

THE EUROPEAN CRISES



CÍRCULO DE ECONOMÍA

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PREFACE

This ongoing crisis shows singularities that clearly differentiate it from similar situations in the past. Among other examples, its roots go far beyond what is strictly economic and its resolution framework stretches beyond national frontiers, becoming situated upon the European stage. But there are some occasions when Europe itself seems to be the problem more than the solution because, under pressure from the crisis and in many other aspects, it reveals significant shortcomings, which the era of economic bonanza was able to hide. For this reason and in line with what has been the pro-European course that the Círculo de Economía has taken since its very beginning, the first edition of our Annual aims to focus on *The Crises of Europe*.

The idea for an Annual arose during the first few meetings of the current Board of Directors, and was motivated by a wish for an outlet that would allow us to address on a regular basis and with greater depth the key questions of today's reality, and that would also open the Círculo's space for the expression of expert opinion. Our utmost goal is none other than to encourage and enrich debate, so as to understand the complex reality of our world.

This goal can only be reached through analysis and a plural approach, without quick judgments but with intellectual independence. This is how we have approached our first Annual—with the conviction that when there is an extremely serious crisis that goes so far as to propose the end of the common currency, relevant and complex questions make themselves visible. Once the crisis has ended, Europe will be very weak if it does not do the following: solve the apparent contradictions (whether real or not, they are perceived that way) between market and society; understand the purpose of media in the current context; and delve into questions such as education, morals and culture, which make the

European project all the more unique. Along with these reflections, we have also examined the most important conferences of the year and discussed what 2012 has meant to Spain and to the world, and also what it has brought to us, as shown through some economic indicators.

Although the circumstances are very different, we now find ourselves in a moment just as significant as in the fifties, when the Círculo was founded. Back then, in a similarly complex situation, our founders knew how to work towards modernization and grow closer to Europe. Today, now fully integrated into the European Union, our mission is to contribute to the debate on how to further the European project. This is exactly what we hope to contribute to with this Annual, made possible thanks to our sponsor, the company Indra, and a group of people that have shown over the years their commitment to the Círculo.

Josep Piqué
President of Círculo de Economía

THE CRISES OF EUROPE

Introduction Josep Ramoneda

Economic Crisis Antón Costas

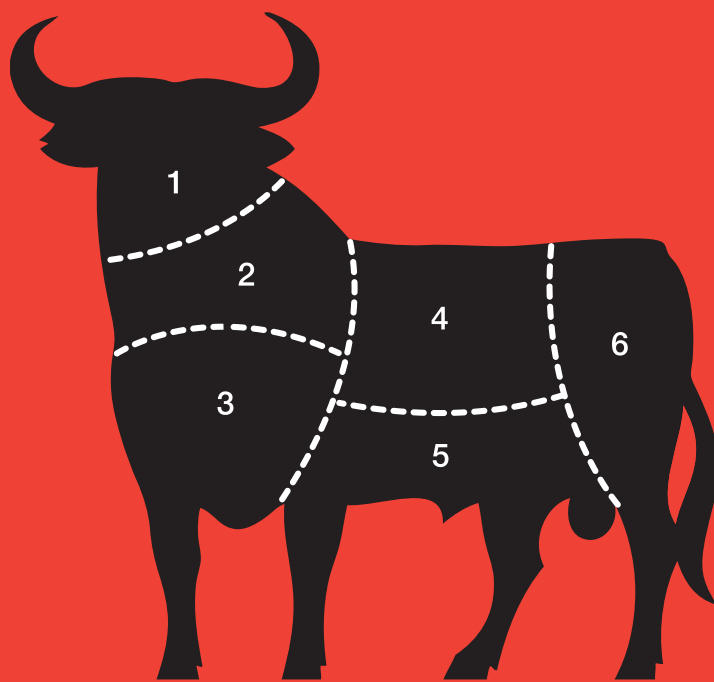
Political Crisis Emilio Lamo de Espinosa

Cultural Crisis Jordi Gracia

Educational Crisis Luc Ferry

Media Crisis Juan-José López Burniol

Moral Crisis Tzvetan Todorov



CRISIS
1 - Económica
2 - Política
3 - Cultural
4 - Educativa
5 - Mediática
6 - Moral

Josep Ramoneda Introduction. The Other Crises of the Crisis 1. THE NEO-LIBERAL PARADIGM OF GOVERNMENT Much has been said about the economic crisis, and it certainly is one. But it is not only that. It would be difficult to understand this crisis without taking into account all of its components, or the other crises of the crisis: the anthropological, the cultural, the moral, the communicational, the political, and the institutional. Nevertheless, there is no innocence whatsoever in the tendency to reduce the crisis to its economic dimension.

It reflects two issues: the structural and the communicational.

This is how Daniel Cohen describes the central paradox of our times: “The economy is summoned to take charge in the world in a moment when social necessities migrate toward sectors that have difficulties in using the mercantile logic. Healthcare, education, scientific research and the Internet form the heart of our post-industrial society. None fit into the traditional economic mould. Although human creativity is still exalted, the *Homo economicus* imposes itself as a sad prophet, a killjoy of the new times.” This is the structural dimension of the problem. All of Europe saw the gradual imposition of the neo-liberal model of government inaugurated in postwar Germany. Michel Foucault, in lectures delivered between 1978-1979 at the Collège de France, explained the legitimization process of the new German state via its economy after the fall of Nazism. Amidst the ruins of a totalitarian state, without a resistance that could provide a democratic foundation, the new regime could only become legitimate through growth. “History had said No to the German state. Now the economy will allow it to get a foothold.” That is how Ludwig Erhard and the Freiburg School economists understood it; then came the ideology of the “German miracle”, which others—such as the Franco regime in our case—would then try to imitate. As a result, what was born was “a radically economic state, taking ‘radically’ in the strict sense of the term: which is to say, that its root is precisely economic”. On May 28, 1948, Erhard delivered an emblematic speech in which he affirmed: “The economy must be freed from the limitations of the state”. Liberalism was born forty years before everyone started talking about it. Quickly, all of Germany adhered to this big investment: state legitimization through the economy, resulting in a backwards democracy. The Bad Godesberg

Social Democratic Congress (1959) represented the culmination of this process, which spread throughout Europe starting with the conservative revolution in the eighties. A new paradigm of government founded on the neo-liberal subject therefore imposed itself: “man prefers to let himself be governed out of his own interest” (Christian Laval), as a protagonist in the desocialization process that has brought us to the current crisis. And as Daniel Cohen himself says: “the moral man leaves the room when the *Homo economicus* enters”. The individual is modernity’s great conquest. Thanks to the recognition of the subject’s autonomy, we can refuse to kneel down before any big or small God or to align with and line up before any leader in any esplanade like that of Nuremberg. But the reduction of the individual to the *Homo economicus*—with the aspiration of making his private interest the only reason for being and thus his slavery—destroys the individual’s autonomy and turns him into an asocial and indifferent being, trapped by the burden of debt and guilt, the substructure of the capitalist religion. The economy is everything: this is the ideological framework that structures our current age and that has blown up in this crisis. Making the crisis out to be a strictly economic problem is to defend this model of the economy’s hegemony, imposing the idea that, since the crisis is financial, only experts can resolve it.

Here lies the communicational dimension of the issue. Making the crisis out to be only economic is part of the shock strategy that European politicians have been following. Governments normally tend to either hide bad news, or draw attention away from it. In this crisis, the strategy has been the opposite: by scaring people from the start in order to demobilize them—fear and anguish paralyze—the ideological principal becomes entrenched that “there is no alternative”. This is the same as saying that the political establishment renounces its responsibilities and surrenders itself to the economy.

2.—The Degree Zero of Politics.— Given that this is an Annual, allow me a brief excursus using Spain in 2012 as an example of what I have just introduced. If anything has been confirmed over the past year, it is the crisis of Spanish institutions, which has been felt from the Crown all the way down to the smallest corner of the autonomous state, passing through the three powers: executive, legislative and judicial. Three major events give proof of this: the king's inappropriate African escapade (a symbol of the existing disorder in the state's upper echelons), the Bankia case (representative of the dangerous promiscuity between politics and money), and the emergence of the independence movement in Catalonia (indicative of the one-way street in which the state model finds itself). Behind it all, we see how far elites go to distance themselves from citizens. The instrument that should weld society, revitalize institutions and ensure that the voice of the majority reaches where decisions are made—the political establishment—is seriously broken.

Politicians in both Spain and Europe are heavily obsessed with the public deficit and balancing state accounts. This may be necessary, but it will never become a political project. There is only a political project when the goals are agreed upon and the procedures can be met. In both cases fatalism is set down: there is no alternative. This results in an extremely defensive political attitude, which contradicts any idea of political autonomy or autonomous leadership.

Of the country's two biggest problems, social fracture and the fracture of the state, politics should be deeply concerned. But what reigns is the German answer to the crisis, which Ulrich Beck describes in the following way: "state socialism for the rich and the banks, neo-liberalism for the middle class and the poor". Citizens, perplexed, observe both the irrevocable transfer of their job income to bank bailouts and the constant flow of

people, money and favours within the political establishment. And they confirm that political systems far, from defending them, leave them out in the open and subject them to the merciless laws of money. Political parties seem more interested in forming and controlling citizens than of representing or defending them from the abuses of financial power. Regarding the Catalan sovereigntist project, there is not one political initiative that can support a political debate-only an appeal to the law as an unsurpassable boundary. In other words, the substitution of protocol with a primitive attitude: *why don't you shut up?*

Institutional reform should be a priority. The only reform worthy of this name is the one that efficiently redistributes power. Democracy is a mechanism devised to avoid the abuse of power. The first rule is to prevent the concentration of power in only a few hands. Reform means making institutions much more transparent, speeding up mechanisms of change and decision-making, and dismantling the corporatisms that control the state from inside and out. The left wing that was seduced by the dazzle of financial capitalism in the years preceding the crisis revoked any redistributive whims of power, as the records of Tony Blair and José Luis Rodríguez Zapatero show. The right wing administers reforms, but it does this by concentrating power and dismantling the welfare state. The result is the legal consecration of privileges for those who have more, the protection of the financial system's will, and the creation of tax havens (like what is happening with the Eurovegas project, in which the Spanish government and the Comunidad de Madrid cut through a legality in order to benefit the whims and finances of the unspeakable Adelson). Money rules everything and citizens are prescribed comprehension and resignation. This is the degree zero of politics. Social movements are the ones that are taking on the responsibility of giving back politics its autonomy at a time when the always precarious

balance between democracy and capitalism is at the point of breaking, and the system is gradually evolving towards a post-democratic authoritarianism.

3.—The Anthropological Crisis.—With the local digression now concluded, let us resume the initial reasoning we began with. The current crisis is not only an economic crisis. It is a systematic crisis that poses questions that are anthropological, cultural, moral and political. We will begin with the anthropological dimension. The biggest changes in the history of humanity have always been preceded by substantial technological innovation. Technology is the prosthesis that we as humans use to act in the world and make it ours. As a result, technologies—external projections of ourselves—are powerful instruments of domination and power. At the heart of the globalization process, which divides a financial power that is global and a political power that is national and local, information technologies have made it easier for money and ideas to circulate from one side of the planet to the other—and, albeit with some limitations, it has also allowed for the circulation of merchandise and people. Globalization entails speeding up time and shrinking space. Information technologies have reduced the distance between one point of the planet and another; all of us live more overwhelming lives. What happens far from us has more repercussions than before, the world has gotten smaller. At the same time, information technologies have produced a vertiginous acceleration of time: in one hour we can do much more than we could before. And this acceleration translates to a sort of social disquiet, which George Simmel already perceived when he spoke of city life's restlessness. The time things take is a very decisive cultural factor. Societies generate their own speed. Important things in our culture—thinking, creating, wanting—require time. To speed them up is to ruin them. Changing the time things take has anthropological consequences; it is equivalent to changing the human condition itself. In other

words, it marks a substantial mutation. This is nothing new; mutations characterize our species, which is subject to a double dynamic of change: natural selection and cultural selection.

Not only are we witnessing a mutation in space and time, which brings us closer to others (it forces different people to learn how to live together, speeds up our lives, and incites us to give a new pace to experience), new technologies also introduce us to the world of virtual experience. The in-person/virtual duality also has had substantial effect. I say “in-person” because the expression “real” is mistaken; the virtual is also real. Humanity’s virtual experience used to be limited to the potency of imagination (the mystical experience is in some ways a form of virtual experience). But the new technologies offer a banalization of the virtual which modifies and defines behaviours. For example, day in and day out, we see how virtuality sanctions impunity and unashamed narcissism.

The human species is therefore in a moment of mutation, which is transpiring in an unequal way. The new technologies are available to less than half of the world’s population. Humanity lives in different eras all at once. Inequalities, and not only in the economic sense of the word, are growing exponentially. Digital illiteracy is a barrier; so much so that Nietzsche’s prophecy about the last man and the superman meeting does not sound delusional anymore. Even less so if we take into account the other technological revolution on its way, the one that will probably be at the centre of the next global crisis—that of life technologies. The destruction of the species is one of the worst totalitarian fantasies.

4.—The Cultural Crisis.—The anthropological crisis leads to a cultural one. This cultural crisis also has a wide range of components; I will refer to three: the mutations affecting religion, work and family. Here, I understand social change as caused by the loss of references that once acted as social guidelines. Para-

doxically, far from its intentions, the '68 revolts eroded the dominant cultural model (in both the Western world and Soviet-like systems) and paved the way for the model of neo-liberal domination. The paths of history come with surprises. Work was a central part of people's lives, forming who they were. As Richard Sennett explains in *The Corrosion of Character*, a young person who walked into Renault in the fifties could reasonably aspire to work there for all of his or her life, getting promoted and moving around in the company depending on skill and disposition. A job, a corporate culture, some friends, a family, a neighbourhood: a well set up life. Now, a young person who starts working at Microsoft does not know where he or she will be in three months. When we are small, people ask us: *what is your dream job? What do you want to be when you grow up?* The question encoded the underlying idea of a life lived in relation to one's profession. Now, young people are swept up by entrepreneurial rhetoric, which basically says: *don't get too excited, you won't find a job, if you're lucky to invent something and it comes out right, then you're set.* But these are just myths, useful for forgetting reality.

Religions still have power and presence, but they have manifestly lost social influence. In a world where we are all closer, the territorial monopolies of the big religions are disappearing and the fight for the market of souls is stark, cynical and violent. Religions have less and less influence in the formation of habits: in Spain, ever since the death of Franco, the Catholic church has lost all the battles it started, except for—it must be said—the battle over money.

Finally, the volatility of the family structure, which expresses the decline of patriarchal power, introduces another element of uncertainty. Additionally, longer life expectancy has turned the principle of a lifelong marriage into a utopia. As with any social upheaval, an adjustment period precedes the development of new stabilizing structures.

To sum up: all cultural changes point to a world of fuller potential and therefore of risk. Nevertheless, the reduction of the citizen to the *Homo economicus*—the one-dimensional, economic man—makes dealing with uncertainty difficult. And it brings us to the moral dimension of the crisis.

5.—The Moral Crisis.—The moral crisis has a name: nihilism. This is belief that everything is permitted, especially in the economic sphere, and that bank statements can justify anything. Nihilism is a two-faced category, involving the end of values, or limits. It is assumption of the destructive impulse as the only mode of salvation. Action is what counts and what redeems; the means get confused with the ends. And in this sense, low credit or a speculative operation against the economy is just as nihilist as a suicidal terrorist attack. Nihilism—acting if there are no limits to growth, benefits, speculation or consumption—has characterized the dominant moral climate during the years that have brought us to the current crisis. And it has left citizens trapped within a single dimension.

“Reality itself is not worth anything. It is perception that makes reality meaningful”, wrote Joseph Brodsky. That is how social hegemonies win out, by imposing certain meanings on society. The word *competitiveness* symbolizes the present day ideological horizon. We’re told that we will succeed if we act competitively. But what does acting competitively mean? Simply, that young people looking for their first job and the unemployed alike should agree to work for much less money and under much worse conditions. Competitiveness is achieved through great exploitation or through great innovative and creative capability. In a country in which the government is cutting research funding, we’re only left with the first option. This is nihilism too.

Ulrich Beck says that the political establishment and political science share a weak spot: they chronically underestimate

the power of the oppressed and the power of social movements—, especially in conflicts of transnational risk. In this line, Albert Hirschman, one of those economists that puts the human condition first, commented on the ability of pluralist societies to find the strength to respond to conflicts that these societies themselves engender. At the same time that new wealth is generating unprecedented forms of inequality, new demands are rising—demands for reform and justice that need to be attended to. Unfortunately, Europe is dominated by deaf leaders who neither minister nor listen. They only want us to repeat after them that society does not exist, only individuals more and more burdened by obligations and relieved of rights, and to end by chanting all in a chorus: *there is no alternative*. How far will these hegemonic, political and civil powers go to control perceptions of reality, continuing to confuse citizens about the causes of their day-to-day uncertainty?

The *Homo economicus* is a missing prophet, as Daniel Cohen says. He wants to overcome the obstacles that impede him from continuing with his personal enrichment and, in the name of efficiency, a censorship of other human dimensions is imposed, such as the ethical man or the empathetic man, who aspires to cooperation and reciprocity. But, triumphant over these rivals, the *Homo economicus* encapsulates the human condition in a world deprived of ideals, although this accomplishment is inefficient. He is the man of only one dimension. The question of education turns into capital.

6.—The Political Crisis.— The European star of 2012 was Mario Monti. Regarding this public figure, the ruling leaders of Europe gave a hair-raising interpretation of what they understand by democracy. They instated him in Italy without going through the polls, and now, convinced like his benefactors and flatterers that the only legitimate opinion is that of the experts;

he is willing to continue being prime minister on the condition that he will not run for re-election. Favouring this aristocratic pretense over the legitimate democratic alternative of Bersani, European politicians laugh at citizens, disrespecting the will of the people. This anecdote brings us to the fourth crisis: the political and institutional one. The degradation of democracy in Europe starts in Brussels, where the European commissioners, devoid of democratic legitimacy, consider themselves possessors of technocratic impunity. As Ash Amin writes: “it is time to give a chance to the politics of rationality, to prevent the politics of purge from leading us to the disaster that it seeks to avoid”.

How does the political element of the crisis show itself? In its impotence. We live in a moment of great transformation, in which the step from industrial capitalism to financial capitalism has occasioned serious doubts about the possibility of maintaining the always-precarious balance between democracy and capitalism. Whom do politicians answer to? The development of a crisis that has resulted in the socialization of bank losses gives way to many questions.

The nation-state has been democracy’s natural development frame. The process of globalization questions its efficiency, as it is often too small for some things and too big for others. But transcending it is not easy. For a while now, Europe has been debating between a postnational future and a supranational future. For now, it continues to be the intergovernmental relationship—power relations between states—that has the last say.

Political parties are having difficulty in correctly carrying out their two principal duties: the representation of citizens and the selection of adequate models for governing. The media—the essential piece in the formation of public opinion—is undergoing a complicated process of transformation, laden with confusion and obligations. In any event, the result is a loss of quality in

democracy, which is quickly evolving towards a post-democratic authoritarianism in which parliaments are increasingly irrelevant. Meanwhile, corporatism grows and distances citizens, who, if the crisis does not get them to react, will be condemned by their own indifference. The political dimension of the crisis is a true crisis of democracy.

7.—A Backwards Democracy.— As I was saying, the relationship between capitalism and democracy is built on a precarious contradiction: economic inequality and political equality. According to Claus Offe, the recent evolution of this relationship can be described like this: the social democratic model conditioned the economic processes to political decisions and gave voice to the working class in order to ensure redistribution and social equilibrium. The liberal model insisted on the incompetence of politics to act over markets, discrediting the state by giving it an auxiliary role as a provider of services, infrastructure and police and judicial guarantees (making demands for participation and social mobilization causes for suspicion), and stimulating passiveness and indifference. The alliance between the procedures of neo-liberal government and neo-conservative ideologies—expected to spiritually feed the *Homo economicus*—, with the Bush Jr. administration as the paradigmatic model, marks the progression towards post-democratic authoritarianism.

While accumulation, benefits, competition and the market are growing, the redistribution of wealth and the acknowledgment of citizens is weakening. The divide between elites and citizens is increasing, with inequality threatening social cohesion. The citizen loses his or her voice, and, if the adequate answer is not given, elections have to be repeated, as in Greece. An upset in the system is created: politicians lose control over the financial sector and over fiscal policies, and citizens lose democratic control of the government. Sovereignty is not exercised by the citi-

zens, but by powers external to the political system, such as independent and anti-majority organizations and corporate powers. When it comes to validating its responsibilities, the powers do not look down but up, creating a backwards democracy.

Europe reflects the situation of backwards democracy more than anywhere else. Three legitimate entities are competing with each other: the technocracy of the Commission, the national politics of the states and the democratic rights of the citizens. This last entity is the odd one out. Critical thinking produces three ideas: more Europe, but this means more democracy; the reconstruction of common spaces and intermediary institutions that transmit public opinion upwards; and the revival of the idea of social change, as opposed to a discourse of indifference and the negation of any alternative. Tony Judt summed it up in one formula: society as a space for shared responsibilities. But this formula requires minimum conditions of equality, because without them responsibilities are imposed but not shared.



Antón Costas Economic Crisis: Capitalism vs. Democracy Why is it so hard to find a way out of this crisis that society would perceive as just and evenhanded? Why does the crisis bring so much uncertainty, distrust and fear for the future? How does one explain the intense partisan confrontation in the United States over the “fiscal precipice” and the “debt ceiling”, or the pigheadedness of European governments in continuing their austerity policies which have already inflicted a second recession upon the

eurozone economy, exacerbating unemployment, poverty and inequality? Why do some talk about changing or reconstructing capitalism? This is just a small stock check of the many questions arising out of this crisis.

Capitalism is manic depressive, meaning it passes through stages of euphoria and of depression. Crises are in its DNA. But there is crisis and then there is crisis. This is no ordinary crisis, of the kind we lived through the seventies, eighties, nineties, and early 2000's. The questions that are now being considered had not come up back then, nor was capitalism itself questioned. But now it is.

With this essay, I will argue that the financial crisis that exploded in 2008, causing the Great Recession of 2009, is the result of a collision between democracy and the global financial-corporate capitalism that has developed over the last three decades. What has been invisibly deteriorating throughout the last decades is the adhesive that, since the Second World War, united capitalism with popular democracy. This adhesive allowed reconciliation between the economic logic of liberal capitalism from the end of the nineteenth century (which was prone to inequality in the distribution of wealth and income), with the political logic of popular democracy born at the beginning of the twentieth century, which emphasizes equality.

As if two trains, these two logics crashed violently during the inter-war period. But after the Great Depression in the thirties and the Second World War, capitalism and democracy came to a truce. In Europe's case, the political forces that gave their support were Social Democracy and Christian Democracy. The content and the adhesive of this truce were the policies of the New Deal in the United States and the welfare state in Europe. They sought to reduce inequality without harming the market's

capacity to generate wealth. That is how the “mixed economy” or the “the market social economy” was born.

This compromise between the market and democracy inside each country managed to arrest, the unfolding financial hyperglobalization that reminiscent of the Gilded Age at the end of the nineteenth century. This hyperglobalization was replaced by new economic and financial cooperation within the international framework of the Bretton Woods agreements. These agreements stood as a thin foundation of international cooperation which, nevertheless, did not slow down commerce and growth. Just the opposite.

The truce between the market and democracy inside each nation, and the international economic and monetary cooperation in the framework of the Bretton Woods agreements, gave Western societies the best twenty-five years of its history. All the indicators that are used to evaluate economic, social and political wellbeing improved during this quarter of a century: growth was high and stable; there were no systematic financial crises; a middle class with strong buying power was born; this middle class universalized access to public goods such as education, healthcare and pensions; the child mortality rate declined; life expectancy rose; democratic participation was heavily encouraged; and political life was relatively stable (in the midst of a political climate which was partial to important aspects of partisan cooperation).

But something started to change at the end of the seventies which caused the adhesive binding the truce between capitalism and democracy to start disintegrating. While the economy functioned under the golden era of credit, we were not aware of this deterioration. The crisis has now uncovered it.

In the same way that it is said that when the tide goes out you can see who was skinny dipping, the economic recession now

reveals the leading trends that have caused capitalism and democracy to conflict. In the following paragraphs, we will analyze these trends.

WHAT THE CRISIS LETS US SEE

Many people believe that there is something apocalyptic about the crisis we are experiencing. This perception is justified by the magnitude of the effects, in terms of financial wealth destruction, the fall of family income, companies closing down, massive unemployment, the increase of the deficit and public debt, loss of trust in the future and mass pessimism. The general conception that, for the first time in many generations, young people will have worse living conditions than their parents had is another example of how the crisis is perceived apocalyptic.

However, as the philosopher and essayist Josep Ramoneda reminds us, the word “apocalypse” in Greek also means “revelation, discovery of something unknown”. From this perspective, we can analyze the crisis as a crossroads, the crucial moment in a process long incubating, and that looks to the future. Thus, the crisis is a synonym for dilemma and decision. “We are facing a crisis that will either lead to slavery or to freedom”, Diderot said in the early stages of the French Revolution, underlining the crossroads dimension that crises infer.¹

If we accept this vision, what is it then that the crisis lets us see, which can help us understand the causes behind it all, and also the way in which governments are dealing with it? In my opinion, the crisis enables us to identify three leading tendencies which were hidden under the economic high tide caused by the golden age of credit: first, increasing inequality in the global economy; second, a swelling of the financial sector, which made it dysfunctional

and damaged the rest of the economic sector; and, thirdly, the existence of unsustainable global imbalances. These three leading trends have made the economy more unstable, and have made capitalism and democracy come again into conflict. The crisis is nothing but the inevitable consequence of this conflict. Let us take a more detailed look at each one of these three characteristics.

1. Inequality's Return: a New Gilded Age

Though we were not aware of it until now, an intense and dramatic concentration of income and wealth has occurred over the last thirty years. This concentration even outdoes that which occurred at the end of the nineteenth century during the so-called Gilded Age, a stage which heralded the first big globalization.

In the United States, the quota of national income of the wealthiest 1% rose between 1980 and 2010 from 10% to 20%. These percentages are similar to those of a century ago. But the shocking part is that the income of the richest .01% quadrupled during the same period, going from 1% to almost 5%. This is much more than what the .01% received a hundred years ago. We are therefore facing a new Gilded Age. But this time, the number of the privileged is even lower than at the end of the nineteenth century.

This growing inequality is not just found in the United States. Many countries, including the UK, Canada, China, India and even the more egalitarian Sweden, have seen how the 1% quota of its richest citizens increase. And they affirm the same phenomenon of a burgeoning of class of ultra rich citizens, just as verified yearly by *Forbes* magazine's list of billionaires.

Inequality rates differ throughout the world. The most useful indicator showing these disparities is the Gini index. If the index

is at zero, we are in a completely egalitarian society, whereas the value of one corresponds to an absolutely non-egalitarian society, in which the concentration of income is at its maximum. The analysis measuring of the evolution of the Gini index from 1980 to 2010 shows that, with the exception of some Latin American countries, inequality has risen. It has even gotten notably worse in countries like the United States, the UK and China. But this same decay also occurs in more traditionally egalitarian countries like Sweden, Finland and Germany.

Concentration of wealth and rising inequality of wealth distribution contribute to disparities in access to basic goods and services such as healthcare, education, equal opportunities and welfare). The administration behind the financial crisis, with its austerity policies so devastating to public spending, tax raises and salary stability, is dramatically increasing these inequalities. Spain's case is paradigmatic. Recent data shows that Spain, along with Estonia, is the European Union country where inequality is rising quickest.

The return of inequality questions the relationship that we once thought existed between economic progress and social equality. Simon Kuznets, a Harvard economist from Belarus, discovered in 1955 a relationship between economic progress and inequality. In accordance with the "Kuznets curve", inequality would rise in the first stages of industrialization and economic growth, reducing itself as growth takes off. The relationship would then acquire an inverted "U" shape. The evolution of growth and inequality during the fifties, sixties and seventies seems to confirm Kuznets's hypothesis. But, 1980, the return of inequality has removed the empirical foundation from Kuznets's "U". The relationship between progress and inequality seems to respond to a dynamic in the shape of an "N".

Therefore, a natural connection between economic growth and inequality does not seem to exist. Instead, this tie is mediated by the power dynamics established by each stage between capitalism and democracy. Strong economic growth and inequality grew during the Gilded Age, a period in which the influence of the forces that pushed globalization (via an economic laissez-faire philosophy) weakened the fields of politics and society. What arose from this imbalance was the conflict that occurred between capitalism and democracy in the interwar period. After the Great Depression and the Second World War, the growing role of the state, together with the emergence of social institutions able to exercise palpable control (such as the press and workers unions), lead to a truce between capitalism and democracy. The adhesive that united them were the policies of economic regulation and social programs associated with the New Deal in United States and the welfare state in Europe. Growth and inequality went hand in hand during the fifties, sixties and the first half of the seventies. They were probably the best twenty-five years of our lives. However, as we have seen, from the eighties onwards this adhesive came apart and the economic logic of capitalism has come back into conflict with the egalitarian logic of democracy. The crisis is the result of these two forces colliding.

Worsening inequality is probably the most unsettling result of the ailing global economy. On one hand, inequality makes the economy more unstable and volatile. The 2008 crisis is the most obvious sign. A growing wave of economic research is exposing the place of inequality in the functioning of the economy, employment and the perpetuation of conditions that resulted in the 2008 financial crisis.² On the other hand, inequality has unsettling social and political consequences. The liberally oriented magazine *The Economist* dedicated a special mono-

graph to inequality. Social movements such as the “indignados” in Spain or “Occupy Wall Street” in the United States rise from growing social unease about inequality.³ From Tel Aviv to Santiago de Chile, London to Beijing, or Madrid to New York, the disquiet of the middle class and the working class is very real. This malaise is the result of the new conflict between democracy and the type of financial capitalism developed over the last decades.

2. Financial Disproportionality and Income Extraction

The crisis enables us to see a second leading trend that has developed over the last three decades: the hyper-development that finance has experienced in all areas of economic life, but especially concerning families. The result is true financial disproportionality, which unproductively drags down the economy and growth.

A true financial revolution, both quantitative and qualitative, has come about. On one hand, the volume of financial transactions in regulated and unregulated markets (over the counter, OTC), has grown incredibly. On the other hand, a qualitative transformation has also taken place. The new financial markets have replaced the old banking institutions in financial intermediation.

The new markets have nothing to do with the financial markets of thirty years ago. Those banking institutions that dominated financial intermediation until the eighties had a public face and were in a specific place, whether it be London, New York or Madrid. Their decisions were based on negotiation. Now, the new financial markets do not have a public face or an established location, but rather they depend upon a multitude of ac-

tors operating through a network and in all types of markets. Their decisions are no longer based on negotiation, but depend upon impersonal market uprelationships. They behave capriciously influenced by diffuse information or by the climate of opinion based on expectations. Its impact on the volatility of the value of assets is enormous, making the functioning of the economy more unstable.

Whatever the indicator that we choose to measure financial impacts, the results are startling. Whether it be the scale of human resources in relation to the economy; the repercussions of financial intermediation upon the GDP; the salaries and rewards of the financial sector in relation to the salaries cost many in other industries or in relation to the GDP; the capacity of finance to extract income from the rest of the sectors; the percentage represented by the benefits of the financial companies within the total of benefits; bank balances in terms of GDP; or bank credit in relation to the GDP. The reader interested in having a more precise vision of this evolution of finances can consult the recent work of professor Antonio Torrero, from the Universidad de Alcalá, in which he revises and summarizes recent studies on how to measure the impact of finance in the economy and its effects on the functioning of the rest of the economy.⁴

The analysis of the evolution experienced by some of these financial indicators allows us to argue that this, in relation to the Kuznets curve between economic progress and inequality, also applies to a relation between economic growth and growth of finance. The growth of the financial sector has been 2% higher than that of the whole of the economy since 1850. But this growth has been very uneven. From 1850 to the First World War, financial growth was lower than the economic growth rate. From

1980, financial growth has risen, as in the era of the Gilded Age, much higher than economic growth.

This same evolution is observed when we analyze the evolution of the financial intermediation cost. From 1870 to 1930, it increased from 2% to 6% of the GDP. Because of the Great Depression in the thirties, it lowered significantly, and in 1950 it was at 4%. In 1980, it began to grow again, rising to 5% and then reaching 7% in 2010. The rest of the financial variables outlined above have also followed a similar model. The conclusion is that finance is now back to developing an enormous capacity to extract income from the rest of the economic sectors.

This financial disproportionality is a relatively new process, for which there still does not exist a generally accepted term. Some talk about “financializing”, while others talk about “financialization” of the economy. Although it has affected all sectors, the main victims of this financialization have been families, whose debt, measured against the GDP, has reached levels like never before.⁵

The financial crisis of 2008 has brought about a growing reflection on the causes of this financialization and, especially, its effects on the productivity of the economy. Most conclusions are generally critical of these effects. For example, Crantham points out that “it is like running with a huge and increasingly heavy leech on your shoulder”.⁶

Financial disproportionality preys upon the rest of the economy by sucking dry income instead of creating value in other sectors. Because the financial sector has developed this predatory behavior, finance has transformed into an element that brings instability and volatility to the functioning of the economy. James K. Galbraith argues that this financialization of the economy is the real root of inequality, and points

to inequality as the determining factor behind the current crisis.⁷

3. Global Imbalances and Policies of Neighbour Impoverishment

The third leading trend that the crisis uncovers is the existence of unsustainable global economic imbalances. If we analyze payment balances, we see that in the international economy there are countries with strong commercial surpluses, as is the case of China (in Asia) and Germany (in Europe); in contrast, we also see countries with strong deficits, as is the case of the United States and Spain.

When did these high global imbalances arise? How can they be explained? They appeared in the nineties. Intuition might lead us to believe that the cause was either that some change in economic conduct took place in the deficit countries which made them lose competitiveness, or that in the surplus countries some shock of productivity occurred which made them more competitive. But intuition may not be a good guide in this case. Things seemed to have occurred differently.

In a conference given at the end of 2005, when he was not yet president of the United States' Federal Reserve, Ben Bernanke offered a different explanation for the cause of these global commercial imbalances. Bernanke points out that the appearance of high commercial deficits in countries like the United States or Spain throughout the nineties was not a result of a change in economic conduct in those countries—that is to say, of productivity loss—but of a change in economic behavior in the surplus countries. In those years, countries like China and Germany started up neo-mercantilist policies of exportation pro-

motion which in the end caused global imbalances. On one hand, the opening of China to the international economy was brought about by a model of growth focused on exportation, their incentives being a policy of controlling the type of exchange and the weakening of internal demand. On the other hand, East Asian countries, after suffering the consequences of the 1997-1998 financial crisis, began to practice a policy of exportation and foreign currency accumulation in order to avoid such situations repeating. Meanwhile, in Europe, Germany stimulated its already strong exportation record through policies of salary devaluation, and by weakening the internal demand for finance reunification costs, and for care of the elderly.

These neo-mercantilist policies are similar to those practiced in the thirties. The British economist Joan Robinson called them “beggar-thy-neighbours” policies; these are policies with which a country tries to fix its economic problems and boost employment through means that tend to worsen the economic problems of other countries. Through the reduction of domestic imports, salary reduction, currency manipulation and other protectionist practices, some countries like China and Germany have sought to favour their own growth and domestic employment creation through a model of growth based on exportation.

As I will show in the following section, this model generates high savings in the surplus countries. These savings were used to purchase financial assets from the countries in deficit, and in turn financed the golden age of credit and the real estate bubble. In other words, the global commercial imbalances have been something of a sort of “mother” to the 2008 financial crisis.

As long as these imbalances persist, the international economy will be instable. In one of the G-20 summits, celebrat-

ed in Tokyo, US president Barack Obama told the German chancellor Angela Merkel that Germany could not live forever off of selling products to Americans, and that they had to stimulate domestic demand for commodities as a way to rebalance the global economy. The same was asked of China. If this voluntary cooperation does not occur, we will see currency wars and probably a return to protectionism. In fact, this currency war is already happening—though the war is silent. This is the only explanation for a situation otherwise inexplicable; the only economic region in the world that is right now in recession, the eurozone, observes its currency get stronger instead of weaker, as would be more congruous with the weakness of its economy.

EXPLAINING THE CAUSES OF THE CREDIT BUBBLE

The severe real estate bubble which especially affected countries in the North Atlantic—the United States, Ireland, England and Spain—and its implosion, which caused the crisis we are now experiencing, was only possible because it coincided with the golden age of credit. The question then, in order to understand the causes of the crisis, is to understand what exactly financed this credit bubble.

There is not only one explanation, accepted by a consensus among all those who study it, of the causes of the credit bubble and the real estate bubble. But three very valid theories do exist. As I will now show, each one of these explanations stands on one of the three aforementioned imbalances in today's capitalism.

1. Out-of-Control Financial Innovation

This is probably the most popular explanation for the cause of the crisis. It attributes the credit bubble that imploded real estate assets to the intense out-of-control innovation that took place starting in the nineties. The immediate cause of this innovation is said to have been the policies of financial deregulation carried out in those years by all governments. The economic philosophy that inspired these deregulatory policies was what ended up being called the “Washington consensus”, which proposed the liberalization of the economy, market deregulation and the privatization of important areas of the public sector.

This financial deregulation broke down walls that ever since the thirties separated the commercial bank from the investment bank. When these walls came down, there was something new in the works: “the shadow bank”, which generated high-risk financial products which, upon reaching commercial banks and pension funds, spread the risk throughout the global economy.

Out-of-control financial innovation saw itself favoured by three coinciding factors: new information technologies and telecommunications; an intellectual climate within economic theory; a financial economy that successfully defended the efficiency of deregulated markets and the theory of rational expectations of economic agents; and lastly, the “Great Moderation” the economy experimented with in the nineties, which featured sustained growth and low inflation. It was therefore a very fruitful time for trusting in the market. What was also intact was an alliance of interests among all actors in the financial market, especially high credit rating agencies. This atmosphere proved compatible with the arrogance of economists, regulators, monetary authorities and those responsible for economic policies; in other words,

the hubristic belief that it was obvious how to regulate a market economy so as to avoid economic cycles. An explanation of how this atmosphere supported such arrogance can be found in Arias and Costas.⁸

There is no doubt that deregulation favoured financial innovation in the United States, and this in turn helped create and spread the credit bubble and the assets bubble. But, as Paul Krugman and Robert Wells have refuted, the credit bubble also occurred in countries like Spain where they did not need sophisticated methods of innovation to finance the credit expansion.⁹ Therefore, we must identify the cause that allowed such easy financing of abundant and cheap credit expansion in all those countries, which, like Spain, suffered from the real estate bubble. Before answering this question, I will propose a second explanation of the credit bubble which locates the cause of the crisis in high-risk strategies of governments permitting lax real estate credit legislation.

2. Inequality and Governmental Laxity with Mortgage Credit

This account of the crisis links the real estate credit bubble to unequal income distribution, which, as we have seen above, characterizes today's capitalism. What was added to this loss of working and middle class buying power was the effect of the increase in the price of housing. This resulted in a growing difficulty for working and middle classes to purchase household commodities and other long-term consumption goods.

While aware of inequality and the difficulty of accessing affordable housing, governments either ideologically reluctant or politically incapable of tackling these problems through the con-

ventional instruments of fiscal policy first bent mortgage debt rules, and second stimulated the housing demand through strong fiscal tax exemption. Regulators and supervisors of the financial system were condescending and tolerant of credit risk practices within banks, in order to extend mortgage credit to families. Cheap, abundant credit and fiscal ease therefore turned into a sort of second non-monetary salary, allowing the working and middle classes to purchase homes. The result was the contribution these families made to the financialization of the economy, and to the enormous debt.¹⁰

By acting this way, the governments fell into morally hazardous behaviours, inducing or making it possible for the directors of financial institutions to practice risky behavior incompatible with good practice, all the while knowing that the governments would come to the rescue if they ended up in trouble as a consequence of these high-risk practices.

Conservatives love blaming governments to be blamed for of the crisis, holding up their proposals of deregulating markets as proof. Nonetheless, prestigious economists such as Raghuran Rajam have supported this view.¹¹ Though questioned by Paul Krugman,¹² this account of the causes of the 2008 financial crisis lets us make the connection between current capitalism's cultivation of inequality with the instability and volatility of the globalized economy.

Other economists have documented the relation that exists between growing inequality and the economy's instability. For example, James K. Galbraith brings relative evidence about how inequality constitutes one of the best explanations for the economy's instability.¹³ Just as I pointed out in the last section, inequality has emerged as one of the most characteristic and perverse consequences of today's globalized financial capitalism.

3. Global Imbalances and the Global Savings Glut

A third explanation for the crisis focuses on identifying the cause of the credit bubble, which permitted such easy financing of the real estate bubble. The cause is located in a parallel savings glut that started around the same time. This savings glut is the flip side of global commercial imbalances that arose in that decade as a consequence of neo-mercantilist policies (driven by exportation) practiced by China and other countries in East Asia and Germany. Export income was not used to expand domestic demand or to improve the lives of citizens, but instead it was accumulated as savings and invested in the purchase of bonds issued by private and public corporations from the countries in deficit, particularly by financial institutions in those countries; as we have seen, the United States, Ireland, the UK and Spain are countries that experienced the highest increases in real estate prices.

Financial institutions in recipient countries especially channeled their external savings towards the financing of real estate promotion and mortgage credits for families. This flow of external savings—substantial and ever so present—let the recipient countries keep interest rates low over the long-term, which is a key factor in investment decisions made by families and companies. These rates were able to stay low even after the central banks in recipient countries with commercial debt began to make their interest rates short-term in an attempt to slow down the asset bubble. The end result was that banks went into debt by issuing bonds to preserve those external savings, and that families and companies accumulated enormous debts with those banks. In other words, the private sector in the deficit countries accumulated unprecedented debt levels.

As I mentioned above, this explanation was given for the first time by Ben Bernanke in 2005 conference, when he was not yet president of the Federal Reserve. On that occasion, Bernanke used the expression “global savings glut” as the nexus that linked excess debt in deficit countries to the savings generated by surplus countries.¹⁴ Other economists, such as Paul Krugman, have since used this term.¹⁵

As we can see, the explanations based on the “global savings glut” bring us to identify global commercial imbalances as the ultimate cause, the “mother” of the crisis. So long as these deep imbalances are not fixed, it is very likely that the global economy, and the European economy in particular, will undergo episodes of strong macroeconomic volatility and recurring crises.

THE CHALLENGE OF THE TWENTY-FIRST CENTURY: BRING CAPITALISM AND DEMOCRACY BACK TOGETHER

Abruptly putting an end to the long golden age of credit and real estate asset euphoria, the 2008 crisis has uncovered three constitutive characteristics of globalized financial capitalism that have been developing since the eighties: growing inequality; financial hyperglobalization and the financialization of the economy, especially where affecting families; and global commercial imbalances. These three strong tendencies let us see how, over these past years, a confrontation has been brewing between the economic logic of globalized financial capitalism and the political logic of intranational democracy. Growing tension between these two logics has brought the economy instability and social and political conflict.

Capitalism at the end of the nineteenth century developed conflictive tendencies similar to the ones we are now seeing be-

tween capitalism and democracy. The instability and volatility of the economy, and social unease occasioned by inequality, brought the two into conflict during the inter-war period. The Great Recession that followed the 1929 financial crisis, and then the Second World War, brought a change to economic politics. The “trade-off”, or existing conflict between financial hyperglobalization, internal social cohesion and democracy was resolved in favour of these last two objectives. This option allowed the market economy to reconcile with popular democracy. The adhesive that brought them together were the welfare programs. In a book that deserves to be reread, Karl Polanyi spoke of *The Great Transformation*.¹⁶ The result of this marriage between the market economy and democracy was what Gideon Rose called “modernity”.¹⁷ As I commented above, this “modernity” made room for what has probably been up to now the most brilliant period of capitalism, the period that extends from the middle of the forties all the way to the seventies.

