論　文

Europe: Building a New Civilization Through its Integration*

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Synopsis

The deepening and widening of the integration has hoisted the European flag in the Western civilization to a new higher stage. The lofty goals manifested in the European Constitution include: 1) welfare state with competitiveness, 2) global environmental protection, 3) poverty elimination and sustainable growth in developing countries, 4) robust social capital bolstered by the network Europe, to name just a few.

Though the process for ratification of the Constitution has been interrupted in the spring of 2005 after the 'No' vote by the French and the Dutch, the process has been resurrected under the Austrian leadership in 2006. The momentum for further integration is back on track, because ultimately it is the idealism and determination of the European people that support and enhance the European integration.

As we scrutinize, we can discern the new historic direction that Europe has launched in the resolution of conflicts through diplomacy and the coordinated but liberal approach in the welfare state building (the so-called, OMC, Open Method of Coordination, according to the European jargon). When we compare the European

*This is an English version summary of a 261 pages book in Japanese, "Europe that detests the American-type capitalism", (Amerika-gata Shihonshugi wo ken-o suru yo-roppa), published in March 2006 by the Aki-shobo, Tokyo way with the weird course of preventive warfare and the dismantling of the welfare state that America has begun under the leadership of President George W. Bush, the divesture of the Western civilization is apparent.

The western civilization had been constituted mainly of the Western Europe and the United States since the 18th century. The two pillars of the Western civilization have been regarded, on the whole, as one political entity, and has been playing dominant roles in the world politics and economy over the past three centuries. However, due to those recent changes on both sides of the Atlantic, the disunion of the Western civilization looks decisive, and even unalterable. It is because both of those changes are fundamental, long lasting and supported by the general public in both regions.

What might be needed for Japan is to have an in-depth understanding on the historic nature of the split in the Western civilization and draw some lessons from it.

1. The Western Civilization Unraveled

On the 29th of October 2004, all the heads of the 25 member countries of the European Union has adopted the Constitutional Treaty, thereby declaring the establishment of a new civilization for Europe in the 21st century. Only four days after this historic event, on the second of November, Mr. George W. Bush was elected for the second term as the president of the United States. The American voters have given Mr. Bush the mandate to continue the ‘war on terror’, to move towards an even smaller government and generous tax cut for the wealthy. Mr. Bush keeps on enacting the preventive warfare, knocking down foreign governments that he does not like and where tyranny rules.

Those two events in Europe and the US in the fall of 2004 can be quite important, signaling the two different directions to be taken by Europe and the US in the new century. Europe has adopted and declared two major goals in economic policy: to be the most competitive knowledge economy in the world and to build a world class welfare state. The European leaders are fully aware that the two goals are, to an extent, oxymoronic. The welfare state must be financed by the tax revenue of the government imposed on individuals and corporations. Those tax revenues that went into the government safe could well have been retained by corporations, enabling them to invest for newer technology and better equipments; those investments could have resulted in higher productivity and competitiveness for corporations. Individuals could also have benefited from lower taxes, by using their untaxed income for buying more goods and receiving services. By giving up the greater current consumption and paying higher taxes for the government, individuals also had contributed to the maintenance of a number of the welfare programs such as the old age pension, medical expense, public education, day care service and maternity leave for the other individuals.

Governments will take those earned income from individuals through taxation, thereby denying the benefit of higher disposable income. The taxation by the big government thus sucks money from the consumers and corporations, and dampens the level of economic activity (GDP) of a country.

Along this line of arguments, the conservatives in America make the case for further cuts in government expenditure and more tax cuts for individuals and corporations. They also demand more deregulations and enlarging the areas where market forces are applied, in which previously no market forces worked; the American conservatives demand enlarging the areas where the unrestrained competition becomes the rule of the game. Further pursuit of economic efficiency and enhancement of the roles of the private sector seem to be the only criteria which those advocates of deregulation believe.

However, Europe clearly recognizes not only the merits of the market system but also the limitations of the market forces. Europe as a whole came to share a more sophisticated understanding on the market economy, because Europe has experienced very serious class conflicts at home, civil wars and even international warfare among nations; the causes of those conflicts were mostly attributable to the conflict between the rich and powerful, and the poor and weak. One of the lessons the Europeans commonly share through historic experience is that the meritocracy sustained by market competition creates enormous economic efficiency but it can also result in social instability.

