

Mars Vs Venus, or Dollar vs Euro?¹

The European Constitution and the EU's Arduous Road to Becoming a Super-Power to Backing Up the Euro

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*" With the new threats the first line of defence will often be abroad.[...] A number of countries and regions risk becoming caught in a downward spiral of conflict, insecurity and poverty. [...] We should be ready to act before a crisis occurs. [...] A number of countries have placed themselves outside the bounds of international society. Some have sought isolation; others persistently violate international norms of domestic governance or of international behaviour. It is desirable that such countries should rejoin the international community. Those who are unwilling to do so should understand that there is a price to be paid, **including** in their relationship with the European Union." (bold added)*

"A Secure Europe in a Better World", Strategy for Common Security for Europe, Thessaloniki, 2003

We live in extremely turbulent times, the prelude to what are likely to be substantially worse ones. In this scenario, the EU is trying to assert itself as an "active [power which could] make an impact on a global scale". This was clearly expressed by Javier Solana, the EU's Common Foreign and Security Policy "representative", when he outlined the EU's future defence strategy in its Thessaloniki summit in June 2002 (CCEE, 2003). This strategy document, known as "A Secure Europe in a Better World", raises the possibility of the Union undertaking "early, rapid, and when

^{1 1} This text is part of a book which the author is currently writing about the EU and which will be published by Virus in 2005. It has also been published as a Spanish article in its own right in autumn 2004 in *Política y Sociedad*.

necessary, robust intervention anywhere in the world". Distancing itself (even if only rhetorically) from the concept of "preventative war" coined by the Bush Administration, such intervention is described as "preventative action". However, the document recommended that these interventions should be exercised within the framework of the UN (although, this point remains deliberately vague), and will be in accordance with the EU's obligations to NATO (an organisation which the strategy paper described as "irreplaceable"). The document goes on to say that the EU will start developing a joint military force "within the framework of the Union". In accordance with the new European Constitution (which at this time was still to be approved), this was envisaged by way of Structured Co-operation in which at least one third of the Union's members must participate (i.e. at least nine out of 25 countries)(Maira, 2003).

The same summit also saw the approval of a future European Constitution (CE, 2003), drafted by a Convention created specifically for this purpose². The aim was to draw up the definitive version of the Constitution at an inter-governmental conference (IGC). However, in the Brussels summit in December 2003, both Aznar's Spain and Poland rejected the 'consensus' which had been reached, and the Constitution ran aground, at least momentarily. This failure opened up a period of great uncertainty in terms of 'Europe's' future. Nonetheless, the Constitution was finally approved by the European Council in June 2004. This Constitution is meant to establish how a broadened and enormously complex EU will function. The population of the newly enlarged Union of 25 member states is more than 450 million, whereas the EU-15 had 370 million inhabitants. The economic, political and demographic weight of the 25 members varies enormously, and thus a 'Europe of different speeds' is taking place. Some countries, namely France and Germany with the *a posteriori* support of the Commission, had threatened that if the Constitution did not get approved, they would have formed a hard core to push ahead regardless, as they were not prepared to be held back by countries which did not want to integrate further. Later, Madrid was rocked by the tragic events of March 11th. The whole of Europe and the rest of the world were moved. Three dizzying days ensued throughout the whole of the Spanish State, culminating in a change of government on March 14th. These surprising events generated the conditions which enabled the process of approving the Constitution in the European Council to become unblocked. However, as will be described below, in all probability the enlarged EU still has a very complex road ahead of it before its new Magna Carta is approved once and for all.

²The Convention, presided over by Giscard D'Estaing, consisted of representatives of governments, national parliaments, the European Commission and the European Parliament.

Regardless of what happens with the Constitution, it is very likely that the future EU will consist of a hard core and various periphery countries. For the most part, the hard core will be made up of the Union's most powerful countries, and these will be the countries which will decide on what course the European Project takes and how it functions. The other countries will be left with a periphery role. The Treaty of Rome gave birth to the 'European Project' in 1957. Essentially, a commercial project (Customs Union) between six states³, it was, at that time, an inclusive convergence between 'equals'. At any rate, this was the theory. How, from such origins, has 'Europe' been allowed to turn into such a bureaucratic, neo-imperialist and anti-democratic beast? The Union in which all states, in principle, have equal rights has formally ended, and its most advanced aspect is its monetary convergence which has resulted in the creation of the Euro. In no other field has sovereignty been abdicated so absolutely, as States have handed over control of monetary policy to the European Central Bank. This Frankfurt based institution, which responds to the interests of European trans-national and especially finance capital, operates free from all forms of political (and, of course, democratic) control and is indifferent and even opposed to social and ecological concerns.

Is there any truth to Robert Kagan's description of global capitalism in which a smug European Venus, unworried by military commitments, exists enthralled to the US Martian warrior? There is every reason to doubt that this Venus, made up of states (and other power structures) which have spent more than five hundred years waging war amongst themselves, not to mention conquering, subjugating and looting the vast part of the world, has suddenly become pacifistic. Solana's document certainly does not give this impression, even though it desperately tries to justify foreign interventions by appealing to the need to combat 'international terrorism, destroy weapons of mass destruction (though not those belonging to the EU) and undertake the reconstruction of failed states'. Curiously, these are the same arguments as those put forward by the new US strategic defence doctrine which was approved in September 2002, just one year after September 11th. The EU likes to present itself to the world with a peace loving rhetoric based on respect for international law and the impression that it is home to capitalism with a human face (which, incidentally, is in the process of disappearing), and that on the international level it believes in development for all (especially in relation to 'international aid'). It projects itself as a champion of justice and human rights and a supporter of the International Criminal Court, as well as favouring 'sustainable development' (the Kyoto Protocol, Rio+10 Agreements, etc). However,

³ France, West Germany, Italy, Belgium, Holland and Luxembourg.

several factors⁴, but especially the pressing need to give security to European and international capital in order to underpin the Euro, is forcing the EU to shed this affable, but artificial, face. The Euro has already clearly become the second international reserve currency, and yearns to challenge the Dollar's global hegemony (especially at a time when the Dollar itself is beginning to crumble). In order for this to happen, it must have a solid political and military project to back it up. Hence the need for the European Constitution and the proposal for an EU Defence Strategy which (not coincidentally) accompanies it. The overt military component of the Constitution is striking, specifically calling upon members of the Union to significantly increase their military spending and even create a European Armaments Agency. However, it remains to be seen as to whether the enlarged Union will achieve these twin political and military goals or not, since there are serious internal tensions within the EU and both of these extremely complex projects still lack definition. The Constitution still needs to be ratified and this is unlikely to be an easy process. Furthermore, there is another big unknown – will the USA allow the EU to achieve these goals?

The Post-September 11th World Poses New Dangers for a Continually Enlarging EU

After the Berlin Wall came down, Eastern European elites clearly saw the benefits of joining the EU (even if on a dependant basis and only after major restructuring) as it was their only way to hold onto their power. Furthermore, people in these countries also yearned to join the Union so as to become like West Europeans. However, fear of their old oppressor, Russia's military might, meant that these elites were very easily swayed by the US friend's⁵ ability to offer them protection. In turn, the USA was eager to offer such protection, since it was afraid that an EU broadened to include Eastern Europe could seriously threaten US hegemony, and the advantages which such hegemony offers (especially monetary ones - the global supremacy of the Dollar is an essential component of US hegemony). The EU has been ironically described as “an economic giant (though, not so

⁴These factors include the growing need for foreign intervention to guarantee access to raw materials, especially fossil fuels, since the EU is the biggest importer in the world of oil and natural gas and is becoming increasingly dependant; the need to contain the uncontrolled migratory flows provoked by economic and financial globalisation; the growing need to assure the interests of European transnational companies and finance capital which operate in periphery countries (especially in the euphemistically labelled 'failed states' where 'normal' market rules have stopped working); and the need to forcefully change the will of the states which do not comply to the market-based logic of contemporary global capitalism, as indicated in the EU document quoted above.

⁵ This was perhaps also a way to strengthen their bargaining power *viz a viz* EU membership (as well as their position once inside it).

much in financial terms), a political dwarf and a military worm”. The USA wanted it to remain that way, in order to prevent the Euro (which lacks a strong political-military back up) becoming a threat for the Dollar. This is also why Clinton encouraged the three main Eastern countries (Poland, Czech Republic and Hungary) to join the US-led NATO, which they did in 1999. This was the same year that the Euro was launched, and way before these countries joined the EU which did not occur until May 2004. Curiously, 1999 was also the year in which NATO launched its 'humanitarian war' against Yugoslavia. This bulldozing strategy that the US NATO chief adopted for its European backyard left the European countries divided and ignored. The war took place without backing from the UN Security Council as Russia had threatened to veto it, and was a demonstration of the US' unquestionable might (with clear British backing). This show of strength perhaps partially explains why, during the Euro's initial period, the Dollar strengthened with respect to the Euro. Furthermore, 1999 was also the year in which the EU decided to broaden itself in one fell swoop, allowing all the new countries (apart from Rumania and Bulgaria) to join at the same time.

In any case, these Eastern European countries were delayed in joining the EU due to the complex transition process required to convert them into market economies. This process was driven by the iron fist of the IMF and the World Bank, whilst the difficult steps required of them in order to join the Single Market (more than 20,000 directives to adopt) were imposed in a similar fashion by the European Commission. This entailed major and very harsh internal structural adjustments, all of which had a big social impact. A further factor which delayed their entry into the EU was the enormously difficult task of creating an institutional framework which could simultaneously allow these countries to join, whilst also guaranteeing that the core countries remained firmly in control. The Nice Treaty was an attempt at this, though it is unclear how successful it will be. It proved very difficult to concretise how a “Europe of different speeds” would function in such a way which could enable it to stop being a “political dwarf and a military worm” at the global level. This process was further complicated by the emergence of major internal tensions between the members of the EU-15. The French-German axis was not functioning as smoothly as it had in the past, especially after German reunification led to the creation of a Greater Germany. Moreover, internal tensions were further exacerbated in the wake of approving the Nice Treaty⁶. The UK (which is not part of the

⁶ The Nice Treaty granted, for the first time, Germany greater decision making powers than France, by allowing demographic weight to have an indirect role in areas which are decided by Qualified Majority Voting.

Euro) began to show increasing reservations about strengthening the EU's institutional framework; the new countries which had joined in 1995 (Sweden, Finland and Austria) were clearly 'Euro-sceptical' (especially their populations and therefore, to a lesser extent, their governments); and, finally, the 'cohesion' countries (Spain, Ireland, Portugal and Greece) were afraid that an EU with 25 or more members would mean that they would stop receiving cohesion and structural funds. In parallel, as hostility towards the broadening was on the increase within the EU-15, the initial appeal of joining was wearing off within Eastern Europe itself and referenda on the issue were generally met with very high levels of abstention. This is despite the fact that Brussels has poured large sums of money into marketing its policies. Strictly speaking, in purely numerical terms, the Eastern European countries did indeed give a majority 'Yes' to joining the EU, but it was a painful process. This has all contributed to making the negotiations to secure 'Europe's' future tremendously complicated.

