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Europe's Painful Farewell: An Essay on the Decline of the Old World

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Europe is a continent in crisis. The financial problems of many European economies became visible to the rest of world when Greece only narrowly escaped bankruptcy in May 2010. Ever since, more unpleasant data about the state of public finances in Europe have emerged, putting pressure on Europe's common currency, the euro.

With the focus on finances, it is easy to overlook that many of Europe's current problems are not purely economic. They are the result of some basic construction errors of the European project.

European integration was a response to the catastrophes of the two world wars. By binding European nations closer together and integrating them in the framework of the European Union, it was hoped that former rivalries could be overcome and lasting peace and prosperity be created.

As it turns out, despite these efforts Europe has remained a continent with countries so different that they cannot be effectively harmonised under the EU banner. Above all, their diversity and a lack of a common European identity make it impossible to organise European affairs under the model of a national state. The European Union lacks the basic constitutive element of a nation state, namely a people.

Given the inadequate structures of the European Union, Europe is unable to come to grips with its three most difficult challenges: the state of public finances; the ageing of its population; and the integration of migrants from other cultural backgrounds.

The financial problems are not limited to Greece and other countries at the periphery of the Eurozone. Even supposedly stable countries such as Britain and Germany have long lived beyond their means, accumulating enormous amounts of debt in the process. Part of Europe's debt problems are hidden in pension liabilities. Once they are taken into account, the scale of Europe's debt is frightening at several times annual economic output in many countries.

Problems are compounded by the fact that Europe is ageing fast. Below replacement level birth rates have been the norm for decades. Combined with increasing life expectancy, European society is greying while the working age population is shrinking. This means that dependency ratios will worsen, while Europe's ability to deal with its debt problem is already seriously diminished.

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Theoretically, migration could ameliorate some of the effects of Europe's changing demography. However, integration of migrants into mainstream society has often failed.

Each individual problem—debt, demography and disintegration—would be serious enough in itself to cause severe trouble for Europe. Taken together, these problems make a European recovery from its current malaise almost impossible.

Europe's current crisis could be the beginning of a terminal decline of the European model. The continent that made the modern world is about to undo itself.

Introduction

One of the strategic consequences of the global financial crisis (GFC) has been a shift in the balance of economic power towards Asia. While the economies on both sides of the Atlantic faltered, the Asia-Pacific region kept growing strongly.

Much has been written about what this will mean for the United States. As economic historian Niall Ferguson has pointed out repeatedly, the US combination of military overstretch and chronic fiscal deficits may well bring about the end of America's dominance in international affairs.[1]

Arguably, the impact of the GFC on Europe was even more painful. The crisis of the past years has mercilessly exposed the shaky foundations of Europe's social and economic model. Europe is suffering from multiple crises at once. These crisis have structural and legal roots as Europe is not (and will probably never be) a proper nation-state with proper institutions, especially in terms of fiscal accountability. Europe is also adhering to an ideological romanticism that tends to focus on the desirable and not on the doable. This has contributed to an unsustainable welfare state and welfare attitudes, and the continent's flawed currency project. Finally, Europe is heading for a demographic crisis exacerbated by failed migration and integration policies.

In ordinary times, all of these problems would have been bad enough. But the GFC not only made these issues more visible but also demonstrated how little potential there is within Europe to deal with its multiple challenges.

This became particularly visible in Greece's near sovereign default, but the malaise was by no means limited to that country. All European countries have been driven towards high budget deficits in their attempts to deal with the results of the economic downturn. It is unclear how they will be able to restore their public finances when the crisis is over.

The psychological impact on Europe should not be underestimated. Europe, the dominant global power of the nineteenth century and parts of the twentieth century, has been publicly reduced to a group of economically sluggish, highly indebted, and increasingly old nations. In world affairs, the rest of the world no longer seems to care what Europe does or wants. If there had been any doubts about this, the Copenhagen climate summit should have swept them away when China, India and the United States effectively determined the outcome, leaving the Europeans as powerless bystanders.

