revolutionary belligerence of Marx and Engels. It sparred with communism - the virulent and authoritarian species of socialism that Marxism has mutated into. European history between 1946-1989 was not a clash of diametrically opposed ideologies - but an internecine war between two competing interpretations of the same doctrine.

Both contestants boasted a single market - the European Union and COMECON, respectively. In both the state was heavily involved in the economy and owned a sizable chunk of the means of production, though in the Soviet Union and its satellites, the state was the economy.

Both sported well-developed, entrenched and all-pervasive welfarism. Both east and west were stiflingly bureaucratic, statist, profoundly illiberal and comprehensively regulated. Crucially, the west was economically successful and democratic while Russia evolved into a paranoid nightmare of inefficiency and gloom. Hence its demise.

When communism crumbled, all of Europe - east and west - experienced a protracted and agonizing transition. Privatization, deregulation, competition and liberalization swept across both parts of the continent. The irony is that central and east Europe's adaptation was more farfetched and alacritous than the west's.

The tax burden - a measure of the state's immersion in the economy - still equals more than two fifths of gross domestic product in all members of the European Union. The countries in transition - from Russia to Bulgaria and from Estonia to Hungary - are way more economically liberal today than France, Germany and even Britain - let alone the nations of Scandinavia.

An increasingly united Europe has opted for "capitalism with a human face" - the democratic isotope of socialism (sometimes with a touch of corporatism). But it now faces the challenge of the Anglo-Saxon variety of the free market. Nowhere is this ideological altercation more evident than in the countries formerly behind the iron curtain.

Long before Enron and World.com, the tech bubble and Wall Street's accounting frauds and pernicious conflicts of interest - transition has exposed the raw and vulnerable nerves running through the foundations of Anglo-Saxon capitalism. Eastern Europe is a monument to the folly of unmitigated and unbridled freemarketry.

Transition has given economists a rare chance to study capitalism and economic policies from scratch. What's more important - free markets, institutions, education, democracy, or capital? Central and east Europe became a giant lab in which to peruse policies pertaining to criminality, private property ownership, entrepreneurship, privatization, income distribution, employment, inflation and social welfare.

Superficially, the debate revolved around the scientific rigor and usefulness - or lack thereof - of the "Washington Consensus". Opposing monetary and fiscal policies, free trade versus protectionism, capital controls and convertibility - these occupied the minds and writings of all manner of economic and development "experts" in the first decade after the fall of the Berlin Wall.

Yet, deep underneath, transition - perhaps because it was so thoroughly botched - taught us unforgettable lessons about markets and the way they work, namely that "objective", "mechanical" capitalism is a mirage.

Perhaps the most important moral is that, like all other economic processes - transition is, mostly, in the mind. Successful capitalism requires education and experience. The blind in east Europe were led by the one-eyed. Capitalism was presented - especially by Western protagonists of "shock therapy" - as a deus ex machina, a panacea, guaranteed to transport the region's derelict economies and destitute people to the kitschy glamour of the tacky soap operas that flooded their television screens.

Bedazzled by the alleged omnipotence and omniscience of the "invisible hand", no one predicted the utter meltdown that ensued: the mass unemployment, the ubiquitous poverty, the glaring abyss between new rich and always poor, or the skyrocketing prices even as income plummeted. Nor were the good parts of the new economic regime understood or explained: private property, personal profit, incentives.

The dangers of transition were flippantly ignored and the peoples of central and eastern Europe were treated as mere guinea pigs by eager Western economists on fat retainers. Crime was allowed to hijack important parts of the post-communist economic agenda, such as the privatization of state assets. Kleptocracies subsumed the newborn states. Social safety nets crumbled.

In their vainglorious attempt to pose as accurate and, thus, "respectable", scientists, economists refused to admit that capitalism is not merely a compendium of algorithms and formulas - but mainly a state of mind. It is an all-encompassing, holistic, worldview, a set of values, a code of conduct, a list of goals, aspirations, fantasies and preferences and a catalog of moral do's and don'ts. This is where transition, micromanaged by these "experts" failed.

The mere exposure to free markets was supposed to unleash innovation and entrepreneurship in the long-oppressed populations of east Europe. When this recipe bombed, the West tried to engender a stable, share-holding, business-owning, middle class by financing small size enterprises.

It then proceeded to strengthen and transform indigenous institutions. None of it worked. Transition had no grassroots support and its prescriptive - and painful - nature caused wide resentment and obstruction.

The process of transition informed us that markets, left to their own devices, unregulated and unharnessed, yield market failures, anomies, crime and the misallocation of economic resources. The invisible hand must be firmly clasped and guided by functioning and impartial institutions, an ingrained culture of entrepreneurship and fair play, classes of stakeholders, checks and balances and good governance on all levels.

Wealth, behavioral standards, initiative, risk seeking - do not always "trickle down". To get rid of central planning - more central planning is required. The state must counteract numerous market failures , provide some public goods, establish and run institutions, tutor everyone, baby-sit venture capitalists, enhance innovation, enforce laws and standards, maintain safety, attract foreign investment, cope with unemployment and, at times, establish and operate markets for goods and services. This omnipresence runs against the grain of Anglo-Saxon liberalism.

Moreover, such an expanded role of the state sits uncomfortably with complete political liberty. That capitalism is inextricably linked to democracy is a well-meaning fallacy - or a convenient pretext for geopolitical power grabs. East Europe's transition stalled partly due to political anarchy. China's transition, by comparison, is spectacular - inflated figures notwithstanding - because it chose a gradual approach to liberalization: first economic, then political.

Last but not least, pure, "American", capitalism and pure Marxism have more in common than either would care to admit. Both are utopian. Both are materialistic. Both are doctrinaire. Both believe that "it's a jungle out there". Both seek social mobility through control of the means of production. Both claim to be egalitarian forms of social engineering and are civilizing, millennial, universal, missionary pseudo-religions.

The denizens of the nether regions of central and eastern Europe have been the victims of successive economic utopias. They fear and suspect ideological purity. They have been conditioned by the authoritarian breed of socialism they endured, really little more than an overblown conspiracy theory, a persecutory delusion which invariably led to Stalinesque paranoid backlashes. Indeed, Stalin was more representative of communism than any other leader before or after him.

The Economist summed this semipternal mass hysteria neatly thus:

"The core idea that economic structure determines everything has been especially pernicious ... The idea that ... rights have a deeper moral underpinning is an illusion. Morality itself is an illusion., just another weapon of the ruling class. As Gyorgy Lukasc put it, 'Communist ethics makes it the highest duty to act wickedly ... This is the greatest sacrifice revolution asks from us.' Human agency is null: we are mere dupes of 'the system', until we repudiate it outright. What goes for ethics also goes for history, literature, the rest of the humanities and the social sciences. The 'late Marxist' sees them all ... not as subjects for disinterested intellectual inquiry but as forms of social control."

Many in Europe feel that the above paragraph might as well have been written about Anglo-Saxon capitalism. Reduced to bare-bones materialism, it is amoral, if not immoral. It upholds natural selection instead of ethics, prefers money to values, wealth formation to social solidarity.

Predators everywhere - Russian oligarchs, central European cronies, Balkan kleptocrats, east European managers - find this gratifying. All others regard capitalism as yet another rigid and unforgiving creed, this time imposed from Washington by the IMF and multinationals rather as communism was enjoined from Moscow by the Kremlin.

With eight of the former communist countries about to become members of the European Union - albeit second rate ones - transition is entering is most fascinating phase. Exposed hitherto to American teachings and practices, the new members are forced to adhere to a whole different rule book - all 82,000 pages of it.

European "capitalism" is really a hybrid of the socialist and liberal teachings of the 19th century. It emphasizes consensus, community, solidarity, equality, stability and continuity. It places these values above profitability, entrepreneurship, competition, individualism, mobility, size, litigation and the use of force. Europeans firmly believe that the workings of the market should be tampered with and that it is the responsibility of the state to see to it that no one gets left behind or trampled upon.

European stakeholder capitalism is paternalistic and inclusive. Employees, employers, the government, communities and suppliers are partners in the decision making process or privies to it. Relics of past models of the market economy still abound in this continent: industrial policy, Keynesian government spending, development aid, export and production subsidies, trade protectionism, the state-sanctioned support of nascent and infant industries. Mild corporatism is rife and manifest in central wage bargaining.

For some countries - notably Estonia - joining the EU would translate into a de-liberalized and re-regulated future. Others would find the EU's brand of the market a comfortable and dimly familiar middle ground between America's harsh prescriptions and communism's delusional model. The EU's faceless and Kafkaesque bureaucracy in Brussels - Moscow revisited - should prove to be a relief compared to the IMF's ruffians.

The EU is evolving into a land empire, albeit glacially. The polities of central and eastern Europe were always constituents of empires - reluctantly or by choice. In some ways they are better suited to form an "ever closer union" than the more veteran members.

Eastern Advantages

By: Dr. Sam Vaknin

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Leapfrogging Transition - Technology and Post Communism

Many of the nations of central and east Europe have spent most of their history as components of one empire or another. People in this region are used to be at the receiving end of directives and planning from the center. Though ostensibly fervid nationalists, they are ill at ease with their re-founded and re-found nation-states.

The identity of the denizens of these parts is more regional than national and evolving towards the supra-national. People are from this or that city, or district, or village. And they aspire to become citizens of Europe and the great experiment of the European Union. They are only hesitantly and tentatively Macedonians, or Moldovans, or Belarusians, or Kazakhs, or Yugoslavs.

The likes of the Czechs, the Estonians and the Slovenes are well-suited to become constituents of a larger whole. They make better Europeans than the British, or the Norwegians. They have survived far mightier and more bloated bureaucracies than Brussels'. They are unsurpassed manipulators of officialdom. In the long run, the new members stand to benefit the most from the EU's enlargement and to form its unwaveringly loyal core.

Not yet the full-fledged individualists of the Anglo-Saxon model of capitalism - these nations are consensus-seeking team-players. Tutored by centuries of occupation and hardship, they are instinctual multilateralists. They are avid Westerners by persuasion, if not yet in practice, or geography.

Moreover, their belated conversion to the ways of the market is an undisguised blessing.

Though still a promise largely unfulfilled, the countries in transition could now leapfrog whole stages of development by adopting novel technologies and through them the expensive Western research they embody. The East can learn from the West's mistakes and, by avoiding them, achieve a competitive edge.

Technology is a social phenomenon with social implications. It fosters entrepreneurship and social mobility. By allowing the countries in transition to skip massive investments in outdated technologies - the cellular phone, the Internet, cable TV, and the satellite become shortcuts to prosperity.

Poverty is another invaluable advantage.

With the exception of Slovenia, Estonia, Croatia and the Czech Republic - the population of the countries in transition is poor, sometimes inordinately so. Looming and actual penury is a major driver of entrepreneurship, initiative and innovation. Wealth formation and profit seeking are motivated by indigence, both absolute and relative. The poor seek to better their position in the world by becoming middle-class. They invest in education, in small businesses, in consumer products, in future generations.

