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Europe continues to be engulfed by economic crisis.  [The global focus returns to Athens](#) on June 28 as Greek parliamentarians debate austerity measures imposed on them by eurozone partners. If the Greeks vote down these measures, Athens will not receive its second bailout, which could create an even worse crisis in Europe and the world.

It is important to understand that the crisis is not fundamentally about Greece or even about the indebtedness of the entire currency bloc. After all, Greece represents only 2.5 percent of the eurozone's gross domestic product (GDP), and the bloc's fiscal numbers are not that bad when looked at in the aggregate. Its overall deficit and debt figures are in a better shape than those of the United States — the U.S. budget deficit stood at 10.6 percent of GDP in 2010, compared to 6.4 percent for the European Union — yet the focus continues to be on Europe.

That is because the real crisis is the more fundamental question of how the European continent is to be ruled in the 21st century. Europe has emerged from its subservience during the Cold War, when it was the geopolitical chessboard for the Soviet Union and the United States. It won its independence by default as the superpowers retreated: Russia withdrawing to its Soviet sphere of influence and the United States switching its focus to the Middle East after 9/11. Since the 1990s, Europe has dabbled with institutional reform but has left the fundamental question of political integration off the table, even as it integrated economically. This is ultimately the source of the current sovereign debt crisis, the lack of political oversight over economic integration gone wrong.

The eurozone's economic crisis brought this question of Europe's political fate into focus, but it is a recurring issue. Roughly every 100 years, Europe confronts this dilemma. The Continent suffers from overpopulation — of nations, not people. Europe has the largest

concentration of independent nation-states per square foot than any other continent. While Africa is larger and has more countries, no continent has as many rich and relatively powerful countries as Europe does. This is because, geographically, the Continent is riddled with features that prevent the formation of a single political entity. Mountain ranges, peninsulas and islands limit the ability of large powers to dominate or conquer the smaller ones. No single river forms a unifying river valley that can dominate the rest of the Continent. The Danube comes close, but it drains into the practically landlocked Black Sea, the only exit from which is another practically landlocked sea, the Mediterranean. This limits Europe's ability to produce an independent entity capable of global power projection.

However, Europe does have plenty of rivers, convenient transportation routes and well-sheltered harbors. This allows for capital generation at a number of points on the Continent, such as Vienna, Paris, London, Frankfurt, Rotterdam, Milan, Turin and Hamburg. Thus, while large armies have trouble physically pushing through the Continent and subverting various nations under one rule, ideas, capital, goods and services do not. This makes Europe rich (the Continent has at least the equivalent GDP of the United States, and it could be larger depending how one calculates it).

What makes Europe rich, however, also makes it fragmented. The current political and security architectures of Europe — the European Union and NATO — were encouraged by the United States in order to unify the Continent so that it could present a somewhat united front against the Soviet Union. They did not grow organically out of the Continent. This is a problem because Moscow is no longer a threat for all European countries, Germany and France see Russia as a business partner and European states are facing their first true challenge to Continental governance, with fragmentation and suspicion returning in full force. Closer unification and the creation of some sort of United States of Europe seems like the obvious solution to the problems posed by the eurozone sovereign debt crisis — although the eurozone's problems are many and not easily solved just by integration, and Europe's geography and history favor fragmentation.

Confederation of Europe

The European Union is a confederation of states that outsources day-to-day management of many policy spheres to a bureaucratic arm (the European Commission) and monetary policy to the European Central Bank. The important policy issues, such as defense, foreign policy and taxation, remain the sole prerogatives of the states. The states still meet in various formats to deal with these problems. Solutions to the Greek, Irish and Portuguese fiscal problems are agreed upon by all eurozone states on an ad hoc basis, as is participation in the Libyan military campaign within the context of the European Union. Every important decision requires that the states meet and reach a mutually acceptable solution, often producing non-optimal outcomes that are products of compromise.