Is it plausible to think that the 2008 financial crisis and the Great Recession we are experiencing, especially in the EU, will take an economic and political turn similar to the New Deal? A margin undoubtedly exists for experimentation in political options. The Schumpeter creative destruction dynamic, which is associated with crisis (or better yet, the social perception of living in an apocalyptic situation and of reaching a crossroads, as I suggested at the beginning of this essay), works in favour of this change. The self-regulation model associated with deregulatory policies and the financial hyperglobalization of the last two decades is hardly sustainable under such circumstances. Thus, it is fitting to think in of a *New Deal*.

However, we also see existing elements that openly play against the possibility of this crisis bring about a new “big

transformation”. Now, some elements are not present which were present after the Great Depression, and especially after the Second World War. In “*La torre de la arrogancia. Políticas y mercados después de la tormenta*”, we find four elements of the current situation that hinder this possibility and limit the range of options.¹⁸

To begin with, there is stubborn adherence to old economic ideas, fear of political change, and private interests, especially within international finance. Secondly, there is strong resistance having to do with the social perception of public space and also with the level of trust in democracy to bring about these changes. Thirdly, until now, the crisis has not changed the dominant neo-liberal characterization of the state and its role. Lastly, this time, as opposed to what happened after the war, we have seen very little improvement regarding the distribution of income. Instead, the policies of austerity, based on the reduction of social spending and the domestic devaluation of salaries, are only intensifying trends in inequality.

But facing the determinism of reality, the economist and political scientist Albert O. Hirschman, who has recently passed away, always defended “possibilism”.¹⁹ This is surely a path to explore now, in order to demonstrate how politics must answer to uncontrolled markets. In the same way that Max Weber perceived the return of the state as a key element in correcting imbalances stemming from twenty-first century liberal capitalism, serving to reunite capitalism and democracy, now the historian Tony Judt has pointed out that with tensions derived from financial globalization and the accompanying crises, the state will have to act more and more to resolve conflicts, becoming the only mediator between individuals and the private sector (such as banks and international corporations). Judt be-

lieves it is likely that the territorial state increases its political importance.²⁰

The Harvard economist Dani Rodrik defends a similar idea in remarking that the “political trilemma” which today’s financial hyperglobalization poses, with its tension over supranational actors, the nation-state and democracy, must be solved by putting a stop to hyperglobalization and financialization, and leaving room for State cohesion policies that would reduce inequality.²¹ Perhaps the real features of today’s capitalism, which the crisis reveals, and which we have analyzed in this essay, will eventually lead to social forces and political dynamics that favour a return to political autonomy as a way to confront the hegemony of globalized financial markets.

The challenge facing the early twenty-first century, just like a hundred years ago, is to reconcile capitalism with democracy. What is needed is a new progressivism able to reduce inequality to tolerable levels, without harming the innovative capacities of the market, and to produce capital. This new progressivism must rely on a new distribution of tasks between markets, the State and society.

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Emilio Lamo de Espinosa **Europe “Free and Happy like Switzerland”** 1. **TURBULENT TIMES** We’re living through turbulent times that seem to confirm the *reverse* of Hegel’s old idea: periods of happiness in humanity have no history and during them nothing happens. Undoubtedly, due to September 11th, 2001, we have entered the new century “through a gate of fire” (as Kofi Annan said, using a Biblical phrase),¹ and the accumulation of events and issues (terror attacks, climate change, wars in Iraq and Afghanistan, the brutal

and unexpected economic crisis) have spread a feeling of fear, vulnerability and uncertainty that have almost tinged the new *fin-de-siecle* with millenarianism (we remember that the young Ortega received his doctorate in 1904 with a thesis on “The Fears of Year One Thousand”, the panic that accompanied the previous numerical change). The feeling abounds that progress has been detained and is even regressing, and that humanity is moving backwards, even towards self-destruction.

For some—mostly on the left—humanity’s ruin will be caused by the destruction of the environment, exhausted by the demands of a hypertrophied consumerism fed by the market economy; for others—mostly on the right—it will be caused by terrorist attacks, or the destruction of society with weapons of mass destruction, a threat whose danger is equated at times with cold war-era tensions. But whether on the right or the left, everyone appears to have an apocalyptic story in mind, a story that the media, Hollywood, and not a few intellectuals take upon themselves to amplify.² Postmodernism articulates this new narrative around the uncertainty of the future and the growing distrust towards scientific and technological progress, when not towards reason itself, which in the olden days was the solution to every problem, but today represents a problem in itself.

This zeitgeist includes Europe, although perhaps in this case there is a bit of reason behind it. Since the 40s, the Czech philosopher Jan Patočka (1907-1977), one of the great figures of the brilliant Central European intelligentsia, persecuted first by the Nazis and then by the Communists, wrote a series of texts concerning the drama of the war, the Gulag and the Holocaust, that were later published in French under the title *Europe after Europe*.³ He had been dead for decades by the time they were published. In 1977, he signed—together with Vaclav Havel—Charter 77, which led to his imprisonment, a brutal interrogation lasting more than eleven hours, and, a few days later, his death.

In his analysis and comments, Patočka bore testimony to the appearance of a “post-European” world which he called, with almost prophetic vision, the “planetary age”. Like Stefan Zweig before him, Patočka was sure that Europe had committed “suicide” in the two world wars, however it had also generated a “world-widening” of Europe and its institutions in a “spiritual legacy” that would have to be recovered. This Europe, Patočka concluded, should be considered in the new post-European world as new Europe in the wake of the European Age.

The idea was in the air, being but one more of the evident consequences of the war. During those years—or more precisely, on the 16th of February, 1955—the great British historian Geoffrey Barraclough gave an influential conference at the University of Liverpool titled *The End of European History*, in which he announced that after going from the Mediterranean Era to the European Era and then to the Atlantic Era, we will see a Pacific Era emerge that will force us to consider the world in a different way.⁴ That didn’t mean, of course—Barraclough continued—“that European history has ended”. But that “it no longer has historical significance” and becomes more of a “regional history”, and not the “history of the world” it has been for so many centuries.

Indeed, over the past five centuries Europe conquered and colonized the world. But that enormous epoch, which saw the Europeanizing and Westernizing of the world (which is also the history of Imperialism and Colonialism), ended in the division and conflagration of Europe itself. After two brutal world wars, European “civil wars” (the expression is also that of Stefan Zweig), which frame the “brief twentieth century”⁵ of the historians (Hobsbawm), it finally lost hegemony over these conquests. It gained the world, but lost itself along the way. Today it confronts nearly the opposite situation: through the instrument of the European community it has conquered itself again, perhaps definitively. However, behind lies the task of not allowing itself to

be conquered by the new world, the task of accommodating itself and accommodating an emerging world that is largely the product of its own actions. After Europeanizing and Westernizing the world, Europe now runs the risk of witnessing the end of the Western era, including the risk of being un-Westernized itself.

This perspective takes as its context the post-European world and a Europe in the wake of the European era. Yet it is written by a convinced Europeanist, profoundly concerned with the progression of the project we've called the EU for decades now. Small doses of Euroscepticism abound amid larger ones of uncertainty and perhaps, on occasion, discouragement, fatigue and even irritation. However, I am deeply convinced that more Europe is necessary, not less, and that it's needed right now (maybe even yesterday), and not tomorrow or the day after.

And let's remember that on the occasion of the Iraq war, which divided the EU, both former French President Chirac, German Chancellor Schroeder, and our president Rodríguez Zapatero—at that time still in the opposition—along with no small number of intellectuals and a healthy share of public opinion, wanted the EU to become a pole of alternative power crusading against the “illegal and illegitimate” and “unilateral” hegemony of the United States. An herbivorous and pacifist power, a force-for-good, before the other, carnivorous power: Venus before Mars, it was said; the forces of good and evil pitted against each other. Those were years of an exaggerated and naive Euro-optimism.

Today we are in the antipodes. Alain Tourain, for example, talks to us about “the complete failure of Europe”, the “disappearance of its role in the world” and even of “the end of the Western model”.⁶ Others, more moderate, conclude that Europe is in a “free fall” (R. Young). Undoubtedly, these pessimistic analyses are more realistic than the others. Yet as always, it's good to maintain a certain distance.

However, this negative judgement, supported by numerous opinion polls, is not entirely correct. It's not correct with respect to the world in general and above all, it's not correct with respect to Europe, which has been the twentieth century's greatest and most successful political experiment after the terrible failures of communism and fascism (the other two great European political "experiments"), a historical success that should be highlighted, and which the Spanish experience itself corroborates.

2. THE SUCCESS OF EUROPE

Indeed, Europe has come into its own since the Treaty of Paris in 1951, which established the European Coal and Steel Community (ECSC), although today, it has achieved levels of success and progress that are simply spectacular.

To begin with, Europe has been able to reinforce and broaden political orders based upon democratic principles, the *rule of law*, the separation of powers, a strong civil society and respect for human rights. In 1945, not more than half a dozen European states were democratic; today, the 27 members of the EU all are, and in the surrounding area at least another half-dozen countries are preparing to comply with the criteria established in Copenhagen for integration, in which case the "EU model" is extending itself like an oil stain towards the East, over the Balkans to the Ukraine and the Caucasus, even perhaps to Muslim Turkey. According to the latest report by Freedom House,⁷ only eight of the fifty-three European states are dictatorships, seven of which belong to Central and Eastern Europe, so it isn't an exaggeration to say that never before have so many European citizens enjoyed so much freedom.

Secondly, the EU has reinforced and stimulated European prosperity. Poverty has been vanquished and we have (we had)

achieved not only wellbeing for the countries of the already mature EU fifteen, but affluence, occasional opulence and even a level of ostentatious consumerism (although debt-ridden). Starting with the oldest members first (Germany, France) then the newer, (Spain, Ireland, Greece), and now the newest (from Central and Eastern Europe), all have substantially increased their standard of living. Today, with a GDP volume of over 17,000 billion dollars (more than 12,000 in the eurozone), the EU economy is the largest in the world, substantially greater than that of the United States (although notably lower as per capita income). And again, it's no exaggeration to state that never before in the history of Europe have so many people enjoyed so much prosperity as now, prosperity that extends to its neighbours and eventually the neighbours of their neighbours (although unfortunately this doesn't include Europe's southern border, the Mediterranean).

Finally, Europe has been able to enjoy a sense of security like never before. As former German Minister of Foreign Affairs Joschka Fischer said, "The core of the concept of Europe after 1945 was, and still is, a rejection of the European balance-of-power principle and the hegemonic ambitions of individuals that had emerged following the Peace of Westphalia in 1648."⁸ Let's not forget that this was the cause and objective of the European project: to end the horror of war; Borges's remark was never truer: "it's not love that unites us but dread". Fear of repeat conflicts and the hope of "never again" is what brings us together. And indeed, after 350 years of continuous warfare, meaning bloodshed every generation—dynastic wars, regional or national wars, class wars, bloc wars—the risk of war has now disappeared. In order to achieve this, Europe substituted the traditional confrontation between sovereign states as impenetrable monads for common ground, the sum of its sovereignties. Called

the community method, Europe introduced a new international and interstate order, post-Hobbesian (in Schmitter's terminology),⁹ Kantian (according to Robert Kagan)¹⁰ and postmodern (according to Robert Cooper),¹¹ a legal order in which the use of violence has disappeared from international relations. In fact, Europe has jumped from the classical inter-state order to something else, an internal cosmopolitan order, in large measure a European civil society, certainly an unidentified political object. And once again, the neighbouring states enter this post-state order by renouncing the use of force in exchange for a place in the sun of the longed-for Europe.

We can thus emphatically claim that Europe has never been so prosperous, so secure, so free. Which isn't insignificant, since everything a sensible citizen could ask for from a political regime has been served: security, freedom, prosperity. It has nearly achieved the level of being a Historic-Universal success (as Max Weber would have said), which explains why so many neighbouring countries wish to be European and, in large measure, the strong attraction that Europe holds for the world and its nature as a model of softpower. But not only that; the excellent image the EU enjoys (a social model that others wish to imitate and that isn't aggressive or threatening) means that its greater international presence is desired almost everywhere. A poll done in 52 countries by Gallup International in 2007 for the ECFR showed that the EU was (by 35%) the power whose international presence was most missed, followed by India, another nonthreatening power (with 27%).¹² In 2010 the BBC WorldService did another study in 27 countries which confirmed the data: 53% of those consulted considered the EU a positive force, comparable only to Japan, but above any other.¹³

Therefore, people like Leonard or McCormickhan are correct when they claim that the EU holds a "transformative power"

based first upon the fact that it is a model, an outline to follow; secondly, in its ability to offer (or exclude) benefits to third party countries; and finally, in its normative capacity, in its obsession over regulating everything through contracts, standards and rules, in creating a vinculating law of a Kantian legal order.¹⁴ Military power—it’s argued—allows for the change of regimes, but legislation allows for the change in societies. Therefore, the opening of the European Union to the East is allegedly the greatest program for peaceful change and democratization in history, and perhaps the EU’s truest and most effective “foreign policy”. We might be experiencing the triumph of the “herbivore powers” over the “carnivores”, who are still represented by the threatening actors of the Cold War (the United States, Russia and China).

Even those who defend this idea still agree that the EU is underachieving.¹⁵ This is the result of numerous problems that have accumulated recently and for which no solution has been found.

3. THE PROBLEM: EUROPE AS A SUBPRODUCT

The seed of failure is contained within the strategy for success, in the selfsame model for European construction. The main problem is that the EU continues to be an unidentified political object, a UPO, which was built from scratch, without a prior blueprint, following the functionalist method: we arbitrate a common market and a monetary union, letting the economy draw from politics and politics draw from culture. Let’s remember Schuman’s Declaration made on the 9th of May, 1950:

“Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. ...The pooling of coal and steel production should immediately provide for the setting up of

common foundations for economic development as a first step in the federation of Europe...”.

This was the strategy: “concrete achievements” to generate “de facto solidarity”, such should be the “first step” in the federation of Europe. They say that at the end of his life, Jean Monnet said that if he had the chance to build Europe again, he would have started from culture. While he never said that, thankfully it wasn’t done that way because if it had been, there would be no EU. On the contrary, the so-called “functionalist method” has been a success and the economy has generated “de facto” solidarity that has drawn on institutions and politics (although it’s still unclear whether this has been effective). But the price paid for functionalism has been to build Europe through the back door, without the true participation of the citizenry, without a clear project, almost as if it were a “biproduct”: something that is best achieved the less explicit it is. This construction implies management of European politics more in terms of illustrated despotism than of democracy: everything for the people, but without the people.

The result is a serious deficit of democracy: the EU doesn’t respond to its citizens, it isn’t accountable, and for that reason it is, moreover, incomprehensible, opaque, bureaucratic. The EU embellishes and exports democracy, but is itself dubiously democratic to such an extent that it’s been said with a certain amount of irony that if the EU were to ask to be admitted to the EU tomorrow, it might be rejected for not fulfilling the Copenhagen criteria—the rules with which a country must comply to be considered eligible for membership in the EU. We have a politico-legal order and even a quasi-constitutional one, but without groundwork and an adequately constitutional basis, uniquely without a demos—a people or nation to whom they are answer-

able. This is what explains the growing electoral abstention, the rejection of the Brussels bureaucracy, the feeling of European political opacity, the growing rejection of the EU itself and, of course, the fate of the euro.

What are the consequences of all this? The difficulty of jumping from a market and monetary union to a political union is manifest in the very foundations of the European edifice, and with it a growing deficit of political governability. A deficit that the writers of the Constitutional Treaty, aware of the fact, tried to cover up with a political convention, almost a parliamentary convention, supposedly representative of European citizenry, which wanted to compare itself to the Philadelphia Convention where the US Constitution was forged. But the failure of the Constitutional Treaty after the Dutch and certainly the French referendums, and the subsequent failure of the Treaty of Lisbon after the Irish referendum, once resolved, only served to deepen the institutional deficit endemic in Brussels and in many other demonstrable respects.

This is the EU's main problem, which is made manifest and expressed in three internal challenges and another three external ones. Let's have a look.

4. THE EU'S THREE INTERNAL CHALLENGES

The first challenge facing the EU is that of depth, meaning: what does the EU govern, what are its areas of jurisdiction and what belongs to the states themselves? This question leads to another: are we facing (at least the germination of) a United States of Europe, a confederation of states that is leading towards an eventual federation? Or are we a new product without a model or theory? So far, Europe has been able to maintain its ambiguity since it hasn't required a strong political leadership, but as the common market

first, followed by the economic and monetary union later, moves forward, the evidence of a political deficit is growing sharper. So, how to establish a monetary union without budget control, fiscal harmony without economic governance? We are assured that the EU is an economic giant. Certainly it's true, if that means being a huge market and powerfully productive machine. But as the current economic crisis has demonstrated, if it can't manage itself, then the biproduct of this powerful economy of twenty-seven different economies, is like a giant that can't control its extremities, each one following its own pace as it walks.

And yet the Euro-barometer shows that the European populace wants these and other subjects be decisions made commonly, between state governments and the EU: 67% support the Europeanization of defense and foreign policy, 64% support it in energy, 60% in immigration, and of course, almost 80% in the fight against terrorism and environmental protection.¹⁶ There is no lack of citizen support for a stronger EU; what is lacking is the will of elites and national governments to reach binding agreements. The citizens trust their own governments as little as they do the EU, so they are not afraid parcelling out sovereignty to Brussels (with a few exceptions in the UK).

So what does it actually mean to be or not to be in the EU? If we allow supported cooperation, opting out and differentiated memberships (yes or no to Schengen; yes or no to the euro), which diversifies the status of members in a variable geometry, and if we also allow differentiated agreements of neighbourly status with non-members that approximate member status, we end up with blurred boundaries and greater uncertainty as to what the EU really is, and what it means to be (or not to be) a member. We could be headed towards not only an a la carte EU, but also a non-EU a la carte, which would lead us to the banalization of belonging.¹⁷

And together with the dilemma of depth is that of European amplitude, which is perhaps the most visible problem. Are we a political union of the Western region of the Eurasian continent, a territorialized union not unlike how the states have always been, or instead a new method of articulating international relations and conflict resolution? Which is to say, are we replacing nations or are we replacing the old Westphalian international order? It may seem paradoxical since it is presented as the former, but by large measure, the EU is closer to the latter: a means of articulating international society through engagement, cooperation and business, through the sum and not the confrontation of sovereignties, that generates factic solidarities in concentric circles. European cooperation, Jean Monnet said, “is not an end in itself, but only a stage on the way to the organized world of tomorrow.” In its analysis of the serious problem of the lack of central governance, a recent opinion piece in the *Financial Times* emphatically reminds us that:

“The EU represents the world’s most advanced experiment in interstate cooperation and in the pooling of national sovereignty. If the EU fails, the most ambitious model for international cooperation will fail with it. High quality global journalism requires investment... There is no national solution for climate change, or nuclear proliferation, or the international financial crisis, or currency instability, or mass illegal migration. All of these issues demand international cooperation and the EU—for all its flaws—has fifty years of experience in the difficult task of getting national governments to work together for the common good. [...] It’s easy to mock this kind of supra-nationalism. But the alternative is simply to let global problems fester to the point where they cause conflicts between nations. It’s worth struggling to pre-

serve the European ideal—and not just for Europe’s sake”
(FT, 2 January 2012)

Therefore, the EU, beyond a federation (or confederation), would be an original method for an inter-state articulation that could spread like an oil spill and at least tendentially affect the entire world; an alternative to the United Nations system that is based on the sovereignty of states.

Of course the other option (looking inward and not outward) is a geographical political union, a supra-state, necessarily limited to a world region, but in this case with clear and precisely defined territorial boundaries. Which ones? Obviously, the Balkan states would fall inside, but the admittance of Turkey would open the door to the Caucasus and perhaps beyond. Maybe this opening would force consolidation, as what happened years ago (although this has yet to play out) but the logic of enlargement continues to impede consolidation, as we have been able to verify these past years.

Finally, the third dilemma affects the socio-economic model, undoubtedly one of the features of European identity. Do we accept the Bavarian model of a Franco-German welfare state that has served us well in the past? Or do we opt for an Anglo-American model of privatization and deregulation that has just showed its worst face? The option, luckily, is not categorical and perhaps can be found in the old *Lisbon Agenda* and the new *EU 2020 Strategy*. Perhaps the way to overcome the dilemma could be found in an economy of knowledge and innovation if the project moves forward, which it isn’t. In any case, the EU, which undoubtedly enjoys the most advanced social model on the planet, should ask itself how it can pay for and compete with the new countries, which demands an increase in productivity in all orders¹⁸ and a radical revision of its demography. We are all

aware that the European population is at once decreasing and aging, which augments the quotas of dependency; of the thirty countries in the world with the highest percentage of people over sixty years of age, no less than twenty-nine of them are European. Is it possible to continue supporting pensions, healthcare, education, unemployment and the most generous welfare system in the world without radical changes? And on the contrary, how can we generate a more active, dynamic and entrepreneurial society when there are more grandparents (older than sixty-five years) than grandchildren (under fifteen)?

5. THREE EXTERNAL DILEMMAS

Europe's principal challenge—Van Rompuy assures us—is not the risk of war among European nations, nor is it of establishing democracy: “Our main challenge is now how to deal, as Europe, with the rest of the world... How can we picture the European Union on the geopolitical ocean? Are we all in the same ship; faring under the one European flag, or are we twenty-seven boats, all steering their own national course?”¹⁹

The problem is—as Van Rompuy asserts—that while globalization was essentially economic, it was a game in which the sum was positive; we could all win. But we are now in a second phase of globalization, political as well as economic, and “politics is about *rappports de force*. And power is relative”, meaning that if one wins then the other loses. “Whereas prosperity is spreading, power is shifting”. And he's right, power is always relative and hence a game of adding up to zero. The latest challenges affect the EU as an actor on the world stage, a subject in which three serious problems are confronted: a deficit in foreign policy, a major deficit in security and finally, a storm on the “geopolitical ocean”.

Let's take them in order:

The question is unavoidable: is it possible and realistic that “a” common European foreign policy that goes beyond the merely “declarative” is always subject to the same rule of unanimity? The EU countries have more than twice the number of active diplomats than the United States, and developmental aid is almost three times greater. There is no lack of resources, only of will and coordination. Yet we all know by now that given the diversity of economic and political interests, the weight of the history of colonization on European countries and the varied geographical projection, it doesn't appear an easy task. Is it reasonable to expect France to “communitise” its African or Arabic policy? Can Europe assume the Latin American agenda of Spain, or the re-birth of the German-Russian-Asiatic agenda? Experience shows that the EU can, on occasion (but only on occasion) articulate concrete common policies in concrete scenarios (in Palestine, the Balkans, Georgia but not Libya). Is it realistic to consider a fusion of foreign services encompassing the twenty-seven countries, or in their common representation within international organisations?

We are, then, faced with a strong internal institutional deficit, which is doubled by the inadequate state of external institutions, since the United Nations system predates the EU and so isn't joined to it. We should also ask ourselves: would France and England renounce their permanent positions on the UN Security Council in exchange for an EU presence? The entire system of the UN should be revised to allow the entrance of the EU instead of, or in addition to, the states. In summary, can the EU speak through one single voice, and answer to one single telephone number, as Kissinger wanted? It won't work if there is only one telephone that's never answered because

the states are busy arguing in meetings. Europe has too much geography, too much history and too much culture, and in our world, in international organisations, or in the plethora of summits like those of the G20, there are always a lot of Europeans but very little Europe.

What's more, how do we back this foreign policy? With what strength? Europe has been a free-rider, living off of American security since 1945, a subject of which we've washed our hands.²⁰ Whether because we haven't been able to, because we haven't wanted to or because it hasn't been allowed (there's a little of everything), the end result is that our security has depended on a foreign army that answers to a foreign taxpayer. And it's still largely this way, despite important advances.

As Robert Kagan warns,²¹ in the nineties, Europe bet on the primacy of geoeconomics over geopolitics, for a soft power instead of the military, for the EU as a world model. It was a time when Russia was prostrate, Pax Americana guaranteed, and Japan emergent; The world seemed to gravitate towards Europe. There were fifteen minutes of "trilateral" fame: a world managed by the United States, the EU and Japan. It was Bush Jr.'s choice in his famous speech *Toward a New World Order* in 1990: "The new order will have to be based on a system of global security which will require close cooperation between the three industrial areas in the world—North America, Europe and Japan, and between the members of the Security Council".²² But this is already part of history, so are we now in the position to change this idea, mentally and economically, and to assume our own defense? Or do we want to continue a low-cost, sparsely deployed, confederated EU presence, so that our American "big brother" can continue taking care of our defense? Right now, with a higher PCI than the Americans, our defense spending doesn't even reach 40% of what is spent in United States.

What's more, a good part of the EU's stingy defense budget feeds classical, Westphalian armies, prepared to defend national territory against the attacks of neighbours, which is exactly the scenario the EU seems to have definitively removed. We have a lot of military personnel (more than in the United States) and many armored cars, but barely half a million could be deployed and only one hundred thousand of them in international operations; hence around 70% of the EU armed forces can't be deployed outside of their national territory. And that goes without mentioning the complete absence of high-ton aircraft carriers (90,000 tons, like Nimitz). Six are currently active (three British, one French, one Italian and one Spanish) but are very inferior, as were the two that were under construction in the UK (65,000 tons; cancelled projects), although experts deemed that the EU would need no less than three (one for the Atlantic, another for the Mediterranean and a third one on reserve).

European military spending—which is frequently pointed to—is more of a mathematical reality than a political one. And without strength to back it up, EU's rickety foreign policy is scarcely credible, as we see on a daily basis. Not to mention that we should be jockeying not to lose positions; according to SIPRI, China has increased its military spending by almost 200% in the past 10 years, Russia by 173%, North Africa 94%, India 44% and only 5% in the EU. Comparatively, the hardly negligible hardpower of the EU is being eroded very quickly.

What's more, can we continue to rely on the American "big brother"? Doubtful. With the Cold War over, Europe is no longer a problem for the United States, but neither is it a solution to the problems it has in other scenarios. It's advisable to read Robert M. Gates's speech, given on the 10th of June, 2011 in Brussels, when he was then United States Secretary of Defense, as a sort of farewell to Europe delivered by our principal ally during the

entire previous century. After signalling that “currently, only 5 of the 28 allies: United States, UK, France, Greece and Albania, exceed the agreed upon [contribution of at least] 2% of the GDP for defense spending”, he added:

“...for most of the Cold War, the US government could justify defense investments and costly forward bases that made up roughly 50% of all NATO military spending. But some two decades after the collapse of the Berlin Wall, the United States’ share of NATO defense spending has now risen to more than 75%—at a time when politically painful budget and benefit cuts are being considered at home.

The blunt reality is that there will be dwindling appetite and patience in the US Congress—and in the American body politic writ large—to expend increasingly precious funds on behalf of nations that are apparently unwilling to devote the necessary resources or make the necessary changes to be serious and capable partners in their own defense. Nations apparently willing and eager for American taxpayers to assume the growing security burden left by reductions in European defense budgets.

Indeed, if current trends in the decline of European defense capabilities are not halted and reversed, Future U.S. political leaders—those for whom the Cold War was not the formative experience that it was for me—may not consider the return on America’s investment in NATO worth the cost.”

What will Europe do, what will we Spaniards do, if the umbrella of American security, which has protected us in the East, but also in the Middle East, Morocco and even Latin America, disappears? What if the United States, becoming self-sufficient in energy resources, abandons Europeans?

Which brings us to the third challenge, which is undoubtedly the greatest: the “unleashed storm on the geopolitical ocean” with the ascension of Asia and the new powers. The principle problem for Europe is not itself but the world at large, and while the EU is up and walking, although at a turtle’s pace, the rest of the world has been galloping for decades.

Demography is destiny, Augusto Comte assured us, a strong argument since it is the base of almost everything. In effect, between 1950 and the year 2000, the world population doubled, but almost all growth happened in the so-called third world. On that date (1950)—which was, as some say, just yesterday—6 of the 10 most populous countries in the world were European, whereas today, of the 20, Germany is the only one. At that time, Europe held more than 25% of the world population, but today it’s substantially below 10% and by the middle of the century it will account for little more than 6%. Both Americas, North and South, will reach 6% to 7% apiece, approximately, and the entire area of the Old Continent will add up to little more than 20%. Asia already counts for 60%, and Africa is on its way to contributing more than 20%. That makes ten Asians and three Africans for every European. And we’re talking about the quantity of population, not quality, since the result of slow growth is the accelerated process of aging within the European population.

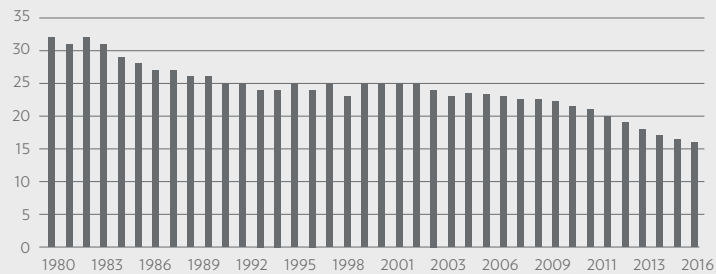
And size matters, certainly. I’m referring to supposed giants like China or India, countries with more than a billion inhabitants, literally “civilizations disguised as states” (Huntington). A “normal” country has 30, 40, 60 million inhabitants. When it has 300 million, like the United States, it becomes something else, which anyone who knows the United States can appreciate. But when we are speaking of a billion or 1.3 billion people, with thousands of years’ of patchwork history, we’re in the pres-

ence of Unidentified Political Objects, whose good behavior is essential since giants can at times do damage without meaning to. But I am also referring to “smaller” countries that are yet still enormous if you compare them with the European nations: Indonesia (228 million), Brazil (almost 200), Pakistan (170), Bangladesh (160), Nigeria (150), Turkey (80). For decades, this demographic asymmetry between the West and the rest was irrelevant, since on top of it there was another asymmetry, the reverse of the previous, of per capita productivity. We were less, yes, but with a very high comparative productivity. But this advantage is disappearing given the rate of the accelerating spread of technologies (soft and hard) that generates an accelerated convergence of productivities. We remember that the GDP of a country is merely population x productivity per capita, so if productivity converges, the demographic power doubles its economic power, which in turn doubles military and strategic power. Western Europe, which represented 33% of the world’s GDP during the golden years of the Industrial Revolution, has fallen approximately 20% and is continuing to descend. Meanwhile, China is already the second largest economy in the world and could catch up with the United States in a few decades, if not earlier. India is fourth, Russia sixth, Brazil eighth, Mexico eleventh, and South Korea twelfth, all of them ahead of Spain, fallen to thirteenth position in the past few months.

Such strong growth has set immense productive forces into play that need resources of every kind. China, India, and Brazil are gigantic reservoirs of resources, whether they be oil or gas, soy or copper, steel or water, and so we are speeding towards neo-malthusian scenarios in which demands upon nature exceed supply, at least in the short-term, and given existing technology (we shouldn’t make the same mistake that Malthus did by underestimating technology).

Economic power doubles into political and military power. China earns more votes in the United Nations than Europe, when a few decades ago the opposite was true. And China and India, with immense armies (the Chinese army counts more than 2.5 million men) that have nuclear capacity, are quickly building oceanic armadas to assure supply routes for its resources through the South Sea, without forgetting forays into space exploration (India plans on reaching the moon). But they aren't the only ones, since militarization of a country accelerates militarization of neighbouring countries; if the investment in Chinese weapons has grown by 200% over the last decade and in India by 55%, we can see that Russia has grown by 83%, Saudi Arabia by 63%, Korea by 45% and Brazil by 30%, to name a few. Only Western Europe remains stable with a bit less than 300,000 dollars, which is less than half of the American budget.

PERCENTAGE OF WORLD GDP CORRESPONDING WITH THE EU (IN PURCHASING-POWER-PARITY (PPP*))



* Source: http://www.economywatch.com/economic-statistics/European-Union/GDP_Share_of_World_Total_PPP/.

Following the Great Divergence (K. Pomerantz) brought on by the Industrial Revolution, it's now time for the Great Convergence of the Southern and Eastern countries towards the North and the West, in which case the centre of world gravity returns to Asia, where it has been for several hundreds of years.

Barracough was right. For more than three hundred years in world history, the history of America, of Asia or of Africa had been written here, in El Escorial or Lisbon, London, Paris, Berlin, and later in Washington. But that's no longer the case; Europe committed suicide in two "civil wars" (the two World Wars) consequently losing its imperial colonies. In fact, between 1945 and 1991, Europe was a territory colonized by periphery powers like the United States and the Soviet Union, incapable of controlling its own destiny. Therefore, the question now is whether or not Europe will be able to at least control its own destiny in the coming centuries, or whether its destiny will be written in Beijing or elsewhere. What the historians have called the European era, which began with the great navigational prowess of the Iberian pioneers (Toynbee), the Spaniards and the Portuguese, has come to an end and the command bridge of humanity is moving again towards the west.

6. CONCLUSION

On the 19th of September, 1946, a little after the noise of weaponry had died down, Churchill said in his famous speech in Zurich:

"Yet all the while there is a remedy which, if it were generally and spontaneously adopted by the great majority of people in many lands, would as if by a miracle transform the whole scene, and would in a few years make all Europe, or the great-

er part of it, as free and as happy as Switzerland is today. What is this sovereign remedy? It is to recreate the European Family.”

Well, the “Family” has been created and Europe is as “free and as happy as Switzerland”. But that desire contained a profound irony that can be seen clearly today: we’ve turned ourselves into an advanced society that is isolated and self-absorbed, becoming the “Switzerland of the world”. A lovely and elegant theme park, beautiful, cultivated, sophisticated and decadent, an ideal place to live, where the rich people of the world send their children to study and keep homes just in case, full of museums and operas and theatres, but closed to the world, isolated and irrelevant.

That’s how the rest of the world views us, and when we enquire about Europe outside of the EU as an eventual world power, the result is disheartening. For world inhabitants, the United States is the inarguable superpower (81%), followed by China (50%), and much farther away, almost tied, are Russia (39%), Japan (35%) and the EU and the UK (tied at 34%). The ranking is somewhat surprising: The EU is not perceived as being more powerful than the UK, Japan or Russia! But what’s more interesting is analysing who views the EU in this mediocre position, since while 81% of Germans or 76% of the British are sure that the EU is today a “world power”, only 5% of Indians are, 12% of Brazilians, 13% of Russians and 20% of the Japanese, including 26% of Americans.²³ More specifically, for the Chinese, the EU doesn’t exist as a power centre with strategic vision,²⁴ while for Indians the EU is, simply, the past. For some, the United States is the international point of reference and the EU neither was nor is expected to become one. We Europeans are convinced that we are a world power, but unfortunately, many of the others haven’t

realized it yet. We must have done something wrong to be perceived this way.

The problem is that Europe can't not be an effective world power, it can't content itself with being the "Switzerland of the world", even if this appears to be something attractive, which is arguable. As the European Defense Strategy states, "As a union of 25 states with over 450 million people producing a quarter of the world's Gross National Product (GNP), and with a wide range of instruments at its disposal, the European Union is inevitably a global player, ready to share in the responsibility for global security and in building a better world".

The EU is the first economy in the world and the most globalized, with 44% exports and 43% of the world's imports, far ahead of second place (Asia, with 27% and 25% respectively; figures from 2007), commerce throughout the entire world (the largest importer and exporter, the United States, covers only 14% and 23% respectively), and with a growing negative balance. The EU has immense direct investments outside of its area, mostly in the United States (41%), with whose economy it is inextricably united,²⁵ but also in the rest of the world. Its energy dependence is over 50%, importing oil from Russia and the Middle East, gas from Russia and North Africa, coal from South Africa and Australia. The Commission estimates that by 2030 we will be importing 75% of our oil and gas. We share physical borders with two particularly problematic regions: on the one side there is Russia and its allies (projecting to the Balkans and Caucasus), and on the other there is the Southern Mediterranean, a border that is at once religious, cultural, political (where the Islamic fundamentalism resides) and economic, with one of the highest levels of inequality in the world, with a difference in per capita income of almost 1 to 12 (that of the United States and

Mexico is half that figure).²⁶What's more, and if that isn't enough, the population of the Middle East and North Africa, "Europe's backyard", has grown from 78 million inhabitants in 1950, to no less than 307 million in the year 2000. Conservative estimates project growth in the area of up to 450 million in 2020 and 656 million in 2050.²⁷Therefore, whether it be in opening new markets, in resources, labor or even capital, the EU is dependent upon the exterior. As Nicole Gnesotto and Giovanni Grevi conclude in their study *The New Global Puzzle. What World for the EU in 2025?* "the true challenges for prosperity and stability in Europe are outside of its borders, from geopolitical tensions in neighbouring areas to the political and economic impact of newly emerging actors". The future of Europe is outside of Europe. "The European Union is a world player", according to the *Strategy for European Security*.

Europe must respond, once again, to these challenges; there is no alternative. Some suggest that the only alternative is remembering—as Stefan Zweig did in his memoir *The World of Yesterday*—the final verses of Shakespeare's *Julius Caesar*, which herald the end of the empire:

The sun of Rome has set!
Our day is over.
Clouds, dew, and dangers approach.
We're finished!

It's comfortable and easy to accept weakness as destiny. Octavio Paz said of us not long ago, showing great vigor:

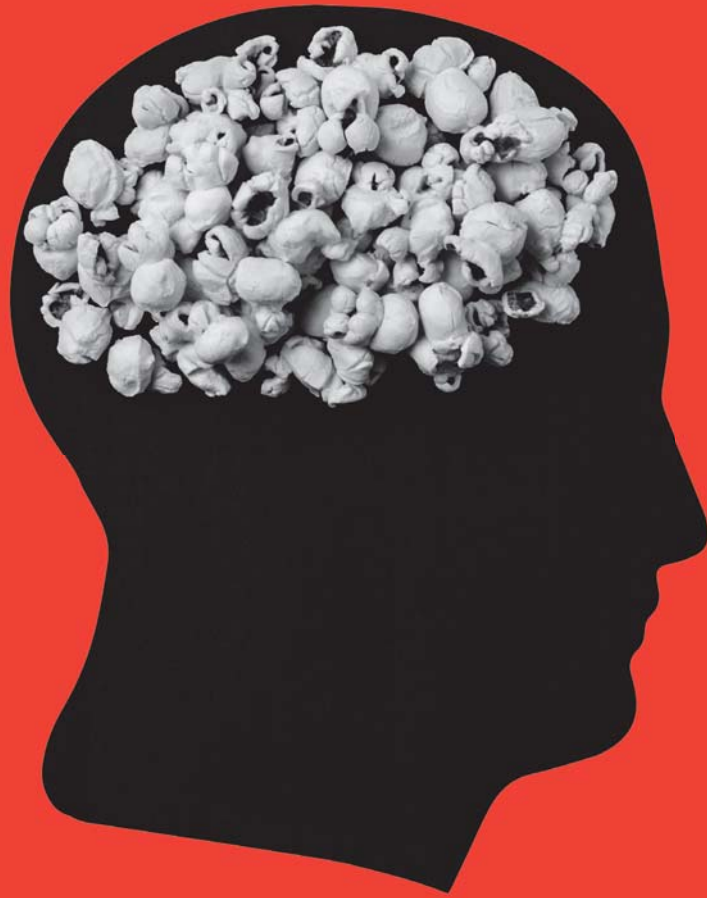
"The only thing that unites Europe is its passivity before destiny. After the Second World War, the nations of the old world retreated into themselves and devoted their immense energies

to cultivate prosperity without grandeur, and hedonism without passion or risk. Out of this, the fascination with pacifism practiced by Europe's multitudes arose, not as a revolutionary doctrine, but as a negative ideology."

Our immediate challenge is to avoid demonstrating that Paz was correct, and to build a new Europe in the wake of the European era.

1. See E. Lamo de Espinosa, *Bajo las puertas de fuego. El nuevo desorden Internacional*, Madrid, Taurus, 2004.
2. The movie *Avatar*, obviously successful, was emblematic of this apocalyptic sensitivity, taking the Rousseauian myth of the noble savage in harmony with nature, who confronts the perverse American civilization.
3. There is a French edition, *L'Europe après l'Europe*, Paris, Verdier, 2007.
4. G. Barraclough, *History in a Changing World*, University of Oklahoma Press, Norman, 1956, pp. 206 and 207.
5. "brief" twentieth century, which would begin with the Russian Revolution and finish with the end of the communist "illusion" in 1989. See Eric Hobsbawm, *Age of Extremes: The Short Twentieth Century, 1914-1991*, 1994.
6. A. Touraine, "El fracaso de Europa", *El País*, 28 May 2010.
7. See Freedom House, *Freedom in the World 2009*, en freedomhouse.org.
8. Lecture at the University Humboldt in Berlin, 12 May 2000.
9. Schmitter, Philippe C., "The European Union as an Emergent and Novel Form of Political Domination", Working Paper, Juan March Institute, Madrid, 1991/26.
10. Robert Kagan, *Poder y debilidad*, Madrid, Taurus, 2003.
11. Robert Cooper, "The Postmodern State", in Mark Leonard (ed.), *Re-ordering the world*, London, The Foreign Policy Centre, 2002.
12. Ivan Krastev and Mark Leonard, *New World Order: The Balance of Soft Power and the Rise of Herbivorous Powers*, European Council on Foreign Relations, Policy Brief, 2007.
13. European Strategy and Policy Analysis System (ESPAS), *Global Trends 2030. Citizens in an Interconnected and Polycentric World*, 2010.
14. For example, Mark Leonard, *Por qué Europa liderará el siglo xxi*, (Madrid, Taurus, 2005). Also John McCormick, *The European Superpower* (Palgrave MacMillan, Londres, 2007).
15. See, for example, Mark Leonard and Richard Youngs, "El efecto Europa", *Foreign Policy*, October/ November 2007, p. 34 ss.
16. Eurobarómetro, 70, 2008.

17. See Charles Grant, *Europe's Blurred Boundaries*, CER, 2007.
18. See, about this, Anthony Giddens, *Europa en la era global*, Barcelona, Paidós, 2007.
19. Van Rompuy's speech at the College in Bruges, February 25, 2010, *The Challenges for Europe in a Changing World*.
20. I employ the term *free-rider* in its technical sense, meaning, someone who takes advantage of public goods (such as security, in this case) without paying for it. As it is well known, the theory of the *free-rider* was elaborated by Mancur Olson in *La lógica de la acción colectiva*, a book that has many editions.
21. R. Kagan, *op.cit.*, p. 20-21.
22. *Toward a New World Order*, Lecture given at the Congress 11th September 1990.
23. See the public opinion poll *Who Rules the World*, Berlin, Octubre 2007, done by the Bertelsmann Foundation.
24. Karine Lisbonne-de Vergeron, "Contemporary Chinese Views of Europe", *Royal Institute of International Affairs*, 2007.
25. Joseph Quinlan, "Drifting Apart or Growing Together. The Primacy of the Transatlantic Economy", *Center for Transatlantic Relations*, Washington, 2003. Brought up to date on several occasions for the German Marshall Fund.
26. See Iñigo Moré, *La vida en la frontera* (Marcial Pons, Madrid, 2007).
27. Cited by Anthony H. Cordesman, *The Transatlantic Alliance. Is 2004 the Year of the Greater Middle East?*, CSIS, Washington, January 2004.
28. Nicole Gnesotto and Giovanni Grevi, *The New Global Puzzle. What World for the EU in 2025?* Institute for Security Studies, Paris, 2006, p. 209.
29. *Una Europa segura en un mundo mejor; Estrategia Europea de Seguridad*, approved on the 12th of December, 2003 in the midst of the Iraq conflict, one of the most brilliant diplomatic acts of Javier Solana.
30. Octavio Paz, *Tiempo nublado*, Spanish edition in Seix y Barral Barcelona, 1983.



