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When I visited Europe in 2008 and before, the idea that Europe was not going to emerge as one united political entity was regarded as heresy by many leaders. The European enterprise was seen as a work in progress moving inevitably toward unification — a group of nations committed to a common fate. What was a core vision in 2008 is now gone. What was inconceivable — the primacy of the traditional nation-state — is now commonly discussed, and steps to devolve Europe in part or in whole (such as ejecting Greece from the eurozone) are being contemplated. This is not a trivial event.

Before 1492, Europe was a backwater of small nationalities struggling over a relatively small piece of cold, rainy land. But one technological change made Europe the center of the international system: deep-water navigation.

The ability to engage in long-range shipping safely allowed businesses on the Continent's various navigable rivers to interact easily with each other, magnifying the rivers' capital-generation capacity. Deep-water navigation also allowed many of the European nations to conquer vast extra-European empires. And the close proximity of those nations combined with ever more wealth allowed for technological innovation and advancement at a pace theretofore unheard of anywhere on the planet. As a whole, Europe became very rich, became engaged in very far-flung empire-building that redefined the human condition and became very good at making war. In short order, Europe went from being a cultural and economic backwater to being the engine of the world.

At home, Europe's growing economic development was exceeded only by the growing ferocity of its conflicts. Abroad, Europe had achieved the ability to apply military force to

achieve economic aims — and vice versa. The brutal exploitation of wealth from some places (South America in particular) and the thorough subjugation and imposed trading systems in others (East and South Asia in particular) created the foundation of the modern order. Such alternations of traditional systems increased the wealth of Europe dramatically.

But “engine” does not mean “united,” and Europe’s wealth was not spread evenly. Whichever country was benefitting had a decided advantage in that it had greater resources to devote to military power and could incentivize other countries to ally with it. The result ought to have been that the leading global empire would unite Europe under its flag. It never happened, although it was attempted repeatedly. Europe remained divided and at war with itself at the same time it was dominating and reshaping the world.

The reasons for this paradox are complex. For me, the key has always been the English Channel. Domination of Europe requires a massive land force. Domination of the world requires a navy heavily oriented toward maritime trade. No European power was optimized to cross the channel, defeat England and force it into Europe. The Spanish Armada, the French navy at Trafalgar and the Luftwaffe over Britain all failed to create the conditions for invasion and subjugation. Whatever happened in continental Europe, the English remained an independent force with a powerful navy of its own, able to manipulate the balance of power in Europe to keep European powers focused on each other and not on England (most of the time). And after the defeat of Napoleon, the Royal Navy created the most powerful empire Europe had seen, but it could not, by itself, dominate the Continent. (Other European geographic features obviously make unification of Europe difficult, but all of them have, at one point or another, been overcome. Except for the channel.)

Underlying Tensions

The tensions underlying Europe were brought to a head by German unification in 1871 and the need to accommodate Germany in the European system, of which Germany was both an integral and indigestible part. The result was two catastrophic general wars in Europe that began in 1914 and ended in 1945 with the occupation of Europe by the United States and the Soviet Union and the collapse of the European imperial system. Its economy shattered and its public plunged into a crisis of morale and a lack of confidence in the elites, Europe had neither the interest in nor appetite for empire.

Europe was exhausted not only by war but also by the internal psychosis of two of its major components. Hitler’s Germany and Stalin’s Soviet Union might well have externally behaved according to predictable laws of geopolitics. Internally, these two countries went mad, slaughtering both their own citizens and citizens of countries they occupied for reasons that were barely comprehensible, let alone rationally explicable. From my point of view, the pressure and slaughter inflicted by two world wars on both countries created a collective mental breakdown.

I realize this is a woefully inadequate answer. But consider Europe after World War II. First, it had gone through about 450 years of global adventure and increasingly murderous wars, in the end squandering everything it had won. Internally, Europe watched a country like Germany — in some ways the highest expression of European civilization — plunge to levels of unprecedented barbarism. Finally, Europe saw the United States move from the

edges of history to assume the role of an occupying force. The United States became the envy of the Europeans: stable, wealthy, unified and able to impose its economic, political and military will on major powers on a different continent. (The Russians were part of Europe and could be explained within the European paradigm. So while the Europeans may have disdained the Russians, the Russians were still viewed as poor cousins, part of the family playing by more or less European rules.) New and unprecedented, the United States towered over Europe, which went from dominance to psychosis to military, political and cultural subjugation in a twinkling of history's eye.

Paradoxically, it was the United States that gave the first shape to Europe's future, beginning with Western Europe. World War II's outcome brought the United States and Soviet Union to the center of Germany, dividing it. A new war was possible, and the reality and risks of the Cold War were obvious. The United States needed a united Western Europe to contain the Soviets. It created NATO to integrate Europe and the United States politically and militarily. This created the principle of transnational organizations integrating Europe. The United States also encouraged economic cooperation both within Europe and between North America and Europe — in stark contrast to the mercantilist imperiums of recent history — giving rise to the European Union's precursors. Over the decades of the Cold War, the Europeans committed themselves to a transnational project to create a united Europe of some sort in a way not fully defined.

