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ASPEN Review

ASPEN.REVIEW
CENTRAL
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COVER STORIES Witold Gadomski, Lukáš Kovanda, Daniela Krajanová, Kenneth R. Weinstein

POLITICS Mihai-Răzvan Ungureanu ECONOMY Michael W. Doyle CULTURE Luboš Palata INTERVIEW Janusz Lewandowski



Trade On/Off

A New Cold War
Between the US
and China

The Brexit
Budget Gap Is Not
the Problem

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Aspen Review Central Europe quarterly presents current issues to the general public in the Aspenian way by adopting unusual approaches and unique viewpoints, by publishing analyses, interviews and commentaries by world-renowned professionals as well as Central European journalists and scholars. The Aspen Review is published by the Aspen Institute Central Europe.

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Uncompromising (or) Trade-offs?

Dear Readers,

Over the last three decades, free trade has advanced due to a favorable international order and the availability of relatively cheap means of transport enabling fast delivery of products to customers. These have been the main boosters of globalization, together with the technological revolution. With the advancement of 3-D printing, for example, new ways of decentralized production over the long-distance have become economically and technically feasible with far-reaching implications for labor markets. Business models of production, logistics, distribution and marketing have changed dramatically based on global supply chains. Newly emerging business models require smarter protection of intellectual property. The importance of approximation of regulation – be it technical, environmental or other standards – cannot be overestimated. Until recently, trade negotiators spent most of their time harmonizing regulations in efforts to curb non-tariff barriers. To no one's surprise, these were the main stumbling blocks in TTIP negotiations. This is no longer the case. The U.S. President has re-installed custom tariffs into the policy toolbox. Ken Weinstein of Hudson Institute explains

the broader context of the U.S. - China tariff battle. It has implications for the global economy since the triangle between the U.S., China (PRC) and the EU accounts for a major chunk of global trade. In 2016, the trade volume between US and EU accounted for 685 (all in billion USD), between the U.S. and China - 552, and between the EU and China - 560. U.S. import from China - 426 - has exceeded import from the EU - 410, while the trade deficit of the U.S. with China - 300 - was more than twice that of the EU -135.

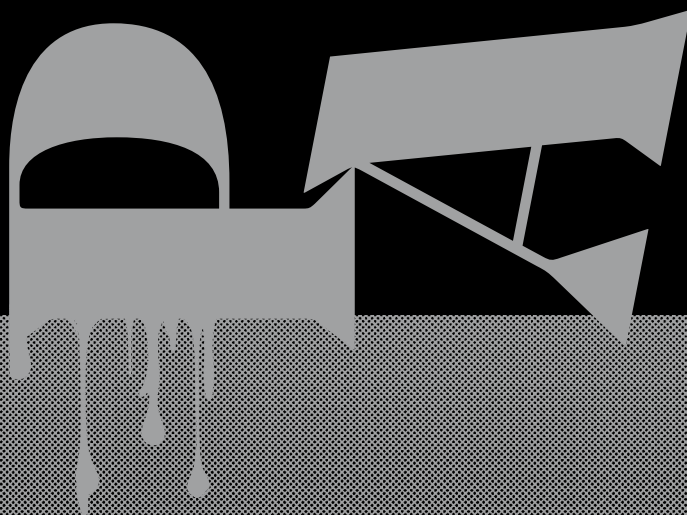
This issue also contains contributions dealing with movement of people, including labor migration. An interview with historian Miroslava Keryk deals with the role of Ukrainian workers in the Polish economy. In another interview, Michael F. Doyle of Global Policy Initiative at Columbia University speaks about the draft of the International Mobility Convention designed to treat various modalities of human mobility in a more comprehensive manner and in a legally binding way. This could serve as inspirational reading for those criticizing the UN Global Migration Compact.

Former EU Commissioner Lewandowski deals with possible trade-offs in the negotiations of the 2020-2027 EU Multi-annual Financial Framework. Should the EU budget focus on research and innovation or spend more on defense or regional and agricultural subsidies? What is more conducive to the future success of Central Europe? We have identified investments in human skills and education as key factors of economic competitiveness at our annual conference about the “Shape of (Central) Europe”. The proceedings from the recent one can be found on our website and will be returned to in future issues. Stay tuned to us!

ASPEN.REVIEW

EDITORIAL

Death in Gdańsk



The assassination of Paweł Adamowicz, the Christian-Democratic Mayor of Gdańsk, is another act of political terror in contemporary Europe. Three years ago, in similar circumstances, a British politician Jo Cox was killed by a supporter of the extreme right just before the referendum on Brexit. She had also been a victim of hateful attacks by fascists and the extreme right before her death. In Poland, however, in the campaign of hatred against the Mayor of Gdańsk, who held this office by the will of the inhabitants for twenty-one years, the tone was set by the public media, appropriated after the 2015 elections by the ruling party, and by the propaganda centers of nationalists and the extreme right, which supported the government.

Under the rule of Law and Justice, pro-government media has become an instrument of hate campaigns targeted not only at political competitors of the opposition Christian Democratic (Civic Platform, Polish Peasants' Party), liberal (Nowoczesna) or socialist (Democratic Left Alliance, Razem) parties, but also at ordinary citizens who are not supporters of the aggressive, integral nationalism, represented by the ruling camp. The nationalist right has long since broken all the principles of political culture and ordinary decency, not to mention the constitution of Poland. These are obvious facts for Poles and foreign observers, even for those who initially, deceived by the conservative rhetoric of the Law and Justice party, sympathized with its "national revolution" and justified massive purges in the media and public institutions.

After three years of systematic destruction of rule of law and the government's consent to the defamation of people who think differently, such persons as the murderer of the Gdańsk Mayor, are turning now, on the eve of European and parliamentary elections in Poland, from hate speech to criminal acts. This twenty seven-year-old criminal, like Islamic fanatics in Western European countries, became a political radical in prison, where until December of last year he had served a five-year sentence for brutal bank robberies. The only TV he could watch in prison was the public television, completely subordinated to the ruling party, with its news programs

consisting of lies and hateful propaganda. The slogans which the murderer shouted out shortly after the crime he committed in front of the participants of Poland's largest charity event were relatively innocent in comparison to those that circulate in the public space with the consent of the authorities. The ruling party's deliberate policy is that when hate crimes are reported, prosecutors routinely drop the charges, even in such obvious cases as the list of "political death certificates" of opponents of the government, which also included Mayor Adamowicz. The list was published by an extreme nationalist group known for organising the so-called Independence March, attracting thousands of right-wing extremists from all over Europe to Warsaw. At the end of last year, the twenty eight-year-old leader of this grouping became Deputy Minister of Digitalization in the Law and Justice government. This is just one of many examples of close cooperation between the Law and Justice party and nationalist circles.

Paweł Adamowicz died on Sunday of the Baptism of the Lord, which in the Catholic Church ends the Christmas period. "Or don't you know that all of us who were baptised into Christ Jesus were baptised into his death?," wrote St. Paul in his Letter to the Romans (6:3-4). The death of the Mayor of Gdańsk has shaken people of good will, regardless of their political convictions, but it takes faith in miracles to believe that it can in any way contribute to good will. His death is, above all, an irreparable loss for his family and friends, the inhabitants of Gdańsk, Poles and Europeans. Adamowicz, a young dissident under Communism, was fascinated by the figure of Václav Havel; it was on his initiative that soon after the death of the Czech President an important street in Gdańsk was named after him. Adamowicz supported the idea of establishing the European Solidarity Centre from its very beginning, and this world-famous museum of Solidarity and dissident movements from Eastern Europe was significantly co-financed from the city's budget. He was also a patron of the most important Polish intellectual periodicals, *New Eastern Europe* and *Przegląd Polityczny*.

I had the honour to meet him a few years ago, when in the presence of His Excellency the President of the European Council Donald Tusk, I received the New Europe Ambassador Award in Gdańsk for the first Polish biography of Václav Havel. Donald Tusk devoted his speech to the refugee crisis, which soon afterwards changed the fate of Poland and Europe. Mayor Adamowicz was one of those local government officials who actively

opposed the growing xenophobia. In today's Poland, it is the city mayors, often holding power against the interests of political parties (like Paweł Adamowicz, who defeated his competitors from both Law and Justice and the Civic Platform in the local government elections of 2018) who save the face of public authorities. It is they, with the strong support of the citizens and their own convictions, who have the courage to act not politically, but decently. It is thanks to them that another Poland and another Europe are still possible. We cannot leave them on their own.

ALEKSANDER KACZOROWSKI


Editor in Chief Aspen Review Central Europe

ASPEN REVIEW
KENNETH R. WEINSTEIN

COVER STORY
TRADE WARS
USA
CHINA
TARIFFS



A New Cold War Between the US and China



President Trump has boldly decided to expose China's economic strategy to the global community and challenge it head on. China is being forced to come to terms with the fact that business as usual cannot continue indefinitely.

Vice President Mike Pence's 4 October speech on China at Hudson Institute was termed "the most important event of 2018" by no less an observer than columnist Martin Wolf of the Financial Times. Although Wolf accepts the assessment of former Australian Prime Minister Kevin Rudd that the United States is not on the verge of a Cold War with China, he claims nonetheless that "friction between the US and China might be even more damaging than the cold war," because of the harm an extended US-China rift could do to global prosperity, or, even worse, he asserts, by descending into a hot conflict over Taiwan, North Korea or the South China Sea.¹

My sense is that Wolf overstates the risks inherent in the Trump administration's new and comprehensive approach to China. Yes, the Vice President's speech was intended to mark a new era in the US-China relationship: the end of a period of illusion and delusion, and the end of decades of a U.S. policy - dating back almost five decades to President Nixon's "opening to China" - in which promoting Chinese economic growth became an

American priority for humanitarian reasons and, until 1989, to counterbalance the Soviet Union, but also from a belief that modernization would foster a more liberal China, one that would be a “responsible stake holder” on the global stage.

A hidden approach to a grand strategy

This policy, of course, was a popular and frequent target of attack by candidate Donald Trump in the 2016 campaign, who argued that America’s economic policy elites had sold out our country, and especially our factory workers, in a quest to produce goods more cheaply in China.

Vice President’s Pence speech, and the new consensus in the Trump administration on China, goes well beyond criticism of deindustrialization of the American heartland or Chinese currency manipulation. Central to the Vice President’s speech – delivered by the Vice President in part to indicate that it represents a “whole of government approach” by the U.S - is the belief that Chinese economic strategy is part and parcel of a hidden whole of government approach by the Chinese to its grand strategy that makes almost every major economic decision one closely linked to China’s military and intelligence aims.²

Unfair trade advantages

Whether it be controlling the heights of economics through its imperialist Belt and Road initiative or through state-owned enterprises, China is willing to weaponize the massive capital at its disposition to subsidize attempts to gain control of a dazzling array of strategic assets, whether it be ports such as Hambantota in Sri Lanka to get prime choke point real estate in the Indian Ocean, or global telecommunications networks through companies like

The new consensus in the Trump administration on China, goes well beyond criticism of deindustrialization of the American heartland or Chinese currency manipulation.

Huawei to gain access to sensitive data and control over the central nervous system of forthcoming global 5G systems. And this behavior, which entails forced technology transfer, intellectual property theft, and the regular use of “back door” chips to communicate sensitive data, has given China an unfair trade advantage in ways that defy both the WTO and the imagination.

There is, in fact, a broad political consensus in the United States, across both political parties and among both supporters and foes of President Trump, that China itself is responsible for the growing opposition it has aroused among both elites and average Americans. No less a figure than former Treasury Secretary Hank Paulson, who made his name at Goldman Sachs as an early 1990s investor in China, criticized China for failing to open its economy to foreign investment as promised during the debate over Chinese accession to the WTO in 2001. In a widely cited speech in Singapore, Paulson noted how reforms peaked under President Jiang Zemin, with both Hu Jintao and Xi Jinping centralizing control under the Communist Party.

1) Martin Wolf, "The US Must Avoid a New Cold War with China," *Financial Times*, 30 October 2018.

2) This argument was made through newly declassified documents by Michael Pillsbury in his *The One Hundred Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (MacMillan, 2015), a book that has been widely read and drawn significant praise from key administration officials.

The USA and the PRC cannot easily disengage from each other

And beyond the criticism offered by Paulson, there is growing concern about crackdown on the free flow of information, the centralization of authority under Xi that includes the disappearance of hundreds of key Communist Party cadres, the forced exile of over one million Uighurs in "re-education" camps designed to eradicate their culture, the creation of a "social

There is abroad political consensus in the United States that China itself is responsible for the growing opposition it has aroused among both elites and average Americans.

credit system" designed to deny economic livelihood to dissenters of any kind, and China's increasing use of facial surveillance and big data to intrude on the privacy of its citizens.

Against this backdrop, the U.S. government has laid down significant trade demands on China and placed \$250 billion in tariffs designed to punish China for unfair and discriminatory trade practices, including massive intellectual property theft.

Significant tensions notwithstanding, we are not on the verge of a new Cold War between the U.S. and China. First, President Trump and President Xi communicate regularly and enjoy good personal chemistry. Second, the economic ties between the USA and the PRC run deep and the two countries cannot easily disengage from each other. While there are areas of potential significant military tension - the East China Sea, the South China Sea and the Taiwan Straits - the Trump administration, through its free and open Indo-Pacific Strategy developed in full partnership with Japan and other allies

is taking action to signal clearly to the Chinese what we often failed to signal to the Soviet Union under Stalin at the end of World War II: that there would be increasing cost to China's attempt to dominate the region.

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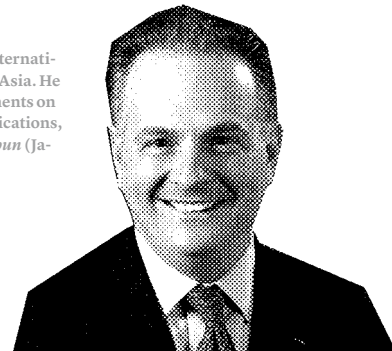
President Trump as disrupter-in-chief has boldly decided to expose China's economic strategy to the global community and challenge it head on. Companies are now on alert that manufacturing in China poses an immense threat to their intellectual property and to the data of their clients. Countries considering partnering with "Belt and Road" are now on alert that China's intent is rapacious – and that you risk losing key infrastructure assets to China in the process. Combined with the impact of U.S. tariffs, China is being forced to come to terms with the fact that business as usual – including forced technology transfer, IP theft and back door engineering

Countries considering partnering with "Belt and Road" are now on alert that China's intent is rapacious – and that you risk losing key infrastructure assets to China in the process.

– cannot continue indefinitely. Xi Jinping realizes the challenge is immense – and while he has yet to offer a serious counter to America's demands, he has also avoided the route of his predecessors in stoking up popular, anti-American anger through state-owned media. It is up to Xi to decide what course of action to take.

KENNETH R. WEINSTEIN

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Trade Wars Undermine Global Stability

ASPEN.REVIEW
WITOLD GADOMSKI

COVER STORY
TRADE WARS
GATT
TARIFFS

Since the middle of the twentieth century, world trade has grown faster than the gross domestic product of individual countries. Trade was conducive to economic growth and stabilized the political situation.

In 1947, the General Agreement on Tariffs and Trade (GATT) was signed. Successive rounds of negotiations on trade facilitation under GATT led to average tariffs falling from 40% in 1947 to around 3% in 2012. Non-tariff barriers, such as import quotas, have also been eased or abolished. In 1995, the GATT was replaced by the World Trade Organization (WTO), to which 160 countries belong. In theory, the WTO ensures that trade is fair, that no member state violates the adopted rules.

Practice deviates from theory. The WTO is not in a position to enforce compliance with the rules, especially if they are broken by a country with high potential. This is one of the reasons for the protectionist sentiment that began to dominate in the United States.

The flight of jobs

Free trade has been particularly beneficial for poorer countries. Large companies began to build industrial plants where the cost of labor is many times

lower than in the USA or Western Europe. This is facilitated by free trade areas, within which exchange of goods and services is facilitated: the European Economic Community, transformed into the European Union, and the North American Free Trade Agreement (NAFTA) embracing the United States, Canada and Mexico. As a result, jobs, especially in traditional industries - machinery, automobiles, steel - began to move from rich countries to poorer ones.

For the United States, which was the main advocate of free trade after World War II, the flight of jobs to poorer countries had become a problem. Protecting U.S. industrial production from imports and maintaining jobs in industry was one of the key election promises of President Donald Trump. The President promised to engineer reindustrialization, i.e. rebuilding industry in regions that flourished in the twentieth century and which are now referred to as the “rust belt”.

The decrease in employment in the industry of rich countries results not only from relocation of production to countries with low employment costs, but above all from a huge increase in productivity. Industry in the United States and other rich countries currently produces several times more than half a century ago, but employs about 30% of the workers once needed. Trump’s promise that old jobs would be restored was therefore pure demagoguery. In 2018, however, under the pretext of protecting American workers, the President launched protectionist measures.

A customs war

The President of the United States took specific steps in January 2018. He imposed duties on washing machines and solar panels. Washing machines are an export product of Korean big players - Samsung Electronics and LG Elec-

Free trade has been particularly beneficial for poorer countries. Large companies began to build industrial plants where the cost of labor is many times lower than in the USA or Western Europe.

tronics - while panels come mainly from China. The American corporation Whirlpool, which is also an important player in these fields, benefited from these measures. The American stock exchange reacted with a run on its shares. The growth only lasted, however, a few weeks. Whirlpool shares at

the end of 2018 were over 30% cheaper than at the beginning of the year. The tariffs did not turn out to be a miracle cure for the prosperity of American companies.

Trump announced his intention to introduce a 25% tariff on steel and a 10% tariff on imports of aluminum on 1 March 2018. The legal basis is Section 232 of the Trade Expansion Act 1962, which in specific circumstances allows the President to impose duties based on a recommendation from the U.S. Secretary of Commerce if “an article is imported into the United States

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in such quantities or under such circumstances as to endanger or undermine national security”. The use of this provision surprised even the Americans themselves. Although imports of steel and aluminum do cause problems for American companies, it has nothing to do with national security.

Canada and Mexico have been exempted from customs duties, provided that they sit down with the United States to negotiate a new free trade area agreement in North America. During the election campaign, however, Trump threatened Mexico with the imposition of 35% tariffs if it did not agree to a more favorable trade agreement.

According to the Economic Policy Institute, duties on aluminum have allowed an increase of production in the USA, creating 300 jobs. An additional 2,000 jobs have been created in companies that process aluminum. These are not impressive figures.

On 21 November 2018 the Dispute Settlement Body (DSB) of the WTO dealt with the complaints of seven countries that had been affected by U.S. duties on steel and aluminum. The WTO has not decided who is in the right in this dispute. The issue will be the subject of negotiations in the coming months.

Customs tariffs on steel had the biggest impact on Turkey, which is the eighth largest steel producer in the world and one of the largest exporters of steel products to the USA. The heavily indebted Turkish economy experienced a severe crisis in mid-August 2018 and was only saved by a loan from Kuwait.

U.S.-China trade war

The main target of Trump's protectionist policy is China. The U.S. trade deficit with the world's second largest economy rose from \$83 billion in 2000 to \$376 billion in 2017. This year's deficit will be even greater. Americans agreed to China's accession to the WTO (in 2001) and now regret it.

President Trump presented a plan to impose duties on imports of Chinese goods on 17 September 2018, worth a total of 200 billion dollars. Earlier, Trump had already imposed duties on Chinese goods worth 50 billion dollars. The President also announced that if China took retaliatory action, he was ready to introduce further import tariffs worth USD 267 billion immediately. The rate of duty would initially be 10 %, and from 1 January 2019 it would increase to 25 %.

The condition for the withdrawal of duties is that China agrees to greater access for U.S. companies to the Chinese market and stops requiring the transfer of modern technologies to Chinese partners.

Accusations of unfair practices by China are not unfounded. According to the U.S. Trade Representative Office (USTR), the U.S. government agency responsible for trade policy, the Chinese government is forcing technology transfer by imposing restrictions on foreign investors. Chinese

According to the Economic Policy Institute, duties on aluminum have allowed an increase of production in the USA, creating 300 jobs. These are not impressive figures.

law prohibits foreign investors from doing business in certain industries unless they cooperate with a Chinese company. Licenses for operations in China are conditioned by technology transfer. Foreign companies have to even disclose details of technology at times, for example application codes. Such practices are made possible by the discretionary and non-transparent system of foreign investment permits. Following its accession to the WTO in 2001, China committed itself to stop such practices. Chinese authorities maintained them, however, but instead of officially existing regulations there are unwritten, informal "administrative guidelines" for Chinese companies and authorities to force the transfer of technology.

It's just negotiations

There are a number of indications that the rhetoric of the American President, as well as the duties imposed on imports of Chinese goods and steel and aluminum products from many countries, are part of a negotiation strategy, typical for hard-dealing businessmen, although unusual in the world of diplomacy.