A series of sudden events all made the situation escalate even further out of control, as crisis in the financial markets, the new Bush Administration, September 11th, permanent global war and US unilateralism over Iraq all erupted onto the scene. For the first time since the Second World War there was a clash between the two sides of the north Atlantic. Or, as Rumsfeld described it, between “old Europe” (mainly France and Germany, the Euro's two most important countries) and "new Europe", those countries which supported the USA and UK. Thus, 'Europe' was badly divided. All of this happened right in the midst of the enlargement process, a process which was already a colossal gamble entailing high economic, political and cultural risks. Similarly, the Convention was in the midst of debating the future European Constitution. Let us briefly speculate about how and why these tensions and ruptures have come about and what consequences they might have.

In the midst of the stock market crisis which followed the downturn which began in March 2000, George Bush (supported, amongst others, by the oil companies, the military industrial complex, the Israeli Lobby and Wall Street), dubiously assumed the Presidency, installing an extremely conservative administration. September 11th gave the perfect excuse to unfurl plans for unilateral world dominance⁷ which several members (the 'neo-cons') of the Bush Administration and certain think tanks had

⁷ **Translator's Note:** I have used the word “dominance” here instead of “domination”, as “domination” is more total, and sounds a bit conspiratorial, which is not the case.

developed during the 90s. The USA defined the September 11th attacks as an act of war, thereby justifying invoking NATO's Article 5 on the following day. This article ensures that if any NATO member is attacked from the outside they will receive immediate support from the Alliance. Its efforts were not in vain, as, initially, Europe staunchly supported the permanent global war which the US super-power unleashed against "international terrorism" and accompanied it resolutely in its Afghan adventure. However NATO later took on a secondary role, with Defence Secretary Rumsfeld declaring that the "coalition will determine the mission". However, in 2002, the Bush Administration embarked on an unambiguously unilateralist course, dragging with it the UK, its long time ally within the EU. This process culminated in Westpoint in June 2002, and Iraq was singled out as an enemy to defeat in a "pre-emptive war". This took place amidst a disaster on Wall Street. As well as a falling stock-market and the Dollar losing value (especially against the Euro), many of Wall Streets large companies were marred by accountancy scandals. Later, in September 2002, a New Strategic Military Doctrine was adopted. This clearly laid down the neo-imperialist US strategy, and gave the legislative green light for a US attack on Iraq. The doctrine also paved the way for the subjugation of the UN, which was given the ultimatum of either caving in to US desires or becoming "irrelevant". All of this was a considerably successful attempt at using a military fist to shore up the Greenback and the financial markets and to keep them functioning⁸.

In November 2002, as UN inspectors pranced about trying to find the famous weapons of mass destruction (which still have not turned up, even though it seems there are many in the USA and the EU), NATO held its summit in Prague. Three Eastern European countries had already joined NATO, and now the Atlantic Alliance, at the behest of the USA, opened its arms to those Eastern European countries which were in the process of joining the EU at the time. This enabled them to join NATO before they joined the EU. The final decision regarding their entry into the EU was not taken until one month later, in the Copenhagen summit, and only ratified in 2003. After more than ten years of (imposed and unequal) negotiations, the process was accelerated at the last moment, and the decision was finally ratified in the EU summit in Athens in 2003. Despite heavy pressure that it should vote 'Yes', Ireland had inconveniently voted 'No' in its referendum over the Nice Treaty, thus blocking the whole process and watering it down even further (if this was possible). Later, a second artificially sweetened referendum managed to win out against the

⁸ This military strategy was accompanied by domestic economic measures: drastic tax cuts, lowering of interest rates, and major increases in military spending.

resistance in Ireland, clearing the way for the enlargement process to continue. With an enlarged NATO, the EU had no time to lose with its own enlargement. Even so, the new countries would not be able to fully join until May 2004. As well as enlarging NATO, the Prague summit took another very important step. Again at the proposal of the USA, a NATO Rapid Reaction Force was created. This was an attempt to throw a spanner in the works of the decision which the EU had taken back in 1999 in Helsinki to create its own European Rapid Intervention Force by 2003, a decision which was proving difficult to implement due to the EU's internal tensions over the matter. In addition to this, in what was clearly an attempt to subordinate the EU countries to US interests, the USA managed to ensure that all the NATO members approved a new military doctrine which was basically just an extension to the global level of the above mentioned Doctrine which the hyper-power had approved in the USA just two months earlier.

As Washington's attitude became increasingly unilateralist and hostile, its conflict with the "old Europe" (in which the UK starred as an extra) steadily became more acute. However, it did not break out into the open until January 2003, when Chirac and Schroeder declared in Versailles that they would stand firm in their refusal to allow UN backing for the 'coalition' to attack Iraq, an attack which anyway had already been decided upon. This meeting between France and Germany restored the troubled Franco-German axis, and was the first time in more than fifty years that Germany had distanced itself from the USA, which until then had been its unconditional ally and, until 1989, its protector. Significantly, the two leaders (of, we repeat, the two most important countries of the Euro) did not take up clear positions until shortly after Prodi, the President of the Commission, had clearly declared his opposition to the invasion. In all likelihood, Prodi had been talking on behalf of the most important sectors of continental European capital. However, in the same meeting in Versailles, Chirac and Schroeder clearly stated their intention to expand defence expenditures and stimulate the European arms industry. Thus, their position most definitely should not be understood as pacifist, even if they adopted an openly critical stance in relation to the war against Iraq. From this moment on events accelerated. Some days later the Letter of the Eight⁹ appeared, supporting Washington's position. This letter was promoted by Aznar at the suggestion of the Wall Street Journal, a newspaper which defends US financial interests. The letter clearly portrayed a divided 'Europe'. The schism between the 'old' and the 'new' Europe became even wider when the Vilnius group (the rest of the Eastern European countries)

⁹ Spain, the UK, Denmark, Italy, Portugal, Poland, the Czech Republic and Slovakia.

also came down on the side of the USA. This had the effect of sharpening the pro-Atlanticist tendencies of some of the members of the EU-15 (namely Italy, Portugal and Holland). Thus, it suddenly dawned on 'old Europe' that a US Trojan Horse had snuck in the back door alongside the desired broadening of the EU towards the East. The Herald Tribune had not been far off when it had declared that Washington would be the biggest winner of the EU's enlargement. This earthquake was to have a major impact on the European Constitution which was in the process of being elaborated.

In the face of Washington's unilateralist gamble and the resulting erosion of the ranks (the UK, Italy, Spain, etc siding with the USA), the EU's hard core became even more determined to strengthen 'Europe'. However, the tremendously problematic division put a massive damper on Germany's federalist and France's confederalist zeal, and the possibility of establishing a strong and clearly defined European political and military command structure which was autonomous from the USA receded ever further into the distant future. The rebellious states asserted themselves with a renewed force, spoiling the German (and to a lesser degree, French) plans. The Eastern countries stood out, and were reprimanded without diplomatic qualms by Chirac. The central Community structures had no other option than to give in, since they still did not have sufficient power (on the other hand, European trans-national productive and finance capital, faithfully represented by the EU's policies, had in the meantime acquired such a power). Additionally, the poor image which the European population has of Brussels makes it difficult for Brussels to claim more power, as member states still hold greater legitimacy than Brussels does as far as their populations are concerned. In 2003, for the first time in the history of the 'European Project', more than half its population felt that belonging to the EU was not beneficial (The Economist, 16-6-04). If the EU is to advance, it has no other option than to receive support from the strange hodge-podge of states which make it up, some of which still have a lot of power. Thus, the Convention will not be able to bestow the same degree of power on the EU structures as European capital enjoys. Furthermore, power is shifting from the Commission to the Council. This institutional weakness explains the confrontation between Prodi and Giscard (President of the Convention). The main theme of their dispute was over the potential two-headedness of such a future creature, which could result in "institutional paralysis" or "inefficiency". A compromise had been reached due to the reluctance of some of the bigger countries to lose political weight and influence within the Community structures. This compromise meant that both the Commission and the European Council

(check term)¹⁰ would have a President, and a High Representative of Foreign Policy would be accountable to both of them. However, the result of all this could be that the EU might become totally blocked if tensions between its members persist, especially those between the big members whose interests and positions in relation to different parts of the world differ from each other. This is exactly what is currently occurring in relation to the EU's attitude towards the Middle East and the Gulf region. Although instability in the area could effect the EU even more than the USA, the EU's position is timid and lags behind the USA¹¹.

And yet, the President of the Commission was still disappointed. This was despite the fact that the Convention virtually abolishes the right to veto (except, of course, in defence, social, taxation and foreign policy) enables 'enhanced co-operation' (the 'Europe of different speeds'), and (to the detriment of the smaller and medium-sized members, namely Spain and Poland)¹² gives the four big powers even more power than Nice did. Additionally, it establishes a single European judicial and policial space with a strengthened Europol, and paves the way for a downward harmonisation of social rights by way of approving a Magna Carta of fundamental rights. Yet, all of this was not enough for Prodi. He was not satisfied, despite the fact that important goals were achieved to adapt 'Europe' even further to the requirements of the economic and financial elites by giving it a 'neo-liberal' Constitution, and despite that fact that a unified European financial space (stock markets, regulation and banking services, new legislation concerning hostile take over bids etc) was set to be in place by 2005, signifying a further loss of power for states in relation to the privatised public companies. Yet, this contrasts with the fact that, as 'Europe's' economy is entering a period of stagnation, the main EU states (especially France and Germany) are questioning the Stability Pact and coming into conflict with the Commission. This is mainly due to the impact which the last two years of the Dollar's ongoing depreciation and the

¹⁰ The President of the Council would be elected for a period of two and a half years, extendable by one more year.

¹¹ The EU is incapable of confronting Israel. At the same time, the Security Council recently unanimously approved Resolution 1511 which 'legalised', *a posteriori*, the occupation of Iraq by the 'Coalition' forces. However, France and Germany will not (for the moment) contribute any money or troops to it.

¹² A strengthened Germany, together with France, the UK and Italy could block any decision which they didn't like. Spain and Poland are losing institutional weight (in relation to what was decided in Nice) and the small countries have a smaller presence in the Commission (in theory from 2014 not every country would have its own commissioner) and the six monthly rotating Presidency which give countries a certain domestic and international stature has been abolished. These reforms are consolidating a more centralised command structure. However, this centralisation of power also presents a problem for the Commission, as the big countries are likely to fight over this power.

consequent rise of the Euro relative to the world's main currencies¹³ is having in the EU. The main states (especially Germany, but also France) which were pushing for the Pact in Amsterdam, are now openly laughing in its face and throwing it to the wind. The Commission is unable to force them to comply with its rules, and is unable to implement the fines (of up to 0.5% of the GDP) which are stipulated in the Pact. However, it was a different story when Portugal did not fulfil its obligations to the Pact. Brussels threatened to withdraw funding. As Portugal was so dependant on foreign capital, it was obliged to undertake a savage budgetary adjustment programme which is provoking a sharp economic, political and social crisis. The significance of all this was made clear by Duisenberg, the ex-president of the CEB and a guardian of monetary orthodoxy, in his farewell speech. Non-fulfilment of the Stability Pact would, he warned, be “a disaster for Europe”.