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How did it come to this? How did the European Union and its member states fall behind other world regions? What went so wrong for the Old Continent that it was hit so hard by the GFC? And what are the lessons that other countries, particularly Australia, can learn from Europe's predicament? These are the questions addressed in this essay.

Europe's programmed economic crisis

Europe has floundered in many ways over the past decades. The European decline was not inevitable. At its heart were political decisions and, therefore, European politicians have to accept a great deal of the responsibility for producing the current crisis. Europe's leaders have weakened their countries through irresponsible fiscal policies, misguided migration programs, and a shocking failure to react to demographic challenges.

The policy blunders in Europe are so severe that it was only a matter of time before the continent imploded. The Greek crisis may have just been the catalyst for the rest of the world to realise the severity of the European problems. Greece, however, was by no means a singular case.

It would be easy to dismiss the Greek crisis as just a budget crisis in a small country. In fact, the recent economic history of Greece is the whole European tragedy in a nutshell. Greece only foreshadows greater tragedies to come. It is the canary in the coalmine.

In order to understand how Europe got into the current crisis, we need to go back in history.

The fall of Glorious Europe

At the beginning of the twentieth century, Europe reigned over the rest of the world. In terms of economic and military power, Europe was unrivalled. Europe was pioneering developments in the fields of science, literature and the arts. The era preceding World War I was Europe's Golden Age.

The two world wars destroyed all this glory. In fact, there are good reasons to treat the two wars as just one, because one cannot understand World War II without the fractures left behind by World War I. The entire continent had to deal with the trauma of the reality of new military technology that could bomb European cities back into the Stone Age.

War on European soil, of course, was nothing new. European history over the past centuries, in fact over two millennia, is one of a sequence of military conflicts. But the scale of destruction caused by the Great War of 1914 to 1945, the disruptions to trade and commerce, and the ideological confrontations were on a completely different scale than previous conflicts.

The post-War era saw a movement of European intellectuals and politicians led by Jean Monnet and Robert Schuman to make such intra-European conflict impossible in the future. Never again should European nations stand against each other again in conflict. United they should stand. United they should build a new peaceful, prosperous Europe.[2]

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To be sure, such romantic visions of Europe were not the only trend. Equally important were desires, especially by the French, to exert greater control over their dangerous neighbour and rival, Germany. What better way to do so but to unite with the Germans in a Coal and Steel Union, making it easier to keep track of what the Germans were doing in these strategic industries.

Another reason for the Western European drive towards greater integration was the threat of the Soviet Union. The common enemy of Soviet-led communism helped Western European countries to leave their own rivalries behind and form a bloc to fight off Russian aggression.

It was these three reasons—European romanticism, mutual suspicion, and a united stand against the Soviet Union—that became the foundations of the European project. Today, of course, the rhetoric in the speeches of European leaders sounds as if they are driven by high idealism.

What started in the immediate post-War period was a project to bind Western European nations together. It began with the Treaties of Rome in 1957, in which six nations founded the European Economic Community, as it was known at the time: France, Germany, Italy, the Netherlands, Belgium and Luxembourg.

Over the decades, many more countries joined them. Denmark, Ireland and the United Kingdom in 1973. Greece in 1981. Portugal and Spain in 1986. Austria, Finland and Sweden in 1995. Then in one big enlargement in 2004, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Finally, three years later in 2007, Bulgaria and Romania.

Europe's diverse union

Today, the European Union has 27 member states, ranging from the tiny states of Luxembourg and Malta to industrial heavyweights like Germany and Italy, from formerly communist economies in Eastern Europe to the self-styled postmodern service economy of the United Kingdom.

It includes countries that are predominantly Protestant like Sweden and Catholic countries like Poland, as well as mainly atheist countries like the Czech Republic. It includes countries that have a civil law tradition like France and common law countries like Ireland. It includes countries with good fiscal discipline like Denmark and countries with big debt burdens like Greece.