On 30 November 2018, on the first day of the G20 summit in Buenos Aires, the three countries of North America signed a new trade agreement entitled USMCA – an abbreviation for the United States, Mexico and Canada. The negotiations lasted more than a year, but the changes are minor, although generally in favor of the U.S.

The main target of Trump's protectionist policy is China. Americans agreed to China's accession to the WTO (in 2001) and now regret it.

According to the revised agreement, automotive companies selling goods in the U.S. market must produce at least 75 percent of their components in Canada, Mexico or the United States. It had been 62.5 per cent earlier. At least 30 percent of the components must be manufactured by employees earning at least \$16 per hour. This share will increase to 40% in 2023. Cars that do not meet these requirements will be subject to customs duties.

Canada will be required to open up the dairy market to U.S. farmers, and Mexican trucks entering the United States have to meet U.S. safety standards before crossing the border. The new agreement provides better protection for patents and trademarks. U.S. pharmaceutical companies will be allowed to sell their products in Canada for 10 years before competition from local, cheaper generic drugs will be introduced. Under NAFTA this period was 8 years. Trump achieved success, but on a much smaller scale than he announced.

President Trump met with the Chinese leader Xi Jinping at the G20 Summit. China and the United States agreed to halt the imposition of additional duties and engage in trade negotiations. In other words, the threat of a full-scale trade war starting on 1 January 2019 has been defused.

A trade war would slow down the economy

According to the Munich Ifo Institute, the additional tariffs introduced by the U.S. will reduce economic growth in China by 0.1 to 0.2 percentage points, and if increased up to 25 %, the loss will be between 0.3 and 0.5 percentage points. According to Gabriel Felbermayr, Director of the Ifo Centre for

International Economics, the slowdown in China caused by U.S. sanctions will be mild, given that growth in this large economy is still higher than 6%. The moderate effect of sanctions is due to the fact that China has been reducing its dependence on foreign trade for several years now. In 2017, the ratio of exports of goods and services to GDP, according to World Bank data, was 19.8% in China, down from the record level of 36% in 2006. The U.S. is China's most important trading partner, but exports to the U.S. account for only a few percent of China's GDP.

The greatest risk for the global economy may be the appreciation of the dollar, which will hit emerging economies, as it will cause an outflow of capital. The U.S. Federal Reserve can respond to the inflation caused by the rise in the prices of Chinese goods or their substitutes in the U.S. market by raising interest rates faster, and they are still higher than in Europe.

Some over-indebted Chinese companies will also be under pressure. As of the global financial crisis, the debt of the world economy has increased by more than 40% and has grown fastest in emerging markets. It is estimated that about 87% of the debt of emerging markets is denominated in local

Instead of officially existing regulations there are unwritten, informal “administrative guidelines” for Chinese companies and authorities to force the transfer of technology.

currencies and the rest in dollars. The rise in interest rates on world markets has already raised the cost of servicing U.S. dollar-denominated debt, and has also led to capital flight from emerging economies to U.S. dollar-denominated assets.

A large margin of uncertainty

U.S. tariffs on Chinese goods could improve Europe's negotiating position, which could benefit from the concessions which the U.S. enforced on China. This would increase the competitiveness of German producers more than their American counterparts. American exporters to China and Chinese exporters to the USA will lose out in the U.S.-China trade war. This may increase the share of European companies on both the Chinese and American markets.

For emerging markets, the effects of an escalation in the trade war may vary. Over the short term, capital flight will worsen credit conditions

in these countries and will further reduce the pricing of listed companies. A slowdown in Chinese economic growth will also have a negative impact on economies based on raw materials, some of which are exported to China. Taiwanese, Vietnamese, Malaysian or Mexican companies could, however, replace Chinese companies in the supply chain for American companies.

The greatest risk for the global economy may be the appreciation of the dollar, which will hit emerging economies, as it will cause an outflow of capital.

There is always a large margin of uncertainty in such projections. The threat of a customs war affects the moods of investors, producers and consumers around the world. This is difficult to estimate, but the impact on the economy will be negative. The only question is to what extent.

WITOLD GADOMSKI

is economic commentator for *Gazeta Wyborcza*. Earlier, he was the editor-in-chief of the weekly *Cash* and of the daily *Nowa Europa*. He was co-founder of the Liberal Democratic Congress party, headed by Donald Tusk at the beginning of the 1990s. He is the author of the book "Leszek Balcerowicz", and the co-author of "Capitalism. Facts and Illusions". | Photo: Archive Gazeta Wyborcza



ASPEN REVIEW
DANIELA KRAJANOVÁ

COVER STORY
TRADE WARS
AUTOMOTIVE
SLOVAKIA

The Thoughts of Car Factory Managers on Trump's Talk of Tariffs

Cars comprise two-thirds of Slovakia's total exports to the U.S. They mostly represent the luxury end of the market, which is why Slovak politicians are not yet panicking.



When Donald Trump told French President Emmanuel Macron how much he resents seeing European Mercedes being driven around New York, it made headline news. Top managers pricked up their ears all over the world, including in Slovakia.

This is particularly relevant for the Slovak subsidiary of Volkswagen in Devínska Nová Ves near Bratislava. Every fifth car that rolls off its conveyor belt per year ends up in the U.S. And we are not talking about any old cars – U.S. customers prefer high-end models such as VW Touareg, Porsche Cayenne or Audi Q8, which are produced solely in Bratislava and nowhere else in the world. Their high-end status explains why car exports to the U.S. comprise 1.7 per cent of Slovakia’s GDP. To put this into context, the country’s total annual GDP amounts to some 80 billion euros. According to figures from the Financial Policy Institute of the Ministry of Finance, cars make up two-thirds of all Slovakia’s exports to the U.S.

The conventional wisdom in the industry has been that each job in a car making factory generates four additional jobs for subcontractors.

In terms of car exports to the U.S. as a share of GDP, Slovakia is ahead of Germany with 0.6% and Hungary with 0.4%. Apart from VW, no other carmaker in Slovakia supplies the U.S. market: most of the customers of Kia, based in Žilina, are in Great Britain, Russia and Spain, and the French PSA Peugeot Citroën supplies primarily markets in Italy, Germany and France. That explains the panic around Volkswagen, the largest private employer in Slovakia.

Is there a ‘plan B’?

VW employs more permanent staff than Kia in Žilina and Peugeot in Trnava put together. With 14,000 employees it can make a dent in national statistics simply by stopping production for two weeks in the summer and sending its staff on holidays.

In addition, the conventional wisdom in the industry has been that each job in a car-making factory generates four additional jobs for subcontractors. The prospect of VW losing a large quantity of purchase orders could have serious repercussions given that three of the company’s largest customers are at the center of a trade war. In 2017 the only country to which

the Bratislava subsidiary exported more cars than to the U.S. was Germany (28%). China, the third major participant in the escalating trade war, was in third place (13%).

This is why the question on everyone's mind is whether the German managers have a plan B in case Trump does impose the import surcharges he has promised. The German managers have been tight-lipped on the issue, insisting that it is mere "speculation" and claiming to be more concerned about precisely the opposite problem: their investment appetite has greatly outgrown the limits of local human resources, which have become increasingly expensive.

The question on everyone's mind is whether the German managers have a plan B in case Trump does impose the import surcharges he has promised. The German managers have been tight-lipped on the issue,

This is the reason why VW began to import staff from Ukraine and Serbia, and Prime Minister Peter Pellegrini paid the company a personal visit earlier this summer, promising exemptions on these imports.

Trump's threats might be beneficial

In fact, Trump's tariffs might not prove to be a huge problem for VW. The company has actually benefited up until now as Trump's tariffs on European steel made it a surplus commodity in Europe, pushing down the cost of this key element of car manufacturing.

VW's top managers have also gained time to reflect, as Trump's policies may have spurred potential U.S. buyers to invest early, if it looks as if the new tariffs could make their dream car more expensive. In fact, it is quite likely that VW's top managers have prepared a plan B or various scenarios of this kind in case Trump makes good on his threats. The meticulous German managers are used to thinking ahead.

For example, ever since 2017, when the Bratislava subsidiary faced the largest strikes in Slovakia's modern-day history, speculation has been rife about whether and how VW has been preparing to create parallel capacities for producing of luxury vehicles. This would have been quite a logical thing to do, given that what had attracted VW to Bratislava in the first place was its relatively cheap labor costs, and then, when gross salaries

topped 1,800 euros (including bonuses, and excluding top managers' pay), the unions went on strike.

Now the German managers are facing a slightly different question: what to do if the surcharges on U.S. imports go up from the current 2.5%? to 10% or even 20% (up to a maximum of 25%)? It is worth pointing out that at this stage, however, that it is far from clear what tariffs are currently applied to U.S. imports of large SUVs of the type manufactured in Bratislava. The company has not disclosed this information although some sources claim that for this kind of vehicle 25% has already been a reality for some time.

Look for customers elsewhere?

Whether it is SUVs or smaller cars produced by the Bratislava subsidiary, an opportunity that VW might pursue would be stepping up sales to other markets. On several occasions in the past, Slovak car makers have demonstrated they could deal with a crisis in this way. When Kia faced declining demand, for example, in their key market, Russia, which was being affected by sanctions, the company's management spotted a gap in the Israeli market. And it worked.

Six per cent of cars produced by the Žilina plant thus went to Israel. Meanwhile, Britain replaced Russia as the company's major customer despite looming Brexit. As a result, the carmaker was able to keep production at the same level, and even record a minute increase (from 338,000 to 339,000

The trade war saw the imposition of tariffs worth billions of dollars. No one knows how this dispute will pan out and how it will affect domestic spending.

cars). VW could follow their example and also explore other markets. Historically, China has been identified as a potential market with a demand for top-end products. The problem is that no one knows how China will be affected by the trade war, which is more pronounced between the U.S. and China than between China and the EU.

The trade war saw the imposition of tariffs worth billions of dollars. No one knows how this dispute will pan out and how it will affect domestic spending. That is why U.S. importers will also initially seek to reduce their margins. "Surcharges on imports may not necessarily bring about the end of sales but would, of course, increase the cost of individual brands, which would have to determine how much of the brunt of lowering profits they will

bear themselves and how much of it they will pass on to the customer bear via higher prices, which would take the edge off their competitiveness,” suggests Martin Jesný, an analyst with the technical journal *Revue priemyslu* [Industry Review] On the other hand, people who buy top-end cars might not be oversensitive about price.

Move production elsewhere?

Another option would be relocating production, which is currently based exclusively in Slovakia, to other markets, in other words, adapting production lines in other factories, and moving some of the car production to the U.S., keeping the part aimed at the European market in the EU and basing production for the Chinese market in China. How much such a hypothetical change of portfolio would cost and how long it might take depends on the amount of thought the German managers have previously given to this scenario.

Another option would be relocating production, which is currently based exclusively in Slovakia, to other markets, in other words, adapting production lines in other factories, and moving some of the car production to the U.S.

The insurer Euler Hermes also believes that carmakers vulnerable to U.S. tariffs might establish manufacturing bases in the U.S. and produce cars aimed at that market locally. “We can expect domestic manufacturers to reduce the volume of U.S. exports of certain models,” Martin Bak, Risk Director for Euler Hermes in Slovakia, told us. We should not forget that these models are produced exclusively in Bratislava – wherever the people who order them may be, they can get them only in Slovakia.

The other two carmakers in Slovakia are not immune from Trump’s threat either. Although both the Korean-owned Kia and the French-owned Peugeot Citroën claim in unison that they do not export to the U.S., it does not mean that they will not be affected by the problem, although it may happen to them later and to a lesser, or different, degree. In the worst-case scenario, should manufacturers of car components grow wary of spending their money on German companies and households, VW would immediately have a problem on their hands, but Kia and Peugeot would also have to anticipate how and when Trump’s tariffs would affect consumers’ willingness to spend money, and which of their business partners will be most hit.

Kia relies quite heavily on exports to Germany, Slovakia's largest export partner. Peugeot Citroën claims that 91 per cent of the cars produced in their Trnava factory go to EU countries. If European business partners run into problems with U.S. sales, their economy will slow down and that will also dampen consumer spending. If Trump imposes the tariffs he has announced, this might pose a threat.

If European business partners run into problems with U.S. sales, their economy will slow down and that will also dampen consumer spending.

The escalation of a trade war between the U.S. and China would be fatal for Germany, says Holger Bingmann, Chairman of the German Wholesalers' Association, BGA. "For Germany as an export-oriented country, the consequences could be fatal and impossible to express in euros," said Bingmann in an interview with the newspaper Rheinische Post. By comparison, the figures provided by the Institute for Financial Policy (IFP) show that U.S. tariffs would cost the Slovak economy about 0.03 per cent of GDP. This estimate would apply if the Americans imposed a 10 per cent import surcharge on cars. At 25 per cent the cost would go up to 0.11 per cent of GDP, which translates into about 100 million euros.

IFP analysts also looked at the impact import duties would have on Jaguar Land Rover. As the construction of that company's factory near Nitra has just been completed, the management is at least as concerned about Trump's threats as the VW managers in Bratislava. "An estimated 20 per cent of the new production capacities of both VW and Jaguar Land Rover were aimed at U.S. exports," according to IFP's overall economy forecast published in the summer 2018. In other words, 20 per cent of Jaguar Discovery's annual production, due to start later that year, are destined for the U.S. market.

IFP analysts have further estimated that the potential impact of U.S. tariffs on Slovakia's economy could amount to approximately 100 million euros. This is because Slovakia ranks third among countries most exposed to the risk of new tariffs. The Reuters ranking reflects the share of individual countries' participation in global supplier relations, based on the value of exports.

It is worth noting that Slovakia produces 189 cars per thousand inhabitants, which is a global record. Local carmakers broke records for three consecutive years (2015-2017), producing more than a million vehicles annually.

Is he bluffing or not?

World-class managers still have sufficient reasons to believe that Trump's threats are just bluster and that he will not dare impose import tariffs. There has recently been a debate about zero tariffs on both sides and about a deal on supplies of soy from the U.S. to the E.U.

Europe has one significant advantage in this debate. It is where many U.S. technology companies are based. European countries can thus put pressure on Trump by threatening to raise taxes on iconic companies such as Google or Facebook, who benefit from European tax havens. This may be the reason why Trump said that all he has done so far is commission a study on the impact of tariffs on European cars, which he expects will be ready by 2019. The study is likely to suggest that Europe would retaliate against a massive attack. And that, in turn, would cause problems for the U.S. economy. "We will not sit idly by while our industry is hit with unfair measures that put thousands of

It is worth noting that Slovakia produces 189 cars per thousand inhabitants, which is a global record. Local carmakers broke records for three consecutive years (2015–2017).

European jobs at risk," is the message President of the European Commission, Jean-Claude Juncker sent to Washington in the summer of 2018.

BMW has a U.S. subsidiary, for example, that also produces for the European market, including top-end models. The same company has recently announced its plan to build a new plant in Hungary in order to "maintain a worldwide balance of production between Asia, America and our home continent," said Harald Krüger, chairman of the BMW AG Board of Management. BMW is not the only firm, of course, that could turn U.S. tariffs against Trump. VW and Daimler also produce cars in the U.S. for export. "Protectionist measures can have a negative impact on car manufacturing in the U.S. because production aimed at the rest of the world could begin to move somewhere else," says Jesný.

The tariff issue can prove useful to Donald Trump, however, in mobilizing his own voter base. DVW management in Bratislava, as well as their bosses in Wolfsburg, must bear this in mind when they hear Trump speaking of tariffs.

And one more thing: they have a few tried and tested tricks up their sleeve from the years of crisis. Volkswagen at that time let go a large number of agency workers while additionally introducing flexi accounts for

permanent staff. As a result, even those employees who were temporarily laid off did receive their wages, they just had to earn them later.

And since the crisis hit primarily the demand for expensive cars, it came in handy that the production of new urban vehicles had been channeled to Bratislava. Since then this plant has also begun producing the Škoda Citigo, the Seat Mii, the VW Up and its electric version.

Europe has one significant advantage in this debate. It is where many U.S. technology companies are based. European countries can thus put pressure on Trump.

Cars as destiny

Government analysts, caught up in this debate, know that what helped considerably to compensate for the shock of the 2009 crisis was the fact that each car manufacturer was producing several models with a different life cycle, not all of which were equally affected by any particular crisis. This is why government planners are concerned less about the risk of an insufficiently diversified economy and more about focusing on new investment in research and development.

Finance Minister Peter Kažimír reassured the public in the summer of 2017 that a trade war could not possibly have a great impact on Slovakia's economy, estimating its effect on the country's economic growth at 0.05 to 0.12 per cent of GDP, which he regarded as a relatively negligible figure. The coming months will show whether his optimism was justified.

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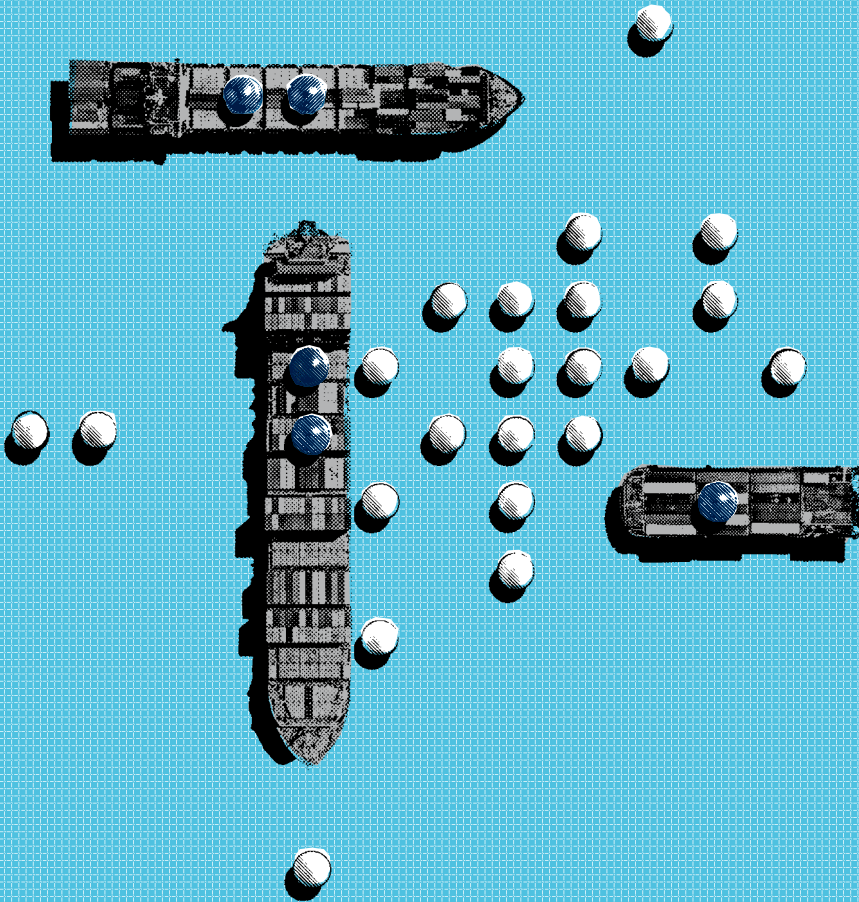


ASPEN REVIEW
LUKÁŠ KOVANDA

COVER STORY
TRADE WARS
GLOBALISATION
ZERO-SUM GAME

Aspen Young
Leaders

A War in Which We Will All Be Losers



The winners and losers of the current variant of globalization are pitted against one another, just as in the past. Although the losers are becoming politically radicalized, forecasts concerning the demographic development for the near future nevertheless raise the hope that, even in the era of hyper-globalization, the negotiating power of human labor will continue to grow. This is why we must continue to adhere to the principles of the freest world trade possible, and not succumb to dark analogies with the twentieth century.

The one whose name must not be spoken. A terrifying figure. This is how central bankers and the world's leading economists came to see U.S. President Donald Trump soon after he was elected in 2016.

The fact that they regard the U.S. President as their Lord Voldemort became apparent as early as last year, at the elite Jackson Hole symposium in Wyoming. All the bankers and economists attending the conference seemed to be under his spell. Although Mario Draghi, President of the European Central Bank, did not explicitly mention Trump in his address, it was

In global terms, the share of the economically active population has increased enormously, when compared to economically dependent children as well as economically dependent seniors.

nevertheless obvious that he was making a plea for continued globalization and free trade precisely because the current White House occupant was the anti-globalizing Lord Voldemort.

Draghi also explicitly cited Dani Rodrik, a Harvard economist who has drawn a parallel between the first wave of globalization, which occurred roughly between 1870 and 1914, and the current wave of globalization, or – to use Rodrik's term – hyper-globalization. The first wave was linked to inventions such as the railroad, the steamboat or the telegraph. It had its winners and losers.

Rodrik argues that in their frustration the losers eventually resorted either to left-wing radicalism in the form of Communism, or to national radicalism in the form of Nazism or Fascism. This resulted in the emergence of totalitarianism, which left much of the twentieth century steeped in blood. In Rodrik's view, the political radicalization that accompanies the current



hyper-globalization is as alarming as it is predictable, due to historical experience and the laws of economics.

