

Capital project: Berlin (2011) from Nishino's *Diorama Map* art series. The artist builds detailed models of major cities from extensive first-hand research and photographs them



The Great Reckoning

Europe is living through the collapse of old certainties. Democracy has won – but what has that meant? And might we be forced to dissolve the euro if we want to save the European ideal?

By Mark Mazower
Artworks by Sohei Nishino



What is happening to Europe? When and how was the dream of a continent united by not only peace but human fulfilment reduced to a question of saving a currency? These questions, and the roots of our present predicament, go back a century and more. In 1909, shortly before the *New Statesman* was founded, the pacifist Norman Angell argued, as John Gray writes on page 28, that economic interdependence had made war between nations irrational and futile; war itself was “the great illusion”. Not the best timing, perhaps – a few years later his argument looked a lot less compelling – but Angell was convinced even after the Great War that events had proved him right; and history is a funny thing, for, after a second round of bloodletting, Europe’s leaders finally came round to his idea that land-grabs and the old obsessions – territory, colonies and borders – were indeed not necessary to the pursuit of prosperity and were best set aside for the sake of peace.

Better late than never. But Angell’s work can perhaps be read in another, less comforting way. His argument rested on the assertion that because finance and the spread of credit demanded peace and stability, military conquest no longer guaranteed access to the forms of wealth produced by a modern economy. Flip this around, and he might also have been pointing to an important feature of the ongoing euro-crisis: transformed by global financialisation, European integration and monetary unification

have facilitated a process of wealth transfer against which states and their citizens no longer have any obvious safeguard. Angell’s Europe at peace, made safe for and by money, has become a world in which finance holds sway, social solidarity collapses and fairness suffers.

How did we end up here and did it have to be this way? How did we come to find ourselves living through a crisis in which banks and finance dominate the headlines, as both sinners and saviours? A world in which the International Monetary Fund and the European Central Bank put other global institutions in the shade, a world in which salaries in the City of London stand at record multiples of average earnings? Most fundamentally, a world in which, more than ever before, money is used to make money and not things. Money moves around the world faster than before and does so with ever more destabilising results, and Angell’s belief that credit and stability were connected now has a quaint ring to it. In an era when middle-class wealth has become hostage to fluctuations of the stock market, the extreme complexity and opacity of computer-generated transactions based on conjectural projections of events has taken us far away from his vision of a world of capitalist rationality.

No less distant from our own times is his happy confidence in the political role of the citizen and the strength of the democratic system. The financialisation of the global ►

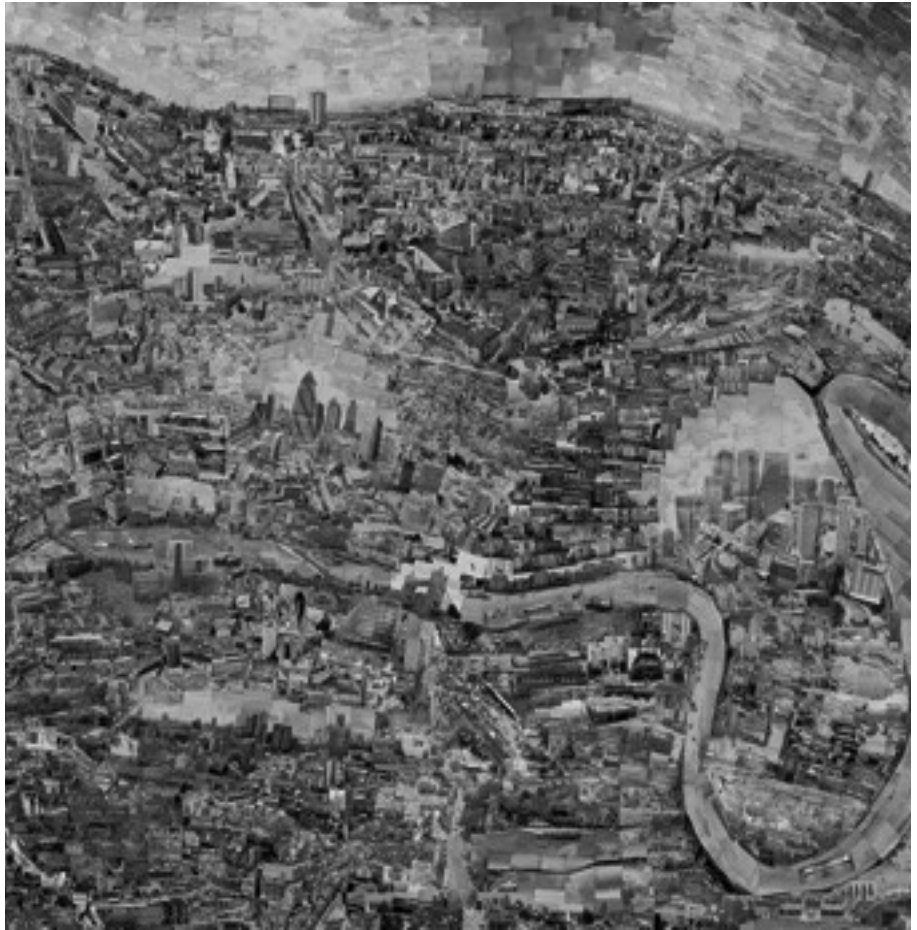
► economy has brought with it the most acute crisis of democracy since the Second World War. As huge sums of money slosh across the continent, voters in the creditor north feel ignored when their politicians bail out the debtor south, while voters there feel powerless in the face of IMF and ECB diktats. Both bodies thus weaken the legitimacy of politicians and of politics itself.