In other words, the current European Union of 27 countries is a mixture of extremely different countries, united under one banner. But the umbrella of EU membership has not eradicated the national peculiarities at all.

Least of all, the European project and the elites that have promoted it have not managed to form a European people, a *demos*, out of the many different nationalities. There is no European identity that would have replaced the national identities, as even ardent Europhiles as British Deputy Prime Minister Nick Clegg admit.[3] But without a *demos*, can there ever be a true *demo*cracy?

This is not a small matter. It actually goes to the heart of the European problem. The historical European institutions created over the years made sense only within a nation state. But a state, first and foremost, needs a people. In public international law, it is one of the three constitutive elements for a state: a territory, a people, and sovereignty (defined as the capability to order its own affairs, both internally and externally).

The European Union as constituted under the Treaties is lacking some of these elements. Admittedly, there is a territory but no single European *people*; instead, there are many different European *peoples*. And the different national governments with their own governmental structures and legal systems certainly mean that European sovereignty is also missing, at least in part.

Without a European people, the structures of a European state were missing a leg. States have governments, parliaments, a judiciary, a welfare state, money, a national media. But in its diversity, Europe was simply not the place where such structures could develop.

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European politicians have ignored these limitations to their preferred European project. They closed their eyes to the fact that their grand vision of a united Europe had always just been their fantasy with no realistic option of achieving it.[4]

So, instead, they forced it on the continent. They created institutions that together would form a state. They created a European government in the form of the European Commission.

The reality of this European government is that it is appointed by other governments, namely the governments of the member states. This practice has nothing to do with the principle of liberal democracy, according to which governments are supposed to be controlled by parliaments.[5]

The Europeans have, of course, also created a European Parliament—but one with limited rights and responsibilities. For example, the European Parliament cannot remove the European Commission, where all laws are proposed and made.

And there is another big difference between the European Parliament and a normal parliament. Ordinary parliaments are subject to a critical media; the European Parliament is not. Its proceedings hardly get reported in the European media.

Why is this so? Because there are Dutch papers reporting Dutch affairs in Dutch, French papers reporting French affairs in French, and German papers reporting German affairs in German.

But European affairs? And in which language? It just does not happen, and thus there are no signs of a European public opinion developing. National interests remain strong. We may even argue they are getting stronger, as the resurgence of nationalist and separatist parties in Belgium, the United Kingdom or Spain demonstrates. Instead of moving towards a European public opinion, the pendulum may in fact be swinging in the other direction.

There is no European media market, either. European politicians tried creating Euronews to rival CNN, without much success. They also launched the TV channel Arte as a joint Franco-German initiative (that hardly anyone watches). They created 3sat to broadcast in Germany, Austria and Switzerland. But these attempts failed miserably in creating a European public opinion.

In EU affairs, the pattern is always the same: We have no European people, let's try to create it. We have no European media, let's try to create it. We have no European democracy, let's at least create something that looks like a parliament.

The whole European project has become a gigantic top-down project with the goal of creating a European state, completely ignoring the real needs and wishes of the people, driven by a self-obsessed political elite.

In the same fashion, these elites had also decided that Europe needed a single currency, a new reserve currency to rival the US dollar. Of course, this was never true. Europe never needed a single currency. It was doing extremely well when it still had the German Deutschmark, the French Franc, the Italian Lira, or the Dutch Guilder—a point recently put well in an essay by Dutch writer Leon de Winter in Germany's *Der Spiegel* magazine.[6] But that was not good enough for Europe's elites.

If Europe was meant to be a state, it should also have a currency. And thus the euro was born. The euro also had the positive side-effect of curbing Germany's power. That Germany always had the strongest currency in Europe against which others regularly had to devalue their own currencies had always annoyed the French, the Italians and the Spaniards.

Economic considerations have always played second fiddle in a monetary union.