The Germans - sated and affluent - are unlikely to experience a second economic miracle. The Serbs, Albanians, Ukrainians, Poles, or Romanians won't survive without one. The West is just discovering this truth and is opening its gates - albeit xenophobically and intermittently - to poorer foreigners. For what is immigration if not the importation of ambitious indigents, certain to revitalize the EU's rich and somnolent economies?

The countries of central and eastern Europe, thus, stand to benefit twice.

Their own economic Renaissance is spurred on by a striving home-grown proletariat. And they are uniquely positioned - geographically and culturally - to export destitute go-getters to the wealthy West and to reap the rewards of the inevitable spurt in entrepreneurship and innovation that follows. Remittances, returning expatriates, thriving and networked Diasporas would do more to uplift the countries of origin than any amount of oft-misallocated multilateral aid.

This cornucopian vision is threatened from numerous sides.

Geopolitical instability, resurgent trade protectionism, dysfunctional global capital markets and banks - can all reverse the course of a successful transition to market economies. Still, the more pernicious threats are from the inside: venal, delegitimized politicians, brain drain, crumbling infrastructure, cheap foreign competition, or inter-ethnic tensions.

Perhaps the most serious hindrance to progress would be a fanatic emulation by the countries in transition of the European Union. An overly generous social safety net, a sprawling bureaucracy, inane laws and regulations about everything from the environment to the welfare of pigs, paralyzed decision-making processes and deleterious subventions - can all scupper progress and depress entrepreneurship and innovation.

The cautionary tale of east Germany - smothered by western red tape and lethargy - should forewarn every new member and aspiring candidate. They need to join the European Union in the hope of helping to reform it from the inside. They should not succumb to the allure of German largesse, nor acquire the French, Spanish, Greek and Portuguese addiction to it. They cannot afford to.

Europe's Four Speeds

By: Dr. Sam Vaknin

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Pomp and circumstance often disguise a sore lack of substance. The three days summit of the Central European Initiative is no exception. Held in Macedonia's drab capital, Skopje, the delegates including the odd chief of state, discussed their economies in what was presumptuously dubbed by them the "small Davos", after the larger and far more important annual get together in Switzerland.

Yet the whole exercise rests on a series of politically correct confabulations. To start with, Macedonia, the host, as well as Albania, Bulgaria, Romania, Ukraine and other east European backwaters hardly qualify for the title "central European". Mitteleuropa is not merely a geographical designation which excludes all but two or three of the participants. It is also a historical, cultural, and social entity which comprises the territories of the erstwhile German and, especially, Austro-Hungarian (Habsburg) empires.

Moreover, the disparity between the countries assembled in the august conference precludes a common label. Slovenia's GDP per capita is 7 times Macedonia's. The economies of the Czech Republic, Poland, and Hungary are light years removed from those of Yugoslavia or even Bulgaria.

Nor do these countries attempt real integration. While regional talk shops, such as ASEAN and the African Union, embarked on serious efforts to establish customs and currency zones - the countries of central and eastern Europe have drifted apart and intentionally so. Intra-regional trade has declined every single year since 1989. Intra-regional foreign direct investment is almost non-existent.

Macedonia's exports to Yugoslavia, its next door neighbor, amount to merely half its exports to the unwelcoming European Union - and are declining. Countries from Bulgaria to Russia have shifted 50-75 percent of their trade from their traditional COMECON partners to the European Union and, to a lesser degree, the Middle East, the Far East and the United States.

Nor do the advanced members of the club fancy a common label. Slovenia abhors its Balkan pedigree. Croatia megalomaniacally considers itself German. The Czechs and the Slovaks regard their communist elopement a sad aberration as do the Hungarians. The Macedonians are not sure whether they are Serbs, Bulgarians, or Macedonians. The Moldovans wish they were Romanians. The Romanians secretly wish they were Hungarians. The Austrians are sometimes Germans and sometimes Balkanians. Many Ukrainians and all Belarusians would like to resurrect the evil empire, the USSR.

This identity crisis affects the European Union. Never has Europe been more fractured. It is now a continent of four speeds. The rich core of the European Union, notably Germany and France, constitutes its engine.

The mendicant members - from Greece to Portugal - enjoy inane dollops of cash from Brussels but have next to no say in Union matters.

The shoo-in candidates - Poland, Hungary, the Czech Republic and, maybe, Slovakia, if it keeps ignoring the outcomes of its elections - are frantically distancing themselves from the queue of beggars, migrants and criminals that awaits at the pearly gates of Brussels. The Belgian Curtain -between central European candidates and east European aspirants - is falling fast and may prove to be far more divisive and effective than anything dreamt up by Stalin.

The fourth group comprises real candidates - such as Bulgaria - and would be applicants, such as Romania, Macedonia, Albania, Yugoslavia, Bosnia-Herzegovina and even Croatia. Some of them are tainted by war crimes. Others are addicted to donor conferences. Yet others are travesties of the modern nation state having been hijacked and subverted by tribal crime gangs. Most of them combine all these unpalatable features.

Many of these countries possess the dubious distinction of having once been misruled by the sick man of Europe, the Ottoman Empire. In a moment of faux-pas honesty, Valerie Giscard D'Estaing, the chairman of the European Union's much-touted constitutional convention, admitted last week that a European Union with Turkey will no longer be either European or United. Imagine how they perceive the likes of Macedonia, or Albania.

As the Union enlarges to the east and south, its character will be transformed. It will become poorer and darker, more prone to crime and corruption, to sudden or seasonal surges of immigration, to fractiousness and conflict. It is a process of conversion to a truly multi-ethnic and multi-cultural grouping with a weighty Slav and Christian Orthodox presence. Not necessarily an appetizing prospect, say many.

The former communist countries in transition are supposed to be miraculously transformed by the accession process. Alas, the indelible pathologies of communism mesh well with Brussels's unmanageable, self-perpetuating and opaque bureaucracy. These mutually-enhancing propensities are likely to yield a giant and venal welfare state with a class of aged citizens in the core countries of the European Union living off the toil of young, mostly Slav, laborers in its eastern territories. This is the irony: the European Union is doomed without enlargement. It needs these countries far more than they need it.

The strategic importance of western Europe has waned together with the threat posed by a dilapidated Russia. Both south Europe and its northern regions are emerging as pivotal. Enlargement would serve to enhance the dwindling geopolitical relevance of the EU and heal some of the multiple rifts with the USA.

But the main benefits are economic.

Faced with an inexorably ageing populace and an unsustainable system of social welfare and retirement benefits, the EU is in dire need of young immigrants. According to the United Nations Population Division, the EU would need to import 1.6 million migrant workers annually to maintain its current level of working age population. But it would need to absorb almost 14 million new, working age, immigrants per year just to preserve a stable ratio of workers to pensioners.

Eastern Europe - and especially central Europe - is the EU's natural reservoir of migrant labor. It is ironic that xenophobic and anti-immigration parties hold the balance of power in a continent so dependent on immigration for the survival of its way of life and institutions.

The internal, common, market of the EU has matured. Its growth rate has leveled off and it has developed a mild case of deflation. In previous centuries, Europe exported its excess labor and surplus capacity to its colonies - an economic system known as "mercantilism".

The markets of central, southern, and eastern Europe - West Europe's hinterland - are replete with abundant raw materials and dirt-cheap, though well-educated, labor. As indigenous purchasing power increases, the demand for consumer goods and services will expand. Thus, the enlargement candidates can act both as a sink for Europe's production and the root of its competitive advantage.

Moreover, the sheer weight of their agricultural sectors and the backwardness of their infrastructure can force a reluctant EU to reform its inanely bloated farm and regional aid subsidies, notably the Common Agricultural Policy. That the EU cannot afford to treat the candidates to dollops of subventioary largesse as it does the likes of France, Spain, Portugal, and Greece is indisputable.

But even a much-debated phase-in period of 10 years would burden the EU's budget - and the patience of its member states and denizens - to an acrimonious breaking point.

The countries of central and eastern Europe are new consumption and investment markets. With a total of 300 million people (Russia counted), they equal the EU's population - though not its much larger purchasing clout. They are likely to while the next few decades on a steep growth curve, catching up with the West. Their proximity to the EU makes them ideal customers for its goods and services. They could provide the impetus for a renewed golden age of European economic expansion.

Central and eastern Europe also provide a natural land nexus between west Europe and Asia and the Middle East. As China and India grow in economic and geopolitical importance, an enlarged Europe will find itself in the profitable role of an intermediary between east and west.

The wide-ranging benefits to the EU of enlargement are clear, therefore. What do the candidate states stand to gain from their accession? The answer is: surprisingly little. All of them already enjoy, to varying degrees, unfettered, largely duty-free, access to the EU. To belong, a few - like Estonia - would have to dismantle a much admired edifice of economic liberalism.

Most of them would have to erect barriers to trade and the free movement of labor and capital where none existed.

All of them would be forced to encumber their fragile economies with tens of thousands of pages of prohibitively costly labor, intellectual property rights, financial, and environmental regulation. None stands to enjoy the same benefits as do the more veteran members - notably in agricultural and regional development funds.

Joining the EU would deliver rude economic and political shocks to the candidate countries. A brutal and rather sudden introduction of competition in hitherto much-sheltered sectors of the economy, giving up recently hard-won sovereignty, shouldering the debilitating cost of the implementation of reams of guideline, statutes, laws, decrees, and directives, and being largely powerless to influence policy outcomes. Faced with such a predicament, some countries may even reconsider.

Switching Empires

By: [Dr. Sam Vaknin](#)

Also published by [United Press International (UPI)](#)

European Union (EU) leaders, meeting in Copenhagen, are poised to sign an agreement to admit ten new members to their hitherto exclusive club. Eight of the fortunate acceders are former communist countries: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. Bulgaria and Romania are tentatively slated to join in 2007. The exercise will cost in excess of $40 billion over the next three years. The EU's population will grow by 75 million souls.

In the wake of the implosion of the USSR in 1989-91, the newly independent countries of the Baltic and central Europe, traumatized by decades of brutal Soviet imperialism, sought to fend off future Russian encroachment. Entering NATO and the EU was perceived by them as the equivalent of obtaining geopolitical insurance policies against a repeat performance of their tortured histories.

This existential emphasis shifted gradually to economic aspects as an enfeebled, pro-Western and contained Russia ceased to represent a threat. But the ambivalence towards the West is still there. Mild strands of paranoid xenophobia permeate public discourse in central Europe and, even more so, in east Europe.

The Czechs bitterly remember how, in 1938, they were sacrificed to the Nazis by a complacent and contemptuous West. The Poles and Slovenes fear massive land purchases by well heeled foreigners (read: Germans). Everyone decries the "new Moscow" - the faceless, central planning, remote controlling bureaucracy in Brussels. It is tough to give up hard gained sovereignty and to immerse oneself in what suspiciously resembles a loose superstate.

But surely comparing the EU or NATO to the erstwhile "Evil Empire" (i.e., the Soviet Union) is stretching it too far? The USSR, after all, did not hesitate to exercise overwhelming military might against ostensible allies such as Hungary (1956) and the Czechoslovaks (1968)? Try telling this to the Serbs who were demonized by west European media and then bombarded to smithereens by NATO aircraft in 1999.