There were two reasons for this thrust for unification. The first was the Cold War and collective defense. But the deeper reason was a hope for a European resurrection from the horrors of the 20th century. It was understood that German unification in 1871 created the conflicts and that the division of Germany in 1945 re-stabilized Europe. At the same time, Europe did not want to remain occupied or caught in an ongoing near-war situation. The Europeans were searching for a way to overcome their history.

One problem was the status of Germany. The deeper problem was nationalism. Not only had Europe failed to unite under a single flag via conquest but also World War I had shattered the major empires, creating a series of smaller states that had been fighting to be free. The argument was that it was nationalism, and not just German nationalism, that had created the 20th century. Europe's task was therefore to overcome nationalism and create a structure in which Europe united and retained unique nations as cultural phenomena and not political or economic entities. At the same time, by embedding Germany in this process, the German problem would be solved as well.

A Means of Redemption

The European Union was designed not simply to be a useful economic tool but also to be a means of European redemption. The focus on economics was essential. It did not want to be a military alliance, since such alliances were the foundation of Europe's tragedy. By focusing on economic matters while allowing military affairs to be linked to NATO and the United States, and by not creating a meaningful joint-European force, the Europeans avoided the part of their history that terrified them while pursuing the part that enticed them: economic prosperity. The idea was that free trade regulated by a central bureaucracy would suppress nationalism and create prosperity without abolishing national identity. The common currency — the euro — is the ultimate expression of this hope. The Europeans hoped that the existence of some Pan-European structure could grant wealth without surrendering the core of what it means to be French or Dutch or Italian.

Yet even during the post-World War II era of security and prosperity, some Europeans recoiled from the idea of a transfer of sovereignty. The consensus that many in the long line of supporters of European unification believed existed simply didn't. And today's euro crisis is the first serious crisis that Europe has faced in the years since, with nationalism beginning to re-emerge in full force.

In the end, Germans are Germans and Greeks are Greeks. Germany and Greece are different countries in different places with different value systems and interests. The idea of sacrificing for each other is a dubious concept. The idea of sacrificing for the European Union is a meaningless concept. The European Union has no moral claim on Europe beyond promising prosperity and offering a path to avoid conflict. These are not insignificant goals, but when the prosperity stops, a large part of the justification evaporates and the aversion to conflict (at least political discord) begins to dissolve.

Germany and Greece each have explanations for why the other is responsible for what has happened. For the Germans, it was the irresponsibility of the Greek government in buying political power with money it didn't have to the point of falsifying economic data to obtain eurozone membership. For the Greeks, the problem is the hijacking of Europe by the Germans. Germany controls the eurozone's monetary policy and has built a regulatory system that provides unfair privileges, so the Greeks believe, for Germany's exports, economic structure and financial system. Each nation believes the other is taking advantage of the situation.

Political leaders are seeking accommodation, but their ability to accommodate each other is increasingly limited by public opinion growing more hostile not only to the particulars of the deal but to the principle of accommodation. The most important issue is not that Germany and Greece disagree (although they do, strongly) but that their publics are increasingly viewing each other as nationals of a foreign power who are pursuing their own selfish interests. Both sides say they want "more Europe," but only if "more Europe" means more of what they want from the other.

Managing Sacrifice

Nationalism is the belief that your fate is bound up with your nation and your fellow citizens and you have an indifference to the fate of others. What the Europeanists tried to do was create institutions that made choosing between your own and others unnecessary. But they did this not with martial spirit or European myth, which horrified them. They made the argument prudently: You will like Europe because it will be prosperous, and with all of Europe prosperous there will be no need to choose between your nation and other nations. Their greatest claim was that Europe would not require sacrifice. To a people who lived through the 20th century, the absence of sacrifice was enormously seductive.

But, of course, prosperity comes and goes, and as it goes sacrifice is needed. And sacrifice — like wealth — is always unevenly distributed. That uneven distribution is determined not only by necessity but also by those who have power and control over institutions. From a national point of view, it is Germany and France that have the power, with the British happy to be out of the main fray. The weak are the rest of Europe, those who surrendered core sovereignty to the Germans and French and now face the burdens of managing sacrifice.

In the end, Europe will remain an enormously prosperous place. The net worth of Europe — its economic base, its intellectual capital, its organizational capabilities — is stunning. Those qualities do not evaporate. But crisis reshapes how they are managed, operated and distributed. This is now in question. Obviously, the future of the euro is now widely discussed. So the future of the free-trade zone will come to the fore. Germany is a massive economy by itself, exporting more per year than the gross domestic products of most of the world's other nation-states. Does Greece or Portugal really want to give Germany a blank check to export what it wants with it, or would they prefer managed trade under their control? Play this forward past the euro crisis and the foundations of a unified Europe become questionable.

This is the stuff that banks and politicians need to worry about. The deeper worry is nationalism. European nationalism has always had a deeper engine than simply love of one's own. It is also rooted in resentment of others. Europe is not necessarily unique in this, but it has experienced some of the greatest catastrophes in history because of it. Historically, the Europeans have hated well. We are very early in the process of accumulating grievances and remembering how to hate, but we have entered the process. How this is played out, how the politicians, financiers and media interpret these grievances, will have great implications for Europe. Out of it may come a broader sense of national betrayal, which was just what the European Union was supposed to prevent.

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