Europe is the birth place of communism and the social democratic movement. The concern for and understanding on the social strains caused by economic inequality is a widely shared agenda in Europe. The concerns about income gap and social inequality is not only shared by the social democrats which have strong political influence in most of the European countries but also by the conservatives which often become the ruling government party when the social democrats lose the election. In fact, in the United Kingdom, for instance, much of the welfare state programs had been built under the conservative government in the post WWII era.

In the United States, the historic pattern was that the Democrats were more eager to build the welfare state, while even the moderate Republicans were rather reluctant to build more social programs. There exists a tradition of strong anti-government sentiment in the American public opinion and that sentiment has become more powerful and influential with rise of the right wing Republicans since the 1980s. Under the general right-wing shift of the political environment, even the Democratic president Bill Clinton (1993–2001) had to declare 'the end of the welfare state as we know it' and had to effectively abolish many welfare programs such as the AFDC (Aid for Families with Dependent Children).

President George W. Bush (2001–2008), who belongs to the right wing Republicans, is trying, with the enthusiastic support of the conservative Congress in both Houses and a significant support of the public opinion, to dismantle the American welfare state that had been built since the great depression under President Franklin D. Roosevelt.

With those differences in policies on welfare state and the solid shift in public opinion in recent years both in Europe and the United States, the cleavage in the views on appropriate social policy and the role of the public sector in the two major regions (Europe and America that comprise the Western civilization) has become decisive and even possibly unalterable. The era in which the western civilization could be regarded as one unified entity has ended as we entered the 21st century. From the 21st century toward some time in the long future, we will live under the two different systems of the western civilization, each exerting strong influences on the ways of economic and social policies in the rest of the world.

Tables 1 and 2 below highlight the significance of the split between Europe and the United States.

Table 1. The Historic Significance of the European Integration

1. An Attempt to Overcome the Shortcomings of the Capitalist System
   1) to limit the income gap between the rich and poor within a tolerable range
   2) by so doing, rectifying the inherent weakness of capitalism in building social unity and trust
2. An Attempt to Overcome Nationalism and Nation States

   Ever Closer Union, aiming at somewhere between the Federal System and the

Association of Nation States

3. Establishing a Method of Consensus Building through Compromise and Logic
   1) Fifty Years of Experience on Building a Unique Association of the Nation States
   2) The Experience Applied to the Diplomatic Negotiations with non-EU Member Countries
   3) Establishing the new Diplomatic Approach of a Civilian Power
   4) Abandoning the Gunboat Diplomacy (Power Politics)
4. Formation of a Network Europe

   Governance by the Networks of Civil Society Organizations
5. Breaking with the Sins committed by Modern Europe in the past 500 Years

   The Final Establishment of non-religious, secular State

   Supporting the Sustainable Development in Developing Countries

   Repentance on the Colonial Rule, and Religious Warfare and Persecution
6. Promulgating the Ideals of Universal Human Rights

   Environmental Protection, Social Market Economy

   Help for the Weak; Comprehensive Protection of Human Rights including the right to receive medical care, life-long education and placement services, etc.
7. Overcoming the modern Western Europe and Renewal of the Western Civilization

   Based on Points 1 to 6 shown above, overcoming the Darkness of the Past; Envisioning the new bright Society for the new Century

Table 2. The Untoward Influences of the American Conservative Revolution

1) An Attempt for Restoring a pure Capitalism

   Widening Gap between the rich and the poor, Dismantling the Welfare State, Rising Social Tension within a Society

2) Greater Awareness of Nation Statehood

   Emphasis on Patriotism; Foreign Countries are either “with us or against us”

3) The Urge to resolve many Problems by the Use of crude military Force

   Relying on Preventive Warfare, and the Regime Change afterwards. Destroying the International System of preserving Peace by Adherence to International Treaties and the Decisions at the United Nations Security Council

   Essentially no Change between the Bush Doctrine 1 (Sept 2002) and the Bush Doctrine 2 (March 2006); more Saber Rattling on Iran, with some Words on soliciting Ally’s Help

War and Terror more likely to erupt as a Result

4) Weakening Civil Society Organizations (CSOs) at Home

Spirit of Cooperation and mutual Help on Decline

Under keener Cut-Throat Competition, Membership of CSOs on Decline

Direct Rule by the Government on the Rise

5) Tilting toward Religious Fundamentalism

Side Effects of the "Faith Based Initiative"