Though keen on rejoining the mainstream of European history, civilization and economy, the peoples of the acceding swathe are highly suspicious of Western motives and wary of becoming second-class citizens in an enlarged entity. They know next to nothing about how the EU functions.

They are chary of another period of "shock therapy" and of creeping cultural imperialism. Rendered cynical by decades of repression, they resent what they regard as discriminatory accession deals imposed on them in a "take it or leave it" fashion by the EU.

Anti-EU sentiment and Euroscepticism are vocal - though abating - even in countries like Poland, an erstwhile bastion of Europhilia. Almost two thirds of respondents in surveys conducted by the EU in Estonia, Latvia, Slovenia and Lithuania are undecided about EU membership or opposed to it altogether. The situation in the Czech Republic is not much different. Even in countries with a devout following of EU accession, such as Romania, backing for integration has declined this year.

These lurking uncertainties are reciprocated in the west. The mostly Slav candidates are stereotyped and disparaged by resurgent rightwing, anti-immigration parties, by neo-nationalists, trade protectionists and vested interests. Countries like Spain, France, Ireland, Greece and Portugal stand to receive less regional aid and agricultural subsidies from the common EU till as the money flows east.

Core constituencies in the west - such as farmers and low-skilled industrial workers - resent the enlargement project. Anti-Slav prejudices run rampant in Italy, Austria and Germany. The incompatibilities are deepest. For instance, according to research recently published by the Pew Center, the new members are staunchly pro-American, though less so than ten years ago. In stark contrast, the veteran core of the EU is anti-American.

Many of the denizens of the candidate countries regard the EU as merely an extended Germany. It is the focus of numerous conspiracy theories, especially in the Balkan. The losers of the second world war - Japan and Germany - are out to conquer the world, this time substituting money for bullets.

Germany, insist the Serbs and the Macedonians - instigated the breakdown of the Yugoslav Federation to establish a subservient Croatia. Wasn't Slobodan Milosevic, the Serb dictator, ousted in favor of the German-educated Zoran Djindjic? - they exclaim triumphantly.

Germany is reasserting itself. United, it is the largest country in Europe and one of the richest. Its forces are keeping the fragile peace in Balkan hot spots, like Macedonia. It will contribute to the EU's long-heralded rapid reaction force. It owns the bulk of the, frequently overdue, sovereign debts of Russia, Ukraine and other east European countries.

One tenth of Germany's trade is with the candidate countries, a turnover comparable to its exchange with the United States. German goods constitute two fifths of all EU trade with the new members. Germans are the largest foreign direct investors throughout the region - from Hungary to Croatia. German banks compete with German-owned Austrian banks over control of the region's fledgling financial sector. The study of German as a second or third language has surged.

Last year alone, German corporations plunged $3.6 billion into the economies of the acceding countries. German multinationals like Volkswagen and Siemens employ almost 400,000 people in central Europe - for one tenth to one eighth their cost in the fatherland.

Quoted by the World Socialist, the German Chamber of Industry and Commerce (IHK) estimates that the production costs in mechanical engineering and plant construction are 20 percent lower in Poland than in Germany, while quality is more or less the same.

Germany runs the EU rather single-handedly, though with concessions to a megalomaniacally delusional France. In September, the German and French leaders, meeting tête-à-tête in a hotel, dictated to other members the fate, for the next 11 years, of half the EU's budget - the portion wasted on the Common Agricultural Policy (CAP).

Germany's hegemonic role is likely to be enhanced by enlargement. Many of the new members - e.g., the Czech Republic - depend on it economically. Others - like Hungary - share with it a common history. German is spoken in the majority of the candidates. They trade with Germany and German businessmen and multinational are heavily invested in their economies. A "German Bloc" within the EU is conceivable - unless Poland defects to the increasingly marginalized French or to the British.

Germany's federalist instincts - its express plan to create a "United States of Europe", central government and all - are, therefore, understandable, though spurned by the candidate countries. Germany is likely to press for even further enlargement to the east. The EU's commissioner for enlargement is a German, Gunter Verheugen.

The dilapidated expanses of the former Soviet satellites are Germany's natural economic hinterland - on the way to the way more lucrative Asian markets. Hence Germany's reluctance to admit Turkey, a massive, pro-American, potential competitor for Asian favors.

Integrating Russia would be next on Germany's re-emerging Ostpolitik.

This firmly places Germany on an economic and military collision course with the United States. As Stratfor, the strategic forecasting consultancy, put it recently: "In Washington's opinion, America's obsessions should be NATO's obsessions." Germany, the regional superpower, has other, more pressing priorities: "maintaining stability in its region, making sure that Russian evolution is benign and avoiding costly conflicts in which it has only marginal interest."

Moreover, there is an entirely different - and much less benign - interpretation of EU enlargement. It is based on the incontrovertible evidence that the German ends in Europe have remained the same - only the means have changed. The German "September Plan" to impose an economic union on the vanquished nations of Europe following a military victory, called, in 1914, for "(the establishment of) an economic organization ... through mutual customs agreements ... including France, Belgium, Holland, Denmark, Austria, Poland, and perhaps Italy, Sweden, and Norway".

Europe spent the first half of the 19th century (following the 1815 Congress of Vienna) containing a post-Napoleonic France. The Concert of Europe was specifically designed to reflect the interests of the Big Powers, establish the limits to their expansion in Europe, and create a continental "balance of deterrence". For a few decades it proved to be a success.

The rise of a unified, industrially mighty and narcissistic Germany led to two ineffably ruinous world wars. In an effort to prevent a repeat of Hitler, the Big Powers of the West, led by the USA, the United Kingdom and France, attempted to contain Germany from both east and west. The western plank consisted of an "ever closer" European Union and a divided Germany.

The collapse of the eastern flank of anti-German containment - the USSR - led to the re-emergence of a united Germany. As the traumatic memories of the two world conflagrations receded, Germany resorted to applying its political weight - now commensurate with its economic and demographic might - to securing EU hegemony. Germany is also a natural and historical leader of central Europe - the future lebensraum of both the EU and NATO and the target of their expansionary predilections, euphemistically termed "enlargement".

Thus, virtually overnight, Germany came to dominate the Western component of anti-German containment - even as the Eastern component has chaotically disintegrated.

The EU - notably France - is reacting by trying to assume the role formerly played by the USSR. EU integration is an attempt to assimilate former Soviet satellites and dilute Germany's power by re-jigging rules of voting and representation. If successful, this strategy will prevent Germany from bidding yet again for a position of dominance in Europe by establishing a "German Union" separate from the EU.

If this gambit fails, however, Germany will emerge triumphant, at the head of the world's second largest common market and most prominent trading bloc. Its second-among-equal neighbors will be reduced to mere markets for its products and recruitment stages for its factories.

In this exegesis, EU enlargement has already degenerated into the same tiresome and antiquated mercantilist game among 19th century continental Big Powers. Even Britain has hitherto maintained its Victorian position of "splendid isolation". There is nothing wrong with that. The Concert of Europe ushered in a century of globalization, economic growth and peace. Yet, alas, this time around, it has thus far been quite a cacophony.

Europe's Agricultural Revolution

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

One of the undeniable benefits of the forthcoming enlargement of the European Union (EU) accrues to its veteran members rather than to the acceding countries. The EU is forced to revamp its costly agricultural policies and attendant bloated bureaucracy. This, undoubtedly, will lead, albeit glacially, to the demise of Europe's farming sector as we know it.

Contrary to public misperceptions, Europe is far more open to trade than the United States. According to the United Nations (UN), the International Monetary Fund (IMF) and the Organization of Economic Cooperation and Development (OECD), its exports amount to 14 percent of gross domestic product (GDP) compared to America's 11.5 percent. It is also the world's second largest importer. In constant dollar terms, it is the world's largest trader.

A recent Trade Policy Review released by the World Trade Organization (WTO) mentions two notable exceptions: farm products and textiles. Europe's average tariff on agricultural produce is four times those levied on non-agricultural goods. Yet, a number of trends conspire to break the eerie stranglehold of 3 percent of Europe's population - its farmers - on its budget and political process.

The introduction of the euro rendered prices transparent across borders and revealed to the European consumer how expensive his food is. Scares like the mishandled mad cow disease dented consumer confidence in both politicians and bureaucrats. But, most crucially, the integration of the countries of east and central Europe with their massive agricultural sectors makes the EU's Common Agricultural Policy (CAP) untenable.

The CAP guzzles close to half of the EU's $98 billion budget. Recent, controversial reforms, introduced by the European Commission, call for a gradual reduction and diversion of CAP outlays from directly subsidizing production to WTO-compatible investments in agricultural employment, regional development, environment and training and research. Unnoticed, support to farmers by both the EU and member governments has already declined from $120 billion in 1999 to $110 billion in 2000. This decrease has since continued unabated.

Still, the EU is unable to provide the candidate countries with the same level of farm subsidies it doles out to the current 15 members. Close to one quarter of Poland's population is directly or indirectly involved in agriculture - ten times the European average. The agreement struck between Germany and France in September and adopted in a summit Brussels in October freezes CAP spending in its 2006 level until 2013.

This may further postpone the identical treatment much coveted by the applicants. Theoretically, subsidies for the farm sectors of the new members will increase and subsidies flowing to veteran members will decrease until they are equalized at around 80 percent of present levels throughout the EU by the end of the next budget period in 2013.

But, in reality, the entire CAP stands to be renegotiated in 2005-6. No one can guarantee the outcome of this process, especially when coupled with the Doha round of trade liberalization. The offers made now to the candidate countries are not only mean but also meaningless.

A recent tweak by Denmark, the current president of the EU, to peg support for farmers in the accession countries at two fifths the going rate, won a cautious welcome by the applicants. Some of this novel subventionary largesse will be deducted from a fund for rural development in the new members. Additionally, national governments will be allowed to top up inadequate EU dollops with governmental budget funds.

Even this parsimonious offer - still disputed by the majority of contemporary EU members - will cost the Union an extra $500 million a year. It also fails to tackle equally weighty wrangles about production quotas, EU protectionist "safeguard" measures, import tariffs imposed by the applicant countries against heavily subsidized European farm products, reduced value added taxes on agricultural produce and referential periods and yields - the bases for calculating EU transfers.

It also ignores the distinct - and thorny - possibility that the new members will end up as net contributors to the budget. Quoted by Radio Free Europe/Radio Liberty, Sandor Richter, a senior researcher with the Vienna Institute for International Economic Studies, concluded that the first intake of applicants will end up underwriting at least $410 million of the EU's budget in the first year of membership alone. With the GDP per capita of most candidates at one fifth the EU's, this would be a perverse, socially unsettling and politically explosive outcome.

Aware of this, the European Commission denies any intention to actually accept cash from the candidates. Their net contributions would remain theoretical, it pledges implausibly. Yet, as long as a country such as Poland is incapable of absorbing - disseminating and utilizing - more than 28 percent of the aid it is currently entitled to - veteran EU members rightly question its administrative ability to tackle much larger provisions - c. $20 billion in the first three years after accession.

The prolonged and irascible debate has taken its toll. In some candidate countries, pro-EU sentiment is on the wane. Leszek Miller, Poland's prime minister, told the PAP news agency that Poland should contribute to the EU less than it receives in agricultural subsidies. And what if not? "Nobody would be overly concerned if Poland did not enter the EU together with the first group of new members."