The best analogy for the contemporary European Union is found not in European history but in American history. This is the period between the successful Revolutionary War in 1783 and the ratification of the U.S. Constitution in 1788. Within that five-year period, the United States was governed by a set of laws drawn up in the Articles of the

Confederation. The country had no executive, no government, no real army and no foreign policy. States retained their own armies and many had minor coastal navies. They conducted foreign and trade policy independent of the wishes of the Continental Congress, a supranational body that had less power than even the European Parliament of today (this despite Article VI of the Articles of Confederation, which stipulated that states would not be able to conduct independent foreign policy without the consent of Congress). Congress was supposed to raise funds from the states to fund such things as a Continental Army, pay benefits to the veterans of the Revolutionary War and pay back loans that European powers gave Americans during the war against the British. States, however, refused to give Congress money, and there was nothing anybody could do about it. Congress was forced to print money, causing the Confederation's currency to become worthless.

With such a loose confederation set-up, the costs of the Revolutionary War were ultimately unbearable for the fledgling nation. The reality of the international system, which pitted the new nation against aggressive European powers looking to subvert America's independence, soon engulfed the ideals of states' independence and limited government. Social, economic and security burdens proved too great for individual states to contain and a powerless Congress to address.

Nothing brought this reality home more than a rebellion in Western Massachusetts led by Daniel Shays in 1787. Shays' Rebellion was, at its heart, an economic crisis. Burdened by European lenders calling for repayment of America's war debt, the states' economies collapsed and with them the livelihoods of many rural farmers, many of whom were veterans of the Revolutionary War who had been promised benefits. Austerity measures — often in the form of land confiscation — were imposed on the rural poor to pay off the European creditors. Shays' Rebellion was put down without the help of the Continental Congress essentially by a local Massachusetts militia acting without any real federal oversight. The rebellion was defeated, but America's impotence was apparent for all to see, both foreign and domestic.

An economic crisis, domestic insecurity and constant fear of a British counterattack — Britain had not demobilized forts it held on the U.S. side of the Great Lakes — impressed upon the independent-minded states that a "more perfect union" was necessary. Thus the United States of America, as we know it today, was formed. States gave up their rights to conduct foreign policy, to set trade policies independent of each other and to withhold funds from the federal government. The United States set up an executive branch with powers to wage war and conduct foreign policy, as well as a legislature that could no longer be ignored. In 1794, the government's response to the so-called Whiskey Rebellion in western Pennsylvania showed the strength of the federal arrangement, in stark contrast to the Continental Congress' handling of Shays' Rebellion. Washington dispatched an army of more than 10,000 men to suppress a few hundred distillers refusing to pay a new whiskey tax to fund the national debt, thereby sending a clear message of the new government's overwhelming fiscal, political and military power.

When examining the evolution of the American Confederation into the United States of America, one can find many parallels with the European Union, among others a weak center, independent states, economic crisis and over-indebtedness. The most substantial

difference between the United States in the late 18th century and Europe in the 21st century is the level of external threat. In 1787, Shays' Rebellion impressed upon many Americans — particularly George Washington, who was irked by the crisis — just how weak the country was. If a band of farmers could threaten one of the strongest states in the union, what would the British forces still garrisoned on American soil and in Quebec to the north be able to do? States could independently muddle through the economic crisis, but they could not prevent a British counterattack or protect their merchant fleet against Barbary pirates. America could not survive another such mishap and such a wanton display of military and political impotence.

To America's advantage, the states all shared similar geography as well as similar culture and language. Although they had different economic policies and interests, all of them ultimately depended upon seaborne Atlantic trade. The threat that such trade would be choked off by a superior naval force — or even by North African pirates — was a clear and present danger. The threat of British counterattack from the north may not have been an existential threat to the southern states, but they realized that if New York, Massachusetts and Pennsylvania were lost, the South might preserve some nominal independence but would quickly revert to de facto colonial status.

In Europe, there is no such clarity of what constitutes a threat. Even though there is a general sense — at least among the governing elites — that Europeans share economic interests, it is very clear that their security interests are not complementary. There is no agreed-upon perception of an external threat. For Central European states that only recently became European Union and NATO members, Russia still poses a threat. They have asked NATO (and even the European Union) to refocus on the European continent and for the alliance to reassure them of its commitment to their security. In return, they have seen France selling advanced helicopter carriers to Russia and Germany building an advanced military training center in Russia.

The Regionalization of Europe

The eurozone crisis — which is engulfing EU member states using the euro but is symbolically important for the entire European Union — is therefore a crisis of trust. Do the current political and security arrangements in Europe — the European Union and NATO — capture the right mix of nation-state interests? Do the member states of those organizations truly feel that they share the same fundamental fate? Are they willing, as the American colonies were at the end of the 18th century, to give up their independence in order to create a common front against political, economic and security concerns? And if the answer to these questions is no, then what are the alternative arrangements that do capture complementary nation-state interests?