As the national currencies were abolished, the Germans needed to be convinced that they had nothing to fear, and so the new European Central Bank was located in Frankfurt. They were also promised that this new central bank would follow the same time-tested rules that had guided the old Bundesbank and that had made the deutschmark such a hard currency.

As we can now see, this did not work. The conditions necessary for a monetary union were not present, which was among the reasons why Milton Friedman and many other prominent economists were opposed to it.[7] It is hard to create a new currency out of thin air. Every currency first and foremost needs trust. While you can trust a national government in a limited sense, it is much harder to develop trust in an artificial, multinational currency with no clear responsibilities for its long-term stability.

This applies especially if the economic circumstances are as vastly different as they obviously are in Europe. Even the economic cycles were not quite synchronised in Europe, so different countries would have still needed different interest policies. But suddenly they had to live with a one-size-fits-all policy from the European Central Bank.

Economic considerations have always played second fiddle in a monetary union. From the start, the euro project was meant to curb Germany's economic dominance in Europe while creating a new reserve currency to rival the US dollar. It was an idea developed by politicians willing to ignore economic realities.

Economists had long been worried about the construction of the euro. They warned that the member states were far too different to have a common currency. They pointed out that monetary unions had never worked without coordinated fiscal policy. They highlighted the lack of credible sanctions against member states that did not comply with the EU's Growth and Stability Pact. They argued that Britain's forced exit from the ERM mechanism in 1992 could foreshadow future attacks against Eurozone members.

Yet none of these concerns could deter Europe's political leaders from entering into this grandest of economic adventures. Doubts, concerns and warnings were simply brushed aside by the political class.

Euro crisis

As it turns out, European citizens were less convinced. In the only referenda on the euro so far, the Danes and the Swedes voted against it; and there were good reasons never to put the question to, say, the Germans. Had they been asked whether they wanted to sacrifice their beloved deutschmark for the euro, the answer would have been a resounding 'Nein.'

The monetary union project was doomed to fail from the beginning. That it was actually falling apart faster than even most pessimists had thought was due to the fact that the Growth and Stability Pact, which was meant to make the euro a hard currency, was never enforced.

This stability pact with its rules for public deficits and debt was breached from the beginning, even by countries like Germany. And the figures submitted to the European Union were shamelessly manipulated by almost all member states, not just Greece.

As a result, out of the 16 Eurozone member states, only five are still below the 60% debt to GDP mark that the Growth and Stability Pact allows. They are Cyprus, Slovenia, Slovakia, Finland and Luxembourg. With all due respect, these are not quite the heavyweights of the Eurozone. This year, not a single Eurozone country, not even Luxembourg, will manage to fulfil the 3% deficit criteria of the treaty.[8] In other words, the Growth and Stability Pact is dead.

So the European monetary union is yet another policy failure caused by European politicians blissfully ignoring economic realities. It was also another instance of European leaders brushing aside the wishes of their people. The Greek crisis could have been the perfect opportunity for them to realise what a mess they had created. But instead of cleaning up the mess, they are creating an even greater mess.

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Not only are European politicians providing vast amounts of money for the stabilisation of the euro, but they have also ended the pretence of the independence of the European Central Bank. Taken together, they are leading Europe into a new inflation and transfer union—a union that no country had originally signed up for.

Europe's monetary union is crumbling under the weight of public debt. There is a lot of finger-pointing at Greece, Portugal and Italy. At the same time, these countries look to Germany to restore their public finances. Unfortunately, not even Germany is strong enough to carry the weaker EU members through their crises.

Germany: The blind king of Europe

Germany is often seen as the potential saviour of Europe, as a kind of lender of last resort to financially unstable countries like Greece and—potentially—other PIIGS countries.

There is only one problem with this story: Germany itself is in no position to lend to other European economies. Everything that Germany wants to lend to others, it has to borrow itself.

Germany's debt burden has already reached €1.8 trillion, or 76% of the German GDP (these are the official figures and exclude pension liabilities). The true figure could be three times the official one. In any case, the fiscal forecasts for the coming years do not look promising.