Rodrik thus believes that it was equally predictable that the losers – for example, a factory worker in Detroit who has lost his job to a Chinese laborer working for a bowl of rice – would be driven by a Pavlovian reflex to leap into the comforting arms of some radicalizing political trend of a nationalist or left-wing nature, just as in the twentieth century.

The nationalist trend is epitomized by Lord Voldemort Trump or France's Marine Le Pen. Bernie Sanders and Jeremy Corbyn in Britain, as well as movements such as the Greek Syriza or the Spanish Podemos, represent in contrast the left-wing trend.

Re-living the horrors of the twentieth century

A political polarization is undoubtedly under way in the West, with growing inequality in the era of globalization being a key cause. This is why Draghi and Rodrik have called for “a modified globalization”, which would ensure a continuing increase in redistribution that would, in turn, alleviate symptoms of inequality.

Rodrik's chilling analogy with the developments of the first half of the twentieth century is, unfortunately, not entirely surreal. It is quite likely, however, that re-living the horrors of the twentieth century might – rather surprisingly – be fended off by the process of demographic aging not just in the West but also in countries such as China.

On first hearing, this may sound rather bizarre since, after all, aging is a key threat faced by the world. So how could it possibly be the blessing that might fend off Rodrik's glum parallel?

The global economy has been in a rather extraordinary situation for some 35 years. In global terms, the share of the economically active population has increased enormously, when compared to economically dependent children as well as economically dependent seniors. This has occurred because, while birth rates have been decreasing, the increasing life expectancy at birth, a key factor in population aging, has yet to manifest itself to an extent that might stem the growth of the share of the economically active in the overall population.

This share has culminated in the current decade and is set to decrease, most noticeably in the economically developed part of the planet. It has released an enormous global supply of labor, following a boost in the

late twentieth century, when the relatively isolated countries of Central and Eastern Europe and China in particular joined the global market.

Human labor is less precious and valuable

Over a short space of time, these countries' participation brought about an unprecedented increase in the labor force, of a dizzying 120 per cent, which the global market was able to tap into. In the era of hyper-globalization, this is a major reason for the stagnation of wages that has particularly affected the developed economies of the West. For a while it has simply made human labor less precious and valuable.

The West, and China in particular, are facing decades of palpable aging. The ratio of economically active individuals to older people will decrease dramatically. This is likely to lead to tax rises.

The UN predicts, however, that by 2040 the annual growth in the world's population will slow from the current 1.25 per cent to 0.75 per cent. The West, and China in particular, are facing decades of palpable aging. The ratio of economically active individuals to older people will decrease dramatically. This is likely to lead to tax rises, necessitated by the increasingly urgent need to increase old age pensions, while the pressure on wage rises will also continue to grow.

This is because human labor will become scarcer and thus also more expensive, despite the increase in automation and robotization. The negotiating power of employees will grow considerably, purely for economic reasons, without any need to strengthen the role of trade unions. The diminishing proportion of wages in the total size of the economy, as recorded in developed countries since the 1970s, is thus likely to reverse of its own accord quite soon. This, in turn, will destroy the key source of inequality and thus also of political polarization, raising the hope that Rodrik's analogy may be wrong.

Although the full scope of the horrors of the twentieth century might not materialize, political polarization today is quite evident. It is embodied in the figure of Donald Trump, with his steps to impose import duties being its symbolic manifestation. Trump hopes that tariffs will put an end to the unfavorable effects of hyper-globalization. He believes that by making Chinese labor more expensive he will restore jobs in Detroit.

Trump is behaving like a typical estate agent

In this respect Trump is behaving less like Lord Voldemort than like a typical estate agent. He is betting on the use of power. This is what his experience has taught him: it's either me or the competitor who will own this lucrative building in Lower Manhattan or that great property in Florida. There is no other option, no compromise is possible. Similarly, Trump tends to view foreign trade as a zero-sum game. He must suspect that the trade war he has unleashed this year might also affect the U.S. economy, but he is betting that it will impact China or the European Union sooner and to a greater extent.

Trump tends to view foreign trade as a zero-sum game. He must suspect that the trade war he has unleashed this year might also affect the U.S. economy.

At first sight his bet seems to be working out. Current U.S. growth figures have exceeded expectations. Over the course of the third quarter of this year, the economy has grown by 3.5 instead of the predicted 3.3 per cent. This growth has been driven primarily by household consumption.

Growth has also been significantly boosted, however, by companies stocking up on goods and filling their storehouses to the rafters, driven by fear of an escalating trade war. Trump has threatened to impose further tariffs on Chinese imports as early as next January. It would be foolish to bet on an early end to the trade war with China. This is why U.S. firms are hoarding. But of course, you cannot keep hoarding forever. It is a one-off effect that will begin to wear off in the current, fourth quarter. And what will be left behind is fear. Fear of the impact of the trade war. It must be quite enormous if it can shake up macroeconomic figures to such a degree. Otherwise U.S. firms would not be quite so eager to hoard.

As long as companies fear an escalating trade war and further tariffs, they will be filling their storehouses, creating a beneficial effect in the short term. In the run-up to the midterm elections, Trump took credit for this. The same fear, however, is making companies hesitant to invest. The rate of investment in the third quarter was sluggish. This could augur the start of an economic slowdown in the U.S. and before too long the painful impact will also be felt elsewhere, including in Central and Eastern Europe and within it, the Czech Republic.

Open economies are highly sensitive to cost increases

It is precisely the small, open economies such as the Czech Republic's that are deeply enmeshed in global value chains, making them highly sensitive to any cost increases in international trade. Larger EU economies, Germany's in particular, are also entangled in these chains to a higher degree than is the U.S. This does indisputably put Trump at an advantage which, in turn, amplifies – albeit indirectly – the negative impact on the Czech Republic, whose main business partner is the EU in general and Germany in particular. Trump thus indirectly represents the greatest threat to the Czech Republic's economic prosperity. Should he impose fresh tariffs, for example, on car imports from the European Union – an idea he continues to toy with – the negative impact on the Czech Republic would be felt mainly by subcontractors of German car manufacturers rather than by companies exporting finished cars, since the Czech Republic's annual exports of these to the U.S. amount to merely a few dozen.

The question is whether the outcome of the November elections to the U.S. Congress will deter Trump from imposing fresh tariffs. Although the American President declared the results of the elections “a tremendous success”, he must undoubtedly also see it as a kind of warning for the 2020 election that is approaching slowly but inexorably. On the other hand, Trump is the fourth President in a row to lose his majority in the House of Repre-

The fact that the Republicans failed to translate the low unemployment and (as of early November) a still rather strong stock market into a better election result should thus serve as a stark warning to Trump.

sentatives two years after being elected, suggesting that such a result may be the rule rather than the exception. Admittedly, Trump has been aided by an exceptionally well performing economy, whereas his predecessor Barack Obama was not so fortunate. The fact that the Republicans failed to translate the low unemployment and (as of early November) a still rather strong stock market into a better election result should thus serve as a stark warning to Trump, given that this election was, to a large extent, a referendum on his performance in the White House to date.

The tense atmosphere in global trade

Although the Democrats have gained control over the House of Representatives, it is far from certain that this will put an end to the trade war. A divided Congress is likely to reach consensus not only on further infrastructure expenditures but also on a continuation of the trade war with China. The Democrats are historically more inclined to impose new, higher tariffs than the Republicans, and thus they – or at least many of them – might back Trump's policy towards China.

The question remains whether Trump himself will continue to escalate the issue. It is also possible that in light of the election result, even without actual pressure from the Democrats, the President will tone down his rhetoric of his own accord and start behaving less aggressively, and not only in terms

The Democrats are historically more inclined to impose new, higher tariffs than the Republicans, and thus they – or at least many of them – might back Trump's policy towards China.

of the trade war. But should that fail to happen, the Czech economy should brace itself for significantly slower GDP growth and higher unemployment. The tense atmosphere in global trade overall has already begun to make the Czech economy less dynamic. The growth figures for the third quarter have been quite disappointing, unlike those for the other three Visegrad Group countries, where growth exceeded expectations. The Czech economy has apparently suffered the consequences of being linked too tightly to the German car industry, which in the third quarter was indeed hit by the effects of the trade war.

The stakes are high

Should a trade war of moderate gravity and lasting longer than several quarters or even years become a reality, economic growth in the Czech Republic would slow, on average, by 0.9 to 1.2 percentage points. By adopting an appropriate economic policy, the Czech economy could subsequently adjust to the new conditions. In the worst-case scenario, however, it could slump into prolonged economic stagnation that would inflict even more marked long-term societal damage on the country and its population. In summary, the stakes are high. As long as the mentality of a real estate agent and the idea that world trade is a zero-sum game prevails in the White House, we will be

the losers. And this is true not just of the smaller and more open economies, but will eventually also apply to everyone else.

Demographic aging and the related increased scarcity of human labor and the growing negotiating power of employees might in the future provide a strong counter-current to social polarization and radicalization. Until then, however, everything possible needs to be done to ensure that the perception of global trade does not suffer irreversible damage. It is imperative in this respect to staunchly defend the principles of the freest global trade possible because its benefits will become much more apparent again in the future, in every walk of life.



We invite alumni of the Aspen Young Leader Program to present their projects, thoughts and inspiration in Aspen Review. Aspn.me/AYLP

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a Czech economist and author of economic literature, is Chief Economist at CZECH FUND. His work there includes analyzing and commenting on macroeconomic issues, investments, and emerging phenomena such as sharing economy, cryptocurrencies and fintechs.



ASPEN REVIEW
KONRAD NIKLEWICZ

INTERVIEW
BREXIT
EU BUDGET
MFF



Janusz Lewandowski: The Brexit Budget Gap Is Not the Problem

Brexit is a huge impediment in Multi-annual Financial Framework negotiations but also an opportunity: it opens the window of opportunity to reform the income side of the EU budget – says Janusz Lewandowski in an interview with Konrad Niklewicz

KONRAD NIKLEWICZ: How advanced is the process of negotiating the next Multi-annual Financial Framework?

JANUSZ LEWANDOWSKI: As we speak, nothing indicates we can reach the publicly declared goal of agreeing on the Multi-annual Financial Framework 2021 – 2027 before the European Parliament Elections in May 2019. That should not come as a surprise, at least not for me. I have never been an optimist, my own experiences, related to Multi-annual Financial Frameworks, suggested such a feat would be almost impossible. I remember all too well that it took us two and a half years to agree

on the current MFF (2014 – 2020). This time, the European Commission presented its project of the MFF in the middle of 2018. One would need a genuinely exceptional political will to reach a common position on the level of Member States' governments, and receive the European Parliament's consent in the scope of nine months. Only nine months! European Parliament goodwill (it adopted its initial position very quickly, on 14 November) and Budget Commissioner Günther Oettinger's pleas were just not enough. How quickly negotiations progress at present depends on the Austrian

Presidency of the EU. The Austrian Presidency has managed thus far to map the negotiating positions of different governments, allowing it to prepare the “discrepancy report”. The formal negotiations have already started, albeit only on technical matters. By the time the December 2018 European Summit convenes, we should all know if the governments feel ready to go to the next level – political negotiations. I personally doubt they will. Having said that, I understand the willingness to reach a deal before the European elections.

The Multi-annual Financial Framework, the EU budget in short, is the vision of the Union expressed in real money, not in empty words.

The Multi-annual Financial Framework, the EU budget in short, is the vision of the Union expressed in real money, not in empty words. We can only guess what the next European Parliament and the following Council composition will look like. The rise of Euroscepticism, adverse to the very notion of the Union budget, is unfortunately probable.

Are the countries of the region, Poland in the first place, well prepared for the upcoming MFF negotiations?

Allow me to focus on Poland, by far the largest country in the CEE region and so far the biggest recipient of EU funds. The Law and Justice government has only

weak cards in the EU budget game. It is confronted not only with the European institutions in Brussels but also with the many Member States. In the first place, it is in conflict with Germany, the biggest net-payer to the budget. For the last three years, the Law and Justice government has been peddling anti-German propaganda and demanding reparations for World War II. Poland’s current position in the negotiations is precisely the opposite of what it was the last time. I remember well the negotiations we led in 2011 – 2013. I remember the adverse conditions, the deep economic crisis in the background and the repeated calls for “austerity”. And yet a miracle happened: for the first time in history the Multi-annual Financial Framework shrank (compared to the previous one), but the allocation for Poland, the MFF main beneficiary, grew. Poland received 120 billion euro in cohesion funds and direct payments to farmers. This was a record-high amount, never to be repeated. It would not have been possible without PM Donald Tusk’s government credibility. The position the Law and Justice government has maneuvered itself into means painful losses for Poland.

To what extent will Brexit complicate negotiations? Once the U.K. leaves the EU, its current net contribution to the budget will be no more. How problematic is it from the Central European perspective? Do governments and

EU institutions have any idea how to fill this several-billion euro gap?

Contrary to what the Polish government says, Poland's worsened position in the draft EU budget (as proposed by the European Commission) is not related to Brexit and the subsequent termination of the British contribution. Many European governments, including the one in Berlin, have declared that they were ready to contribute more. Based on the willingness of the governments to pay the note, the European Commission proposed an increased, I repeat, increased amount of the Multi-annual Financial Framework, both in commitments and in payments. The European Parliament was even more ambitious. So, looking from our perspective, the "Brexit budget gap" is not the problem. The problem is the Law and Justice and Fidesz governments' lack of credibility! It is precisely because of the policies of Orbán and Kaczyński that we will probably face the transfer of some funds from our region (the CEE) to the South.

Of course, one might always ask if the European Commission proposal will stand. Governments and the European Parliament can change the substance of MFF.

The European Commission's proposal is well structured, it addresses the new competencies and obligations transferred to the European level, related to

the migration policy, protection of the EU external borders and to the defense union (in statu nascendi). Fortunately for our region, the long-discussed budgetary instruments reserved for the Eurozone members (55 billion euros)

The Law and Justice government has only weak cards in the EU budget game. It is confronted not only with Brussels but also with the many Member States. In the first place, it is in conflict with Germany.

are within the EU budget. I purposely said "fortunately": should the Eurozone instruments be outside the Multi-annual Financial Framework, we would face irrefutable proof of "a two speed Europe". A disaster for us, if you ask. It should come as no surprise that the Member States governments' initial reaction to the European Commission proposal confirmed the existence of two major "clubs" in the EU, friends of the "better spending" (which translates into cutting the budget) and supporters of an increased budget. Net payers, with the notable exception of France and Germany, are in favor of reducing overall spending to 1% GNI (Gross National Income). The European Commission proposed 1.11% of the GNI. The Commission proposal includes the European Development Fund. In the past, the EDF was not

considered part of the MFF. If we extract, however, the EDF, the Commission proposal stands at 1.08% GNI.

The European Commission wants the MFF to finance new activities. The overall increase in the EU budget, if any, will not be substantial. Does this mean the financial framework will guarantee less money in traditional areas, such as cohesion policy and agriculture?

Indeed, the European Commission proposed financing the new policies at the expense of the old ones, especially the Cohesion Policy and Common Agriculture Policy. For the last 30 years, the two have been dominating the subsequent Multi-annual Financial Frameworks. The Cohesion Fund might be the most affected: the European Commission proposed shrinking it by 46% compared to the 2014-2020 budget. Simple comparisons might be misleading, however, as

Looking from our perspective, the “Brexit budget gap” is not the problem. The problem is the Law and Justice and Fidesz governments’ lack of credibility!

the structure of the draft budget 2021-27 is different. The Social Fund, for example, currently part of the Cohesion Policy, is to be moved to a new heading: “Investing in People, Social Cohesion and Values”.

There is a new element in the European Commission proposal. For the very first time in the EU’s history, the national allocations are drafted as well (in the past, the Commission drafted them at a later stage). By doing so, the European Commission clearly indicated who would be the winner and loser of the new Multi-annual Financial Framework. The differences in net positions are going to be huge, hence, finding common ground will be difficult. Our region is in a particularly dangerous situation. The European Commission sees the Czech Republic, Hungary, Estonia and Malta losing 24% of their allocations. Poland’s and Slovakia’s cut is at 23%.

What countries will benefit?

Mostly Spain, Italy, Greece, Romania and Bulgaria. There is without a doubt some justification for such a change: these countries bear the costs of the immigration crisis. The suggested differences between national allocations are so high, however, that they may render an agreement impossible to reach. As far as the Common Agriculture Policy is concerned, one should note that the direct payments are not leveled ambitiously enough; the cuts are concentrated within the second pillar of the CAP: European Agricultural Fund for Rural Development (EAFRD). The reduction of the allocation for the EAFRD is steep in the case of Poland: 26%. Moreover, the

European Commission proposed limiting the so-called “modulation”, allowing a transfer of the funds from the second pillar to the first pillar. Poland used to be allowed to move 25% of the funds from the second pillar to the first pillar. The Commission now proposes 15%. Even more importantly, the cohesion funds criteria also changed, in a way that favors Southern Europe. In the European Commission proposal, the GDP criterion weighs less; youth unemployment, the quality of education, the costs of fighting the climate change and the costs of accepting immigrants – they all gained in importance. This explains the sudden change of national allocations in the Cohesion Policy envelope.

Locked in a bitter dispute with Poland and Hungary, the European Commission has been raising the idea of connecting the EU budget, especially the cohesion funds, to rule of law. Is this threat real?

Unfortunately, yes. The European Commission was serious about tying rule of law to EU budget payments. We need to look at this issue from the perspective of Brussels. The case of Poland and Hungary has clearly demonstrated that the European Union is institutionally not prepared for a situation in which a member state deliberately breaks the fundamental rules. Article 7 of the Treaty turned out to be weak as a tool

to sanction countries. The European Commission therefore decided to introduce a financial sanction in the draft budget proposal for the 2021-27 period. The mechanism was added to the already existing macroeconomic conditionality.

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It allows for suspending payments in case the rules are breached. And I am sorry to say that Poland and Hungary inspired this new kind of conditionality. There is, however, a silver lining: at the request of the European Parliament, measures were taken so that sanctions should not hurt the end-beneficiaries. Once the rule of law conditionality kicks in, the EU funds will be suspended, but the Member State in question will have to pay the program beneficiaries from its own, national budget.

Will the anticipated Brexit serve as an opportunity to get rid of the notorious system of budgetary “rebates”?

Margaret Thatcher’s idea has been effectively poisoning each and every budget negotiation as of 1985.

Brexit is also a huge impediment in MFF negotiations but also an opportunity: it opens a window of opportunity to

reform the income side of the EU budget. London's categorical refusal to surrender the rebate practically froze any discussion on the EU budget own resources system. It is exactly the same as what it was in the 1980s. Years passed, their own resources remained unchanged, becoming more and more opaque and less and less justifiable for its citizens. The British rebate was a sort of "exception to the exception" people usually detest. The very existence of the British rebate pushed other countries to follow anti-European logic known as "juste retour" – a just return. It is as if the EU was a limited liability partnership, where all the partners expect to gain only the monetary

Even more importantly, the cohesion funds criteria also changed, in a way that favors Southern Europe. In the European Commission proposal, the GDP criterion weighs less;

profit, nothing else. As you said, the rebate created tensions among the Member States each time they negotiated the MFF (or annual budgets). I remember the last time we tried to get rid of the British rebate in 2011 and introduce a financial transaction tax and simplified VAT rules. Our efforts were torpedoed by Prime Minister David Cameron, under the excuse of defending the "juste retour". By the way, that was the beginning of PM Cameron's preparations for the wretched referendum... Now, with the United Kingdom leaving

us, the time has come to reform our own resources system, including the rebates. The European Commission proposal is going in this direction. The Commission proposes introducing new sources of income of the EU budget: it will receive part of the income from the corporate tax and the European Trading Scheme. A new levy – plastic packing waste – will also finance the EU budget. Unfortunately, the European Commission also proposes a package of "corrections" (it is avoiding the word "rebate") for Austria, Denmark, Germany, the Netherlands and Sweden. Corrections are supposed to be phased out over the course of MFF 2021-27. I am a bit surprised that the Commission proposed such a mechanism already at the initial stage of negotiations. If I were the Commission, I would keep it as a last night bargaining chip, used to win the support of the net payers. Last but not least, we need to remember that any agreed own resources system will have to respect the fiscal sovereignty of the Member States. All the national parliaments of the EU will have to ratify the end of the rebates. I'm looking forward to it.

What does the European Parliament expect from the new Multi-Annual Financial Framework?

I was one of the co-rapporteurs of the EP's Interim Report, adopted on 14 November 2018 in Strasbourg. And I was not the only Pole among the four co-rapporteurs

– my colleague Jan Olbrycht was part of the team as well. So it is fair to say that the European Parliament position, as described in our document, clearly reflects the Central European point of view.