Jordi Gracia **The Culture Crisis or the Specter of Banality** Today, not just one specter haunts Western culture and society, but many, all very active, dressed in assorted and at times eccentric disguises. The most alarmist ones bring a crushing and funereal banality to our contemporary era, along with the trivialization of knowledge and the humanistic tradition, and the decline of Western culture as we knew it up until two or three decades ago. Modernity felled the monolithic versions of reality a century and

a half ago. At times, we forget that it also undermined the credibility of any equally monolithic counter version.

Nevertheless, the specter's customary portrayal fits the demands of the apocalyptic genre, with touches of gore. It paints a picture of the present as being culturally dispossessed, intellectually impoverished, aesthetically asthenic, and ethically debased. The worst of it, though, is the utter lack of awareness regarding the nature of the evil that's eating away at the noble wood of culture: the world recklessly consumes fireproof junk, commercializes indescribably tacky wares, applauds infantile schmaltz and exults in the most despicable levels of mediocrity.

This portrayal is notorious and it's not new; in fact, it's genuinely traditional, since it belongs to the legacy of Enlightenment humanism. Out of this tradition, the spirit of launching sharp attacks against society's irreparable civic, educational and cultural destitution. This elite gave us some of the best pages we can read—in Voltaire, in Schopenhauer or Steiner—on the risks we run by democratizing knowledge and popularizing high culture ever since the onset of modernity (or if you wish, since the eighteenth century). We owe a large part of our vigilante attitude to this core group, standing against politico-cultural power and its complicitous relationship with businesses that have progressively turned into entertainment megacorporations and which are now multinational conglomerates that publish, produce and promote cultural merchandise.

This is the well from which springs Mario Vargas Llosa's irritated essay, *Civilization of the Spectacle*. It's not unforgiving land towards today's forms of culture, nonconformist with respect to novelties, and rebellious regarding the uses and instruments of present day culture. The book is brave and honest and comes from the same place an essayist with convictions always comes from; it expresses the angst of misguided intellectual pathways,

the oblivious though mistaken decisions made by cultural media, the broad inertia and detrimental habits that have taken root in our society. Obviously, Vargas Llosa is not alone in his diagnosis of Western cultural decline, nor is there a lack of historical precedents. For years, a large number of analysts and representatives both in and outside Spain have felt convinced and almost stunned by the implacable cultural impoverishment of our societies.

ANOTHER TRADITION

However, from within the core of this same Enlightenment tradition comes the opposite attitude, less despairing of the tireless succession of social changes, which are also cultural transformations. I prefer this tradition since it tends to view crisis in terms of transformation and change, while others view crisis terms of consumption and decadence. This very brief essay attempts to defend the legitimacy of a positive focus on today's culture and its new empirical conditions; its author believes in the real advantages of these changes and adopts the notion of a stimulating, creative and fecund continuity of the European intellectual and cultural elites, although no longer on the same terms, in the same role and under the same conditions as in the past. I suggest, in fact, that we are dealing with opposing conclusions, both of which are born from little more than intuition and appearances, not conclusive proof or argumentation. In other words: it's as legitimate to suspect cultural decline as it is to suspect that there's a process of change without the loss of value.

It's likely that we're experiencing one of history's most rapid and unique moments of peaceful transformation. We may be facing the beginning of a new era, since the changes taking place are beyond those of mere degree or pace, but instead invite a belief in a new paradigm. It's even possible that the technologi-

cal processes that have changed our daily lives explain not only the acceleration of cultural functions, but of social functions too: money moves faster, information moves faster, trains move faster, images move faster. And yet, contemporary man's capacity for comprehension doesn't move any faster, nor has it found a way to accelerate the process of gathering, learning, developing and incorporating knowledge, and understanding the business of thinking and creating. Social and intellectual networks—news, thought, blogs, twitter—run and multiply at a speed that is simply indigestible for the median aptitude of the common (or not so common) citizen; not even the tribe's fittest can move at the speed of communication; nor absorb the quantity of communicated information.

The immediate temptation is to believe that a rigorously new phenomenon has been born alongside these new technologies. By definition, technology is always new from the moment it's invented and transmitted, and writing was once as new a technology as the printing press, the radio, the cinema, the television or the Internet. The contemporaneous perception of a new technology is insurmountably distressing whatever the era, since it brings disorder to the order of things and introduces a method, often a new function, almost always accelerated and almost always perplexing for its new users. A large part of the most highly educated populace feels an almost automatic exclusion since the new function may be as invasive as radio, television, cinema or the Internet, or as discreetly useful as printing. Yet the immediate consequence of the shift from hand-copied books (the only way of sharing them, other than by memory) to printed books was, in many cases, considered truly catastrophic. It was heralded as the end of thoroughness, of perfect understanding, of the very pinnacle of knowledge, as it seemed too inconceivable and *different*.

Today we think exactly the opposite, of course, and we don't see the slightest hint of catastrophe—instead, the founding principle of modernity. The printing press was the lever that prompted cultural secularization and made access to knowledge available to the masses, although nobody could imagine at the height of 1550, for example, how far-reaching it would become. However, the printing press was promising something less hopeful to the cultural milieu of the humanistic elites: the utopia of absolute knowledge would disappear and true control over the circulation of that knowledge and over knowledge itself was being lost. The most voracious, tireless reader, the most gifted humanist, knew by the morning following the invention of the printing press that he would never read all the books that interested him. And he knew something else: he knew the dream of a library that could house all books had been rendered unattainable.

Today, we possess the same internal structures, both intellectually and culturally, as in the past, and yet everything is substantially different from what it was before. It occurs to me that we're experiencing a revolution of such scale that this time we really will take an unprecedented jump into modern history, by turning a technological transformation into a qualitative, categorical one. According to many, it's no longer simply a matter of a new set of instruments and technologies; it seems as though we are on the brink of a new civilization. We are at the outset, then, of a new way of understanding and exercising cultural activity, dictated and sponsored by a market which lacks quality control and the unfettered digital universe.

The singular nature of our times is, however, rigorously new (the Ortegan parody is obviously deliberate). Disconcertingly, it seems this is the first time that a technological revolution is going to impoverish or ruin cultural creation and the very notion of the humanistic tradition. It's the end or the beginning of the end.

According to the most distinguished opinions emanating from the highest intellectual orders, not only are education and the university condemned to a state of banality, but so are journalism, culture, and the art of literature. The future will hold what the present already does: a cultural market saturated with an infinite array of trivialities, superficial skills, mimicry, epigonism and trifles. Concerns about changes in reading and writing skills, or about readers untrained and lazy after immoderately consuming screen after screen, tends to prophecy an acutely anorgasmic scene.

Nevertheless, the hegemony of banality has been the secret law of Western culture since the West came into existence. There would be no West without the production and distribution of trivial culture, nor would there be middle class consumption, popular collections, nor high, middle or lowbrow publications. There's never been an epoch oblivious to the triumphs of vulgar taste, idiocy, petulance or vanity; no period of time has escaped of the scourge of invasive and offensive mediocrity. The recrimination of cultural poverty, of lack of invention, of slovenly analysis and of intellectual penury is a substantial part of the moral fiber that, paradoxically, has built freer and more sentient societies, better educated, more civilized, more respectful, more tolerant and less dogmatic. Therefore, the price of democratic culture is that it democratizes cultural consumption to the level of its demands, the hopes and dreams of the ever-growing and ever more demanding majorities.

The more critical voices think this is true of the past 2,500 years, but that it has ceased to function acceptably as of the past two decades, due to unarguable signs of Western fatigue, or perhaps because the uneducated or unrefined tastes of the lower and middle classes have impinged too much. The diagnosis, however, coincides with another phenomenon of greater scope: the nine-

ties brought about the end of utopias and discredited radical or subversive thought. Those who took up the cause, to a greater or lesser degree, of the ethical and ideological mobilization of the sixties, have experienced in their own lives the steady decline of the dream of liberty, justice and social emancipation. Often, one suspects this disappointment of having interfered with any capacity to analyze the West's cultural future, as if the failure of those utopian paradigms inevitably led to a sense of disappointment over what was left unaccomplished, in addition to the failure of high culture.

What can't be refuted, though, is that the social value of culture has been ideologically neglected, despite our belief that it is the best means for assuring prosperity and for building prosperous societies. Today, cultural education has become a sort of empirical fact, something so obvious it doesn't seem necessary to build an argument to defend it. And yet, it exists in a state of ideological jeopardy that is largely the result of its own success as modern democracy's social conquest. Classical, humanistic culture is endorsed by the same historical grounds upon which modernity's most fertile base was constructed: the fecund exchange between humanism and enlightenment. The same tradition aspired to subvert and undermine the radical, revolutionary movement of the sixties for being bourgeoisie, compromising, opportunistic and clearly mercantile. The intellectual classes perceived that the utopian spirit was coming to an end, and were disillusioned when, years later, this same elite integrated slowly but surely into the same bourgeoisie cultural circuits that are theoretically responsible for the decadence. But can those of us who weren't born then think the same way? Can we feel this same failure, when we have limitless and unimaginable access to the best possible production of culture in the world, whether it be direct, digital or electronic?

Today's disillusionment has also to do with another relatively identifiable and painful phenomenon: the progressive loss of authority among elites that are poorly prepared for change not only in technology or the media, but also in the more broadly social sphere. Fundamental qualitative changes since the 1960s in Europe include the growing democratization of knowledge and culture (slower in Spain), the exponential growth in production (high, low and middlebrow), a multiplication of creative strata and cultural consumption, and, finally, the new, harsh and irritating battle over intellectual control of the public sphere and high culture in the capitalist system. A widespread perception is growing among these elites of an acritical, vulgar and intellectually inert mass. I'm not sure how correct this perception is, since it doesn't exactly square up with other sociological, cultural and educational indexes that prove the opposite.

The condition for cultural survival is the capitalist market. Patronage ceded to more complex, open forms of cultural discourse and production when the public became a potential supply source whose tastes could be satisfied in quantities and varieties that were hitherto unequalled. The immediate effect in social terms was a progressive loss of authority for the precedence of high culture, which had to fight to keep its hold on power amid the ungovernable multiplication of focuses of opinion, criteria and discernment. The Internet has contributed decisively towards an atmosphere of anomia and disorder among intellectual elites, less skilled as they are in handling new media, and more affected by Europe's socio-cultural change in behavior. In his extraordinary book on the roots of totalitarianism between the wars, *Modernism and Fascism*, Roger Griffin argues over and over again, without placing emphasis on alarmist ideas, that the totalitarian response was stimulated by an atmosphere of catastrophe arising from the loss of stable references. Here, history

carries an implicit lesson regarding the importance of guarding against the present sensation of chaos and anomia.

CLASSICAL COUNTER-OFFENSIVE

One of the most visible and well-known developments of the last decades has been the intellectual leadership of Harold Bloom and George Steiner (one of them in the North America, and the other in Europe). Both critically opposed the cultural offensive of the new criteria very early on, at least since the sixties and certainly the seventies; they also opposed the new methods and the new rules of the game in research and cultural criticism. They defended the centrality of classical traditions (as a guarantee for perpetuating the values of high culture) against the battle to vindicate of the sexual, gender and ethnic minorities.

Both of them were fueled by a nearly religious belief in the value of classical culture. It has been and should continue to be the highest expression of the human condition, unsurpassable by future generations. George Steiner has been the most gifted and persuasive voice in defending the idea that high culture is impossible to achieve at the present time, due to the disappearance of what authorized it in the past: faith in that transcendence which carries a creator beyond himself, and the quest for the absolute that forces the creator (and the consumer) to attain the heights of Bach. Steiner's more sizeable books, such as *Real Presences*, or the shorter ones, such as the radio conferences *Nostalgia for the Absolute*, certify the end of a cultural era, as we have lost the highest notion of being human. The quality of contemporary creations have gradually descended a few steps below that of the past because of, out of impotence or oversight, this deficit.

The analysis is difficult to accept or refute since it's based on an indemonstrable hypothesis; without transcendent faith, crea-

tion is necessarily diminished. The argument could be considered tautological since its correct response is conditioned by a nonnegotiable requirement. Alright then: perhaps J.M. Coetzee is not Shakespeare and Mario Vargas Llosa is not on par with Dante, yet it seems unreasonable to question the respective validity of the contemporary unless the terms of comparison be those of premodern societies. A literary and artistic culture's conceptions of possibility aren't necessarily condemned to decadence by the absence of a metaphysical or religious impulse. The terrain is too slippery or shifting to allow for an empirical debate. There's also the conclusive verification of another proof: the institutional legacy of the humanist and enlightenment tradition continues to structure contemporary Europe's educational matrix, despite the fact that numerous analysts rightly point to breakdowns, deficiencies or even serious structural shortcomings (regardless of whether they be the Bologna plan, the Internet or the hegemony of the image).

An alternative to the humanistic tradition has not arisen in the past forty years, nor have we seen a cultural program capable of resituating the central references of our modern tradition. Any counter perspective is an illusion based precisely upon the immense, extensive and resounding victory of the Enlightenment program: the intellectual and cultural education of the European middle classes is heavily indebted to it, despite the more or less adaptive processes dictated by cultural homogenization and even advised by the evolution of today's societies. It's senseless to impose an education on today's children that obeys the parameters of the nineteenth century (when there was barely a school-going population), although this might mean reducing the quota of classical, Greco-Latin learning for the majority of schoolchildren (still a larger group than at any other time in the past). High culture is not monolithic, nor does it have one single

way of entering the European conscience. What seems correct is that high culture continues to be the structural program of education and cultural formation, now widely disseminated although previously limited to a small upper class.

It's true that postmodernity brought its own cultural and ideological program, but its execution comprised a historical and superficial variation of the same legacy. It neither subverted, replaced, nor extinguished the old agenda, even though the current feeling regarding education and culture is often critical towards that legacy. Tony Judt, who is not someone necessarily given to fear-mongering, doubted the advisability of the social democratic educational model under which his and other generations grew up. He doubted the survival of a model that is able to guarantee social ascension from humble conditions based on merit.

Yet perhaps the harshness of his analysis was directed more against a comparison with the past than as a prognosis for the future. In any case, anyone as progressive as he was understands that the first function of today's intellectuals or political philosophers is not so much to "imagine better worlds, but to prevent them from becoming any worse", as can be read in *Thinking the 20th Century*. What's understood is that social democracy has installed remarkable levels of education and culture, and today these both run the risk of being impoverished or emptied of meaning. For some, however, the cautious repudiation of important changes has brought about a total rejection of the present or the imminent future, in cultural terms.

When we accept the fact that in the future, the social influence of intellectuals will be validated in a different way, what we are really accepting is that there has been a substantial variation over the past half century in the exercise of influence relative to 1920, or the end of World War I. It would be highly improbable to think that competent and serious opinion hasn't under-

gone change when the rest of society has. It's true we don't really know how this influence works now; we measure it through old-fashioned indicators; traditional news and culture media are losing readers in droves. Literary supplements in printed media are disappearing (they hardly exist in the United States anymore), cultural and political magazines are fighting to survive, bestsellers damage the backlist of literary bookstores, which in turn have a hard time surviving, and serious or considered essays are less prized in the classic publishing circuit. Yet we don't know how to measure the multitude of users that are consuming other forms of responsible and serious criticism and analysis online (the new paths and new circuits), taking into account the fact that today there are some 180 million blogs...

The uncontrolled multiplication of improvised cultural and critical channels, or simply *amateur* ones (more or less the same as always, really), may lead us to the hasty conclusion that there is an absence of influential journalists or intellectuals with educated opinions, while at the same time admitting that the physical and virtual spaces where they can work and publish have also multiplied. We are confronted with the material variation in the production and dissemination of knowledge, but not necessarily the reduction and degradation of that same knowledge. What's more, the relative decline of the classical forms of distribution and consumption may be the origin of a new, previously unfeasible facet that neither condemns to marginalization nor devalues traditional means of creating high and low culture, including an infinity of variations that fit in-between (and that are Western achievements, at least for those who believe that the West has been the world's intellectual and cultural center, capable of producing the greatest number of responsible, lucid, even at times happy, people on the planet).

RESTORATION OF ORDER

Counter to prevailing wisdom, the standardization of the Internet as the center of cultural, creative, and commercial dissemination is probably provoking a return to a natural order similar to that lived by the avant-garde of the thirties. The ubiquity of such a disorderly platform may be feeding the sense of urgency and even anxiety over restoring a sense of order in the cultural sphere, as well as the educational and informational spheres. But renewing order and hierarchy doesn't mean returning to the old order, as nothing will be the same as before and nobody knows for sure what the new order can be like. Calls for the establishment of a cultural and literary hierarchy of production make up an intellectual discussion that is neither apocalyptic nor catastrophe-minded: can we imagine the self-regulating mechanisms of complex societies functioning for economic and professional reasons as well as practical usefulness? The acritical, horizontal nature of knowledge has provoked serious misunderstandings between commercial success or visibility in the media, and intellectual quality, professional solvency, the value of experimentation and innovation. The resignation of today's cultivated intellectual classes in European universities, including the Spanish, would appear disingenuous when it comes time to establish their own norms and behaviors, circuits, and tacit rules of evaluation and hierarchy, unless they truly believe in the poverty of the new intellectual classes.

To presume that the means by which something is disseminated can condition contemporary culture is to overestimate the influence of the medium and, what's worse, undervalue the intellectual aptitude of the new graduating classes of scholars, intellectuals and writers. Nothing appears to evidence, at least not for me, the rampant discrediting of the novel, the essay, humanistic

research or publishing in our times. And without committing the sin of being an outrageous optimist, even a slight exploration into humanistic and literary creativity reveals quite the contrary to be the case: agile execution and quality results are as far from desperate, and as euphoric as they have been in the past.

Certainly, having experienced the ethical and cultural impunity of capitalist societies, and having seen the invariable capacity of the Internet to provoke good and evil alike, helps to produce a more skillful defense against its more negative defects and consequences. The virtual atomizing of knowledge, the abrupt disconnection of data, the lack of a narrative of cohesion or the qualitative inequality of materials are not a part of the problem but instead are the cause motivating the radical reactions of certain cultural, literary, intellectual or academic media outlets. As in any profound transformation, there is a need for gradual and lucid adaptation, rather than simplistic or sectarian demonization, as is happening now. The anxiety of hierarchy has returned, and the allure of disorder and whimsicality has lost its charm, (consisting of witty hybrids or associative somersaults that were (and still are) the brand names of a large part of the new cultural production). But it would be ridiculous and not at all astute to claim that the devaluation of culture is caused by the democratic extension of knowledge via the Internet itself, when it is capable of effecting exactly the opposite: instant documentation, intelligent associations, agile bonds, informational accessibility, and speed of transmission and reception.

MEDIA VICTIMS

In part, the anger this cultural disorder awakened comes from the changing social function of the writer. The intellectual has always had a reputation for detecting the important and scorn-

ing the superficial, selecting what is relevant and removing the phony froth of fad. However, a large part of the intellectual elite's pessimistic reaction towards contemporary culture—as weak, derivative, bankrupt—may be due to a huge mistake, or a mirage. It seems as though an optical illusion or a mistaken reading has occurred: many apply classic analytical lenses to a cultural reality that has changed phenomenologically, through not essentially and substantively. The means of exposure and distribution have changed, but it hasn't reduced the faith in creative energy of those who work in humanistic and cultural media today, in the broadest sense of the word (from the university to the press column, passing through institutional cultural management, or in the solitary writing of literature).

The fatalistic analysis tends to feed, paradoxically, on the information provided by large, traditional media outlets, which fall into two fundamental categories: audiovisual (digital and not digital) and quality printed media. Both of these outlets have shifted part of their enterprise from the social, informational, educational and formative (regarding modernity) objectives to a different one, which is more appropriate for a society that is progressively cultivated and educated, tending more towards acritical and commercially profitable news, even at times to the benefit of subsidiaries of the same interests of the large companies mentioned earlier. But this shift towards forms of mass consumption doesn't mean the end of the more exigent forms, but rather a relocation of cultural demand, since for obvious reasons it's less profitable financially, moves in other channels, bonds with other subjects and is today, as it was yesterday, in the minority.

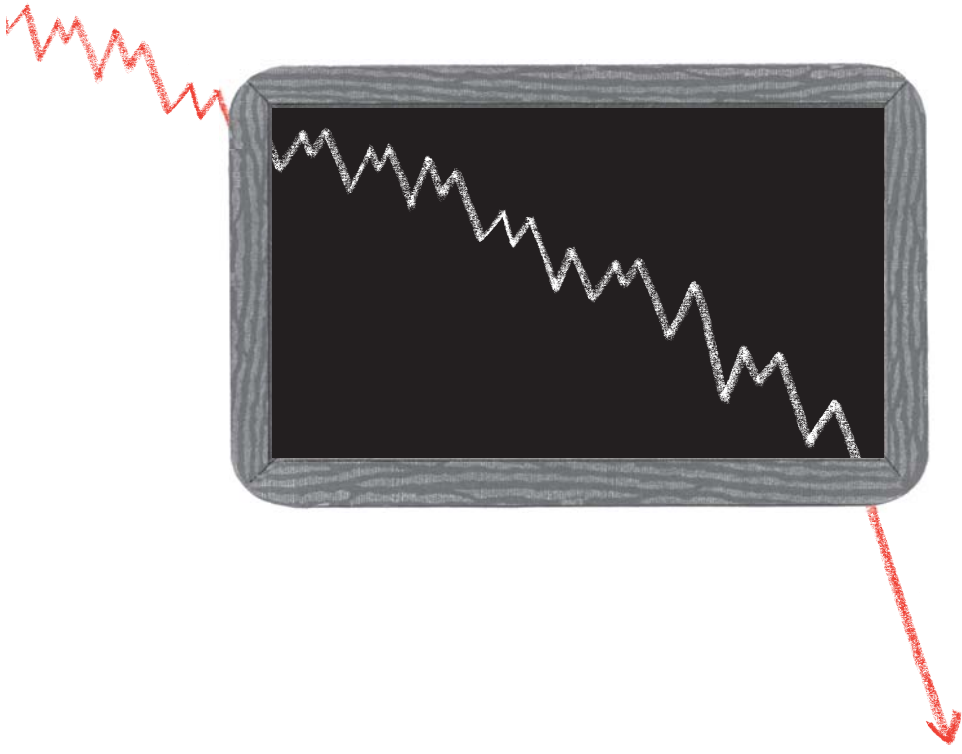
I'm not disowning the media, nor do I claim that they are betraying their mission. I'm pointing to a change in the space they occupy in the hierarchy of value that a society assigns to cultural production. Simply put: the guarantee of quality and

excellence that a full page in a prestigious media outlet meant for a movie, an exhibit or a book is no longer as sure. Today, the reasons for assigning this media space to a work of culture are no longer the same as what had prevailed in a society without this intensely capitalistic development, or without knowledge of the multiple means of promotion and evaluation available to a new work. This means that traditional media outlets are no longer irreplaceable tools for evaluating and contemplating, knowing about and appreciating contemporary cultural production. It doesn't mean that the cultural product that is being applauded and valued, showcased and coddled by a prestigious media outlet is the only one that exists or that is being consumed: it means it has the greatest amount of corporate sponsorship and the most ambitious commercial expectations.

The fundamental issue remains how to foment recognition of intellectual and cultural achievement beyond the outlet of traditional media, since the social devaluation of the media has occasioned a shift towards other circuits (some even boast that they no longer read the daily press since there are other faster, more trustworthy sources that are less obviously old-fashioned or behind the times). There are others who still exist, they haven't disappeared, that work, think and write, but not in the same ways or in the same places, although of course they are anxious to appear in the media, knowing it is a privileged platform to promote the work of an author: the young writers, but also the not so young, who understand that the promotion of their work can go hand in hand with the traditional media.

From the vantage point of the traditional intellectual, who depends on the traditional media, banality and witty turns of phrase are the kings of European cultural life today—banal exhibitions, the acquisition of mediocre work by serious museums, and the apotheosis of the vulgar in literature. But I tend to read

this data as the signs of a cultural mirage, a simulacrum of the real that obviates reality itself. The culture of the spectacle is more buoyant than ever, but the spectacle is not the only definition of contemporary culture, nor has culture forsaken its only unforsakeable urge: to create and to think with conviction, imagination, competence and drive.



Luc Ferry **Modernity in Question: Four Illusions of “Education Reform”**¹ Today, with respect to schools, we face three big difficulties. Of course, there are others, some of which may touch upon the supervision or recruitment of teachers, but these three are utterly crucial and I would like to begin by naming them. Firstly, over the last ten years or so (and the figures increase every year), there have been in-between 85,000 and 90,000 serious incidents reported by school headmasters: verbal, racial or anti-Semitic abuse,

physical violence, drug trafficking, weapons, sexual aggression, racketeering... these are actions that would immediately send one to prison if adults were in question.

A second concern: 160,000 students leave our school system every year without diplomas or qualifications, apart from the very few who receive their secondary education certificates in the centers that offer them, or certificates of study devoid of qualifications. In other words, we annually “produce” 160,000 young people in a situation of complete school failure, young people who will clearly find social inclusion very difficult, just as much in their professional lives as in their social lives in general. And, evidently, the numbers increase year after year. This is a serious problem. In my opinion, that students are leaving school without diplomas or qualifications is the number one problem with our school system today. I have fought many years for people to accept these numbers, which are now being acknowledged by everyone and which my predecessors tried very hard to cover up so as to save themselves the trouble of facing the enormous problem that these numbers pose.

A third major problem: the extremely unsettling rise of illiteracy. I have worked a long time in depth on this question, most recently with my friend Admiral Béreau. Together we have compared figures from the Ministry of Defence with those from the Ministry of Education. Each year, 18-year-olds are invited to the “JAPD” (*Journées d’appel pour la défense*), an introduction session to defence and citizenship, during which they are subject to a series of tests that principally concern their command over language. And so, the results of these tests show that 30% to 30% of 18-year-old kids—I still call them kids but they are young adults—have great difficulty reading. Roughly speaking, 7% to 8% of them are completely illiterate. Around 10% are incapable of comprehending the meaning of the texts they fumble through.

And some 10% to 15% are decent but very slow readers, which means that they will never read a novel or even a newspaper article in their entire lives. We are talking about at least 30%, which is the identical figure we see at the beginning of sixth grade! A former member of the Lionel Jospin administration, who was one of my predecessors at the Ministry of Education, had already made this very clear. Despite forming part of a left-wing ministry, he had the courage to publicly state the truth that 30 to 35 % of our kids have difficult reading at the start of sixth grade. This does not mean that they do not know how to read at all, but it does tell us that their comprehension is so poor that they cannot read for pleasure. They are unable to understand meaning the same time as they decipher the text.

When one looks at this data alongside the other difficulties previously mentioned—violence on one hand and dropouts on the other—it is evident that the three ills of our school system, or better said, of our society (as it is not so much the system that is not well but the families and their children who are put in there), are very much tied together. How exactly did we end up in such a situation? My grandmother was a headmistress. It was she who taught me how to read and write. If somebody had told her that in 2012, the number one problem in France—a highly civilized country which together with Germany has the biggest educational and cultural tradition to have ever existed—would be illiteracy, she would fall out of her chair. In the fifties, it was already a problem that was solved or at least was being solved. When she started off as a teacher, my grandmother had ninety students in each class. She would always tell me that she never let any student leave the school if they did not know how to read or write, except in cases of extremely serious psychological or physical problems. So what happened? Here is the big question, although we do not want to face it. For the most part, this undeniable

problem is not because of schools themselves, but rather reflects the historical repercussions of the deconstruction of traditional values and authority in the twentieth century—and our school system is certainly affected. It should also be recognized that we made some mistakes in the seventies, which partly explains the current state of delinquency. Our education specialists, or pedagogues as they are sometimes called, were people of goodwill, and the mistakes they made were done in good faith and sometimes even with intelligence; nevertheless, they were indeed mistakes and four of them, which I would now like to mention, have powerfully aggravated the situation. I will first name them and then go back and explain them. The first mistake is that which consists of overvaluing active methods, which definitely has some validity, but cannot and should not replace the coherent linearity of a “lecture”. The second mistake is the emphasis on playing over working hard—what I call “pédagogie de l’hameçon” (literally, “hook-teaching methods”, which stand by the belief that the student’s involvement solely depends on motivation levels and that effort cannot be forced). The third one consists of imagining that the ultimate goal of education is to help every student blossom and “become who they are”, while—at the very minimum—it should be to help the children be “students”, which is actually to rise and succeed through effort and hard work, and so “become someone different” from who they were at the start: this implies a controversial idea, unacceptable for many respectable thinkers, knowing that “alienation” (understood in its own sense as the fact of becoming someone else) can do some good. Lastly, the fourth illusion is that of “the cult of youth”, which essentially devalues the itinerary that will lead us to become adults and which also nullifies an essential part of the educational process.

Let us now return to these four points by analyzing them in depth. They are well worth our attention and they are not as

obvious as they may seem, which means we have to make an extra effort, even more so because together they form a coherent system, each one completing the fundamental logic implicit in the others. It is therefore essential to understand them well if one wants to pin down the true roots of our current problems, and not dwell on the usual clichés that rail against television, globalization or immigration.

The *first illusion*: in the seventies, policy-makers tried to permanently eliminate the approach by which education and teaching was above all (at least mostly for adults responsible for children growing up) the transmission of a heritage, a tradition, an inheritance built on knowledge and skills. They thought that, thanks to active methods, children would be able to discover and reconstruct everything on their own, and that they would command what they had “made”—if not “invented”. Speaking plainly, this was a nice idea but a mistake too, a mistake that still to this day encourages those who defend certain popular methods such as “*main à la pâte*” (an institutionalized method based on the student’s participation in the construction of his own learning). Policy-makers were convinced that, no matter what the cost, teaching should draw heavily on self-construction of knowledge: self-dictations, invented texts, activities on paper, internal rules written up by students, fill-in-the-blank exercises, the construction of small playful objects, etc. In short, the “*pédagogie de l’éveil*” (expression used since the seventies to name the advocates of educational reform) was promoted to a sacred principle. At the same time, they made sure they discredited anything that at all resembled a “lecture” as well as all the traditional exercises that were judged too “classic”—dictations, compositions, learning by heart... school mission statements therefore gave more importance to activities than actual content, resulting in a radial structure that imitated “hypertext” logic as opposed to

linear reasoning, which was judged too “scholastic”. French lessons became massively reliant upon “fill-in-the-blank exercises”, which required the child to answer along the dotted lines, which simplified things for teachers and, due to its playfulness, kept the students easily busy, though it actually proved to be very negative. As it deals with the learning of language, it was a complete disaster. Why? I will say it right out in one sentence, which is for me the most important: It was a disaster because, quite simply, none of us invented our mother tongue! And this fact, apparently trivial, deserves its own reflection. In fact, our language (in this case French) is a common heritage, 100% shared. Grammar rules, as those of correct and polite speaking, are a full result of inheritance, of a tradition. Their assimilation implies an attitude of respect and humility, not one of a child king who is persuaded that he will invent and reconstruct everything by himself. Regarding grammar and politeness, “creativity”, “imagination” and “spontaneity” (all so dear to education reform) have names: spelling mistakes and crude speech. It is no coincidence that our educational system is mainly struggling with these two points.

The *second illusion* presents a most profound problem. All education reform tends to strategically opt for play instead of work. This brings up an old and fundamental debate that reaches back to the eighteenth century. As Alexis Philonenko has shown, it mostly appears in Kant’s *Reflections on Education*, following the path of Rousseau’s *Emile*, whose author opposes three teaching methods: teaching through play, through training and through work. These three approaches have structured the whole debate on teaching in Europe since the eighteenth century. If one does not know them, the debate over active methods or traditional methods is misunderstood. Kant, a loyal disciple of Rousseau’s on this point, gave the following form to this intuition: three teaching methods are possible. The first one gives

the child absolute freedom: it is education through play, which, according to an analogy with politics that ought to be further analyzed, corresponds to anarchy (for example, a math lesson is replaced by a chess game). The second method is the exact opposite: training, equivalent to absolutism, which is no doubt applicable to animals more so than for free human beings. How do we render possible what these two extreme visions—both equally false—can nevertheless offer as reasonable, at least at the start? Or in better words: how to respect the child’s freedom all the while he is being taught a discipline? The answer is through work. It is this which gives him the “synthetic concept”, the solution to this antimony. Because, when working (for example, an attempt at problem-solving), the child exercises his freedom, yet nevertheless faces objective obstacles that, being chosen by the teacher, can be richly educational for him from the moment that the child is able to actively overcome them. The anarchy of game and the absolutism of training are in that sense replaced by republican citizenship through work. Here is where we find the educational equivalent to the Rousseauian and Kantian theory of law: the citizen of a republic is one who is free because he votes for the law, and is then bounded to that same law from the day it is approved. Likewise, this is where the intersection of the two moments—freedom and discipline, activity and passivity, play and training—proves to be analogous to that which makes work happen for the student.

Here is why, after the eighteenth century, the ethic principles governing the life of the republican school have been inseparable from the notion of effort made by individuals in order to meet or carry out certain transcendental rules. Depending on the size of this effort, our actions will produce a truly “virtuous” dimension, according to a logic that we could call “meritocratic”, a logic evinced when we get our hard-won “good marks”, as well as the

canonical refrain of “you can do better!”. This refrain, beyond its apparent banality, deeply illustrates the purpose of aristocratic logic: what the elite servant of the republic values is not natural talent but intense levels of work and effort. And so, our teachers judged natural talent or aptitude less than the quality of the student’s work, their actual capacity to reach the standard (both ideal and collective at the same time) embodied in the school programs. Ethics, as a particular discipline central to philosophy, in this perspective appears to be a fundamental reflection on concepts such as “duty”, “imperative”, “goodwill”, “selfless intention”, “resistance to selfish tendencies”, “surpassing oneself”, “altruism”, etc.

All of this goes to show that, ever since the sixties, we have been witnessing a new mutation tied to the astounding rise of democratic individualism. In the United States as much as in France, important authors have shown how hedonistic and narcissistic ideologies took hold of traditional moral questions. If one wants to get technical, the key word would no longer be duty, and even less so merit, effort and work, but without any doubt individual “authenticity”. What is indeed essential is no longer confronting collective norms, exterior to oneself and “imposing”, but achieving the expression of one’s own personality, one’s self-accomplishment. In “be yourself”, you have the only surviving imperative, and it is no coincidence that after some twenty years we have seen in Western countries a boom in supposedly appropriate techniques for carrying out this objective through both a physical and psychological course of action. With the success of jogging and all kinds of psychotherapy in order to feel “well both body and mind”, there are two massive consequences with effects that are perceived over and over again: on one hand, the rejection of any form of authority and also of any form of work in favour of hedonism and on the other hand, the cult of dif-

ference propagated by an individualism that rejects the concern for the collective. If the goal is to be oneself and not conform to exterior collective norms, all normativity is indeed bound to simply appear as a rather insidious form of “alienation”. And if each person holds an absolute right to be “oneself”, we should also then cultivate the differences, whatever they may be. Here is why education reform, in the wake of May ’68, made criticism of alienation their main rallying cry.

In this sense, the *third illusion* situates itself perfectly alongside these two first illusions. It stands on the idea that it is necessary to first motivate children before you put them to work. The guitars come out, movies are put on, music too... in short, a demagogic range planned to attract students like fish to hooks: it is the attempt to reel them in based on the conviction that they will eventually work once they are attracted and motivated. At first glance, it does not seem like a bad idea. But if we truly think about it, we quickly understand that it is superficial and false. Why? Simply because work comes before interest, or to say it as it is: one is never truly interested unless it is first something that they really worked hard on. Nobody has ever been able to make kids work without recurring to a minimum form of obligation—thus the complete opposite of the “hook” theory. At some point in school, all of us have come across that “great teacher”, or even two or three that have left a mark on us for the rest of our lives. And so, what is a “great teacher” if not someone who passionately gives us a taste of effort and work? That teacher managed to get us into a discipline or a task regarding something we completely ignored beforehand.

I have already underlined the essential deep link that existed between the acknowledged importance of work and the republican ideal. From its creation until its rupture brought on by the protests in the sixties, the republican school ran on a moral vi-

sion of a republican and meritocratic world. As I have already suggested, but which I quickly come back to so as to stress how these reforming illusions are connected, these principles rested upon the conviction that there existed common values, collective norms to be incorporated into the curriculum, which went beyond individuals, and which everyone should try to carry out in and outside the school. It was not for nothing that the child was called an “*élève*” (French word for “pupil” with the meaning of rising up), meaning someone who is encouraged to rise and struggle until the superior ideals are gained. In other words, the goal of education was to clearly make sure that at the end of the learning process, each and every one of us has become “somebody else”, different from how we were at the start. It is within this perspective that various distinctions (everything from good marks to awards of excellence) were meant to reward hard work and effort, and that is why the famous “you can do better” of the republic’s elite servants did not seek to evaluate natural talents but solely, from a meritocratic point of view, the good or bad uses the student made of them. For me, it is not at all about idealizing the past or attaching oneself to the perspective of some sort of “restoration”. Even so, it must be noted that the sixties saw the appearance and development of a different vision of education, which introduces a whole series of problems that remain unsolved until this day. The idea is no longer to ensure that the student becomes somebody other than who he is. On the contrary, it seeks to ensure, according to the canonical formula, that the student becomes who he is, letting his personality fully blossom. This results in a marked preference for teaching methods that cultivate qualities different than the traditional values of merit, effort and hard work: self-expression rather than a concern for transmitted heritage, creative spirit rather than respect for authority, spontaneity more than receptivity, innovation rather

than tradition, etc. These values are not negative in themselves—far from it—but in the end it is the idea itself, of superior norms acting on individuals, that is denounced as being alienating, a sign that behind the criticism of the republican school, there is a new trend of individualism now firmly in place.

This is most notably expressed in the famous formula that inspired, at least in part, the 1989 law of orientation (although not explicit in the law itself), according to which “the student is placed at the center of the education system”. It goes without saying that this sentence is reasonable in some sense: it is good for students that school exists and not the other way around. However, it inconveniently lends itself too easily to demagogic interpretations that, underneath an appearance of privileging the attention given to “the child’s development” (to which it is forgotten that he is first a *student*, for national education is made up by teachers and not by parents), the fact is hidden that the education system is also there to allow the child, through the acquisition of knowledge and skills, and through critical training, to become someone different from who he or she was at the start. Radicalised to the extreme, the ideology of “the right to be different” risks leading to the abolition of the cultural map of all value hierarchies, and on the political map, the disappearance of collective projects, suspected beforehand of going against the growth of the individual. With regard to school, the dangers of this position are today manifest: beyond the visible goodwill, it risks perpetuating social inequality among children, disqualifying notion of effort and learning, of closing children into what they are instead of opening them up to the appropriation of what they are not. It is therefore necessary to move past this conflict, surely more probable now that passions have cooled off. Because it is best to place in the centre of the education system not just the student or knowledge, but the relationship between the student and knowledge, which is on one hand the role of transmission

played by teachers and on the other, the imperative of work which is the job of students. So, the whole question of the place of work and active methods is what must be reconsidered today. And once again, a “detour” into the history of ideas is rigorously necessary if we want to overcome old clichés.

The *fourth illusion* lies in that new and ill-fated ideology which is the cult of youth, in which not only growing old but simply “growing”, in the sense that the little prince talks about “grown-ups”, is a catastrophe. What impression did adults give of education to children when they introduced that absurd cult of youth in such high doses in the seventies and eighties? The cult of youth has instilled in younger generations the conviction that the transition from childhood to adulthood is inevitably a decline. Now that is going against the idea of education itself. What is education but a passage, guided by parents and teachers, from childhood to adulthood? Under the influence of the cult of youth, the whole of education was placed under bad omens. Instead, children must be told that the world of adults, once achieved, is richer, deeper and more passionate than the world of childhood. Nobody is a great poet at the age of ten—, or a great politician, or a great CEO of a company, or even a great football or tennis player... to be honest, nobody is great at anything at the age of ten! We must leave aside the Peter Pan syndrome, the one of that little boy who refused to grow up and who wanted to live in the imaginary. Over the last few decades, we have insisted on closing our children within their childhood when we deem it impossible for them to understand history, learn languages or be passionate about literature—, instead of stepping out of childhood and passing through a certain discipline of body or of spirit, an intellectual rigour, an effort of reflection and thought, without any of which the world of culture is not only inaccessible, but (it must be said) repulsive. It is precisely when the universe of high culture

becomes inaccessible and repulsive that one fully gives oneself to the most vulgar television programmes, and not the other way around. Once again, let us stop confusing cause and effect! It is only past a certain threshold, after a sum of considerable effort and hard work, that high culture reveals its richness and importance, and that is why we should exercise the ability—without being afraid of the word—and the “authority” to help both our children and our students understand.

As we can see, the principles of education reform, as generous and at times intelligent as they may be, are inevitably at odds with what is most fundamental, in particular reading and writing, but also refinement (today we say “consideration”, though I prefer the old terms), which are traditional inheritances we must respect and not reinvent. In the defence of “progressive thinkers”, it must be said that the whole movement of liberal societies went in the same direction: deconstruction of tradition, innovation for innovation’s sake and the cannonization of the individual. There is no turning back. Thus we must jump over the traps that I have just outlined; we will only be able to do this if families work together with schools, and if they do not place all the responsibility on teachers, as their role is not to educate but to teach that is, to transmit knowledge. I am not overly pessimistic: I have the feeling that, even if it is just for the love of our little ones, we will start to understand that it is also the family’s duty to transmit the authority of the law if we want the knowledge and skills to stay in the minds and hearts of our children. We are not there yet and very far from it, but we can hope for greater recognition of this task, greater in any case than the day after that joyous month of May.



In honor of the memory of Xavier Batalla,
a journalist able to preserve his craft in times of crisis.

Juan-José López Burniol **The Crisis
in the Media** “We are in the midst of
a period of transition that is much
more rapid, much more difficult to
‘decipher’ than any other” George
Steiner, *The Silence of Books*. “Jour-
nalism calls itself the fourth estate,
but it is in no position to be the ar-
bitrator of the democratic game. It
is a business. It pursues the market
share more than the truth. It serves
interests. It receives as many blows
as it lands. It is aggressive with the
fallen as it adulates those on the rise.
Journalism likes to think that it

reveals the secrets of the powerful, but it also takes care to obediently provide whatever the powerful want the credulous to receive.” Michael Ignatieff, on receiving the *Cuco Cerecedo Award 2012*.

“Corruption is the same as it has always been, revived today by the crazy financing of an economy that has turned into a casino and by the growing authoritarianism of its caretakers: government journalism and the industrial press. The former forswears its autonomous agenda to adopt the agenda of the powerful, bowing to their demagogical fictions, demoralizing any alternative to their policies, connecting with the fear and hatred that they feed in order to survive. The latter accepts the fact that financial actors outside the field of information infiltrate, even impose themselves, at the very heart of the industrial press so that the media might never harm their own private interests and, in this way, corrupt the very essence of the office of the journalist, his loyalty to the public, which he then substitutes for submission to his employers.” Edwy Plenel, *The Struggle for a Free Press*; Edhasa, Barcelona, 2012.