In this situation, Germany cannot absorb the extra deficits required to finance emergency loans to Greece and others. Although Germany's official debt burden (76% of GDP) is lower than that of Greece (120% of GDP), Germany's capacity to bail out others is seriously limited.

Despite the perception of Germany as the strongest, healthiest economy in the Eurozone, the country is neither particularly strong nor healthy. The best thing about Germany is that in the land of the blind that is Europe, the one-eyed man, Germany, is king. Other European nations—France, Spain, Italy—are in an even worse state. Even Germany's supposed economic strength should be questioned: GDP per capita is higher than Germany's GDP per capita in 45 out of 50 US states.

The first euphoric reactions of international markets to the announcement of the EU's trillion dollar package for the stabilisation of the euro were therefore curious. How could anyone take this package seriously? In order to provide this vast amount of money, the Europeans would have to borrow it first, which is an unrealistic option. And would it solve any problems or just create more? At some stage, the Germans will ask themselves why they should make their national interests subservient to a pan-European project with dubious benefits. The irony of all this is, of course, that although the medicine is expensive it will not even cure the Greek patient.

The Greek hole

The mistake most politicians make about the Greek situation is simple. They believe that Greece's principal problem is its budget deficit of around 13% of GDP (if the figures can be trusted). If that were the case, plugging the hole in Greece's public finances with international help could indeed work. To be sure, it would still require huge amounts of money from the IMF and Eurozone members like Germany. But it would buy the Greeks time to get their budget troubles under control.

At some stage, the Germans will ask themselves why they should make their national interests subservient to a pan-European project with dubious benefits.

This calculation will not work, though. It ignores the fact that apart from its fiscal crisis, Greece has more serious economic problems such as its lack of cost competitiveness. To put it simply, as long as a cappuccino costs €4.50 in Athens, Greece has no chance of economic recovery.

Given the Greeks' poor productivity, Greek wages and prices are at least a quarter higher than they should be. This means that Greece cannot compete with Germany. It will also struggle to compete with its neighbours in the important tourism market. It will not be able to recover. Even under the most optimistic assumptions, Greece would still face a debt to GDP ratio of more than 150% when the EU bailout program finishes in 2013. In other words, sovereign default is still going to happen, only a few years later.

If Greece still had its old currency, there would have been an easier way out of this quagmire, namely to devalue. In fact, that's precisely how countries like Greece had dealt with similar challenges. Devaluing the currency would have made imports more expensive, thus correcting the trade imbalances troubling Europe.[9]

The euro has made this course of action impossible. Greece is trapped in a monetary union that is forcing it to slash its budget and cut its wages in the country's most severe recession for decades. Even a Keynesian understands that this will cause enormous economic pain and risks political destabilisation.

So Greece's problems are not going to be solved by the billions of euros now flowing into the country for the next few years. At best, this will only postpone Greece's eventual economic collapse. Greece would be much better served if it were allowed to default, give up the euro, and devalue. It would be following the example of Argentina's default from which the country bounced back at a remarkable speed.

Of course, European politicians will be fighting this best economic option for Greece because it is incompatible with their political ambitions.

From this angle, the euro is not only an economic disaster but a political failure. It encapsulates everything that is wrong with Europe. While European leaders indulge in grand visions of socio-economic leadership, they have consistently failed to deal with the continent's real economic challenges.

It would be unfair, though, to blame the lack of fiscal discipline in Europe on the monetary union alone. In the euro countries that are now struggling, the march into debt began decades earlier; even in countries outside the Eurozone, debt problems have become severe.

The sun sets on a former empire

Britain is a good example. Just a decade ago, Britain was thought to be in reasonably good shape. At the time, the UK budget was in surplus. Real public sector net debt had fallen slightly from its peak in the mid-1990s. Total managed expenditure had also fallen to a relatively healthy 37% of GDP, which was about seven percentage points lower than at the end of the Thatcher years.