Thus, an assortment of fissures are clearly developing within the EU. On the one hand tensions between larger member states and the remaining countries (especially the smaller, periphery and Eastern ones¹⁴) are heightening. On the other, serious rifts are also growing between political, economic and financial power. Although operating within the constraints of neo-liberal orthodoxy (lowering of taxes, privatisations, social cuts), political power, which depends on the votes of its citizens and its ability to generate employment, is in general clearly attempts to pursue policies favourable to economic growth and increasing public expenditure, especially related to infrastructure. However, such policies result in increased debt, which is something which could effect the credibility of the Euro. Thus, the ECB is categorically against these policies. In contrast to political power, European trans-national economic power, the big companies which operate at both the continental and global level, are generally ambivalent. On the one hand a strong Euro helps them to expand both internally and externally, whilst on the other hand they suffer if the Euro is strong in relation to the other main currencies due the negative impact that this has on their export markets. In any case, its lobby groups appear not to have publicly criticised the ECB by encouraging it to lower interest rates which would bring about a fall in the Euro, which is something that political power, on the other hand, has called for in order to encourage economic activity. And finally, at the other extreme, European

¹³This was made clear in 2003 in Dubai when the chief economist of the IMF likened the world economy to a plane which has depended on only one motor to fly, the USA, and is about to land on only one wheel, the Euro.

¹⁴ The Eastern countries have joined the EU on the basis of the Nice Treaty, which already imposes a subordinate and peripheral position on them. The Treaty obliged these countries to convene referenda about whether to join or not, and now the Constitution has also been imposed on them, reducing their powers even further. Therefore, it should come as no surprise that they signed up to the Letter of the 8.

finance capital appears incredibly satisfied with the fact that the Euro is a strong currency and is getting stronger by the day, gradually becoming a currency of global importance. In any case, the real power to lay down the rules lies with the ECB, and, despite protests from the main states, it is pressurising the Commission to enforce compliance with the Stability Pact. And all of these actors (especially the states) are, in turn, disciplined by the fearful force of the global whirlwind of speculative money which flows daily between the different financial markets and especially within the currency markets. However, it is possible that the Euro's recent persistent strengthening in relation to the Dollar is likely to represent a genuine problem for the European economy in the future (if not already), as its productive economy retains a greater weight than in the USA. The President of the ECB has even warned of "excessive volatility" in the currency markets. Nonetheless, at least for the moment, he is holding back from lowering interest rates.

As states lose their fiscal base (due to tax reforms, which they themselves are promoting under pressure from global finance capital), they are left with no other option than to sell themselves down to the shirts on their backs in order to balance public accounts. This is why Europe's health, education and pensions systems, virtually the last important public wealth still left to privatise, will surely be subjected to the brutal logic of the market in the future. Such privatisation has already been going on in a creeping fashion for several years, but the Constitution gives it the green card. When these services are fully privatised, it will effectively mark the end of citizenry even for people who 'belong' to these states. That is, people with money will have access to these privatised 'public services', and people who save will receive a pension. Everyone else will increasingly not. The USA openly embarked on this route a long time ago. Furthermore, once Europe's stock markets have been strengthened (i.e. virtually integrated from 2005 onwards), the enormous quantities of money which the privatisation of pensions will free up to redirect towards Europe's financial markets (where the Anglo-Saxon pension fund play a big role), will be the fuel which these markets need in order to be able to compete with Wall Street¹⁵. This would enable them to shine as much as Wall Street did in its hey day (and to a lesser extent still does) and will thus strengthen the Euro's position globally. However, 'Europe' is facing big problems in making all these rosy scenarios actually materialise. Despite the fact that the Euro pressurises in the direction of a single European economic policy

¹⁵ The EU's stock markets are less developed than those in the USA, and are more spread out (there are twenty different markets in the EU-25). They only have half the volume of capital as US ones. At present, only four of them are part of Euronext: Amsterdam, Brussels, Paris and Lisbon (Fdez Duran, 2003). A possible co-ordination between London and Frankfurt ran aground awhile ago (Fdez Duran, 2003).

and that a lot of (relative) co-ordination at the level of the current EU takes place within Ecofin, the EU still lacks a single economic policy, despite the fact that the Constitution is a major step in this direction. Each state still has its own economic policy, and it seems that it will still be a long time before the EU has a single economic policy, if indeed it ever does. This situation continues to undermine the Euro's credibility.

The 'Europe of Different Speeds' – Neither Stable Nor Legitimate

Many of the nine new member states have large foreign debts due loans which the IMF and World Bank issued to guarantee their transition to market economies. What will happen now these countries have joined? What will happen when Rumania and Bulgaria join in 2007, or if Turkey joins at some point?¹⁶ These are countries whose economic and financial situation is even more precarious than that of the countries which have recently joined, and their 'development' and modernisation gap with respect to the current EU is atrocious. And, what will happen when the six explosive Balkan countries¹⁷ are added to the equation, as is anticipated at some point in the future? Prodi, in an effort to pacify and satisfy the financial markets, has made it abundantly clear that even if these countries do join the EU, this in no way implies that they will become part of the Euro-group, the EU's Business Class. The bad apples will not be allowed to contaminate the good ones and allow the rot (i.e. lack of investor confidence) to spread throughout the whole basket. The Euro's credibility must be safeguarded come-what-may. Given that even countries at the heart of the Euro-group are responsible for paying their own public debts, which have different levels of risk, the ECB will certainly not 'come to the aid' of the periphery countries which find themselves Euroised in the future as is already with some of the ex-Yugoslavian countries (i.e. they use the Euro as their legal tender, but are not part of the Eurogroup). There is no form of collective responsibility in this area and every country is obliged to fend for themselves. In this respect, Italy has already suffered the markets raising its 'risk premium' due to the size of its state debt.

¹⁶ Turkey (a member of NATO) has, finally, been accepted to begin negotiations with a view to joining the EU at some point in the future, and before the end of this year it will be decided once and for all whether or not it can join. The USA has pressured in this direction for many years, and recently has won the support of some EU members. However, many other members oppose the idea of allowing an Islamic country to join. This is all the more so now that Turkey's traditional party system has been thrown into turmoil with the coming to power of a 'moderate' Islamic government. Giscard D'Estaing provoked an enormous uproar by declaring that Turkey's entry would destroy the EU.

¹⁷ Albania, Croatia, Bosnia-Herzegovina, Macedonia, Serbia and Montenegro.

Thus, a 'Europe' defined by a strong core and various peripheries is taking shape. The peripheries will have their markets open to the economic and financial powers from the core countries, and will suffer from the same dynamics as any other periphery does. It will be impossible to deny that such a 'Europe of different speeds' will hardly be stable and will have scant internal legitimacy, especially in the periphery countries of Eastern Europe. Once inside, these countries, having spent many years preparing to enter the EU, will find themselves excluded once again from real decision making power. Leaving differences aside, it will be similar to the relationship between Mexico and the USA within the North American Free Trade Agreement. However, one important difference is that the Eastern European countries will receive some transitional aid in order to restructure their still vibrant agriculture sectors, and to build the infrastructure (especially motorways) necessary to connect their markets to each other and to the heart of the EU. A large part of this investment in infrastructures is being funded with loans from the European Investment Bank (EIB), thus increasing the level of indebtedness of these states. Lacking transparency, the EIB is a little known giant which has a greater intervention capacity (in terms of the volume of its loans) than even the World Bank. The other side of the coin is that the poorest countries of the EU-15 are footing the bill for the enlargement to the East as the Union's limited budgetary resources begin to be reorientated towards these new (and future) members. This process will intensify from 2006 onwards. Significantly, this round of enlargement was carried out without expanding the EU's budget, and it is foreseeable that this budget will actually be cut back in the future because the countries which currently provide the money want to reduce the ceiling on spending now in place.

But, what should one infer from the fact that the EU itself does not even know how far its own borders span? And, how will these borders be defended against vast numbers of 'illegal' immigrants? How will it be able to defend the more than six thousand Kilometres of borders which these new enlargements will create? What cost and what problems will result from being back to back with Russia, Bielorussia, Moldavia, Ukraine or (if Turkey does eventually join) Syria, Iran, Iraq, Georgia and Armenia? Or, perhaps it will be necessary to make another less penetrable internal border?¹⁸ Not only will it require large police forces, but almost certainly

¹⁸ In fact, it will still be several years before citizens of the nine new Eastern members are allowed to move freely within the EU. There has been a sharp increase in immigration from these countries towards the current EU due to their abrupt restructuring. Nor will these countries become part of the Schengen Space. Furthermore, the Constitution includes the creation of a European Border Agency to control migratory flows. Politicians from five major countries (Germany, France, United Kingdom, Italy and Spain) met recently to unify their immigration policies despite the fact that migration policy

military ones too. Humberto Bossi¹⁹ has gone as far as declaring that Italian battle ships should open fire at sea against boats of undocumented migrants. And it is because of all this, and above all due to the needs outlined in Solana's document, that states are demanding (in accordance with their designated role) that the Stability Pact does not impose restrictions on defence spending. This demand was formulated by France and, above all, Germany. 'Europe' spends less than half as much as the US does on defence, yet is aspiring to become a genuine world super-power...there's no need to say any more. It faces the impossible task of squaring the circle and becoming a super-power whilst also reducing state spending.

Additionally, the new European Constitution emphasises that states are clearly designated as guardians of the existing internal order, and given a leadership role in this respect. On top of this, it ossifies the current state-based order. Unlike previous treaties, it does not even contain so much as a reference to Europe's 'peoples', let alone its stateless 'peoples' (Euskal Herria, Corsica etc), thus removing the possibility for people to exert their right to self-determination as recognised by the UN itself. Even the idea of a "Europe of Regions" appears to be off the agenda. The nation state, which appeared to be flagging, is resurging with a vengeance. It has been remodelled, shedding the mild face of the welfare state and replacing it with the harsh face of police power and militarisation. And, even worse, the Constitution goes as far as including a Solidarity Clause which gives power to the EU to intervene (including with troops) in a member state which has been attacked by 'terrorism' or when its "democratic institutions are threatened". Threatened or attacked by whom? One might well ask. Perhaps, by its own population? But, it should not be forgotten that the cost of guarding the internal order will become astronomical.

'Europe' is a soulless project, and the only thing that keeps it together are monetary interests, apart from, perhaps, the Eurovision song contest (in which, incidentally, Israel also participates). Or the European Cup. Nation states continue to cling on to their legitimacy due to the heightened sense of identity brought about by shared languages, culture, and lately also spectator sports. It seems that the only thing which is actually 'shared' at the EU level (or rather within the Euro-group) is the Euro itself. Although initially met with 'civic euphoria', constructed at enormous cost by the media and other publicity channels, it appears as if sanity is being restored

will be defined at EU level in the future as outlined in the future Constitution. Thus, it appears as if 'enhanced co-operation' is already a reality.