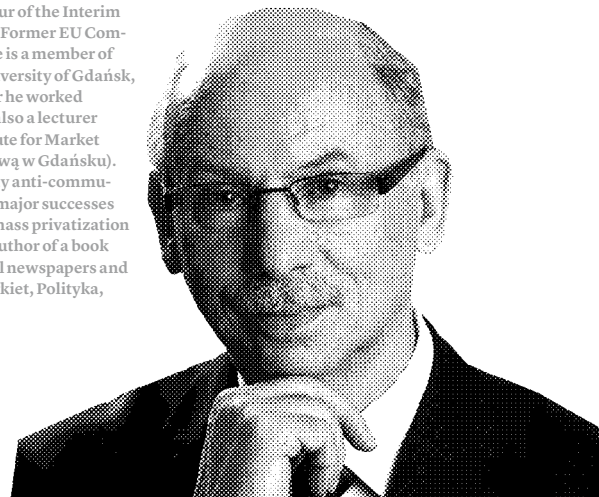
First of all, the European Parliament is asking for a 1.3% GNI budget. Secondly, we demand stricter linking of the income and payments side of the budget. Thirdly, we reject the idea of financing the new activities (such as the protection of external borders and immigration) at the expense of the Common Agriculture Policy and Cohesion Policy. We also call for an increase in funding for research, innovation and small and medium enterprises. We also are pushing for the Erasmus+

The case of Poland and Hungary has clearly demonstrated that the European Union is institutionally not prepared for a situation in which a member state deliberately breaks the fundamental rules.

program budget (student exchanges) to be tripled. Finally, we reaffirm the readiness of Parliament to start the MFF political negotiations now, to successfully end them by May 2019. Looking at the progress in the Council and bearing in mind my own experiences from 2011 – 2013, I doubt if it is possible.

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The EU After Brexit

Piotr Buras As I am writing this text, there are barely a hundred days left to Brexit. The mist surrounding the prospects for Britain's future relations with the European Union is as dense, however, as that over the Thames on an average fall or winter day. Although we still do not know under what conditions, when and perhaps even whether Britain will leave the EU, the question of the impact of all the turmoil on the EU is becoming increasingly important. We will be arguing about what lesson the EU should learn from Brexit in the elections to the European Parliament. And the "post-Brexit" EU will be a slightly different entity than before, when the rebellious, capricious, but still so important British people were still among us. Brexit is mentioned alongside the euro crisis, the migration crisis and the crisis of populism as one of the most important crises that have impacted the European Union in recent years. When it finally happens, are we really going to wake up among debris and ashes?

The impact of Brexit will be much smaller

The drama staged in the Brexit theater, with almost daily declamations of new lines, heartrending divorce scenes and an impenetrable plot written by a crazy scriptwriter, contributes to the misunderstandings connected with this crisis narrative. Yes, Brexit is an idea as senseless as it is harmful to the

countries of the European Union. And the energy spent on it at EU summits, in press releases and public discussions could be used much better. It is absurd, however, to place it in the same basket with problems which will undoubtedly determine the future of the European project. Not much is known at present about the conditions of Brexit, but one thing is certain: its impact on the fate of the EU will be much smaller than the current turmoil suggests.

The idea that Brexit is the fault of the EU and that the EU has to change, in order to avoid a repetition of this scenario in other countries, is a myth disseminated by those who prey on cheap criticism of the EU. The problems of EU countries in overcoming problems related to the euro and refugees have, of course, provided additional fuel for those who are in favor of leaving the EU. The main argument, however, for Brexit was the lies about the bright future facing a global Britain and the desire to reduce labor immigration at all costs. If the EU were to actually learn a lesson from Brexit, in accordance with what has been suggested by its critics placing responsibility on it, it should abolish the principle of free movement of labor. This is prob-

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ably, however, not what they are aiming at. The EU has many deficits and problems, but the reasons for Brexit are very loosely linked to them (if at all). In other words, the British are leaving the EU not because of what it is like, but for completely different reasons. If there is any lesson to be learned from this experience for the countries and institutions of the EU, it is a warning against madness which ends badly. It seems that the first effects are already there. According to the Eurobarometer, EU citizens trust the EU more and more and European populists are having to change their strategy. Instead of dreaming of leaving the EU, they are planning to change it from the inside (which may be worse, but that is another issue).

A significant shift in the political balance of power

This is not to underestimate the importance of Britain's exit from the EU. Although the British represent only 12.9% of the EU population, their share of the GDP of the block as a whole is 16.1%. Some countries (Ireland, the Netherlands, Germany) and sectors will be more affected by the British exit from

the common market than others. According to the *Financial Times*, the EU without London will have higher unemployment and lower productivity and will be overtaken by the United States in the ranking of the largest economies. Correspondingly significant are British contributions to the budget, with the EU sorely missing the approximate EUR 11 billion a year. Brexit will also lead to a significant shift in the political balance of power in the EU, the final shape of which we do not yet know, as it will depend on the strategies adopted by the Member States.

While most observers focus on the growing role of Germany, the most important will be the dynamics of the relations among medium-sized and smaller countries. Certain states have already spotted their chance. “The European Union without Britain will be a more open field for the Netherlands. This requires a flexible and proactive approach, open to cooperation with all countries. A network of changing partnerships will also help to prevent a widening of divisions in Europe - North versus South, East versus West,” write leading experts of the Clingendael think-tank advising the Dutch government. The activity of Prime Minister Marek Rutte as informal leader of the new Hanseatic League, a group of Northern European countries which speak in one voice on euro issues and with demands that are at cross-purposes with French or Franco-German ideas, is a good example of how the

While most observers focus on the growing role of Germany, the most important will be the dynamics of the relations among medium-sized and smaller countries.

Brexit perspective influences political calculations. As shown by Caroline de Gruyter in an analysis written for Carnegie Europe, the UK’s exit will encourage member states to build new coalitions, which will translate into decisions concerning the future direction of integration. In some areas, such as defense policy or the euro, there may be even more at stake. But whether this happens or not will depend much more on the will of the rest of the EU 27 than on whether or not the British people will continue to sit at the table.

The threat of a Union changed from the inside

Brexit will therefore require adaptation, both economic and political, from all the actors involved, and this will be easier for some and harder for others. As such, however, it will not bring about a catastrophe, nor will it become an

example to follow. It is apparent at present that the threats related to Brexit, which were discussed two years ago in the pre- and especially post-referendum shock, are not Europe's greatest concerns. The threat of disintegration, due to another exit, is not what should keep us awake, but the vision of a Union changed from the inside by its overt and covert enemies. "Poland in the heart of Europe" is the new slogan of the Polish ruling party Law and Justice (PiS), which sounds like both a mockery and a warning.

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What Europe will be like and where its heart will lie is the real issue in this year's dispute over Europe. The absence of the British people will be unpleasant, but it will only have a very limited impact on whether and how we will be able to answer these questions. In other words, a possible future crisis in the EU will be the result of our own ineptitude and not the fault of the British people's decision. And they will have to swallow their own bitter pill.

PIOTR BURAS

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Bad Times Just Around the Corner

Some two decades ago, far-right parties were but a marginal presence. At present, however, one in four votes cast was for a far-right party. For them, the forthcoming European elections is a mere rehearsal.

The citizens of the European Union will be called to cast their votes in several months for the future composition of the European Parliament. The degree of importance politicians place on preparing for the forthcoming European elections varies from country to country. In Central and Eastern Europe, parties are working on drawing up lists of potential candidates, and names are being thrown out to the public, to test their ability to garner votes. Other countries, those willing to place a larger stake in the local awareness of the European elections, have already jumped over intra-partisan petty disputes, and have begun building campaign teams. Hungary, for example, invited Steve Bannon, U.S. President Donald Trump's former political strategist, to work with Prime Minister Viktor Orbán in the run-up to the elections. Why him? Apart from his valuable political strategic knowledge and network of connections, he has established a foundation, The Movement, to elect right-wing nationalist and populist members to the European Parliament in May 2019, a project that was heartily welcomed by Orbán.

Orbán is testing the fringes of populist behavior

The chemistry between Bannon and Orbán is no longer a secret in Budapest, where the former would like to place the headquarters of The Movement. This is at least what the international media reports. Why Budapest? Because, in Bannon's words, the next European elections will amount to a clash between forces led by core EU members (Germany and France), and eurosceptic members like Hungary, who are prepared to deftly rally like-minded EU members around Orbán's banner.

Here comes the paradox: Orbán's party, Fidesz, is a member of EPP, although in risk of being cast out from the group. Within the EPP group, however, he seems to enjoy, with a broad and relaxed smile, enough support and recognition to face whatever attempts arise to remove his party from the political family. In fact, Fidesz, as seen through its President's rhetoric and public statements, is not moving away from the basic ideological principles embodied by the EPP and its members, but is testing the fringes of populist behavior. And this is where the Orbán and Bannon meet and speak the same language. For Bannon, populism equals right-wing activism (with all its traits, as described before), whereas for Orbán, populism, although never invoked or quoted in the open, means asking the right questions at the right time, no matter how painful or direct, and no matter whether the respective answers might be wrong. The electorate will decide upon them in the end, and is likely that it will decide in favor of the likes of Orbán.

The far-right parties will win the European elections in 2024

Let us return, however, to Bannon's activity. He does whatever he can to ensure that the 'clash' will occur. He was recently quoted saying, in a messianic tone: "All I'm trying to be is the infrastructure, globally, for the global populist movement." And he tirelessly strives to do just that, paying visits to the leadership of the French far-right National Front, meeting in Zürich with high-ranking representatives of the German Alternative für Deutschland (AfD), feeling at home in Italy after the electoral victory of the populist parties, lecturing crowds and delivering speeches. How could he not visit and perhaps support Orbán, who, in his views, is a "hero" and "the most significant guy on the scene right now"?

It is indeed hard work to bring together nationalists and populists - all eurosceptics at their best - around the dream of winning the majority in the European Parliament. Steve Bannon knows their voices are somewhat muffled at home and on the continent; they are not properly heard by the continental electorate. And yet, Bannon is well aware of what needs to be done, handcrafting a media platform able to make those voices resonate and echo everywhere, like organ sounds in a Medieval cathedral, as a battle cry to reach out to the very emotions of the voters. There is limited time, however, to accomplish this self-imposed task, which means that all needs to be ready and established for the next European electoral round, i.e. in 2024.

For the far-right national parties, it is this date, in 2024, when their European representatives could outnumber the representatives of other groups, such as the EPP or the S&D. 2019 is a mere rehearsal, but nevertheless important for steering the political boat properly. In the meantime, until May 2019, the national polls and election outcomes of 2018 suggest that far-right parties will gain ground ahead of the European vote. The far-right has become trendy, and far-right appeal using the populist formula, seems to be successful.

The trendy far-right parties all over Europe

This has been the case in Sweden where the anti-immigration and eurosceptic Sweden Democrats party could double its seats in the European Parliament, if it matches the 17.6 percent it achieved in the national vote this September. And this is happening in historically open, prosperous, tolerant, liberal Scandinavia! Some say it looks like a wide-spread disease, affecting Denmark, Norway, Finland, and now even Sweden. It has been looming in the dark for years, and constantly growing in voter support. Let us take a look at the recent history of Sweden Democrats. In the late 1980s, a group of neo-fascist extremists formed the party. In 2010, after decades of shadows and general mistrust, the party jumped, in the space of just three elections, from a 5.7 percent share of the national vote (2010, when its representatives entered the parliament), to 12.9 percent in 2014, and 17.7 percent this year. The party has become attractive, and it may be just a matter of time before it will be asked to join the governing coalition. Academics would bet on it.

The same things are taking place in Denmark, Norway and Austria. Take the case of the last-mentioned. The far-right Freedom Party (FPÖ) in Austria was founded in 1956 by a former unrepentant Nazi and first won more than 20 percent of the vote in 1994. When Chancellor Wolfgang Schüssel invited Jörg Haider's FPÖ to join the government in February 2000, the public outcry forced the EU to adopt sanctions, ceasing cooperation with Vienna, ostracizing the members of the executive, refusing even basic interaction between the other 14 EU member states and Austria. We tend to forget that, if the normal course of events had come about, Haider would have received the chancellorship. This did not happen. Seventeen years later, however, FPÖ is a direct partner of the center-right ÖVP, and the second member of the actual coalition. Have you heard any sounds of protest from their European counterparts? No, nothing, but a dense silence, amounting to recognition.

Traditional parties shying away from confrontation

Far-right parties have been offered the chance to come out into the limelight, and thus be accepted (not tolerated!) by center-right traditional parties. Far-right parties have been given a symbolic uplift; the center-right believes naively that political predators can be tamed and made acceptable for the European public morale – the more they share the same rhetoric on immigration and the future of the EU – whereas the far-right enjoys inclusion and access to executive power. If the lines between conservative and the extreme-right become so blurred and fluid, why not allow Fidesz to be an example of the missing link? Mr. Bannon views this as the rationale behind his endeavors.

Poland and other Central Europe countries also rejected a budget specific to the Eurozone, albeit for other reasons. They fear that this will entail a reduction of the European budget.

Why would a commentator, like myself, have the feeling that 2024 will mark the success of an unstoppable march, ein unaufhaltsamer Marsch, towards a complete electoral victory? I do so because, on the one hand, mainstream traditional parties – say a young Romanian political scientist – are likely to give way to allow such things to happen. They beat into retreat, shying away from confrontation, or striking a compromise (or what they believe a compromise could be!), asking for political support or cooperation in sharing power. Second, let us have a look into what recent polls indicate: populist parties, i.e. far-right parties, have more than tripled their support in Europe in the last two decades. Their leaders are in the governments of eleven countries Europe-wide, and these governments seem solid and consistently backed up by the national electorates.

The snowball-effect

It has been a case of steady growth. Some two decades ago, they were but a marginal presence, accounting for just 7 percent of votes across the continent. Back in 1998, only two European countries – certainly not the largest: Slovakia and Switzerland – had populists in government, with barely any attachment to the far-right, at least in public. At present, and the most recent national elections have confirmed this, one in four votes cast was for a populist, far-right party. In other words, the number of Europeans ruled by a government with at least one ‘populist’ in the cabinet has increased

from 12.5 million to 170 million. Perhaps this is why the Alternative für Deutschland now holds positions in every German Landtag, and has more than 90 seats in the Bundestag.

Perhaps this is why the Italian Lega Nord and the anti-establishment tax-and-spend Movimento Cinque Stelle (remember who built it up and how?) won nearly 50 percent of the popular vote. Silvio Berlusconi and his four-time electoral victory now appear like the good old days. In the Netherlands, if one needs further evidence, it is Geert Wilders' Freedom Party (all these parties are about 'freedom', you see?) which has now become the second-largest parliamentary force. Even the extreme left-wing parties are gaining momentum, although less successful than their far-right counterparts: Podemos, in Spain, looks vital, as does La France Insoumise of Jean-Luc Mélenchon.

The tide began to turn in the early 2000s, when the Dutch establishment was rocked by the rapid rise of Pim Fortuyn, quickly followed by Jean-Marie Le Pen's presence in the 2002 presidential runoff vote. Three

Although France will remain a privileged partner, the Franco-German cooperation should not be, according to Berlin, at the expense of internal EU cohesion.

years later, referenda in France and the Netherlands rejected the draft EU constitution. This was only the beginning. Since then, anti-establishment populism, gradually turning towards the political extreme, has snowballed, embracing the arguments offered by the 2008 financial crash and the recent refugee crisis. The Greek Syriza successively took 27 percent, then 36 percent of the national votes. UKIP spurred Britain into Brexit, and Marine Le Pen, in France, won 33 percent in the last presidential run-off vote. When viewing the process from afar, it looks as if the world is rapidly moving in the same direction. Populists, playing the illiberal and anti-establishment key, have been elected to executive offices in India, Brazil, Mexico and the Philippines.

And all this has happened under our very eyes, slowly, but stealthily and steadily.

Will the liberal conservative EPP survive a presumptive defeat in the forthcoming European elections? There will be no defeat, since the EPP now experiences small increases in the polls, after months of losses. They may be small, but they are enough to keep it afloat. It is likely the group will numerically hold the largest number of seats, and consequently win the competition

in the eyes of the voters. The MPs will come, however, from home, or most of them from their homes, with an obligation to make links with the far-right representatives, as they will parade under the same national colors. As for S&D, they will come to terms with the local losses and swallow defeat, this being an ongoing problem in their case, not a sudden surprise, since declining has been their magic definition everywhere in Europe in recent years.

The space the Social-Democrats have abandoned has been taken up by populists

Some social-democratic parties have even embraced the far-right agenda for populist reasons, as was the case of Romania's PSD shaking hands with the Coalition for Family group in restrictively defining the meaning of 'family' in the Constitution, as a two-gender union. The space the Social-Democrats have abandoned has been taken up by populist voices, mostly from the far-right. Some say the rising popularity of the Spanish Socialists could save face. I doubt if this is realistic. I would like to know where the Labour party has been throughout Brexit, and what did it actually do to somehow stall it? The German SPD suffers from chronic headaches, whereas the French and Italian Socialist parties only contemplate their glorious past. The present is too harsh for them.

Bannon has found fertile ground to toil. He senses that coordination is mandatory, as an ingredient of complete success. He may take responsibility upon himself for working it out. Himself, or himself and significant others. And it seems as if a full political harvest is awaiting, in 2024. A harvest from Hell.

"There are bad times just around the corner. There are dark clouds travelling through the sky. And it's no good whining. About a silver lining For we know from experience that they won't roll by..." wrote Noel Coward once. Hopefully, I add.

MIHAI-RĂZVAN UNGUREANU

is a historian, politician and former Prime Minister of Romania. He was also the Foreign Minister of Romania and Director of the Foreign Intelligence Service. He founded the non-governmental organization of Center-Right Civic Initiative (ICCD) and later he joined the Civic Force Party.



Will the Transatlantic Community Survive?

The U.S. is like a lonely sheriff who is tired of defending the town against gangs of gunslingers. He can throw away the badge and set up his own gang – Donald Trump chose this path.

Even before the Berlin Wall collapsed, Americans offered the divided German state a partnership in leadership, and envisioned a Europe whole and free. When President George Bush said words along these lines in Mainz in May 1989, preparations for the first partially free elections were taking place in Poland, Gustáv Husák was President of Czechoslovakia, and in Bucharest construction of the monumental House of the People, according to the vision of the dictator Nicolae Ceaușescu, was in full swing. The American President could not have predicted that over the following months history would accelerate so incredibly that less than a year and a half later he would be able to repeat similar phrases in a speech celebrating German unification.

When formulating his message, Bush could invoke the tradition of American global leadership. Since Harry Truman's presidency, the United States had been the guarantor of the liberal international order, which it had built on the ruins of the Second World War. Thanks to a system of agreements

and institutions supported by American power, it had created the conditions for the economic development and political stability of American allies.

A pillar of a period of prosperity and peace

Americans were prepared to bear the costs of maintaining this order for the sake of the greater good and for their own interests. In return they received a more stable world, a world in which problems were solved at the negotiating table and not on the battlefield, onto which the United States would sooner or later also be drawn - as during the First and Second World Wars. The key place in the new system was therefore occupied by the powers defeated in 1945: Japan and Germany.

Pax Americana became the pillar of an unprecedented period of prosperity and peace for Europe. Without this political and military umbrella which first spread over Western Europe, and after 1989 also over some of the former Eastern Bloc countries, it is difficult to imagine the process of European integration.

In contrast, almost two years after Donald Trump moved into the White House, few would question the fact that the 45th President of the United States is seeking to bury this order. In his view, multilateralism only hinders America and prevents it from becoming great again. The liberal paradigm, the vision of a world based on mutually beneficial cooperation, is becoming a thing of the past.

The liberal paradigm, the vision of a world based on mutually beneficial cooperation, is becoming a thing of the past.

“The return of great nation competition is the defining geopolitical fact of our time”, the Assistant Secretary of State for Europe and Eurasia A. Wess Mitchell recently said. This is a fact which the West did not take seriously for too long, he added. This is why Trump’s administration carries out a kind of audit and review of its relations, not only with global rivals such as China and Russia, but also - or perhaps above all - with its allies.

Trump expects compliance with Washington’s interests

In the newly defined reality, there is less and less room for a partnership which allowed for disputes, disagreements and pursuing your own interests, not necessarily fully consistent with the interests of the great patron. Now it

is to be replaced by absolute loyalty to American leadership. Under Trump's rule, the United States expects an unambiguous commitment to the American position, compliance with Washington's interests and refraining from asking unnecessary questions.

Donald Trump therefore had no qualms about calling the European Union, which is after all the most successful political child of Pax Americana, one of the greatest commercial enemies of the United States.

Donald Trump therefore had no qualms about calling the European Union, which is after all the most successful political child of Pax Americana, one of the greatest commercial enemies of the United States, or about threatening to impose tariffs on European products because of an alleged threat to US national security.