On Sunday, November 11, 2012, *El País*, the Spanish daily newspaper, published an extensive article in its opinion pages—titled *To Our Readers*—that constituted an excellent summary and an even better indicator not only of the current situation of the written press in Spain but also, by extension, of the communications business itself. This *pro parte* plea takes on greater importance if one takes into account that the first issue of *El País*, founded by José Ortega Spottorno—the son of Spanish philosopher José Ortega y Gasset—appeared on May 4, 1976, six months after Franco’s death and at the very start of the Spanish political transition. It was the first newspaper in Spain with an explicitly democratic mission and a commitment to modernity, in a context in which the rest of the Spanish periodicals were weighed down with the burdens accumulated over the long dark night of Francoism. *El País* filled the existing void and became the newspaper—almost the

emblem—of progressive, democratic Spain at a moment in which the passage from Francoism to democracy was still in its initial stages. Juan Luis Cebrián, who had worked at the daily newspaper, *Informaciones*, was the paper's first editor. Like so many Spanish journalists of the time, Cebrián had got his start with *Pueblo*, the official organ of the Francoist “vertical syndicates,”¹ under the direction of Emilio Romero. Cebrián directed the paper until 1988, the year in which he became CEO of his own publishing group, taking on additional roles at the core of the group, until he assumed leadership in 2008. The trajectory of *El País*, and of Cebrián, summarizes the trend of the Spanish media and their business operations over the past third of a century.

In the abovementioned unsigned article, *El País* begins by recognizing that the tensions that have shaken up the paper are the result of a labor conflict which arose from the firm's decision to present an Employee Reduction Plan (Expediente de Regulación de Empleo-ERE) affecting 30% of the staff. It goes on to explain that the reasons for such a drastic and painful staff adjustments reside not only in the exceedingly deep economic crisis that the market is undergoing but also and above all in the radical change the sector is experiencing as a consequence of the implementation of new technologies. This makes it clear from the outset that the two great problems faced by the traditional written press are the waning of the business model and the technological revolution.

The consequences of this problem are conclusive: all over the developed world sales are plummeting at an incredible rate, even as income from publicity is sinking. In Spain general distribution has dropped by 20% in the last five years and publicity sales in newspapers by more than 50%. The result of all this is significant: this year, *El País* will earn 200 million euros less than it did in 2007, the year before the outbreak of the crisis, as a result of which it has announced losses. Projections in this sector for the

coming year are similarly disturbing. Newspapers such as *The New York Times*, *Le Monde* or *The Guardian*, are experiencing the same problem and have implemented salary cuts and reductions in personnel similar to those at *El País*. In the case of *Le Monde*, the staff, who had retained ownership of the periodical since its founding more than a half century ago, were drastically cut out of the need for recapitalization. Other news magazines, such as the *Christian Science Monitor*, or *Newsweek* magazine, have stopped printing paper editions. And many other enterprises have simply disappeared. In Spain more than 8,000 journalists will lose their jobs in the process. In the United States over 40,000 have already lost them.

This economic reality has been the incubator for the conflict that has unfolded at the heart of *El País*—a conflict in which the staff, the shop-floor union representative, and some twenty collaborators on the newspaper, among them a number of renowned and influential journalists, protested on the grounds of there being a threat of censorship or loss of journalistic independence. The staff assembly also approved a motion to censure the president of the paper—and its first director—for having betrayed the staff, and demanded, in addition, the director's resignation. The response of the newspaper was to maintain that the pressures do not only proceed from traditional sources of power. Often they are the product of populist demagoguery, of the libertarian tendencies of many of those who occupy the social networks, of the malice emanating from the failures of certain competitors, or of the jealousy of certain professionals with too high an opinion of their own capacities and influence in the universe of letters and journalism. The result of all this is an inevitable confusion between a labor conflict and the questioning of the credibility and independence of the newspaper, partly as a consequence of the measures taken to balance the accounts of the media group in which *El País* is embedded, the negative results of which are

attributed, to a great extent, to the continual bad business decisions adopted by, among others, the president of the group himself, who also has received bitter censure for other aspects of his management.

In any case, the final result of the whole complex process is that *El País* has taken on as shareholders the banks that hold its gigantic debt.

The case of *El País* is just one of a long line of examples, but—in Spain—it has a great symbolic value, and hence serves as a case in point to shed light on general issues.

ON THE MEDIA

The Problem

It has become commonplace to affirm—as Edwy Plenel does—that three crises—democratic, economic and moral—are compromising information: its quality, its usefulness, its honesty and its freedom.

The year 2012—in our environment—witnessed the aggravation of a problem long in the making that is cruelly jeopardizing the media, in particular, the written press. However, it is evident that in the audiovisual media news items *jump*; on the net, they *spread*; and in newspapers they are *worked on* and *commented on* (though not always) through the establishment of context. This means that broad sectors of the population, particularly the young, do not feel compelled to buy newspapers in order to be well-informed, as they feel that the radio, television and, increasingly, the Internet, are all they need. Add to this the weakening of the political parties affiliated with the Church:² old newspapers that could practically be considered the parish bulletins of those old religious parties nowadays have come into question and are well on the way to an inexorable breakdown. Significant, in this

regard, is the fall in sales, and even in subscriptions, that newspapers experience when their alignment with a particular political ideology becomes too glaring—even when said ideology had once been dominant and imposed on social life as a dogmatic and rigid *canon*, requiring obedience and compliance under pain of exclusion or banishment. All told, the implication is a gradual and constant descent in sales for the written press.

In addition, the severe economic crisis that western countries have been undergoing since 2008—the conclusion of a five-hundred year cycle determined by the colonial exploitation of the best part of the world, which conferred upon the West a solid economic hegemony that is now irrecoverably lost—has made it necessary, since economic activity has declined and business profits with it, to cut back on expenses in order to reduce costs. One of the first items to be cut is publicity in the media, both audiovisual and written.

And, last but not least, the technological revolution has made a significant contribution to the decline in readers, who have found the Internet to be not only the most accessible and immediate source of information, but a space in which they can interact with the circulators of the news and other potential commentators. This phenomenon takes on especial importance among the younger generations who in general are no longer readers of printed news sources.

Having indicated the three factors of the media crisis (the fall in circulation, the reduction of publicity, and the technological revolution), another very important aspect must be highlighted, namely, the process of media concentration and the proliferation of multimedia groups that have a tendency to monopolize the telecommunications market.

In light of this, it is no wonder that the owners of the media should be facing serious economic problems, which a person familiar with the sector recently described, unflinchingly and

mercilessly, in this way: “Sales are plummeting and publicity is declining; someone will have to pay for the newspapers.”

This quote strikes at the heart of the complex problem that is nipping at the heels of the private owners of the media: their tremendous difficulty in finding financing. This is a problem that they share with public television networks, which were as generously and irrationally subsidized during the years of plenty, and are now reluctant to suffer themselves the same cutbacks that have been imposed on sectors deserving of preferential treatment such as health and education. Let us remember this factor because it brings into relief a point that cannot be stressed enough: the public powers, in applying their cutbacks, have not made a distinction—as the old Roman Law did—between necessary, useful, and luxury expenses, whereby the first items to be cut were always the luxury expenses, then the useful, and finally, the necessary. On the contrary, they have frequently prioritised “their own” media, above—for example—the health system. Why? The answer is easy: because it is an instrument of agitation and propaganda.

These and similar issues are emerging from journalistic circles themselves, both the strictly professional and the academic, as can be seen in the round table transcribed in issue 676 of *Nuestro Tiempo*³. Usually the basic idea is that we are not experiencing an epoch of change, but rather a change of epoch, which is being propelled by the Internet and new technologies. Never before—it is stressed—have more than two billion people been instantaneously interconnected. And there are still another five billion who have yet to be connected, which gives you an idea of the magnitude of the phenomenon. This allows us to speak without a doubt of a society of communication, in the same way that once we could speak of industrial society. As a result, Internet and new technologies have modified journalism just as they have revolutionized many other arenas. But this will not cause

journalism to disappear—as some superficial prophets of doom would have it—because, among other things, if there is one thing that the Internet requires, it is quality content.

This demand for reliable content is what makes journalism not only unlikely to disappear but more necessary than ever. And with regard to the traditional press, paper is not dead either, and indeed must continue to be included because good journalism in all its forms is as necessary as ever or, perhaps, more necessary than ever, because we require professionals capable of understanding what is relevant and of reporting on it truthfully and in context. This is to say that succumbing to the temptation to give more of the same, reproducing the same content, and offering information lacking in value is not journalism.

It must be clear, then, that the search for competitive, sustainable advantages is not possible without quality. Only quality will allow for long-term business models in the communications sphere. This kind of quality is much more difficult to replicate than sensationalism; whereas servility, manipulation and sensationalism can only be the basis for short-term success. Yet this does not mean, as we will see below, that they are not frequent phenomena.

The Easy Way Out

When a problem occurs, the logical reaction is to look for a solution. When talent and courage fail, as so often is the case, that solution may often turn out be the easiest one but not necessarily the best. Thus, in the concrete case of the private ownership of the media, the search for a solution—in the audiovisual media—has basically not ventured beyond a ferocious struggle for the biggest audience, in order to conquer a larger share of publicity. In the sector of journalism, all manner of public subventions and private donations or underwriters have been sought, in different ways and under different guises, not always entirely transparent.

It must be understood that, in both of these cases—of either public or private funding—these phenomena are not innocuous, but rather they mark, condition and determine the strictly professional activity of these news providers. They have a direct influence on the shaping of their product, which is information, since in this field, as in any other, the maxim *quid pro quo* rules in the most unmitigated way.

This is the easiest solution because at the outset it does not require structural reforms, which are always hard to formulate: to do so requires a great deal of talent, which is not always at hand—and always hard to execute—because it necessarily entails grave personal sacrifices. But this does not mean that the easy solution has no repercussions. On the contrary, the damages, initially seemingly negligible, are tremendous in the mid and long term, as they affect the very core of the media, its most prized capital: the credibility of its message and the dignity of its content, which always go hand in hand, for the former is not possible without the latter, and the latter not complete without the former.

This point cannot be emphasized enough. As one of the most popular and widespread idioms of the Catalan language makes clear, *qui paga mana*, or he who pays the piper calls the tune. That is, whoever finances a determined activity is in a position, if he wishes, to decide upon the sense, reach and form of action. This is only true, of course, if the one paying desires it, but usually he does, for, with the exception of altruistic benefits—which are exceptional by definition—the one who pays is doing it for a reason, as no one gives something for nothing. And what is it that a communications business—a newspaper—can give in exchange for money, whether it be public, in the form of direct or indirect subsidy, or private, in the form of publicity, donations, or something else? It will give the only thing it has: *à la carte* information, that is, duly pre-cooked, some flavors highlighted, other ingredients eliminated, seasoned

with certain spices and the resulting stew presented with a garnish as attractive as it is easy to digest.

Does all of this, in turn, come at a price? Indeed, the price is the independence of the medium. When receiving a subsidy, or “aid”, a journal will not follow the guidelines of *market cuisine*—fresh news with its natural flavors and textures—nor the caprices of the *chef's cuisine*—news prepared according to the particular cookbook of the editorial staff—but rather the demands of the client, who imposes not only the desired degree of ‘doneness’ but the entire way of preparing the dish, so that it can be presented to the diners—the readers—to the exact preference of those who have paid for the meal.

This is why it is said that freedom of the press itself is in danger, even if nowadays the threat is not imposed by the intimidation of physical violence. It is at risk because large corporations and financial institutions, with their tentacles in political power, control and influence the media. This power exercised by the great business and banking conglomerates is perhaps the main threat to press freedom today. A continuous noise comes from the press departments of multinational organizations, more than from political leaders, who are in turn conditioned by the interests of the former. Manuel Vázquez Montalbán already exposed this early on—in 1963!—in his *Communiqué on Communication (Informe sobre la Información)*.

The position of the journalistic enterprise can be defined, in this case, with a few lines from the *Angelus*. This medieval Catholic prayer puts the following words into the mouth of Maria, mother of Jesus: “*Ecce ancilla Domini. Fiat mihi secundum Verbum tuum*”, that is, “Behold the handmaid of the Lord. *Be it done unto me according to thy word.*”

What is a newspaper without independence? A publicity flyer in the service of whoever pays—be it government or private business—that may get a passing glance if it is free. It is not

purchased, however, and is rejected as soon as its duplicity is discovered. From this point of view, then, we can conclude that the temptation of the subsidy or easy aid equates to the proverbial *free lunch*, or as the Spanish saying goes, *Bread today, hunger tomorrow*. A subsidy carries with it the dilution of the only authentic capital of a journalistic enterprise: its credibility, which is tantamount to saying its authority. And this loss is as easy to understand as it is hard to avoid.

In other words: the price that the media pay for all these kinds of subsidies, donations or aids is the defense of the interests of the institutions or businesses that grant them, who habitually disguise the practice as support for an ideology that defends either change or the *status quo*—according to who is paying—as well as the behavior of the directors of those institutions or businesses. One must ask what freedom of judgment a medium whose very subsistence depends on institutional subsidies, private donations or bank credits can have vis-à-vis the institution, entity or business from which it receives its funding. None at all, it is clear. And hence the absolute predictability of the editorial policy of many media organizations. It is a response to this obligatory alignment with the demands of those who make their existence possible.

Over the years, several measures have been taken in order to avert this very serious dysfunction, some of them exercising external control of the media (user and consumer associations, information committees, audiovisual committees...) and others internal control (professional journalistic bylaws, bylaws and editorial boards, ombudsmen...). But the efficacy of all these organisms is only relative to the gravity of the challenge.

It can be concluded, then, that the easily detectable sectarianism in many media organisations is due to their financial dependence on institutions, entities or business concerns that sustain them economically in exchange for their subordination. This

subordination is not primarily ideological, but instead manifests itself in the contingent utilization of the appropriate ideology in each case, for the sole purpose of defending the interests of whoever assures the continuity of the medium.

In the similar case of the abandonment of those objectives that are proper to a medium of communication—though this is a different type of problem—we find the case of more specifically audiovisual media, which need to augment and maintain high audience ratings in order to achieve the economic results that will make their survival possible. Engaged in this struggle, they succumb to the temptation of filling their programming schedules with products of such rampant vulgarity, if not increasing obscenity, that they contribute to the dumbing down of citizens and the ensuing vulgarization of collective life to an extent that would have been difficult to imagine not very long ago.

The Consequences

This is not the time or place to address issues from the perspective of ethics regarding this ever more widely-used easy way out. But it is a good place to state that this phenomenon is not innocuous. On the contrary, a high price is paid for it in the short term, in the form of a loss of credibility.

The situation of economic dependence and enslavement before the audience as described above leads inexorably to the discrediting and trivialization of the media. With regard to this discrediting, it is currently unimaginable for someone engaged in a discussion or debate to use the words, *I read it in the newspaper*, as an argument of authority, no matter which paper it is. The shadow of doubt and the anxiety of mistrust make it impossible. And again it is seen as normal that we can predict without the slightest margin of error the different forms the same news item will take in the different media and, even—and this is much more

serious—whether they will actually report the news or will ignore it. The shamelessness of this sectarian arrangement can sometimes border on the obscene.

And with regard to the growing trivialization of content, there can be no doubt that a certain type of program exists that, under varied pretexts—in-depth and uninhibited information, sociological investigation, or unfettered humor—accentuates the most sordid aspects of reality. Such programs spotlight personal behavior as bizarre as it is irrelevant, or simply socially pathological. They have no other purpose than to turn into a spectacle something utterly lacking in justification beyond offering a selection of *blood and guts* for the consumption and enjoyment of the most corrupted palates.

The rank and file of journalists themselves recognize beyond question that journalism is undergoing a crisis of confidence and that the most likely reason for this is because it is playing a short-term game of subsistence at any cost and audience ratings no matter how, instead of staking a claim to a long-term vision of quality content. And they go so far as to maintain that, in addition to the economic crisis, we are experiencing a democratic crisis, because journalism is not acting as a check on power. On the contrary, there is a general impression that, at this very moment, the great corporations and institutions are stifling many voices, exercising pressure so that the media cannot speak freely and publish everything they should. As a result, things have happened, terrible situations, towards which the media have adopted a very complacent attitude. For example, what was the attitude of the media toward financial institutions before some of them began to have grave problems? Where was the vigilance of the media? To what extent did the media alert us to the fact that the banks were assuming an inordinate risk that could blow up in their faces? Not a word. Why? Clearly because the banks were among the greatest buyers of ads in the press.

Another question arises in regard to the fact that the current revolution the media are undergoing has as much to do with technology as with changes in ownership. In the old days, a newspaper would not have been the main source of funding for the family owners, nor would it have generated grand prospects of profitability. As a result the public service aspect of the press was simpler. The editorial staff had a certain weight, since they were not made up solely of wage earners with low salaries, but also included intellectuals and professionals with independent incomes, who also tended to be the ones who established the guidelines of the medium. Nowadays, a newspaper is less and less often the main or only business of a family, with the peremptory rigorousness that this implies, and more and more often one more element within the aggregate of communications mediums belonging to a publicly-traded multimedia group that must periodically present its financial results to analysts. The pressure not to allow the stock price to fall is extremely high, all the more so at a terrible moment for publicity. As a result, who would dare to make a decision that could cause a greater deterioration in the stock value?

For all these reasons there is great doubt as to whether quality journalism—the kind that delivers excellent, well-prepared and well-researched information and entertainment—is compatible with the media's belonging to a publicly-traded company the greater part of whose resources come from the capital market. However, it must be recognized that it is not at all certain that the alternatives proposed would improve the results—to put it lightly.

ON JOURNALISTS

The Profession

The job of journalists—their profession—is an absolute necessity today. More than ever. The future does not lie with so-called *citizen journalism*. The great advantage of the traditional media is the *editing*. On the web, everyone is a journalist, but no one is an editor. And only the big media can elevate the quality of content and sources and make the most of information.

We live in a world with a tremendous excess of information and someone who can discern what is truly important is more necessary than ever before. Someone who knows how to relate one piece of information to other equally significant information, who knows how to contextualize it, document it, and explain it. This function lies at the opposite pole from manipulation and dogmatism, even leaving the door open to doubt when this is the only rational attitude. This is what, with more or less good fortune, the media have traditionally done, earning the *confidence* of the public, and this is what they must continue to do in the future, if they are to subsist as such. In the end, it is a question of “confidence.” For what is a brand? It is something that generates confidence. To give an example, why is *The Economist* considered a quality magazine? Clearly because behind it there is a quality team that works on and prepares the news, which leads one to read it attentively even when one does not share its perspective. *The Economist* doesn’t go after scoops; it is not their style. What it does do is analysis, and this is what gives it value. As Alfredo Pastor has observed, it is interesting to note that in *The Economist* the articles are not signed, except in the infrequent case of an article written by invitation. This practice (a) makes manifest that the reader is not placing his trust in the quality of the individual writer, whose identity he does not know, but in the managing staff,

who make the selections; (b) allows people directly implicated in a difficult situation to inform of it without revealing confidential information, while speaking from firsthand knowledge.

In the end, there must be moderation in the treatment of news items. The media cannot be like the Internet, whose content, because of the many comments that reach it, turns the World Wide Web into the Wild West. The media must value their own content by avoiding these excesses. For this the public rules of obligatory compliance are not sufficient, but what is indispensable, above all, are self-imposed limits to prevent the corruption of the product.

A Temptation

History is a continuous process, with ups and downs, of progressive rationalization of collective life in accordance with the only ethical principle with universal validity that is not based in metaphysics: that general interest must prevail over the particular. This process develops in the framework of a three-fold development: the development of its stage (from caves to suprastate unions, passing first through tribes, cities, and the State), of its protagonists (priests and military chieftains, aristocracy, bourgeoisie, and the entire populace with the final inclusion of women), and of its freedoms (always engaged in a difficult but constant expansion).

In this process there is always someone who assumes the role of guide, if we give this word the sense of a provider of the concrete ideas that orient and form the backbone of collective life in every historic moment, acting as the mediators between these ideas and the greater community. In the Ancien Régime these people were essentially priests—men of the church: *clergy*, so much so that the founder of the modern State was a French cardinal. After the bourgeois revolution, these guides became

the intellectuals *clerks*, who by various means—among which newspapers occupied a prominent place—acted as the mediators between the grand ideas of progress and liberty and the social classes that at the time were the historic protagonists at the core of bourgeois society.

After the democratic revolution, which inevitably entails a uniformity that dissolves any subjective difference and levels out any individual relief of personality, a generalized uniformity of tastes and customs comes about. This uniformity—which erases the differences *between* cultivated culture and popular culture—becomes the supreme behavioral norm. In this framework, the role formerly played by intellectuals comes to be played by the mass media and, among them, by those journalists who transcend the essential role of their trade (which is simply to inform) in order to take on a more or less subtle function of collective orientation and, on some occasions, the more or less explicit position of *conductor*.

These journalists usually take the assertion that the press is literally the fourth estate. They forget that they lack the legitimation and democratic control for such a role. The press is the fourth estate only in the metaphoric sense of making possible, by carrying out the right to inform and to be informed, precisely the transparency by which democracy can be an effective system of government based on principles of freedom and justice, rather than a simple simulacrum empty of content, of the kind that constitutes the greatest travesty and the greatest tyranny. At heart, the journalists who play this role are usually as cynical as they are dogmatic and do nothing more, fundamentally, than serve whoever currently occupies the position of power—on whom they depend—and who furnishes the dogma they defend.

As Josep Maria Vallès writes, one need not be particularly shrewd to detect the central place occupied today in the political sphere by the media and their professionals. So true is this that,

despite an evidently reciprocal distrust, the proximity between politicians and journalists has led to the configuration of a *political-media class* whose mediators are the press cabinets. In this arena the so-called *opinion leaders* deserve special mention. This group consists of those commentators who publish newspaper articles (not anonymously) in which they interpret the strategies and tactics of political forces and their directors with facile naturalness, forceful aplomb, and the occasional adornment of cultural flourishes. They send cut rigorous sentences about their perspectives on success or failure, without indicating the route that must be followed to reach the objectives that they have previously contributed decisively to designing. And, to wrap up this description of the state of things, it must be added that, on occasion, some of the great names of the press end up sincerely believing in what they publish: their talent and their ability consist in expressing the desires, tendencies, and dominating prejudices of any given moment as if they made sense, and in such a way that what is questionable appears to be true. And this is why they are the first victims of the mirage that they have contributed to creating more than anyone else.

This phenomenon, which today has taken on great magnitude and significance, has been called the *mediatization of politics*. A mediatization that turns the media into impotent actors on the political scene, far beyond their former traditional role as chroniclers of the facts and the action that takes place there. And the closer an observer gets to institutional policy, the more he sees how this problem is aggravated. It has been correctly stated that the invasive presence of the media is not only an intellectual experience. It is also a tangible experience, and—despite this—its grave importance must not be allowed to fade, since a central aspect of the recovery of democratic credibility rests on the correction of this phenomenon. The bibliography on this phenomenon is very extensive. For decades, it has been speaking of “governing with

the news” (Cook), of the “news media as political institutions” (Schudson), of the “mediatization of politics as a challenge for democracy” (Mazzoleni), of “videocracy” (Sartori) and of the “colonization of politics by the media” (Meyer).

THE BALANCE

Is the death of the written press approaching? The very fact that this question could be logically posed already offers a clue that journalism is not generating the same value today as in the past. Nevertheless, it must immediately be clarified that it still continues to be very important for someone to define the agenda of the present, indicating serious, often hidden, topics. And for this purpose journalism continues to be indispensable and irreplaceable. But journalism that limits itself to repeating yesterday’s news, that rushes after the most banal entertainment, that seeks the lowest common denominator... that kind of journalism can easily be replaced. That kind of journalism is seriously compromised and the digital transition will accelerate its demise. In contrast, with the digital transition more opportunities open up for good journalism, as it can reach a wider audience, an audience in motion. There is no small truth in the statement that the mobile phone is the principal medium that is always with us, and this generates incredible opportunities for journalism.

At this stage, it is worthwhile to remember what Albert Camus wrote in combat on August 31st, 1944: “Our desire, all the more profound because there was so seldom a means to express it, was to free the press from money and give it a voice and truth that would help our readers achieve a level where the best in them would be brought out. We thought that a country is worth whatever its press is worth. And if it is true that the press represents the voice of a nation, we hoped to do whatever small part we could to raise this nation by elevating the level of its language.” In light of

this, Edwy Plenel postulates “the tradition of quality versus superficiality, of the reference versus indifference, of hierarchy versus flux, of the public versus the audience, of fidelity versus caprice, of historicity versus the tyranny of the present, of memory versus oblivion, of irreverence versus submission, of freedom versus servitude.” In other words, and from another perspective, it is necessary to fight against the monopolization of the public sphere through a solid alliance between the state oligarchy and the economic oligarchy.

Journalism, then, must reinvent itself to continue to be the best version of itself. To do this, it must embrace new technology without reservation. We live in an environment where multimediality is key. The future of a medium that subsists on only one communicative output will be seriously compromised. And, perhaps, in this framework the importance of print journalism will be reduced. Newspapers will continue to be edited as they are now, but paper distribution and sales at newspaper stands will lose their current central position and be reduced to perhaps residual importance.

Similarly, the practicability of the media demands the processes of concentration into large groups that in turn demand large amounts of capital. Together with the desire of the financial powers to control the media in order to place them at the service of their own designs and prevent the surfacing of criticism, this fact leads to the creation of strong ties of reciprocal dependence between the two, similar to those that exist between political power and financial power, and between political power and media power. This generates a nucleus of political-financial-bureaucratic-media power that, added to the highest echelons of State bureaucrats, when consolidated and turned in on itself, constitutes the gravest impediment to the normal functioning of the democratic institutions.

This and nothing else is the gravest risk that the news media are facing nowadays: to be converted into a crude tool, for their own benefit, as well, in the service of a power that has ceased to

be an instrument in the service of common interest, to debase itself in the service of its own personal prosperity. Hence the collapse—as a result of its entrenchment in self-defense—that the Spanish ruling classes are experiencing in the current circumstance of strong challenges, not only of the territorial structure of the State but also of the drastic reforms demanded by the current economic crisis.

In this situation it becomes urgent for the press to recover its own voice, and to cease to be just a conveyor belt for interests contrary to the common good, without trying, on the other hand, to advance itself as a plummy-voiced creator of news instead of a humble messenger. It must be noted that the enormous current disorientation is another source of opportunity for quality journalism: the kind that interprets and completes the news, and places it in context.

The way out of this imbroglio requires two tacks. The first is for journalism to have well-educated practitioners. The second is for journalists to attend more to the reading public and less to political power, business, and their own protagonism. While it is important to innovate, it is more important to do things well, for in the future the media will stand out for the rigor and quality of their content, that is, for the confidence placed in them by their readers, and not because they are offering them books, frying pans, blankets or movies at bargain prices.

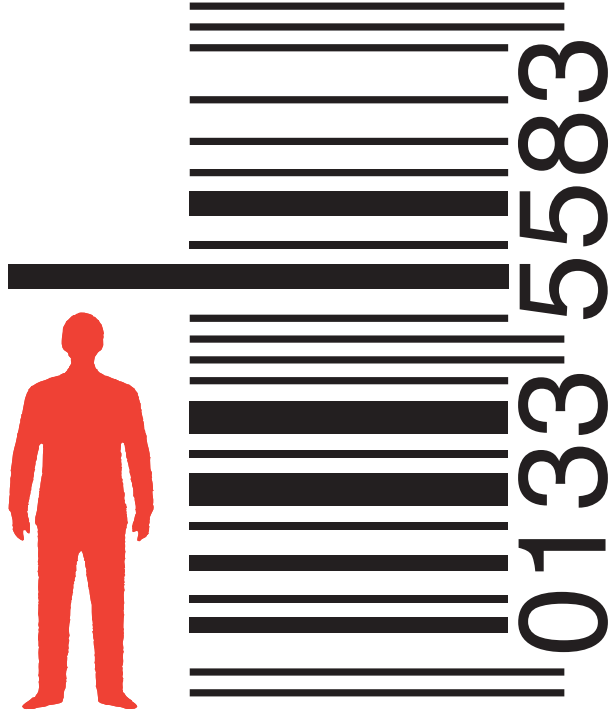
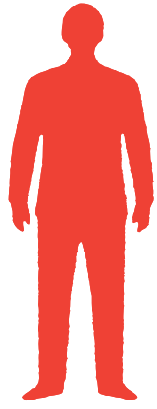
We must always go back to the beginning. Because there can be no doubt that freedom of expression and the right to receive and communicate information are of capital importance in a democratic society. The juridical and material guarantee of those fundamental rights is a necessary requisite for the subsistence of a democratic State. But, as always, the Law alone is not sufficient to shape reality if there does not exist a social attitude intent on consolidating the social model outlined in the juridical norm. The problem, then, is one of attitude, that is, of the

behavior that effectuates the realization of a given set of values. Without both of these things, no law is sufficient.

In conclusion, at the end of 2012, journalism continues to be a crucial activity for the healthy functioning of a democratic society. This does not mean just any journalism, though, but one that offers a context and an explanation for the news: investigative journalism, a journalism with a commitment to the truth above all, a journalism that isn't under the thumb of anyone, in short, an independent, quality journalism. Therefore, journalism must not be immediate, superficial, or gratuitous. And it must not consider the web to be a competitor, since, much to the contrary, the web is of enormous value to journalism, as it obliges it to listen to the public. Because this is not the time for sermons of indoctrination, but rather one of dialogue and understanding—always in the service of the truth. And, for this, we need rigorous investigation, news of public interest told by people who know how to tell it, which is subject to verification and rectification. It must work on the understanding that the diffusion of this news of public interest is indispensable for the healthy functioning of a democratic system, after which it can be maintained that this journalism we call for is indissociable from democratic exigency. The proper functioning of a democracy cannot be limited to the validation of legitimacy bestowed by an electoral victory, but must be confirmed day by day through the legitimacy of its exercise. And this is impossible to measure without a free press that places at its citizens' disposal sufficient information for it to be able to assess and censure its management. This is why freedom of the press must be considered a structural component of democratic life.

All of which can be achieved through three prerequisites: by preserving its independence, assuring its quality, and being deserving of confidence.

NOTE: This text has been composed in light of three texts that have been of great use: Edwy Plenel's manifest, "Combat for a Free Press" ("Combate por una prensa libre"), Edhasa, Barcelona, 2012; the transcription of a panel discussion—with Francisco Ruiz Antón, Alfonso Sánchez Taberner and Francisco Pérez Latre as guests—on "Journalism in the Digital Era: Opportunity or Threat?" (Periodismo en la era digital, ¿oportunidad o amenaza?), which appeared in the journal *Nuestro Tiempo*, issue 676, September–October 2012; and Josep Maria Vallès's book *Una agenda imperfecta: amb Maragall i el projecte de canvi* (*An Imperfect Agenda: With Maragall and the Project for Change*), Edicions 62, Barcelona, 2008.



Tzvetan Todorov **A Moral Crisis in Europe?** The mere impression that morality is breaking down in our world is not enough to prove that it's really happening. People of a certain age often have the impression that “young people don't respect anything”, however young people are known for being passionate, which in turn leads to social or humanitarian activism. It's often said: we live in a century where material interests prevail without opposition, where spiritual values languish in oblivion.

Yet there has never been a golden age when things were otherwise. Human beings are and have always been both selfish and altruistic at the same time. The hunger for riches has always co-existed with the impulse for generosity.

Politicians are often accused of lacking moral virtue, of not acting in the name of an ideal but only to achieve power and hold onto it. There's no shortage of corruption cases or examples of illegal conflicts of interest, which provoke a kind of negative happiness; it somehow satisfies us to realize that those who govern us are as selfish and self-serving as the rest of us. Yet corruption is but the defamatory name of an attitude that's as old as the states themselves, which reveals economic power's influence on political action. A politician is not judged for his moral virtues, but for the success of his actions in favour of the community they represent. If politicians successfully fulfill their tasks, people care very little whether they treat their colleagues well or if they're guided by personal ambition. Morally, they aren't required to be saints, but to avoid transgressing the prevailing laws so as not to put into danger the effectiveness of their actions. The fiscal reform proposed by some such minister, even if it's just in its own right, risks being rejected if it's discovered that he or his cronies will benefit by it.

However, there are shifts taking place in our world and in our time that have a negative impact on the population's morality. I see two in particular; both have different natures and therefore provoke different reactions: one is related to the current technological evolution and the other has impacted on certain political tendencies.

The second half of the twentieth century's electronic and computer revolution is transforming our lives in a way that is no less broad in scope than the impact the industrial revolution had in the nineteenth century. The invention of the computer and the creation of a network has had a profound impact on our

communicational activities, namely to do with the relationship among individuals and, thereby, in our moral life. This transformation is double-edged. On the one hand, we're experiencing fabulous rates of acceleration and multiplication in our ability to communicate thanks to emails, cell phones that are mini computers, Skype, video conferencing and the wide variety of social networks. A century ago information was scarce, telephones difficult to obtain and news arrived slowly. Today information is permanent and profuse, we are all continuously connected to a variety of networks and in touch with a large number of people. On the other hand, the same people who enjoy this technology, European citizens, complain of a growing sense of loneliness, isolation and abandonment. Both the triumph and the failure of communication appear to be advancing at the same pace.

The word communication, therefore, applies to two very different functions: that of transmitting information and that of educating a person. When I speak, I can communicate data on the subject of our conversation, but at the same time I place myself in a relationship with my interlocutor. By anticipating his reaction, I adapt to it, and thereby transform as I try to influence and change him. While the new technologies highly favour the circulation of information, at the same time they muddle this form of education. In effect, it privileges indirect contact, the type of distant, impersonal communication that is directed at the group more than the individual. However, nothing can replace the proximity of a person's face, the use of the olfactory, auditory, and tactile senses and how we experience them during a physical encounter. How great is the distance between the traditional meaning of the word "friend" and the meaning adopted for use in electronic exchanges where a person directs themselves simultaneously to 800 (or 8,000) "friends"! This mutation of communication ends up affecting the field of human relationships and risks atrophying our moral faculties. We live in the illusion of

exchange, whereby our inclination towards others loses vitality until we finally forget altogether that we're made for them and that they are what hold the keys to our fragile happiness.

The other mutation affecting our moral life can be found in the political doctrine that has imposed itself in Europe over the past decades, which we've coined with the somewhat vague term of "neoliberalism". As I've already mentioned, politics should not be confused with morals, but the latter draw the horizon for the former. Certain questions arise beyond any specific political action such as: what do human beings really need? In what society do we want to live? After the fall of the Berlin wall, which spurred the rise of neoliberalism, Europe experienced a change of perspective, as if the fall of the Soviet empire coincided with the loss of values such as solidarity and equality, which the United States and its satellites hypocritically claimed for themselves. The neoliberal doctrine, present in the backdrop of the political decisions of those who govern us, posits that economic interests should have priority over social needs, and that human beings are self-sufficient. Hence, there is no place for morality in a world where the only shared value is that of individual satisfaction, since the origin of morality is taking account of the existence of the other.

The starting point of this policy (a conception of man and of society) as well as its point of arrival (the ideal towards which it tends) are most often understood or otherwise presented as the imposition of the very nature of things and of beings. However, both their truth and their value are arguable. Morality enters into crisis when a country neglects the protection of its natural resources, thereby putting at risk the health and very survival of its future generations, negating investment in socially beneficial infrastructures, and accusing the weak and the poor as being guilty of laziness or stupidity. An apparently immoral state undermines the moral foundations of its inhabitants. Xenophobic

populism follows the same course by rejecting the other simply because the color of his skin is darker or because he practices a different religion.

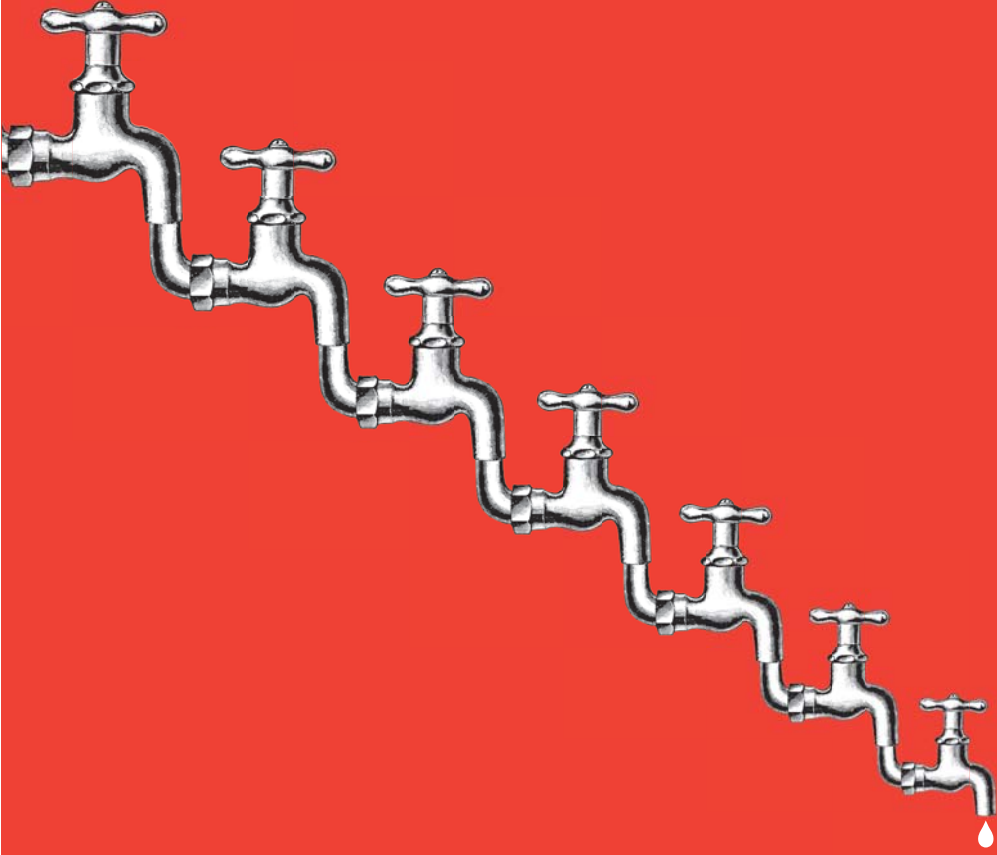
Is this moral crisis destined to last or will it become something permanent? In the long term, the moral need is inherent in the human conscience, its disappearance would imply the mental mutation of humanity. In the short term, the two transformations put forth above call for different reactions. The results of the technological evolution require greater control over our new abilities, a little like when we learned how to drive a car without putting our lives at risk. The results of the ideological source will be overcome when another ideology, which is closer to the truth of our experience, imposes itself upon them.

COURSE LECTURES

Course Lectures. Carmen M. Reinhart

Course Lectures. Mark Leonard

Course Lectures. Wolfgang Münchau



Carmen M. Reinhart* **A Decade of
Debt, Policy Analyses in Inter-
national Economics 95** **ABSTRACT**

This paper presents evidence that public debts in advanced economies have surged in recent years to levels unseen since the end of World War II, surpassing the heights reached during the First World War and the Great Depression. At the same time, private debt levels, particularly those of financial institutions and households, are in uncharted territory and are (to varying degrees) a contingent liability for the

public sector in many countries. Historically, high leverage episodes have been associated with slower economic growth and a higher incidence of default or, more generally, the restructuring of public and private debts. A more subtle form of debt restructuring in the guise of “financial repression” (which had its heyday during the tightly regulated Bretton Woods system) also importantly facilitated sharper and more rapid debt reduction than would have otherwise been the case from the late 1940s to the 1970s. It is suggested here that the pressing needs of governments to reduce debt rollover risks and curb rising interest expenditures in light of the substantial debt overhang (combined with the widespread “official aversion” to explicit restructuring) are leading to a revival of financial repression—including more directed lending to government by captive domestic audiences (such as pension funds), explicit or implicit caps on interest rates, and tighter regulation on cross-border capital movements.

I. INTRODUCTION

Public debts in the advanced economies have surged in recent years to levels that have not been recorded since the end of World War II. Throughout 2010, the public debt-to-GDP ratio average of all the advanced economies surpassed the peaks reached during World War I and the Great Depression.¹ Similarly private debt levels, particularly those of financial institutions and households, are in uncharted territory and represent (in varying degrees) potential contingent liability for the public sector in many countries, including the United States.

As documented in Reinhart, Rogoff, and Savastano (2003), large public debt overhangs do not unwind quickly, and seldom painlessly, for emerging market countries. In particular, debt-

to-GDP ratios are seldom entirely reduced through consistent robust economic growth. Significant debt levels are more commonly reduced through a reliance on fiscal austerity, debt restructuring (sometimes outright default), or a combination of both.

In a complimentary analysis of private debt deleveraging episodes following systemic financial crises, Reinhart and Reinhart (2011) show that the debt reduction process goes on for an average of about seven years. Also, because of declining output and accumulating arrears on existing debts, private debt ratios usually continue to climb even two or three years after the height of the financial crisis, delaying the effective reduction of debt ratios.²

The combination of high and climbing public debts (a rising share of which is held by major central banks) and the protracted process of private deleveraging makes it likely that the years from 2008 to 2017 will be aptly described as a decade of debt. Keeping this in mind, the issues we raise in this paper will weigh heavily on the public policy agenda of numerous advanced economies and global financial markets in the years to come. This paper summarizes key aspects of our recent body of work on public debt and financial crises. Of course, if global real interest rates remain very low for an extended period, then carrying costs of debt will be correspondingly low and exceptionally high leverage ratios can persist longer than usual. However, as Reinhart and Rogoff (2009) emphasize, interest rates can turn far faster than debt levels, so if deleveraging does not occur, debt will be a continuing vulnerability. Drawing on and expanding various strands of our earlier work, we are able to document the following.³

Historically, high leverage episodes have been associated with slower economic growth. This observation applies

to the high-debt episodes that appear both in the aftermath of war and during times of peace. It also characterizes episodes where high debt levels were not associated with markedly higher interest rates.⁴

Surges in private debt lead to private defaults (which most often become manifest in the form of banking crises).⁵ Banking crises are associated with mounting public debt, which ultimately lead to a higher incidence of sovereign default or, more generally, a restructuring of public and private debts. Specifically, **banking crises and surges in public debt help to “predict” sovereign debt crises.** This historical pattern was unquestioningly dominant prior to the era of mega-bail-outs, which were ushered in with the domestic 1992 Japanese banking crisis, followed by (on an international scale) the 1994-1995 Mexican peso crises, reinforced during the Asian crisis with the Korean package, and which reached ever-escalating historic highs on both domestic and international dimensions at the time of writing this article. The “bail out approach” in the current episode began in the summer of 2007 in the United States in response to the sub-prime mortgage crisis and morphed into the most serious advanced economy debt crisis since the 1930s.

A more subtle form of debt restructuring takes the guise of “financial repressions” which had its heyday during the tightly regulated Bretton Woods system. The limiting investment choices of the private sector importantly facilitated a sharper and more rapid debt reduction from the late 1940s to the 1970s than would have otherwise been seen.⁶ **It is conjectured here that the pressing needs of governments to both reduce debt rollover risks and curb rising interest expenditures in light of the substantial debt overhang, when combined with an aversion to more explicit restructuring, may lead to a revival of financial repression. This includes more**

directed lending to government by captive domestic audiences (such as pension funds), explicit or implicit caps on interest rates, and tighter regulation on cross-border capital movements.⁷ A less generous depiction of financial repression (see definition in Box 1) would include the slashing of pension funds.

The paper proceeds as follows. The next section places the advanced economies' recent surge in government debt in historical perspective, distinguishing the timing and magnitudes of earlier high-debt episodes. Section III summarizes our findings on the temporal causal links between financial crises, rapid surges in public debt, and subsequent sovereign restructuring or outright default. In Section IV, we document that high debt is associated with slower growth, a relationship which has been strong across advanced and emerging markets since World War II. The last large wave of sovereign defaults or restructurings in the advanced economies during the early 1930s (defaults were confined to the countries on the losing side of World War II) is discussed in Section V, which also describes the heavy-handed financial regulation (often referred to as financial repression) that helped rapidly reduce the World War II debt overhang. The concluding section suggests many of the elements of financial repression have already begun to resurface (a trend which is likely to gather momentum in coming years), as governments simultaneously grapple with the difficult choices associated with substantial debt reduction.