It was about 200 years ago that a conception of Europe emerged for the first time which linked stability, civilisation and peace to the triumph of capital. Angell's argument really originated in this moment, when thinkers such as Benjamin Constant, Jeremy Bentham and Henri de Saint-Simon wrote off the war-making of the *ancien régime* and revolution as symptoms of an older, more bloodthirsty age, and predicted the coming of a brave new world run by merchants, lawyers and engineers. In the same era, the City of London became the unquestioned world centre of international banking. Karl Marx analysed the new power of capital, dissolving traditions and uniting the world through the cash nexus. But he shared the prevailing optimism that history was travelling in the right direction – after all, he projected the eventual triumph of a working class incarnating the hope of human emancipation.

All of these thinkers were Europeans, and, for all of them – whether liberals, scientific technocrats or communists – Europe was the laboratory for that form of social harmony they thought best suited to the modern age.

By the time of the run-up to the First World War, the growing importance of banks and speculators was attracting wide attention, especially from radicals and peace activists. J A Hobson was the first to make use of the term “imperialism” to account for the way profiteers such as Cecil Rhodes had grabbed control of British foreign policy and led the country into the Boer war. In his classic study *Finance Capital*, published in the year after the 1909 pamphlet that Angell turned into his book *The Great Illusion* and still worth reading today, the Austrian-born Marxist economist Rudolf Hilferding described the growing power of the banks. He saw a new cause of war in this, and thus a further catalyst for world revolution.

From today's perspective, what is striking about such analyses is their confidence: finance and financiers might be setting private profit ahead of the public welfare but there were collective responses to this, both domestic and international, and they could not get away with it for ever. Hobson saw the internationalisation of colonial control



Nishino's Diorama Map of London (2010, detail). Today the city lives by manipulating mobile money

as the best guarantee that colonial peoples and their resources would be managed for their own and the general good, rather than for the sake of profiteers. Hilferding, like Marx, saw capital's international character as likely ultimately to prove self-defeating. He welcomed the monopolistic position of finance because it was going to simplify the workers' ultimate task and help them bring the entire economy under their control.

The First World War expanded criticism of the banks because in many quarters it was customary to blame them for the tensions that had presaged this war and seemed likely to fuel a new one. If Angell believed that wars broke out when the influence of capitalists was not heeded, others believed the exact opposite: speculators revelled in creating conflicts and profiting from them, reaping the rewards while ordinary people paid the price.

In the interwar thrillers of Eric Ambler, for instance, the ultimate puppet-masters are shadowy entities such as the Eurasian Credit Trust. “It was the power of Business, not the deliberations of statesmen, that shaped the destinies of nations,” one of his characters comments. From this perspective it is worth pondering whether our inability any longer to imagine a reason for a

general war in Europe does not serve in its own right to soften public anger at financiers, because it removes one of the main historic causes of suspicion of them. Bankers may have an image problem today, but arguably what needs explaining is why this is not worse than it is, and why it has had so few repercussions for the way they run their businesses compared to the 1930s. One of the reasons, surely, is that the old anxiety about profiteers, which ran through European history for much of the 19th and the first half of the 20th centuries, has vanished. Who even speaks of profiteers today?

It was the 1929 Wall Street crash that discredited finance for a generation and more. The ensuing collapse of the gold standard around the world made globalisation go into reverse. Capital controls became an unremarkable fact of life. In one country after another, the state took over from the private sector in making major investment decisions and in regulating relations between workers and employers. At the same time, the rise of the Soviet Union posed a grave new challenge. European politicians seeking to stabilise capitalism responded on several fronts, parcelling out landed estates in eastern Europe to the peasantry, founding new central banks and formalising

international co-operation through bodies such as the Bank for International Settlements. It was the threat of Bolshevism that brought managed capitalism to Europe and, with it, new conceptions of the state as the guarantor of collective welfare.

