

THREE CRISES: A CHANCE TO REBUILD A BROKEN WORLD?

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There is an air of urgency and tension around the world that suggests something dramatic is happening. Indeed, the international economic crisis appears to have rattled the happy go-lucky "sharing" of globalization and the World Bank is warning that protectionist barriers are on the rise; new powers whose ascendancy has been predicted years ago are now being pushed by international finance to the forefront, China in particular; and there is a trend toward rearmament, real for those who can still afford it (China and India), still on paper for those who wish it but are not quite sure how to pay for it (Russia). The U.S. is scrambling to find direction, taking bold action toward restructuring under a new, more sophisticated and hopefully more effective president, but there is still plenty of doubt as to whether the American paradigm continues to hold water. As for the European Union, with too many mediocre leaders, too few common political traditions, and constantly skeptical about its own existence, it still holds tightly to the notion that soft power is the way forward.

It is a natural inclination to seek precedents, something that has already happened and can be seen as comparable, part of an effort to find guidance into the fog of tomorrow. Most commentary has suggested (or rejected) parallels to the economic crisis of the 1920s and early 1930s, and there has been some discussion about American decline, and parallels with the British experience. Unfortunately the situation is much more serious: looking at the current crisis more broadly, it seems that we are in fact faced with a triple crisis whose parallels can be drawn from three separate modern historical periods, and whose convergence poses a substantial threat to international peace because the variables are too many for traditional crisis management. Moreover, it is a crisis whose complexity and magnitude many in leading positions around the world have identified, but are unsure how to proceed further, fearing that any sudden movement may topple the house of cards we have built.

How is this a triple crisis? In addition to the obvious financial disorder and possible collapse of economies on an unprecedented scale, there are two other developments that have been brewing for at least two decades and are a direct result of massive structural changes that have occurred on the international scene since the end of the Cold War. More specifically, on the one hand there is a new group of emerging powers, some larger than others, who are becoming increasingly assertive and are seeking to actively carve out spheres of influence they believe entitled to. The behavior of these emerging powers is reminiscent of scenarios from the 1890s and the imperialist scramble for territories and influence. China and India are two of the more obvious ones, but others, like Iran and Turkey are also among them.

On the other hand, the international world order, and particularly the United Nations system, has become unhinged, especially over its one function that all member states have come to agree and rely upon: as the official international body that grants newly declared states recognition and membership to the community of nations. The consequences of this challenge to the international political system are uncertain because they affect the fundamental building blocks of the system: states, sovereignty, territory and legitimacy. The most prominent and recent examples of this situation have been in Kosovo and Georgia. Again, this is reminiscent of historical periods in which the international system, its guiding rule book if you will, is rewritten or amended – and the past two centuries have offered a number of such junctures. I am, however, not convinced that any of these specific junctures (1815, 1918, 1945 being the major ones) are necessarily relevant here, especially as the said “rewriting” followed disastrous international conflicts. The paradigm may follow that of the Congress of Berlin in 1878, which updated rather than changed an existing system avoiding extended and broad international conflict.

The current international financial crisis has a both a real and a virtual aspect to it. It also has a very troubling, psychological side to it whose implications for international stability may have a dire effect. The real aspect is that indeed, the equation that has fuelled economic growth, namely inexpensive consumer

products from developing and industrializing countries being bought in the west, especially in the United States, is no longer working. The crisis has unveiled an open secret: debt far exceeds available assets. The international financial system has in turn jammed, both by uncertainty and by a mad scramble to find 'safe' havens to invest, to minimize risk and to maximize options. It is still too early to tell whether the policies of Barack Obama will have the desired outcome. It is also too soon to judge the very different measures adopted by the EU to counter the downturn. However, it is not too early to conclude that the big black hole of debt that is currently being fuelled by the printing of billions of US dollars will have to be repaid, written-off, "covered," terms that normally mean restructuring and shifting of wealth elsewhere.

The virtual aspect of the crisis is directly linked to the shifting of wealth. The US dollar being the preferred reserve currency for at least five decades, has been undermined systematically, leading internationally famous economists, like Paul Samuelson, to suggest that a run on the dollar will have dire consequences on international finance. The value of a currency is based on two things, and they are both virtual because they rely on confidence: the confidence of lenders that the state who prints the currency will be able to tangibly support its currency, either in the form of assets or production; and the confidence in the stability, influence, power if you like, of that state. The United States has held a unique role in more than 50 years in terms of this international confidence in its currency, in part because of its enormous wealth, but also because a good chunk of this wealth was invested in guaranteeing the stability of the international political and economic system. Needless to say, that confidence is now shaken and may be rapidly ebbing.

More importantly perhaps are the consequences, mostly psychological at this stage, on the way the U.S. is regarded around the world. The euphoria over the election of Obama is simply not enough to overcome China's concern over the diminishing value of its reserves, Putin's attempt to strong arm Russia's neighbors, the folly of Iraq, the failure in Afghanistan, or the shrinking of the

newly emergent middle classes in developing countries. The new American administration is already trying to work at rebuilding ties and reconstructing realistic working relationships to contain further decline in the world's confidence in the U.S. However, the trillion dollar question is whether these efforts will be enough to avert the sort of crises that can critically affect the fragile international system?

The answer to this question will partly depend on how quickly the U.S. emerges from the current economic crisis - but in itself that is not enough. The U.S. must reemerge into a fundamentally new economy, one whose paradigm differs from the one that has dominated since the 1940s, and which was based mostly on consumption as the drive for economic growth. It is very doubtful that the U.S. will manage to make this transformation, notwithstanding the courageous investments planned for a "Green" economy, education and health care. At the same time, an urgent need exists for the restructuring of the international system by collectively addressing problematic and ineffectual elements of the UN, and by curtailing separatism. The latter is probably the potentially single worst catalyst for a major international crisis that can accelerate unexpectedly into dangerous proportions as economic woes encourage protectionism, if not outright jingoism.

However, it is probably becoming all too clear around the world, that this restructuring cannot be solely an American task. First and foremost this must be understood in Washington, and there are clear signs that the Obama administration appreciates the limitations of U.S. power and influence. But it must also be understood in Europe where the merry days of relying solely on 'soft-power' are quickly coming to an end. Indeed, Moscow is correct in describing the recently declared Eastern Neighborhood Policy as an EU extension of its sphere of influence onto Russia's borders. The question is whether Europe understands the implications of this extension to the east, and whether it appreciates that it is not a move that can be made without greater internal cohesion, more efficient application of EU resources, and a bolder collective defense posture. If Europe does believe that it offers a value system

that can benefit humanity – as it purports – then it must actively seek to promote it in ways that can be taken seriously.

Moreover, there are new and important players in the international scene – China and India are the biggest and at least potentially, the most influential. The current crisis affects them internally in a very dramatic way, and both Beijing and New Delhi, nuclear and economic powers, must seek ways to carry out domestic reforms that will bolster their growing middle classes, granting greater individual freedoms and promoting social and political mobility. Unless these two behemoths translate their newfound economic and technological progress into manageable political and social liberalization, no restructuring on the international level will be possible – neither economic nor political.