¹⁹ **Translator's Note:** Bossi is the leader of the Liga Norte, far right party in Italy.

as large numbers of people are becoming aware that the Euro has simply made things more expensive for your average common mortal. Hence, it is proving impossible to create a broad imaginary European social fabric which supports and defends this 'Europe of capital'. This means that "Europe" will increasingly consolidate itself on the basis of fear alone, as is already starting to be the case. In other words, gathering its supposed beneficiaries around to defend its power structures (in particular its nation states) against everything and everyone which may threaten it. Lest it be 'international terrorism', this is being increasingly linked with the Islamic world. Lest it be inequality and internal social breakdown, we are witnessing an increasing criminalisation of poverty, and we are bit by bit approaching a US-style penal state. Or, lest it be the 'Other', there is increasing harassment and persecution of migrants to the extent that rather than being given full citizenship, long term 'legal' residents who do not originate from the EU are being lumped into an inferior category of 'foreigners'. Or, lest it be any other sector striving to change the existing order of things, they can be easily labelled as 'terrorist', a term which has become a catch-all phrase which could include any form of dissidence what-so-ever. In this sense, the spectre of the March 11th bombings in Spain is being used to justify and legitimise the 'European Project', and to spread the message that a strengthened EU will ensure the increased the safety of all its citizens.

In fact, the penal, juridical and police reforms embarked on within the EU in the heat of September 11th clearly go in this direction, and since the Thessaloniki EU summit they have become an integral part of Community policy. Tough internet control mechanisms are becoming reality²⁰, and we are witnessing a significant curtailment of rights and liberties. March 11th is likely to provide a further powerful excuse to strengthen these dynamics, as can be seen with the emergence of the new Constitution. Following hot on the heels of the USA, the UK is leading the way in Europe. It has approved anti-terrorist legislation which establishes a form of juridical limbo for people detained within the 'Europe of liberties', creating something akin to Guantanamo within the EU. In effect the law suspends the Rule of Law, turning the country which invented Habeas Corpus into the first country in the EU to deny it (De Lucas, 2003). More countries within the EU are following close behind. Spain is particularly symptomatic of this, having had its Parties' Law²¹ incorporated into

²⁰ An extradition treaty with the USA has been approved within the framework of the global anti-terrorist struggle. Under this new treaty extradition is only formally withheld in cases where the death penalty may be applied.

²¹ **Translator's Note:** This is law which has made a Basque political party, Batasuna, illegal, and could be used in the future to illegalise other political parties.

European policy. It seems that policing Europe is the one area in which there is very little difference in opinion between the different powers. Big Brother has already arrived.

Dollar Vs Euro - Face to Face with Daggers Drawn

Despite everything, in the few years of its existence the Euro has already become a serious rival to the Dollar's global role. However, as described above, this is not due to the Euro's strength *per se*²² but rather because the Dollar has entered into what might turn out to be a very serious crisis. This situation is hardly surprising, given the fact that the enormous imbalances in the US economy have been sharpened by the Dollar-Wall Street Regime's crisis and by the Bush Administration's 'neo-imperial' policies which, as this book suggests, were hurriedly embarked upon in a militarist attempt to maintain this Regime. However, not only is it becoming clearer with each day that passes that this strategy is failing, but the DWSR's crisis is actually worsening. We can confidently assert that the flight from the Dollar has already begun. Less certain is how fast this will happen and how the seriousness of this crisis will make itself felt, since the USA will use whatever means it can to try to maintain the Dollar's supremacy. It is both prepared and able to fall back on its enormous military power, pursuing a form of 'monetary policy from the barrel of a gun' (Giacché, 2003). Before embarking on its Iraqi adventure, the USA had already made clear in its New Strategic Military Doctrine in September 2002 that it would not permit any power or group of powers to become strong enough to be able to dispute its military hegemony. In the short term, this clearly refers to 'Europe', and in the medium term, perhaps to China. The situation is glaringly obvious.

However, the Dollar does, of course, still act as the most important global currency, and is showing great reluctance and inertia in terms of losing its hegemonic planetary status. Furthermore, until now it has been universally accepted that the USA is unrestricted in its ability to create global liquidity. This is something which is not the case with the Euro, as the ECB is restricted in the volume of money it can issue due to its goal of controlling inflation as well as its fear that the currency might depreciate. Meanwhile the Euro, apart from its obvious role within the EU, is gaining ground in Eastern Europe, the Near and Middle East and Africa, as well Europe's former Caribbean and Pacific colonies. In total, the Euro is gaining a serious footing in approximately 80 of the world's 190 countries, though in some of these it is sharing the Dollar's terrain. However, despite

²² Nonetheless, it has been highly successful in bonds markets (in Euros), both within the EU and further afield.

being large in number, these countries only covers 20% of the world's population and a mere 5% of the global GDP.²³ Nonetheless, out of these 80 countries, more than 50 are anchored or linked in some form to the Euro. Some of the Balkan countries have even already adopted the Euro as their legal tender, despite the fact that they are not part of the Euro-group. Many countries in different parts of the world are diversifying their reserves, which until now have been held almost exclusively in Dollars, so that they will not lose all their assets if the Dollar devalues. Of the five international currencies (Dollar, Euro, Yen, Pound Sterling and the Swiss Frank), the Euro clearly stands out above the rest as contender to the Dollar. By mid-2003, some 20% of reserves in the world's Central Banks were already being held in Euros, as compared to 68% in Dollars, and about 5% in Yen. Furthermore, this figure had climbed from 10% to 20% in the space of just one year, and the percentage continues to gradually rise (Mazzaferro et al, 2003; Giacché, 2003). Similarly, the Euro is increasingly taking on the role of the international money of payment in international commercial transactions, especially those involving the EU. Additionally, the Euro is beginning to challenge the Dollar in various lucrative 'black markets' (especially the drug trade), which until now have been the virtually exclusive preserve of the Greenback. It is no mere coincidence that the ECB issues notes with the high face value of 500 Euros. These notes have been created with the explicit purpose of ensuring that the Euro can get a foothold in the illegal economy. On the other hand, the largest note the USA has is the 100 Dollar bill. Consequently, it is currently considering introducing 500 Dollar notes, as it is afraid that it will lose its hegemony in the 'black market'.

This gradual erosion of the Dollar's status as the main reserve currency and money of payment will have a major effect on the amount of capital flowing into the USA, funds which the USA relies on to help it finance the big current account deficit which it holds with the rest of the world, as well as its growing fiscal debt²⁴ which has grown as a consequence of the tremendous costs of the Bush Administration's 'neo-imperialist' adventures and the abrupt tax cuts which have been implemented. Most of the capital flowing into the USA comes from the EU and Japan, as well as from certain South-East Asian countries such as Taiwan, South Korea and Singapore. Over the last two years the amount of capital flowing into the USA has already fallen, both in quantitative and

²³ For the moment, Latin American and Asian countries are in the Dollar zone and do not use the Euro much. These countries hold the bulk of the world's population as well as a significant slice of global GDP.

²⁴ The current account deficit (trade balance for goods and services, plus current account transfers) has risen to almost 6% of the GDP, and the fiscal deficit (state expenditure minus income) has reached almost 5% (IMF, 2004).

qualitative terms. Both Foreign Direct Investment and portfolio investments are falling off, whilst bonds are on the rise since they must be paid at a fixed interest rate regardless of the economic outlook²⁵. All of these factors have meant that the USA has, for several years already, become the largest debtor state in the world. This factor is largely responsible for Euro's rise in relation to the Dollar throughout this period. As the Dollar's position as the main global reserve currency continues to erode, so too will the economic privileges which the USA reaps as a result of this status, and rapidly. This will make it impossible for it to continue to finance either its current account or its fiscal deficit. If this happens, its economic model will experience a sudden breakdown, and the living standards of its population will plummet (Giacché, 2003). In all probability this would result in a world-wide depression and deflation, as world growth has been guaranteed largely by the USA. It has been based on a model of growth which has encouraged an unstoppable expansion of credit both in the USA and globally. Consequently, the US' own imbalances have escalated at a dizzying rate, and states, companies and families have all become heavily indebted. Since the stock market bubble burst four years ago in March 2000, the credit economy has been further encouraged by a continued lowering of interest rates. Until recently these were at all-time lows (1% for the Dollar, 2% for the Euro, and virtually zero for the Yen). If this vast pyramid game (including the expanding real estate bubbles in many core countries which have attracted speculative capital) were to fail, as is bound to happen sooner or later, we will witness a rapid collapse of the world economy, bringing the much feared global deflation-depression. In other words, a generalised fall in prices, contraction of the economy and breakdown of economic activity. This is even more likely now that the Dollar interest rates have been raised, as this is likely to strike a death blow to growth based on the unfettered creation of money (both paper and financial) and the generalisation of debt throughout the economy. One reason behind this current rise in interest rates is to avoid inflation due to the soaring price of petrol, as appearances suggest that we are well on the way to a new global landscape defined by expensive crude oil. However, perhaps more importantly, it was necessary to raise interest rates so that the USA can continue to attract capital from the rest of the world in order to manage its twin deficits - fiscal deficit to finance the war, and current account deficit to finance its huge external imbalances. This need would become especially urgent if international confidence in the hyper-power were to collapse.

²⁵ Even the Asian giant China is using the enormous amount of Dollars which it obtains from selling goods in the US market to buy US Treasury Bonds.

The Euro's explosion onto the international landscape signifies a qualitative change in the world of money. In the face of these changes, one of the responses the US has adopted has been to use the IMF to encourage entire countries to undergo total Dollarisation (eg Ecuador, El Salvador, Guatemala...). This is aimed at guaranteeing that they remain within the Dollar's sphere of influence so that the USA does not lose, amongst other benefits, its seigniorage rights (Carchedi, 2001)²⁶. For the most part this has occurred in small countries which are on the verge of bankruptcy and thus had hardly any other options open to them. However, this should not be taken as evidence that Dollarisation was a good option for these countries, but simply that they were unable to resist the IMF's (and ultimately the US') demands. In fact, it will only exacerbate their levels of dependency and other problems even further²⁷. However, this strategy has not always worked. In Argentina, the population routed Menem at the polls for espousing total Dollarisation of the country. Meanwhile, the USA initially tried to go even further in Iraq, trying to Dollarise the country by way of military force. However, it was later forced to make somewhat of an abrupt U-turn owing to the need to negotiate new UN resolutions with the 'international community' in order to 'legitimise' and stabilise the occupation. In any case, the Dollarisation of Iraq was only one amongst many of the hyper-power's war aims in Iraq. As well as it being an endeavour to appropriate Iraq's oil reserves for itself (the country contains the second largest reserves in the world after Saudi Arabia), it was also a way of eliminating a regime which had expressed its intention of allowing 'Europe' to pay for oil in Euros. Given that oil is the world's most important commodity, this decision would have contributed to eroding the Dollar's dominance, especially if the other OPEC countries also gradually followed suit. The war against Iraq also served to divide 'Europe' in order to weaken the Euro's strength and credibility. Yet another important factor is that the war and occupation of Iraq are seriously destabilising the Near and Middle East, both of which are zones where the Euro's influence is rapidly growing. This destabilisation is having the effect, at least for the time being, of re-enforcing the Dollar's presence in the zone.

