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The Strategic Weakening of Debt-Ridden Europe

The debt crisis has hit Europe hard. Many countries have been forced to resort to austerity measures not seen in decades.

By Daniel MÃ¶ckli for ISN

The debt crisis has strategic consequences for Europe. The EU's role as an anchor of stability among its member states has been weakened. Intra-European power shifts, political fragmentation, re-nationalization dynamics, and declining public trust in the EU have thrown the European project into its biggest crisis ever. In foreign policy, the EU's clout is shrinking for lack of cohesion, money, and political will. European defense is bound to suffer from a credibility deficit unless decreasing military expenditure is compensated with more 'pooling and sharing'. While the EU is resilient enough to prevent collapse, it faces years of austerity in more than just economic terms.

Drastic spending cuts, tax increases, and structural adjustments have led to growing economic hardship, particularly in Southern and Eastern Europe. The EU-27 unemployment rate has risen to 10 per cent by early 2012. Almost a quarter of Europe's young people (below 25) are without a job. Social unrest has grown and may yet intensify should the situation in countries like Greece, Spain, Portugal, or Hungary deteriorate further. Across the continent, domestic politics have been shaken by the crisis, with several governments ending prematurely. While electorates are still voting responsible leaders into office in most places, trust in public institutions and democracy is eroding, and populism is on the rise.

The European Union has been badly bruised by the debt crisis too. Its single currency, long praised as the key symbol for Europe's unity and a major source of integration, has unleashed highly divisive dynamics. For several Eurozone member states, it has actually become a main cause of their economic weakness. EU crisis management has proven to be exceedingly slow and is subject to much controversy. While the process of European unification has seen many difficulties in past decades, the current crisis is more severe than any before. To be sure, talk of a collapse of either the euro or the EU seems premature. The European project is bound to last. The EU may even resurge in a more unified and more competitive shape one day. But there is little doubt that its troubles will not go away anytime soon. Europe faces a period of austerity in more than just economic terms.

These developments have strategic consequences. Some of them concern the outside world, as the state of the EU economy has a major bearing on the growth potential of many other countries, including China (see Chapter 1 in this publication). First and foremost, however, the debt crisis has major repercussions on Europe itself. Three such repercussions, which collectively amount to a strategic weakening of Europe, need to be considered.

First, as a result of Europe's economic and political malaise, the nature of the European project is changing. The current power shifts within Europe, the sidelining of EU institutions, the increasing fragmentation among member states, and the growing legitimacy deficits of the EU are all weakening the role of the EU as a major anchor of stability in Europe.

Second, Europe's long-term relative decline in the global context has been accelerated by the debt crisis. Its share of economic power is shrinking ever faster. Its global standing has taken a blow by the way in which it has handled the euro crisis, not least since it has become the object of IMF intervention and felt compelled to woo emerging powers for financial help. Much more significantly, the EU's capacity to implement a common foreign policy and defend collective European interests in an increasingly non-Western world has been further diminished. Its inability to come up with a strategic response to the monumental changes that haveoccurred in Southern Mediterranean countries since the beginning of 2011 speaks volumes in this regard. With its Common Foreign and Security Policy (CFSP) receiving less attention and fewer resources, and with cohesion and trust among member states decreasing, any positive post-Lisbon effect has largely been undone. Foreign policy is being re-nationalised in crisis-driven Europe, which bodes ill for the EU's ability to project stability to its neighborhood and play a global role commensurate with its economic weight.

Third, the debt crisis has also left its mark on European defense. In many European countries, armed forces had been underfunded well before the recent fiscal straits set in. But the dramatic new cuts now being decided in numerous capitals, coupled with the lack of coordination in reducing national military capabilities, suggest that Europe may be reaching a tipping point as far as the credibility of its defense and military crisis management capacities are concerned. There are those who predict a gradual 'demilitarisation' of Europe. However, in the case of defense, it seems just conceivable that the debt crisis may actually have the positive effect of pushing states towards more 'pooling and sharing' or 'smart defense', eventually leading to a 'remilitarisation' of Europe.

This last point does suggest that the debt crisis will not necessarily only have bad outcomes for Europe. Less money will mean more incentives to set priorities. Less cohesion implies a new potential for multi-speed policy solutions that allow countries other than the EU-27 to secure a bigger stake in the European project. By shedding light on deficits and weak points, crises generally provide opportunities to adapt and put things on a firmer footing. On balance, however, the net strategic effect of the current economic and monetary turmoil for Europe is bound to be negative.

To read the full report, please visit the Strategic Trends Analysis website.

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