In Trump's opinion, the times when Americans were "jerks" who paid for the security of the Old Continent, allegedly without receiving anything in return, are also gone. After years of free riding, the time has come for Europeans to justify themselves and pay the many-billion-dollar bill for US security guarantees.

The US President also brushed off Europe's objections to Washington's unilateral termination of the nuclear agreement with Iran (JCPOA). In addition, by threatening to impose sanctions on companies trading with Tehran, he enforced business obedience - despite the political protests of European capitals. The blow is all the more painful as the JCPOA had been perceived as one of the greatest successes of EU diplomacy. In the end, the life of the agreement was not much longer than the negotiations which had led to its signing.

Europe's strategic autonomy

So what to do when America, as Robert Kagan writes, becomes a rogue superpower? You can surrender or rebel.

In Warsaw, they chose the first option and enthusiastically jumped on the bandwagon pulled by Trump. This is hardly surprising. Poland, like few other countries in Europe, relies on American security guarantees. Contrary to widespread fears, the current administration not only has not withdrawn its soldiers from Poland, but is also increasing American involvement on the eastern flank of NATO initiated by Obama. The Pentagon budget for 2019

earmarked \$6,5 billion for this purpose - \$1.7 billion more than the year before. In addition, Washington is imposing further sanctions on Russia and is putting pressure on it to halt the construction of the Russian-German Nord Stream 2 gas pipeline.

The Polish government is also striving for a permanent American military base, offering the U.S. President payment in two currencies, both of which appeal to his imagination - money (2 billion dollars) and cheap flattery ("Fort Trump"). Further west the tone is quite different. "Being an ally does not mean being a vassal state," said Emmanuel Macron. "We Europeans must take our destiny into our own hands", said Angela Merkel. The political response to Trump is strategic autonomy, which Europe should finally achieve. And this reaction is hardly surprising. After all, if Germany or France were to significantly increase armaments spending, it would not be with the intention of taking orders from the White House and buying American weapons, but in order to pursue their own interests and at least have the right to consult with the Americans.

The changing situation requires a response

However, should the change in Washington's strategy, to which politicians in Western Europe and liberal elites on both sides of the Atlantic have reacted with indignation and fear, come as a surprise? After all, the changing international situation requires an adequate response. After the "unipolar mo-

Contrary to widespread fears, the current administration not only has not withdrawn its soldiers from Poland, but is also increasing American involvement on the eastern flank of NATO initiated by Obama.

ment" and the "end of history" after the victorious Cold War, Americans finally realized that their power was diminishing in relative terms. The numbers do not lie: in 1945 the American economy accounted for as much as 1/2 of the world economy, in 1990 it was 1/4, and today it is less than 1/6 of the global economy.

In light of this fact, it is hardly to be expected that the USA would continue to be the guardian of the global order on its own. In any case, clear warnings to Europe had already been sent by representatives of the previous administration. As early as 2011, Secretary of defense Robert Gates warned

that if the European allies did not seriously invest in their defense capabilities, the next generation of American politicians might find U.S. involvement in NATO too expensive. In Europe, this warning was ignored.

Meanwhile, Beijing, taking advantage of the benefits of the international order created by Washington, began to increasingly throw its weight around on the global chessboard and make more and more vocal claims to take over the world leadership badge from the Americans. As for Moscow, after the chaos of the 1990s and despite limited economic resources, it began to pursue an increasingly bold revisionist policy and did not even hesitate to use military force to push through border changes in Europe.

The weakening of the liberal order began long before Trump

The decline in U.S. power, the rise of the revisionist powers, the unfulfilled expectation that American allies would take over part of the responsibility - each of these factors had been present long before Donald Trump became president. And each of them poses no less of a challenge to the existence of the liberal order than the policy of an uncouth businessman from New York. Taking a leap into the future and having a hand in the work of destruction, as Trump does, was not a historical necessity, however, but a political choice.

His predecessor at the White House, Barack Obama, followed a different path. He tried to manage the declining power of the United States in a way which would guarantee the survival of the liberal order. Behind Obama's catchphrases, there was an attempt to allocate American resources to strategic regions and at the same time transfer part of the responsibility to the allies. The reset in relations with Russia was supposed to neutralize the threat in Eastern Europe. The "pivot to Asia" signaled a shift in the focus of

After the "unipolar moment" and the "end of history" after the victorious Cold War, Americans finally realized that their power was diminishing in relative terms. The numbers do not lie.

U.S. interest towards the Pacific and China. It was accompanied by the hope, formulated under George W. Bush's presidency, that China would become a "responsible stakeholder" in the liberal world order. "Leading from behind" meant wanting to transfer some of the responsibility for conflict resolution in Europe's neighborhood, such as Libya or Ukraine, to NATO allies. In the Middle East, military power was to be gradually replaced by diplomacy,

as in the case of the nuclear agreement with Iran or the U.S.-Russian agreement on the destruction of the Syrian arsenal of chemical weapons.

There are alternatives to the “America first” approach

Many of these ideas did not pass the test of reality, of course, and Obama corrected his course, sometimes radically. His first term in office actually began with the announcement of a reset with Russia, and the second ended with sending American troops to the eastern flank. In the Chinese context, Obama, like his predecessors, wanted to curb Beijing by involving it in cooperation. It is highly likely that he would revise his course today by adopting a tougher stance - including the imposition of tariffs on Chinese products. At the same time, Obama sought to limit Beijing’s influence by tightening ties with American allies, as expressed in the Transpacific Partnership. The Trump administration not only chose open confrontation with China, but also withdrew from the TPP.

It is hardly to be expected that the USA would continue to be the guardian of the global order on its own. In any case, clear warnings to Europe had already been sent by representatives of the previous administration.

The most important conclusion, from comparing Trump’s policy with Obama’s era, is that there are alternatives to the egoistic “America first” approach, that this approach does not result directly from some inviolable laws of nature or geopolitics and that it is not an inevitable consequence of objective long-term trends. “America first” is simply one of the possible political responses to the challenges posed by the changing world.

That is why, when considering the future of the transatlantic community, we Europeans, should reject the temptation of determinism, which can lead us to hasty conclusions and narrow down the room for maneuver when - perhaps in two years’ time - someone else takes over the helm of American politics from Trump.

Using a metaphor from the Wild West: the U.S. is like a lonely sheriff who is tired of defending the town against gangs of gunslingers. He can mount a horse and ride away into the sunset, leaving the town on its own - which is what isolationists would do. Or he can throw away the badge and set up his own gang by choosing a life full of risk, but also of hope for a big

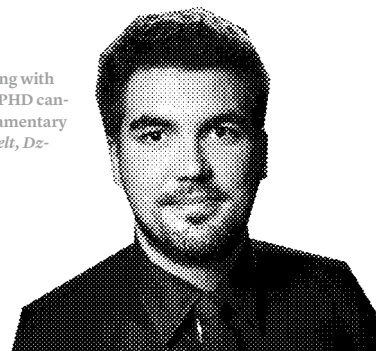
win, which can also include racketeering the inhabitants of his hometown - Donald Trump chose this path. Or he can call up all the inhabitants and ask them to support him in maintaining order, as Obama did, but he was largely ignored, which is the cause of today's European hiccups.

We Europeans, should reject the temptation of determinism, which can lead us to hasty conclusions and narrow down the room for maneuver when someone else takes over the helm of American politics from Trump.

The sheriff's decision on which path to take will, of course, be made in Washington, but in Europe we should do everything we can to create the conditions for an agreement. This means defending the liberal Western order where possible and agreeing to its correction where necessary. We can take initiatives without America, but we should not act against America, as Thomas Kleine-Brockhoff rightly points out. All the more so as there is no shortage of people on the other side of the Atlantic - also in the current administration - convinced of the need to continue close relations based on partnership. It is ultimately in the interests of both the United States and Europe to find a new balance in transatlantic relations.

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Words Can Break Deterrence

ASPEN.REVIEW
ANDRIS BANKA

POLITICS

NATO

TRUMP

TRUST

For deterrence to work and have the intended effects, the material capability must be fused together with credibility. Even if the next White House occupant turns out to be a committed transatlanticist, the rupture of trust between Europe and America may in fact linger on.

Words mean little to U.S. President Donald Trump. He eagerly repeats urban legends and tweets in emotional outbursts. His defenders would counter, however, that people are too fixated on the President's style of communication. Instead, they argue, it is his policies that count.

Take, for example, NATO. Despite Trump's personal torrent of negative comments regarding the alliance, the United States is still heavily invested in bolstering the security of Eastern Europe. So how are we to square this sharp divide between words and policies on the ground? Is it possible to quarantine the transatlantic alliance from the U.S. presidential rhetoric?

The current White House routinely denigrates traditional allies by suggesting that NATO takes and drains American power, rather than magnifying and multiplying it. And yet, the U.S. has not pulled back militarily from Europe. Far from it. On a concrete policy level, somewhat paradoxically, the Trump administration has been quite reassuring towards Eastern European needs and made sound policy choices. Through the European Deterrence Initiative, for example, Washington has provided substantial monetary investments to NATO's front-line states: Latvia, Lithuania and Estonia.

At the NATO summit in Warsaw in 2016, the alliance took a major step in strengthening deterrence by forming four multinational battle groups, around thousand troops each, in the Baltics and Poland. The United States assumed the lead-nation role in the latter and has remained highly committed to this mission. It is during Trump's presidency that the vision for an American permanent base in Poland has gained momentum.

To defend the territorial integrity of the most exposed members

The alliance also recently held its largest military drills since the end of the Cold War, during which it practiced rapid reinforcement of allied nations by road, rail and sea. It is worth recalling that ten years ago, NATO did not even have contingency planning in place for defending the Baltic states. In summary, if we look at the 70-year old alliance solely through the prism of implemented policies on the ground, then one can conclude that it has adjusted reasonably well in order to defend the territorial integrity of its most exposed members.

The current White House routinely denigrates traditional allies by suggesting that NATO takes and drains American power, rather than magnifying and multiplying it.

At least outwardly, the leaders of Eastern Europe have played along and displayed confidence in the Trump administration. They have repeated tightly scripted and familiar lines about the importance of relations with Washington. When the U.S. President welcomed, for example, the heads of the Baltic states in Washington in April 2018, Lithuanian President Dalia Grybauskaitė, trying to keep up appearances, praised the gathering by tweeting that the partnership between the U.S. and the Baltics had been renewed and that America's commitment to NATO's Article 5 collective security guarantees was "ironclad".¹

It was months later that the respected French newspaper *Le Monde* pulled the curtain on what had happened behind the scenes. It revealed that the U.S. President had opened the gathering, intended to emphasize U.S.-Baltic solidarity, by blaming the Baltics for the war in Yugoslavia. Confused, the leaders of Latvia, Lithuania and Estonia slowly came to the realization that the host had mixed up the Baltic states and the Balkans.² Diplomatic fiascos like this, however, have largely remained hidden from the public eye.

Poland and the Baltics embraced Trump

In fear of losing its most valued strategic partner, Eastern European lawmakers have been withholding criticism of the Trump administration. Despite the growing chorus of voices, both domestic and international, suggesting that the 45th President of the United States is manifestly unfit for the office, Poles, Latvians, Lithuanians and Estonians have offered an affectionate embrace. This is due to obvious geostrategic realities. Whereas some of the larger EU countries are in a position to consider alternative arrangements and hedge their bets, the Baltics and Poland cannot afford to

Whereas some of the larger EU countries are in a position to consider alternative arrangements and hedge their bets, the Baltics and Poland cannot afford to disrupt their relations with the U.S.

disrupt their relations with the U.S. Ultimately, there is no other nation that can project power in the Baltic theater like the United States; no other regional ally that possesses the type of high-end weaponry that can deter and defeat a major aggressor.

Arguably, things could have been worse. In the early days of the Trump administration, for example, a high-ranking U.S. National Security Council official, in his willingness to ease relations with Moscow, had flouted the idea of withdrawing U.S. forces from the Baltic region.³ Equally, the US president himself had openly hinted at stopping military drills in Eastern Europe. Neither of these policy suggestions have come about. The ‘America First’ mindset has not fully materialized as a policy in Eastern Europe. Still, this does not mean that Trump’s presidency has not already weakened the transatlantic alliance.

The line of defense: “ignore the tweets and focus on tangible policies” misses the point of what deterrence is made of and how it functions. Undoubtedly, placement of U.S. military equipment and troops on NATO’s eastern flank is a tremendous relief to the region. This is only, however, one part of the deterrence equation. For deterrence to work and have the intended effects, the material capability must be fused together with credibility. If a potential foe assumes that in the ‘moment of truth’ the U.S. will be reluctant to intervene on behalf of its treaty allies, then all this added military hardware loses its value.

1) Dalia Grybauskaitė, President of Lithuania official Twitter page: <https://mobile.twitter.com/i/web/status/981226142496710656>

2) Sylvie Kauffmann, “Le divorce Europe-États-Unis : la famille occidentale sous tension”, *Le Monde*, 9 November 2018, https://www.lemonde.fr/long-format/article/2018/11/09/europe-etats-unis-la-famille-occidentale-sous-tension_5380997_5345421.html

3) Spencer Ackerman, “White House Official Floated Withdrawing U.S. Forces to Please Putin”, *Daily Beast*, 1 September 2018, <https://www.thedailybeast.com/white-house-official-floated-withdrawing-us-forces-to-please-putin>

4) CNN, “Bolton criticized Trump’s NATO stance in 2016”, 7 July 2016, <https://edition.cnn.com/videos/politics/2018/07/18/john-bolton-trump-putin-defending-nato-allies-comment-ip-vpx.cnn/video/playlists/trump-and-nato/>

5) Deep State Radio, “1-on-1 with Ivo Daalder: A Discussion of the New Book ‘The Empty Throne’”, October 19, 2018, <https://deepstateradionetwork.com/1-on-1-with-ivo-daalder-a-discussion-of-the-new-book-the-empty-throne-americas-abdication-of-global-leadership>

A Molotov cocktail at the core pillar of NATO

To suggest that the words coming out of the U.S. president's mouth do not matter is to be willfully blind as to how the transatlantic Alliance ticks politically. The infamous Article 5 collective security pledge does not exist in a vacuum. It is conditioned not only by material forces but also by a political willingness to back allies in times of crises. The forceful and clear message from the Oval Office hardens deterrence while ambiguous statements essentially serve as an invitation to Russia to test NATO's red-lines.

Donald Trump's careless tweets may well be intended for a domestic political base, but this is not how it plays out on the other side of the globe. Keeping others guessing about your next move might be a shrewd tactic in the real estate business, but it is of little use in global affairs where your objective is to deter a potential aggressor. This lack of message discipline and willingness to put allies on the edge reverberates strongly in countries located at Russia's doorstep. Even John Bolton, now the President's national-security adviser, had to admit before joining the administration that "if the leader of the NATO alliance shows weakness or uncertainty it destroys those structures of deterrence that we worked for more than 65 years to build up".⁴

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Bitter disagreements and policy divisions between allies have existed since the founding of NATO. The Iraq war is, perhaps, the most notable example when Washington found itself at odds with Europe. The discord however, was policy-based. Donald Trump's posed challenge is of a different nature. He has thrown a Molotov cocktail at the core pillar of NATO – commitment to the security of allies. Since the signing of the Washington Treaty in 1949, no U.S. president has done that.

Trumpism could outlive Trump himself in some form

While we tend to think of NATO primarily in military terms, it is worth keeping in perspective that it is equally a trust-based institution. Ivo Daalder, who served as the U.S. Ambassador to NATO, makes the argument that, "The entire system the United States set up is based on trust and that trust is now

broken down. And just like in a marriage when the trust breaks down, it is extraordinary difficult to repair it.”⁵

The decisions of leaders do not always manifest themselves immediately in foreign policy. It may take years to see just how permanently Trump’s war of words with allies have altered the world’s preeminent secu-

The decisions of leaders do not always manifest themselves immediately in foreign policy. It may take years to see just how permanently Trump’s war of words with allies have altered the world’s preeminent security organization.

rity organization. The extent of the damage will depend, to a large degree, upon whether he is a one or two-term president. But even if the next White House occupant turns out to be a committed transatlanticist, the rupture of trust between Europe and America may in fact linger on. Trumpism, understood as the questioning of the core values of NATO, could outlive Trump himself in some form.

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Atomic Question Mark

Paks. A small town located in a bend of the Danube about 100 kilometers south of Budapest. The entire area is dominated by a nuclear power plant built in the late 1970s and early 1980s. It is clearly visible from the nearby hills with the vineyards of Szekszárd, famous for its excellent wine.

You can even approach the main gate of the power plant, but everywhere you see boards prohibiting taking pictures. The whole area is guarded by cameras and security men. Two huge buildings, the color of hospital green, stand out; they contain four reactors, which are to be closed down by 2037. There will be two more on the left side, which will take over the energy production. The entire investment will be financed from Russian loans. Paks II, as the power plant extension project is called, is a priority for Viktor Orbán's government, but not much is known about it yet, except that not everything is going as smoothly as expected.

The 2004 Fidesz electoral agenda stated that the most important element of Hungary's energy infrastructure is the Paks nuclear power plant, which satisfies 40% of the country's energy needs. The agenda also said that "in the current situation we would not be able to give up nuclear energy". The decision to build new blocks was taken when the coalition of socialists and liberals were in power; in a vote on 30 March 2009, 330 of the 346 MEPs

present in the plenary chamber supported the amendment to the Nuclear Power Act. On 3 October 2011 under the Fidesz government, the Hungarian parliament adopted an energy strategy until 2030 (with a 2050 perspective), which envisages maintaining a significant share of the Paks power plant in energy production.

The Commission gave the green light for the investment

Under the agreement on the expansion of the Paks power plant signed in Moscow in 2014, Viktor Orbán and Vladimir Putin decided that 80% of the investment (EUR 10 billion) would be financed by a Russian loan, while the remaining EUR 2.5 billion would come from the Hungarian state budget. It was also agreed that the loan granted for the design, construction and commissioning of new power units would be repaid within 30 years, with variable interest rates ranging from 3.95 to 4.95%. The extension provides for the construction of two reactors with a service life of 60 years. The new two units will have a capacity of 1200 MW each. The current blocks have 500 MW each.

Rosatom received the contract without a tender. Such a procurement procedure could not remain unnoticed in Brussels.

The agreement with the Russians was classified for a period of 30 years for reasons of national security. Rosatom received the contract without a tender. Such a procurement procedure could not remain unnoticed in Brussels. After 2015, the European Commission initiated as many as three proceedings for breaking the transparency procedures for the award of contracts. Finally, however, in March 2017, the Commission completed the last of the proceedings, thereby giving the green light for the investment.

The Commission stated in its approval that Hungary had decided to invest in the construction of the Paks II nuclear power plant, to which it was entitled under the Treaties. It was pointed out, however, that the Commission's role was to ensure that competition in the energy market was not distorted. The Commission consequently stipulated that the profits generated by Paks II be used to repay the investment commitments or cover Paks II's operating costs. Profits could not be used, however, to reinvest in the construction or acquisition of additional power generation capacity. The Commission also made the condition that Paks II be separated from Paks I and any of its successors or other state-owned energy companies.

The question of financing remains

According to the original plans, the construction was to start in 2018. It was speculated that it would begin with a ceremonial laying of the cornerstone during one of Vladimir Putin's visits to Hungary. The Paks II power plant was to start operating in 2025 or 2026. It is already apparent that this deadline is unrealistic, as the launching of the construction will be delayed by at least two years (2020), and the commissioning of the power blocks may take place as late as in 2032.

This is a huge problem for the government. It was initially assumed that between 2026 and 2032 both "old" and new reactors would be in operations (with two new reactors exceeding the four "old" ones in terms of the generated power, so it would be as if almost nine reactors were operating at once). They were to produce surplus energy that would be sold. Under the European Commission's decision, however, the profits of Paks II are "marked money" and cannot be freely used. In addition, the current deadline for the commissioning of Paks II means that the investment will perhaps only be completed after the shutdown of the last old type reactor or at best only slightly earlier.

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Years ago, the government pointed out three three main arguments whereby Paks II would pay for itself. First, that the development of the economy would result in a constant need to increase energy production; second, that many nuclear power units in Europe would be shut down in the coming years; and third, that standards reducing carbon dioxide emissions would make production of energy from coal more and more expensive. Reducing carbon dioxide is, by the way, one of the most important arguments for the construction of Paks II, especially now that Hungary has announced that it will abandon the use of coal for energy production by 2030. Hungarians are also implementing the European Commission's guidelines on the share of renewable energy in the energy mix. The policy was aimed at bringing the share up to 13%. This target has already been reached and the share of renewable energy now exceeds 14% (more than half of it is biomass; the remaining significant sources are solar and geothermal energy).