As periphery countries are battered by speculative attacks and ever-more frequent monetary-financial crises, they become increasingly incapable of maintaining their exchange rates and their ability to survive in the market. Many of these states are rapidly turning into so-called 'failed

²⁶ Seigniorage rights are the profits that states reap due to the difference between the physical cost of printing bank notes (or minting coins) and their actual face value.

²⁷ Countries which adopt the Dollar (or for that matter, the Euro) as their legal tender lose the seigniorage rights which they previously gained from issuing their own currency. However, this is not all. Unless they happen to have a huge trade surplus which allows them to obtain Dollars or Euros, they also must pay interest on the loans taken to buy the Dollars (or Euros) needed for internal circulation.

states'. The result of this is that global capitalism's latest phase is pushing us towards a world dominated by just two or three currencies (the Dollar, Euro and Yen, and perhaps the Chinese Yuan in the medium term). This is one of the most important reasons behind the EU's urgent need to strengthen its political and military power in order to back up the Euro, especially given that the Dollar is currently falling and the international monetary framework could go down the toilet. Despite their many limitations, the European Constitution and Solana's document²⁸ are attempts at doing precisely this. Nonetheless, as described above, the Euro still does not have enough political power, let alone the necessary military power, to sustain itself. This intrinsic weakness is also a cause of great concern for the world's major capitalist players, especially those with financial and speculative assets, since the majority of the world's wealth is currently valued in Dollars and the Euro is not yet strong enough to rely on should the Dollar devalue as it looks set to do. On the other hand, capital will use whichever support it finds most suited to its needs, and if the Euro is unable to fulfil this role something else will fill its place. Hence, for the first time in twenty-five years, gold is once again becoming the money of choice, and its price has been climbing steadily over the last few years (Leconte, 2003). Despite the considerable degree to which the Euro has established itself, it is still not serving as a completely trustworthy deposit of value. The USA is taking advantage of this situation, well aware that despite the fact that its economy has many economic and financial imbalances, the Dollar still has the backing of a strong political and military power (the latter of which continues to be financed by the rest of the world). Hence, not only is the Dollar still viable as the hegemonic currency, it is also, for the moment, still irreplaceable. The Federal Reserve is supporting this strategy by selling gold so as to slow down the rate at which its price rises. Perhaps more importantly, according to the press, even the German Bundesbank is selling gold for similar reasons, as it is afraid that a sharp fall of the Dollar would actually also put the Euro in jeopardy. Here it is worth bearing in mind that all currencies are currently based exclusively in confidence, as they are no longer tied to any physical substance. On the other hand, an interesting development is taking shape in the periphery as powerful countries such as India and China are becoming afraid that their Dollar reserves will devalue²⁹. Whilst diversifying some of their reserves into Euros, they are wary that the Euro might not actually be able to respond well to its new role as international reserve currency, and are thus also buying large quantities of gold (Fdez Durán, 2003).

²⁸ The EU must have backing from at least nine member states in order to undertake military action outside of the Union.

²⁹ Actually, China is currently behaving schizophrenically. At the same time as diversifying away from Dollars, it is also still buying Dollars in order to prevent its own currency from becoming too strong which would weaken its ability to penetrate US and global markets.

Great Britain Helps to Cripple the Euro

On top of all this uncertainty is the fact that three EU countries have still not joined the Euro. Denmark rejected membership in a referendum in 2000, and Sweden has recently also voted a resounding 'No' in 2003. This will make a quick entry for 'Euro-sceptic' Great Britain even more difficult. This is a serious setback for the Euro, due to the UK's (and in particular the City of London's³⁰) economic and, especially, financial strength. Furthermore, staying away from the Euro might, over time, threaten the City's supremacy in the European stock markets, as the EU's financial centre might slowly shift towards Frankfurt. In fact, this is already occurring very gradually. Blair, the Golden Boy of British capital whose Third Way politics provided the blue-print for the neo-liberalisation of social-democracy and who promised that the UK would join the Euro and lead the EU, could hardly find himself in a worse moment to call for this controversial referendum. A referendum in the UK would encounter extremely widespread popular opposition to joining the Euro. Blair hopes to use the UK's financial power, its defence policy and its privileged relationship with Washington (Verçamen, 2003) to impose its influence within the EU. He hopes to strengthen the UK's role as the main trampoline for US interests in Europe (e.g. genetic engineering companies promoting biotechnology and transgenic food) as well as serving as the lynchpin around which common business interests between the USA and the EU can hang. This factor is especially important in relation to constructing a vast North-Atlantic market.

This strategy of keeping close ties to the USA and giving unconditional alignment with Bush did indeed bear some fruit in the wake of September 11th. For a time, Blair was able to act as if he was the EU's 'Foreign Affairs' Minister'. Importantly, the Euro was extremely weak during this period, and the Union's leadership in global affairs could be snatched up by a country which, although not belonging to the Euro, does have a strong military capacity. Recall the famous supper in Downing Street, to which Blair invited the EU's main leaders (excluding Aznar) to discuss 'Europe's' military contribution to the war against Afghanistan, in which all were fighting to participate. Meanwhile, Solana (the High Representative of Common Foreign Policy and Security) was only invited at the very last minute, as an afterthought, and Prodi registered his disgust at the whole affair. However, Blair's success was short lived. The polarization between 'Old Europe' and the USA over the war against Iraq

³⁰ The City is the largest financial market in the EU, the largest currency market in the world, and has a higher number of banks per square km than any place in the world.

has pulled the rug out from under Blair's feet, as well as leaving him with a major internal uproar over the manipulative tactics which his government adopted to ensure the UK's participation in the 'coalition' forces. Robin Cook, who resigned from his position as British Foreign Affairs Minister over the war, expressed this in no uncertain terms: "We went to war to serve the interest of US foreign policy and Republican domestic policy" (Cook, 2003). This was undoubtedly true, but his silence concerning the motives which the UK itself might have had in waging this war was remarkable³¹. The war against Iraq, and the demented post-war period, are costing Blair dearly, and making his charisma crumble. Facing these troubles, it seems that the referendum over whether the UK should join the Euro may have been postponed indefinitely, since it is likely that the British leader might be unable to convince his 'Euro-sceptical' citizens³².

Meanwhile, the UK will probably continue being the main obstacle for the EU to consolidate a strong political framework and to develop a 'Europe for Defence', thus putting the Euro at a serious disadvantage. If the UK was already part of the Euro, or had the intention of joining in the near future, this would perhaps be one less obstacle for greater European political and military integration (despite the fact that it would not be the same kind of integration that France and especially Germany desire). Furthermore, a 'European Defence' Project would only have credibility at the global level if it counted on participation from the UK, since it needs this country's military might. However, as has been made clear above, such a scenario does not appear realistic in the coming years. In fact, Great Britain has managed to ensure that the European Constitution does not include any of the points that Britain is not prepared to negotiate on. Having said this, it appears as if the position of the Blair government has recently started to shift, perhaps owing to the fact that it suddenly finds itself in no-man's land and facing a delicate domestic situation. In addition to this, he has the task of single-handedly defending the Pound³³. In Autumn 2003, a summit took place between Blair, Chirac and Schroeder. Blair offered a fair degree of support to the Franco-German axis' proposals

³¹ Apart from trying to maintain its privileged relationship with the USA and the important advantages it gains from this, UK companies (namely BP) were very keen to gain control over Iraqi oil. On top of this are the financial interests, since the City is the world's second biggest market in Dollars (its Eurodollar market) and a devaluation of Dollar would automatically result in a reduction of its stock market capitalisation (Fdez Durán, 2003).

³² **Translator's Note:** Unlike in many European countries, where the issue of European integration is polarising the country between left-wing and right-wing opposition, in the UK opposition is almost exclusively right-wing, as can be seen by the dramatic rise of the right-wing UK Independence Party in the 2004 European Parliament elections. The term 'Euro-sceptic' actually has its origins in the Thatcherite opposition to European Integration.

³³ The Bank of England has been forced to raise interest rates several times, whilst the ECB has not raised Euro interest rates for more than a year. Until recently, the same applied to the Dollar. Furthermore, Great Britain has suffered a serious drop in Foreign Direct Investment due to being outside of the Euro.

for developing their joint military capacity as the basis for an autonomous European 'Defence' which under certain circumstances would be able to plan and act independently of NATO. According to the press, this is an important first step.

However, this summit sent shock-waves through transatlantic relations. Washington reacted very angrily to London's timid drawing closer to the French and German positions, and the US ambassador to NATO went as far as claiming that such an approach could actually threaten NATO's existence. This was at a time in which NATO was anyway divided over the war in Iraq. His remark profoundly irritated Brussels. In April 2003, during the war against Iraq, France, Germany, Belgium and Luxembourg had autonomously risked deciding to initiate an embryonic 'Europe of Defence'. This also infuriated the USA, which went on to contemptuously brand these countries as the "chocolate makers". Similar anger was also poured on the EU when, after much internal tension, it decided once and for all to launch its Galileo Programme for spatial location. This programme is essential if the EU is to have its own global military capacity which does not depend on the US controlled Global Positioning System (GPS). Yet, Britain's change of stance suggest that even the US' best friend may be distancing itself from Washington. This is only to be expected, given the disastrous situation being created in Iraq, and that even in the USA opposition to Bush's policies is on the rise. Come what may, Blair desperately needs to win some domestic legitimacy. He cannot allow himself to carry on being Bush's unconditional poodle for much longer. These changes have even provoked Aznar (the third man at Azores) into informing, in both these summits, Schroeder and Chirac of his intention to be more receptive to the idea of a watered down version of a 'Europe of Defence', albeit one which always puts defence of NATO as its first priority. It is unclear if he adopted this stance on orders from Washington in order to further weaken the 'European Military', or because he suddenly realised that the highly risky gamble of having given Bush his unconditional support was not paying off, as it became increasingly obvious that the Emperor had no clothes on.