Introducing Religious Concept to Foreign Policy

Greater Policy Gap between the US and EU on International Affairs

Anti-American Sentiment on the Rise as a Result of Democratization (Election Results: in Iran, Iraq, Palestine and Egypt in 2005–2006)

6) Among the Policy Goals, excessively Prioritizing Economic Growth

Marginalizing Environmental Issues

Rivalry of the Two Hungry Giants (US and China) Coveting for National Resources

Ignoring and disposing the Socially Weak at Home

2. An Epoch Making Constitution

The historic significance of the new Europe is best summarized by the European Constitutional Treaty, finally adopted on October 24th 2004 and is in the process of ratification by member countries. The major points of the Constitution are, 1) preserving the best elements of the European civilization and elevating them to a higher plane, 2) world peace and support for the sustainable growth in developing countries, 3) universal human rights, and 4) determination to build a global green society.

1) Europe has declared itself a secular state by refusing to mention anything about religion in the Constitution except to say in its preface that the Constitution was made reflecting on the cultural and religious traditions of Europe. Note even in this shortest statement on religion, the word Christianity is never used. In a sharp contrast to the slighting of religion in the Constitution, the best elements of the European civilization such as the environmental protection and human rights are much stressed and are written into many chapters in the Constitution.

2) To the rest of the world outside Europe, it is the high and lofty goals of Europe to achieve eradication of poverty and support the sustainable growth for

developing countries, according to the Constitution. This part is seen not only as an expression of ideals but also an apology and repentance of Europe for its brutal colonial rule, murder and torture of the native people in developing countries until a very recent past.

3) Universal Human Rights constitute Part II of the Constitution. Though the Part II is an indispensable part of the Constitution, this document has its own coherent internal logic and is readable as an independent document of its own. The wholly encompassing coverage and the sophisticated expressions on human rights of the Part II was brought about by the fact that the Part II is a compilation of the many European Treaties such as the Maastricht Treaty and Nice Treaty, going through close scrutiny and serious debate along its way toward the final ratification.

Elimination of the death penalty is one of the uniqueness of the Constitution together with the stress on Universal Human Rights applicable not only within Europe but also, in its intent, in the entire world. Human Rights do cover a whole range of areas: the right to life-long education, work, housing, pension, healthcare, and nursing in old ages. It is a natural development of the spirit of the Social Europe which Europe has given birth to and nurtured since the start of its integration. The Treaty of Rome stressed the rights of the workers in chapter three of its 1957 text. The rights of workers have been expanded to include many social protections over the past 50 years; it resulted in the most comprehensive legal documents on human rights.

4) Global environmental protection and the comprehensive shift to the recycling economy are stressed in the Constitution. Among the developed countries, the EU is a unique association of nation states that commonly emphasizes global environmental protection as an utmost policy task. The EU member countries are implementing the environmental protection not only through the EU law, directives and communications from the headquarters in Brussels but also by the national law of each member country.

The preamble of the Constitution states, “in awareness of their responsibilities towards future generations and the Earth”, Europe believes that Europe offers the people of Europe “the best chance of pursuing” “the great venture which makes of it a special area of human hope”.

The Constitution makes further statements on environmental protection. “A high level of environmental protection and the improvement of the quality of environment must be integrated into the policies of the Union and ensured in accordance with the principle of sustainable development." (II-97)

For the actual implementation of the high environmental standards, the EU has adopted several important policy initiatives. The Precautionary Principle in the introduction of a new product, a new experiment, and a new technology is just one example. If the scientific evidence is incomplete with regard to the safety of those products, the EU can prohibit the introduction of such products.

Another principle is the so-called REACH system in chemicals; REACH stands for Registration, Evaluation, and Authorization of Chemicals, which demands the registration and testing the safety of more than 30,000 chemicals for chemical manufacturers. It is estimated that the European chemical manufacturers will have to bear the cost of 8 billion euro to abide by the REACH system.

3. The Birth of the Network Europe

In the integrated Europe, a three-tiered structures of governance is emerging. The newest and the most important is the emergence of the network Europe. The other two traditional governance structures are 1) the associations of nation state governments and 2) the EU parliament and the European Commission.

The network Europe is made of voluntarily organized private citizens' groups (CSO, Civil Society Organizations) made of European nationals living in various EU member countries. The CSO can be an environmental protection group, or can be a group eager to help the street children in developing countries, or the one determined to reduce AIDS worldwide, or another one focusing on prohibition of land mines or can be for or against anything else.