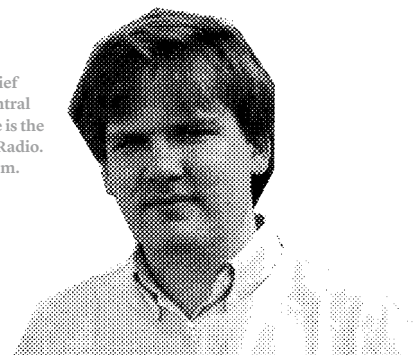
The question of financing remains. By a decision of the European Commission, the period for repayment of the Russian loan was shortened from 30 to 21 years, and the interest rate turned out to be much higher than originally assumed. There are therefore increasing doubts as to whether it is ac-

By a decision of the European Commission, the period for repayment of the Russian loan was shortened from 30 to 21 years, and the interest rate turned out to be much higher than originally assumed.

tually worthwhile for the government to expand the power plant, whether the financing method is appropriate and, finally, whether Russia can afford such a loan. It can hardly be expected that the government's priority project will be abandoned, but the assumptions from 2014 are becoming more and more difficult to implement.

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Michael W. Doyle: Pulling Up the Ladder After You

It's ironic that the Eastern Europeans who had so benefited from migration themselves weren't willing to extend the same opportunity to other people who wanted to move – says Michael W. Doyle in an interview with Olena Jennings

OLENA JENNINGS: *Columbia University's Global Policy Initiative, where you served as director, developed the Model International Mobility Convention. Can you talk about the process and purpose?*

MICHAEL W. DOYLE: There was a group of friends and colleagues who came to the realization that the current legal architecture, the set of rules that shaped migration and refugees, had serious flaws and we needed to have a better model of rules. People move across borders for many reasons other than moving for a new job or a new life through migration and other than being chased out of their home country as refugees. People are tourists, students, they are going to a conference, and there is family reunification. For all of these categories, there was no well-established international legal framework and every country had a different point of

view. And so the first issue was to create common rules about the comprehensive character of international mobility. The second issue was that the rules for migration needed to be rethought. The rules for the people, who moved to work for more than one year, were themselves very flawed. The migrant workers treaty of 1990 was a very flawed document. It has no ratifications for countries of net immigration, where people were moving, despite the fact that its purpose was to protect those people. It was close to useless. The basic problem is that it has too many rights and too few rights. It gives too many rights to temporary workers which means that many countries don't want to have them because they have to give them social housing, tertiary education, etc. It provides too few rights for many kinds of workers who only want to work on a temporary basis. Or they want to have

multiple visas so that they can keep in touch with their families. So we really needed to rethink the whole issue of migration. And the third issue is refugees. We have a wonderful convention in 1951 that protects people who have a well-founded fear of persecution on the basis of race, ethnicity, political opinion, and social group. But what about the people who are fleeing because they feel they might be overwhelmed by a civil war in their country or what about people who are fleeing because their farms are disappearing due to climate change? None of these of people are covered.

U.S. Attorney General Jeff Sessions recently sent people back to Central America. We don't have a broad enough understanding of what it means to flee for your life. And so we need a better standard for what a forced migrant is beyond the 1951 definition of a refugee. Those were the three issues that brought 20 and by the end, 40 scholars from all over the world together, representing refugee specialists, migration specialists, political scientists, lawyers, activists and others over two years to sit down and write a model, an ideal treaty for governing the rules, the rights, and responsibilities of people who move across borders. Everyone from tourists to refugees.

How does the treaty differ from the UN Global Migration Compact?

There are a few differences. One is that we are broader, we cover the full range of mobility, including visitors that are visiting

a country for just a day or two. Though I understand, from what I've been told, that our convention helped inspire the broadening of the Global Migration Compact, so we pushed them a little bit in that direction but we are still much broader, much more comprehensive. The second thing is that ours is written in the rhetoric of legal commitment as if it were a real treaty while the UN Global Migration Compact is a policy

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document, saying wouldn't it be good idea if or why not consider the following policy? So it's a very different rhetoric and that's of course because it is an ideal and it hasn't been negotiated. The Global Migration Compact was negotiated over the past year and many countries including the U.S. dropped out, while ours is something that is produced by scholars and experts.

What are the chances of achieving the UN Global Compact on Migration?

I think it's relatively small. Unfortunately, many states do not appreciate the value of immigrants and what they can do for their

country. Many states have negative images of immigrants as threats to them. And for these two reasons, I think it's quite unlikely that states will create the safe, orderly, and regular world that the Global Compact on Migration is seeking to achieve.

Can you talk about the Central/Eastern European approach compared to the U.S. approach?

Our Central/Eastern European friends are the most reactionary in dealing with questions of migration and this is primarily due to some very bad leadership in Hungary, Poland, Slovakia, and a few other countries in the region that have formed what they call the anti-migrant alliance, demonizing migrants in ways that

Many states do not appreciate the value of immigrants and what they can do for their country. Many states have negative images of immigrants as threats to them.

are completely fake news, and aligning themselves with President Trump. That's the bad part in that part of the world. Some of the good parts: some countries that have otherwise miserable human rights records have been relatively receptive of refugees including Russia, the rest of its record is not warm and welcoming, but it has taken in a good number of refugees. One has to say that the Central/East Europeans, that are members of the EU,

have enormously benefited from the opportunity of not only trading without barriers with the European Union, but also being able to move. Article 45 of the treaty of the European Union provides free movement across borders and this has been an immense benefit to many Central and Eastern Europeans, everyone from the famous Polish plumber who goes to the U.K., but much more seriously, all across highly skilled professions, there have been huge opportunities for the improvement of livelihood that have come by moving temporarily or long-term to Germany, France, or the U.K. and from the movement of students across the entire European space. So the hostile attitude towards immigrants coming predominantly, at least recently, from the Middle East into Eastern Europe is sad given the immense benefits Central/Eastern European members of the EU have gotten from their ability to move to explore new careers and education and high incomes. It's a classic case of pulling up the ladder after you. The U.S. is defined as being a country of migration and that's not the case for most European countries. Another big difference between the U.S. and other countries, other than recently, is the significant undocumented immigration into this country. It might only happen here because of the ease of working into the informal job market that exists in the U.S., but 10 million people without documentation in the U.S. are working under very

challenging circumstances making themselves quite vulnerable to exploitation, but for most of them, for the vast majority of them, this is a huge improvement in their standard of living. And so undocumented immigration is a big factor here compared to other countries. And documented legal immigration is a big factor here compared to just about any other European country. The only countries with similar kinds of numbers are Switzerland, and very recently Germany, and a couple other countries, but the U.S. stands out still as a country of immigration, which is why the current regime in Washington, Trump, is so anomalous because of its extreme hostility to immigration and to refugees in particular. And you don't find that in U.S. history until you go way back to the 1920s when there was also racially politically motivated extreme hostility especially to Asian immigrants coming to the U.S. But our longer history is the history of immigration.

What do you think of the perspective of Eastern Europe where many migrants come from, but their governments are hostile toward migration?

The reason that a lot of migrants came from Eastern Europe, we're talking to Western Europe at this point, is that even during the Soviet period the educational systems of these countries were pretty good especially in engineering and sciences, so that when the borders opened

up there were a considerable number of highly skilled, well-educated people, whose incomes were a fraction of the incomes that were achievable in Germany, France, or Britain, and so naturally there was a big flow of East Europeans west

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when the borders were at last relaxed.

When you come to the contemporary 2015, 2016 reality of many Eastern European governments, especially Hungary, Poland, and a few others expressing anger and unwillingness to take in immigrants, it was sad because many of these immigrants were in desperate need of help, fleeing from Syria, Afghanistan and elsewhere. It's ironic that the Eastern Europeans who had so benefited from migration themselves, by going to Western Europe weren't able to or weren't willing to extend the same opportunity to other people who wanted to move. So that's where much criticism was leveled at the Eastern European states. If you try to explain it, part of the internal rationale presented is that the Eastern European states themselves had only escaped in the past generation from various forms of Soviet control and oppression, and at last they were

allowed to be free and be themselves. They did not want to be reshaped by foreigners coming into the country. That's an explanation but not a justification in my view. We live in a world that's becoming

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increasingly global in one form or another and we have to accept that we can't live with just people that are identical to what we are especially when people need to be rescued, as these Syrians and Afghans needed to be rescued in 2015 and 2016.

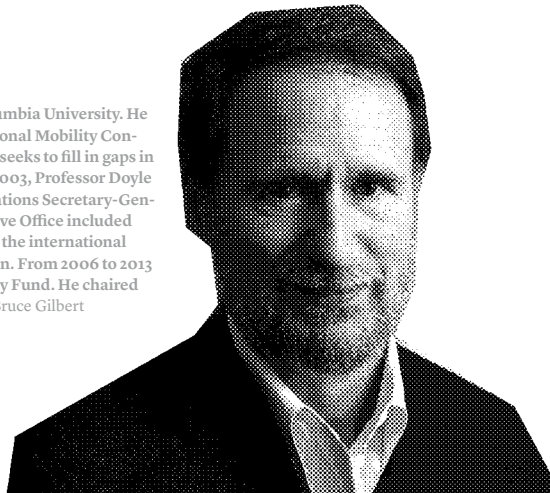
How do you see migration ten years from now?

Migration is a political wedge issue being used by Trump and by many, not by all, Republicans as a way to manipulate the public. If they succeed in the upcoming

election in 2020 we will have a country that looks a lot more like Hungary than the U.S.; we will build a wall and we will hunt down illegal immigrants, and we will have a much nastier political system. On the other hand if we begin to push back, including the Democrats winning in November and the Republican party shifting back towards the center, we could have a much better migration regime. It's pretty well established that safe, orderly, and regular migration, all of those things are important, help a country. As I mentioned, we should reform our visa system and we should increase the number of refugees that we take in so that we can protect people from immense harms. And we know that refugees or migrants are not a threat to this country, they're well-vetted. The numbers are not very large, if everyone does their share. It's all manageable. We would go back to the more normal times of the periods of the '80s and '90s, when we were moving in the direction of a more rational migration system.

MICHAEL W. DOYLE

is a Professor of International Affairs, Law and Political Science at Columbia University. He was instrumental in developing a 213-article treaty, the Model International Mobility Convention (<https://globalpolicy.columbia.edu/mobility-convention>), that seeks to fill in gaps in the current legal architecture when it comes to mobility. From 2001 to 2003, Professor Doyle served as Assistant Secretary-General and Special Adviser to United Nations Secretary-General Kofi Annan. His responsibilities in the Secretary-General's Executive Office included strategic planning (the "Millennium Development Goals"), outreach to the international corporate sector (the "Global Compact"), and relations with Washington. From 2006 to 2013 he served as an individual member, and the chair of the U.N. Democracy Fund. He chaired the board of the International Peace Institute from 2016-2018. | Photo: Bruce Gilbert



Myroslava Keryk: We Do Not Recognize Poland

ASPEN.REVIEW
ZBIGNIEW ROKITA

ECONOMY
POLAND
UKRAINE
LABOR MARKET
NATIONALISM

We have been observing a general decline in the popularity of other nations amongst Poles, even those traditionally liked by them, such as Americans or the French. It seems to me that this is the aftermath of the policy of Polish authorities, says Myroslava Keryk in an interview with Zbigniew Rokita

ZBIGNIEW ROKITA: In 2017, Poland became a global leader in importing foreign short-term workforce, surpassing the United States. This is largely due to immigration from Ukraine. According to data of the National Bank of Poland, there was an average of 900,000 employees from that country in the previous year. Is the presence of almost one million Ukrainians temporary and will they start going back home once the economic indicators there improve?

MYROSLAVA KERYK: Usually, when the economy grew stronger, many migrants returned to Ukraine and the number of those leaving the country declined. This was the situation prior to 2008 and before the Revolution of Dignity in 2014. The

profile of this migration is also important. Around 70 percent of Ukrainians emigrating to Poland leave the country for a short period and do not intend to stay there for good. They leave their homes behind, they usually do not bring their families with them. Polish regulations also make it easy for them to take up seasonal work. Obtaining long-term employment is more difficult, the procedures drag on, and more and more documents are required. The practice often is that Ukrainians spend half a year in Poland and half a year in their home country. One factor which makes them return is the fact that many Ukrainians migrants have good jobs, education and skills. When they come to Poland, their status decreases and they do not want this situation to be

permanent. For those who want to remain permanently, working below their qualifications is merely a stage on the way to a better position in another industry; it is to help them learn Polish and acclimatize.

Or perhaps Ukrainians treat Poland as a stop on their way to the West? According to this year's OTTO Work Force report, 37 percent of temporary workers from Ukraine are considering moving to another country and 40 percent of those want to go to Germany. With the current low exchange rate of the hryvnia, they make on average three or four times more in Poland than in Ukraine, but why haven't they traveled to Germany and other Western countries in larger numbers?

The openness of the Polish market for seasonal work has been an important factor, for in Germany Ukrainians mostly worked illegally. German authorities are

German authorities are liberalizing their labor code, however, and the situation will change. Perhaps more Ukrainian citizens will go there, but so far most Ukrainians in Poland only speak about moving further West.

liberalizing their labor code, however, and the situation will change. Perhaps more Ukrainian citizens will go there, but so far most Ukrainians in Poland only speak

about moving further West. In Germany you earn more, but the costs of living and of visiting your family in Ukraine are higher, so in the last analysis you can save more when working in Poland. Another incentive to stay in Poland is provided by such factors as the geographic proximity, a similar language or migration networks. Some Ukrainians may move to Germany, but I think that around 300–400 thousand people will continue working in Poland regardless of the condition of the Ukrainian economy or the popularity of other destinations.

A report of the Polish government's Centre of Eastern Studies states: "For now, no major geographic re-orientation of Ukrainian migrants from Poland to other EU countries can be observed, but it is clear that the main potential rival of Poland here is the Czech Republic." The Czech Republic is also close, is also wealthy, is also Slavic-speaking, so perhaps some Ukrainians will set their sights on this country?

According to official statistics, by the end of 2016 almost 110,000 Ukrainians legally worked in the Czech Republic. The authorities there try to put constraints on the influx of economic migrants and impose quotas, but these quotas are lower than the demands of the labor market, which is about 150,000. There is a plan to raise them once again, but they will

still be too low. The Czech Republic has long been an important destination for Ukrainian migration and people usually remain there for longer than in Poland, that is for a year or two. But the Czech labor market is much smaller than the German one, so it has a smaller potential for absorbing Ukrainians from Poland.

Economic migration also generates significant problems for Ukraine itself. According to estimates of the Ukrainian Ministry of Social Policy, more and more Ukrainians will leave in the coming years, including an increasing number of highly qualified specialists. According to an analysis of the Ukrainian Central Bank, in 2016-2017 the country lost up to 8 percent of its labor force from 2015. There is a shortage of people of working age.

The problem does exist, but the Ukrainian government has not been addressing it for long and only made mention of the emigrants before elections. It was only last year that they began to speak more about the problem of the scale of emigration.

And is there a shortage of labor?

Yes, for example of drivers, employees in the service sector and industrial workers. Politicians continue saying that Ukrainians should come back home, because it is their patriotic duty, because there is a war going on, but they do very

little to encourage Ukrainians to come back. They put off this problem for later. Meanwhile, Ukraine is in a demographic crisis, the population is rapidly declining.

It is estimated that the population of Ukraine may decrease from the current 44 million to 36.4 million by 2050.

In Ukraine, discussions are under way whether to encourage citizens of other countries to come to Ukraine.

The Czech Republic has long been an important destination for Ukrainian migration and people usually remain there for longer than in Poland, that is for a year or two.

International corporations also move there, providing an alternative to leave for the West. Regional authorities are seeking foreign investments; Lviv has the ambition to become a regional IT center.

The yearly volume of foreign investment in Ukraine is about one billion dollars (after the deduction of funds laundered by oligarchs through investment). In contrast, money transfers just from Poland were three billion dollars in 2017 and are increasing.

Yes, the amount of transfers is traditionally higher than that of investment, this is nothing new. In this sense we are a typical country of emigrants. In the Philippines, also a country of emigrants,

they turned this fact into a sector of the economy. They support those who go abroad, they strive to protect their workers' rights in the countries they emigrate to,

There are tens of thousands of Ukrainians studying in Poland. Surveys show that most of them intend to stay in Poland after graduation or move further West. Only a small percentage plan to go back to Ukraine.

and so on. Meanwhile, Kiev does not treat transfers from emigrants as a contribution to the domestic economy and the authorities do not understand that these people should be supported.

But the brain drain does not concern only qualified workers, but also students who can later find employment in Poland. Ukrainians constitute more than half of foreign students in Poland.

There are tens of thousands of Ukrainians studying in Poland. Surveys show that most of them intend to stay in Poland after graduation or move further West. Only a small percentage plan to go back to Ukraine and these numbers are steadily decreasing. Moreover, Poland is just one of the many countries to which they emigrate.

A significant number of Ukrainians have good experience with working in the Czech Republic or in Poland.

Does this translate into an increase in appreciation of the West and into a pro-European orientation?

It is difficult to say, for there is no research on that. And it is a very individual matter. Some are satisfied, but others fall victim to Polish employment agencies, which send them to the Czech Republic without the necessary permits and with Polish visas. The migrants go there convinced that they are working legally, until they are arrested and deported. And they may have worse experiences and associations with these two countries.

Or another example: we investigated cases of exploitation of Ukrainian employees in the V4 countries and Ukraine. There was an interesting case of a Japanese company which opened its branch near Lviv. One would assume that a Japanese company would offer its employees high Japanese standards, but it adapted well to local conditions – work quotas were extremely high, you had to stand for ten hours without the possibility of sitting down even for a moment, etc. People who have worked in such conditions are already used to being exploited when they go to another country. They are offered lower rates than Polish employees. They work legally, but are inadequately protected, because they usually use the services of an employment agency. This means that formally they are not employed in the same place in which they actually work, and this means a lower level of labor rights protection,

fewer opportunities for promotion, lower bonuses and other benefits in comparison with workers employed directly in the company they work for.

To what extent do the Ukrainians in Poland take part in ordinary social life – go to cafes and cinemas, make friends with Poles – and to what extent do they live in their own “ghettos”? Are they merging with the Polish social landscape?

It depends on their plans. If they come for a few months, then they focus exclusively on work – twelve hours a day and six days a week, sometimes more. After twelve hours of work they have neither the time nor the strength for integration or anything else. In general, they live in employee hotels for Ukrainians and only have contact with Poles at their workplace, if at all.

According to a survey by Fakty.com.ua, 77% of them are engaged in physical labor, only 16 percent go to the services sector and just three percent do white-collar work. This means that most of them have only limited contact with the client, they often meet only Ukrainian workers and a Polish engineer or foreman on the construction site or in the factory hall. Other Poles do not see them.

Of course, those who decide to stay permanently live a different life. They find a job which does not take up twelve hours

of their day, they learn the language, they meet more Poles, and they try to participate more in the social life. They do go to cafes, but initially a “cost-free”

In general, they live in employee hotels for Ukrainians and only have contact with Poles at their workplace, if at all.

mode of spending free time is popular – walks, visiting free cultural institutions, spending time in parks. And even if they often go to a Ukrainian doctor or hairdresser, they do not create ghettos, they do not isolate themselves.

Here we come to a difficult question. Post-war Poland was an almost mono-ethnic country for decades.

According to a poll by the Centre of Public Opinion Research from 2016, the number of Poles hostile to Ukrainians was higher than those who like them for the first time in many years. At present, less than 25 percent of Poles are fond of Ukrainians and as many as 40 percent have a hostile attitude to them. How is Polish society coping with the changing ethnic landscape and the sudden influx of hundreds of thousands of Ukrainian citizens?

It is a wider trend. We have been observing a general decline in the popularity of other nations amongst Poles, even those traditionally liked by them, such as

Americans or the French. It seems to me that this is the aftermath of the policy of Polish authorities. They focus of course on refugees in what they say, but it will rebound on other incomers, including economic migrants from Ukraine. We must remember that this change of mood in Poland is a new phenomenon. Prior to 2015, when Law and Justice came to power, Poles supported helping people fleeing from wars. The rhetoric used by some media or tolerating the existence of extreme-right forces such as the National Radical Camp resulted in an increase in hate crimes based on racial or ethnic prejudice. According to a report of the Ombudsman, almost every fifth Ukrainian in Poland has fallen victim to persecution based on ethnic factors. This often eludes statistics, however, because only five percent of such cases are reported – three percent to the police and two percent to non-governmental organizations.

Ukrainians often have bad experiences with the police. In Ukraine it is avoided at all costs, for you

MYROSLAVA KERYK

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could expose yourself to harassment, extorting bribes and so on. But crimes against Ukrainians in Poland are quite numerous, from the assault of nationalists on a religious procession in Przemyśl in 2016 to manifold cases of minor assaults, acts of aggression and threats. Do Ukrainians feel threatened?