Thus, without Sweden, Denmark and especially the UK, the actual area covered by the Single Currency will remain as it currently stands, confined to the 12 countries in the Euro-group. This will be a hindrance in terms of the Euro gaining greater power and international reach. Because of this, the Constitution floats the idea of creating a 'Mister Euro' to defend the currency's world standing in the IMF and G8. However, the Dollar's hegemony is indisputably enshrined in the IMF's statutes. The Euro-group countries will be surrounded by countries in which the Euro will play a key

role - the three wayward countries already mentioned, as well as Norway, Switzerland and Iceland which are part of the European Economic Space³⁴. Furthermore, many of the countries which will in the future be part of a broadened EU are already Euro-ised, or probably will be at some point in the future. Euro-isation means that countries which are not able to maintain their existing currencies will adopt the Euro as their legal tender but will be excluded from the Euro-group. These countries will suffer from all the inconveniences which being part of the Euro entails, but will reap none of its (supposed) benefits. This will create the same problems that Dollarisation is generating for certain Latin American countries. Perhaps this is why Euro notes deliberately depict many European countries which are not even part of the enlarged EU. Even Russia, or parts of it, appear on the bank notes. In fact, despite the fact that, for the moment, it is still overshadowed by the Dollar, the Euro's presence in Russia is growing daily.

As global capitalism becomes increasingly financialised, its monetary aspects are coming to play an ever more decisive role. All the financial markets revolve around currency values. The currencies market is one of the biggest, most speculative and most de-territorialised of all the world's markets. As such, it is the market which in turn conditions all the other markets and even states themselves. However, it is also becoming increasingly dependant on political and military strategic considerations and decisions. Currencies are also becoming a vital element in the emerging global struggle for economic, financial, political and military hegemony and vice-versa. Currently, the main factor which allows the US to be able to maintain its hegemony is that the Dollar is still the hegemonic currency at the global level. However, as described above, the emergence of the Euro means that this may not be the case for much longer, and thus the Euro represents a great threat to US hegemony. If the value of the Dollar were to fall in relation to the Euro, this could have a devastating effect. Today's situation is very different from the situation in 1985 when the G7's Plaza Agreements³⁵ were signed. Since then, both the external and internal US debt has grown astronomically, and a serious devaluation of the Dollar would make it more difficult to finance this debt, thus precipitating a dramatic breakdown of confidence. Furthermore, unlike in the 80s when the Dollar only had second rate competitors, the Euro is now a major force to be reckoned with. If the Dollar's value were to fall, international investors would probably act in the same way they had when the 'emerging

³⁴ The European Economic Space consists of countries which have approved all the directives relating to the Single Market, but have, until now, been prevented from joining the EU due to internal opposition.

³⁵ The Plaza Agreements (named after an hotel in New York) were made in 1985 in order to lower the value of the Dollar in relation to the German Mark and the Yen.

markets' were threatened with sharp devaluations of their currencies – i.e. demand that the new debt should be issued in a foreign currency (probably Euros). Such a course of events would signal the end of the Dollar's hegemony. Furthermore, the sector of the US economy that could most benefit from a devaluation is industrial production³⁶, yet this has a relatively limited weight in the US economy (only 25% of the GDP) (Giaché, 2003). On the other hand, it is the transactions in the financial markets which are of paramount importance to the economy, and they desperately need a strong Dollar. In fact, the current account deficit has continued to grow regardless of a relative devaluation of the Dollar. The threat of a sharp fall in the Dollar's value is exacerbating inter-Atlantic tensions. These tensions are becoming more serious than they have been at any point in last sixty years, and have reached the point that it makes sense to ask if the USA and 'Europe' (the West's inner core) even still constitute a community of interests.

Furthermore, recently the USA and the EU have been having increasing numbers of bitter disputes inside the WTO. These include steel wars, hormones in beef, competition which is disloyal to US trans-national corporations (Foreign Sales Corporation), transgenics wars, etc. In Cancun, the WTO's most recent summit which ended in failure, it required a very difficult effort for the USA and the EU to finally present something that resembled a common front against the periphery countries. Yet, it was the EU which was most adamant about securing a multilateral agreement with which to impose the interests of its trans-national companies and finance capital (CEO, 2003). On the other hand, the US' enormous 'influential' capacity which it gains from its political and military strength means that it has less of a need for a multilateral agreement. It is able to use bilateral agreements to impose its own interests in this field, despite the fact that over time such agreements may actually create greater complications than they solve. However, the EU is not (yet) in a position to do this, and for the moment a multilateral agreement is its only means to impose its interests. (See introductory quote "Some countries have sought isolation- and they will have to pay a price for this"). The EU's Trade Commissioner Pascal Lamy's parting words in Cancun were that the summit's failure means that the EU might consider abandoning multilateralism, as the WTO is in any case a "medieval" institution. (This is a bizarre way to describe a global institution, and was perhaps a veiled way of rejecting the fact that its decisions are (supposedly) taken by consensus). However, in the absence of a multilateral agreement, the EU will face difficulties in imposing its

³⁶ In any case, these industries are protected in other ways, ways which are compatible with maintaining a strong (or at least relatively strong) Dollar. These include raising tariffs on steel imports, or heavily subsidising agricultural production.

demands on peripheral countries due to its political, and above all, military weakness. When all has been said and done, in an age of intensified market competition in all sectors, military strength is once again becoming essential if the various blocs are to be able to secure their interests. This is especially so in global capitalism's latest phase, which has clearly opened up in the wake of September 11th. As has already occurred in the USA, the EU will finance its armaments programmes and foreign military interventions by sacrificing the last remnants of its welfare states. In fact, the process has already begun³⁷. However, conscript armies are becoming increasingly problematic and unfeasible as people are no longer prepared to sacrifice their lives for lofty patriotic ideals. The need to maintain professional armies means soaring military costs. Because of this, Europe's professional armies are increasingly filling their ranks with Europe's 'second class' citizens, immigrants from peripheral countries who have been granted legal status.

Internal and External Difficulties for Approving the European Constitution

This increasing rivalry between the USA and the EU helps to shed light on the failure of the summit which took place in Brussels in December 2003. The aim of this summit was to approve the European Constitution so that it could subsequently be ratified by the 25 members of the soon to be enlarged Union. However, it proved impossible to reach an agreement since Aznar's Spain and Poland, both of which have strong links to the USA and which were then³⁸ contributing troops to the coalition in Iraq, refused to accept the decision making process defined in the Convention (and desired by France and above all Germany) as it would make them lose weight within the Union and was clearly a way of punishing these wayward countries. Aznar's personality and links with Washington were key to this stance and the support it gained from pro-Atlanticist Poland. Faced with this tussle, the Franco-German axis decided that the issue was no longer open for discussion and refused to budge an inch. Furthermore, during the summit Chirac went as far as to threaten that if the Constitution was not approved as it stood, a group of "pioneer countries" from amongst the EU's then current members would push forward nonetheless as they were

³⁷ The EU flag was flown for the first time over the Rapid Intervention Force's missions in Macedonia and the Congo. The so-called Eurocorp has also been used in Kosovo and probably will be in the future in Afghanistan too. For the moment it seems as if European Military Missions are merely to 'repair' US-initiated fiascos. The EU is clearing up the plates the US has broken, or is expected to fill the holes where the hyper-power is not prepared to commit its own resources.

³⁸ The Zapatero government later withdrew the troops from Iraq, as a result of popular opposition and protests to the war. For the moment, Poland is maintaining its troops in Iraq, although there is growing grassroots and parliamentary opposition.

unwilling to be blackmailed by the countries which did not want to advance together. This option would solve a whole host of problems, but would bring others in their place. Nice stipulated that 'enhanced co-operation' required a minimum of nine states. Would there be the necessary nine countries to create such a hard core, a core which undoubtedly would be pitted in open confrontation with the rest of the EU countries, as well as with the USA? Or would the existing rules have had to be broken, thus creating a serious institutional crisis for the EU? Furthermore, the Nice Treaty does not include 'enhanced co-operation' in military affairs anyway. Swords had been drawn, and the main countries said that they wanted all these uncertainties to be resolved by the end of 2004. Hence, with or without a Constitution, there would still be a 'two speed Europe', either within or outside of the legal limits as defined by the current institutional framework. However, luckily for them, the European Council finally managed to approve the European Constitution in June 2004.

Another very important factor in the Brussels failure is the sheer complexity of the task at hand, namely getting 25 countries to agree on a Constitution, without any individual country rejecting the proposal outright. This is despite the fact that it will only need approval from four fifths of the EU's members for it to be considered ratified³⁹. The situation is becoming yet more complicated due to the fact that the 'European Project' is becoming increasingly unpopular both within the EU-15 and the new EU-25. In several of these countries, the Constitution may only be approved by referendum, and in others there is pressure in this direction. The very low levels of citizen participation in the last European Parliament elections has further bankrupted the EU's image. And, those that did vote used their vote to give governments (of all political creeds) a slap in the face for applying policies from Brussels, with large numbers of voters turned to nationalist and anti-European parties. In the current climate, much more than marketing policies will be needed to sell such a product. To top it all, the last two years have seen impressive popular mobilisations in many EU countries against the structural reforms and the threat of privatisation of health, education and public pensions schemes. Furthermore, a wide range of social movements (political, unions etc) throughout Europe have been co-ordinating amongst themselves and are demanding popular referenda, gearing up for what they hope will be a resounding 'No' to the Constitution, which is perceived as a giant piñata⁴⁰

³⁹ In any case, the question of what to do with any country which does not ratify it would present massive problems.

⁴⁰ **Translator's Note:** This is a Latin American and Spanish party game in which people are blind folded and have to beat a moving colourful object with a stick until it breaks and releases sweets for people to grab in a free-for-all.

which everyone can easily strike at⁴¹. It seems that even getting involved with the Constitution in this process is sheer Russian Roulette. Hence, perhaps many political representatives actually breathed a (premature) sigh of relief when the talks collapsed in Brussels in December 2003.

Finally, it appears as if a form of directorship has very recently started to take shape within the EU, driven by France, Germany and the UK. Apparently this triumvirate has a Plan B (in addition to whatever other Plan Bs each one of them may have individually) in case the Constitution fails. Leaders of this hard nucleus held a meeting before March 11th, in which nobody could fail to notice that they did not even mention the European Constitution, at least not in the official communiqué. Even the President of the Commission, Prodi himself, commenting ironically about the meeting, appeared scandalised by the fact that the three giants which together represent more than half the EU's GDP "did not consider it a priority to discuss the Constitution". This is arousing a lot of suspicion and outright opposition from some of the Union's other members, to the point that several member states have again issued a collectively signed letter (and, again Aznar played an important role in the process)⁴². The letter criticises the manner in which France, Germany and the UK are behaving, and calls for major "structural reforms", as well as demanding that the Community structures ensure that the Stability Pact, recently paralysed by the three giants, be adhered to.

Finally, the PP's electoral disaster in Spain which resulted from the (spontaneous) social mobilisation and the popular rejection of the way the Aznar government manipulated information about the March 11th attacks in Madrid⁴³, reopened the way for the European Council to approve the Constitution. The international repercussion of these events was enormous, and seemingly solid power relations have begun to crumble. The US' relations with the coalition countries (especially following the withdrawal of Spanish troops from Iraq provoked by the electoral swing of March 14th), and the US' relations with both the 'New' and 'Old Europe' have been visibly weakened. In contrast to this, the bonds between the EU's member states have experienced a sudden strengthening (at least for the moment). The power-imbalance between the two sides of the North Atlantic has become less, also due to Bush's change of attitude in the run up to the election and the difficult situation in Iraq. Poland had already been under immense pressure from Germany to change its position. The arrival of the

⁴¹ However, the European Trade Union Confederation is cautiously in favour of the Constitution.