Box 1. Financial Repression Defined

The Pillars of “Financial Repression”

The term *financial repression* was introduced to economic literature through the works of Gurley and Shaw (1960) and Ronald McKinnon (1984). Subsequently, the usage of the term became a way of describing emerging market financial systems prior to the widespread financial liberalization that began in the 1980 (see Giovannini and Di Melo, 1993 and Easterly, 1989). However, as we document in this paper, financial repression was also the norm for advanced economies after World War II and in varying degrees up through the 1980s. Here we describe some of its main features:

i) Explicit or indirect caps or ceilings on interest rates, particularly (but not exclusively) those on government debts. These interest rate ceilings could be effected through various means including: (a) explicit government regulation (for instance, Regulation Q in the United States prohibited banks from paying interest on demand deposits and capped interest rates on saving deposits). (b) In many cases ceilings on banks' lending rates were a direct subsidy to the government in cases where the government borrowed directly from the banks (via loans rather than securitized debt); (c) the interest rate cap could be in the context of fixed coupon rate nonmarketable debt; (d) or it could be maintained through central bank interest rate targets (often at the directive of the Treasury or Ministry of Finance when central bank independence was limited or nonexistent). Metzler's (2003) monumental history of the Federal Reserve (Volume I) documents the United States' experience in this regard; Cukierman's (1992) classic study on central bank independence provides a broader international context.

ii) Creation and maintenance of a captive domestic audience that facilitated directed credit to the government. This was achieved through multiple layers of regulations ranging from very blunt to more subtle measures. (a) Capital account restrictions and exchange controls orchestrated a “forced home bias” in the portfolio of financial institutions and individuals under the Bretton Woods arrangements. (b) High reserve requirements (usually nonremunerated) as a tax levy on banks (see Brock, 1989, for an insightful international comparison). (c) Among more subtle measures, “prudential” regulatory measures required that institutions (almost exclusively domestic ones) hold government debts in their portfolios (pension funds have historically been a primary target); and (d) transaction taxes on equities (see Campbell and Froot, 1994) also act to direct investors toward government (and other) types of debt instruments.

Source: Reinhart and Sbrancia (2011).

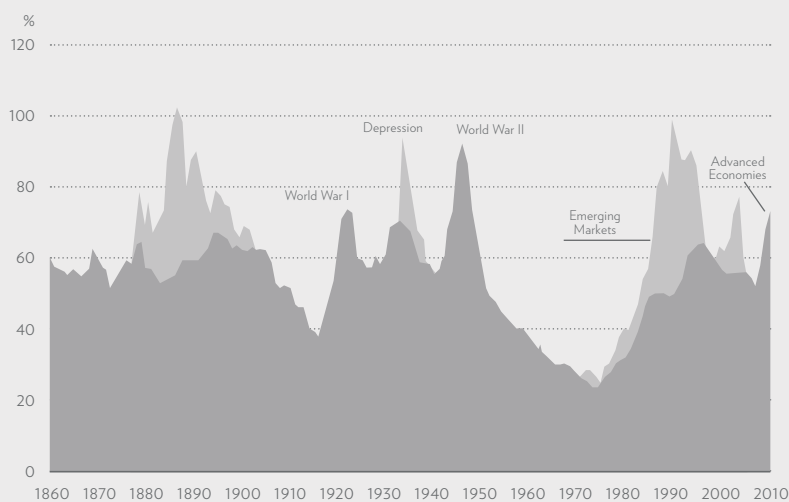
II. SURGES IN PUBLIC DEBT

Throughout the ages and across continents, war has been a recurrent; causal force behind rapid deteriorations in government finances and surges in public indebtedness. This pattern is displayed in world debt aggregates and countries’ individual histories. Thus, it is not surprising to see that, particularly for the advanced economies, there are two spikes in debt aggregates that correspond to the two world wars (Figure 1). The smaller set of independent (largely European) economies that populated the globe in the early 1800s experienced a similar sharp run-up in debt during the Napoleonic Wars.

During peacetime, severe or systematic financial crises have been a leading factor behind rapid surges in public debt. With the growing tendency toward increasing government involvement in rescue operations, the link between public debt and financial crashes has become more pronounced in the past two decades or so. More general and chronic fiscal problems (because governments systematically overspend, do not have the political will or ability to tax effectively, or a combination of the two) tend to produce more gradual debt buildups.

Public debts in the advanced economies have surged in recent years to levels not recorded since the end of World War II, surpassing previous peaks reached during World War I and the Great Depression. At the same time, private debt levels, particularly those of households, are

FIGURE 1. GROSS CENTRAL GOVERNMENT DEBT AS A PERCENTAGE OF GDP: ADVANCED AND EMERGING MARKET ECONOMIES, 1860-2010



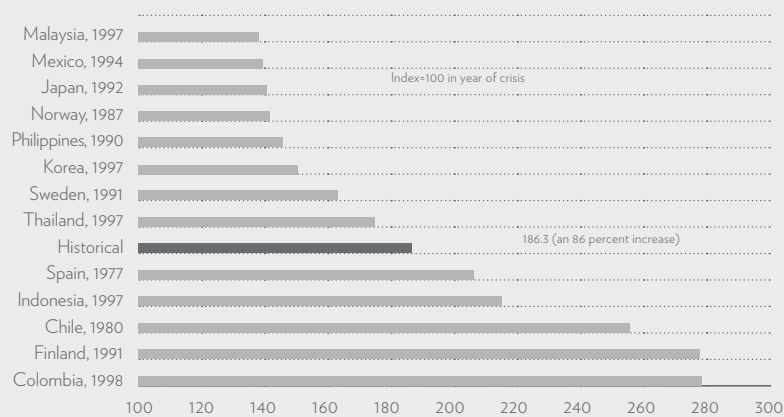
Sources: Reinhart and Rogoff (2011a) and sources cited therein.

in uncharted territory and are (in varying degrees) a contingent liability for the public sector in many countries, including the United States. As Reinhart and Rogoff (2009 and 2011b) emphasize, and as we discuss further below, most governments find it difficult to avoid backstopping significant amounts of private credit during a financial crisis.

1. Financial Crises and Debt

Figure 2 takes advantage of newly unearthed historical data on domestic debt to show the rise in real government debt in the three years following severe banking crises of the twentieth century.⁸ A buildup in government debt has been a defining characteristic of the aftermath of banking crises for over a century,

FIGURE 2A. CUMULATIVE INCREASE IN PUBLIC DEBT IN THE THREE YEARS FOLLOWING SYSTEMIC BANKING CRISIS: SELECTED POST-WORLD WAR II EPISODES



Notes: Each banking crisis episode is identified by country and the beginning year of the crisis. Only major (systemic) banking crises episodes are included, subject to data limitations. The historical average reported does not include ongoing crises episodes, which are omitted altogether, as these crises begin in 2007 or later, and debt stock comparison here is with three years after the beginning of the banking crisis.

Source: Reinhart and Rogoff (2008 and 2009) and sources cited therein.

with government finances deteriorating to produce an average debt rise of 86 percent. This comparative exercise focuses on the percentage increase in debt, rather than the debt-to-GDP ratio, because steep output drops sometimes complicate the interpretation of debt-GDP ratios. As Reinhart and Rogoff (2008) note, the characteristic huge buildups in government debt are driven mainly by sharp falloffs in tax revenue, owing to the severe and protracted nature of post-crisis recessions. In some famous cases (notably Japan in the 1990s), this deterioration in fiscal balances is also due to surges in government spending to fight the recession. The much ballyhooed bank bailout costs are, in several cases, only a relatively minor contributor to post-financial crisis debt burdens.

More broadly, an examination of the aftermath of severe financial crises shows deep and lasting effects on asset prices, output and employment. Unemployment rises and housing price declines extend out for five and six years, respectively. Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt.

2. The 2007-2010 Global Buildup in Public Debt

Figure 2B illustrates the increase in (inflation adjusted) public debt that has occurred since 2007. **For countries with systemic financial crises and/or sovereign debt problems (Greece, Iceland, Ireland, Portugal, Spain, the United Kingdom, and the United States), average debt levels are up by about 134%, surpassing by a sizable margin the 3 year 86% benchmark that Reinhart and Rogoff, 2009, find for earlier deep post-war financial crises.** The larger debt buildups in Iceland and Ireland are important-

ly associated with not only the sheer magnitude of the recessions/depressions in those countries but also with the scale of the bank debt buildup prior to the crisis—which is, as far as these authors are aware—without parallel in the long history of financial crises. Nor is 2010 (the third year of crisis for Iceland, Ireland, the UK and the United States while the second year for the others) the last year in which rising debt will be recorded. At present, predictions for the United States show rising debt levels in the foreseeable future. For several others, austerity programs notwithstanding, debts are likely to continue to mount

FIGURE 2B. CUMULATIVE INCREASE IN REAL PUBLIC DEBT SINCE 2007, SELECTED COUNTRIES



Notes: Unless otherwise noted these figures are for central government debt deflated by consumer prices.

Sources: Prices and nominal GDP from International Monetary Fund, *World Economic Outlook*. For a complete listing of sources for government debt, see Reinhart and Rogoff (2009) and Reinhart (2010).

as economic conditions remain subpar and debt servicing costs climb.

Even in countries that did not experience a major financial crisis, debt rose by an average of about 36% in real terms between 2007 and 2010.⁹ Many economies that adopted stimulus packages to deal with the global recession in 2008-2009 found themselves affected by marked declines in government revenues. Moreover, some of the larger increases in debt loads of non-crisis countries (such as Norway, Australia, and Chile) relate to the cyclical downdraft in world commodity prices that accompanied the global recession.

III. THE FINANCIAL CRASH-SOVEREIGN DEBT CRISIS SEQUENCE

In this section, we summarize the main findings in Reinhart and Rogoff (2010b). Our approach to this paper was to illustrate each main result with both a “big picture” based on cross-country aggregation and a “representative country case study (or case studies)” from countries’ histories. Each of the main points highlighted in the figures below is complimented by the pertinent debt/GDP-crisis indicator regressions reported at the bottom of each figure. We begin by discussing sovereign default on external debt (that is, when a government defaults on its own external or private-sector debts that were publicly guaranteed.)

1. Public Debt Surges and Sovereign Default and Restructuring

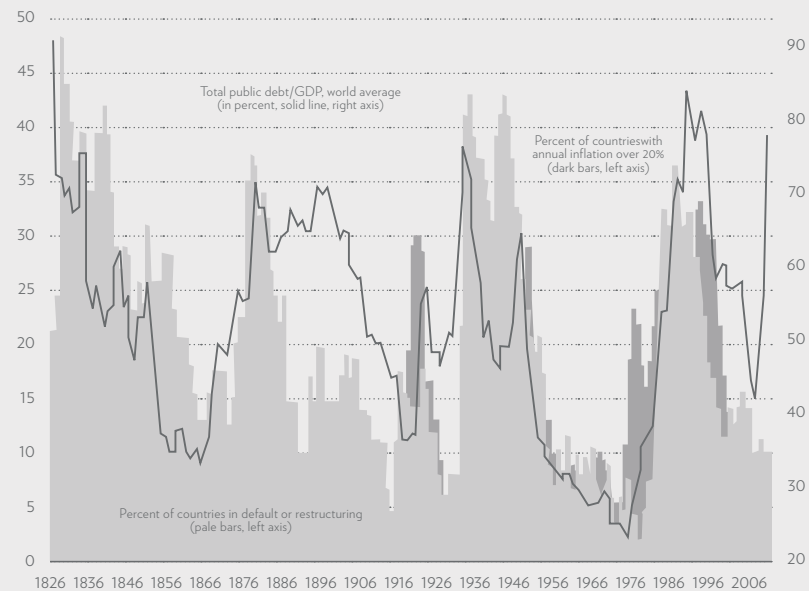
Public debt follows a lengthy and repeated boom-bust cycle; the bust phase involves a markedly higher incidence of sovereign debt crises. Public sector borrowing surges as the crisis nears. In the aggregate, debts continue to

rise after default as arrears accumulate and GDP markedly contracts.¹⁰ For where such data is available; Figure 3 plots the incidence of external default (shaded bars) from 1824, when the newly independent Latin American economies first entered the global capital market, through 2010 against an unweighted average debt/GDP ratio. Upturns in the debt ratio usually precede the rise in default rates, as the regressions (shown in Table 1) for the world aggregates shown at the bottom of Figure 3 confirm. Periods of higher indebtedness are also associated with a higher incidence of inflation crises (a more indirect form of default, highlighted as a darker shaded bar where the incidence of inflation exceeds that of default). Default through inflation has been more prevalent since World War I, as fiat money became the norm and links to gold severed.

Serial default is a widespread phenomenon across emerging markets and several advanced economies. The most compelling evidence on serial default comes from individual countries' histories, shown here for Greece in Figure 4. The 70 countries whose histories are presented in the Chartbook provide broad-based evidence that serial default cut across both regions and time.

The distinctive surge in debt on the eve of a debt crisis and/or a banking crisis is quite evident in Greece's last two defaults in 1894 and in 1932—the latter spell lasting about 33 years from the beginning to its eventual resolution in 1964.

FIGURE 3. SOVEREIGN DEFAULT ON EXTERNAL DEBT, TOTAL (DOMESTIC PLUS EXTERNAL) PUBLIC DEBT, AND INFLATION CRISES: WORLD AGGREGATES, 1826-2006 (DEBT AS A PERCENTAGE OF GDP)



Sources: Reinhart and Rogoff (2011b) and sources cited therein.

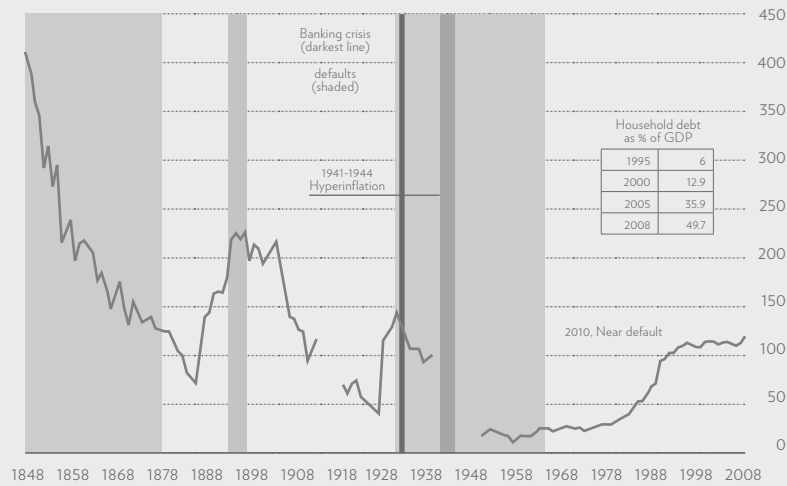
TABLE 1. PUBLIC DEBT AND SOVEREIGN DEFAULT AND RESTRUCTURING: ALL COUNTRIES, 1824-2009

Dependent variable	World: Share of countries in default or restructuring	
Sample	1824-2009	
Independent variables	OLS (robusterrors)	Logit (robusterrors)
World: Public debt/GDP (t-1)	0.346	0.008
p-value	0.000	0.000
Number of observations	184	184
R ²	0.224	0.246

Notes: The debt aggregate for the world is a simple arithmetic average of individual countries' debt/GDP ratios. For some countries, the time series on debt and exports are much longer, than for nominal dating back to the first half of the 19th century GDP. In these cases (Brazil, Canada, Egypt, India, Nicaragua, Thailand, Turkey and Uruguay), the debt/GDP series (with appropriate scaling) with the available debt/GDP data. The split between advanced and emerging economies is made along the present-day IMF classification.

Sources: Reinhart and Rogoff (2011b), sources cited therein and authors' calculations.

FIGURE 4. GREECE: CENTRAL GOVERNMENT (DOMESTIC PLUS EXTERNAL) DEBT, DEFAULT, HYPERINFLATION, AND BANKING CRISES, 1848-2008 (DEBT AS A PERCENT OF GDP)



Sources: Lazaretou (2005), Reinhart (2010) and sources cited therein.

2. Hidden Debts Private Debts that Become Public

The drama that has most notably engulfed Iceland and Ireland is only novel regarding the magnitude of the debts, not in the causes and patterns of the crisis.¹¹ Writing about Chile's crises in the early 1980s, Díaz-Alejandro (1985) asks us to consider a country that had liberalized its domestic financial sector and was fully integrated into world capital markets; "the recorded public sector deficit was nonexistent, miniscule, or moderate; the declining importance of ostensible public debt in the national balance sheet was celebrated by some observers."

The private sector was a different matter. Their spending persistently exceeded their income, giving rise to large current account deficits. The current account deficit was financed by large and persistent capital inflows, meaning that the domestic largesse was supported by borrowing heavily from the rest of the world. This abundance of foreign capital made it easy for domestic banks to lend liberally to businesses and households. During the credit boom, real estate and equity prices soared—so did debts. Growth seemed inevitable.

However, as Díaz-Alejandro explains, the pity of the boom is that: “little effort was spent on investigating the credentials of new entrants to the ever-growing pool of lenders and borrowers... practically no inspection or supervision of bank portfolios existed... one may assume, however, that most depositors felt fully insured and foreign lenders felt that their loans to the private sector were guaranteed by the State.”

The two panels of Figure 5, which plot the public debt-to-GDP ratios for Iceland and Ireland (top panel) and total gross external (public and private) debt, faithfully mimic the pattern described by Díaz-Alejandro of “apparent” sound fiscal finances at the outset of the financial crisis.¹² The most onerous sign of future sovereign debt difficulties is shown in the bottom panel of Figure 5, which highlights the scale of the buildup in mostly private external debts that carried implicit (or explicit) government guarantees.

After more than three years since the onset of the crisis, banking sectors remain riddled with high debts (of which a sizable share are nonperforming) and low levels of capitalization, while the household sector has significant exposure to a depressed real estate market. Under such conditions, the migration of private debts to the public sector and central bank balance sheets are likely to continue, especially in an

environment where indiscriminate and massive bailouts are prevalent.

3. Banking Crises as Predictors of Sovereign Debt Problems

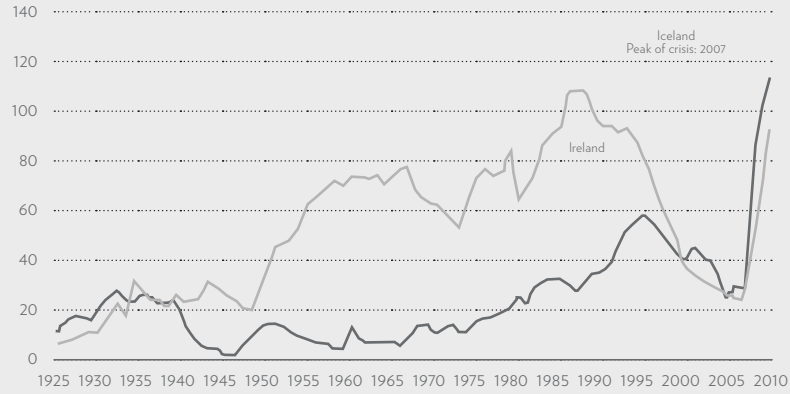
Banking crises most often either precede or coincide with sovereign debt crises. The reasons for this temporal sequence may be the contingent liability story emphasized by Díaz-Alejandro (1985) and formalized by Velasco (1986), in which the government takes on massive debts from the private banks, thus undermining its own solvency.¹³ The currency crashes that are an integral part of the “twin crisis” phenomenon documented by Kaminsky and Reinhart (1999) would also be consistent with this temporal pattern. If, as they suggest, banking crises precede currency crashes, the collapsing value of the domestic currency as a result of the banking crisis may undermine the solvency of both the private and sovereign borrower who are unfortunate enough to have large amounts of foreign currency debts.

Even with absent, large-scale bailouts (and without counting the post-crisis new government guarantees), we have shown that, largely owing to collapsing revenues, government debts typically rise about 86% in the three years following a systemic financial crisis, setting the stage for rating downgrades and, in the worst scenario, default.

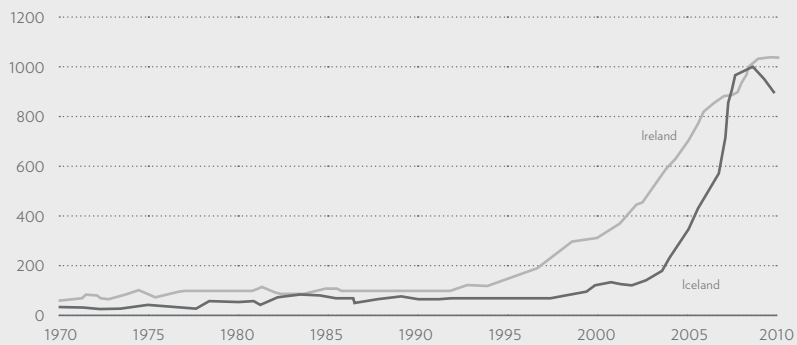
The existence of a causal chain linking sovereign debt crisis to banking crisis, perhaps obscured in these simple graphs, cannot be dismissed lightly. Financial repression and international capital controls may give the government scope to coerce otherwise healthy banks to buy government debt in significant quantities. A government default, in those circumstances, would

FIGURE 5. ICELAND AND IRELAND

a. General Government (Domestic plus External) Debt, 1925-2010 (Debt as a Percentage of GDP)



b. External (Public plus Private) Debt, 1970-2010 (Debt as a Percentage of GDP)



Sources: Reinhart (2010).

directly impact the banks' balance sheet. The two crises may be more or less simultaneous. However, even if banks are not overly exposed to government paper, the "sovereign ceiling" in which corporate borrowers are rated no higher than their national governments may make banks' offshore borrowing very costly or altogether impossible. The result would be a sudden stop that could give rise to bank insolvencies either immediately or further down the line.

4. Common fundamentals, contagion, or both?

In this section, we highlight the fundamental distinction between international transmission that occurs due to common shocks (e.g., the collapse of the technology boom in 2001 or the collapse of housing prices in the crisis of the late 2000s) to transmission, which primarily occur as a result of mechanisms that are products of cross-border contagion emanating from the epicenter of the crisis. We offer a rationale for understanding which factors make it more likely that a primarily domestic crisis fuels fast and furious contagion (see Box 2). We use these concepts to discuss the basis for contagion scenarios in Europe and elsewhere. The simultaneous appearance of banking crises and sovereign debt difficulties across countries is an especially striking feature of the crises that took place during the late-2000s, where both common shocks and cross-country linkages are evident.

Box 2. Contagion Concepts

In defining contagion here, we follow Kaminsky, Reinhart, and Vegh (2003), who distinguish between two types: the "slow-

burn” spillover, and the “fast-burn”, which is marked by rapid cross-border transmission that KRV label as “fast and furious.”

We refer to contagion as an episode in which there are significant *immediate* effects in a number of countries following an event—that is, when the consequences are *fast and furious* and evolve over a matter of hours or days. This “fast and furious” reaction contrasts to cases in which the initial international reaction to the news is muted. The latter cases do not preclude the emergence of gradual and protracted effects that may cumulatively have major economic consequences. We refer to these gradual cases as *spillovers*. Common external shocks, such as changes in international interest rates or oil prices, are also not automatically included in our working definition of contagion. We add to this classification that common shocks need not all be external. This caveat is particularly important with regard to the current episode. Countries may share common “domestic” macroeconomic fundamentals, such as the bursting of a housing bubble, capital inflow bonanzas, increasing private and (or) public leveraging.

The Three Pillars of Fast and Furious Contagion

i) Surprise Crises and Anticipated Catastrophes *Fast and furious* crises and contagion cases have a high degree of surprise associated with them, while their quieter counterparts are more broadly anticipated.

ii) The Capital Flow of Cycle and Leverage *Fast and furious* contagion episodes are typically preceded by a surge in capital inflows and rapidly rising leverage which come to an abrupt halt or sudden stop in the wake of a crisis. The inflow of capital may come from banks, other financial institutions or bondhold-

ers. The debt contracts typically have short maturities (which means that investors and financial institutions will have to make decisions about whether or not they should roll over their debts). With fast and furious contagion, investors and financial institutions who are often highly leveraged are exposed to the crisis country. Such investors can be viewed as halfway through the door, ready to back out on short notice.

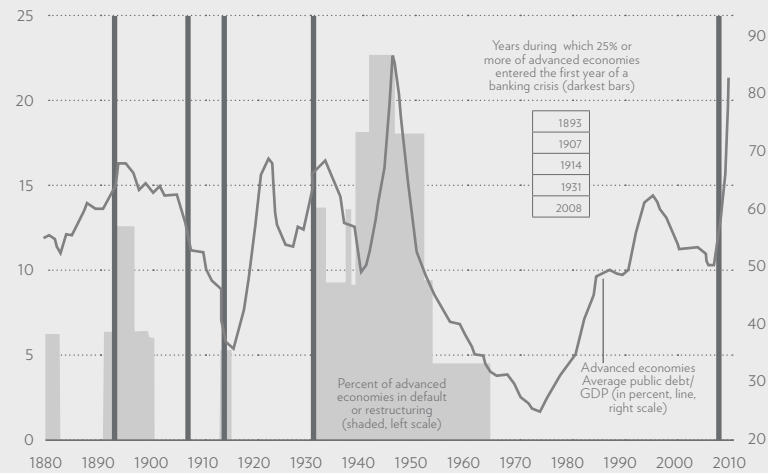
iii) Common Creditors The previous distinction appears to be critical when “potentially affected countries” have a common lender. If the common lender is surprised by the shock in the initial crisis country, there is no time before the crisis to rebalance portfolios and scale back from the affected country. In contrast, if the crisis is anticipated, investors have time to limit the damage by scaling back exposure or hedging their positions.

As discussed in Reinhart and Rogoff (2009), the conjuncture of elements related to the current crisis is illustrative of the two channels of contagion: cross-linkages and common shocks. Without a doubt, the United States financial crisis of 2007 spilled over into other markets through direct linkages. For example, German and Japanese financial institutions (and others ranging as far as Kazakhstan) sought more attractive returns in the United States’ subprime market, perhaps owing to the fact that profit opportunities in domestic real estate were limited at best and dismal at worst. Indeed, after the fact, it became evident that many financial institutions outside the United States had nontrivial exposure to the United States’ subprime market.¹⁴ This is a classic channel of transmission or contagion, through which a crisis in one country spreads across international borders. In the present context, however, contagion or spillovers are only part of the story.

That many other countries experienced economic difficulties at the same time as the United States (and continue to do) also owes significantly to the fact that many of the features that characterized the run-up to the subprime crisis in the United States were also present in many other advanced economies. Two common elements stand out. First, many countries in Europe and elsewhere had their own home-grown real estate bubbles.¹⁵ Second, the United States was not alone in running large current account deficits and experiencing a sustained “capital flow bonanza.” Bulgaria, Iceland, Ireland, Latvia, New Zealand, Spain, and the United Kingdom, among others, imported capital from abroad, which helped fuel a credit and asset price boom.¹⁶ As a result, these trends made these countries vulnerable to the usual, nasty consequences of asset market crashes and capital flow reversals irrespective of what was happening in the United States.

Are more fast and furious episodes or spillovers underway? Applying the criteria that typically characterize fast and furious contagion (see Box 2) to the current environment yields a mixed picture, but one that, on the whole, would suggest that contagion (and the more gradual spillover) threats still loom large. (i) Surprise events are by definition always a distinct possibility. However, at the time of this writing the precarious nature of balance sheets in much of Europe and the United States is more in the public eye than at the beginning of this crisis in the summer of 2007. This fact is plainly evident in the succession of rating downgrades of several sovereigns in Europe and Japan, as well as the general widening and greater heterogeneity in sovereign spreads. (ii) As to the capital inflow cycle and leverage, the inflow peaks and surges in fresh private borrowing are well behind us, but public debts continue to climb (see Figure 1) and private deleveraging, especially in Europe, has been (at

FIGURE 6. SOVEREIGN DEFAULT ON EXTERNAL DEBT, TOTAL (DOMESTIC PLUS EXTERNAL) PUBLIC DEBT, AND SYSTEMIC BANKING CRISES: ADVANCED ECONOMIES, 1880-2010 (DEBT AS A PERCENTAGE OF GDP)



best) limited.¹⁷ Highly leveraged public and private sectors, and common creditors have historically been “contagion amplifiers”. (iii) Apart from the elevated levels of leverage in most advanced economies, the widespread presence of common creditors (most notable in the eurozone as well as the United Kingdom) is a second compelling factor indicating that the scope for fast and furious contagion remains high. This type of financial vulnerability is exacerbated by the lack of transparency in overall cross-border exposure, as highlighted in their extensive new database by Milesi-Ferretti (2010) et. al.

TABLE 2. PUBLIC DEBT AND SOVEREIGN DEFAULT AND RESTRUCTURING: ADVANCED ECONOMIES, 1880-2009

Dependent Variable	Advanced Economies: Share of Countries in Default or Restructuring	
Sample	1880-2009	
Independent Variables	OLS (robusterrors)	Logit (robusterrors)
Advanced Economies:		
Public Debt/GDP (t-1)	0.209	0.002
P-Value	0.000	0.000
Number of Observations	130	130
R ²	0.176	0.167

Dependent Variable	Advanced Economies: Share of Countries in Default or Restructuring	
Sample	1880-2009	
Independent Variables	OLS (robusterrors)	Logit (robusterrors)
Advanced Economies:		
Public Debt/GDP (t-1)	0.057	0.002
P-Value	0.002	0.006
Number of Observations	130	130
R ²	0.047	0.050

Notes: The debt aggregates for the advanced economies and the world are the simple arithmetic averages (not weighted by a country's share in world GDP) of individual countries' debt/GDP ratios. For a few countries, the time series on debt and exports are much longer, dating back to the first half of the 19th century, than for nominal GDP. In these cases (Brazil, Canada, Egypt, India, Nicaragua, Thailand, Turkey and Uruguay), the debt/GDP series was spliced (with appropriate scaling) with the available debt/GDP data. The split between advanced and emerging economies is made through the present-day IMF classification, even though several countries, such as New Zealand, were 'emerging markets' during most of the pre-World War I period.

Sources: Reinhart (2010) Reinhart and Rogoff (2011b), sources cited therein and authors' calculations.

IV. DEBT AND GROWTH

The march from high public indebtedness to sovereign default or restructuring is usually marked by episodes of drama, punctuated by periods of high volatility in financial markets, rising credit spreads, and rating downgrades. However, the economic impacts of high public indebtedness are not limited to such episodes of high drama, as rising public debts are not universally associated with rising interest rates and imminent expectations of sovereign default (see Gagnon with Hinterschweiger, 2011, for a thorough examination of this issue.) Serious public debt overhangs may also cast a shadow on economic growth, even when the sovereign's solvency is not called into question.

Here we summarize the main findings in Reinhart and Rogoff (2010a and 2010b), elaborating on some methodology issues and discussing some of the very recent literature that examines the debt and growth connection.

1. The basic exercise and key results

Our analysis was based on newly-compiled data from 44 countries that spanned about 200 years. This amounts to 3,700 annual observations and covers a wide range of political systems, institutions, exchange rate arrangements, and historic circumstances.

The main findings of our study were:

Firstly, the relationship between government debt and real GDP growth is weak for debt/GDP ratios below 90% of GDP.¹⁸ Above the threshold of 90%, median growth rates fall by 1%, and average growth falls considerably more. The threshold for public debt is similar in advanced and emerging economies,

and applies for both the post World War II period and as far back as the data permit (often extending well into the 1800s).

Secondly, emerging markets face lower thresholds for total external debt (public and private)—which is usually denominated in a foreign currency. When total external debt reaches 60% of GDP, annual growth declines about 2%. For higher levels, growth rates are roughly cut in half.

Thirdly, there is no apparent contemporaneous link between inflation and public debt levels for the advanced countries as a group (some countries, such as the United States, have experienced higher inflation when debt/GDP is high). The story is entirely different for emerging markets, where inflation rises sharply as debt increases.

Figure 7 can be used to summarize our main conclusions. The top left panel applies to the twenty advanced countries in our forty-four country sample (where much of the public debate is centered).¹⁹ The remaining two panels of the Figure present comparable results for emerging market public debt (top right) and gross external debt (bottom left).

In the Figure, the annual observations are grouped into 4 categories according to the ratio of debt-to GDP during that particular year: years when debt-to-GDP levels were below 30%; 30 to 60%; 60% to 90%; and above 90%.²⁰ The bars show average and median GDP growth for each of the four debt categories. Note that of the 1,186 annual observations, there are a significant number in each category, including 96% above 90% (recent observations in that top bracket come from Belgium, Greece, Italy, and Japan). From the Figure, it is evident that there is no obvious link between debt and growth until public debt exceeds the 90% threshold. The observations with debt to GDP over 90% have median growth roughly 1% lower than the lower debt burden groups and mean levels of growth almost 4%

lower (using lagged debt does not dramatically change the picture). The line in Figure 1 plots the median inflation for the different debt groupings, making it plain that there is no apparent pattern of simultaneous rising inflation and debt.

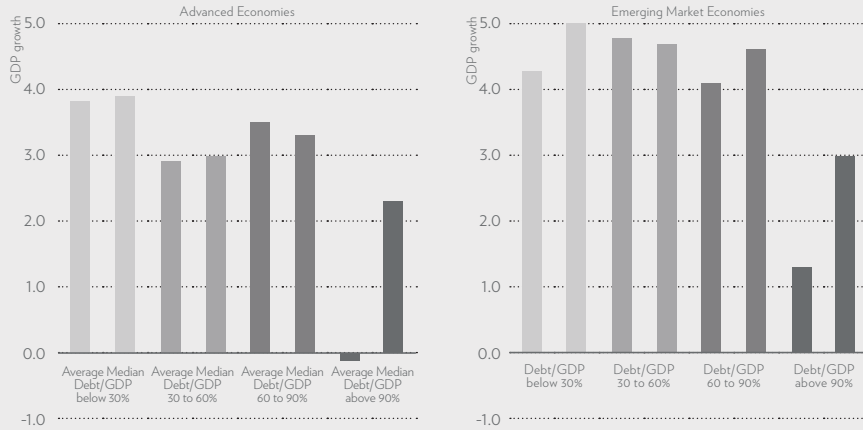
2. High debt episodes in the sample

The episodes that attract our interest are those where debt levels were historically high. As convenient as it is to focus exclusively on a particular country or a single episode in a single country (like United States around World War II, where the data is readily available, or an interesting ongoing case, like Japan), the basis for an empirical regularity is multiple observations. Because our data spans 44 countries with many going back to the 1800s or to at least the beginning of the nineteenth century, our analysis is based on all the episodes of high (above 90%) debt for the post-World War II period and covers the pre-war samples encompassed by the availability of data. Table 1, reproduced from RR (2010a), describes the coverage and the basic statistics for the various debt levels of the advanced economies.²¹

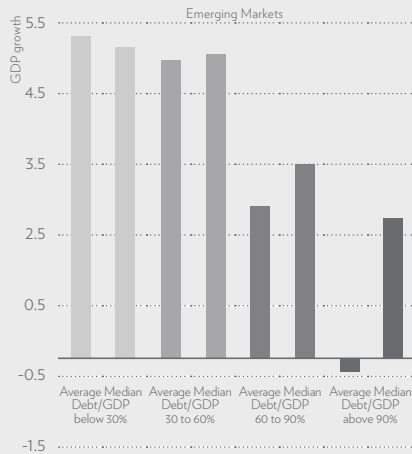
It is common knowledge that the United States emerged after World War II with a very high debt level. This was also the case for Australia, Canada, and, most markedly, the United Kingdom, where public/debt GDP peaked at near 240% in 1948. These cases from the aftermath of World War II are joined in our sample by a number of peacetime high-debt episodes: the 1920s and 1980s to the present in Belgium; the 1920s in France; Greece in the 1920s, 1930s and 1990s to the present; Ireland in the 1980s; Italy in the 1990s; Spain at the turn of the last century; the U.K. in the interwar period and prior to the 1860s; and, of course, Japan in the past decade. As will be dis-

FIGURE 7. DEBT AND REAL PER CAPITA GDP GROWTH: SELECTED ADVANCED AND EMERGING ECONOMIES, 1946-2009

Gross Central Government Debt



Gross External (Public plus Private) Debt



Sources: Reinhart and Rogoff (2010a) and sources cited therein.

cussed, episodes where debt is above 90% are themselves rare and, as shown in Table 1, a number of countries have never had debt entries above 90%.

3. Debt Thresholds and Nonlinearities: the 90% Benchmark

Thresholds and non-linearities play a key role in understanding the relationship between debt and growth that should not be ignored in casual re-interpretations.

i) **Thresholds.** Anyone who has worked with data is well aware that transforming a vague concept, such as “high debt” or “over-valued” exchange rates into a concrete definition to interpret facts and inform discussions requires making arbitrary judgments about where to draw boundaries. In the case of debt, we worked with four buckets: 0-30%, 30-60%, 60-90%, and over 90%. The last one turned out to be critical for detecting a difference in growth performance. We therefore single it out in the discussion below.

Figure 8 shows a histogram of public debt-to-GDP as well as pooled descriptive statistics (inset) for the advanced economies (which compliment the country-specific economies shown in Table 1) over the post-World War II period.²² The median public debt/GDP ratio is 36.4%, and about 92% of the observations fall *below* the 90% threshold. In fact, about 76% of the observations were below the Maastricht criteria by 60%. Put differently, our “high vulnerability” region for lower growth (the area under the curve to the right of the 90% line) comprises only about 8% of the sample population. The standard considerations about type I and type II errors apply here.²³ If we increase the upper bucket cutoff above 90%, we relegate high-debt analyses to case studies (the UK in 1946-1950 and

TABLE 3. REAL GDP GROWTH AS THE LEVEL OF GOVERNMENT DEBT VARIES

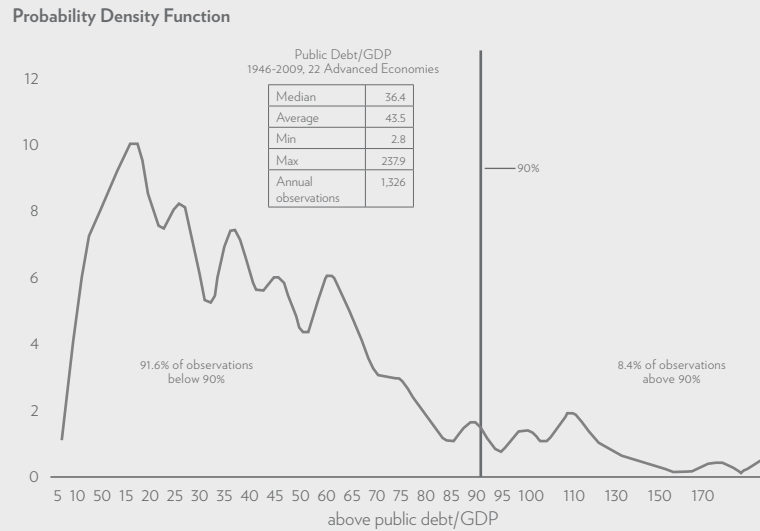
Selected Advanced Economies, 1790-2009 (Annual Percentage Change)

Country	Period	Central (Federal) Government Debt/ GDP			
		Below 30%	30% to 60%	60% to 90%	90% and above
Australia	1902-2009	3.1	4.1	2.3	4.6
Austria	1880-2009	4.3	3.0	2.3	n.d.
Belgium	1835-2009	3.0	2.6	2.1	3.3
Canada	1925-2009	2.0	4.5	3.0	2.2
Denmark	1880-2009	3.1	1.7	2.4	n.d.
Finland	1913-2009	3.2	3.0	4.3	1.9
France	1880-2009	4.9	2.7	2.8	2.3
Germany	1880-2009	3.6	0.9	n.d.	n.d.
Greece	1884-2009	4.0	0.3	4.8	2.5
Ireland	1949-2009	4.4	4.5	4.0	2.4
Italy	1880-2009	5.4	4.9	1.9	0.7
Japan	1885-2009	4.9	3.7	3.9	0.7
Netherlands	1880-2009	4.0	2.8	2.4	2.0
New Zealand	1932-2009	2.5	2.9	3.9	3.6
Norway	1880-2009	2.9	4.4	n.d.	n.d.
Portugal	1851-2009	4.8	2.5	1.4	n.d.
Spain	1850-2009	1.6	3.3	1.3	2.2
Sweden	1880-2009	2.9	2.9	2.7	n.d.
United Kingdom	1830-2009	2.5	2.2	2.1	1.8
United States	1790-2009	4.0	3.4	3.3	-1.8
Average		3.7	3.0	3.4	1.7
Median		3.9	3.1	2.8	1.9
Number of Observations =	2,317	866	654	445	352

Notes: An n.a. denotes no observations were recorded for that particular debt range. There are missing observations, most notably during World War I and II. Further details are provided in the data appendices to Reinhart and Rogoff (2009) and are available from the authors. Minimum and maximum values for each debt range are shown in **bolded italics**.

Sources: There are many sources, among the more prominent are: International Monetary Fund, World Economic Outlook, OECD, World Bank, Global Development Finance. Extensive other sources are cited Reinhart and Rogoff (2009).

FIGURE 8. THE 90% DEBT/GDP THRESHOLD: 1946-2009, ADVANCED ECONOMIES



Notes: The advanced economy sample is the complete IMF grouping (Switzerland and Iceland were added). It includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Sources: Reinhart and Rogoff (2009 and 2010b).

Japan in recent years). Only about 2% of the observations are at debt-GDP levels at or above 120%, including the aforementioned cases.

If debt levels above 90% are indeed as benign as some suggest, one might expect to see a higher incidence of these over the course of history. Our interpretation of the evidence, as underscored by the central theme of our 2009 book, hardly suggests that politicians worldwide are being too cautious about accumulating high debt levels. In fact, far too often they take undue risks with debt buildups, relying, perhaps, on the fact that these risks often take a very long time to materi-

alize. If debt to GDP levels exceeding 90% are so benign, then generations of politicians must have been overlooking proverbial money on the street.

We do not pretend to argue that growth will be normal at 89% and subpar (about one percent lower) at 91% debt/GDP any more than a car crash is unlikely at 54mph and near certain at 56mph. However, mapping the theoretical notion of “vulnerability regions” to bad outcomes by necessity involves defining thresholds, just as traffic signs in the United States specify 55mph.²⁴

ii) *Nonlinear relationship.* We summarized the results in our paper by stating: **“the relationship between government debt and real GDP growth is weak for debt/GDP ratios below a threshold of 90% of GDP. Above 90%, median growth rates fall by 1%, and average growth falls considerably more.”** RR (2010a)

Revisiting Figure 7 is useful for illustrating the importance of nonlinearities in the debt-growth link. Simply put, for 92% of the observations provided in our sample, there is no systematic link between debt and growth.²⁵ Thus, if one were to do a simple scatterplot of the total observations on debt/GDP and growth, one would expect to find a confusing disorder of information. We can highlight this general point with the United States’ case. As noted in the working paper version of RR (2010a), between 1790 and 2009 there are a total of 216 observations, 211 (or 98%) of which are below the 90% debt to GDP cutoff.²⁶ **It should be quite obvious that a scatter plot of United States data would not be capable of revealing a systematic pattern** (as demonstrated in the work Iron and Bivens, 2010.) Indeed, this example illustrates one of our main results that there is no systematic relationship between debt and growth below a threshold of 90% of GDP.

4. Debt and Growth Causality

As discussed, we examine average and median growth and inflation rates *simultaneously* with debt. Temporal causality tests are not part of the analysis. The application of many of the standard methods for establishing temporal precedence is complicated by the nonlinear relationship between growth and debt that we have alluded to (more of this to follow).

But how do we classify the evidence of causality? For low-to-moderate levels of debt there may or may not be a classification; the issue is an empirical one that merits study. For high levels of debt, the evidence points to *bi-directional* causality.