Hungary echoes this argument. Almost two thirds of respondents in surveys conducted by the EU in Estonia, Latvia, Slovenia and Lithuania are undecided about EU membership or opposed to it altogether.

The situation in the Czech Republic is not much improved. Only Hungary stalwartly supports the EU's eastern tilt.

Opinion polls periodically conducted by GfK Hungaria, a market research group owned by GfK Germany, paint a more mixed picture. On the one hand, even in countries with a devout following of EU accession, such as Romania, support for integration has declined this year. Support in Hungary and Poland, on the other hand, picked up.

Yet, the EU can't seem to get its act together. According to the Danish paper, Berlingske Tidende, Danish prime minister, Anders Fogh Rasmussen, rules out a "take it or leave it" ultimatum to the candidates. There will be "real negotiations", he insisted. Not so, says Anders Fogh Rasmussen, the Danish president of the EU until Dec 31: "The room for maneuver in negotiations will be very limited ... We have a certain framework, and we stick to it."

Yet, disenchantment should not be exaggerated. Naturally, flood-affected farmers throughout the region - from the Czech Republic to Poland - are vigorously protesting their unequal treatment and the compromises their governments are arm-twisted into making. Still, according to a survey released last December by the European Commission, 60 percent of the denizens of the accession countries support it.

As the endgame nears, the parties to the negotiations are posturing, though. EU enlargement commissioner, Gunter Verheugen, argued a fortnight ago against equalizing support for Poland's 6 million farmers with the subsidies given to the EU's 8 million smallholders. In a typical feat of incongruity he said it will prevent them from modernizing and alienate other professions.

Franz Fischler, the Austrian EU's agriculture commissioner, hinted that miserly production quotas for cereals, meat and dairy products, offered by the EU to the seething applicants, can be augmented. The EU presently provides the candidate countries with funding, within the Special Accession Programme for Agriculture and Rural Development (SAPARD) to support farm investments, to boost processing and marketing of farm and fishery products and to bankroll infrastructure improvements. Hungarian farmers, for instance, are entitled to up to $38 million of SAPARD money annually.

In a thinly veiled threat, Fischler included this in a speech he made in a recent official visit to Estonia:

"The EU enlargement countries should be pleased with the 25 per cent agriculture subsidies, as the member states have not agreed even on that yet, therefore this should be the first goal and only after that can further subsidies be discussed ... It would not be very wise to tell the EU member states that accession countries are not pleased, that would not be positive for the whole process."

Small wonder he was whistled down by irate Polish parliamentarians in an address to a joint session of the parliamentary committees for agriculture and European integration in the Sejm. Poland's fractured farm sector is notoriously inefficient. With one quarter of the labor force it produces less than 4 percent of GDP. But the peasants are well represented in the legislature and soaring unemployment - almost one fifth of all adults - makes every workplace count.

In the meantime, the ten would-be new members of the EU have teamed up to present their case in Brussels. Their ministers of finance, foreign affairs and of agriculture, parliamentary deputies in their finance and farm committees - all issued and issue common statements, position papers, briefings and memoranda of understanding. But no one is inclined to take such ad-hoc alliances among the candidate countries seriously. The disparity between their farm sectors is such that it rules out a single voice.

Moreover, the EU is strained to the limit of its habitual consensus-driven decision making. The breakdown of the European mechanism of deliberation was brought into sharp relief by the way in which the future of the CAP was decided in a series of chats between the leaders of France and Germany in a hotel in Brussels. Their deal was later rubber stamped, unaltered, in a summit of all EU members last month.

The Union is in constitutional and institutional flux. Small and even medium sized members - such as the United Kingdom - are marginalized. As the EU grows to 25 countries, a core of leadership will emerge. It will involve Germany, France and, potentially the UK and Italy.

These will hand down blueprints to be fleshed out by the less significant states and by an increasingly sidelined European Commission and a make-believe European Parliament.

The countries of central and eastern Europe are and will, for a long time, be second class citizens, tolerated merely because they provide cheap, youthful, labor, raw materials and close-by markets for finished goods. The candidates are strategically located between the old continent and booming Asia.

EU enlargement is a thinly disguised exercise in mercantilism tinged with the maudlin ideology of embracing revenant brothers long lost to communism. But beneath the veneer of civility and kultur lurk the cold calculations of realpolitik. The applicant countries - the EU's hinterland - would do well to remember this.

Winning the European CAP

By: [Dr. Sam Vaknin]

Also published by [United Press International (UPI)]

According to Herve Gaymard, the French resistance is alive and kicking - at least with regards to the European Commission's proposed reforms of the European Union's Common Agricultural Policy (CAP). The French Minister for Agriculture, Food, Fisheries and Rural Affairs, in a speech to the misnamed "Real Solutions for the Future" Oxford Farming Conference last week, drew the battle lines.

France - and six other EU countries - intend to stick religiously to a deal struck, tête-à-tête, between the French president and the German chancellor last year. The CAP - which now consumes close to half of the EU's budget - will not be revamped until 2013 at the earliest, though outlays will be frozen in real terms and, starting in 2006, gradually diverted from subsidizing production to environmental and other good causes ("decoupling" and "modulation" in EU jargon).

This upset the EU's ten new members, slated to join as early as May 2004. With spending capped, they are unlikely to enjoy the same pecuniary support bestowed on the veterans, even after 2013. As it is, their agricultural benefits are phased over ten years and face an uncertain future when the CAP is, inevitably and finally, scrapped.

Moreover, France's recalcitrance imperils the crucial Doha round of trade talks. Both the EU and the USA are supposed to reveal their hands by March. The developing countries are already up in arms over promises made by the richer polities in the protracted Uruguay round and then promptly ignored by them.

Agriculture is arguably the poorer members' highest priority. They demand the opening of the rich world's markets, whittling down export and production subsidies and the abrogation of non-tariff trade barriers and practices, such as the profuse application of anti-dumping quotas and duties.

Gaymard proffered the usual woolly mantras of "farm products are more than marketable goods", "France, and Europe in general, need security of food supply", "food cannot be left to the mercy of market forces". Farmers, unlike industrialists - insisted the Minister counterfactually - cannot simply relocate and agrarian pursuits are a pillar of the nation's culture and its attachment to the land.

Yet, it cannot be denied that Gaymard advanced in his speech a few thought-provoking and oft-overlooked points.

He convincingly argued that farm products covered by EU subsidies are rarely in direct competition with the crops of the poor in Africa and Asia. The cotton, rice and groundnut oil subventions generously doled out to growers in the United States - the EU's most vocal critic - harm the third world smallholders and sharecroppers it purports to defend.

The IMF - perceived in Europe as the long and heartless arm of the Americans - has dismantled the coffee regime and marketing structures causing irreparable damage to its indigent growers, Gaymard said.

The CAP, insists Gaymard, does not encourage environmental ills. The policy does not subsidize the husbandry of disease-prone poultry and pigs, nor does it support genetically modified crops. The CAP is also way cheaper than portrayed by its detractors. Food constitutes only 16 percent of the family budget - one third of its share when the CAP was instituted, four decades ago. The CAP amounts to a mere 1 percent of the combined public spending of all EU members. The comparable figure in America is 1.5 percent.

This last argument is, of course, spurious. It ignores the distorting effects of the CAP: exorbitant food prices in the EU, double payments by EU denizens, once as taxpayers and then as consumers, mountains of butter and rivers of milk produced solely for the sake of finagling subsidies out of an inert and bloated bureaucracy and deteriorating relationships with irate trade partners.

Gaymard is no less parsimonious with the full truth elsewhere in his counterattack.

He claims that the EU provides tariff-free and quota-free access to farm products from the world's 49 Highly Indebted Poor Countries (HIPCs). This is partly untrue and partly misleading. Important commodities - such as sugar, rice and bananas - are virtually excluded by long phase-in periods.

Non-tariff and non-quota barriers abound. Macedonian lamb is regularly barred on sanitary grounds, for instance. Health, sanitary, standards-related and quality regulations render a lot of the supposed access theoretical.

Still, it is true that the EU's larger economies are more open to international trade than the United States. Gaymard flaunted a telling statistic: the EU absorbs well over two fifths of Brazil's farm exports. The USA - in geographical proximity to Brazil and a self-described ardent champion of free trade - takes in less than 15 percent.

The problem with farming in the developing world is its concentration on cash crops, whose prices are volatile. This subverts traditional agriculture. Gaymard implied that the destitute would do well to introduce a CAP all their own and thus underwrite a thriving indigenous sector for internal consumption and more stable export revenues.

They can expect no help from the industrialized nations, he made crystal clear:

"(The rich countries) are not ready to eliminate their support for agriculture. They have not committed themselves to doing so in international forums and do not believe that, as far as they Are concerned, it would be to the developing countries' advantage. Therefore," - he concluded soberly - "let us stop dreaming." This was received with a standing ovation of the 500 conference delegates.

The conspiracy minded stipulate that France was actually merely seeking to strengthen its bargaining chips. Finally, they go, it will accept decoupling and modulation. But recent policy initiatives do not point this way. France all but renationalized its beef markets, proposed to continue dairy quotas till 2013, sought to index milk prices and defended the much-reviled current sugar regime

These are bad news, indeed. Agriculture is a thorny issue within the EU no less than outside it. A recessionary Germany has been bankrolling sated and affluent French farmers for decades now. This has got to stop and will - whether amicably, or acrimoniously.

The new members - most of them from heavily agrarian central and east Europe - will demand equality sooner, or later. Poor nations will give up on the entire trade architecture so laboriously erected in the last 20 years - if they become convinced, as they should, that it is all prestidigitation and a rich boys' club. It is a precipice and France has just taken us all one step forward.

Deja V-Euro
The History of Previous Currency Unions

By: Dr. Sam Vaknin

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I. The History of Monetary Unions

"Before long, all Europe, save England, will have one money". This was written by William Bagehot, the Editor of "The Economist", the renowned British magazine, 120 years ago when Britain, even then, was heatedly debating whether to adopt a single European Currency or not.

A century later, the euro is finally here (though without British participation). Having braved numerous doomsayers and Cassandras, the currency - though much depreciated against the dollar and reviled in certain quarters (especially in Britain) - is now in use in both the eurozone and in eastern and southeastern Europe (the Balkan). In most countries in transition, it has already replaced its much sought-after predecessor, the Deutschmark. The euro still feels like a novelty - but it is not. It was preceded by quite a few monetary unions in both Europe and outside it.

What lessons does history teach us? What pitfalls should we avoid and what features should we embrace?

People felt the need to create a uniform medium of exchange as early as in Ancient Greece and Medieval Europe. Those proto-unions did not have a central monetary authority or monetary policy, yet they functioned surprisingly well in the uncomplicated economies of the time.

The first truly modern example would be the monetary union of Colonial New England.