On the security front, we already have our answer: the regionalization of European security organizations. NATO has ceased to effectively respond to the national security interests of European states. Germany and France have pursued an accommodationist attitude toward Russia, to the chagrin of the Baltic states and Central Europe. As a response, these Central European states have begun to arrange alternatives. The four Central European states that make up the regional Visegrad Group — Poland, the Czech Republic, Slovakia and Hungary — have used the forum as the mold in which to create a

eurozone crisis becomes more integration. Warsaw is not going to give Berlin veto power over its budget spending if the two are not in agreement over what constitutes a security threat. This argument may seem simple, and it is cogent precisely because it is. Taxation is one of the most basic forms of state sovereignty, and one does not share it with countries that do not share one's political, economic and security fate.

This goes for any country, not just Poland. If the solution to the eurozone crisis is greater integration, then the interests of the integrating states have to be closely aligned on more than just economic matters. The U.S. example from the late 18th century is particularly instructive, as one could make a cogent argument that American states had more divergent economic interests than European states do today, and yet their security concerns brought them together. In fact, the moment the external threat diminished in the mid-19th century due to Europe's exhaustion from the Napoleonic Wars, American unity was shaken by the Civil War. America's economic and cultural bifurcation, which existed even during the Revolutionary War, erupted in conflagration the moment the external threat was removed.

The bottom line is that Europeans have to agree on more than just a 3 percent budget-deficit threshold as the foundation for closer integration. Control over budgets goes to the very heart of sovereignty, and European nations will not give up that control unless they know their security and political interests will be taken seriously by their neighbors.

Europe's Spheres of Influence

We therefore see Europe evolving into a set of regionalized groupings. These organizations may have different ideas about security and economic matters, one country may even belong to more than one grouping, but for the most part membership will largely be based on location on the Continent. This will not happen overnight. Germany, France and other core economies have a vested interest in preserving the eurozone in its current form for the short term — perhaps as long as another decade — since the economic contagion from Greece is an existential concern for the moment. In the long term, however, regional organizations of like-minded blocs is the path that seems to be evolving in Europe, especially if Germany decides that its relationship with core eurozone countries and Central Europe is more important than its relationship with the periphery.



[\(click here to enlarge image\)](#)

We can separate the blocs into four main fledgling groupings, which are not mutually exclusive, as a sort of model to depict the evolving relationships among countries in Europe:

1. **The German sphere of influence** (Germany, Austria, the Netherlands, Belgium, Luxembourg, Czech Republic, Hungary, Croatia, Switzerland, Slovenia, Slovakia and Finland): These core eurozone economies are not disadvantaged by Germany's competitiveness, or they depend on German trade for economic benefit, and they are not inherently threatened by Germany's evolving relationship with Russia. Due to its isolation from the rest of Europe and proximity to Russia, Finland is not thrilled about Russia's resurgence, but occasionally it prefers Germany's careful accommodative approach to the aggressive approach of neighboring Sweden or Poland. Hungary, the Czech Republic and Slovakia are the most concerned about the Russia-Germany relationship, but not to the extent that Poland and the Baltic states are, and they may decide to remain in the German sphere of influence for economic reasons.
2. **The Nordic regional bloc** (Sweden, Norway, Finland, Denmark, Iceland, Estonia,

Lithuania and Latvia): These mostly non-eurozone states generally see Russia's resurgence in a negative light. The Baltic states are seen as part of the Nordic sphere of influence (especially Sweden's), which leads to problems with Russia. Germany is an important trade partner, but it is also seen as overbearing and as a competitor. Finland straddles this group and the German sphere of influence, depending on the issue.