Growth-to-debt: As discussed in Section II, our analysis of the aftermath of the financial crisis in RR (2008) presents compelling evidence, both for advanced and emerging markets over 1800-2008 on the fiscal impacts (revenue, deficits, debts, and sovereign credit ratings), of the recessions associated with banking crises (Figure 2).

There is little room to doubt that severe economic downturns, irrespective of whether their origin was a financial crisis or not, will, in most instances, either immediately or eventually, lead to higher debt/GDP levels. There is, of course, a vast literature on cyclically-adjusted fiscal deficits making exactly this point.

Debt-to-growth: A unilateral, causal pattern from growth to debt, however, does not comply with the evidence. Public debt surges are associated with a higher incidence of debt crises (Figure 2).²⁷ This temporal pattern is analyzed in Reinhart and Rogoff (2008) in their country-by-country analyses cited therein.²⁸ In the current context, even a cursory reading of the recent turmoil in Greece and other European countries can important-

ly be traced back to the adverse effects of high levels of government debt (or potentially guaranteed debt) on country risk and economic outcomes. At a very basic level, if the government is expected to repay its debts a high public debt burden implies higher future taxes (inflation is also a tax) or lower future government spending.

There is scant evidence to suggest that high debt has little impact on growth. Kumar and Woo (2010), in their cross-country findings, highlight that debt levels have negative consequences for subsequent growth, even after testing for other standard determinants in growth equations. For emerging markets, an older literature on the debt overhang of the 1980s frequently addresses this theme.

V. THE AFTERMATH OF HIGH DEBT: THE 1930S AND WORLD WAR II

Up until very recently, financial markets and policy makers had all but forgotten that default and restructuring were not alien to the advanced economies. For instance, Reinhart, Rogoff and Savastano (2003) and Reinhart and Rogoff (2009) document that several now-wealthy countries have a long history of serial default. This section does not attempt to review this large history of sovereign debt crisis, but instead focuses on the last two “global” debt spikes. These two high-debt episodes share some of the characteristics of the current debt spike, as they involve numerous advanced economies (accounting for an important share of world GDP).

The first part of the section presents a brief sketch of the last wave of sovereign defaults, restructurings, and forcible conversions in response to the debt overhang during the 1930s that engulfed the advanced economies. The second subsection

outlines the more subtle debt restructuring that was facilitated by pervasive financial repression from the 1940s to the 1970s.

1. Default, restructurings and forcible conversions in the 1930s

Table 4 lists the known “domestic credit events” of the depression. Default, or the restructuring, of external debt (see the extensive notes to the table) also often accompanies the default/restructuring of the domestic debt. As economic conditions deteriorated worldwide during the 1930s, all the allied governments, with the exception of Finland, defaulted on (and never repaid) their World War I debts to the United States.²⁹

Thus, the high debts of World War I, and the subsequent debts associated with the Depression of the 1930s, were resolved primarily through default and restructuring. Neither economic growth nor inflation contributed much. In effect, for all 21 now-advanced economies, the median annual inflation rate for 1930-1939 was barely above zero (0.4%).³⁰ Real interest rates remained high throughout significant stretches of the decade.

TABLE 4. SELECTED EPISODES OF DOMESTIC DEBT DEFAULT OR RESTRUCTURING, 1920S-1940S

Country	Dates	Commentary
For additional possible domestic defaults in several European countries during the 1930s, see notes below.		
Australia	1931-1932	The Debt Conversion Agreement Act in 1931/32 which appears to have done something similar to the later NZ induced conversion. See New Zealand entry. ¹
Bolivia	1927	Arrears of interest lasted until at least 1940.
Canada (Alberta)	April 1935	The only province to default—which lasted for about 10 years.
China	1932	First of several 'consolidations', monthly cost of domestic service was cut in half. Interest rates were reduced to 6% (from over 9%)—amortization periods were about doubled in length.
Greece	1932	Interest on domestic debt was reduced by 75% since 1932; Domestic debt was about 1/4 of total public debt.
Mexico	1930s	Service on external debt was suspended in 1928. During the 1930s, interest payments included 'arrears of expenditure and civil and military pensions.'
New Zealand	1933	In March 1933 the New Zealand Debt Conversion Act was passed providing for voluntary conversion of internal debt amounting to 113 million pounds to a basis of 4% for ordinary debt and 3% for tax-free debt. Holders had the option of dissenting but interest in the dissented portion was made subject to an interest tax of 33.3%. ¹
Peru	1931	After suspending service on external debt on May 29, Peru made 'partial interest payments' on domestic debt.
Romania	February 1933	Redemption of domestic and foreign debt is suspended (except for three loans).
Spain	October 1936– April 1939	Interest payments on external debt were suspended, arrears on domestic debt service.
United States	1933	Abrogation of the gold clause. In effect, United States refused to pay Panama the annuity in gold due to Panama according to a 1903 treaty. The dispute was settled in 1936 when United States paid the agreed amount in gold balboas.
United Kingdom	1932	Most of the outstanding WWI debt was consolidated into a 3.5% perpetual annuity. This domestic debt conversion was apparently voluntary. However, some of the WWI debts to the United States were issued under domestic (UK) law (and therefore classified as domestic debt) and these were defaulted on following the end of the Hoover 1931 moratorium.
Uruguay	November 1, 1932– February, 1937	After suspending redemption of external debt on January 20, redemptions on domestic debt were equally suspended.
Austria	December 1945	Restoration of schilling (150 limit per person). Remainder placed in blocked accounts. In December 1947, large amounts of previously blocked schillings invalidated and rendered worthless. Temporary blockage of 50% of deposits.
Germany	June 20, 1948	Monetary reform limiting 40 Deutschemark per person. Partial cancellation and blocking of all accounts.
Japan	March 2, 1946–1952	After inflation, exchange of all bank notes for new issue (1 to 1) limited to 100 yen per person. Remaining balances were deposited in blocked accounts.
Russia	1947	The monetary reform subjected privately held currency to a 90% reduction.
	April 10, 1957	Repudiation of domestic debt (about 253 billion rubles at the time).

¹ See Schedvin (1970) and Prichard (1970), for accounts of the Australian and New Zealand conversions, respectively, during the Depression. Michael Reddell kindly alerted us to these episodes and references.

Notes: We have made significantly further progress in sorting out the defaults on World War I debts to the United States, notably by European countries. In all cases, these episodes are classified as a default on external debts. However, in some case –such as the UK—some of the WWI debts to United States were also issued under the domestic law and, as such, would also qualify as a domestic default. The external defaults on June 15, 1934 included: Austria, Belgium, Czechoslovakia, Estonia, France, Greece, Hungary, Italy, Latvia, Poland, United Kingdom. Only Finland made payments. See *New York Times*, June 15, 1934.

2. Financial Repression in 1940s-1970s: The “Quiet” Restructuring

Apart from emerging markets, many of which have continued to periodically default or restructure their debts (usually at times of severe economic stress) through to the present, the only *explicit* defaults (or restructurings) in advanced economies since World War II were confined to either those of the countries that lost the war (Austria, Germany, Italy, and Japan) or those that never reestablished their credit since slipping into default in the 1930s (Greece, for instance, was in default from 1932 until 1964). “Financial repression” was, at the time, the post-World War II “politically correct” replacement for the more open debt restructurings and defaults of the 1930s.

Generally, the aims of debt restructuring are: i) reducing the value of the stock of existing debts (haircut); ii) reducing debt servicing costs (by cutting or capping interest rates); iii) minimizing risk by lengthening maturities and/or shifting into nonmarketable debt. Financial repression achieves all three goals of debt restructuring—albeit that reducing the value is achieved more gradually than in open restructurings. Thus, as argued in Reinhart and Rogoff (2009), financial repression—a hallmark of the 1946-1970s nothing other than a more subtle form of debt restructuring.

Legislation or “moral suasion” limits the range and amounts of non-government debt domestic assets that financial institutions can hold. This limits further (or outright forbids) holdings of foreign assets, requiring financial institutions to hold more government debt as part of the “financially repressed landscape”. A whole range of interest rate ceilings (for example, on deposits) made holding low-yielding government more palatable for individuals as well as institutions. Pension funds have

historically provided opportunities to place vast sums of government debt at questionable rates of return (often negative ex post in real terms). It is worth noting that the real ex-post interest rate on public debt (appropriately weighted by the type of debt instrument) was *negative* for United States debt for a quarter of the period from 1945 to 1980, while the comparable share for the UK was nearly 50%, as Reinhart and Sbrancia (2011) document.

Table 5 illustrates, for Italy, the United Kingdom and the United States, the important role played by the financial repression (combined with some inflation) in the crucial debt-reduction decade that followed World War II.³¹ Savings range from an average of about 9% for Italy (which had higher inflation) to about 5% for the United States and United Kingdom. In effect, the savings from financial repression are lower for the United Kingdom, as we used the “official” consumer price index for this period in the calculations and inflation

TABLE 5. DEBT LIQUIDATION THROUGH FINANCIAL REPRESSION: ITALY, U.K. AND U.S., 1945-1955

Country	Public Debt/GDP			Annual Average: 1946-1955	
	1945	1955 (actual)	1955 without repression savings (est.) ³	'financial repression revenue'/GDP	Inflation
Italy ¹	79.2	38.1	129.3	9.1	10.8
United Kingdom ²	215.6	138.2	182.9	4.5	5.9
United States	116.0	66.2	118.6	5.2	4.2

1 Italy was in default on its external debt 1940-1946.

2 The savings from financial repression are a lower bound, as we use the 'official' consumer price index for this period in the calculations and inflation is estimated to have been substantially higher than the official figure (see for example Friedman and Jacobson Schwartz, 1963).

3 The simple cumulative annual savings without compounding.

Notes: The peaks in debt/GDP were: Italy 129.0 in 1943; United Kingdom 247.5 in 1946; United States 121.3 in 1946. An alternative interpretation of the financial repression revenue is simply as savings in interest service on the debt.

Sources: Reinhart and Sbrancia (2011).

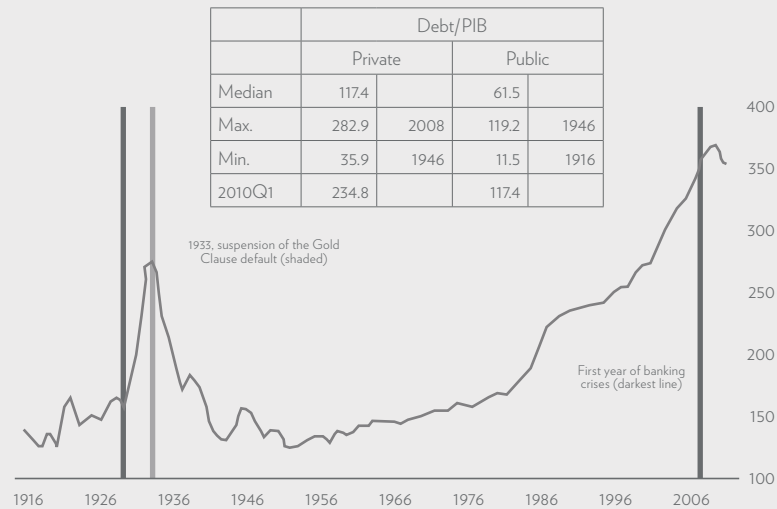
is estimated to have been substantially higher than the official figure (see for example Friedman and Jacobson Schwartz, 1963). Additionally, other factors, such as the 1951 U.S. conversion, which swapped marketable for nonmarketable debt, do not factor into these debt-reduction calculations. The simple fact is that ex-post real interest rates were significantly lower in both advanced and emerging market economies during the financial repression era between World War II and the high real interest rates of the 1930s, and the post-financial and capital account liberalization present in financial markets since the mid-1980s.

VI. CONCLUSIONS

One need look no further than the stubbornly high unemployment rates in the United States and other advanced economies to be convinced of the importance of developing a better understanding of the growth prospects for the decade ahead. We have presented evidence suggesting that high levels of debt dampen growth. One can argue that the United States can tolerate higher levels of debt than other countries without having its solvency called into question. This is probably so.³² We have shown in our earlier work that a country's credit history plays a prominent role in determining the levels of debt it can sustain without falling into a sovereign debt crisis. However, we have no comparable evidence yet to suggest that the consequences of higher debt levels for growth will be different for the United States than for other advanced economies.

Figure 9 makes point plain, plotting the total debt (both public and private) of the United States' credit market from 1916 to 2010.³³ Despite considerable deleveraging by the private financial sector, total debt remains near its historic high in

FIGURE 9. TOTAL (PUBLIC AND PRIVATE) CREDIT MARKET DEBT OUTSTANDING: UNITED STATES, 1916-2010 Q1



Notes: Beginning in 2010:Q1, almost all Fannie Mae and Freddie Mac mortgage pools are consolidated in Fannie Mae's and Freddie Mac's balance sheets and, thus, are included in the debt of government

Sources: Historical Statistics of the United States, Flow of Funds, Board of Governors of the Federal Reserve International Monetary Fund, World Economic Outlook.

2008. Total public sector debt during the first quarter of 2010 is 117% of GDP. Since 1916 when this series began, it has only been higher during a one-year stint at 119% in 1945. Perhaps soaring U.S. debt levels will not prove to be a drag on growth in the decades to come. However, if history is any guide, that is a risky proposition, and over-reliance on U.S. exceptionalism may only prove to be one more example of the “this time is different” syndrome.³⁴

The sharp run-up in public sector debt will likely prove to be one of the most enduring legacies of the 2007-2009 finan-

cial crises in the United States and elsewhere. We examine the experience of forty-four countries, spanning up to two centuries of data, on central government debt, inflation and growth. Our main finding is that, across both advanced countries and emerging markets, high debt/GDP levels (90% and above) are associated with notably lower growth outcomes. Much lower levels of external debt/GDP (60%) are associated with adverse outcomes for emerging market growth. Seldom do countries “grow” their way out of debts. The nonlinear response of growth to debt as debt grows towards historical boundaries is reminiscent of the “debt intolerance” phenomenon developed in Reinhart, Rogoff and Savastano (2003). As countries hit debt intolerance ceilings, market interest rates may begin to rise quite suddenly, forcing painful economic adjustment.

For many, if not most, advanced countries, dismissing debt concerns at this time is tantamount to ignoring the proverbial elephant in the room, as is pretending that restructuring will not be necessary. It may not be termed restructuring, so as not to offend the sensitivities of governments that want to pretend to find an advanced economy solution for an emerging market style sovereign debt crisis. As in other debt crises resolution episodes, debt buybacks and debt-equity swaps are a part of the restructuring landscape. Financial repression is also unlikely to prove a politically correct term, so prudential regulation will probably provide the framework for a return to a system more akin to that of the global economy prior to the 1980s market-based reforms.

The process where debts are being “placed” at below market interest rates in pension funds and other more captive domestic financial institutions is already under way in several countries in Europe. Central banks on both sides of the Atlantic have become large players in purchases of government debt,

and will possibly so for the indefinite future. For the United States, fear of currency appreciation continues to drive central banks in many emerging markets to purchase U.S. government bonds on a large scale. In other words, markets for government bonds are increasingly populated by nonmarket players, calling into question what the information content of bond prices are relative to their underlying risk profile—a common feature of financially repressed systems.

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1. Unless otherwise noted, public debt here refers to gross central government debt. As such, it does not include other levels of government indebtedness (for example, state and local debt in the United States), nor does it encompass public enterprise debt or debt that carries an explicit (let alone implicit) government guarantee. Contingent liabilities of the government associated with social security benefits are not incorporated in our long history one hundred years or more) of government debt data and its analysis. Domestic public debt

is government debt issued under domestic legal jurisdiction. Public debt does not include obligations carrying a government guarantee. Total gross external debt includes the external debts of all branches of government as well as private debt that is issued by domestic private entities under a foreign jurisdiction.

2. Private deleveraging, as measured by new borrowing (see Fostel and Geanakoplos (2008) and Geanakoplos, 2009, usually begins to markedly slow down or decline during the crisis and, in some cases, just before the onset of a crisis.

3. Specifically, the analysis draws on Reinhart and Rogoff, 2008, 2009, 2010a, 2010b and 2011a, 2011b. Although much of the paper is devoted to summarizing earlier work, there is important new material added here, including the discussion of how War World I and the Great Depression debt were largely resolved through outright default and restructuring, whereas World War II debts were often resolved through financial repression. I argue that financial repression is likely to play a big role in the exit strategy from the current buildup. We also highlight the extraordinary external debt levels of Ireland and Iceland compared to all historical norms in our data base.

4. See Gagnon and Hinterschweiger (2011) for an analysis of the links between debt and interest rates.

5. See Kaminsky and Reinhart (1999).

6. Reinhart and Sbrancia (2011).

7. There is literature on financial repression in emerging market economies (see Easterly, 1989 and Giovannini and De Melo (1993), for example). However, the Bretton Woods system, embraced in 1946, established a system of tightly regulated financial markets based on three pillars: (i) directed credit; (ii) interest rate ceilings; and (iii) foreign exchange controls (see Box 1).

8. This analysis was first introduced in Reinhart and Rogoff (2008).

9. My focus on gross central government debt because time series of broader measures government are not available for many countries. Of course, the true run-up in debt is significantly larger than stated here, at least on a present value actuarial basis, due to the extensive government guarantees that have been conferred on the financial sector in the crisis countries and elsewhere, where, for example, deposit guarantees were raised in 2008.

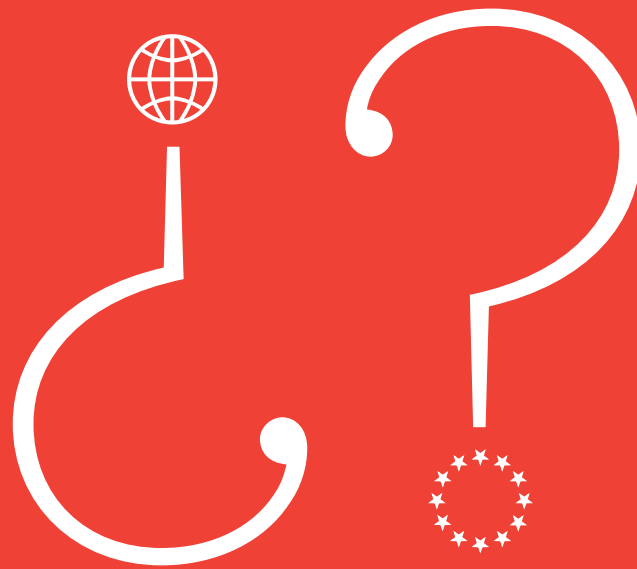
10. See Reinhart and Rogoff (2009 and 2011a) for evidence on output behavior before, during and after debt crises.

11. Gross external debts ten times the size of GDP (as the cases of Iceland and Ireland) are historically off the charts for both advanced and emerging market economies. Reinhart, Rogoff and Savastano (2003) calculate that more than half of all emerging market defaults or restructuring episodes since World War II occurred at debt levels of 60% or less (which would satisfy the Maastrich criteria).

12. I would note that Iceland and Ireland (aswell as Spain), so often in the news for their present debt difficulties, were exemplary cases of successful public debt reduction up until the eve of the current crisis.

13. See Arellano and Kocherlakota (2008) for a framework that is consistent with these dynamics.
14. Owing to the opaqueness of balance sheets in many financial institutions in these countries, the full extent of exposure is, as yet, unknown.
15. See Reinhart and Rogoff (2009).
16. Reinhart and Reinhart (2009).
17. See Reinhart and Reinhart (2011).
18. In this paper 'public debt' refers to gross central government debt. 'Domestic public debt' is government debt issued under domestic legal jurisdiction. Public debt does not include obligations carrying a government guarantee. Total gross external debt includes the external debts of all branches of government as well as private debt issued by domestic private entities under a foreign jurisdiction.
19. The comparable emerging market exercises are presented in the original paper.
20. The four 'buckets' encompassing low, medium-low, medium-high, and high debt levels are based on our interpretation of the literature and policy discussions on what are considered low, high etc. debt levels. It parallels the World Bank country groupings according to four income groups. Sensitivity analysis involving a different set of debt cutoffs merits exploration, as do country-specific debt thresholds along the lines discussed in Reinhart, Rogoff, and Savastano (2003).
21. See the original paper for the comparable emerging market table.
22. Our sample includes twenty-four emerging market countries.
23. The null hypothesis is whatever 'normal' growth is versus the alternative of lower growth.
24. These methodology issues are discussed in Kaminsky and Reinhart (1999).
25. Bruno and Easterly (1998) find similar nonlinearities in the inflation-growth relationship.
26. Figure 3 in the NBER WP is not included in the published version of the paper.
27. For a model where credit-financed government deficits lead to a currency crisis, see Krugman (1979).
28. Reinhart and Rogoff (2010b).
29. Finland, being under continuous threat of Soviet invasion at the time, maintained payments on their debts to the United States so as to maintain the best possible relationship.
30. See Reinhart and Reinhart (2011a).
31. See Reinhart and Sbrancia (2011) for a full-fledged analysis of the international role played by financial repression in reducing the World War II debt overhang.
32. Indeed, this is the central argument in Reinhart and Reinhart (2010) originally published in November 17, 2008.
33. Flow of Funds aggregate the private and public sectors, where the latter is comprised of federal (net), state, local and government enterprises. To reiterate, this is not the public debt measure used in our historical analysis, which is gross central government debt (which for the United States is at present about 90% of GDP).

34. The 'This Time is Different Syndrome' is rooted in the firmly-held beliefs that: (i) Financial crises and negative outcomes are something that happen to other people in other countries at other times (these do not happen here and now to us); (ii) we are doing things better, we are smarter, we have learned from the past mistakes; (iii) as a consequence, old rules of valuation are not thought to apply any longer.



Mark Leonard **Europe as a Force on the World Stage**, A few years ago I wrote a book which said that Europe would run the 21st Century. After it came out, there were some fears that Europe would be on the side-lines and cast into irrelevance. But the opposite has happened: Europe has not been this prominent in the global imagination since 2004. At that time I remember travelling round the world and was struck by how people from Beijing to Bosnia to Cairo saw us as a rising power that was develop-

ing a constitution and plans for a common foreign policy led by a new foreign minister. Wen Jiabao even declared 2003 to be the year of Europe—and went to great lengths to contrast the focus on Brussels with Washington’s policy of dividing and ruling the member states.

Today people are really interested in the EU again, but this time the concern is with Europe’s implosion rather than its rise. We are seen as a problem rather than a solution to problems; an object rather than a subject. But this new attention is not entirely negative as the EU’s biggest problem is that it is too often taken for granted.

Speaking personally, I think that the EU is the most exciting experiment in history—not just because it has ended war between European countries; because it has supported the transition of its neighbours; or even because it has come to enshrine important values. I think it is most exciting because it is the biggest innovation in the exercise of political power since the creation of the nation-state 500 years ago. The EU has shown how citizens can enjoy living in small states that are close to their citizens and at the same time enjoy the protection and economic scale that you get from having a market with 500 million consumers and policies to tackle continental-sized problems, from organized crime to climate change.

More importantly, the EU has shown that there is a different way of thinking about security. Rather than relying on a balance of power and non-interference in each other’s affairs, the EU model of security is based on deep economic, political and—above all—legal interdependence. Law courts have replaced armies as the way to deal with disputes.

And this European model has been a pioneer on the world stage and has been spreading in four fundamental ways:

through enlargement, through the impact on neighbours, through the creation of global institutions which consecrate a European work ethic, and finally by inspiring every other region of the world to integrate.

I thought back then that the overall result of these trends would be that the world would be neither a unipolar space dominated by the United States nor a global government run by the United Nations, but rather that we would see a world of regions run according to principles that are comfortable for Europeans.

I argued then—and I still believe—that the European way of exercising and organising power is uniquely well-suited to an interdependent world with problems of collective action.

For me it is precisely because we are entering a world where Europe does not feel like it will be the centre of the universe that the EU is important.

EUROPE'S CURRENT CRISIS

It is often easier to understand a continent's crisis with the help of distance. In some ways, the Chinese are better able to understand the causes and consequences of the EU's crisis than we are ourselves.

The Chinese I speak to have spotted that Europe's crisis is above all political rather than economic—a crisis of democracy. If the flaw in the Euro's economic construction is the creation of a single currency without a common treasury, the flaw in its political construction is the creation of a common policy-making system without a common politics. In its place we have experienced a growing conflict between technocratic political establishments that have sought to build Europe and

populist oppositions who have tried to undermine it. What we are witnessing now is the breakdown of the European political order and the erosion of the permissive consensus for integration. Holland, Finland, Greece, Ireland, Italy, the mainstream parties are being pushed to the sidelines and the fringe parties are dominating the agenda. Is this Europe's Tea Party moment? The time when proud party hierarchies find themselves cut adrift and powerless to steer their once proud parties? Or is something more profound at work? I have been doing some research into this and I think that the 2008 financial crisis will go down as one of the great moments of political alignment bigger, even than 1917, 1945, or 1989, when the entire party and political system found itself up-ended and was remade.

Secondly, they pointed to some interesting institutional trends:

The first of these is renationalization. Back in 2003 they made a big deal about building up links with Brussels, but they have now decided that the real route to Europe lies through Berlin. We saw how Angela Merkel was treated as the leader of Europe rather than Germany on her trip to Beijing in August 2012. They have set up joint meetings of their cabinet.

Second, Chinese think-tanks have been very interested in the idea of a multi-tiered Europe. When I was in Beijing a few weeks ago I was interrogated about whether it is possible that European leaders will save the Euro but accidentally kill the EU at 27 by creating such a deep barrier between the 17 and the rest and then they asked me if UK is likely to leave the EU. If you want to know what will happen in the UK, I think it is now very likely that all the main political parties will commit themselves to having a referendum on EU membership in the next parliament. The Conservatives will go for a two-step move.

First they will commit themselves to repatriate sovereignty in a number of areas such as working time directives, social policy, fisheries etc. and then pledge an affirmative referendum. The Labor Party is more likely to promise an in-out referendum. If that happens it will probably have three parts—joining everything, the *statu quo*, or withdrawal.

Thirdly, they have spotted the crisis of European order. In our minds the EU provides the institutional basis of European order but in April this year the Chinese persuaded the Poles to organize a conference for China and Eastern Europe—modeled on the China-Africa conferences. Officials in Brussels were shocked by this very aggressive Chinese move. Beijing did not distinguish between EU and non-EU members and took Serbia, Bosnia and others alongside the EU. They did not envisage inviting the European Commission. And most strikingly they wanted to set up a permanent secretariat to support the new community.

And the big question is about how these institutional and political changes will affect the EU as an actor of foreign policy. Superficially, the Euro crisis has:

- constrained Europe’s ability to react to the revolutions in the Middle East and North Africa.
- triggered a wave of budget cuts in member states which could erode sources of soft and hard power such as defence and aid spending.

But on a more fundamental level it has raised the possibility of disintegration rather than integration in southeastern Europe: what would be the geopolitical consequences of a Greek exit?

SO WHAT IS TO BE DONE?

The starting point must be to explore what is wrong with the current approach. Last summer Merkel looked over the precipice of Euro collapse and did not like what she saw: she resolved to do everything necessary for the euro. But her government's attempt to minimise the costs of bailing out crisis countries has put nations such as Greece under deflationary pressure and sent borrowing costs spiraling. Her attempt to enforce rules regardless of the effect on the real economy has led to a revolt in deficit countries. And her attempt to impose decisive action through a Franco-German pairing ended up creating more paralysis by stimulating populism. While individually each of these approaches have their own logic, collectively they make the European project seem stingy, rigid and oppressive.

In the place of the past approach, EU leaders need an alternative vision for a Europe of incentives that is generous, flexible and empowering. In our report, *Europe of Incentives*, one can look at what that means in economic and political terms.

But if we are to make progress, I think it is important to have a more nuanced understanding of the German position. Much has been made of the pathological fear of inflation since the 1920s, but guilt about the 1930s and fears of a breakdown of European order still make the German elite responsive to arguments about what is good for Europe.

There is also a third memory which is less often discussed: the sense of betrayal over European political union since the 1990s. In 1994, two prominent German politicians—Wolfgang Schäuble and Karl Lamers—offered the then French Prime Minister Edouard Balladur the prospect of joining them at the core of a political union as *quid pro quo* for sacrificing

the Deutschmark to the European Monetary Union. Balladur did not even have the grace to reply. The backdrop to today's debate about Eurobonds is that the German political elite—led by Schäuble who has risen to the post of finance minister—fear that the French will once again take them for a ride.

Many outside commentators are missing the fact that Merkel is slowly preparing the ground for a European grand bargain. Speaking privately, many in her government now accept the opposition SPD's claims that austerity without growth is a chimera, and that part of the price for allowing Spain and Italy to return to growth must be the socializing of their debt (Merkel's Council of Economic Advisers have even published a blueprint for a "debt redemption fund"). Berlin is reluctant to give other countries their credit card without working out some means of control over their spending. They explain that France cannot be bankrolled by Germany as it insists on maintaining public spending at 56% of GDP and a retirement age of 60 (Germany's public spending is 46% and its retirement age 67). Berlin wants to change European treaties and institutions to make these constraints binding (including increasing the power of the European parliament over national budgets and having a direct election for the Commission President).

The question Germans are posing is whether France is now ready for political union in exchange for fiscal solidarity. Critics are right that it is no good for the German government to present political union as a prerequisite to banking and fiscal union, but they are wrong to dismiss the idea as a red herring.

Today's Europe is becoming an "apolitical union" where elections allow citizens to change governments but not policies, and technocrats rule the roost. The worry is that the German

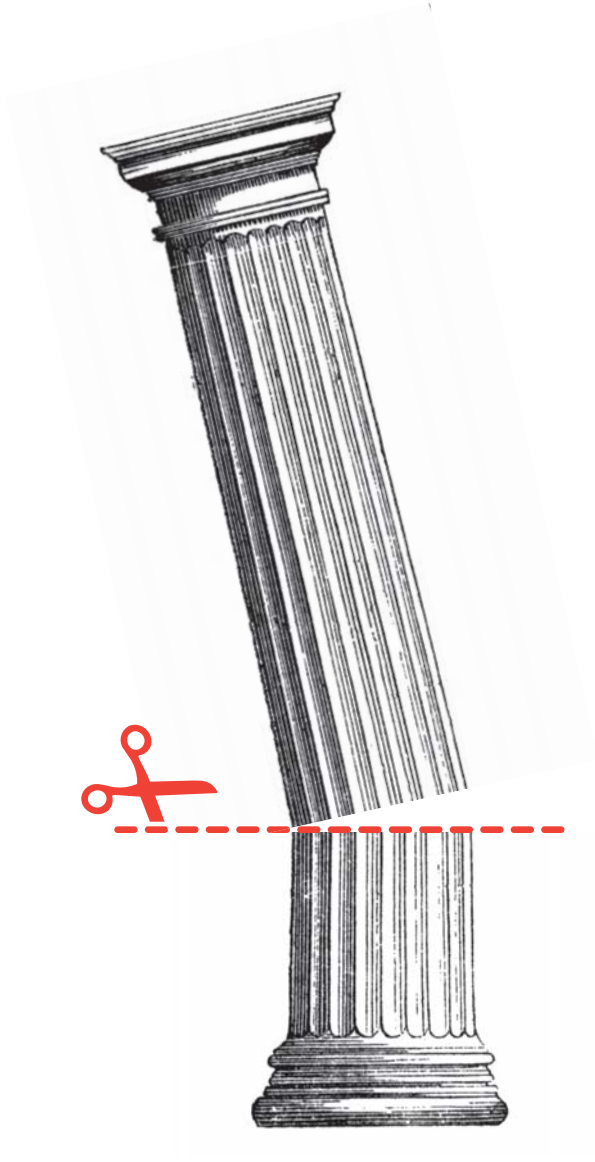
vision will take economic policy even further out of the political realm, but some kind of democratic legitimation will need to go hand in hand with the socialization of risk, both to ensure that the EU has the democratic foundations to withstand financial turmoil and to meet the requirements of the German constitutional court.

My own view is that the EU will be more legitimate if it makes national governments play a more visible role and increases their accountability rather than turning the European Commission into a de facto government. One idea would be to set up a council of deputy prime ministers that could meet weekly in Brussels and be held accountable by a second cabinet of national parliamentarians which sits alongside the European Parliament.

Germany does not want to move until the last possible moment because it wants the time to work out how to introduce controls, and it fears that debtor countries will return to bad habits if Germany socializes debt too quickly.

But this kind of brinkmanship is becoming too dangerous. A perfect storm is brewing and we are rapidly approaching the moment when even Merkel won't be able to stop it. But though libraries will be filled with the mistakes of her European policy, Europe is blessed that it is a German leader who is in the hot seat. If France were the indispensable nation, I doubt it would overcome its obsession with sovereignty or its national pride. Spain and Italy both have traditions of pro-Europeanism but do they have the resources and political credibility to bring the markets and other countries with them? And think for a moment how the picture would look if David Cameron were in Merkel's shoes. The world may be terrified of the consequences of German policy, but for reasons of history, geography and

politics the Berlin republic is still the only country we can imagine overcoming its short-term interests to save Europe from its current crisis.



Wolfgang Münchau **Why the Eurozone is not Sustainable in its Present Setup** I will make the argument that the present set of policy choices is incompatible with the survival of the eurozone. I take into account the decision of the June 28-29 summit, which took place after the *Círculo de Economía* annual meeting. After the European Central Bank's liquidity operations in December 2011 and February 2011, there was a sense expressed by several policymakers, including Wolfgang Schäuble, the German finance

minister, that the “worst of the crisis is over”. That judgement turned out to be mistaken, as the ten year bond spreads started to widen again in March 2011, reaching new highs by June. This was triggered by a combination of events: a rise in the Spanish deficit in 2011; the Spanish government’s standoff with the European Commission over the 2012 budget; the crisis at Bankia; speculation of a Greek secession amid the rise of Syriza in Greek opinion polls; uncertainty about the programme and policies of Francois Hollande, who was subsequently elected French president; rising political uncertainty in Italy; and the Irish referendum on the fiscal pact (which was overwhelmingly affirmative). The consensus among EU officials had been that the ECB’s liquidity policies gave the EU two years’ time to solve the crisis. That judgement turned out to be mistaken as well.

GREECE

Most of the debate in the eurozone crisis has focused on Greece. The second of the two Greek elections in 2012, on June 17th, brought about a coalition of New Democracy, Pasok, and the Democratic Left. The three parties agreed to stick to the existing EU/IMF memorandum for now, while seeking to negotiate some changes. Angela Merkel has made it clear that there will be no more subsidies, which limits the scope of any renegotiations. As Greece ran up a primary deficit for the whole of 2012, any extension of the programme would naturally require more money.

My guess is that the present government will fulfil conditions until Autumn, and that the showdown will start, possibly with the troika report in December. There is clearly a danger that Greece will be in a situation where it will have to leave the eurozone, even with the present government. A preferable

alternative would be a default—but that would require willingness on all sides to renegotiate, and to accept a large degree of official sector participation. That may yet happen, but I would not count on it. My bet is that Greece will not secede, but the danger is clear and present.

SPAIN

The Spanish crisis is of a different nature, but no less severe. It is not a fiscal crisis, but a banking crisis with fiscal implications. And since the Spanish state is fiscally responsible for the Spanish banking system, the two problems are convoluted—which was subsequently reflected by the negative market reaction to the proposed Spanish EFSF/ESM programme. After the ECB gave money to banks through the LTRO with the explicit objective that the banks prop up their governments, the EFSF programme lent money to states, in order to refinance the banks. Some market commentators have likened this situation to two drunks in a bar, propping each other up. The criticism ultimately led to pressure that resulted in the June 28-29 summit agreement to allow direct equity injections from the ESM into banks. While this agreement is subject to severe implementation risk and possible delays, it marks the European Council's concession that a different approach is needed.

Previous to this agreement, Spanish bond yields had risen to over 7%—a level at which Spain could sustainably borrow from financial markets, especially given the severity of the recession. The rise in Spanish differentials was triggered by clumsy policy, starting with the postponement of the 2012 budget until after the elections in Andalusia, the mismanagement of the Bankia crisis and the prime minister's repeated assertion that Spain will not apply for an ESM programme.

The Bankia crisis cast a pall on the viability of the Spanish banking system. A report by two independent consultants produced an estimate for recapitalisation ranging between €51 billion and €62 billion, but I doubt that this estimate adequately accounts for the impact of the recession on the operating profits of the Spanish banking system in the next few years. My own estimate is between €100 billion and €200 billion. That would exceed the size of the agreed programme with the EFSF/ESM. With a simultaneous deterioration in the private and public sectors, the Spanish economy is caught in a balance sheet recession, as Richard Koo described the phenomenon in respect to Japan in the early 1990s, and which may result in a deep and prolonged downturn, which may be hard to escape.

The Spanish deficit projections are still too optimistic. The original target was for a 6.5% deficit in 2011, to be reduced to 4.4% in 2012 and 3% in 2013. A revised schedule was agreed later, according to which Spain would reduce its deficit to 5.4% in 2012, while sticking to its commitment of a 3% target in 2013. The latter target was dropped in June, and postponed until 2014. The news that the central government deficit for 2012 reached its annual cap in May, suggests that Spain is heading for a very large deficit overshoot in 2012, possibly on a similar scale as in 2011. We are clearly in an environment such as the one described by Koo, in which ordinary economic projections fail because they do not take into account the dynamics of a balance sheet recession.

Despite strong de-leveraging in the private sector, the total debt to GDP ratio has hardly decreased. While de-leveraging is clearly underway in the United States, Spain has made hardly any progress. The reason is that banks have been allowed to sit on bad debts for much longer, which has also contributed to a much slower decline in housing prices.

The following is a chart comparing US and Spanish indices. The Spanish series is only available from 2007, but its 20% decline is much less than what occurred in the United States, especially considering that Spain had a much larger bubble.

FIGURE 1. US HOUSE PRICES: REAL CASE-SHILLER INDEX

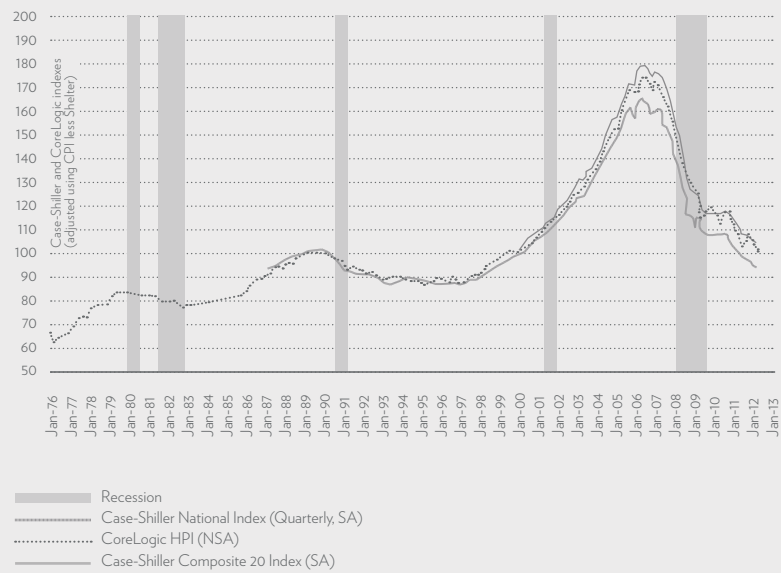
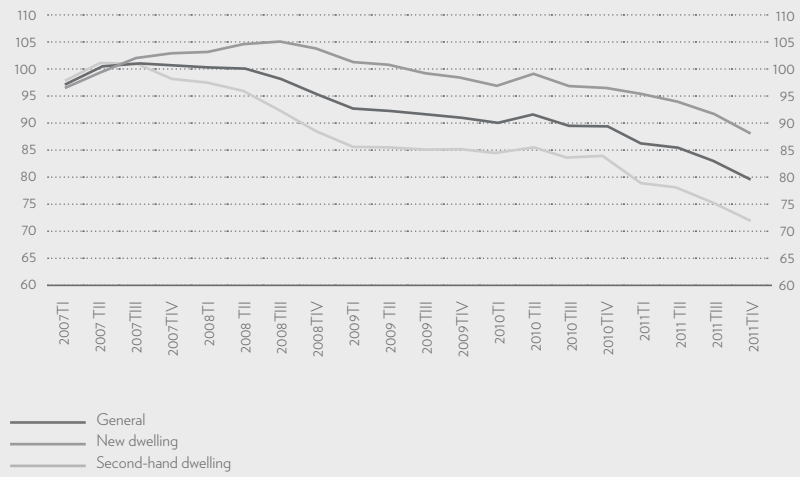


FIGURE 2. SPANISH HOUSE PRICE INDEX



ITALY

The situation in Italy is again very different from that of Greece and Spain. Italy suffers from structural problems and a large debt overhang, but has a relatively healthy current policy stance and lacks Spain's degree of bad asset problems.

The question for Italy can be summarised in this way: How can Italy be solvent and remain in the eurozone with market yields now in the range of 4-6%, given the country's poor growth performance? Italy faces the additional problem of having to subject itself to the new 1/20th rule, first drawn up in the "six-pack" legislation, now reaffirmed in the fiscal pact, according to which countries will need to repay 1/20th of their excess debt (i.e. the portion of debt that accounts for the overshoot from the 60% debt to GDP target). The rule requires Italy to pay back 3% of its debt each year (1/20th of 60) for 20 years. Furthermore, to stabilise the current debt level at 120%, Italy requires a primary surplus of around 4%—the precise figure, of course, depends on assumptions for growth and interest rates. So, with the 1/20th rule, the primary surplus Italy is required to have, for almost a generation, is around 7% (declining slowly as the debt-to-GDP level falls). It is not even clear whether this is technically possible, given the impact of such austerity upon growth, and with it the possibility that Italy might be caught in a debt trap well before it can reach those levels. Economic feasibility aside, such levels are politically unrealistic.

Furthermore, the political honeymoon enjoyed by Mario Monti, the Italian prime minister, ended with his reform programmes, which were attacked on all sides, including academics Francesco Giavazzi and Alberto Alesina, who in an article in *Corriere della Sera* criticised the programme as wrong-headed, not focusing sufficiently on growth. Monti's popularity ratings

have also fallen, and there is disquiet in his coalition, including calls for new elections. Monti won an important vote of confidence in the Italian parliament, resulting from his labour and pension reforms. He also secured what at first sight appeared to be a good outcome at the European Summit in June 28-29, which should have prolonged his popularity for a little while.

But what has changed in Italian politics is the rise of an anti-euro populist party, the Five Star Movement, and a return by Silvio Berlusconi, who has turned the euro into a campaigning issue. His position is now that it would be no sacrifice if Italy were to leave the eurozone. It would be better if Germany left, he said in an interview, or if the ECB provided unlimited support to the Italian bond market. But if neither of these conditions can be met, Italy should consider leaving the eurozone. The political threat of a eurozone departure now hangs over Italy.

SYSTEMIC RISKS

The biggest risk right now is that of a slow-motion bank run is turning into a wider and contagious capital flight. A slow-motion bank run has already started in Greece and Ireland, with strong deposit withdrawals elsewhere. A bank run may even be rational since national deposit insurance depends on the credibility of the sovereign. There is no dangerous bank run yet, but it could happen any time, including in Spain and Italy; it would require an immediate and massive response.

The second biggest risk is an uncontrolled Greek secession. It would, in my view, have catastrophic consequences upon the Greek economy; it would lead to a massive rise in unemployment and inflation, and possibly result in violence and insurrection, or at worst a return to dictatorship.

It would also have severe consequences for the eurozone: it could no longer be regarded as a monetary union, but as a loose, single currency area. This could imply a fundamental expectations shift among investors and citizens. The EU has direct contagion channels well under control, but beware of the *Unknown Unknowns*.