The four kinds of paper money printed by the New England colonies (Connecticut, Massachusetts Bay, New Hampshire and Rhode Island) were legal tender in all four until 1750. The governments of the colonies even accepted them for tax payments. Massachusetts - by far the dominant economy of the quartet - sustained this arrangement for almost a century. The other colonies became so envious that they began to print additional notes outside the union. Massachusetts - facing a threat of devaluation and inflation - redeemed for silver its share of the paper money in 1751. It then retired from the union, instituted its own, silver-standard (mono-metallic), currency and never looked back.

A far more important attempt was the Latin Monetary Union (LMU). It was dreamt up by the French, obsessed, as usual, by their declining geopolitical fortunes and monetary prowess. Belgium already adopted the French franc when it became independent in 1830. The LMU was a natural extension of this franc zone and, as the two teamed up with Switzerland in 1848, they encouraged others to join them. Italy followed suit in 1861. When Greece and Bulgaria acceded in 1867, the members established a currency union based on a bimetallic (silver and gold) standard.

The LMU was considered sufficiently serious to be able to flirt with Austria and Spain when its Foundation Treaty was officially signed in 1865 in Paris. This despite the fact that its French-inspired rules seemed often to sacrifice the economic to the politically expedient, or to the grandiose.

The LMU was an official subset of an unofficial "franc area" (monetary union based on the French franc). This is similar to the use of the US dollar or the euro in many countries today. At its peak, eighteen countries adopted the Gold franc as their legal tender (or peg). Four of them (the founding members of the LMU: France, Belgium, Italy and Switzerland) agreed on a gold to silver conversion rate and minted gold and silver coins which were legal tender in all of them. They voluntarily limited their money supply by adopting a rule which forbade them to print more than 6 franc coins per capita .

Europe (especially Germany and the United Kingdom) was gradually switching at the time to the gold standard. But the members of the Latin Monetary Union paid no attention to its emergence. They printed ever increasing quantities of gold and silver coins, which constituted legal tender across the Union. Smaller denomination (token) silver coins, minted in limited quantity, were legal tender only in the issuing country (because they had a lower silver content than the Union coins).

The LMU had no single currency (akin to the euro). The national currencies of its member countries were at parity with each other. The cost of conversion was limited to an exchange commission of 1.25%.

Government offices and municipalities were obliged to accept up to 100 Francs of non-convertible and low intrinsic value tokens per transaction. People lined to convert low metal content silver coins (100 Francs per transaction each time) to buy higher metal content ones.

With the exception of the above-mentioned per capita coinage restriction, the LMU had no uniform money supply policies or management. The amount of money in circulation was determined by the markets. The central banks of the member countries pledged to freely convert gold and silver to coins and, thus, were forced to maintain a fixed exchange rate between the two metals (15 to 1) ignoring fluctuating market prices.

Even at its apex, the LMU was unable to move the world prices of these metals. When silver became overvalued, it was exported (at times smuggled) within the Union, in violation of its rules. The Union had to suspend silver convertibility and thus accept a humiliating de facto gold standard. Silver coins and tokens remained legal tender, though. The unprecedented financing needs of the Union members - a result of the First World War - delivered the coup de grace. The LMU was officially dismantled in 1926 - but expired long before that.

The LMU had a common currency but this did not guarantee its survival. It lacked a common monetary policy monitored and enforced by a common Central Bank - and these deficiencies proved fatal.

In 1867, twenty countries debated the introduction of a global currency in the International Monetary Conference. They decided to adopt the gold standard (already used by Britain and the USA) following a period of transition.

They came up with an ingenious scheme. They selected three "hard" currencies, with equal gold content so as to render them interchangeable, as their legal tender. Regrettably for students of the dismal science, the plan came to naught.

Another failed experiment was the Scandinavian Monetary Union (SMU), formed by Sweden (1873), Denmark (1873) and Norway (1875). It was a by-now familiar scheme. All three recognized each others' gold coinage as well as token coins as legal tender. The daring innovation was to accept the members' banknotes (1900) as well.

As Scandinavian schemes go, this one worked too perfectly. No one wanted to convert one currency to another. Between 1905 and 1924, no exchange rates among the three currencies were available. When Norway became independent, the irate Swedes dismantled the moribund Union in an act of monetary tit-for-tat.

The SMU had an unofficial central bank with pooled reserves. It extended credit lines to each of the three member countries. As long as gold supply was limited, the Scandinavian Kronor held its ground. Then governments started to finance their deficits by dumping gold during World War I (and thus erode their debts by fostering inflation through a string of inane devaluations). In an unparalleled act of arbitrage, central banks then turned around and used the depreciated currencies to scoop up gold at official (cheap) rates.

When Sweden refused to continue to sell its gold at the officially fixed price - the other members declared effective economic war. They forced Sweden to purchase enormous quantities of their token coins. The proceeds were used to buy the much stronger Swedish currency at an ever cheaper price (as the price of gold collapsed). Sweden found itself subsidizing an arbitrage against its own economy. It inevitably reacted by ending the import of other members' tokens. The Union thus ended. The price of gold was no longer fixed and token coins were no more convertible.

The East African Currency Area is a fairly recent debacle. An equivalent experiment, involving the CFA franc, is still going on in the Francophile part of Africa.

The parts of East Africa ruled by the British (Kenya, Uganda and Tanganyika and, in 1936, Zanzibar) adopted in 1922 a single common currency, the East African shilling. The newly independent countries of East Africa remained part of the Sterling Area (i.e., the local currencies were fully and freely convertible into British Pounds). Misplaced imperial pride coupled with outmoded strategic thinking led the British to infuse these emerging economies with inordinate amounts of money. Despite all this, the resulting monetary union was surprisingly resilient. It easily absorbed the new currencies of Kenya, Uganda and Tanzania in 1966, making them legal tender in all three and convertible to Pounds.

Ironically, it was the Pound which gave way. Its relentless depreciation in the late 60s and early 70s, led to the disintegration of the Sterling Area in 1972.

The strict monetary discipline which characterized the union - evaporated. The currencies diverged - a result of a divergence of inflation targets and interest rates. The East African Currency Area was formally ended in 1977.

Not all monetary unions ended so tragically. Arguably, the most famous of the successful ones is the Zollverein (German Customs Union).

The nascent German Federation was composed, at the beginning of the 19th century, of 39 independent political units. They all busily minted coins (gold, silver) and had their own - distinct - standard weights and measures. The decisions of the much lauded Congress of Vienna (1815) did wonders for labour mobility in Europe but not so for trade. The baffling number of (mostly non-convertible) different currencies did not help.

The German principalities formed a customs union as early as 1818. The three regional groupings (the Northern, Central and Southern) were united in 1833. In 1828, Prussia harmonized its customs tariffs with the other members of the Federation, making it possible to pay duties in gold or silver. Some members hesitantly experimented with new fixed exchange rate convertible currencies. But, in practice, the union already had a single currency: the Vereinsmunze.

The Zollverein (Customs Union) was established in 1834 to facilitate trade by reducing its costs. This was done by compelling most of the members to choose between two monetary standards (the Thaler and the Gulden) in 1838.

Much as the Bundesbank was to Europe in the second half of the twentieth century, the Prussian central bank became the effective Central Bank of the Federation from 1847 on. Prussia was by far the dominant member of the union, as it comprised 70% of the population and land mass of the future Germany.

The North German Thaler was fixed at 1.75 to the South German Gulden and, in 1856 (when Austria became informally associated with the Union), at 1.5 Austrian Florins. This last collaboration was to be a short lived affair, Prussia and Austria having declared war on each other in 1866.

Bismarck (Prussia) united Germany (Bavarian objections notwithstanding) in 1871. He founded the Reichsbank in 1875 and charged it with issuing the crisp new Reichsmark. Bismarck forced the Germans to accept the new currency as the only legal tender throughout the first German Reich. Germany's new single currency was in effect a monetary union. It survived two World Wars, a devastating bout of inflation in 1923, and a monetary meltdown after the Second World War. The stolid and trustworthy Bundesbank succeeded the Reichsmark and the Union was finally vanquished only by the bureaucracy in Brussels and its euro.

This is the only case in history of a successful monetary union not preceded by a political one. But it is hardly representative. Prussia was the regional bully and never shied away from enforcing strict compliance on the other members of the Federation.

It understood the paramount importance of a stable currency and sought to preserve it by introducing various consistent metallic standards. Politically motivated inflation and devaluation were ruled out, for the first time. Modern monetary management was born.

Another, perhaps equally successful, and still on-going union - is the CFA franc Zone.

The CFA (stands for French African Community in French) franc has been in use in the French colonies of West and Central Africa (and, curiously, in one formerly Spanish colony) since 1945. It is pegged to the French franc. The French Treasury explicitly guarantees its conversion to the French franc (65% of the reserves of the member states are kept in the safes of the French Central Bank). France often openly imposes monetary discipline (that it sometimes lacks at home!) directly and through its generous financial assistance. Foreign reserves must always equal 20% of short term deposits in commercial banks. All this made the CFA an attractive option in the colonies even after they attained independence.

The CFA franc zone is remarkably diverse ethnically, lingually, culturally, politically, and economically. The currency survived devaluations (as large as 100% vis a vis the French Franc), changes of regimes (from colonial to independent), the existence of two groups of members, each with its own central bank (the West African Economic and Monetary Union and the Central African Economic and Monetary Community), controls of trade and capital flows - not to mention a host of natural and man made catastrophes.

The euro has indirectly affected the CFA as well. "The Economist" reported recently a shortage of small denomination CFA franc notes. "Recently the printer (of CFA francs) has been too busy producing euros for the market back home" - complained the West African central bank in Dakar. But this is the minor problem. The CFA franc is at risk due to internal imbalances among the economies of the zone. Their growth rates differ markedly. There are mounting pressures by some members to devalue the common currency. Others sternly resist it.

"The Economist" reports that the Economic Community of West African States (ECOWAS) - eight CFA countries plus Nigeria, Ghana, Guinea, the Gambia, Cape Verde, Sierra Leone, and Liberia - is considering its own monetary union. Many of the prospective members of this union fancy the CFA franc even less than the EU fancies their capricious and graft-ridden economies. But an ECOWAS monetary union could constitute a serious - and more economically coherent - alternative to the CFA franc zone.

A neglected monetary union is the one between Belgium and Luxembourg. Both maintain their idiosyncratic currencies - but these are at parity and serve as legal tender in both countries since 1921. The monetary policy of both countries is dictated by the Belgian Central Bank and exchange regulations are overseen by a joint agency. The two were close to dismantling the union at least twice (in 1982 and 1993) - but relented.

II. The Lessons

Europe has had more than its share of botched and of successful currency unions. The Snake, the EMS, the ERM, on the one hand - and the British Pound, the Deutschmark, and the ECU, on the other.

The currency unions which made it have all survived because they relied on a single monetary authority for managing the currency.

Counter-intuitively, single currencies are often associated with complex political entities which occupy vast swathes of land and incorporate previously distinct -and often politically, socially, and economically disparate - units. The USA is a monetary union, as was the late USSR.

All single currencies encountered opposition on both ideological and pragmatic grounds when they were first introduced.

The American constitution, for instance, did not provide for a central bank. Many of the Founding Fathers (e.g., Madison and Jefferson) refused to countenance one. It took the nascent USA two decades to come up with a semblance of a central monetary institution in 1791. It was modeled after the successful Bank of England. When Madison became President, he purposefully let its concession expire in 1811. In the forthcoming half century, it revived (for instance, in 1816) and expired a few times.