So by and large, British public finances looked fine. Perhaps the British fiscal situation was not quite as good as in Australia before the GFC, but it was certainly better than in most other European countries.[10]

And surely, the British felt good about themselves. So good in fact that Chancellor Gordon Brown even claimed that he had personally abolished the business cycle. 'No more boom and bust,' Brown promised.

In hindsight, this was the time the British made the biggest long-term mistakes about their finances. It is astonishing how a position of relative fiscal strength was reversed within the short space of a decade, but the British have done it. How?

Perhaps the figures should not have been trusted in the first place. National debt may have looked small and manageable, but some areas had always been excluded from the official data.

In the fiscal year of 2000–01, official debt stood at £381 billion. But taking into consideration unfunded public sector pensions of £434 billion and unfunded state pensions of £1.4 trillion, Britain's real debt had already reached close to £2.3 trillion.

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In other words, Britain's debt did not stand at 31% of GDP as the British government claimed. It was a full 200 points higher at 231% of GDP.

Unfortunately, the official debt figures were taken as an invitation to spend more and more and more. After all, the public was not too concerned about public debt. And so Tony Blair and Gordon Brown kept spending on their pet projects.

For example, under the Labour government, about 800,000 extra jobs were created in the public sector. And by the way, the Conservative opposition under David Cameron did not oppose these measures. They were very much complicit in this policy.

Apart from increasing spending, the British government did nothing to address the issues in its two pension systems. In both state and public sector pensions, liabilities ballooned. In nominal terms, they nearly tripled in a decade.

When the financial crisis hit Britain, public finances were in a sorry state. Today, the British government officially estimates its national debt to be £890 billion (63% of GDP). The actual figures are much higher, though.

Including pensions, both state and public sector, and further including public finance initiatives, Network Rail, and nuclear decommissioning liabilities, we are talking about a total of just under £5.3 trillion (376% of GDP). Include the debt of RBS/Lloyds, and the figure goes up to 560% of GDP.

All of these calculations are based on recent research undertaken by the UK Taxpayers Alliance.[11] They are confirmed by a report from the British Office for National Statistics (ONS).[12]

Earlier this year, the ONS published a working paper under the seemingly harmless title *Wider Measures of Public Sector Debt—A Broader Approach to the Public Sector Balance Sheet*. A technocratic title but an explosive content: the data showed Britain's national debt at more than three times the British GDP.

If it were a private company, the United Kingdom would be bankrupt.

There is really not much hope for the United Kingdom. Its debt figures are staggeringly high; servicing the debt consumes a rising proportion of the British budget; and all of this is happening at a time of historically low interest rates. How Britain is going to service its debt should interest rates return to their long-term average is anyone's guess.

Population ageing and migration

The most pressing political challenge in Europe is the debt crisis, and solving it will require extraordinary measures. But this is by no means the only problem. The most important long-term challenge will be its ageing societies.

According to Eurostat, the EU's statistical office, the average age of Europe's population is 40.4 years. By comparison, the average age is 36.3 years in America and Canada, 27.6 years in Asia, and only 19.0 years in Africa. By 2030, Europe's average age will go up to 45.4 years.[13] A change of the average age of five years in 20 years' time may not sound much, but it means enormous pressures for the already groaning European welfare states. An older population not only means more pensioners but also rapidly increasing health costs. Given the already precarious state of public finances across Europe, it is quite clear that Europe will struggle to shoulder these burdens. Population ageing and shrinking will also mean that Europe can expect extremely subdued economic growth rates for decades to come.

European nations have failed to integrate migrants into mainstream society.

Italy may be the worst example of these developments. After decades of fertility rates far below the replacement level, the country is facing an inevitable demographic decline. By 2030, Italy's population will have fallen by about two million people. This would be bad enough, but by this stage Italy's median age will be well over 50 years. How on earth the Italians are ever going to repay their national debt given these circumstances?