Thus the “European model” combining liberty and social solidarity, which commentators such as Tony Judt and Jeremy Rifkin hailed a decade or so ago as the civilised alternative to American capitalism, originated in the fear of communism and the looming presence of the USSR on Europe’s margins. Where avoiding communist revolution was the priority, the politicians were willing to give a growing share of national income to labour, curb potentially destabilising capital flows, use the state as a guarantor of social peace, and equalise wealth and opportunities by expanding the tax base and bankrolling welfare. But what would happen when no one feared communism any longer and took the stability of parliamentary democracy for granted?

Today, when globalisation remains a powerful if waning ideology, it is easy to forget that the “European model” was extraordinarily successful. In the 30 years after 1945, high growth rates, unmatched before or since, paid for an expansion of the state as provider of social services and banished memories of mass unemployment. The Americans helped, providing a security guarantee to western Europeans and modest incentives towards regional co-operation.

What emerged domestically was a form of economy that combined a high degree of state direction of investment behind tariff barriers and exchange controls with gradual liberalisation of trade. The very unglamorous early years of the Common Market in fact stand out in retrospect as a spectacular political success, because it was in those years that “Europe” – as the western Europeans liked to term what they were doing – demonstrated its indispensability in helping restore legitimacy to that form of political community most Europeans clearly preferred to live in, the nation state. What the historian Alan Milward called the postwar “rescue of the European nation state” was in its way a European triumph, too: national resurgence and international integration proceeded hand in hand, much as 19th-century nationalists such as Mazzini had said they should.

This highly managed version of capitalism emphasised economic regulation and assigned a secondary role for finance. Yet long before the collapse of communism, the possibility for Europe to go in another direction entirely was being explored. The Second World War raised the question of what Europe was for, and in Britain several

émigré intellectuals explored the economic issues in depth. From Oxford, the Polish economist Michał Kalecki underscored the political implications of full employment, anticipating that employers would sooner or later successfully put pressure on politicians to roll back Keynesian-style policies because of their impact on profits. From his own, very different, libertarian starting point, Friedrich Hayek praised the idea of a European free market while attacking the idea that a continental federation with supranational regulatory powers could ever

What would happen when communism was no longer feared?

win sufficiently wide political consent across member states.

The great Hungarian polymath Karl Polanyi differed profoundly in his views from Hayek but he, too, reminded readers that a return to the dream of the self-regulating market was always a possible alternative to the economic planning he personally preferred; neither was natural and both had their champions. In his prophetic 1945 article “Universal capitalism or regional planning”, Polanyi argued that as Europe emerged from the war it faced a choice between an American model of a liberalised, open, world economy and a Soviet model that was based on planning, protected borders and heavy state involvement. Perhaps even more than the two other men, he was acutely aware that Europe’s choice of capitalism would henceforth be conditioned by larger international considerations.

It took time, but in the 1970s they were all in varying ways proved right. The business counteroffensive that Kalecki had foreseen came to pass, helped by a revival in interest in Hayek’s ideas. Internationally, the critical switch was a change in US thinking from global Keynesianism to a much more finance-based foreign economic policy. The dollar’s abandonment of gold in 1971 could have led to the end of America’s central role in international finance, a rift in the transatlantic alliance and a return to greater domestic policy fragmentation and autonomy. By the end of the decade, however, the US had opted for the anti-inflationary crusade that would restore the dollar’s global prominence and bring western Europeans into line. The 1976 sterling crisis and IMF intervention were a turning point; Maggie Thatcher followed, and eventually so did even François Mitterrand and the French Socialists.

What emerged was simultaneously an assault on the power of organised labour in the developed north – an assault from which it has never recovered – and something else whose consequences were foreseen by virtually no one: an extreme deregulation of banks and financial institutions which unleashed their ability to make profits across the world. As manufacturing languished, brute capital became more profitable and salaries in the financial sector took off.

This process of financialisation originated in the US but it was driven through by international agencies. In fact, it cannot be understood except as a campaign that helped powerful coalitions to emerge between the leading banks, the US Treasury and the IMF and the Organisation for Economic Co-operation and Development. Representing a compact between the free-marketteering ideology of Wall Street and the western Europeans’ desire for rules and codes, they spread the new norms – of capital liberalisation, deregulation of banks and the credit sector, and internal privatisation of state-owned businesses – from one continent to another. A series of debt crises, also symptoms of this new, financialised world, offered the serendipitous means for the IMF to spread the neoliberal gospel.