The willingness of those citizens in the private sector can sometimes help change the world. They can exert pressure directly on the EU government, to make new legislation in the EU parliament bypassing the national government by so doing, or to resort to some other measures. The goodwill and the will power of those CSOs are reincarnated to the social capital of a civil society. In Europe the social capital of CSO is rising high both as a byproduct of the European integration itself and also by the encouragement of the EU leaders for the CSO to directly make their case and appeal to the European Commission brushing aside the traditional national governments.

Mr. Romano Prodi, former president of the EC, was particularly eager to encourage the activities of the CSOs across national borders; he called this new phenomenon as the emergence of 'Network Europe'. The EU government directly communicating with the citizens' organizations in different countries routinely is a new form of governance, made feasible only with the greater integration of Europe and the advance in information technology.

Bolstered by the robust CSO activities (some 3,000 important, EU-wide CSOs are known), the social capital in Europe is very high while in the US the social capital has been showing appalling decline over the past several decades, possibly as a result of the cut-throat competition under the market fundamentalism, an ideology promulgated by the successive conservative governments. (Robert D. Putnam, "Bowling Alone: Collapse and Revival of American Community" New York: Simon and Schuster 2000)

Even President George W. Bush, no liberal with a bleeding heart, showed concern on the decline of social capital in America and tried to take some remedial measures such as the creation of the Americorps. However, since Mr. Bush himself is perceived as responsible for destroying much of the social capital in the US by widening the gap between the rich and poor and by dismantling many social programs, not much is expected nor has been achieved under Mr. Bush regarding to the restoration of the depleted social capital in the US.

4. Competitiveness and Welfare: Chasing after two Rabbits

In March 2000, the EU has adopted a strategic document on how to regain competitiveness of the EU economy in the age of global competition and integration. Since the EU summit that had adopted the strategy paper was convened in Lisbon, Portugal, the strategy is usually referred to as 'the Lisbon Strategy'. After some analysis, the document drew a comprehensive EU strategy for making the EU the most competitive knowledge economy by 2010. The strategy was meant to be implemented in the ensuing ten years.

(European Commission, Presidency Conclusions, Lisbon European Council)
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm

In January 2005, at the middle year of the ten year strategy, the EU went on

a mid-term review. The review paper has acknowledged that the reform of the labor markets, stressed in the 2000 Lisbon strategy, was not producing visible results. As a follow-up to the mid-term review, the Enterprise and Industry Director General of the European Commission issued "The new Lisbon Strategy" in January 2006, a lengthy paper of 122 pages.
http://europa.eu.int/comm/enterprise/enterprise_policy/competitiveness/doc/industrial_policy_and_economic_reforms_papers_1.pdf

In March 2006, the European Economic and Social Committee of the European Commission came out with a report for the European Council (23 and 24 March, 2006), reviewing the competitive and social conditions in each member country. The title of the 117 pages report is "Implementation of the Lisbon Strategy".
http://www.esc.eu.int/lisbon_strategy/index_en.asp

It looks as if the insufficient implementation of the Lisbon Strategy has created a pretext for churning out a plethora of papers by the Eurocrats; annual review papers of the Lisbon strategy, both by country and by policy issues, such as the technology, labor market reform, and so forth. Though the bureaucratic papers are not particularly exciting, perusing through them, one can find that some sensible consensus and commonly shared proposals might be emerging:

Among them, the most important perspectives seem to be:

(1) the economic growth rate of the EU can fall to 1% a year, due to the decreasing population and the international competition, and yet,

(2) the EU will persevere in maintaining the social market economy

(3) for that purpose the EU will keep on investing in people's capacity and innovative power of corporations

(4) strengthening education in general and enhancing the R and D (Research and Development) in particular will be of utmost importance.

Declining population means less workers to create real wealth in a country and less consumers to support domestic demand. It naturally leads to lower or even negative figure for a country's economic growth rate, both from the supply side (if productivity remains unchanged, less workers producing less products at home) and the demand side (if per capita consumption stays at the same level, less consumers creating less domestic demand).

In the EU, even after enlargement to 25 countries in 2005, the total population is expected to dwindle from the current 45 million to 40 million by the year 2025. The demographic change will exert a strong downward pressure on the growth rate of the EU. The 2000 Lisbon strategy and its review paper (The new Lisbon Strategy) in 2006 acknowledge it and face this fact as a natural fact of life.