Some experts argue that immigration could be used to correct this demographic imbalance. Unfortunately, the scale of the problem is far too great for migration to offer a quick fix. Just to maintain its current workforce-to-retiree ratio, Italy would need an annual influx of more than 700,000 migrants.[14] Such an unprecedented increase in the country's migrant population from its current level of around four to five million is not politically viable, though. Mass immigration is already one of the most contentious issues in Italian politics.

But not only in Italy. All European countries show the same set of problems. On the one hand is an ageing and less fertile native population. Whether it is Germany, Austria, Italy, Spain or even France, the natives of these countries are getting older and having fewer and fewer children. They are also losing more and more of their young, qualified people through outward migration.

On the other hand, though, inward migration is equally strong. Unfortunately, though, European countries have not managed to steer immigration enough, so in effect they are getting a high proportion of poorly qualified migrants who are unlikely to make a positive contribution to their economies. These migrant communities have high degrees of illiteracy, high welfare dependency rates, and high unemployment rates. They also have the highest fertility levels.

European nations have failed to integrate migrants into mainstream society. Germany pretended for decades that its 'guest workers' would return to their home countries. There was the absurdity of people whose parents and grandparents had already lived in Germany being called 'third generation guest workers.' Such labels cannot help migrants become part of mainstream society.

Taken together, it means that European societies are segregating. On the one hand, there is the native, ageing and shrinking population; on the other, there is a less integrated, less educated, less productive but highly fertile migrant community. That these migrants are predominantly Muslim is not the core problem, but it does not make the task of integrating them into European society any easier.

A lack of leadership

The problems on the European front are numerous: the flawed monetary union, the disastrous state of public finances, the rapidly ageing and shrinking populations, the failed integration of migrants with a corresponding increase of informal segregation.

All these issues would require tough and decisive political action if they are to be solved but which is not forthcoming in the near future, least of all from the European Union. The Europeans do not even have a political mechanism to tackle these issues.

The European Union has become a bureaucratic organisation too busy dealing with itself. It is extremely good at producing thousands of pages of new laws each year so that even defining chocolate can take 15 years. It is also an institution with a serious lack of democratic legitimacy. The European Parliament is still marginalised by the executive and national governments; its proceedings are barely transparent.

Even the newly installed European President, who was meant to be the face of the Union, is only known to a handful of political insiders. Who has heard of Herman van Rompuy anyway? He clearly is not Europe's answer to Obama. And Baroness Ashton, the newly chosen European foreign secretary, is hardly known in international circles. Both appointments show how much European influence on world matters has dwindled.

That these two weak characters were selected to head the European Union—together with the equally uncharismatic José Manuel Barroso as President of the European Commission—only shows that the European Union is no longer considered by the rest of the world as a place where political decisions are made. The real decision-making still takes place in European capitals—and the European Union is then used as a tool to sell national self-interest as European solutions.

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What future for Europe?

A realistic assessment of Europe shows the continent to be in terminal decline and facing an uncertain and unpleasant future. Whether these problems will culminate in a big, existential crisis or repeat the Japanese experience of a few lost decades is hard to predict. Neither scenario is particularly appealing, though.

Recent emigration levels from European countries show that the exodus from Europe has already begun. Between 1997 and 2006, nearly two million Britons left their country, and that was at a time when the British economy was still growing.[15] In Germany, more than 160,000 people left the country in 2007, many of whom were highly qualified. A survey compiled for the Economics Ministry revealed that a large proportion of German migrants named high taxes and a complicated bureaucracy as important factors contributing to their decision—and this was before the economic crisis.[16]

If Europe's problems do not get solved, the European brain drain will continue. This is bad for Europe but potentially good for countries such as Australia. There will be thousands of well-qualified British entrepreneurs, German engineers, and Polish doctors looking for a better life elsewhere. Is Australia ready to recognise this as an opportunity?

The future of Europe looks bleak, no matter from which angle you look at it. The best we can do is to watch the developments in the Old World carefully and make the best of them.

Endnotes

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