THE SOLUTION

The eurozone crisis has the following components:

- A banking crisis (Spain, Ireland, Portugal, Greece)
- A sovereign debt crisis (Greece, Italy, Portugal, Ireland)
- A competitiveness crisis (the south)
- A governance crisis

A crisis resolution policy will thus need to address each of these points, in the right sequence. Previous “solutions”, such as the LTRO, had no effect; on the contrary, because they strengthened the bond between banks and sovereignty, and have turned out to be a ruinously expansive and indirect way to prop up the government.

To address these various shortcomings, a resolution system requires the following:

- A strong and flexible firewall with a sufficiently dramatic capabilities (either through a further increase in the ESM’s lending ceiling, or through leveraging the ESM through a banking licence)
- A common deposit insurance system
- A common bank resolution system

- A path towards a eurobond that would include a debt redemption bond to cover outstanding debts, and a new eurobond scheme to deal with new debt
- A pooling of fiscal power at the centre
- Change in the ECB mandate

The agreement of the June 28-29 summit was to allow the ESM to inject equity (or some other form of preferred capital) into banks and to facilitate primary and secondary market bond purchases, while simultaneously moving towards a banking union, with proposals in this area deferred to October at the earliest. It was not clear whether these decisions mean a change in the ESM treaty. In any case, I suspect that it will take a long time until the agreed changes can be legally implemented.

The agreement has made no fundamental difference to the unsustainable fiscal situation in Greece and Italy, nor to the financial-fiscal situation of Spain or Ireland. The policy measures agreed upon at the summit constitute a move in the right direction—which I would have greeted enthusiastically a couple of years ago. But I fear they may now be too little too late.

The fundamental problem of the eurozone remains unchanged. The present set of policies and interest rates is not compatible with the eurozone's survival. Things will have to happen that senior politicians like Angela Merkel have ruled out, or the eurozone will fail as member states return to national currencies, not so much out of choice but in despair.

**THE
WORLD
IN
2012**

Three Economic Questions Seen From Another Point of View Alejandro Estruch

The World in 2012 Joan B. Culla i Clarà

Spain in 2012 Raphael Minder



Alejandro Estruch **Three Economic Questions Seen From Another Point of View** In this intentionally brief text, my aim is to address three problems of the Spanish and European economy from a viewpoint which, without becoming heterodox, approaches them with a slightly different perspective from what is conventional and, at least, from what is customary. I will begin by discussing the perception of the competition policy that has developed in Europe over the last decades, with special referen-

ce to the case of Spain. Below I will suggest the way out of the crisis (I say this in the indicative mode, because sooner or later it will happen). And I will end with a reference to the evolution of European exchange rates concerning the three currencies that presently seem to be decisive for European foreign trade: the American dollar, the yen and the yuan.

We as economists like to use graphs to illustrate our explanations. Graphs are simplified representations of reality which usually help to understand it and almost always to explain it. We also like a sprinkling of expressions in Latin and English in our discussion because, as our beloved and deceased Ernest Lluch said, they give what we do more of a scientific appearance, and on fewer occasions, we use mathematical expressions because, in the words of the likewise beloved and missed Fabián Estapé: “mathematics are like chivalry: they are not there to win battles but they seem very elegant.” In this article, I will use some graphs, barely any Latin and practically no mathematics.

I will not do this without first thanking the *Círculo de Economía* and particularly Antón Costas for inviting me to collaborate on this publication, as well as Joan Ramon Borrell for having given me the main ideas that I will now expound upon.

I. THE EFFECTS OF THE COMPETITION POLICY: THE OPINION OF THE EXECUTIVES

Competition is no spontaneous phenomenon in the markets. Naturally, anyone who produces or sells something desires to be the only one who does it. This is not for any strange perversity, but because the goal of any company is to maximize its benefits, and when one monopolizes normal benefits they add those derived from selling small quantities at high prices, or as the Welfare Economy indicates, from appropriating a part of the

consumer's excess. At least in this aspect, Spain is no different from other countries. All of us are very liberal, very supportive of free competition... until we have a position of power in the market in which we work.

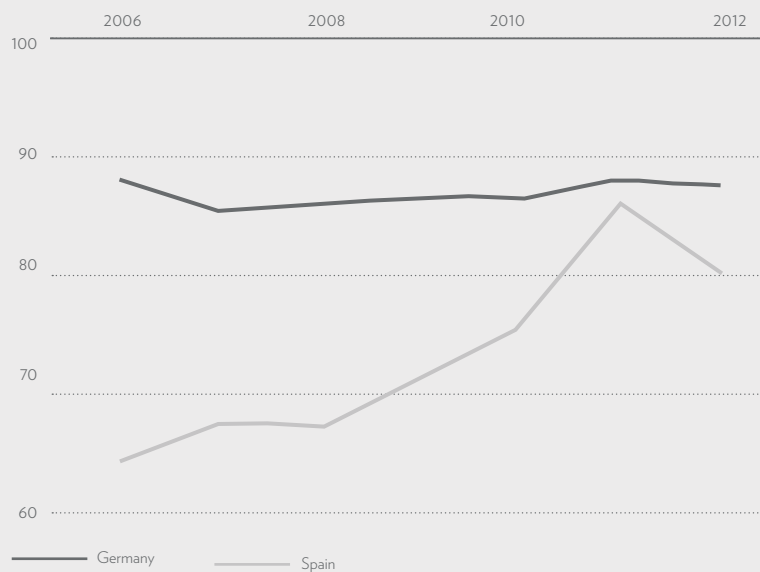
That is why in some countries since more than a century ago (in this we are a little bit behind—our Defense of Competition Tribunal, today the National Commission of Competition, was created in 1963)—there have been laws seeking to protect the interests of the consumers and to preserve fair play in the market through the control and repression of competition's restrictive practices. There are several ways to analyse these laws. One can study the regulation in abstract and deduce from its content what effects can be expected from it. It is also useful to compare the competition levels present in the markets before and after the application of a specific normative. Yet, would it not be interesting to know how professionals who manage companies perceive the effectiveness of laws for the defense and promotion of competition?

A recent study by Borrell, Jiménez and García (2013) analyzes the data from the Executive Opinion Survey that was done by the Lausanne business school Institute for Management Development (IMD). This was a wide panel survey with data gathered from fifty-nine countries over fourteen years, addressed to the senior executives that represent the business community in each country, in proportion to the weight of different sectors of the GDP. These executives, always from medium or large sized companies with an international dimension, are asked to evaluate the present and foreseeable conditions of competition in the country where they lived and worked over the previous year.

With the data obtained from this survey, Borrell prepared a graph which shows the effectiveness of the competition policy in Spain and Germany in comparison to the country that ob-

tained the best evaluation (100 on the index) every year, according to the results gathered in the survey from 2006 to 2012. The country of reference was Finland in 2006, 2010 and 2011; Austria in 2007 and Denmark in 2008, 2009 and 2012.

FIGURE 1.1. RELATIVE EFFECTIVENESS OF THE COMPETITION POLICY



Source: Borrell (2012).

Germany is a country with a long tradition in the anti-trust battle, and so it is no surprise that the perception of its competition policy is stable and high, close to the 90% from the highest considered country annually observed. What is going on with Spain? Well, compared to the best country from 2006 to 2011, the improvement of the assessment has been excellent—from something less than 65 on the index to over 85, which means

an increase close to 40%—but in 2012 the tendency comes to a halt and we fall back to 80. Why is that?

The higher judgment of our competition policy is due to the approval of a new law, derived from a wide process of public consultation, which included the participation of experts in competition policy and in the institutional strategies and structures that have shown better results, once it was applied in Spain and in other developed countries. The result was the creation of a powerful institution with resources—aside from the game of the political parties and the influences of the sectors affected by its activity—and technically well-prepared advisers and experts of great professionalism who have worked without any interference.

The improvement of the institutional design has entailed a considerable rise in reports, records and sanctions, with a notable contribution by the clemency program, which has lived up to the potential that was predicted of it in connection to international experience. In spite of some barely comprehensible legal actions taken by some of those affected, the national authorities of competition have been unshakeable in the exercise of its functions. With this, they have also influenced the area of business behaviours, and have generated a climate of trust and cooperation with its autonomous counterparts, which explains an important part of the more favourable perception reflected in the survey we are looking at.

What changed exactly in 2012? Remember that we are not talking about facts but about opinion. Peculiarly, the current government's rise to power is not seen as a guarantee of continuity in the policies of the promotion and defence of competition. Perhaps we are facing one of the paradoxes that we in Spain seem to like so much: the governments with a social democratic background (theoretically more sceptical about the

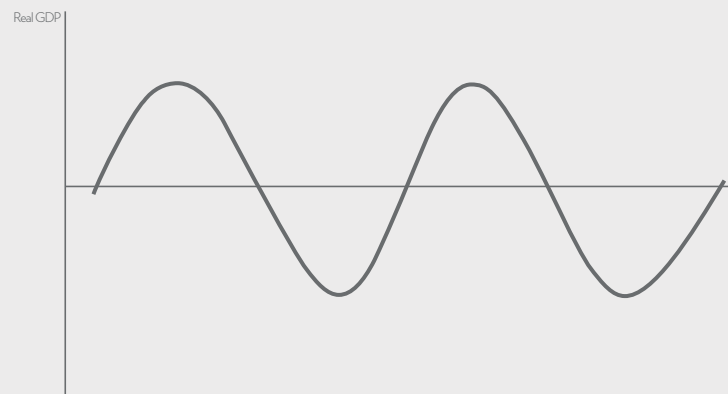
market's capacity) are the ones that improve the anti-trust legislation, while the ones that call themselves liberal are not easily trusted when it comes to applying it with the firmness required.

This is probably because business leaders know perfectly well the difference between those who support free competition and those who defend the fair play of the market forces, whatever may be the result of this game.

II. MORE INFLATION TO QUICKLY GET OUT OF THIS CRISIS?

To represent the economic cycle, we tend to use a graph such as the one in Figure 2.1, which shows the evolution of the real GDP. Placing time on the horizontal axis and the real economic growth rate on the vertical axis, the sine curve shows the economic cycle and the interpretation is immediate: when the line goes up, we are improving; when it reaches the highest point sooner or later things start to get twisted; when it goes down, we are getting worse; and when we are at the lowest point, we expect things to improve sooner or later. Seen in this way, if

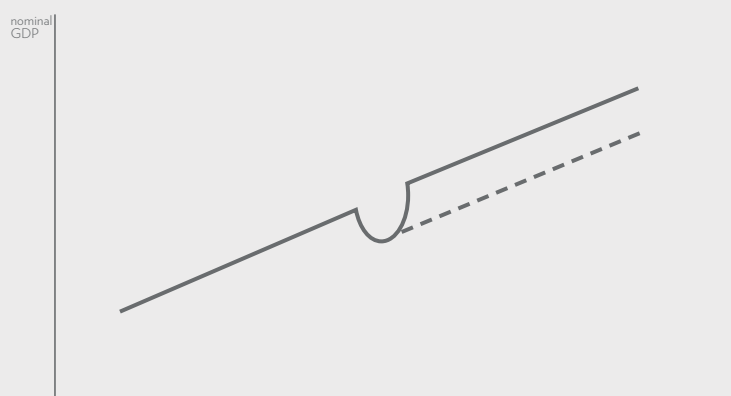
FIGURE 2.1. PROFILE OF GROWTH IN THE ECONOMIC CYCLE



we are in a negative situation there are two key moments: that in which the lowest point of the cycle is reached and the other somewhat later when the economic growth rate loses the painful negative sign that precedes it and we can affirm that the economy is growing. And that is it.

Is that it though? There is nothing further from the truth. With the cycle seen this way, it follows that a graph representing the GDP value could have an aspect similar to that shown in the continuous line of Figure 2.2. The GDP keeps growing more or less in line with its tendency, the crisis comes and in the graph a sort of pit appears, so that when we exit the crisis we return to where we started as if nothing happened in the end. It would be nice if it were like that, but reality is less pleasant. In his intervention in the tenth edition of the “Ernest Lluch” seminar last autumn at the Faculty of Economics and Business at the University of Barcelona, the professor Javier Andrés (2012), one of the most reputable Spanish macroeconomists, introduced a different and much more realistic approach to this matter, which he later commented on in one of his regular entries in the

FIGURE 2.2. THE GDP PATH IN THE IMAGINATION AND IN REALITY



blog “Nada es gratis” (Nothing is free) on the FEDEA (Fundación de Estudios de Economía Aplicada) website. Why this approach is so realistic can be explained through the three following questions.

Firstly, the end of the crisis does not simply bring us back to the tendency of economic growth that was there before. What happens in reality is that, during any crisis, there is the destruction of an important part of the economy’s potential, of its capacity to generate activity, employment and wealth. And so when we grow again we do not do it from the levels we had immediately before the crisis started, but from a starting point that is more or less below, depending on the depression’s depth—which is certainly deep right now—which is why, *ceteris paribus*, a GDP trajectory (as the one displayed in the dotted line also in Figure 2.2) is much more realistic.

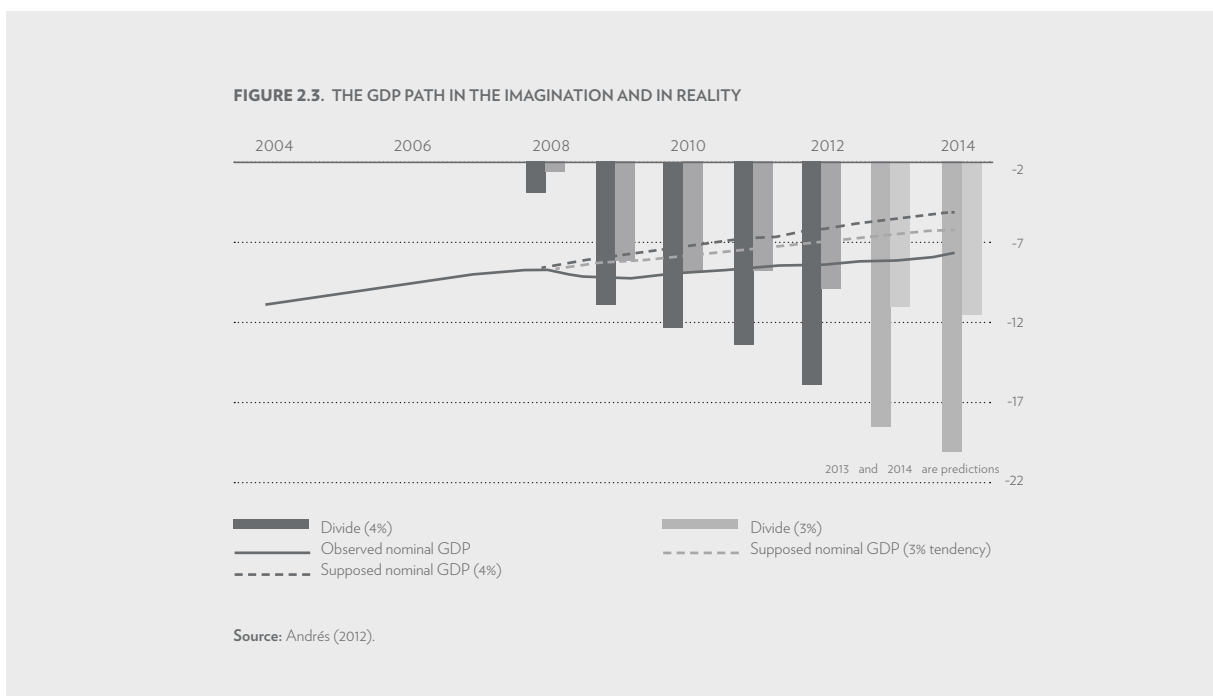
Secondly, the really interesting question is not when we will have positive growth rates, but when we will recover the standards of living that we would have reached if the crisis had not hit and extended itself into the terms that we are living. This is the same as asking what we must do so that the dotted line that we are now living rejoins the continuous line in which we were living, and how long it will take to do this.

Finally, the real GDP is certainly of a significant magnitude. But we as normal people do not live in this world, but in one that is much more mundane: we do not receive income nor do we do our own expenses (nor do we save, in that case) in “real” money, but in “nominal” money, meaning at ordinary prices. In other words, we do not live in a world of real GDP but in a world of nominal GDP, which has a growth that is the sum of real growth plus prices.

Javier Andrés’ proposal is quite suggestive because it revives the debate over the possible convenience of temporarily ac-

cepting higher inflation rates in order to allow a smoother recovery for the economy. Quoting favourable and unfavourable opinions, Andrés reminds us that the effects of a monetary expansion are not clear when interest rates are very close to zero, and that, in any case, a strategy for growth which includes higher inflation rates should always be considered together with its temporal character, taking the nominal GDP growth as the variable of reference and keeping the established objective of a 2% inflation unaltered, with the ultimate goal of preserving the credibility of the European Central Bank.

In Figure 2.3 the darkest lines represent the evolution of the nominal GDP. The central dotted line corresponds to the trajectory that it would have had if the 3% annual growth rate (2% inflation plus 1% real growth) had been steady, and the upper dotted line shows the case that if growth had been 4% (2% in-



flation plus 2% real growth). The dark and clear bars respectively represent for each year the divide between the nominal GDP observed and the one that results from the two estimated ones outlined, measured on the right axis.

In the more moderate estimated nominal GDP, the divide will exceed 10% for 2012, reaching 20% for a more optimistic situation. With these figures, to reach the potential GDP level in a period of six years, nominal growth should be, respectively, at 4.5% and annually, at 7%. And if we decide to take things slower—let us say ten years—we would be talking about a 4% growth (annually 5.75%), always of the nominal GDP. The problem is that, given the foreseeable weakness of the demand, to achieve these kinds of nominal growth rates with a 2% annual inflation becomes pretty much mission impossible. Various studies point to the convenience of accepting a higher average inflation, around 4% annually over five years.

This would mean an almost Copernican turn for monetary policies which the European Central Bank has been applying until now. But before the evidence of the duration of the recession, together with the more than reasonable prediction that the recovery will be very weak, it is quite likely that temporarily accepting higher inflation rates will be the only way to prevent the current high unemployment rate from dragging on or possibly freezing in time.

III. CURRENCY, COMPETITIVENESS AND GROWTH?

Every now and then, the media presents us with the threat of a currency war or, alternatively, the seductive insinuation that a euro devaluation process could be one of the keys to get the battered European economy out of the horrible situation it is immersed in. Certainly many critics still cannot figure out the

reason why the EU's monetary authorities are seemingly the only ones not worried that the currency they sponsor (yes, that same euro that not long ago was questioned for its capacity even to survive) is appreciated facing the American dollar, the yen and the yuan.

Nevertheless, we should ask ourselves if it makes sense at this point, with the economic and historical knowledge available, to lay things out in these terms. Economic theory explains that if a country needs to rebalance its foreign accounts, a simple method would be to allow the devaluation of its own currency, which would mean an almost immediate reduction in exports and a rise in imports. This type of policy has been applied over decades with reasonable success, but always limited to one essential condition: that the crisis in hand has to be as one that is in-house. A devaluation of this sort simply means that by being less efficient than our clients and competitors we have been gradually accumulating a loss of competitiveness that can only be compensated through the reduction, which implies acknowledging that the so-called assets in our own currency have lost part of their value.

On the contrary, when crises are of wide reach, competitive devaluation policies have always had harmful effects. They start off by consisting of what Joan Robinson dubbed "beggar-thy-neighbour" but they end up impoverishing us all. In the 1930s many countries abandoned the gold standard in order to be able to artificially devalue their currency, with the consequences known to all. Today, people speak openly about the currency war because, with monetary and fiscal instruments for stimulating the economy either exhausted or rejected on principle, the only available option is devaluation. But this strategy, which is nothing other than covered protectionism, is the first step towards more explicit measures of slowing down inter-

national commerce. This would mean a generalised deterioration of standards of living in the short term, but these measures would probably not improve growth in any way: if we all entered a devaluation race, the effects on the relation between imports and exports of the different blocks would cancel each other out, but in the process they would have lost a good part of the benefits from exchange.

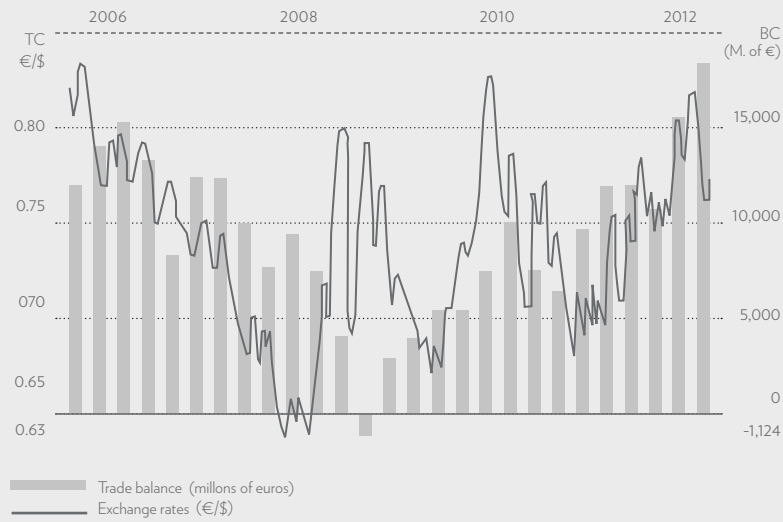
In this context it might make sense to focus our attention on the commercial relations that the European Union has with the United States, Japan and China. To do this, we have created three graphs in which we superimpose a stylised representation of the euro exchange rates with the dollar, the yen and the yuan, and the EU commercial trades with the respective countries. The exchange rates—left axis—are expressed in terms of euros necessary to buy the other currency, which is why an ascending trajectory of the curve indicates that the euro is devaluating, and that we should be winning competitiveness-wise, and a descending trajectory indicates the opposite. The commercial trade (right axis) is measured in millions of euros. The period of reference covers from 2006 until the latest data available from the EU's Balance of Payments in the third trimester of 2012.

If commerce between two territories only depended on the exchange rate, then the remainder of trade balance would have a profile similar to the value of the euro: a higher exchange rate means a better balance and vice-versa. Let's see what the data tell us. In general we can see a certain correlation between the two tendencies. But in the three cases there are notable and striking discrepancies. In Figure 3.1, in relation to the United States, the gradual appreciation of the euro concurs with the reduction of the commercial surplus. But the fall of the euro from the end of 2008 to the middle of 2009 is not reflected in the Euro-

pean balance, which is actually going into deficit. Subsequent devaluations of the euro, such as those from the central trimes-ters of 2010, have only a typical impact, which is quite far from what should be expected. The same can be said about com-mercial relations with Japan (Figure 3.2). The tendency is what is expected, but it is easy to identify stages in which the trade balance is not what would theoretically determine the euro/yen exchange rate. When the euro is the strongest, commercial defi-cit is not always the highest, and neither do moments of devalu-ation coincide with the stages of the evolution more favourable to such deficit. But in the case of China, as illustrated in Figu-re 3.3, the trade balance's lack of sensitivity to the evolution of the exchange rate is even more evident. Here it is no longer about significant divergences but the data reflected in the graph seems to show that the tendencies of European commerce with China depend much less on the exchange rate than on other factors.

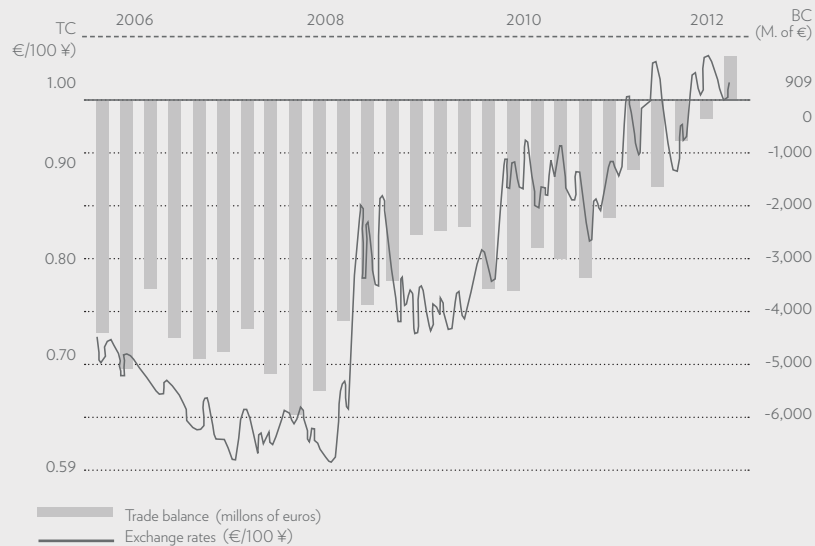
So, even though a winding down of the European mone-tary policy could be desirable for many reasons in order to help with the recovery of the economy—and being certain that the strategies of keeping currencies weak as adopted by the United States, Japan and China (and other countries) can complicate the export route to growth—the solution to the EU's problems does not seem to be lie in trying to gain competitiveness ex-clusively by forcing a devaluation of the euro: most likely the effects would be minimal and short-lived, and the consequences of a currency war, though difficult to foresee, would be most definitely negative. Yes, we need to recover lost ground in the competitiveness of the European economy. But for that, most likely, raising the euro exchange rate is not an option in which to place too much hope.

FIGURE 3.1. EURO-DOLLAR EXCHANGE RATE AND UNITED STATES-EU TRADE BALANCE



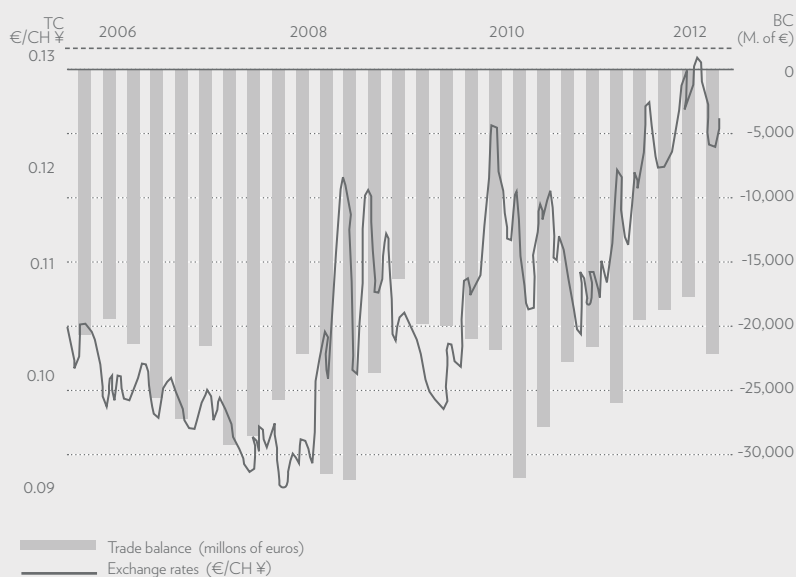
Source: Eurostat for the trade balance and www.fxtop.com for the exchange rates.

FIGURE 3.2. EURO-YEN EXCHANGE RATE AND EU-JAPAN TRADE BALANCE



Source: Eurostat for the trade balance and www.fxtop.com for the exchange rates.

FIGURE 3.3. EURO-YUAN EXCHANGE RATE AND EU-CHINA TRADE BALANCE



Source: Eurostat for the trade balance and www.fxtop.com for the exchange rates.

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Joan B. Culla i Clarà **The World in 2012** Two decades ago Francis Fukuyama, the North American political scientist, announced the “end of history”. Starting in Pyongyang, with the enthronement of Kim Jong-un, the third monarch of the North Korean Communist dynasty established in 1948 by his grandfather Kim Il-sung, the year 2012 has confirmed yet again how wrong he was. “History”, as Fukuyama understood it, was both the struggle between ideologies and the pursuit by human beings of political, social, or

religious utopias. The striking expansion of political Islamism, the health enjoyed by diverse forms of populism, from Latin America to Europe, the vigor recovered—or perhaps never lost—by nationalism, whether imperial (in Russia, China, or Turkey...) or sub-state (in Scotland, Catalonia, Flanders...), and even the intense ideological polarization that marked the electoral race for the presidency in the United States, paint a world under the strain of fairly classic drives and antagonisms, at a great distance from the unruffled liberal-democratic horizon, based on economicism and scientism, that Fukuyama had envisaged in 1992.

THE ARAB-MUSLIM WORLD, FROM THE SHOWERS OF SPRING TO THE DOG DAYS OF SUMMER

Seen from the West one year after the initial outburst, the so-called “Arab Spring” offer a problematic balance, perhaps precisely because of the ingenuous optimism with which this very same West watched them blossom. If we take the case of Egypt—which continues to be the epicenter and big brother of the Arab countries—the initially sympathetic and modern anti-Mubarak movement of westernized youth who used Twitter and Facebook to summon one another to Tahrir Square in Cairo, has been quickly eclipsed by the social reality of a country in which—according to recent polls—80% of the population considers the lapidation of adulterous women to be legitimate.

Since January 2012 the political translation of this social reality was sketched out by the composition of the constituent parliament elected during the previous months, the first parliament Egyptians had been able to choose democratically in their entire history: the political arm of the Muslim Brotherhood, the Freedom and Justice Party, had 225 seats with 47.2% of the vote; the Al-Nur party (‘the Light’), which leans toward Salafism, 125 members, with 24.3% of the vote; and, in contrast, the Continu-

ous Revolution, a leftist coalition driven by the young people of Tahrir Square, tallied only 1.4% of the votes, which translated as 8 seats. With the support of 73.5% of the electorate, the more moderate or more radical Islamist options totaled 359 of the 508 seats in the assembly.

The exceedingly powerful eruption of Islamism unbalanced the marriage of convenience that had existed since the overthrow of Mubarak between the Muslim Brotherhood and the still-governing Military Junta, led by Marshall Mohamed Hussein Tantawi. It turned the May-June presidential elections into a test of strength between two forces that have been jockeying for power in the country of the Nile for seven or eight years now. A match with a clear winner: On June 30, Mohamed Morsi, the candidate of the Muslim Brotherhood, was sworn in as the first President of the Arabic Republic of Egypt with the support of 51.7% of the votes cast in a second round.

If Washington quickly expressed its willingness to cooperate with the new head of state, and to exercise its influence through its economic support—announcing in September financial aid in the amount of one billion dollars, in addition to the annual 1.3 billion dollars for the Armed Forces—the rapid dismissal/retirement of the long-entrenched Marshall Tantawi as Minister of Defense introduced a question mark regarding the relationship between the new civil power and the still-powerful army. The respect of the Morsi administration for the separation of powers and for the political, social and religious pluralism of the country, the scope of its project for a “new civilization” rooted in Islam (the so-called “Project Rebirth”), the direction of its foreign policy and, in particular, its attitude vis-à-vis Israel, are some of the other unknowns that flank the Egyptian transition.

The equivalence between democratizing processes and the ascent of Islamist forces was also present in other countries that participated in the “Arab Spring.” In its birthplace, the appar-

ently secularised Tunisia, the October 2011 elections for a constituent assembly gave a victory (37% of the votes and 89 seats out of 217) to the Ennahda Islamist movement, which formed a coalition government with the two lay parties. Nevertheless, this and other calming gestures—particularly regarding respect for women’s rights—have been no check on an intense struggle regarding whether or not to include Sharia in the new constitution; while throughout 2012 radical Salafist groups have sought the violent imposition of Koranic law in matters of morals and customs, and have partially burned down (in September) the American Embassy in protest over supposed insults to Mohammed.

In neighbouring Libya, post-Gaddafism continues to be dominated by a chaotic blend of militias, tribal loyalties and a drive toward decentralisation, particularly in Cyrenaica, if indeed in July the unprecedented elections of the National Assembly gave a victory to the moderate and pro-Western Mahmoud Jibril. Two months later, though, the assault on the North American consulate in Benghazi, and the death of Obama’s ambassador to the country, testified to both the extreme fragility of the Libyan state and to the audacity of local armed groups in the orbit of Al-Qaeda.

Something similar can be said of Yemen. The risks of territorial implosion, the virulent armed threat of Al-Qaeda in the Arabic Peninsula, and the pressure of Washington, Riyadh, and the Gulf States, spurred on the negotiated resignation of dictator Ali Abdullah Saleh after 33 years in power, and his exit from the country in late January. In a plebiscite not long after, the ballot box ratified General Abd Rabbuh Mansur Hadi, the erstwhile Vice-President, as the interim president for two years. Such a formula could hardly satisfy the democratic expectations of the students of Sanaa, and even less so resolve the structural weaknesses of an almost failed State.

Algeria has been the only significant exception to the Islamist electoral successes. Having weathered the popular protests of 2011 without great difficulty, the regime led by President Bouteflika squarely won the May 2012 legislative elections, with almost two thirds of the seats, between the historic National Liberation Front and a second pro-government party. Still, there was a 57% abstention, and plausible accusations of massive fraud on the part of the religious opposition.

Observation of the greater part of the Arab world would lead one to affirm that monarchies have been more successful in resisting the revolutionary hurricane than republican regimes, most likely because they possess sources of legitimacy (religious, dynastic...) that neither Mubarak, Ben Ali, or Gaddafi, etc., could claim. This is the case, above all, of Morocco, where the arrival of the moderate Islamist Party for Justice and Development, after having won the November 2011 elections with a simple majority, has been minimalized by the maneuvers of the royal palace, and Prime Minister Abdelilah Benkirane has not been able to limit the power of King Mohamed VI, no matter what the new Constitution says. In the kingdom of Bahrain, the Sunni monarchy, with the military support of Saudi Arabia, smothers the protests of the Shiite majority, making nothing but cosmetic concessions. The Qatar emirate, for its part, continues to believe that the best way to preserve autocracy at home is to spur on revolutions abroad, whether by means of the Al-Jazeera television station, or directly, by providing arms and diplomatic support to the Libyan and Syrian rebels.

In any case, the bloodiest and most poisonous flower of the “Arab Spring” is located in Syria. The pro-democratic demonstrations that began in March 2011, brutally repressed by the dictatorship of Bashar El-Assad, have gradually morphed into armed revolt, and then into civil war, in the face of the impotence of the Arab League and the paralysis of the UN, where

Russia and China—each of them for internal reasons—defended the principle of non-interference. The conflict—which in autumn 2012, according to the opposition, had already caused more than 40,000 deaths and all kinds of atrocities—has become sectarian (the Sunni majority with the rebellions; the Allawite, Druse and Christian minorities with the regime...) and the Islamist elements, both local and foreign, have taken on a growing protagonism in the insurgent ranks, which do not have a unified political direction. This, along with the immense complications of a hypothetical western military intervention, points to a strategic draw that could prolong the suffering and destruction over many months, and multiply the risks of a territorial extension of the crisis beyond Syrian borders.

In effect, while Israel has observed the events with discretion, debating internal problems and enjoying—at least until the outbreak of violence in Gaza in November—the novelty of not finding itself at the center of media attention in the Near East, in extremely fragile Lebanon the antagonism between the Shiites of Hezbollah allied with Al-Assad, and the Sunnis aligned with the Syrian rebels, has given rise to several outbursts of intercommunity violence and dozens of deaths, the most significant of which was the assassination in October of General Wissam al-Hassan, head of police intelligence and sworn enemy of the Damascus regime. Even so, the neighbouring state that has taken the greatest role in the Syrian civil war, almost verging on military intervention, has been Recep Tayyip Erdogan's Turkey, in keeping with the neo-Ottoman orientation and ambition for regional primacy of his foreign policy.

It is worth noting that, if at the outset of the "Arab Spring", Erdogan's Turkey had been suggested as a possible model of compatibility between Islam and democracy, the internal dynamic of Turkish politics is calling this hypothesis more and more into question. Under the pretext of punishing real or imagined coup plotters,

the government of the AKP (Party of Justice and Development) has imprisoned hundreds of Kemalist military personnel, pursued the lay opposition, diluted the separation of powers, and reduced freedom, while attempting to re-Islamicise education, public morality and social life, at the same time that it distances itself from a European Union in crisis, drawing ever closer to the East.

The other regional power, Iran, has seen a rapid weakening of the power of the populist President Ahmadinejad in favour of the religious authority of the Supreme Guide, the cleric Ali Khamenei; but this has been no impediment to the regime's continuing to flaunt its ever more far-ranging missiles, nor to its continuing the undeterred development of its nuclear program. Even so, the sanctions of Washington and the European Union (a total embargo on the importation of Iranian oil since January 2012) have unleashed inflation and the unease of the middle classes, putting the theocratic regime on the defensive. In this context Teheran's efforts to extend its influence over Bolivarian Latin America (Nicaragua, Cuba, Venezuela, Ecuador...) on the basis of their common anti-imperialist rhetoric take on an even greater importance. And, above all, it becomes vital to the survival of the dictatorship of Al-Assad in Syria, a crucial strategic ally to whom the Iranian government offers unlimited support in weapons, money and combat personnel.

REINFORCEMENT OF POPULISM IN LATIN AMERICA

Throughout 2012, the countries of this subcontinent have experienced a variety of dynamics that can be grouped into two broad trends. The first tendency began with the early 2012 inauguration of Daniel Ortega for a third presidential term in Nicaragua that relied on judicial and electoral fraud, and culminated in the reelection of Hugo Chávez in Venezuela with the support of 55% of the electorate. Beyond all doubt, this is a question of the Bo-

livarian regimes characterised by arbitrary economics (nationalisations, expropriations...), socialising or indigenist discourse and verbal confrontation with the United States; and also by lack of respect for freedom of expression, despite Rafael Correa's offer of diplomatic asylum in Ecuador to Julian Assange, the creator of Wikileaks... But, with all its singularities, membership in the group can also be extended to the Argentine Peronism of Cristina Fernández de Kirchner, who in the month of April proceeded to the truculent expropriation of YPF (Treasury Petroleum Fields), a branch of the Spanish company, Repsol, and has continued agitating over the territorial claim to the Falkland Islands, while restricting liberties and preparing for a constitutional reform that will allow her to have a third presidential term.

With all their historic, social and cultural differences, the other broad trend—that of economic liberalism and parliamentary democracy—spans from the tiny Panamá of Ricardo Martinelli to the gigantic and emergent Brazil of President Dilma Roussef, who has gone for a more pragmatic and less ideological bent to the policies of her predecessor and mentor, Lula da Silva. Ollanta Humala, President of Peru since mid 2011, has also aligned himself with this tendency. Despite having come into power with a profile similar to that of Hugo Chavez, he soon disavowed experimentation in order to champion the defence of the rule of law and of a nationalism compatible with openness to foreign investment. In Mexico, with the victory of Enrique Peña Nieto in the name of the PRI (Institutional Revolutionary Party), peaceful transfer of power does not appear to signify the return to power of the dinosaurs of what for seven decades was a State-party, but rather the triumph of an avowed Catholic and conservative, ready to govern from the center and obligated to do so by broad parliamentary consensus.

Finally, the political evolution of Colombia deserves special attention, as there President Juan Manuel Santos, the former Minister of Defence, and the political heir of his predecessor, Ál-

varo Uribe, has made a break with Uribismo and with the thesis of a purely military solution to the oldest guerrilla conflict in America. In the autumn of 2012, Santos announced the start of negotiations with the FARC (Revolutionary Armed Forces of Colombia); a process which, starting in Norway in mid October, would foreseeably be protracted over many months in Havana, as the long-suffering Colombian society followed their progress with a mixture of hope and skepticism.

SUB-SAHARAN AFRICA, OR THE DARK SIDE OF THE MOON

It is by no means a novelty, but in 2012 a large portion of the African continent has continued not to merit even the most minimal western attention, whether diplomatic or from the media, as if Africa were an enormous zone without network coverage on our globalised, hyper-communicative planet. The exceptions are those failed states that, for that very reason, become the focus of threats to western interests: the pirates and the Islamists of the Al Shabaab militia in Somalia—fought at sea by European Union warships, and on the land by troops from the African Union; or indeed the radical Islamist groups (among them, Al Qaeda in the Islamic Maghreb), which, in March, in an alliance with Tuareg independentists, took over the immense desert territory in the north of Mali known as Azawad. The risk that this zone, aside from fostering the already chronic seizures of western cooperants or tourists, might be transformed into an Afghanistan or a Somalia at the gates of Europe, has mobilised the governments of western Africa, but above all of Paris and Madrid, to organize an international military operation that will reestablish the authority of the Malian State over the majority of its territory.

For the rest, and amidst a European economic crisis that has wreaked havoc on the politics of cooperation for development and against illegal immigration, the interest of the Old Continent in

black Africa is limited to those countries engaged in strong growth, and offering labor opportunities to the new EU emigration, as Angola does for the Portuguese. As China multiplies its investments and purchases of raw materials while not showing the slightest concern for democracy or human rights, the governments and the great majority of western public opinion are either unaware of or prefer to ignore the interminable and devastating dictatorship of Mugabe in Zimbabwe, or the oil satrap of Teodoro Obiang in Equatorial Guinea, or the anti-Christian terror that the Islamist Boko Haram group rules over in the north of Nigeria, or the cyclical armed conflicts in Sudanese Darfur and between Sudan and South Sudan. Not even the inescapable wars and guerrilla conflicts in the East of the Democratic Republic of Congo, with the implication of Rwanda and Uganda and a toll of more than three million dead over two decades, have managed to awaken the sustained interest of the Europeans.

Though it is true that in recent decades millions of Africans have seen noticeable improvements in their income levels, the poverty and inequality continues to be colossal, even in the richest and most developed country of the continent. In South Africa, where the regime of the African National Congress has submerged the noble legacy of Nelson Mandela in a sea of corruption, nepotism and incompetence, the unemployment level is 40%, some nine million people live on less than a euro a day, and the killing of striking miners that took place in August, make plain that police practices have not changed a great deal since the darkest days of apartheid.

CHINA: CAPITALISM UNDER A RED FLAG

On one occasion, when Zhou Enlai, the Prime Minister of Popular China and right hand of Mao, was asked what he thought of the French Revolution, which had occurred a century and a half

earlier. He replied: “It’s too soon to tell.” In the second decade of the twenty-first century, having left behind all pretense to revolution, Zhou Enlai’s successors in the Beijing power structure seem to have adopted the philosophy of another French regime, namely is, the monarchy of Louis Philippe I, which François Guizot, the president of his government, summed up in a single expression: “*Enrichissez-vous!*” (“Get rich!”).

Indeed, the incessant growth of the economy (on the order of 10% annually over the last three decades) and the subsequent improvement in the standard of living of the population (1.35 billion inhabitants) are the fundamental conditions of the tacit pact that allows the Communist Party to maintain a monopoly on power, and turn China into the world’s second economy. Still, throughout 2012, and in the early stages of the eighteenth congress of the Chinese Communist Party, this formula, heretofore so successful, has been showing noticeable signs of wear.

To find these signs, it is not necessary to seek out the immolations of Tibetan activists—as dramatic as they are—or the growing protests of victims of abusive expropriation of lands or of environmental disasters, nor even the condemnations and calls for freedom of expression on the part of dissident intellectuals and academics. Having achieved the de facto substitution of nationalism for Marxism-Leninism-Maoism, the Beijing regime knows how to exploit patriotic sentiment as a factor of political and social cohesion—this is evidenced by the September outburst of anti-Japanese sentiment over a handful of unpopulated islands. It also fans the pride of the Chinese in once again becoming a great power with gestures like the launching of the *Liaoning*, the first aircraft carrier of the Popular Liberation Army. All of this, in the framework of a rearmament program that has multiplied the military budget by 5.5 in a dozen years.

No, the real problems have arisen at the very core of the system, or as a consequence of its internal logic. On the one hand,

the liquidation of Mao's ideological legacy awakens tensions and resistance, which have risen to the surface in the case of Bo Xilai: this provincial mayor and promising leader, in favour of a form of return to Maoism, was ousted, expelled from the party and tried under accusations of corruption and abuse of power, which the leftist—or anti-reform—sectors have seen as a political purge.