3. **Visegrad-plus** (Poland, Czech Republic, Slovakia, Hungary, Romania and Bulgaria): At the moment, the Visegrad Group members belong to different spheres of influence. The Czech Republic, Slovakia and Hungary do not feel as exposed to Russia's resurgence as Poland or Romania do. But they also are not completely satisfied with Germany's attitude toward Russia. Poland is not strong enough to lead this group economically the way Sweden dominates the Nordic bloc. Other than security cooperation, the Visegrad countries have little to offer each other at the moment. Poland intends to change that by lobbying for more funding for new EU member states in the next six months of its EU presidency. That still does not constitute economic leadership.
4. **Mediterranean Europe** (Italy, Spain, Portugal, Greece, Cyprus and Malta): These are Europe's peripheral states. Their security concerns are unique due to their exposure to illegal immigration via routes through Turkey and North Africa. Geographically, these countries are isolated from the main trade routes and lack the capital-generating centers of northern Europe, save for Italy's Po River Valley (which in many ways does not belong to this group but could be thought of as a separate entity that could be seen as part of the German sphere of influence). These economies therefore face similar problems of over-indebtedness and lack of competitiveness. The question is, who would lead?

And then there are France and the United Kingdom. These countries do not really belong to any bloc. This is London's traditional posture with regard to continental Europe, although it has recently begun to establish a relationship with the Nordic-Baltic group. France, meanwhile, could be considered part of the German sphere of influence. Paris is attempting to hold onto its leadership role in the eurozone and is revamping its labor-market rules and social benefits to sustain its connection to the German-dominated currency bloc, a painful process. However, France traditionally is also a Mediterranean country and has considered Central European alliances in order to surround Germany. It also recently entered into a new bilateral military relationship with the United Kingdom, in part as a hedge against its close relationship with Germany. If France decides to exit its partnership with Germany, it could quickly gain control of its normal sphere of influence in the Mediterranean, probably with enthusiastic backing from a host of other powers such as the United States and the United Kingdom. In fact, its discussion of a Mediterranean Union was a political hedge, an insurance policy, for exactly such a future.

The Price of Regional Hegemony

The alternative to the regionalization of Europe is clear German leadership that underwrites — economically and politically — greater European integration. If Berlin can overcome the anti-euro populism that is feeding on bailout fatigue in the eurozone core, it

could continue to support the periphery and prove its commitment to the eurozone and the European Union. Germany is also trying to show Central Europe that its relationship with Russia is a net positive by using its negotiations with Moscow over Moldova as an example of German political clout.

Central Europeans, however, are already putting Germany's leadership and commitment to the test. Poland assumes the EU presidency July 1 and has made the union's commitment to increase funding for new EU member states, as well as EU defense cooperation, its main initiatives. Both policies are a test for Germany and an offer for it to reverse the ongoing security regionalization. If Berlin says no to new money for the newer EU member states — at stake is the union's cohesion-policy funding, which in the 2007-2013 budget period totaled 177 billion euros — and no to EU-wide security/defense arrangements, then Warsaw, Prague and other Central European capitals have their answer. The question is whether Germany is serious about being a leader of Europe and paying the price to be the hegemon of a united Europe, which would not only mean funding bailouts but also standing up to Russia. If it places its relationship with Russia over its alliance with Central Europe, then it will be difficult for Central Europeans to follow Berlin. This will mean that the regionalization of Europe's security architecture — via the Visegrad Group and Nordic-Baltic battle groups — makes sense. It will also mean that Central Europeans will have to find new ways to draw the United States into the region for security.

Common security perception is about states understanding that they share the same fate. American states understood this at the end of the 18th century, which is why they gave up their independence, setting the United States on the path toward superpower status. Europeans — at least at present — do not see their situation (or the world) in the same light. Bailouts are enacted not because Greeks share the same fate as Germans but because German bankers share the same fate as German taxpayers. This is a sign that integration has progressed to a point where economic fate is shared, but this is an inadequate baseline on which to build a common political union.

Bailing out Greece is seen as an affront to the German taxpayer, even though that same German taxpayer has benefited disproportionately from the eurozone's creation. The German government understands the benefits of preserving the eurozone — which is why it continues bailing out the peripheral countries — but there has been no national debate in Germany to explain this logic to the populace. Germany is still waiting to have an open conversation with itself about its role and its future, and especially what price it is willing to pay for regional hegemony and remaining relevant in a world fast becoming dominated by powers capable of harnessing the resources of entire continents.

Without a coherent understanding in Europe that its states all share the same fate, the Greek crisis has little chance of being Europe's Shays' Rebellion, triggering deeper unification. Instead of a United States of Europe, its fate will be ongoing regionalization.

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