Under the European Commission president Jacques Delors, a French Socialist, Europe signed up. Opting to promote integration through the monetary system was a ►

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► natural response to the exchange-rate volatility of the 1970s and 1980s. But there were two problems. One was that the needlessly rigid rules that were introduced along with the euro removed much of what discretionary power was left to EU member governments once the currency was adopted. The other was that the tiny size of the European Union budget made it impossible to achieve the other plank of Delors's modernising vision – a real mechanism for funding social solidarity across the EU. All that was left was money.

Today the consequences of financialisation, within and outside Europe, are clear enough. Look at average growth rates during the *Trente Glorieuses* and during the past 30 years: the comparison makes sobering reading. Banks and hedge funds may have increased their profitability, but national and continental economic performance have lagged sharply behind. One reason for this is that globalisation has made the world more crisis-prone, not less so: nostalgia for the dictator António Salazar in Portugal or communism in Russia reflects how the greater self-sufficiency of the years before 1980 brought greater predictability and stability. Yet it has also made the world much less equal or fair. The trend towards equalisation of wealth and incomes that occurred within European societies between 1945 and 1975 has been stopped, and the curve, without exception in Europe, now points the other way, towards an ever-widening income gap, which is forcing large sections of the population to recalibrate their social expectations for themselves and their children.

In so far as the EU stands for the defence of the single currency, it thus finds itself aligned against those very priorities – stability, solidarity, equality – that helped restore the legitimacy of democracy to the western half of the continent after 1945. The recent divide between creditor north and debtor south makes these problems far more acute, but in fact they existed before the crisis hit. Even then, they lay at the heart of the fundamental political challenge that financialisation has produced, the challenge posed by the decoupling of political from economic power. The euro-crisis has made this challenge evident, and more morally troubling.

In these circumstances, what demands explanation is not the emergence of organised protest, but the lack of it. Why, we need to ask, do people find it so hard to imagine alternatives? Taxpayers are bailing out the financial sector. So why haven't they demanded more regulation, more control of pay, and ultimately a rebalancing of relationships between finance and manufacturing,

Adlestrop

Edward Thomas

Yes. I remember Adlestrop—
The name, because one afternoon
Of heat the express-train drew up there
Unwontedly. It was late June.

The steam hissed. Someone cleared his throat.
No one left and no one came
On the bare platform. What I saw
Was Adlestrop—only the name

And willows, willow-herb, and grass,
And meadowsweet, and haycocks dry,
No whit less still and lonely fair
Than the high cloudlets in the sky.

And for that minute a blackbird sang
Close by, and round him, mistier,
Farther and farther, all the birds
Of Oxfordshire and Gloucestershire.

between global liquidity and nationally rooted communities?

The main reason is the absence of widely believed alternatives. The revolutionary left, whether communist or anarchist, has failed at the ballot box, which may not matter to its adherents but signals its lack of political weight. In the few cases where it has succeeded, as in austerity-riven Greece (with Syriza), its recipes for the crisis are scarcely revolutionary. People may have soured on the globalisation dream but politicians continue to regard the financial markets as indispensable in more or less their present form. Domestically, what is striking is the degree to which recovery programmes today rely simply on expanding liquidity through the banking system rather than by means of the kind of ambitious public works projects that characterised recovery across Europe after 1945. Thus, while the left hand of Whitehall chastens the banks, its right hand begs them to kick-start a new boom.

Internationally, too, the idea that the removal of capital controls which took place in the past 30 years might need to be rolled back – that a sharper distinction might legitimately be drawn (the old distinction, in fact) between productive, long-term investment and short-term, speculative flows – has scarcely begun to be heard, though there have been faint murmurs of it in recent IMF discussions.

Even if there were persuasive alternatives, would they be heard? Back in the 1820s,

public opinion was a “Divinity”, a novel democratising and rationalising impetus that would force the old elite to modernise. In the age of the internet and the blogosphere, who still believes this? Here, as in other senses, Europe is living through the collapse of older certainties. Democracy has been won – but what has that meant? On its own, it guarantees the hegemony of a set of institutions and practices, not any particular policies. After all, the forces that made for social justice emerged not out of democratic institutions per se, but out of deep ideological anxieties and rivalries, rivalries that served to fetter the power of the markets and won wide political support for so doing.

Absent those ideological rivalries, or any new forms of effective collective mobilisation, and nothing checks the European social model from continuing to disintegrate. Europe=euro: in the shadow of this equation, all the other older, nobler and more ambitious versions of what Europe might stand for have faded away. An interesting possibility thus follows – might the dissolution of the euro be necessary in order to save something of the European idea? Or would we merely find ourselves with neither? We may yet find out. ●

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