The United States became a monetary union only following its traumatic Civil War. Similarly, Europe's monetary union is a belated outcome of two European civil wars (the two World Wars). America instituted bank regulation and supervision only in 1863 and, for the first time, banks were classified as either national or state-level.

This classification was necessary because by the end of the Civil War, notes - legal and illegal tender - were being issued by no less than 1562 private banks - up from only 25 in 1800. A similar process occurred in the principalities which were later to constitute Germany. In the decade between 1847 and 1857, twenty five private banks were established there for the express purpose of printing banknotes to circulate as legal tender. Seventy (!) different types of currency (mostly foreign) were being used in the Rhineland alone in 1816.

The Federal Reserve System was founded only following a tidal wave of banking crises in 1908. Not until 1960 did it gain a full monopoly of nation-wide money printing. The monetary union in the USA - the US dollar as a single legal tender printed exclusively by a central monetary authority - is, therefore, a fairly recent thing, not much older than the euro.

It is common to confuse the logistics of a monetary union with its underpinnings. European bigwigs gloated over the smooth introduction of the physical notes and coins of their new currency. But having a single currency with free and guaranteed convertibility is only the manifestation of a monetary union - not one of its economic pillars.

History teaches us that for a monetary union to succeed, the exchange rate of the single currency must be realistic (for instance, reflect the purchasing power parity) and, thus, not susceptible to speculative attacks. Additionally, the members of the union must adhere to one monetary policy.

Surprisingly, history demonstrates that a monetary union is not necessarily predicated on the existence of a single currency. A monetary union could incorporate "several currencies, fully and permanently convertible into one another at irrevocably fixed exchange rates". This would be like having a single currency with various denominations, each printed by another member of the Union.

What really matters are the economic inter-relationships and power plays among union members and between the union and other currency zones and currencies (as expressed through the exchange rate).

Usually the single currency of the Union is convertible at given (though floating) exchange rates subject to a uniform exchange rate policy. This applies to all the territory of the single currency. It is intended to prevent arbitrage (buying the single currency in one place and selling it in another). Rampant arbitrage - ask anyone in Asia - often leads to the need to impose exchange controls, thus eliminating convertibility and inducing panic.

Monetary unions in the past failed because they allowed variable exchange rates, (often depending on where - in which part of the monetary union - the conversion took place).

A uniform exchange rate policy is only one of the concessions members of a monetary union must make. Joining always means giving up independent monetary policy and, with it, a sizeable slice of national sovereignty. Members relegate the regulation of their money supply, inflation, interest rates, and foreign exchange rates to a central monetary authority (e.g., the European Central Bank in the eurozone).

The need for central monetary management arises because, in economic theory, a currency is never just a currency. It is thought of as a transmission mechanism of economic signals (information) and expectations (often through monetary policy and its outcomes).

It is often argued that a single fiscal policy is not only unnecessary, but potentially harmful. A monetary union means the surrender of sovereign monetary policy instruments. It may be advisable to let the members of the union apply fiscal policy instruments autonomously in order to counter the business cycle, or cope with asymmetric shocks, goes the argument. As long as there is no implicit or explicit guarantee of the whole union for the indebtedness of its members - profligate individual states are likely to be punished by the market, discriminately.

But, in a monetary union with mutual guarantees among the members (even if it is only implicit as is the case in the eurozone), fiscal profligacy, even of one or two large players, may force the central monetary authority to raise interest rates in order to pre-empt inflationary pressures.

Interest rates have to be raised because the effects of one member's fiscal decisions are communicated to other members through the common currency. The currency is the medium of exchange of information regarding the present and future health of the economies involved. Hence the notorious "EU Stability Pact", recently so flagrantly abandoned in the face of German budget deficits.

Monetary unions which did not follow the path of fiscal rectitude are no longer with us.

In an article I published in 1997 ("The History of Previous European Currency Unions"), I identified five paramount lessons from the short and brutish life of previous - now invariably defunct - monetary unions:

(A) To prevail, a monetary union must be founded by one or two economically dominant countries ("economic locomotives"). Such driving forces must be geopolitically important, maintain political solidarity with other members, be willing to exercise their clout, and be economically involved in (or even dependent on) the economies of the other members.

(B) Central institutions must be set up to monitor and enforce monetary, fiscal, and other economic policies, to coordinate activities of the member states, to implement political and technical decisions, to control the money aggregates and seigniorage (i.e., rents accruing due to money printing), to determine the legal tender and the rules governing the issuance of money.

(C) It is better if a monetary union is preceded by a political one (consider the examples of the USA, the USSR, the UK, and Germany).

(D) Wage and price flexibility are sine qua non. Their absence is a threat to the continued existence of any union. Unilateral transfers from rich areas to poor are a partial and short-lived remedy. Transfers also call for a clear and consistent fiscal policy regarding taxation and expenditures. Problems like unemployment and collapses in demand often plague rigid monetary unions. The works of Mundell and McKinnon (optimal currency areas) prove it decisively (and separately).

(E) Clear convergence criteria and monetary convergence targets.

The current European Monetary Union is far from heeding the lessons of its ill fated predecessors. Europe's labour and capital markets, though recently marginally liberalized, are still more rigid than 150 years ago. The euro was not preceded by an "ever closer (political or constitutional) union". It relies too heavily on fiscal redistribution without the benefit of either a coherent monetary or a consistent fiscal area-wide policy. The euro is not built to cope either with asymmetrical economic shocks (affecting only some members, but not others), or with the vicissitudes of the business cycle.

This does not bode well. This union might well become yet another footnote in the annals of economic history.

The Concert of Europe, Interrupted

By: Dr. Sam Vaknin

"(Plan for establishing) an economic organization ... through mutual customs agreements ... including France, Belgium, Holland, Denmark, Austria, Poland, and perhaps Italy, Sweden, and Norway".
The German "September Plan" to impose an economic union on the vanquished nations of Europe following a military victory, 1914

Europe spent the first half of the 19th century (following the 1815 Congress of Vienna) containing France. The trauma of the Napoleonic wars was the last in a medley of conflicts with an increasingly menacing France stretching back to the times of Louis XIV. The Concert of Europe was specifically designed to reflect the interests of the Big Powers, establish their borders of expansion in Europe, and create a continental "balance of deterrence". For a few decades it proved to be a success.

The rise of a unified, industrially mighty and narcissistic Germany erased most of these achievements. By closely monitoring France, the Big Powers were fighting the last war - instead of the three next ones. Following two ineffably ruinous world wars, Europe now shifted its geopolitical sights from France to Germany. In an effort to prevent a repeat of Hitler, the Big Powers of the West, led by France, established an "ever closer" European Union. Germany was (inadvertently) split and sandwiched and, thus, restrained.

To its East, it faced a military-economic union (the Warsaw Pact) cum eastern empire (the late USSR). To its West, it was surrounded by a military union (NATO) cum emerging Western economic supranational structure (the EU). The Cold War was fought all over the world - but in Europe it was about Germany.

The collapse of the eastern flank (the Soviet - "evil" - Empire) of this implicit anti-German containment geo-strategy led to the re-emergence of a united Germany. Furthermore, Germany is in the process of obtaining hegemony over the EU by applying the political weight commensurate with its economic and demographic might. It is a natural and historical leader of central Europe - the EU's and NATO's future lebensraum and the target of their expansionary predilections ("integration"). Thus, virtually overnight, Germany came to dominate the Western component of the anti-German containment master plan - while the Eastern component has chaotically disintegrated.

The EU - notably France - is reacting by trying to assume the role formerly played by the USSR. EU integration is an attempt to assimilate former Soviet satellites and dilute Germany's power by re-jigging rules of voting and representation. If successful, this strategy will prevent Germany from bidding yet again for a position of hegemony in Europe by establishing a "German Union" separate from the EU. It is all still the same tiresome and antiquated game of continental Big Powers. Even Britain maintains its Victorian position of "splendid isolation".

The exclusion of both Turkey and Russia from these re-alignments is also a direct descendant of the politics of the last two centuries. Both are likely to gradually drift away from European (and Western) structures and seek their fortunes in the geopolitical twilight zones of the world. The USA is unlikely to be of much help to Europe as it reasserts the Monroe doctrine and attends to its growing Pacific preoccupations. It will assist the EU to cope with Russian (and to a lesser extent, Turkish) designs in the tremulously tectonic regions of the Caucasus, oil-rich and China-bordering Central Asia, and the Middle East. But it will not do so in Central Europe, in the Baltic, and in the Balkan.

Of these three spots, the Balkan is by far the most ominous. Russia - as it has proved in 1877-8 - has historical claims there which it is willing to back militarily. Many of the nations of the Balkan are far closer to Russia than to the West and tend to regard the latter with suspicion and hostility. Turkey, if it so chooses, can easily assume the role of the protector of Balkan Moslems - sure to provoke Greek ire. A military conflict among two NATO members will constitute a body blow to the credibility and prestige of this alliance in search of an enemy. Moreover, Turkey is the prefect staging ground for operations in the Middle East, Central Asia and China. It constitutes a vital American interest and the pivot of NATO's southern flank. But it is derided by the EU, its NATO membership notwithstanding.

It is here, in the Balkan, that the New World Order and the End of History hypothesis are being tested. A new European balance of the Big Powers will emerge here. But hitherto, alas, this particular concert of Europe has been quite a cacophony.

The Eastern Question Revisited

A lecture organized by the daily "Politiken"
in Copenhagen, Denmark
June 25, 2001

By: Dr. Sam Vaknin

When the USSR disintegrated virtually overnight, in 1989, its demise was often compared to that of the Ottoman Empire's. This was a very lacking comparison. Turkey's death throes lasted centuries and its decomposition was taken to be so certain that its division and partition (the "Eastern Question") animated European geopolitics for the better part of two centuries. Yet, both left a power vacuum in the Balkan in their sorry wake.

The Big Powers of the time - Russia, Great Britain, France, Austria-Hungary, and the emerging Germany and Italy - possessed conflicting interests and sentiments. But, at this stage or another, most of them (with the exception of Austria-Hungary) supported the nationalist solution. It was Russia's favourite discussion topic, France espoused it under Napoleon III, everyone supported the Greeks and, to a lesser extent, the Serbs against the weakening Ottomans.

The nationalist solution encouraged the denizens of the Balkan to adopt national identities, to develop national myths, to invent a national history, and to aspire to establish modern nation-states.

The examples of Germany and, especially, Greece and Italy were often evoked. For a detailed treatment of this theme - see "Herzl's Butlers".

The competing solution was reform. The two Balkan empires - the Ottomans and Austria-Hungary - endlessly, tediously, and inefficaciously tinkered with their systems or overhauled them. But, to no avail. The half-hearted reforms often failed to address core issues and always failed to assuage the growing nationalist sentiment. It was a doomed approach.