Keener international competition in the age of globalization also tends to make growth rate in the EU lower. The EU is losing competitiveness in the information and communication area to the United States and Japan, while in the traditional low tech area such as textile, apparel, toys, and footwear to developing countries in East Asia, particularly to China. Those developing countries are making inroads into the European markets, leaving less room for the European companies to grow. Few new jobs in the manufacturing sector are created in Europe, resulting in high unemployment rate, particularly for the young. Low growth rates are common for most of the EU member countries.

A typical American approach to this kind of persistent unemployment and low growth would have been to lay off more workers first, restore corporate profitability second, let corporations use the newly acquired surplus money to make investments in the new technology and products third, and eventually to increase the profit and sales of the corporate sector, and the country's GDP (Gross Domestic Product).

Europe does not adopt that American way. Contrary to the American model, Europe is based on the model of the social market economy, providing protection for the weak, the poor and the minorities even under difficult conditions. Hence, Europe must invest in people's capacity to engage in a more productive work. That is the reason why in the review of the Lisbon strategy investing in people's and corporations' productive capacity is emphasized.

Needless to say, some reform in the labor market has been given importance while the need for creating a stronger information technology sector was emphasized in the numerous European strategy papers. Some improvements have been made such as the allocation of more funds for R & D in the EU budget; it had been proposed and implemented by the British Prime Minister Blair in the summer of 2005 while the UK assumed the presidency of the EU.

But the bottom line of the EU approach to the international competitiveness issue is that Europe is a social market economy with greater protection for the worker and the less skilled. The cost of running the social market economy (protecting the weak, maintaining pension contribution, providing medical care, and sustaining unemployment insurance) will make the operating cost of corporations higher; those social obligations will make them less competitive in the world market.

In essence, economically speaking, social market economy and global competitiveness are anathema. Many EU government officials and corporate managers are fully aware that the most competitive knowledge economy and the social market economy, two major goals in the Lisbon strategy and its follow-ups, are oxymoron. The European leaders are intentionally chasing after two rabbits: preservation of the welfare state and the achievement of global competitiveness. Those who chase after two rabbits may not catch any, so goes the old Chinese proverb.

The social market economy is the backbone of the integrated European economy originated in West Germany after World War II (Sozie Markt Wirtschaft). Breaking one's backbone for the short term financial gain is naturally dismissed out of hand in the European policy discussion, possibly with the exception of the U. K. leaders.

In all the developed countries the government spending on social programs (education, welfare, medical cost, pension and else) tend to rise. The rise of social spending seems to be a universal and unstoppable trend at this moment. Though there must be natural limits to the rise of the welfare state, we cannot see clear numerical limits to the rise of the social spending yet on the horizon.

In the 1880s, the social spending/GDP ratio ranged from 0.3% to 1% among the developed countries but the new range in 1930 was between 0.5% and 3%. In the post World War II era, the range edged up even higher and is hovering between nearly 19% (US and Japan) and 40% (Sweden and Denmark). According to Professor Peter H. Lindert, an expert on global social spending by the public sector, the rise in social spending is caused by three factors: 1) higher income, 2) longevity, and 3) advances in democracy. (Peter H. Lindert, "Growing Public: Social Spending and Economic Growth Since the Eighteenth Century", New York: Cambridge University Press, 2000)

There are many factors that make the welfare state difficult to maintain, as Prof. Paul Pierson at the University of California has pointed out.

(Paul Pierson, 'Coping with Permanent Austerity: Welafare State Restructuring in Affluent Democracies' in Paul Pierson (ed.), "The New Politics of the Welfare State", Oxford: Oxford University Press, 2000)

The social market economy is a European version of the welfare state developed and spread by the European integration. Four factors make the welfare spending inevitably higher. They are:

(1) As the center of gravity in economic activities moves from manufacturing to services, growth rates in the productivity and macro economy will slow down, thereby pulling down the increase in government revenue,

(2) The promised payments of the welfare system will increase to a higher level than it has been anticipated at the outset of those programs,

(3) Pension payment and medical expenditure will increase dramatically as the population ages and achieves longevity, and also as the medical technology makes further advances, and

(4) The number of households with two income earners and those headed by a single mother will rise, which will create new welfare demand.