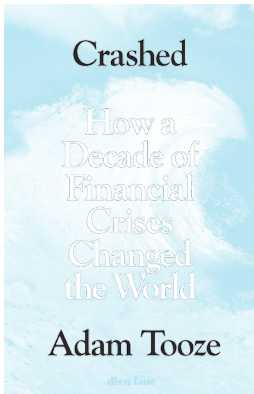
I have seen that they are not afraid to speak Ukrainian in public, for example, in trams. I have the impression that two years ago such incidents were particularly rampant, but now their number has slightly decreased. The fears to a larger extent concern intellectuals, social activists, people who follow social tendencies. We do not recognize the country which we have come to. But this is not reflected in the lives of people who are here for a short time, they still do not have this feeling. Often experiencing acts of aggression, they think: we work here, we have less rights, we came only for a while. They think that you have to just grind your teeth and persevere.



Priming Populism

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Crashed: How a Decade of Financial Crises Changed the World

Adam Tooze

Allen Lane, 706 pp, 2018

Investment bankers have always made bad big picture predictions. “The stock market has forecast nine of the last five recessions,” the Nobel Prize winning economist

Paul Samuelson famously said back in the 1960s. Bankers haven’t done very well recently either. While all manner of experts did warn of a crisis in the run-up to the collapse of Lehman Brothers on 15 September 2008, the kind of crisis they predicted in no way resembled the one that occurred.

In the fall of 2007, *The Economist* warned of a “Dollar Panic” and *Der Spiegel* was prognosticating “a Pearl Harbor without the war”. A Chinese sell-off of U.S. Treasury Bonds, the experts said, risked triggering a sovereign debt disaster in the United States that would ripple through the global economy. While everyone was preoccupied talking about strained American public finances, securitized toxic mortgages spread throughout the Western banking system. The fallout led to a ticking time bomb, which U.S. Federal Reserve Chairman Ben Bernanke called “the worst financial crisis in global history”.

Not only were most investors wrong in 2007, but a full decade after Lehman’s collapse that mass sell-off of U.S. bonds has still yet to occur. In fact, it has been the exact opposite. In the volatile post-2008 economic environment, skittish investors have instead sought out U.S. Treasury Bonds as a low

risk investment — strengthening, not weakening, the American role in global finance. As Adam Tooze notes in his brilliant new history “Crashed: How a Decade of Financial Crisis Changed the World,” quite a lot of the popular narrative of what led to and followed the crisis is just plain wrong. Without a firm grasp on what happened, or willingness to acknowledge who is at fault, how can we fix it?

So why is Europe’s central role so often ignored? The narrative of reckless American finance dovetailed nicely with that of the reckless foreign policy implemented by George W. Bush.

Europe’s role in irresponsible lending

Conventional wisdom has it that the financial crisis was rooted in irresponsible lending and cowboy capitalism in the United States. Certainly, it was. However, as Tooze argues, Europe played a much greater role in aiding and abetting these conditions than is generally recognized. The transatlantic — not just the American — financial community deserves to shoulder the blame, he contends.

Actually, many of Europe’s banks behaved even worse than their American brethren. In 2007, the three largest banks in the world by assets (Royal Bank of Scotland, Deutsche Bank and BNP Paribas) were all European. Worse yet, on average, European banks were under-capitalized as compared to their American counterparts because they were able to operate in the United States with lower capital requirements. By the end of 2007, European banks had a \$1.1 to \$1.3 billion shortfall between dollar assets and liabilities. Later, when the U.S. Federal Reserve began buying up mortgage backed securities as part of its quantitative easing policy, the top two sellers were European (Deutsche Bank and Credit Suisse), so were numbers eight, nine and ten (Barclays, UBS and BNP Paribas). For all mathematicians, that is half of the top ten, casting the proverbial “too big to fail” phrase applied to American banks in a new light.

So why is Europe’s central role so often ignored? The narrative of reckless American finance dovetailed nicely with that of the reckless foreign policy implemented by George W. Bush, Tooze says. Much of the European mainstream was appalled by the United States’ — admittedly appalling

— unilateral 2003 invasion of Iraq, with Germany, France and others abstaining altogether. However, that same abstinence did carry over when it came to ignoring risky, often fraudulent, private sector investment strategies. “The idea that ‘social Europe’ had deviated in any essential way from the logic of turbocharged ‘financial capitalism’ as exemplified by America was an illusion,” Tooze writes. “In fact, Europe’s financial capitalism was even more spectacularly overgrown and it owed a large part of its growth to deep entanglement in the American boom.”

The United States and the U.K. recovered more quickly

Amid American adventurism in the Middle East, there was talk of a “bifurcation within modernity, between the chastened post-imperial world of Europe and the expansive, imperially aggressive Anglosphere,” Tooze writes. But this simply wasn’t true, and the myth spurred very different approaches to the crisis on each side of the Atlantic.

While American failures became a major part of public discourse — though not necessarily a target of serious reform — the European public has for the most part allowed banks and the private sector to escape blame. Post-crisis, Europe more quickly transitioned back to the ideologically driven 2007 discourses that focused on sovereign debt crises and state-spending as the predominant threats to the economy.

With a European public conditioned to think of America as negligent and arrogant, and the deranged Trump presidency only cementing that impression, Europe’s banking community still has no desire to advertise their complicity in the crisis. In Europe, Greeks not bankers are the bad guys.

Talk of fiscal discipline, competitiveness, flexible labor markets, which Tooze calls “shibboleths of the watered-down, supply-side economics inherited from the days of Reagan and Thatcher,” has overwhelmed honesty about crisis causes and solutions. As the United States and the U.K. pumped liquidity into the banking system, and recovered more quickly, European banks — hoping to profit from slightly higher yields with supposed low risk — used European Central Bank (ECB) credit to buy up sovereign debt in places like Portugal and Greece. This meant banks that were already reeling from horrible real estate investments opted to absorb risky public debt as well. In this way, and others, Europe’s imprecise and ineffective response to the 2008 crisis pointed the way directly to the 2010 eurozone crisis.

A gigantic surge in debt in the private sector

“It may fly in the face of conservative assumptions about ‘democratic deficits’ and the spendthrift habits of irresponsible politicians, but the formation of the eurozone without an ironclad fiscal constitution did not lead to a festival of unrestrained sovereign borrowing,” Tooze writes. “The backdrop to the eurozone crisis was, indeed, a gigantic surge in debt, but it was in the private, not the public, sector.”

While Tooze’s book is global in scope — with ample attention and separate chapters dedicated to the United States, China, Russia and the rest of the G-20 — his step-by-step decimation of the crisis narrative still perpetuated by Europe’s elite, about profligate Greeks or corrupt Italians and the need for sober discipline, is the most essential part of this wide ranging text. Angela Merkel, Germany and the European Union’s feckless institutions (often operating under misguided German influence) come off looking rather sinister.

Amid real estate bubbles in places as diverse as Spain, Ireland, Greece, Sweden, Belgium, Denmark and France, Europe’s central bank kept interest rates low. “In effect, by setting low rates, the ECB prioritized the need to stimulate the German economy over restraining the boom in the periphery,” Tooze writes. In 2009, when spending and stimulus was the

Post-crisis, Europe more quickly transitioned back to the ideologically driven 2007 discourses that focused on sovereign debt crises and state-spending as the predominant threats to the economy.

norm in the United States, China and elsewhere, Merkel’s grand coalition passed a constitutional amendment mandating balanced budgets in Germany. Not only did this policy curb German consumption, thus hindering growth elsewhere in the continent, but less German borrowing also forced investors, looking to buy government bonds, to go elsewhere. The resulting competition drove down yields on riskier southern Europe bonds, stimulating more borrowing by those governments. Big banks bought up debt and then, when faced with the prospect of losing their investment, used political influence in Brussels and Berlin to jump the cue in collecting during the eurozone crisis.

Merkel vetoed a plan of a common European bailout fund

Even before that, in October 2008, then French Finance Minister Christine Lagarde began worrying that a crisis in some small eurozone country might pose a systemic threat to European finances at large. At the time, for example, Ireland's banks carried balance sheets that were equivalent to 700% of the country's GDP. In an interview in the German business newspaper *Handelsblatt*, Lagarde floated the idea of a common European bailout fund, but she did not get far. Just a few days later, Merkel vetoed a plan to develop a common European response to the banking crisis. According to then French President Nicolas Sarkozy, Merkel said: "Chacun su merde!" (To each his own shit!).

In 2009, when spending and stimulus was the norm in the United States, China and elsewhere, Merkel's grand coalition passed a constitutional amendment mandating balanced budgets in Germany.

We know what came next. "The eurozone, through willful policy choices, drove tens of millions of its citizens into the depths of a 1930s style depression," Tooze writes. "It was one of the worst self-inflicted economic disasters on record."

The policies in the eurozone periphery were equally amateurish and discriminatory. Amid a global liquidity crisis, the ECB established so-called "swap lines" with central banks in Denmark and Sweden (both countries outside the common currency). This made short term loans in euros available to help backstop the Danish and Swedish crowns, while breeding confidence in their respective banking systems. No such thing was forthcoming in Central Europe, where central banks in Poland and Hungary were forced to acquire euros on repo markets — just like stressed commercial banks. The results were predicable. In September 2008 the forint traded at 163.23 to the dollar, two years later that ratio was 222:1, cutting real salaries and savings by more than one-third. Meanwhile, the Polish zloty lost 35 percent of its value against the dollar over the same period. It's no wonder those trends coincide with increased euroscepticism in Budapest and Warsaw.

Failures of leadership and failures of collective action

Tooze, an economic historian and professor at Columbia University in New York City, writes great, in depth histories with a contrarian edge. His 2006 book "The Wages of Destruction" analyzed the economy of Nazi Germany

and argued that Hitler had no choice but to invade the Soviet Union so as to obtain resources to fuel his war efforts in Western Europe. In 2014, “The Deluge” contends that it was during World War I (and not as generally argued, during World War II) that the United States became the world’s preeminent power — with economic might as the driving force.

In “Crashed”, Tooze presents a sweeping description of the systemic banking changes that spurred subprime lending in the American real estate market and, thus, the great crisis. He also meticulously traces the impact and response throughout the globe, piecing together a mosaic of data and anecdote in a clear chronology. “Crashed” is equally impressive in its global scope and readability, but is also essential reading for anybody thinking seriously about the future of the European Union. Nothing comes across so starkly as Europe’s incoherence and inability to constructively approach, never mind solve, problems.

The policies in the eurozone periphery were equally amateurish and discriminatory. Amid a global liquidity crisis, the ECB established so-called “swap lines” with central banks in Denmark and Sweden.

“The story told here is a train wreck, a shambles of conflicting visions, a dispiriting drama of missed opportunities, of failures of leadership and failures of collective action,” Tooze writes. “If there are groups that benefitted — a few bondholders who got paid, a bank that escaped painful restructuring — it was on a small scale, totally out of proportion to the enormous costs inflicted.”

The carnage, incompetence, dishonesty and arrogance is almost enough to turn a reader into a Orbán, Babiš or Kaczyński supporter. Almost.

BENJAMIN CUNNINGHAM

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A Central European Story as Seen From France

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V4



Střední Evropa je jako pták s očima vzadu: O české minulosti a přítomnosti

Jacques Rupnik

Novela Bohemica, Praha 2018, 428 stran (Jacques Rupnik, Central Europe Is Like a Bird With Its Eyes at the Back of Its Head, Novela Bohemica 2018, 428 pp)

Czech history does not appear overly dramatic to an outsider. More or less since their arrival in the area in the sixth century, Czechs have inhabited almost the same

territory, demarcated by the mountains in the West and the river Morava and the western edge of the arc of the Carpathians in the East.

In fact, the previous century has not been all that dramatic either, at least not in comparison with other surrounding Central European nations, even though to us Czechs it may appear as a grand drama with many twists and turns of fortune, some for the good but more often for the bad. The foundation of the state, the Munich Agreement, the occupation, the expulsion of the Germans, the Communist coup, August 1968, 17 November 89, the splitting up of the country, EU accession...

Although it has been extinct for the past twenty-five years, we still feel the need to celebrate the centenary of Czechoslovakia, a country we still regard as our own and whose flag and the first verse of whose national anthem we have retained. As we never tire of mentioning, our relations with Slovakia and the Slovaks have no parallel in the world. If any more proof were needed, the current Czech Prime Minister is the richest Slovak, Andrej Babiš, a man with dual Czech and Slovak citizenship, whose language, especially when he is angry, sounds more like Slovak than Czech.

Czechs survived without coming to harm

We left Austria-Hungary one hundred years ago to create our nation state into which we invited the Slovaks to form part of the ruling nation. We also included, despite their resistance, the Slovak Hungarians and the Czech Germans, and also, somewhat unwittingly, the Transcarpathian Ukrainians. We split from the Slovaks for good after 75 years, expelled the Czech Germans after 27 years, leaving the Transylvanian Germans to the mercies of Stalin, while retaining the majority of the Slovak Hungarians (because there were not enough Slovaks in Hungary for a population exchange). We allowed the Nazis to murder the Czech Jews and the Czech Roma without doing anything to stop them.

We Czechs have survived as a nation basically without coming to harm, albeit at the cost of having our spines shattered on several occasions, by failing to resist the Nazi and Soviet occupations, by collaborating with Hitler's regime and the Kremlin, by taking revenge on the Germans and by showing indifference to the fate of the Jews and the Roma...

One of the major problems that has plagued Bohemia and the Czechs has been their inability to pass beyond the border mountains and view the history of their country from above.

86 years after splitting from multinational Austria-Hungary, as the solitary Czech Republic, we joined the even more multinational European Union. And now, less than two decades later, we are beginning to view it in negative terms, just as interwar propaganda in Czechoslovakia depicted the former monarchy: as a "prison of peoples". A hundred years later, history seems to be coming full circle.

One of the major problems that has plagued Bohemia and the Czechs has been their inability to pass beyond the border mountains and view the history of their country, particularly modern history, from above, at least from a height sufficient to surmount the peaks of the Krkonoše, the Bohemian Forest and the Beskid Mountains, in order to place our own fate in a broader framework, if not global then European, or at least Central European.

Czech history in a Parisian mirror

There are not many in the Czech Republic, even a hundred years later, capable of taking on this task, and even fewer abroad, given the small size of this

ten-million-strong nation with its fairly undramatic fate. The French political scientist Jacques Rupnik (born 1950), who is half-French and half-Slovene and who spent the first fifteen years of his life in Czechoslovakia, is one of a handful of people who have the required talent and knowledge.

Rupnik, an adviser to the last President of Czechoslovakia and first Czech President Václav Havel, is a political science graduate of the French Sorbonne and American Harvard and has taught for many years at the Institute for Political Studies in Paris, one of the best higher education institutions of its kind in the world. Rupnik is a worthy successor to French and British academics such as R. W. Seton-Watson and Ernest Denis, who were involved in the birth of Czechoslovakia a hundred years ago. During World War I and immediately afterwards, they also provided Tomáš Garrigue Masaryk, the first President of Czechoslovakia, as well as his chief diplomat and later successor Edvard Beneš and the Slovak-born French officer Milan Rastislav Štefánik with significant assistance in making Czechoslovakia become a reality.

Some light is cast on the slightly confusing title of Rupnik's latest book, *Central Europe Is Like a Bird with Eyes at the Back of Its Head*, published in Prague shortly before the October celebrations of Czechoslovakia's centenary, by its subtitle: "On the Czech past and present."

This collection of Rupnik's essays, articles and interviews from the past thirty years is an ideal guide to the Czech century in this, the one hundredth anniversary year of the establishment of Czechoslovakia. Few Western specialists, conversant with the details of the Czech situation, are as qualified as Rupnik to place this century and its crucial chapters in the context of world history and, moreover, to do so from a French perspective, which is virtually unique, given the scarcity of present-day Czech-French contacts.

Putting events into a global context

This is why Jacques Rupnik can provide surprises even when covering topics as hackneyed as that cliché beloved of Czech journalists and historians, the "fateful eights", i.e. the years 1918 (the creation of Czechoslovakia), 1938 (the Munich Agreement), 1948 (the Communist coup), 1968 (the August invasion by the Warsaw Pact armies) and 1989, which according to Rupnik ought to be regarded as a displaced year 1988 which is when, he claims, the Velvet Revolution would have happened but for "Gorbachev's procrastination".

What makes Rupnik's reflections especially valuable is the fact that he is able to put a date as crucial for the Czechs as 21 August 1968 into the global context. "The year 1968 in Czechoslovakia constituted a key moment in humanity's history, not a major international crisis," he claims in this chapter. This in spite of his confession that it was 21 August 1968 that turned a half-Slovene Frenchman "into a Czech". "I experienced this day and everything that followed in a way different from other French people – I felt a sense of belonging to the country."

What makes Rupnik's reflections especially valuable is the fact that he is able to put a date as crucial for the Czechs as 21 August 1968 into the global context.

Rupnik's sense of belonging comes to the fore in several places, for example, in the transcript of a polemic he conducted in the late 1980s with the Hungarian-French historian François Fejtő on the very meaning of the creation of Czechoslovakia. Fejtő had just published his book "Requiem for a Defunct Empire" which defended Austria-Hungary as a structure capable of being reformed, as a Central Europe that had ceased to exist in the course of the century that followed. As a student of Fejtő's, Rupnik found himself in a difficult position, since he shared his teacher's "grief over the decline of Central Europe as the antithesis of Russia and the West" while opposing his vision of the collapse of the monarchy as a "plot by Freemasons, Czechs, as well as Beneš and Masaryk".

In his view the main role was played by the Great War which "set into motion events that not even the greatest Czech nationalists could have dreamt of before". "The birth of a Central Europe composed of independent states was inevitable." At the same time, Rupnik admits, and not merely out of respect for his mentor, that the successor states of Austria-Hungary (including Czechoslovakia) would have been unable to safeguard their independence without the support of Great Britain and France. "For this reason, the Austrian empire had its justification," Rupnik said in 1988, adding that he was speaking not of the monarchy as such but of a supranational state, a federal structure.

Rather than lamenting the monarchy, however, what Rupnik gives us is a systematic exploration of how the Czechs, Austria's mainstay, turned into builders of their own state and what that state was like. Putting events into a European, and often specifically French context, and drawing comparisons

with it, is something that is almost unheard of in the discourse of Czech historical and political science. If we ever compare ourselves to anyone it is the Austrians, Germans, Poles, Slovaks or Russians. Rupnik is one of the last great thinkers who reminds us, through his work and his sheer presence, of the fact that it was primarily under French, rather than American, patronage that Czechoslovakia was established a hundred years ago, the US having adopted an isolationist stance soon after the Great War.

Although Masaryk's Czechoslovakia borrowed a great deal from her main ally, the American democracy, it was France that was the guarantor of its existence and state structure. Rupnik calls this fact to mind at several points in the book, for example in an essay comparing Czech and Slovak nationalism, and on the very different nature of the year 1968 in Czechoslovakia and France. In his essay "Paris-Prague: reflections on the restoration and decline of a privileged relationship" Rupnik describes the enormous role Paris and French culture played in the pre-war Republic, while voicing scepticism regarding the future. This, as he rightly notes, is partly due to the fact that "the Czech elites regard France as a country in decline". France, on the other hand, sees the Czech Republic as "a small prosperous country that is far too satisfied with itself," as he aptly points out.

The Prague Spring and Charta 77 – two Czech contributions to the world

Rupnik's main topic, however, is the nature of Czechoslovak Communism. This, after all, is also the subject of one of Rupnik's major works, *The History of the Communist Party of Czechoslovakia*. Armed with detailed knowledge of the evolution of Czech Communism, Rupnik addresses a difficult question to those Czechs who regard themselves as "victims" of the Stalinist Soviet Union. "In 1948 a sizeable section of Czech intellectuals supported the communist coup," writes Rupnik, pointing out that the Communist Party of Czechoslovakia (KSČ) was the only one in post-war Eastern Europe to win an (almost) free and democratic election in 1946. Naturally, he cannot avoid mentioning that the Communist Party of France scored a similar success after the war – albeit with the opposite result.

While in France it proved possible to outmaneuver the Communists in the government and the country remained a strong democracy, 1948 saw the opposite outcome in Czechoslovakia. In Rupnik's view, what played

a considerable role in this was the Munich Agreement of 1938, when France and Britain signed an agreement with Nazi Germany and Fascist Italy, whereby Czechoslovakia ceded a quarter of the Czech part of its territory to Berlin, and subsequently the south of Slovakia and Transcarpathian Ruthenia to Hungary. “However, it was Munich and the betrayal of the West that

Although Masaryk’s Czechoslovakia borrowed a great deal from her main ally, the American democracy, it was France that was the guarantor of its existence and state structure. Rupnik calls this fact to mind.

played a decisive role in the shift to the East (and to the Left) among the new post-war generation,” claims Rupnik. “The collapse of Masaryk’s republic also meant the collapse of the (democratic) values he stood for.”

The Czechs didn’t lift a finger in 1956

Rupnik also notes the unfortunate and active involvement of many Czech intellectuals in Czech Stalinism, as well as the opposite role they played in the “glorious hour of Czech revisionism”, in 1968. In the essay “The roots of Czech Stalinism” he goes on to show that this was not merely a Soviet import, but a system actively developed by Czech elites. He recalls another painful Czech failure in his essay on 1956, when the Hungarians fought heroically against Soviet tanks. Unlike Poland, where there was a massive show of sympathy with Hungary, “the Czechs didn’t lift a finger,” in the words of Hungarian writer György Konrád. And Czech Stalinism lasted for many years to come.