In any case, the absence of democratic controls and communications transparency favours corruption all the way to the top: last autumn, *The New York Times* reported that, thanks to his influence, Prime Minister Wen Jiabao's family had amassed a fortune of 2.7 billion dollars. Without going so far, the increase in social inequality, or the prohibitive price of housing in some urban areas, feed a potentially dangerous unrest.

No wonder, then, that in the opening speech of the eighteenth congress of the CCP in November, the outgoing Secretary General, Hu Jintao, warned of a corruption that, if not remedied, "could be fatal for the party and provoke the collapse of the State." Still, this quinquennial assembly mainly served to formalise the next well-oiled changing of the generational guard: the *red princes*, sons of the founders of the regime, reached the pinnacle of power, led by a new 59 year-old secretary general Xi Jinping, who will become president of the republic in March 2013, with Li Keqiang as the most likely prime minister.

The great challenge of the new leadership council will be to change the model of economic growth—focusing less on exports and more on domestic consumption and private demand—while the international financial crisis plays out; and above all to preserve the authoritarian system, the Party-State and its opaque and endogamic power, amid the advent of a middle class that is affluent, dynamic, and logically favorable to reform, to accelerated social change in an enormous country that already totals more than 500 million Internet users.

RUSSIA: NEO-TZARISM WITH HYDROCARBONS

The March 2012 return of Vladimir Putin to the presidency of the Russian Federation thanks to a new permutation of their roles with Dmitri Medvedev, his docile alter ego, has definitively confirmed the authoritarian drift of this Euro-Asian power. The strong man of the Kremlin since the year 2000, Putin has been custom-fitting the regime, a system notable for the abusive use of the levers of power to the detriment of democratic freedom, the adulteration of the multi-party system by means of parties created and favored by the State apparatus (United Russia, A Just Russia...), a nationalism inclined to exhibit military muscle and imperial manners, a close alliance with the Orthodox Church and the implacable repression of active opposition leaders—a repression whose most glaring example has been the members of the rock group *Pussy Riot*, but which, in extreme cases, can take the adversary of the regime all the way to Siberia, as occurred in the case of the disgraced former oligarch, Mikhail Khodorovski.

In a word, Vladimir Putin has constructed a system that bears a great resemblance—and not only because of the retrieval of the old uniforms and timeworn monarchical liturgies—to late nineteenth century czarism. With the distinction that, if indeed the Russia of Alexander III was a giant in economic tatters, Putin's Russia has had the benefit of its enormous potential as an oil and gas exporter, due to the increase in the demand for energy in Europe and Asia, and a long cycle of high prices for hydrocarbons in the world market. The growth of a prosperous urban middle class clamoring for law and order, and the centuries-long familiarity in the depths of the Russian psyche with tough, decisive, and supposedly protective political strongmen, explain why Putin enjoys the broadest internal social support.

Moreover, the will of the Russian leader to recover the international pull of the disappeared Soviet Union and, to the greatest

possible extent, its imperial hinterland, has led Moscow to favour like-minded, authoritarian but friendly, regimes within the old Soviet sphere. The most notorious case is that of Belarus, where, with the blessings of the Kremlin, Alexander Lukashenko has been exercising an implacable de facto dictatorship since 1994. Viktor Yanukovich's Ukraine is coming more and more to resemble this model, with the opposition leader and former Prime Minister, Julia Timoshenko, sentenced to prison for "abuse of power," and with Russification measures proceeding on a parallel with the distancing of Kiev from Brussels. Azerbaijan—where the Aliyev dynasty has governed since 1969, the Kazakhstan of president-for-life Nursultan Nazarbayev (occupying the post since 1990), or the Uzbekistan of the dictator Islam Karimov (also in power since 1990), are more examples of ex-Soviet States protected by or associated with Russia, whose absolute lack of democracy is excused by the international community thanks to their enormous exploitable natural resources, the tremendous possibilities for investment and business, and the strategic value of their geographies.

OBAMA, RATIFIED

As occurs every four years, in 2012 public life in the United States was dominated by the November presidential elections, in which the current president, Barack Obama—unchallenged from the Democratic files—confronted the Republican candidate, Mitt Romney, the former Governor of Massachusetts and the first Mormon to aspire to the White House, on whom candidacy was conferred after a hard-fought primary process.

Obama faced the battle for reelection without the thaumaturgical aura that surrounded his first rise to the presidency in January 2009, and with the enormous expectations of that moment much deflated. But four years later, as was highlighted by a recurring slogan from his campaign—Bin Laden is dead,

and General Motors is alive—despite an entire foreign policy marked by caution and little appetite for war (too soft on the Arab Spring, for example, in the eyes of the Republicans), public enemy number one of the United States since September 11, 2001 was brought down in Pakistan in May 2011. And, on the internal economic front, the catastrophic legacy of George W. Bush was beginning to fade thanks to a fragile but undeniable recovery (the October unemployment rate was 7.9%) if one took into account the situation of the financial system or the automotive industry.

Even so, the Obama-Romney electoral clash was not limited to a duel between two counterpoised formulas for deficit reduction—by increasing income, according to the Democrats, or reducing spending, according to the Republicans—but also had an important ideological dimension, confronting opposing positions on the role and limits of the State and the market, on abortion, gay marriage, legalisation of drug use, etc. And it is probably on these grounds that Obama gained his decisive advantage among women, Latinos, African-Americans, Asian Americans, gays, and other minority groups. Thus, on Tuesday the 6th of November, the first black president of the United States obtained reelection with 50.3% of the popular vote, as opposed to 48.7% for Mitt Romney, who was not able to shed the image of the self-seeking rich man with few firm convictions.

Barack Obama's second term, in any case, does not look placid or easy. With a Republican majority in the House of Representatives and the threat of falling off the "fiscal cliff" in January 2013, with the shadow of Chinese hegemony ever more present in the Asian Pacific region, and the increasing complication of the exasperating—for the Americans—chess game of the Near East, the reelected president will not have an easy time of it if he wishes to go down in history for something more than the color of his skin.

THE DECLINE OF EUROPE

As the still-young twenty-first century marks significant changes on the demographic, political and economic equilibrium of the planet (the aforementioned burgeoning of China, but also the growing weight of India and Brazil, Japan's symptoms of fatigue as the world's third economy, etc.), one of these changes, the one that most affects us, turns out to be perhaps too close to be visible: the decline of Europe.

We are referring, of course, to the financial and economic crisis that began to be felt in 2007-2008, even though some elected officials took their time in admitting it. But we are alluding, above all, to the political and social consequences of this crisis, and to the underlying reality that the crisis has brought to the surface: the structural weakness of the European Union as it had been construed until now. The establishment, a decade ago, of a monetary union without a fiscal, or economic, or banking union, was a high-risk experiment that has been shattered by the recession, breaking down the solidarity between the north and the south of the EU and threatening its fundamental cohesion.

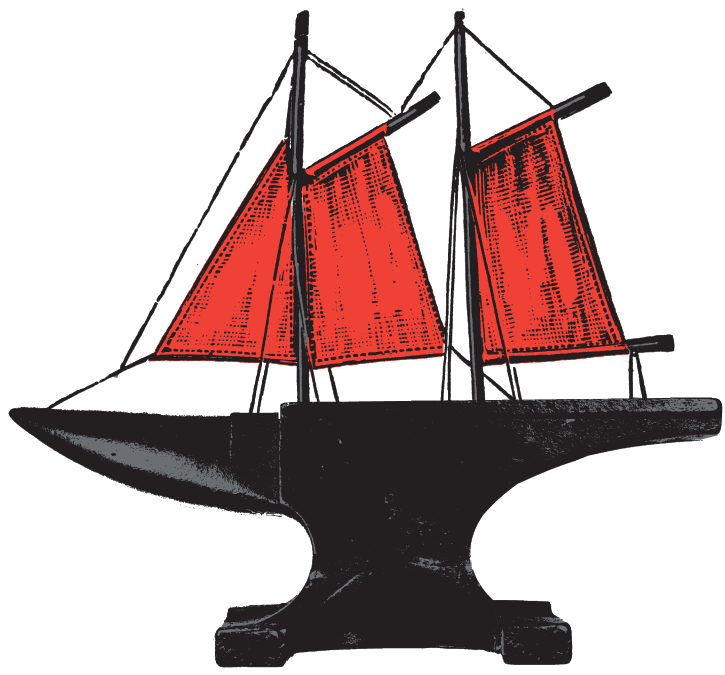
Under the command of an ever more decisive Germany at the heart of the European institutions, the north accentuates its negative view of an indolent, wasteful and parasitic south, while in the southern countries, either already bailed out on the way to being, Berlin and Chancellor Angela Merkel become the detested symbols of a budgetary and fiscal rigor that has been devastating for low-income earners, for social services, for the position of civil servants, etc. When on the streets of Athens, Lisbon or Madrid the Germany of 2012 is identified with the Third Reich, and Merkel with Hitler, it is evident that the EU is not enjoying very good moral health. A health that grey Eurocrats like José Manuel Durao Barroso or Herman Van Rompuy—lacking in direct democratic legitimacy and under the sway of their own national governments—are unlikely to restore. Greater integra-

tion and greater direct citizen participation are the only effective therapies.

What is more, it has been easier to criticise the so-called “economic dictatorship” of the German center-right governing over European politics than to propose alternatives. The election in May of the socialist François Hollande as President of the French Republic offered some hope that Paris could become the display case for a different kind of response, for a *leftist* response to the crisis. But the measures announced by Hollande in November under the rubric of a “competitiveness pact” (severe cutbacks in public spending, an increase in the VAT, fiscal exemptions for businesses...) have been a disappointment.

The dramatic situation of Greece throughout 2012 has been both a metaphor for and the tip of the iceberg of the European crisis. In the country that gave birth to democracy, at the feet of an Acropolis that symbolises the cradle of European culture, democracy and Europeanism have revealed their limits. The results of the early parliamentary elections called on May 6 made it impossible to form a coherent governing majority and, in consequence, required a call for new elections on June 17. This time, the polarisation between the supporters and the adversaries of fulfilling the conditions for a European bailout shifted the victory to the former, and the conservative leader, Andonis Samaras, forged an administration from a complex coalition that remains under the siege of social protests even as it attempts to renegotiate the terms of the austerity program set down by the EU and the International Monetary Fund.

The Greek problem and, though less acute, the Portuguese, Spanish or Italian problems serve to illustrate the wearing down of the traditional structures of the European Union. In this sense they also help to explain the growth of the centrifugal forces that, in Scotland, Flanders or Catalonia, claim a change in status for these territories while not denying but, indeed, much to the contrary, embracing their stake in continental integration.



Raphael Minder **Spain in 2012** In December 2011, a month after his Popular Party swept into power, Mariano Rajoy used his first parliamentary address as government leader to make a series of pledges that included tax breaks, raising efficiency in the public sector and cleaning up the banking sector. “Those who think that Spain will not be capable of making the necessary reforms to be successful in the Europe of the euro are totally wrong”, Prime Minister Rajoy told lawmakers. A year later, however, such success

continues to elude Spain. Instead, Mr. Rajoy has remained stuck on the front lines of the euro crisis, unable to convince investors that Spain would meet budgetary targets agreed upon with its European counterparts, while also facing record unemployment of 25% and mass street protests.

Adding insult to injury, Mr. Rajoy has been forced to eat his words and break several of his electoral pledges—including a recent rise in the value-added tax that has been crippling for sectors like culture and retailing at a time of weak domestic consumption.

In June, his government also negotiated a €100 billion European banking bailout that Mr. Rajoy had vowed Spanish banks would never require. More European funds are now expected to come Spain's way, in the form of bond purchases by the European Central Bank, however reluctant Mr. Rajoy has been to bite this next bullet. Other difficult issues have added to Mr. Rajoy's headache, particularly a separatist challenge from Catalonia that has threatened to boil over.

The latest news from Brussels has also not been reassuring. Spain saw its economy transformed by billions of euros in subsidies that it received in the twenty-five years since it joined the EU in 1986. But Mr. Rajoy is now scrambling to avoid a sharp cut in the aid flow as part of the next EU budget. Ironically, the EU budget talks—likely to drag on for months—are in effect forcing Mr. Rajoy to argue that Spain is in worse shape than it appears to be, and not worthy of being considered part of the rich club of Europe.

Mr. Rajoy cannot shoulder all the blame for Spain's woes. He inherited an economy that was already in a tailspin, after his predecessor, José Luis Rodríguez Zapatero, failed to recognize quickly that Spain would not be able to remain on the sidelines of the world financial crisis. Mr. Rajoy also found public finances in far worse

shape than the Socialist administration had acknowledged. Instead of the targeted deficit of 6% of gross domestic product that Mr. Rodríguez Zapatero had pledged, Spain ended 2011 with a deficit that was last revised up to 9.4%—a staggering difference almost on the same scale of Greece’s miscalculated accounts.

Unsuspected problems also soon emerged in a banking sector that had long been presented as a role model of cautionary supervision, in part because the Bank of Spain had forced institutions to make counter-cyclical provisions. In fact, the Bank of Spain allowed the sector to be pushed to the brink of collapse following a decade of reckless property lending and lax regulatory oversight. In many ways, Mr. Rajoy’s government seemed to spend 2011 going from one unwelcomed banking issue to the next.

In February, Luis de Guindos, the economic minister, confidently predicted that Spain would draw a line under its banking problems if the banks wrote down a further 50 billion euros of bad property assets. At a press conference, De Guindos called the additional provisioning “substantial”, especially given what had been done to date—over the period from 2008 to June of 2010, banks only provisioned €66 billion for doubtful property assets, even as Spain’s construction sector collapsed.

“Substantial” perhaps, but certainly not sufficient. Within three months, Bankia turned from a potential merger partner—with speculation centering on whether it would fall into the arms of CaixaBank—to a showcase of flawed management. Under the leadership of Rodrigo Rato, Bankia managed to post the largest loss in Spanish banking history. Mr. Rato, should anybody need reminding, was supposed to be the *crème de la crème* of Spanish finance, the once high-flying minister who steered his country’s economy through the early years of a boom and was

also the main rival to Mr. Rajoy for party leadership, until he left Madrid to take the helm of the International Monetary Fund.

Bankia's collapse was not only unprecedented in scale but also shocking. On the 2nd of May, Mr. Rato told journalists that "we're in a situation of great robustness, both in terms of solvency and liquidity". Five days later, Mr. Rato was pushed by the government into announcing his resignation, paving the way for Bankia's nationalization.

A case of gross incompetence, ignorance or criminal negligence? A Spanish court is set to decide, with Mr. Rato and other Bankia executives facing a lawsuit from disgruntled shareholders who had bought Bankia shares less than a year earlier in an initial public offering that was at the time presented as an example for other savings banks to follow.

Following negotiations over the banking bailout in June, Mr. Rajoy left immediately for Poland to watch Spain in the European football championship. His last comment about the banking crisis, before heading to the airport for his Polish flight, was that "this matter is now resolved".

Not so fast, Mr. Rajoy. In November, at the time of writing this review, the government was still scrambling to draw a line under its banking crisis by setting up a so-called bad bank in which to transfer the most toxic assets. The valuation of these toxic assets, however, has in itself created a new headache because of the ripple effect that this could have on other property assets held by the banks.

Meanwhile, Brussels was set to announce the conditions for distributing part of the €100 billion bailout negotiated in June. Besides significant job cuts, the banks are also likely to enter once again on a collision course with their holders of preference shares, many of them clients who have felt cheated by their banks

and have taken their complaints about misinformation before the courts.

Spain's judiciary system, meanwhile, has also spent much of 2012 in the dock, amid rising concerns over its efficiency and impartiality. Above all, the Supreme Court sparked both international and domestic controversy in February when it convicted and suspended Baltasar Garzón, Spain's highest-profile crusading judge, for overstepping his authority in a wiretapping case.

In June, however, it was the turn of the Supreme Court to deal a serious blow to its own image and that of Spain's, when its chief justice was forced to resign after being accused by a fellow judge of claiming vacations as business expenses. Initially, Carlos Dívar, a third-generation judge, dug in his heels even as the media published details of as many as thirty-two vacation trips, for which Mr. Dívar claimed about €28,000 in expenses for alleged business meetings. Even as he was heading for the exit door, Mr. Dívar maintained that he had always separated private and business expenses, denying committing "any irregularity, neither judicial, nor moral, nor political." Adding a touch of irony to the situation, Mr. Dívar's last official appearance was to preside in great pomp over a ceremony to mark the court's 200th anniversary.

Can the Supreme Court and the rest of Spain's judiciary mark the next century with improvements in reputation and efficiency? The verdict is out, but the problems run deep and stretch well beyond the judiciary itself.

A case in point was one of the final decisions made by Prime Minister Zapatero before ceding to Mr. Rajoy—the pardon of Alfredo Sáenz, chief executive of Banco Santander, which involved commuting a three month prison sentence and a temporary ban on working as a banker to a fine instead. Spain's departing So-

cialist leader offered no reasons for the unexpected pardon, decided even after the Supreme Court had upheld an earlier court ruling against Mr. Sáenz, who was convicted for making false accusations in 1994 against alleged debtors to Banesto (an earlier striking example of banking mismanagement.)

With or without political interference, Spain's judiciary is also in urgent need of an overhaul because the legal workload is likely to continue rising, as a consequence of the financial crisis. Courts should expect to deal with more bankruptcies in the coming months, as well as legal disputes between management, shareholders and laid-off employees. Meanwhile, more of the irregularities that underpinned the boom years and Spain's property bubble are coming to the surface. From Valencia to Galicia, regional as well as local politicians, often in cahoots with their savings banks, signed off on inflated or fictitious infrastructure spending, or granted illegal building permits granted to promoters. Along the way, bankers increased their loan portfolios while consultants and other intermediaries pocketed dodgy fees for this kind of work.

Such suspect fee payments have even gone as far as turning Iñaki Urdangarin, the son-in-law of King Juan Carlos, into the first member of the royal family to appear in court. The court case is ongoing but its implications could be far-reaching, with investigators trying to track down offshore accounts in several countries, as well as looking into the role played by leading politicians in places like Valencia and the Balearic Islands in the award of juicy contracts for tourism and sports events.

The King himself has stayed out of the investigation, having in fact attempted to stop his son-in-law from pursuing his business activities years before they came under investigation.

But King Juan Carlos has himself had his share of problems —and not just health-related— forcing him even into an

unprecedented apology for going on a private elephant-hunting trip that shocked a nation deep in economic crisis.

Meanwhile, Mr. Rajoy has also been forced to come to the rescue of regional politicians, most of whom are now from his own Popular Party. Just as Madrid was pleading for a more helpful policy from the ECB, Spain's autonomies came knocking at the door, clamoring for rescue funding to meet their refinancing obligations, and to pay suppliers of healthcare and other basic services.

Within a month, the €18 billion emergency fund that the government then set up to help its autonomies was almost fully subscribed, with a €5 billion request from Catalonia at the top of the list.

Shut out of the debt markets, Spain's autonomies are unlikely to resolve their financing problems anytime soon. In November, the government in fact said that the fund would need raising to €23 billion to cover all needs.

Since taking charge, Mr. Rajoy and his administration have repeatedly pleaded for more time, arguing that their policy-making should not be judged based on just one year in office. Despite rising unemployment, for instance, the government is arguing that its labour reform will eventually allow Spain to turn around and emerge from the crisis as one of the most productive as well as competitive European economies.

On the 20th of November, exactly a year after the Popular Party won its largest ever majority in a general election, María Dolores de Cospedal, secretary general of the Popular Party, also argued that Mr. Rajoy's administration had achieved "extraordinarily important things" in a year, especially given the surreal situation that it had inherited. "The reality that was presented to us as a country did not exist", she said. "It was fictitious."

Critics, however, point out that in fact few politicians had more time to prepare for office than Mr. Rajoy, a two-time election loser whose success the third time round was almost guaranteed from early 2010, when Greece was forced into a bailout and investors turned their guns on Spain and its collapsing banking sector.

Instead, Mr. Rajoy did not start his term by presenting a clear game plan. In fact, after his election he even delayed announcing the members of his administration, triggering another wave of media speculation out of thin air. When the names of the new ministers were finally disclosed, Mr. Rajoy forced investors to speculate in order to work out exactly who would be in charge of the economy, with the key responsibilities divided between two ministers—Mr. De Guindos and Cristóbal Montoro—or even three, including deputy prime minister Soraya Sáenz de Santamaría, in charge of explaining many of the most critical economic announcements.

Far from getting resolved, the unclear leadership structure has deepened over the months, sparking even some open squabbling between ministers over key issues like overhauling Spain's unaffordable energy subsidy system. In some ways, Mr. Rajoy has appeared to have maintained something akin to the divide-and-conquer approach of the British at the height of their empire. He has abandoned others on the front lines, and has also avoided public pronouncements on sensitive issues. In October, when Spain's culture minister José Ignacio Wert responded to the Catalan challenge with a controversial call to make Catalans instead more Spanish, it was King Juan Carlos rather than Mr. Rajoy who bluntly told Mr. Wert that he had gone too far.

Mr. Rajoy was never going to be Spain's most charismatic and outspoken leader. In an autobiography, *In Confidence*, pub-

lished during his campaign last September, he recalled instead his studious and quiet youth, following a father who was climbing the ranks of Franco's judiciary, before qualifying to become a land registrar.

"I believe that I'm a lot like my father", Mr. Rajoy wrote in his book. "He is a perfectionist, somewhat introverted and very cautious". But based on several interviews and private meetings, it certainly seems that Mr. Rajoy's natural caution has rattled not only the media and outside observers, but also those who have long worked with him or tried to negotiate with him. "It is clear that he has been leading from the back, but what is important is that he now leads", Andreu Mas-Colell, the finance minister of Catalonia, told me in June on the sidelines of the Sitges gathering of the *Círculo de Economía*. Such caution has even stretched as far as delaying a potentially controversial national budget in order to try to first win a regional election in Andalusia.

The postponement ploy failed in Andalusia—the Popular Party failed to unseat the Socialists from their stronghold in Spain's most populated region—but it also underlined how focused Mr. Rajoy has remained on his domestic political agenda, rather than on economic priorities and Europe's future.

After the 6th of September, when Mario Draghi, the president of ECB, unveiled a bond-buying program that was specifically crafted with Spain and Italy in mind, Mr. Rajoy stuck to a simple refrain: "...when there is news, I will let you know. I have not yet had time to read the statement of the President of the ECB, Mario Draghi."

Despite Spain's recent push for closer European banking and fiscal unity, Mr. Rajoy has also failed to come across as a politician with the interests of Europe—and not just Spain—at heart. That narrow view is of course a trait shared by many of his counter-

parts. But the attitude verged on isolationism in the first months of his mandate, particularly when Mr. Rajoy unilaterally loosened agreed budget deficit targets “in the name of Spanish sovereignty.” The announcement was made on the 3rd of March—on the sidelines of a summit of EU leaders. Rather than using the meeting to get their endorsement for a revised target, Mr. Rajoy chose not to warn or consult with them before revealing his deficit change.

Since then, the deepening crisis and Spain’s weakened bargaining position have forced Mr. Rajoy to adopt a more conciliatory tone on the European stage. However, some members of his administration have continued to cast the blame directly on Europe, rather than highlight Spain’s own shortcomings. In July, José Manuel García-Margallo, Spain’s foreign minister, threw diplomacy to the wind this summer when he attacked the ECB for not helping Spain lower its borrowing costs. The ECB, the minister argued, was acting like “a clandestine bank that is not doing anything for the debt”.

As 2012 drew to a close, Mr. Rajoy faced widespread street protests against his austerity measures. The government’s presentation of another tough budget for 2013 was also followed by a decision by trade unions to hold the second general strike of the year, which took place on the 14th of November. The strike itself had little impact, highlighting the weakening of Spain’s unions, but the day also ended with mass street rallies in Madrid, Barcelona and other cities across the country. Regional politicians are also under fire, notably in places like Madrid and Valencia, where pharmacists, hospital staff and regional television employees have been among those leading the protests and strikes against recent spending cuts.

As the crisis has dragged on, the government appears to have grown more concerned about soft power politics and the

country's image. In fact, it recently launched a "Marca España" campaign designed to highlight the strength of its corporations, exports and sectors like tourism and the automobile industry. Much of that effort has focused on convincing financial markets and possible investors that Spain remains not only open but also attractive to them. In November, for instance, Mr. Rajoy used a summit in Cádiz to try to find new ways to exploit Spain's historic and cultural ties to Latin America, and to persuade leaders from the region to invest more in Spain. Mr. Rajoy also suggested that his country could be "the closest platform" for companies to foray into the rest of Europe, and even North Africa. "Spain receives Latin American investment with open arms", Mr. Rajoy said in his main speech to Latin American presidents.

But before welcoming foreign investors, Mr. Rajoy also needs to ensure Spanish corporations do not pack their bags and invest overseas instead to counter declining revenues at home. In fact, a few days after Mr. Rajoy made his investment plea to Latin American companies, Víctor Grifols, the head of one of Spain's most successful companies, thanked a gathering of financial analysts who had awarded him an entrepreneurship prize by telling them that he would not invest a cent more in Spain and instead threatened to transfer his business to the United States. Insisting that his threat also applied to investments in his native Catalonia, Mr. Grifols described Spain as a collapsed system, both economically and institutionally, singling out the monarchy, regional governments, unrepresentative trade unions and a Spanish Senate "which one doesn't know what purpose it serves".

The outspoken Mr. Grifols might not represent the bulk of Spain Inc.; his views may also have been tainted by the recent political tensions between Catalonia and the central government

in Madrid. Still, such comments highlight the extent to which Mr. Rajoy is so far failing to win his public relations battle at home, let alone abroad. In fact, opinion polls show that the popularity of Mr. Rajoy and Spain's other politicians is falling to record lows, while distrust in institutions like the judiciary and the media has shot up. A study by the Pew Research Center, published in May, also showed that Spaniards were the only ones among citizens of European countries surveyed to have a far worse image of themselves than the rest of Europe had of them.

Mr. Rajoy could still come out unscathed from the crisis, not least since he is one of the few Western leaders with a comfortable parliamentary majority and no further election challenge until 2015. And some of his delaying tactics have in fact arguably proved helpful for Spain, particularly in the context of a Europe that is now reconsidering its austerity approach as Greece and other countries come close to economic asphyxiation. Should Spain finally seek further financial assistance from the ECB, it is likely to be in return for softer austerity conditions than would have been granted only a few months ago. Meanwhile, Mr. Rajoy has also been given unexpected breathing room by Artur Mas, the Catalan president, whose decision to call an early regional election backfired. Instead of beholding political sovereignty, Mr. Mas and his governing party have now been forced into tricky negotiations with other parties in order to continue to govern. But problems like that of Catalonia and the financing of the autonomies have at best been shelved rather than solved. And if 2012 provided any guidance for the coming year, Mr. Rajoy and Spain should expect more of the unexpected, especially with Spain set to stay in recession through 2013.

Has it just been coincidence that Spain had to confront so many different institutional, political, social and financial challenges at the same time this year?

One plausible answer was given to me in September, when I asked Rocío Martínez-Sampere, a Socialist lawmaker in Catalonia's regional parliament, why Catalonia's drive toward separatism had started to gain momentum just as Mr. Rajoy was beset with so many other urgent problems. "A major economic crisis unfortunately tends to bring to the surface all sorts of issues at the same time", she said.

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He has held various academic posts. He has been either president or a member of numerous commissions formed by experts who advise governments and corporations on economic problems and public policies. He is vice-president of the Board of members at the Círculo de Economía.

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Joan B. Culla was born in Barcelona in 1952. In 1975, he graduated with a degree in Modern and Contemporary History from the University of Barcelona, where he also received his PhD in 1985. Since 1977, he has been a professor at the Universidad Autònoma de Barcelona in the faculties of Communication Sciences and Philosophy and Letters, where he teaches a PhD course on the conflict in the Near East.

Since 1977, he has published fifteen books, including: *Les eleccions generals a Catalunya de 1901 a 1923* (1982, in collaboration with Albert Balcells and Conxita Mir), *El republicanisme lerrouxista a Catalunya (1901-1923)* (1986), *El franquisme i la transició democràtica (1939-1988)* (1989, with Borja de Riquer; re-edition in 2000), *El mundo contemporáneo. Grandes textos y documentos políticos* (2000), *El pal de paller. Convergència Democràtica de Catalunya (1974-2000)* (2001, coordinator), *Israel, el somni i la tragèdia* (2004), *La tierra más disputada. El sionismo, Israel y el conflicto de Palestina* (2005), *Breve historia del sionismo* (2009) and *Esquerra Republicana de Catalunya (1931-2012) Una història política* (2013).

He has contributed to numerous anthologies, such as the report *Catalunya 77-88* from the Fundació Jaume Bofill (1989) and the volumes *Los catalanes y el poder* (1994), *Catalunya-España. Un diàlogo con futuro* (1998) and *Christian Democracy in Europe* (1992).

He has published articles on social history and twentieth-century Catalan and Spanish politics in the magazines *L'Avenç*, *Serra d'Or*, *Revista de Catalunya*, *Política Exterior*, *Hérodote*, *Idees*, *Ayer*. On top of that, he has contributed hundreds of opinion pieces for newspapers (*Avui*, *El País*) as well as for various radio and TV stations. From 1981 to 1983, he was a consultant for Televisión Española Cataluña's program called *Memòria Popular*, and in 1991, he became the director of Televisió de Catalunya's program called *Segle xx*. He is also a chair of the Board of members at the Circulo de Economía.



Alejandro Estruch

Barcelona, 1965

**Professor of Economic Politics in the
University of Barcelona**

Alejandro Estruch Manjón was born in Barcelona in 1965. With an undergraduate degree in Business and Economics and a PhD in Economics from the University of Barcelona, he has been a professor of Economic Politics at the University of Barcelona since 1997.

He belongs to the research group “Governments and Markets”, which forms part of Catalonia’s Applied Economics Research Institute. He is a contributor to the radio station Catalunya Ràdio and the Local Communication Network. His writings have appeared in collective works and magazines such as *Telecommunications Policy*, *Papeles de Economía Española*, *Hacienda Pública Española* and *Revista Económica de Catalunya*. His academic interests include economic politics in Spain, the reform of the public sector and the processes of liberalization and regulation of electronic communications.

He is also the author of the books *Desigualdad y política redistributiva* and *Ciudadanía, libertad y pluralismo*.



Luc Ferry

Colombes (France), 1951

Professor of Philosophy

Luc Ferry, born on January 3, 1951, in Colombes (Hauts-de-Seine), is a French writer. He has worked as a philosophy professor and as a Minister of Youth for National Education and Research during the first and second governments of Jean-Pierre Raffarin.

He completed his postgraduate studies at the Université Paris-IV and at the University of Heidelberg. In 1994, François Bayrou, then minister of National Education, named him president of the National Council within the Ministry of National Education. He held this position until 2002.

In January 1997, he was elected to the Commission for Justice Reform.

From May 7, 2002 to March 30, 2004, he was Minister of Youth, National Education and Research in the government of Jean-Pierre Raffarin.

He is currently the delegated President of the Conseil d'analyse de la société; commentator for BFM/TV; and a columnist for *Le Figaro*.

His works have been translated into more than twenty-five languages. They include titles such as: *The New Ecological Order*, *Man Made God: the Meaning of Life*, *The Wisdom of the Moderns*, with André Comte-Sponville, *Qu'est-ce qu'une vie réussie?*, *Qu'est-ce que l'homme?*, *Apprendre à vivre*, *Familles, je vous aime*, *The Wisdom of Myths and Apprendre à vivre II*.

Among other awards and distinctions, he has been the recipient of: Officier de la légion d'honneur, Chevalier des arts et des lettres; Commandeur de l'Ordre National du Mérite; Prix Médicis essai et Prix Jean-Jacques Rousseau (for *The New Ecological Order*); Prix des droits de l'homme (for *Philosophie politique III*); Prix Ernest Thorel de l'Académie Française (for *The Wisdom of the Moderns*; Prix aujourd'hui (for *Apprendre à vivre I*); and Doctor Honoris Causa from Sherbrooke University (Canada).



Jordi Gracia

Barcelona, 1965

Professor of Spanish Literature

Jordi Gracia (Barcelona, 1965) is a full professor of Spanish Literature at the University of Barcelona and contributor to the newspaper *El País*. He has written various books about contemporary Spain's intellectual history. Among them are: *La España de Franco. Cultura y vida cotidiana* (in collaboration with M. Á. Ruiz Carnicer, 2001), *Estado y cultura. El despertar de una conciencia crítica bajo el franquismo* (1996, republished in 2006), *La resistencia silenciosa. Fascismo y cultura en España*, Premio Anagrama de Ensayo 2004 and, in co-edition with Joaquín Marco, *La llegada de los bárbaros. Narrativa hispanoamericana en España*. Some other examples of this political-intellectual microcosm are *El valor de la disidencia. Epistolario de Dionisio Ridruejo, 1933-1975* (2007) and the biographical essay *La vida rescatada de Dionisio Ridruejo* (2008). In 2010, his refreshing vision of exile under the title *A la intemperie. Exilio y cultura en España* was published and in 2011, with Domingo Ródenas as co-author, his book *Derrota y restitución de la modernidad, 1939-2010* was published. This last title was volume seven of the *Historia de la Literatura Española*, a collection coordinated by J.-C. Mainer for the publishing house Crítica.

His most recent book is the essay *Burguesos imperfectos. L'ètica de l'heterodòxia a les lletres catalanes del segle xx* (2012) and he is currently working on a biography of Ortega y Gasset, after having published a pamphlet in 2011 against the systematic cultural catastrophe titled *El intelectual melancólico*.



Emilio Lamo de Espinosa

Madrid, 1946

Professor in Law and Sociology

Born in Madrid, 1946, Emilio Lamo de Espinosa has a PhD in Law from the Universidad Complutense de Madrid and a PhD in Sociology from the University of California-Santa Barbara (1979), where he broadened his studies from 1972 to 1975.

In 1982, he was named General Director of Universities and then the first Secretary General of the University Council, taking on the responsibility of preparing the Ley de Reforma Universitaria (1983).

He was director of the Instituto Universitario Ortega y Gasset (1992-2001) and founder and first director of the Real Instituto Elcano (2001-2005).

Currently he serves as the president of the Real Instituto Elcano; Full Member of the Real Academia de Ciencias Morales y Políticas; Member of the European Academy of Sciences and Arts; Vice-President of the Fundación Consejo España-Estados Unidos; and leader and adviser of many foundations.

Among his publications are twenty-two books, more than a hundred scientific papers, and almost four hundred articles for press and circulation. He is the editor (together with S. Giner and C. Torres) of the *Diccionario de Sociología*, the most used in the Spanish language (Madrid). His last book, as coordinator, is *Europa después de Europa* (Madrid, 2010).



Mark Leonard

London (United Kingdom), 1974

Economist

Mark Leonard is Co-Founder and Director of the European Council on Foreign Relations.

He writes a fortnightly column on European and Global issues for Reuters.com.

Previously he worked as Director of Foreign Policy at the Centre for European Reform, and

Director of the Foreign Policy Centre, a think-tank he founded under

the patronage of Former British Prime Minister Tony Blair at the age of twenty-four. In the

1990s Leonard worked for the think-tank Demos where his Britain™ report was credited

with launching Cool Britannia. Leonard has spent time in Washington as a transatlantic

fellow at the German Marshall Fund of the United States, and in Beijing as a visiting

scholar at the Chinese Academy for Social Sciences.

Honored as a Young Global Leader of the World Economic Forum, he spends a lot of time

helping governments, companies and international organisations make sense of the big

geo-political trends of the twenty-first century, and he is regular speaker and a prolific

writer and commentator on global issues, the future of Europe, China's internal politics,

and the practice of diplomacy and business in a networked world. His essays appear

regularly in publications such as *the Financial Times*, *the New York Times*, *Le Monde*,

Süddeutsche Zeitung, *El País*, *Gazeta Wyborcza*, *Foreign Policy*, *the New Statesman*,

The Daily Telegraph, *The Economist*, *Time*, and *Newsweek*.

As well as writing and commenting frequently on global affairs in the media, Mark is the

author of two best-selling books. His first book, *Why Europe will Run the 21st Century*, was

published in 2005 and translated into 19 languages. Mark's second book, *What does China*

Think? was published in February 2008 and translated into 15 languages.



Juan-José López Burniol

Alcanar, 1945

Notary

Juan-José López Burniol was born in Alcanar (Tarragona) in 1945. He studied law at the Universidad de Navarra and has been working as a notary since 1971, relocating to Barcelona since 1977. He has served as chairman of the Colegio de Notarios in Catalonia, and professor of Civil Law first at the Universidad Autónoma de Barcelona and then at the Universidad Pompeu Fabra. He has served as magistrate and president of the Constitutional Court of Andorra, member of the “Comisión Jurídica Asesora” of the Generalitat of Catalonia, and president of the Social Council at the Universidad de Barcelona. He is currently an adviser for ‘la Caixa’ and ‘CaixaBank’, as well as chair of the the Board of members at the Círculo de Economía. In addition to his contribution to various media outlets, he has published many juridical studies and the book *España desde una esquina*.



Raphael Minder

Geneva (Switzerland), 1971

Journalist

Since April 2010, Raphael Minder has been based in Madrid as the Spanish and Portuguese correspondent for the *International Herald Tribune*, the global edition of the *New York Times*. Over the past three years, he has written extensively for different NYT editions on the impact on Spain and Portugal of the worldwide financial crisis, as well as resulting political changes.

Born in 1971 in Geneva, Raphael has been a full-time journalist since 1993, when he started working in his native Switzerland for Bloomberg News. He has also spent ten years as a staff correspondent for the *Financial Times*, working in Paris, Brussels, Sydney and finally Hong Kong as the *Financial Times*' Asian regional correspondent. Among major international developments, Raphael reported on the trade negotiations that led to the creation of the World Trade Organization, the launch of the euro and the European Union's absorption of Eastern European countries.

Raphael holds a Bachelor's degree from Oxford University, where he studied politics, philosophy and economics. He also has a Master's degree from the school of journalism at Columbia University in New York.



Wolfgang Münchau

Oberhausen (Germany), 1961

Associate Editor of the *Financial Times*

Wolfgang Münchau was born in Oberhausen (Germany) in 1961.

He studied *Dipl-Betriebswirt* (Reutlingen) and received his *MA in International Journalism* (City University, London).

In 2003, he became Associate Editor and columnist of the European economy for the *Financial Times*, and he is also currently the Director of Eurointelligence.

He has previously worked as Coeditor of *Financial Times Deutschland* from 2001 to 2003; as

Economic correspondent for the *Financial Times*; and as a correspondent for

the Times in Washington and Brussels (1988-1995). Among his most noteworthy

publications are *The Meltdown Years. The Unfolding of the Global Economic Crisis* (2009) and

Vorbeben (GetAbstract Business Book Award, 2008). In 1989, he was the recipient

of the *Wincott Young Financial Journalist of the Year* award.



Josep Ramoneda

Cervera, 1949

Journalist, Philosopher and Writer

Josep Ramoneda was born in Cervera in 1949. Journalist, philosopher and writer, he was the director of the Centro de Cultura Contemporánea de Barcelona (CCCB). He is a frequent contributor to the newspaper *El País* and to the radio station Cadena Ser for the programs *Hoy por Hoy* and *Hora 25*. He is president of the Institut de la Recherche et de l'Innovation (IRI) in Paris and coordinates various essay collections.

He was director of the Instituto de Humanidades (1986-1989), contributor to *La Vanguardia* (1980-1996) and a professor of Contemporary Philosophy at the Universidad Autónoma de Barcelona (1975-1990). He is also a chair of the Board of members at the Círculo de Economía. He has many books published, with the most noteworthy being: *Apología del presente* (1986), *Después de la pasión política* (1999), *Del tiempo condensado* (2005) and *Contra la indiferencia* (2010).



Carmen M. Reinhart
Castellanos (Cuba), 1955

Professor of Economics

Carmen M. Reinhart was born in Castellanos, Cuba, in 1955. She is the Minos A. Zombanakis Professor of the International Financial System at Harvard Kennedy School. Previously she was the Dennis Weatherstone Senior Fellow at the Peterson Institute for International Economics and Professor of Economics and Director of the Center for International Economics at the University of Maryland. She received her Ph.D. from Columbia University. Professor Reinhart held positions as Chief Economist and vice president at the investment bank Bear Stearns in the 1980s, where she became interested in financial crises, international contagion and commodity price cycles. Subsequently, she spent several years at the International Monetary Fund. She is a Research Associate at the National Bureau of Economic Research, a Research Fellow at the Centre for Economic Policy Research and a member of the Council on Foreign Relations. Reinhart has served on numerous editorial boards, panels, and has testified before congress. She has written and published on a variety of topics in macroeconomics and international finance and trade including: international capital flows, exchange rates, inflation and commodity prices, banking and sovereign debt crises, currency crashes, and contagion. Her papers have been published in leading scholarly journals. Her best-selling book (with Kenneth S. Rogoff) entitled *This Time is Different: Eight Centuries of Financial Folly* (Princeton Press) documents the striking similarities of the recurring booms and busts that have characterised financial history and has been translated into 20 languages and won the 2010 TIIA-CREF Paul Samuelson Award and the Gold Medal in the Council on Foreign Relations Arthur Ross Book 2011 Awards.



Tzvetan Todorov

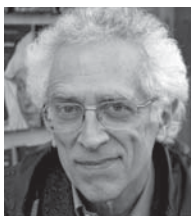
Sofia (Bulgaria), 1939

Historian

Tzvetan Todorov was born in Sofia, Bulgaria, in 1939 and has resided in Paris since 1963.

Considered one of the most important intellectuals of our time, he has taught at the *École Pratique des Hautes Études* and at Yale, and his master lectures have also been heard at NYU, Columbia, Harvard and the University of California. Since 1987, he has been the director of the Center of Research on Arts and Language from the Centre National de la Recherche Scientifique (CNRS). Among his many honors, he has been awarded with the medal from the Order of Arts and Letters in France and the Príncipe de Asturias prize for Social Sciences in 2008. Ever since the nineties, he has focused on his task as a historian, touching on topics such as the conquest of America, the Second World War, totalitarian universes and exile, all of which helped him to elaborate his theories on diversity and otherness, or the eternal problem of the discovery of the “other”. Some of his published books are:

In Praise of the Individual (2006), *The Adventurers of the Absolute* (2007),
The Spirit of the Enlightenment (2008), *The Fear of Barbarians* (2008),
Literature in Danger (2009), *The Totalitarian Experience* (2010), *Living Alone Together* (2011),
Goya in the Shadow of the Lights (2011), *The Intimate Enemies of Democracy* (2012)
and *In Praise of the Everyday* (2013).



INDEX

PREFACE 3

THE EUROPEAN CRISES

- Introduction.** Josep Ramoneda 9
- Economic Crisis.** Antón Costas 23
- Political Crisis.** Emilio Lamo de Espinosa 47
- Cultural Crisis.** Jordi Gracia 75
- Educational Crisis.** Luc Ferry 93
- Media Crisis.** Juan-José López Burniol 107
- Moral Crisis.** Tzvetan Todorov 131

COURSE LECTURES

- Carmen M. Reinhart 139
- Mark Leonard 189
- Wolfgang Múchau 199

THE WORLD IN 2012

- Three Economic Questions Seen from Another Point of View.** Alejandro Estruch 213
- The World in 2012.** Joan B. Culla i Clarà 229
- Spain in 2012.** Raphael Minder 247

AUTHORS

- Antón Costas 262
- Joan B. Culla i Clarà 263
- Alejandro Estruch 264
- Luc Ferry 265
- Jordi Gracia 267
- Emilio Lamo de Espinosa 268
- Mark Leonard 269
- Juan-José López Burniol 270
- Raphael Minder 271
- Wolfgang Múchau 272
- Josep Ramoneda 262
- Carmen M. Reinhart 273
- Tzvetan Todorov 274

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