Those four factors cited by Prof. Pierson are essentially domestic factors based on changes in demography, social mores and industrial competitiveness.

However, there are international factors that are at work as well, including changes both in the developed countries and developing countries.

(5) Because of the new mobility in international factors of production, those factors such as technology, capital, physical facilities for production, and even management know how have begun to move across national borders since 1980s. The mobility is increasing to a higher pitch in recent years. With the higher mobility in the international factors of production, new developing countries can now play a significant role in the international competition. Countries that used to have no competitive edge for technology nor management, except for the relatively well educated low wage workforce, can engage in international competition, pulling down the wages and working condition in certain sectors in the world economy. This change is often called “the race to the bottom” in Europe.

(6) We must mention still another international factor which can be peculiar to Europe. This factor renders the maintenance of welfare state (the social market economy) even more costly and particularly painful in Europe than it is the case for the rest of the world. That is the self imposed burden of the euro.

The euro member countries must abide by the rule of the Stability and Growth Pact (SGP I), which requires member countries ①to limit the annual budget deficit within 3% of the size of the country’s economy (GDP), ②to keep inflation rate low, and ③not to let its total outstanding government debt/GDP ratio exceed 60% and a few other criteria.

Those conditions make the fiscal policies of the euro member countries quite rigid and tend to push down the growth rate of a country's economy lower. This is because the clauses in SGP I effectively prohibits the economic expansion by bigger fiscal spending and larger budget deficit for that country. This can be called as the self-imposed severe limitations on the licentious use of the Keynesian economic policy tools.

Though some changes were agreed upon in the rules and implementation of the Stability and Growth Pact in March 2005 and those changes were enacted since September 2005 (SGP II), the dirigisme and the deflationary policy impact of the SGP adopted for the introduction of the euro under the Maastricht Treaty remains essentially intact.

For the euro member countries, fiscal policies of each country is under severe constraints because of the Stability and Growth Pact, while the monetary policy has no choice but to be very restrictive under the tutelage of the European Central Bank (ECB).

The deflationary bias of the monetary policy is also by law and Europe's own making, resulting from the Maastricht Treaty. Unlike the legal framework governing the American Central Bank which obliges the FRB (Board of Governors of the Federal Reserve System) to work for the twin goals of price stability and full employment, the mandate in Europe given to the ECB is the maintenance of the price stability alone, with no reference to the creation of jobs and other growth or welfare related goals. The ECB is not held accountable to the European Parliament for its policy, either. The political pressure on the central bank to make growth rate higher by adopting loose monetary policy is almost non-existent in Europe.

In summary, Europe has lost much freedom in the management of the macro economy both in fiscal policy (SGP) and monetary policy (ECB). Those dear losses in macro economic policy tools were necessitated by the need to establish euro as a strong international currency by sound economic conditions at home in the euroland. The founders of euro desperately needed to build a perception among the world investors that the newly introduced euro is a trustworthy, international currency, not losing its value by easy monetary policy nor by rampant inflation, but strongly bolstered by very sound and reliable fiscal and monetary policies. The euro must prove that it can be even stronger than the US dollar in order to retain the confidence of the global investors.

In the world economy today, some 2 trillion dollars of hot money is traded in the exchange market daily, an amount large enough to cause currency crisis for even major currencies. With this inherently unstable, global economic system, the measures adopted by the founders of the euro might have been a necessary cost for starting a new venture in the international currency market.

With all the aforementioned six factors ((1) lower growth caused by the shift of the economy from manufacturing to services, (2) bloating welfare payments, (3) higher cost by aging and longevity, (4) changes in family types, (5) race to the bottom by globalization, (6) burden of the euro) that make the sustainability of the welfare state even more difficult in countries joining the euro system, Europe will have to cope with many pressures for policy changes both from within Europe and also from the outside world.

The social market economy of Europe is likely to persevere even under the unfavorable conditions in the foreseeable future. There can be economic turmoil and political upheavals as the world economy makes those necessary and painful adjustments. The next major economic shocks might be originated not from Europe but from the United States as it will be forced to reduce its budget deficit, current account deficit and the huge net external debt.

The global economic adjustment emanating from the other side of the Atlantic could result in a long period of painful reforms and low growth in the world economy. Political leaders promising reforms will come and go. However, there can be no question that Europe will cut out some of the excesses but maintain the essence of its welfare state while bit by bit improving its competitiveness in the world economy.