Rupnik uses the situation in 1956 in a brutally defeated Hungary under János Kádár as a mirror in which to view a similar invasion, in 1968, that humiliated Czechoslovakia. The “normalized” country under Gustáv Husák does not come out well in this comparison. In another essay, Rupnik also debunks the myth of the hero of the Prague Spring, the reformist Communist party leader Alexander Dubček, whom he refers to, quite rightly, as “the hero and the normaliser”. Following the August 1968 invasion, Dubček participated in the suppression of the democratic achievements of the Prague Spring and the reinstatement of a harsh Communist dictatorship, even if he himself ended up a victim of the normalization purges which pushed him to the margins of society.

In contrast to these critical views, Rupnik values the Charta 77 dissident movement as fundamental not only in the Czechoslovak but also in the European and global context, including the key role played by the playwright and President-to-be Václav Havel. He also takes the side of Charta 77 in the dispute in 2000 with Havel's successor as President, Václav Klaus, who ascribed the key role in toppling the Communist regime to "greengrocers" and the "silent majority" of pub drinkers rather than to Charta 77 and the active opponents of the regime.

Rupnik, in contrast, views Charta 77 and Havel's works, such as "The Power of the Powerless", along with the ideas of the Prague Spring of 1968 and "socialism with a human face", as one of the few Czech contributions to the Western and, indeed, global debate on democracy and human rights. Rupnik's essays reveal him to be not just an admirer of, but a great expert on, Havel, whom he does not hesitate to describe, in his encomium of 2009, as "the great European of our times".

Visegrad as Europe's trap

Rupnik also asks troubling questions relating to the recent past, the present and the future of the Czechs and the Czech Republic. In his interpretation of the splitting up of Czechoslovakia he seems to be slightly more on the side of the Czechs, presenting them as the more democratic and pro-Western part of the federation. He expresses grave concern, however, with regard to the Czech attitude to the European Union, where the Czechs have proved to be

Rupnik values the Charta 77 dissident movement as fundamental not only in the Czechoslovak but also in the European and global context.

a rather destructive force. This is something he had been warning about well before the EU expansion to the east and his fears have been confirmed by the current state of affairs in nearly all of the four Visegrad countries.

Rupnik sees the greatest danger in resurgent nationalism, describing it as the "main bonding element of anti-liberal populism in the Visegrad countries". Rupnik does not, however, regard the "illiberalism" of Viktor Orbán as a specifically "Visegrad" disease, but as a broader phenomenon that has manifested itself widely in Europe, including in its western half.

Rupnik, a convinced democrat and liberal, pins his hopes on the European Union. "The European Union's ability to catch a second breath (along

with the decision as to whether to join the EU's core or not) will be decisive for the future of post-1989 liberal values in Central Europe." In the concluding conversation, with the journalist Karel Hviždala, Rupnik also emphasizes this specifically in relation to the Czech Republic and Slovakia. "Both countries have prospered and are aware how far they owe this to their membership in the EU. They also suspect that they will soon face a geopolitical choice: to join the core of Europe together, or be left isolated on its eastern periphery."

What sometimes works to the advantage of Rupnik's book's, but also often to its disadvantage, is the fact that, rather than being a unified work, it is a collection of essays and pieces from the last few decades. Despite the editors' efforts, certain motifs crop up repeatedly, while new research, over the past ten years, has progressed, casting doubt over certain details of Rupnik's interpretation of the period.

Czechoslovakia's centenary would have deserved a whole new book by Jacques Rupnik. Given his extraordinary standing, we can only hope that he will do so sometime soon. His book *Central Europe Is Like Bird With Its Eyes at the Back of Its Head* suggests that it would make a great read. The

Rupnik sees the greatest danger in resurgent nationalism, describing it as the "main bonding element of anti-liberal populism in the Visegrad countries".

Czech Republic, as well as the world around it, needs Rupnik's perspective and detached view. Today, as the value of fostering common ties not just among the Czechs, but throughout Central Europe and the democratic West, in the EU and in NATO, becomes increasingly apparent, it is needed more than at any time over the thirty years that have passed since the fall of Communism in Central Europe.

LUBOŠ PALATA

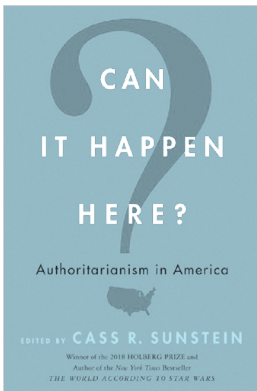
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Can It Happen Here?

ASPEN.REVIEW
AVIEZER TUCKER

CULTURE
AUTHORITARIANISM
USA



Can It Happen Here? Authoritarianism in America

Cass R. Sunstein ed.,

New York: Dey Street 2018.

The year 2016 has led to the renewed political popularity of the verb “to happen,” especially in the indefinite passive voice. Politicians, commentators, and social sci-

entists have reacted as if a meteor had stricken the global body politic. Nobody quite understood what hit them. Nobody was responsible. Every one grew anxious. A telling example is Hillary Clinton’s electoral self-postmortem, entitled *What Happened?*

The articles collected in *Can It Happen Here? Authoritarianism in America* were written in the immediate aftermath of the shocks of 2016. They search for an understanding of what happened and are shot with anxiety for the future, without assignment of responsibility or assumption of agency. It is telling that the only article that discusses explicitly an inevitable decline of democracy is Jon Elster’s case study analysis of the quick decline of the first modern democracy that instituted universal male suffrage, but resulted in the election and subsequent dictatorship of Napoleon III.

The title of the anthology paraphrases Sinclair Lewis’ dystopian satire about the rise of a European style Fascist dictatorship in America in the 1930s. As Noah Feldman noted in his contribution, the question is ambiguous. Strictly interpreted, in Sinclair Lewis’ sense, the answer is

categorically negative. But the question is interpreted by most of the contributors as vague rather than ambiguous. “It” is associated with populism, authoritarianism, autocracy, dictatorship, tyranny, or concretely, without conceptual abstraction, as simply “Trump.” Most, although not all, of the contributors are academic jurists.

Readers of *Aspen Review Central Europe* may be familiar with some of the names from the previous century when newly liberated East Central Europe attracted liberal evangelists to advise on what was known then as to democracy; but which may appear today as a stage in the transition of autocracies from left to right: Cass Sunstein, the editor, co-directed *The Center for the Study of Constitutionalism in Eastern Europe* at the University of Chicago’s Law School in the early 1990s with the contributors Jon Elster and Stephen Holmes (I should disclose that twenty years ago I spent a year as a postdoctoral fellow with Elster, and also worked at the *East European Constitutional Review* which was edited by Holmes). At the same time, contributor Bruce Ackerman interpreted 1989 as the liberal revolution. Oddly, only Stephen Holmes adopted here a comparative international perspective that compares post-Communist Europe with the United States.

The question of “it” is not about what President Trump wants. He clearly has what the Greeks called a tyrannical personality and will go as far as he can to abolish democracy. Taking into consideration the unusual role of his children in the administration, he wants to establish, in my opinion, a hereditary absolute monarchy and have Ivanka succeed him with Jared as consort. The question is what he can get away with within the existing

Taking into consideration the unusual role of his children in the administration, Trump wants to establish, in my opinion, a hereditary absolute monarchy and have Ivanka succeed him with Jared as consort.

institutional and political constraints. The articles in the anthology may be divided into four groups: Reaffirmations of American exceptionalism that conclude that “it” cannot happen in the United States; denials of exceptionalism that foresee the possibility of convergence of American and European “it” politics; attempts to understand how “it” happened; and papers that are connected to the theme of the anthology obliquely or circuitously, attempting to relate old ideas to the post-2016 “it,” or analyzing cases in American

legal history when the country's rule of law weakened, usually in the context of war, but recovered after the emergency passed.

The Question of American Exceptionalism

Eric Posner makes the strongest case for American exceptionalism in this anthology. Posner has examined systematically the changes that would lead to a convergence of regime types between the United States and Hungary or Poland, a transition to authoritarianism, as we would have put it in the 1990s.

In order to control the media, Trump would have to do more than insult and threaten it with libel laws and regulatory overreach, while bypassing it via Twitter to reach his base directly. He would have to get Congress to enact anti-sedition or defamation laws, and have them upheld by courts, despite the First Amendment. Trump would have first to take over Congress. "Some dictators prevail over the legislature because they are immensely popular and call on the public to punish legislative opponents in the polls."⁽⁶⁾ Posner was still unsure in 2017 whether Trump's intimidation would suffice to control the Republican Party. Since, Trump has achieved this total control.

The U.S. president has immense powers to act without Congressional approval, starting wars, imposing tariffs, changing regulations such as withdrawing from international agreements.

The U.S. president has immense powers to act without Congressional approval, starting wars, imposing tariffs, changing regulations such as withdrawing from international agreements, imposing new immigration restrictions, and enforcing laws selectively against opponents while ignoring other laws. "But all these actions require the cooperation of the bureaucracy and the acquiescence of Congress."⁽⁷⁾ Both have been more forthcoming than Posner had imagined, though still far from sufficient for an authoritarian regime. Although Trump gained control over the Republican Party, he is far from controlling the federal bureaucracy, with the exception of the Immigration and Customs Enforcement (ICE) service that demonstrated its blind obedience when it executed immigrant child snatching policies without a single published case of civic disobedience. He failed to take control of the FBI by firing Comey, and the U.S. military is still independent of politics. Trump has no alternative militia to enforce his edicts.

The young men and women with nothing to lose that carry out anti-democratic revolutions are missing. “Trump is hampered by the small number of truly loyal supporters who also have significant government experience and hence the ability to control the agencies they are asked to head. Independent political appointees and members of the civil service will almost certainly disobey any orders from Trump requiring that they violate the law

Trump and the other illiberal authoritarians do not have totalitarian parties and secret police apparatus. A cheaper and easier solution then is to turn bureaucrats into independent contractors.

and be put in legal jeopardy. He will also have trouble motivating them to obey even lawful orders that are greatly at variance with precedents, their political preferences, and their agencies’ historical missions.”(8) Trump’s lack of control over the bureaucracy is manifested in his continued attempts to intimidate and undermine it and in leaving many positions vacant even after wide resignations. Posner is right in his analysis, but it has an early “sell by” date for two reasons. First, alternative elites loyal to the Trump dynasty can emerge over time if the Trump family remains in power long enough. Second, the behavior of many careerists and opportunists, in and out of the bureaucracy, is predicated on the shared belief that the Trump episode is temporary and that those who fly too close to the sun will crash once the regime changes. If this ceases to be a shared wisdom, opportunist bureaucrats may join opportunist Republicans in fearing and loathing their President in private while obeying him in public.

The American civil society seems vibrant

The federalist structure of the United States delegates much of the enforcement of the laws to the states. Posner emphasizes that even if Trump controlled the federal bureaucracy, he would still need to work through state and local layers of government. In his article, Tyler Cowen makes a similar argument in a tongue-in-cheek criticism of Hayek’s libertarian anti-bureaucratic argument in *The Road to Serfdom*. Cowen argues that a large state is too unwieldy for authoritarian takeover. In contrast to Cowen’s argument, China and Russia have discovered means to do just that. The totalitarian solution is an “onion” shaped bureaucracy where each layer is controlled

by a deeper one, through the Party, the secret police, and its anonymous informers. Trump and the other illiberal authoritarians do not have totalitarian parties and secret police apparatus. A cheaper and easier solution then is to turn bureaucrats into independent contractors who do a job for the central government in return for a modest salary and the authority to rent their decisions to private interests. Over time, Trump may turn the US bureaucracy into this kind of bureaucracy from the top down, as the Trump dynasty and associate oligarchs set examples for those below them.

Trump has been attacking verbally and attempting to bully the courts and his own Justice Department. Thus far, without a discernible effect. Trump has also been appointing many judges. A few principled men at the top of the Department of Justice are blocking Trump's assault, although some of them are not likely champions of civil rights. As in the case of the bureaucracy, though Posner was right to note that the checks and balances have been holding, there has not been sufficient time for a Trump-loyal Justice Department and judiciary to emerge and opportunists still bet that this regime will pass.

The federalist founders were not interested in preventing slavery, but in protecting the Republic from demagogues.

American civil society seems vibrant. Posner identified civil society with still independent professionals, lawyers, scientists and academics. In American history, however, organized religions used to be the main non-governmental organizations. Religion in the United States has been chasing its decline in Europe independently of Trump. The endorsements of Trump by Evangelical leaders are a symptom rather than the cause of the decline in the power of organized religion to curb government and popular passions and lead a moral opposition. The same is true, non-incidentally, in Europe. With the help of Congress, Trump has demonstrated the social weakness of scientists and academics by ignoring their advice and by imposing a low tax on university endowments and income tax on tuition remissions to students, an intimidating shot across the bow of academia.

Posner emphasizes rightly the interdependence between the institutions that check and balance the power of the presidency. They cannot work well without mutual support. The judiciary cannot check the executive, for example, without enforcement by the bureaucracy and protection by the

legislature of its independence. Posner notes that over time, many small steps may breach the defenses against dictatorship.

Sunstein made a similar argument for the effectiveness of constitutional checks and balances in maintaining America's exceptionalism. The constitutional "DNA" of the United States was designed to preserve liberty against the kind of Caesarian challenge that Trump poses. The federalist founders were not interested in preventing slavery, but in protecting the Republic from demagogues. In Sunstein's opinion, although the federal judiciary occasionally overstepped its constitutional role in history, the rise of the imperial presidency since the New Deal and the security administration since 9/11 pose the greatest threat to the federalist designs. Sunstein did not compare the United States with post-Communist Europe, but such a comparison would demonstrate the limits of exclusive reliance on well-written

The "normative threat" to sameness does not, however, have an objective measurable meaning. Any one can be constructed or deconstructed as a threat.

constitutions, institutional structures, and checks and balances. Over time, and not a very long time at that, small anti-democratic legislative majorities in cooperation with like-minded executives, have managed to dismantle the constitutional checks and balances one by one to establish authoritarian regimes. If Trump and his Republicans win the next elections, a similar scenario can happen here as well.

American Unexceptionalism

Tom Ginsburg and Aziz Huq presented a convincing counter-argument against American exceptionalism. They also considered the total collapse of American democracy as implausible; the United States is too rich and old for that sort of thing. A "burning Reichstag" scenario of indefinite suspension of democracy, through the assumption of emergency powers, is implausible because it is cheaper for autocrats to slowly but relentlessly and insidiously curtail democratic institutions and traditions, with no sharp inflection point. Contemporary authoritarians control the media either by enacting comprehensive and vague libel laws, or by owning it directly or indirectly through friendly oligarchs, and by manipulating social media. Authoritarians maintain legitimacy with their supporter base by dividing "the people" from con-

structed enemies or scapegoats such as elites or migrants. They dismantle the rule of law by packing the courts, intimidating judges, and scaring the bureaucracy into submission by firing or harassing bureaucrats until they resign pour encourager les autres, and by rewarding or punishing them through their salaries, promotions and other working conditions.

Once the bureaucracy and judiciary are subdued, the executive unleashes them on political opponents or competitors. Revisions to election rules through gerrymandering techniques eliminate or radically disadvantage the political opposition. After changing the Hungarian constitution, for example, Fidesz won two thirds of the parliamentary majority in 2014 with 45% of the vote. Ginsburg and Huq emphasize that most authoritarian power grabs were legal in a positivist sense, legislation was used to undermine legality and then kill democracy with a thousand cuts. “The US Constitution may be good at checking coups or the antidemocratic deployment of emergency powers, but it is not well suited to stall the slow decay of democracy.” (151) They further note that some of the hallmark policies of undermining democracy have already been tried in the United States, albeit on local levels: Wisconsin Republicans won 60% of the seats with less than a majority of the votes and North Carolina’s Republican legislators attempted to strip the powers of their governor once a democrat was elected. Partisan appointments of judges and U.S. attorneys loyal to one party rather than the law can neutral-

A constitution cannot protect, preserve and defend a republic with too few republicans. Equally important are future expectations.

ize the judiciary as a check on power. Ginsburg and Huq do not consider the U.S. constitution exceptional. On the contrary, they argued that it shows its age in not being well-adapted to the new challenges.

An alternative denial of American exceptionalism is offered in Karren Stenner and Jonathan Haidt’s conceptually and methodologically flawed research that demonstrates the pitfalls of attempting to present rationalized personal biases as quantitative social science. They inferred from anecdotic evidence from the recent U.S and French general elections and the Brexit vote in the U.K, that there is an authoritarian political constant that encompasses a third of the electorate. They measured “the authoritarian” mentality by the values parents wish to impart to children. They demonstrated that these values are insufficient for predicting voting for Brexit, Trump or Le Pen, unless

authoritarians are subjected to what they call “a normative threat,” a vague concept associated with threats to sameness or oneness, associated with immigration. They effectively scapegoated immigrants for authoritarianism by suggesting that the constant authoritarian third of the population segment can live with democracy, if it does not encounter people who are different.

The “normative threat” to sameness does not, however, have an objective measurable meaning. Anyone can be constructed or deconstructed as a threat. Czechs voted, for example, for a Slovak populist Prime Minister Andrej Babiš who speaks Czech with an accent. Czech Neo-Fascists voted for a racist party led by a half-Japanese named Tomio Okamura. They obviously did not consider these immigrants “normative threats.” Hungarian authoritarians, in contrast, consider George Soros, a Hungarian native who speaks fluent Hungarian and has invested many millions in liberating his compatriots from Communism and helping their culture and education system, the ultimate “other.”

The misinterpretation of the economic crisis as an evolutionary bottleneck

During the previous round of authoritarian xenophobia in Europe, where German Jews were more German than average in cultural terms, were mostly natives of Germany, and were physically indistinguishable, the “normatively threatened authoritarians” had to construct them as “normative threats” by forcing them to wear yellow stars that identified them as threateningly different. Today, in the ethnically homogeneous states of East-Central Europe, authoritarians have to imagine a phantasmagoric absent presence of invading hordes of immigrant Muslims, in the absence of any real “normative threat.” It is simple to conclude then that “normative threats” exist only in the particularly narrow space between some ears. The question may be what activates an archaic “circuit” in the mind that has us seek scapegoats even when they are ghostly, phantasmagoric, hallucinatory shadows of people who are no different than the rest of us. The misinterpretation of the economic crisis as an evolutionary bottleneck may confound both authoritarianism and intolerance of difference. We may really be looking for a twenty first century chieftain to lead our tribe to expel the weakest food consumers in the tribe and attack the Neanderthals in the next waterhole.

Stenner and Haidt’s conclusion flies off the handle of the regression analysis when they base it on what they call “common sense” and what

others may call bigotry: “Common sense and historical experience tell us that there is some rate of newcomers into any community that is too high to be sustainable—that can overwhelm or even damage the host and make things worse for both old and new members.”(213) With more appeals to peculiar commonsense and reasonableness they call for a return of the tragedies of the 1930s, ignoring that anti-immigrant sentiments can take place without immigrants, as in Eastern Europe and Nazi Germany, and that massive immigration to places like Israel (that more than doubled its population around 1950) or Canada can be reasonably successful without driving authoritarians into the politics of rage.

The arguments for and against American exceptionalism are convincing, but to different degrees in different time frames. The political and social legacies of the constitution are barriers, speed bumps, and toll booths on the highway to tyranny. They slow down, delay, and impose costs on democratic backsliding. But they cannot hold it off indefinitely. A constitution cannot protect, preserve and defend a republic with too few republicans. Equally important are future expectations. As long as the “smart money” bets against Trump and the Republicans remaining in power beyond the immediate term, people who have careers, reputations, and opportunities to lose, will be careful not to publicly facilitate authoritarianism. A second term Trump victory would prove, however, that there are long term career prospects in the patronage of the Trump dynasty. The present democratic erosion may become then a landslide.

A continuation will be provided in the next issue of the magazine.

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ASPEN
Review
Trade On/Off

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Partners



We have a wonderful convention in 1951 that protects people who have a well-founded fear of persecution on the basis of race, public opinion, and social group. But what about the people who are fleeing because their farms are disappearing due to climate change?

OLENA JENNINGS

The conventional wisdom in the industry has been that each job in a car making factory generates four additional jobs for subcontractors.

DANIELA KRAJANOVÁ

President Trump has boldly decided to expose China's economic strategy to the global community and challenge it head on. China is being forced to come to terms with the fact that business as usual cannot continue indefinitely.

KENNETH R. WEINSTEIN

Looking from our perspective, the “Brexit budget gap” is not the problem. The problem is the Law and Justice and Fidesz governments' lack of credibility!

JANUSZ LEWANDOWSKI

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