

[homepage](#) > [Articles](#) > **Dusan Sidjanski**

Article

Dusan Sidjanski

Special adviser to the President of the European Commission José Manuel Barroso

Professor Emeritus, University of Geneva

Honorary President of the European Cultural Centre

Member of the Board of Directors of the Latsis Foundation, Geneva



The role of the European Union in the global crisis

Today we are experiencing the worst financial and economic crisis the world has seen since the Great Depression of 1929. There is a sombre lesson to be learnt from that time: a profound economic crisis can lead to social upheavals, which, in turn, can lead to a World War. Unlike the experience of 1929, the current crisis seems to have provoked a reaction of solidarity imposed by the highly advanced degree of the world's financial and economic interdependence and a form of globalization dominated by American leadership. In fact, the origins of this crisis are to be found right at the heart of this economic power which, due to its weakened economy, seems to have begun its relative decline as predicted by Paul Kennedy as early as 1987, and recently described by Niall Ferguson. In their studies of the past, the economy appears to be the basis of the political power of Empires.

Three major events have constituted turning points in the evolution of the world after the Second World War: firstly, the bipolar positions of the United States and Russia founded on an ideological confrontation between the free world and the communist world. Thanks to the balance of nuclear power, the cold war never developed into a hot war. Secondly, the creation of the European Community, originally composed of six member states, which has become the European Union of 27, joining together 500 million Europeans. A new "power" has emerged, which, although devoid of any centralized political power or an army, exerts its attraction and influence through negotiation, association and partnership with other countries. The European Union is the largest contributor not only to the budget of international organisations (UN, specialized agencies) but also to the aid granted to developing countries. Moreover, it has become the world's major commercial and economic power. Due to its influential position, the European Union is called upon to propose new standards - which resulted in the Wall Street Journal accusing it of "normative imperialism"- and to accept its responsibilities in the current crisis.

The third significant event is the fall of the Berlin Wall in 1989, followed by the disintegration of the Soviet empire and the transition to a market economy and democracy. The fact is that from now on Russia and its former republics are included in the process of economic globalization. This resurgence of Russia may be compared to the assertion of other emerging powers such as India, Brazil and, in particular, China. As a result, due to their intense interdependence all the countries across the globe have been hit, albeit to varying degrees and at different periods of time, by the crisis which broke out in the United States.

Before the crisis erupted in 2008 leading to "Black September", we were blithely enjoying the prosperity of the developed world, unconcerned about what the future may hold. Yet beneath this prosperity a crisis was brewing up, along with ever increasing inequalities, excessive consumption and debt. According to numerous analysts, the root cause of the crisis is attributed to unreasonable deregulation of financial markets which has encouraged speculation in a shady underworld. The accumulation of real estate sales without sufficient collateral securities

(assignment of debts to banks and financial institutions) have caused the subprimes bubble to burst. More broadly speaking, the global financial system, which has become more and more sophisticated, has lost contact with reality. On 15 September 2008 the declared bankruptcy of Lehman Brothers, the fourth largest American investment bank, heralded the end of an unregulated financial system out of control. A global recession had begun.

The European Union had been preoccupied for several years by the general state of financial spillover (risks, bonuses, tax havens) and was particularly alarmed by the turn of events leading to Black September in 2008. Spurred on by Nicolas Sarkozy, at that time President of the European Council, and with the support of the President of the European Commission, José Manuel Barroso, the European Union proposed a meeting of the G20 leaders beyond the traditional G8 in order to ensure that the largest world economies were more faithfully and realistically represented. Indeed, the G20 represents both the large majority of the population (2/3) and the world's economic activity (9/10ths). The aim was to cooperate in finding a way out of the crisis. At the same time, acting on the European Commission's recommendation, the European Union has defined a framework for the coordination of the Member States' financial plans, allowing for financial support amounting to 1.5% of its GDP.

The first meeting of the G20 on 15 November 2008 established a work programme largely inspired by the European plan: boost investment in the economy and employment, reform the financial system and ensure its transparency through surveillance, reinforce the role of the IMF and the World Bank, regulate and supervise rating agencies, contribute towards stabilizing banks and reviving the world economy by providing guarantees, liquid assets and investments. Right at the very first meeting, a strong consensus of opinion was reached regarding a rejection of any form of protectionism due to the lesson learnt from 1929.