⁴² The letter was signed by Spain, Italy, Holland, Portugal, Poland and Estonia.

⁴³ In addition to this, Aznar was unpopular due to the Prestige oil tanker disaster, Spain's National Water Plan, the general strike and opposition to the war.

'pro-European' PSOE (Spanish Socialist Party) government, combined with the resignation of the Polish Prime Minister who was rocked by a domestic crisis, was the final straw needed to achieve such a change. Thus, the Constitution was approved in the European Council, and now the torturous process of approving it in national parliaments and popular consultations throughout the Union is underway. Even *The Economist* (26/03/2004) has warned that this will be a far from easy process. Even if governments do say 'Yes', people, or even their 'representatives', may well say 'No'.

Although France is afraid to call a referendum lest it should lose it, Chirac has finally promised to hold one. Poland knows that it is likely to lose not just a referendum, but also a vote in its Parliament. The UK prefers not to even contemplate calling a popular consultation, but is obliged to do so. Blair has also promised to call a referendum in Britain, but it is likely the results will be bad for him, especially given what happened in the European elections in which a new anti-European party received nearly 20% of the votes. Sweden has said that in principle it will not hold another referendum in which its citizens could say 'No'. Denmark and Ireland are both constitutionally obliged to hold referenda but, based on past experiences, are afraid what the results might be. Euro-skeptic Finland has said that it will vote on the Constitution in Parliament, as it has no confidence that a referendum would secure a 'Yes'. Austria and Italy are also afraid, and are also going for the Parliamentary option. Most of the Eastern European countries are still undecided about how to proceed as they are afraid that referenda might result in a low voter turnout and a negative outcome, since average participation rates in the last European elections were a paltry 26%. Only Holland, Belgium, Spain and Portugal have clearly come down in favour of holding referenda *per se*. Yet even these countries are all afraid that less than half of their populations will actually vote, since only 47% of the population in the EU-15 voted in the elections to the European Parliament (even though this was a larger number of voters)⁴⁴. On the other hand, despite the importance of the Constitution for their futures, Germany, Italy, Greece and Malta do not even have the appropriate legal framework to call for a referendum on the issue.

All these events will have a very major impact on Euro-Dollar rivalry in the future. There is a high chance that several of the EU-25 countries may fail to ratify the Constitution and it will be lucky if it can exceed the four fifths which is considered the minimum for its approval. However, even if it does get approved in twenty or more countries (the

⁴⁴ Levels of participation would probably have been much lower still if the elections had not coincided with local elections in the UK and Holland, and if it had not been compulsory to vote in Belgium and Luxembourg.

current lowest threshold), it is likely that the participation will be very low in the few referenda called, and that the majority of approvals will come from parliaments. This factor is likely to detract legitimacy from the future political design of the EU, which, in the form of the Constitution, has already been born 'flimsy' and with little 'force'. This is not to mention the very serious problem which would result from either the UK or France turning out a 'No' in their promised referenda. Another important fact is the Commission's appointment of the Portuguese Durao Barroso as its new President. This appointment was made under huge pressure from the UK (with the support of the Eastern countries) and against the initial opinion of France and Germany. Durao Barroso is a recognised 'Atlanticist' who hosted the Azores Summit and was the only EU Prime Minister to criticise Zapatero's decision to withdraw troops from Iraq. He does not seem the most ideal person to pilot a 'European Project' which aims to strengthen 'Europe's' profile in relation to Washington. However, this so, he has staunchly defended the Stability Pact, even if its application has supposed a very high social cost in Portugal.

All of these factors will add up to have a major impact on the Euro's credibility. This is why the European Central Bank is asserting its independence from political power in a variety of ways, and maintaining a hard policy with respect to interest rates, without heeding any of the appeals for growth orientated policies, even when coming from the most powerful of states. It is pursuing a ferocious monetary orthodoxy in an attempt to shield itself from all political interference. Past attempts at monetary unions (the Union Latina or the Scandinavian Union in the 19th Century) which were not accompanied by economic and (more importantly) political unions, failed spectacularly (Ahijado, 2000). Aware of this, the ECB is increasing its monetary rigour and trying to demand fiscal rigour for the EU, and especially the Euro-group. The Euro-group cannot allow itself the luxury of a public deficit of more than 5% as the US currently has (or, for example, Japan's 8%⁴⁵), as this would cause its money to become worthless. Furthermore, the ECB is very likely to go against the opinion of the EU's main political actors and raise its interest rates if US raises its rates (which it already started to do moderately at the end of June 2004)⁴⁶. Such action would massively effect economic growth, which will in any case already be adversely affected by the high cost of oil. Thus, an extremely uncertain period of change is opening up. There are many different interests at play, and it would be unwise to rule out the possibility

⁴⁵ Furthermore, Japan has a public debt of 150% of its GDP. However, the fact that it has a large trade surplus and is a net capital exporter, combined with the fact that it is the only really strong state and is supported by the USA allows it to incur these enormous imbalances, at least for the moment.

⁴⁶ And which it is likely to do with greater force after the November elections.

of new situations of heightened tension and crisis in the future. Another factor is that if the USA continues to strengthen its military presence in the EU's newly incorporated Eastern members whilst abandoning or reducing its military installations in the EU-15 this could increase the existing tensions and provoke additional rifts.

And, finally, like the cherry on the cake, a curious observation stands out, verifying the theses outlined in this text. After the PP's downfall, the Wall Street Journal branded the Spanish people as "cowards", accusing them of having caved in to Al Qaeda's strategy. The paper defended the position and achievements of the Aznar government, and two days later went on to publish a letter penned by Aznar himself. It is worth bearing in mind that this newspaper reflects Wall Street's (and the Dollar's) interests. Shortly afterwards, the Financial Times devoted four out of the five columns on its front page to a ferocious diatribe against the Aznar government, accusing it of manipulating the media in the wake of the March 11th attacks, and congratulating the Spanish citizens for their democratic maturity. The Financial Times, despite being a British newspaper, is very influential at the global level, and has always been in favour of the UK joining the Euro. In recent years, a German edition has opened (the Financial Times Deutschland) and its European dimension has increased. This is only a little anecdote, but it clearly highlights the major differences in perspectives which are emerging between the two most important financial newspapers in the world. A little fact, but worthy of a mention nonetheless.

Empire, Super-imperialism or New Imperialism(s)?

It is fair to agree with Negri and Hardt (2000) that throughout the second half of the 20th Century, but especially the 80s and 90s, the capitalist world-system has functioned as a form of "Empire"⁴⁷. That is, although the capitalist core of the world-system has unquestionably been under US hegemony, it has nonetheless organised itself in a co-ordinated fashion. Despite the continued existence of tensions between the different geographical power centres (i.e. the core states), they have essentially worked in collaborative fashion within the international economic and financial institutions (namely IMF, World Bank, GATT-WTO, OECD, Paris Club, London Club...). Indeed, a new global institution, the G7, was

⁴⁷ Actually, Negri and Hardt go even further than what "Empire" is taken to mean here. They characterise "Empire" as an apparatus for decentralised and deterritorialised domination, which is gradually incorporating the entire world and the whole of humanity within its open borders. Furthermore, they assert that it is no longer possible to locate territorial sovereignty in the nation-state. And, although they do acknowledge that the USA does occupy a particularly important role in the emerging network of power, they argue that even this state is not sovereign.

created in the 70s, precisely reflecting this situation. This collaboration was well reflected in the behaviour of the USA and Western Europe (the West's inner core) which used the Washington-led NATO as an instrument for military coordination in the face of Cold War threats.

In the wake of the Berlin Wall being pulled down and the USSR ceasing to exist, capitalism once again became truly global. Throughout the 90s a uni-polar world took shape. Yet, it was a multilateral world (reflected in a semi-revitalised role for the UN) and the internal tensions increased considerably. These tensions were along two lines. On the one hand they have developed within the capitalist core. One of the main (but not the only) cause of this has been the accelerated development of the European Union. Efforts to give the EU a political and military dimension, and (above all) the Euro's gestation and eruption have become an increased source of tension. On the other hand, tensions have also intensified between core countries and certain 'emerging markets' from the periphery (China, Brazil, Russia, India, Argentina, etc). Hence, global capitalism's post-Second World War multilateral framework was called into question, especially after the monetary-financial crises of the 90s. Various efforts were made to stand up to the growing rivalry of the core against the periphery (both Southern and Eastern). In the 90s the G7 became the G8, widening to include Russia (in its political dimension, not its economic one), and NATO was enlarged and its field of activity extended to virtually the entire world. Similarly, the Security Council came under discussion, in order to take into account the new global geopolitical realities. Proposals emerged to widen it to include Brazil, India and Nigeria or South Africa as permanent members. Meanwhile, the international financial institutions (IMF and World Bank) have been more resilient to these processes of change. The power of Northern countries is enshrined in these institutions, and Washington has ultimate veto power. Similarly, since the creation of the WTO in 1995 from the GATT, decision making power has been held by the QUAD (USA, EU, Japan and Canada).

It is fair to say that until 1989 the West exercised was a new kind of 'collective imperialism', for the most part characterised by forms of 'gentle control'⁴⁸. In other words, it did not resort to direct territorial control (it is not coincidental that this era was marked by decolonisation and the conflict between blocs). Despite the Cold War coming to an end, this period continued until the Presidency of George W. Bush and September 11th. During this period, new forms of subjugation emerged. Whereas under 'old

⁴⁸ That is, despite certain episodes in which 'harsh domination' was unleashed, either directly or imposed from within (such as the Korean or Vietnam wars, military coups etc), the framework of International Law established in 1945 in San Francisco with the creation of the UN, was, in general, respected.

imperialism' subjugation was achieved by political-military control, in the new situation the rising foreign debt which periphery countries held with core countries became a key factor in ensuring the former's subjugation by the latter. One feature of this 'new collective imperialism' particularly stands out, especially in the last twenty years. Under leadership from a handful of central nodes in the West, a major globalisation of economic and above all financial processes has taken place (often simply referred to as "globalisation"). More than 90% of trans-national companies have their headquarters in OECD countries with about 80% in the USA and EU, and the bulk of Foreign Direct Investment is between the two sides of the North Atlantic (LMD, 2002). Meanwhile, there has been a much more limited evolution of a political superstructure appropriate to these new and increasingly intertwined global interests.