Nationalist solutions were inherently self-destructive. They were mutually exclusive and strived to achieve ethnically homogeneous lebensraums by all means, fair and foul. The nation's genuine and natural ("historic") territory always overlapped with another nation's no less historic claims. This led to recurrent conflicts and to a growing sense of deprivation and loss as actual territories never tallied with national myths disguised as national histories. It also prevented the emergence of what du Bois calls "Double Consciousness" - the mental capacity to contentedly belong to more than one social or national grouping ("Afro-American", "Latino-American", "American Jew").

Thus, the Big Powers proffered a nationalist solution when a regional one was called for. Following two devastating Balkan Wars (1912 and 1913) and a World War (1914-1918), regional groupings began to emerge (example: Yugoslavia). The regional solution stabilized the Balkan for almost 7 decades (excluding external shocks, such as the combined invasions of Nazi Germany and fascist Italy).

Yet, the regional solution was dependent on both the existence of real or perceived outside threats (the USSR, the USA, Great Britain) - and on the leadership of charismatic figures such as Tito and Hoxha. When the latter died and the USSR evaporated, the region imploded.

The last two decades of the 20th century witnessed a resurgence of narrow geographical-political identities (a "Europe of Regions"). Countries - from the USSR to Italy to Belgium to Canada to Yugoslavia - were gradually reduced to geopolitical atoms: provinces, districts, regions, resurrected political units. Faced with the Yugoslav wars of succession, the Big Powers again chose wrongly.

Instead of acknowledging the legitimate needs, concerns, and demands of nations in the Balkan - they proclaimed two untenable principles: borders must not change and populations must stay put. They dangled the carrot of European Union membership as an inducement to peace. In other words, even as virulent nationalism was erupting throughout the Balkan, they promoted a REGIONAL set of principles and a REGIONAL inducement (EU) instead of a nationalist orientated one. Yet, as opposed to the past, the remaining Big Powers were unwilling to actively intervene to enforce these principles. When they did intervene feebly, it was either too late (Bosnia-Herzegovina, 1995), too one-sidedly (Kosovo, 1999), or too hesitantly (Macedonia, 2001). They clearly lacked commitment and conviction, or even the military ability to become the guardians of this new order.

The Big Powers (really, the West) would have done well to leave the Balkan to its own devices. Clearly its inhabitants were intent on re-drawing borders and securing ethnic homogeneity. Serbs, Croats, Bosniaks, Kosovars - were all busy altering maps and ethnically cleansing minorities. The clumsy and uninformed intervention of the West (led by the USA) served only to prolong these inevitable conflicts. By choosing sides, labelling, providing military and diplomatic succour, arming, intervening, cajoling, and imposing ill-concocted "solutions", the West internationalized local crises and prevented attrition and equilibrium - the prerequisites to peace. The West's artificial arrangements, served on the bayonets of SFOR and KFOR are unlikely to outlast SFOR and KFOR. Moreover, humanitarian military interventions have proven to be the most pernicious kind of humanitarian disasters. More people - Kosovars included - died in Operation Allied Force than in all the years of Serb repression combined. The Balkan is simply frozen in geopolitical time. It will re-erupt and revert to old form when Western presence is reduced and perhaps even before that.

The West should have ignored the Yugoslav wars of succession. But it would have done well to offer the combatants - Serbs, Croats, Albanians - a disinterested diplomatic venue (a benign, voluntary Berlin Congress or Dayton) to iron out their differences, even as they are fighting. The agenda of such a Congress should have included minorities and borders. There is no doubt that sporadic fighting would have punctuated the deliberations of such a congregation. It is certain that walk-outs, crises, threats, and break-ups would have occurred regularly.

But the participants could have aired grievances, settle disputes, discuss differences, judge reasonableness, form coalitions, help each other to multilateral give and take, and establish confidence building measures. With the West keeping all cards close to its chest, such a venue was and is sorely lacking.

With the exception of Imperial Russia, "stability in the Balkan" has always been the mantra. But stability is never achieved diplomatically. If there are lessons to be learned from history they are that diplomacy is futile, peacekeeping meaningless, imposed agreements ephemeral. War is the ultimate and only arbiter of national interest. Parties resort to peace only when they are convinced that all military or coercive options have been exhausted. When nothing further is to be gained by means of force and its application - peace prevails. But peace (as opposed to a protracted ceasefire) is impossible even a second before the combatants are struck by this realization. Equilibrium is never the result of honed negotiating skills - and always the outcome of forces matched in battle. Attrition, fatigue, a yearning for stability, a willingness to compromise - are all provoked and enhanced to the acutest level by bloodshed and atrocities. It is an inevitable phase. The road to peace is bloodied.

The Balkan has never been as politically fragmented as it is today. It has never been under the auspices of only one superpower. These are destabilizing facts. But one thing has not changed. The Balkan has always been the battlefield of numerous clashing and equally potent interests coupled with military might.

In the last decade, the West has been busy establishing protectorates (Bosnia-Herzegovina, Kosovo, and now, most probably, Macedonia) and effectively altering borders without admitting to it. NATO, that cold war anachronism, is still busy maintaining its southern flank, composed of the eternal adversaries, Turkey and Greece. Turkey is the natural road to Central Asia and its oil riches and, further on, to an ominously emerging China. The Balkan is, once again, the playground of the grand designers.

Europe's New Jews

By: Dr. Sam Vaknin

Also published by United Press International (UPI)

Also Read

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Saddam's Thousand Nights

The Iraqi and the Madman

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Turkey's Jewish Friend

They inhabit self-imposed ghettoes, subject to derision and worse, the perennial targets of far-right thugs and populist politicians of all persuasions. They are mostly confined to menial jobs. They are accused of spreading crime, terrorism and disease, of being backward and violent, of refusing to fit in.

Their religion, atavistic and rigid, insists on ritual slaughter and male circumcision. They rarely mingle socially or inter-marry. Most of them - though born in European countries - are not allowed to vote. Brown-skinned and with a marked foreign accent, they are subject to police profiling and harassment and all manner of racial discrimination.

They are the new Jews of Europe - its Muslim minorities.

Muslims - especially Arab youths from North Africa - are, indeed, disproportionately represented in crime, including hate crime, mainly against the Jews. Exclusively Muslim al-Qaida cells have been discovered in many West European countries. But this can be safely attributed to ubiquitous and trenchant long-term unemployment and to stunted upward mobility, both social and economic due largely to latent or expressed racism.

Moreover, the stereotype is wrong. The incidence of higher education and skills is greater among Muslim immigrants than in the general population - a phenomenon known as "brain drain". Europe attracts the best and the brightest - students, scholars, scientists, engineers and intellectuals - away from their destitute, politically dysfunctional and backward homelands.

The Economist surveys the landscape of friction and withdrawal:

"Indifference to Islam has turned first to disdain, then to suspicion and more recently to hostility ... (due to images of) petro-powered sheikhs, Palestinian terrorists, Iranian ayatollahs, mass immigration and then the attacks of September 11th, executed if not planned by western-based Muslims and succored by an odious regime in Afghanistan ... Muslims tend to come from poor, rural areas; most are ill-educated, many are brown. They often encounter xenophobia and discrimination, sometimes made worse by racist politicians. They speak the language of the wider society either poorly or not at all, so they find it hard to get jobs. Their children struggle at school. They huddle in poor districts, often in state-supplied housing ... They tend to withdraw into their own world, (forming a) self-sufficient, self-contained community."

This self-imposed segregation has multiple dimensions. Clannish behavior persists for decades. Marriages are still arranged - reluctant brides and grooms are imported from the motherland to wed immigrants from the same region or village. The "parallel society", in the words of a British government report following the Oldham riots two years ago, extends to cultural habits, religious practices and social norms.

Assimilation and integration has many enemies.

Remittances from abroad are an important part of the gross national product and budgetary revenues of countries such as Bangladesh and Pakistan. Hence their frantic efforts to maintain the cohesive national and cultural identity of the expats.

DITIB is an arm of the Turkish government's office for religious affairs. It discourages the assimilation or social integration of Turks in Germany. Turkish businesses - newspapers, satellite TV, foods, clothing, travel agents, publishers - thrive on ghettoization.

There is a tacit confluence of interests between national governments, exporters and Islamic organizations. All three want Turks in Germany to remain as Turkish as possible. The more nostalgic and homebound the expatriate - the larger and more frequent his remittances, the higher his consumption of Turkish goods and services and the more prone he is to resort to religion as a determinant of his besieged and fracturing identity.

Muslim numbers are not negligible. Two European countries have Muslim majorities - Bosnia-Herzegovina and Albania. Others - in both Old Europe and its post-communist east - harbor sizable and growing Islamic minorities. Waves of immigration and birth rates three times as high as the indigenous population increase their share of the population in virtually every European polity - from Russia to Macedonia and from Bulgaria to Britain. One in seven Russians is Muslim - over 20 million people.

According to the March-April issue of Foreign Policy, the non-Muslim part of Europe will shrink by 3.5 percent by 2015 while the Muslim populace will likely double. There are 3 million Turks in Germany and another 12 million Muslims - Algerians, Moroccans, Pakistanis, Bangladeshis, Egyptians, Senegalese, Malis, or Tunisians - in the rest of the European Union.

This is two and one half times the number of Muslims in the United States. Even assuming - wrongly - that all of them occupy the lowest decile of income, their combined annual purchasing power would amount to a whopping $150 billion. Furthermore, recent retroactive changes to German law have naturalized over a million immigrants and automatically granted its much-coveted citizenship to the 160,000 Muslims born in Germany every year .

Between 2-3 million Muslims in France - half their number - are eligible to vote. Another million - one out of two - cast ballots in Britain. These numbers count at the polls and are not offset by the concerted efforts of a potent Jewish lobby - there are barely a million Jews in Western Europe.

Muslims are becoming a well-courted swing vote. They may have decided the last election in Germany, for instance. Recognizing their growing centrality, France established - though not without vote-rigging - a French Council of the Islamic Faith, the equivalent of Napoleon's Jewish Consistory. Two French cabinet members are Muslims. Britain has a Muslim Council.

Both Vladimir Putin, Russia's president and Yuri Luzhkov, Moscow's mayor, now take the trouble to greet the capital's one million Muslims on the occasion of their Feast of Sacrifice. They also actively solicit the votes of the nationalist and elitist Muslims of the industrialized Volga - mainly the Tatars, Bashkirs and Chuvash. Even the impoverished, much-detested and powerless Muslims of the northern Caucasus - Chechens, Circassians and Dagestanis - have benefited from this newfound awareness of their electoral power.

Though divided by their common creed - Shiites vs. Sunnites vs. Wahabbites and so on - the Muslims of Europe are united in supporting the Palestinian cause and in opposing the Iraq war. This - and post-colonial guilt feelings, especially manifest in France and Britain - go a long way toward explaining Germany's re-discovered pacifistic spine and France's anti-Israeli (not to say anti-Semitic) tilt.

Moreover, the Muslims have been playing an important economic role in the continent since the early 1960s. Europe's postwar miracle was founded on these cheap, plentiful and oft-replenished Gastarbiter - "guest workers". Objective studies have consistently shown that immigrants contribute more to their host economies - as consumers, investors and workers - than they ever claw back in social services and public goods. This is especially true in Europe, where an ageing population of early retirees has been relying on the uninterrupted flow of pension contributions by younger laborers, many of them immigrants.