Since President Obama considered the European Union's fiscal effort to be insufficient, he asked for Europeans to provide a larger contribution. The Franco-German couple, followed by all the other Member States, refused to increase their financial input. At the same time, President Barroso explained that the Union's contribution also includes a series of "automatic stabilisers" such as social security, public health system etc. Consequently, the European contribution can be estimated to be between 3 and 4% of GDP, with the added value resulting from the single market and its solid core, the Eurozone. This disagreement between America and Europe was overcome at the G20 summit on 2 April 2009. Another difference of opinion: the United States insisted that priority should be given to fiscal measures, whereas Europe emphasised the importance of reforming and regulating financial markets. When the Finance Ministers of the G20 countries met on 14 March, the United States aligned itself with the position of the European Union.

Under the leadership of the European Union and President Obama, the G20 meeting in London of 2 April 2009, presided over by Gordon Brown, took a step forward towards emerging from the crisis and reforming the financial system. The strong points consist of restoring confidence, growth and jobs; reviving credit granted by banks; reinforcing rules and monitoring of financial markets, reforming international financial institutions and increasing their resources; promoting global trade (financial support for trade and the WTO); as well as contributing towards re-establishing a sustainable economy, respectful of the environment for everyone. This commitment implies increasing aid to developing countries as well as a collective effort to protect the environment (UN Conference on climate change, Copenhagen, December 2009).

A radical reform of the system of global governance has begun. Excessive deregulation (Reagan and Thatcher), demands for "less State control" and boundless liberalism have suddenly been replaced by a return to a balance between the public and private sector and recourse to the rule of law. The market is supposed to recover its role as an economic trading ground which respects the rules of play, under the supervision of the public authorities who have global responsibility for public goods (environment, water, health, etc.) and for the general interest. The G20 and its decisions mark the return of public policy to the international scene.

This is just the beginning, albeit significant, of the turning point in the direction taken by the great powers in response to the crisis. However, the hardest part is yet to come, namely putting into practice these decisions

and, in particular, those related to climate change, which are being met with some reticence by the highest polluters such as the Americans and other developing countries. Moreover, this initiative by the G20 presupposes the awareness that there is now a new distribution of power in the world with the revival of Russia, the assertion of China and India and the presence of other emerging powers. The bipolar world of the Cold War period has been replaced by a period of transition characterised by the global reign of the American superpower and its unilateral policies. The 11th September 2001 and 15th September 2008 may be seen as landmarks of the great upheaval experienced across the globe, of which the first consequences are the G20 and the quest for global peace revived by President Obama and the European Union. European experience seems to have paid off. The Union's course of action favours dialogue, persuasion and participation, as shown by the enlargement of the EU and the network of associations and partnerships. Moreover, the Union has been a pioneer in guaranteeing peace and prosperity and promoting the Kyoto protocol and its directive combining climate and energy. Even after the Russia-Georgia War, the European Union has continued its negotiation of a strategic partnership with Russia based on interdependence and complementarity (technology and investments in exchange for Russian gas). Once again with the aim of ensuring peace, the way is being paved towards a reduction in nuclear weapons starting with the United States and Russia. Contrary to the Bush method based on hegemony and the use of force, Obama's approach is inspired by the use of more "soft power" through negotiation and cooperation.

Step by step, peace, the essential public good, is yet again at stake. Peace, which was the main purpose behind the creation of the European Community, has once more become one of the main concerns of the Union and of the major international actors. It is the Union's responsibility to promote global reforms and the framework for the new financial and economic system. A consequence of the resolutions of the G20 is the more comprehensive work carried out by Joseph Stiglitz, Nobel Prize Laureate for Economics, which brings together the 192 Member States of the U.N. The reforms of the economic system call for reforms of the U.N. system. This global effort is in line with the mission of both the Union and the United Nations.

Within this cluster of initiatives and projects, Europe is destined to play the part of the dynamic, unifying core due to its position, experience and ideas. By promoting a society of knowledge and innovation within the framework of the Lisbon strategy, which has been updated by President Barroso, the Union is leading the way by using "intelligent and clean investments", as well as by using dialogue between cultures. In this way, it emphasizes the need to change mentalities, the importance of principles and values at the expense of the rule of money, and of respect for other people which is a prerequisite for any form of cooperation. In order for this European and global revolution to be accomplished – just as we had predicted in 1957 with Denis de Rougemont in "L'Europe s'inscrit dans les faits" – it is necessary for us to rethink the very historical foundations and cultural dimension of our educational system, meaning culture in the broadest sense of the word, encompassing any creation of man, such as religion, philosophy, the arts and written works, without forgetting science and technology. The Union has yet to achieve its own reform and reinforce its institutions in order to make them more democratic and efficient. This requires the ratification of the Lisbon Treaty and its rapid implementation. Thereby strengthened, the European Union will be able to take full responsibility as a global economic actor and emerging political power.

- top of page -

Alexander S. Onassis Public Benefit Foundation | Tel. +30 210 3713000 | Fax. +30 210 3713013 | Email: pubrel@onassis.gr