Business has been paying attention to this emerging market. British financial intermediaries - such as the West Bromwich Building Society - have recently introduced "Islamic" (interest-free) mortgages. According to market research firm, Datamonitor, gross advances in the UK alone could reach $7 billion in 2006 - up from $60 million today. The Bank of England is in the throes of preparing regulations to accommodate the pent-up demand.

Yet, their very integration, however hesitant and gradual, renders the Muslims in Europe vulnerable to the kind of treatment the old continent meted out to its Jews before the holocaust. Growing Muslim presence in stagnating job markets within recessionary economies inevitably generated a backlash, often cloaked in terms of Samuel Huntington's 1993 essay in Foreign Affairs, "Clash of Civilizations".

Even tolerant Italy was affected. Last year, the Bologna archbishop, Cardinal Giacomo Biffi, cast Islam as incompatible with Italian culture. The country's prime minister suggested, in a visit to Berlin two years ago, that Islam is an inherently inferior civilization.

Oriana Fallaci, a prominent journalist, published last year an inane and foul-mouthed diatribe titled "The Rage and the Pride" in which she accused Muslims of "breeding like rats", "shitting and pissing" (sic!) everywhere and supporting Osama bin-Laden indiscriminately.

Young Muslims reacted - by further radicalizing and by refusing to assimilate - to both escalating anti-Islamic rhetoric in Europe and the "triumphs" of Islam elsewhere, such as the revolution in Iran in 1979. Tutored by preachers trained in the most militant Islamist climates in Saudi Arabia, Yemen, Somalia, Pakistan and Iran, praying in mosques financed by shady Islamic charities - these youngsters are amenable to recruiters from every fanatical grouping.

The United Kingdom suffered some of the worst race riots in half a century in the past two years. France is terrorized by an unprecedented crime wave emanating from the banlieux - the decrepit, predominantly Muslim, housing estates in suburbia. September 11 only accelerated the inevitable conflict between an alienated minority and hostile authorities throughout the continent. Recent changes in European - notably British - legislation openly profile and target Muslims.

This is a remarkable turnaround. Europe supported the Muslim Bosnian cause against the Serbs, Islamic Chechnya against Russia, the Palestinians against the Israelis and Muslim Albanian insurgents against both Serbs and Macedonians. Nor was this consistent pro-Islamic orientation a novelty.

Britain's Commission for Racial Equality which caters mainly to the needs of Muslims, was formed 37 years ago. Its Foreign Office has never wavered from its pro-Arab bias. Germany established a Central Council for Muslims. Both anti-Americanism and the more veteran anti-Israeli streak helped sustain Europe's empathy with Muslim refugees and "freedom fighters" throughout the 1960s, 70s and 80s.

September 11 put paid to this amity. The danger is that the brand of "Euro-Islam" that has begun to emerge lately may be decimated by this pervasive and sudden mistrust. Time Magazine described this blend as "the traditional Koran-based religion with its prohibitions against alcohol and interest-bearing loans now indelibly marked by the 'Western' values of tolerance, democracy and civil liberties."

Such "enlightened" Muslims can serve as an invaluable bridge between Europe and Russia, the Middle East, Asia, including China and other places with massive Muslim majorities or minorities. As most world conflicts today involve Islamist militants, global peace and a functioning "new order" critically depend on the goodwill and communication skills of Muslims.

Such a benign amalgam is the only realistic hope for reconciliation. Europe is ageing and stagnating and can be reinvigorated only by embracing youthful, dynamic, driven immigrants, most of whom are bound to be Muslim. Co-existence is possible and the clash of civilization not an inevitability unless Huntington's dystopic vision becomes the basic policy document of the West.

THE AUTHOR

SHMUEL (SAM) VAKNIN

Curriculum Vitae

Click on blue text to access relevant web sites – thank you.

Born in 1961 in Qiryat-Yam, Israel.

Served in the Israeli Defence Force (1979-1982) in training and education units.

Education

Graduated a few semesters in the Technion - Israel Institute of Technology, Haifa.

Ph.D. in Philosophy (major : Philosophy of Physics) - Pacific Western University, California.

Graduate of numerous courses in Finance Theory and International Trading.

Certified E-Commerce Concepts Analyst.

Certified in Psychological Counselling Techniques.

Full proficiency in Hebrew and in English.

Business Experience

1980 to 1983

Founder and co-owner of a chain of computerized information kiosks in Tel-Aviv, Israel.

1982 to 1985

Senior positions with the Nessim D. Gaon Group of Companies in Geneva, Paris and New-York (NOGA and APROFIM SA):

- Chief Analyst of Edible Commodities in the Group's Headquarters in Switzerland.
- Manager of the Research and Analysis Division
- Manager of the Data Processing Division
- Project Manager of The Nigerian Computerized Census
- Vice President in charge of RND and Advanced Technologies
- Vice President in charge of Sovereign Debt Financing

1985 to 1986

Represented Canadian Venture Capital Funds in Israel.

1986 to 1987

General Manager of IPE Ltd. in London. The firm financed international multi-lateral countertrade and leasing transactions.

1988 to 1990

Co-founder and Director of "Mikbats - Tesuah", a portfolio management firm based in Tel-Aviv. Activities included large-scale portfolio management, underwriting, forex trading and general financial advisory services.

1990 to Present

Free-lance consultant to many of Israel's Blue-Chip firms, mainly on issues related to the capital markets in Israel, Canada, the UK and the USA.

Consultant to foreign RND ventures and to Governments on macro-economic matters.

President of the Israel chapter of the Professors World Peace Academy (PWPA) and (briefly) Israel representative of the "Washington Times".

1993 to 1994

Co-owner and Director of many business enterprises:

- The Omega and Energy Air-Conditioning Concern
- AVP Financial Consultants
- Handiman Legal Services

Total annual turnover of the group: 10 million USD.

Co-owner, Director and Finance Manager of COSTI Ltd. - Israel’s largest computerized information vendor and developer. Raised funds through a series of private placements locally, in the USA, Canada and London.

1993 to 1996

Publisher and Editor of a Capital Markets Newsletter distributed by subscription only to dozens of subscribers countrywide.

In a legal precedent in 1995 - studied in business schools and law faculties across Israel - was tried for his role in an attempted takeover of Israel's Agriculture Bank.

Was interned in the State School of Prison Wardens.

Managed the Central School Library, wrote, published and lectured on various occasions.

Managed the Internet and International News Department of an Israeli mass media group, "Ha-Tikshoret and Namer".

Assistant in the Law Faculty in Tel-Aviv University (to Prof. S.G. Shoham).

1996 to 1999

Financial consultant to leading businesses in Macedonia, Russia and the Czech Republic.

Collaborated with the Agency of Transformation of Business with Social Capital.

Economic commentator in "Nova Makedonija", "Dnevnik", "Izvestia", "Argumenti i Fakti", "The Middle East Times", "Makedonija Denes", "The New Presence", "Central Europe Review" , and other periodicals and in the economic programs on various channels of Macedonian Television.

Chief Lecturer in courses organized by the Agency of Transformation, by the Macedonian Stock Exchange and by the Ministry of Trade.

1999 to 2002

Economic Advisor to the Government of the Republic of Macedonia and to the Ministry of Finance.

2001 to present

Senior Business Correspondent for United Press International (UPI)

Web and Journalistic Activities

Author of extensive Websites in Psychology ("Malignant Self Love") - An Open Directory Cool Site

Philosophy ("Philosophical Musings")

Economics and Geopolitics ("World in Conflict and Transition")

Owner of the Narcissistic Abuse Announcement and Study List and the Narcissism Revisited mailing list (more than 3900 members)

Owner of the Economies in Conflict and Transition Study list.

Editor of mental health disorders and Central and Eastern Europe categories in web directories (Open Directory, Suite 101, Search Europe).

Columnist and commentator in "The New Presence", United Press International (UPI), InternetContent, eBookWeb and "Central Europe Review".

Publications and Awards

"Managing Investment Portfolios in states of Uncertainty", Limon Publishers, Tel-Aviv, 1988

"The Gambling Industry", Limon Publishers., Tel-Aviv, 1990

"Requesting my Loved One - Short Stories", Yedioth Aharonot, Tel-Aviv, 1997

"The Macedonian Economy at a Crossroads - On the way to a Healthier Economy" (with Nikola Gruevski), Skopje, 1998

"Malignant Self Love - Narcissism Revisited", Narcissus Publications, Prague and Skopje, 1999, 2001, 2002

The Narcissism Series - e-books regarding relationships with abusive narcissists (Skopje, 1999-2002)

"The Exporters' Pocketbook", Ministry of Trade, Republic of Macedonia, Skopje, 1999

"The Suffering of Being Kafka" (electronic book of Hebrew Short Fiction, Prague, 1998)

"After the Rain - How the West Lost the East", Narcissus Publications in association with Central Europe Review/CEENMI, Prague and Skopje, 2000

Winner of numerous awards, among them the Israeli Education Ministry Prize (Literature) 1997, The Rotary Club Award for Social Studies (1976) and the Bilateral Relations Studies Award of the American Embassy in Israel (1978).

Hundreds of professional articles in all fields of finances and the economy and numerous articles dealing with geopolitical and political economic issues published in both print and web periodicals in many countries.

Many appearances in the electronic media on subjects in philosophy and the Sciences and concerning economic matters.

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Philosophy:

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Poetry:

http://samvak.tripod.com/contents.html

Return

After the Rain

How the West
Lost the East

The Book

This is a series of articles written and published in 1996-2000 in Macedonia, in Russia, in Egypt and in the Czech Republic.

How the West lost the East. The economics, the politics, the geopolitics, the conspiracies, the corruption, the old and the new, the plough and the internet – it is all here, in colourful and provocative prose.

From "The Mind of Darkness":

"'The Balkans' – I say – 'is the unconscious of the world'. People stop to digest this metaphor and then they nod enthusiastically. It is here that the repressed memories of history, its traumas and fears and images reside. It is here that the psychodynamics of humanity – the tectonic clash between Rome and Byzantium, West and East, Judeo-Christianity and Islam – is still easily discernible. We are seated at a New Year's dining table, loaded with a roasted pig and exotic salads. I, the Jew, only half foreign to this cradle of Slavonics. Four Serbs, five Macedonians. It is in the Balkans that all ethnic distinctions fail and it is here that they prevail anachronistically and atavistically. Contradiction and change the only two fixtures of this tormented region. The women of the Balkan - buried under provocative mask-like make up, retro hairstyles and too narrow dresses. The men, clad in sepia colours, old fashioned suits and turn of the century moustaches. In the background there is the crying game that is Balkanian music: liturgy and folk and elegy combined. The smells are heavy with muskular perfumes. It is like time travel. It is like revisiting one's childhood."

The Author

Sam Vaknin is the author of Malignant Self Love - Narcissism Revisited *and* After the Rain - How the West Lost the East. *He is a columnist for* Central Europe Review *and eBookWeb , a* United Press International (UPI) Senior Business Correspondent, *and the editor of mental health and Central East Europe categories in The Open Directory* and *Suite101 .*

Until recently, he served as the Economic Advisor to the Government of Macedonia.

Visit Sam's Web site at http://samvak.tripod.com