Although it appears as if the new realities of global capitalism are demanding a new political superstructure, the existence of powerful nation states and the socio-cultural reality which this entails make it difficult for such a superstructure to take shape. As we have seen, the EU is a good example of how difficult a task this is, even at the regional level. Political power may be said to have a strongly territorial character and thus represents a major inertia to change. On the other hand, it is clear that the possibility for trans-national companies to relocate means that the productive economic power is increasingly losing its dependence on being in a specific physical territorial, even if it does still benefit from the ties it has with (territorially based) political power. Financial power also operates in an increasingly deterritorialised way, especially the more speculative finance capital. Although there are physical nodes of greater intensity, such capital operates within a space of flows (rather than concrete physical places) and in highly (or even completely) deregulated markets such as the currencies markets. As described in the main body of this book, this gradual disaffection which global capitalism's main actors showed towards the state or territorial ties even gave rise, in the 90s, to trans-national and financial companies having the capacity to create new forms of private 'quasi money'. Despite the fact that core currencies (e.g. Dollar, Euro, etc) still served as the unit of account, the regulatory power of nation states gradually lost its ability to create and (above all) control money. Furthermore, capitalism had never before been so utterly dominated by finance capital, a fact which has been made possible and strengthened by the new information and communications technologies.

However, this scenario was to undergo an abrupt change in the face of George Bush's ascent to the US Presidency, the attacks of September 11th (which coincided with the stock market crisis in 2000-2003), and a

strong increase in global resistance in response to this new era of global capitalism. Under the guise of a struggle against international terrorism, a new constellation of relations has been taking shape. The USA is freeing itself from possible ties and bonds that it shares with other core countries in order to have its hands free to pursue its own 'imperial' interests. Perhaps the most evident example of this is the way in which NATO has suddenly become of secondary importance. Thus, there is increasingly unilateral domination from the USA, in what may be dubbed "Super-imperialism". As the invasion and occupation of Iraq have shown, 'pre-emptive wars' and direct territorial control are once again becoming an option in this new trajectory. Thus, international law, which for the most part has regulated the way the world has functioned over the last fifty years, now lies in tatters. It appears as if a whole constellation of different interests are uniting behind this new strategy - not just the oil and armaments industries, but very especially those tied to the US financial sector and also the pro-Israeli Zionist lobby, and, in the media world, The Wall Street Journal has taken on the role as spokesperson for this strategy. In any case, once such a path territorial political-military control has been embarked on it generates its own dynamic and inner logic. The main objectives of the USA for undertaking this major change in its strategy of domination is to assure its control over the global oil taps of the Middle East, and Central Asia (where the world's main resources are to be found), and to, simultaneously, using the Pentagon to guarantee shoring up the Dollar in order to maintain its global hegemony. In other words, it is using the only field in which the hyper-power still shows a truly overwhelming dominance - the military. In parallel to its changing strategy for global dominance, it has also passed the Patriot and Homeland Security Acts, thus establishing an iron internal discipline aimed at suffocating social protest and disintegration (Harvey, 2004).

The USA currently absorbs three quarters of the global savings. Come what may, it needs to maintain this drainage of global capital in order to guarantee that it can finance its twin deficits (fiscal and current account). This situation allows it to use with capital and money from the rest of the world to pursue anti-cyclical policies, as well as allowing it to continue to consume way beyond its real means. Another factor which helps to keep these debts under control, is that that the size of its gains from seigniorage rights (due to the Dollar's status as the global hegemonic currency) are similar to the size of its current account deficit. Furthermore, more than 80% of the Dollars currently in existence are actually circulating outside of the USA (amassed as a deposit of value and/or operating in 'black markets' or in the increasingly Dollarised periphery economies). This further strengthens the Dollar's global dominance, as it assures it these

seigniorage benefits (Leconte, 2003). However, many specialists are speculating that the Dollar could experience a sharp fall due to its huge economic and financial imbalances. If this were to happen, the US' position as described above would literally fall apart. Until recently, the US has relied on low interest rates to deal with the stock market fall from 2000-2003, and to restimulate economic growth. In this way it has managed to avert (at least momentarily) the risk of a depression-deflation in the USA and, given its dependence on the USA, the world-economy also. At the same time, low interest rates have helped to spur on the real estate bubble. However, it appears that they are not allowing it to finance the war, as this new "Super-imperialist" strategy implies increasingly high military costs over a prolonged time period. Hence, it is becoming increasingly difficult to maintain such low interest rates. Furthermore, global capital, not being completely blind, is becoming increasingly reluctant to offer its unquestionable trust in the economic and financial health of the hyper-power, and might demand that it raises its risk premium (i.e. its interest rates) in order to give capital the trust it requires to invest there.

All this has forced the USA to soften its 'super-imperialist' drive, at least for the moment, in order to try to bring down the costs of its expensive militarist policy. These costs have been especially high given that the US has met much more resistance in the Middle East than the neo-cons envisaged and that they are finding themselves increasingly unpopular throughout the region (and especially in the Islamic world) due to the unconditional support which they are giving to Sharon's criminal and bulldozing strategy. Bush has been forced to return to the UN and broker a deal with 'Europe' about the conditions for a 'democratic transition' in Iraq, though until now without relinquishing military control. The upcoming Presidential contest has also influenced this slight reorientation. Kerry, who also represents a cross section of 'US' capital⁴⁹, poses the need for the USA to recover a more 'multilateral' approach, especially in relation to its European allies, so that it can share the military expenses required to manage the progressive global disorder which the latest wave of global capital's expansion is giving rise to. That is, he aims to recompose 'Empire', albeit with a more militarist component than it had in its previous phase. This would imply sharing control and sharing the world's petrol. This latter is highly significant, given that it seems that the moment of peak oil production is arriving and that a corresponding new global landscape is taking form. Once peak oil is passed, the supply of oil will be incapable of satisfying the growing global demand, which has accelerated due to growth of China and India. In this new scenario, someone is likely to find

⁴⁹ Foreign Direct Investment flows mean that the interests of European and US capital have become increasingly intertwined.

themselves without petrol and this will have enormous effects on global growth and already existing geo-political inequalities (Ballenilla, 2004).

Relaunching a new 'Empire' (*a la* Kerry) would allow the USA to break the emerging France, Germany, Russia, China 'bloc'. This 'Euro-Asian' confluence crystallised in the most decisive moments of the Iraq crisis between the two shores of the North Atlantic⁵⁰ (Harvey, 2004, Solé, 2004). If such a 'bloc' were to consolidate itself, it would be a pose a serious threat to US hegemony over the medium term. It also appears that this new North-Atlantic led 'Empire' which Kerry proposes would be more conducive to the construction of a political-military superstructure in harmony with the today's main centres of economic and financial power. Furthermore, it would be in accord with the creation of a New Transatlantic Marketplace (between the USA and the EU) which very important economic sectors on both sides of the Atlantic are pushing to be in operation by 2015. Similar visions are being promoted by Europeans too. At the EU's summit in Thesaloniki, when he presented the new Community Defence strategy, Javier Solana declared that "Acting together, the European Union and the United States can be a formidable force for good in the world" (EL PAÍS, 17-6-2003). (It appears as if George Bush is not the only one with a penchant for biblical style references.)

However, the existence of two genuinely global currencies, one the hegemonic one (the Dollar), and the other an increasingly serious contender to the throne (the Euro), and their role as the main vehicles and bearer of value through which an increasingly financialised and deregulated global capitalism can expand, makes an agreement between the two Atlantic shores very difficult. That is, unless one or other of the currencies is to be sacrificed. This fact will have enormous repercussions for whichever bloc finds its currency deemed expendable. This will be especially so if it is the Dollar that goes, since the USA is currently the main beneficiary from its condition as holder of the world's hegemonic currency. In the latest stage of global capitalism which has opened up in the wake of the crisis of the new economy and September 11th, the role of these contending currencies has been strengthened. The political - military power nexus has gained a renewed leadership and is little by little squeezing out the forms of 'gentle control', as this is what the latest phase of global capitalism requires in order to maintain itself afloat. Consequently, the yearnings of trans-national productive and finance capital to break free of its tutelage have vanished. The initiatives of 'private money' which were independent of political

⁵⁰ On a number of occasions throughout the Iraq crisis an alignment sprung up between these countries within the Security Council itself against the position of Washington and London. An example of this was in the vote over where to locate the giant global ITER nuclear fusion reactor.

power described in the main text of this book appear to have evaporated. Given that currencies have been delinked from anything physical, the international monetary system is based entirely on confidence. It seems that the only thing that can foster confidence is a strong political-military power. Hence, 'Europe' is arming itself with its new Constitution and Solana's document, gearing itself up to fight in such a landscape.

Despite a few desertions, it seems that the most important economic, and above all financial, sectors in the USA are aware of these dangers to US hegemony, and have opted for George Bush. They will go to great lengths to realize such a strategy, including perhaps smashing the 'existing democratic' system⁵¹. These sectors would also support the New Transatlantic Marketplace, but only on the condition that 'Europe' abandons the power which the existence of its own currency confers on it. Otherwise, everything indicates that they would be ready to even dynamite the nascent European political-military project. Hence, as 'Europe' prepares itself to fight in these new conditions, the USA would exercise, *a posteriori*, a form of 'bear hug' on the European space, thus reducing it to a mere free trade area which would lack the capacity to resist the US's political-military aims. Despite US efforts, 'Europe' (or rather certain hard cores within the EU) is already becoming an important global military actor. It is no coincidence that its military expenditure represents more than 20% of global military spending⁵², and it is ready to increase its spending substantially. Although the EU does still lack the capacity for co-ordinated and autonomous military action, it is by no means a "military worm" anymore (Serfati, 2004). All this suggests that, in this scenario of the US deepening unilateral and militarist Super-imperialist dominance, the tensions between the two shores of the North Atlantic could even escalate to the level of war at some point in the future.

There is absolutely no reason to dismiss the possibility of this scenario, especially if, as everything suggests we shall, we enter into a global deflation-depression due to the US imbalances breaking out of control, together with a parallel collapse of the Dollar and a sharp rise in interest rates. Such a scenario could also be precipitated by the fall of economic growth which a sharp rise in the price of oil could provoke, especially if it is confirmed that we are already peak oil extraction or if terrorist threats intensify. In all probability, competition between contracting markets would very probably sharpen to brutal levels, and the

⁵¹ From now until November anything can happen, if the Bush team and those which support him see his electoral victory to be endangered. The warnings issued by Tom Ridge and John Ashcroft of a possible postponement of the elections in the event of an attack is no trivial matter.

⁵² This compares to the USA expenditure, which is around 50% of the global total.

military conflicts provoked by the need to access and control such an important and increasingly scarce good as oil might well become reminiscent of a *Mad Max* film. Oil is a key input in the global economy and is irreplaceable in both the short and medium term in at least two sectors which are crucial for global capitalism: motorised transport and industrialised agriculture. This could provoke conflicts with new emerging powers (China, India, Brazil etc). All this could bring about a series of ruptures in the 'normal' expansion processes of economic and financial globalisation and a withdrawal towards more regional structures. Setting aside the obvious differences, this is similar to what happened in the 1930s. Hence, it is impossible to rule out major tensions and even the breakdown of the global institutions (IMF, World Bank, WTO and UN).

Such a landscape would be characterised by (militarised) 'new imperialisms' fiercely competing, and perhaps even fighting, amongst each other to maintain their quotas of the global market and unrestricted access to a gradually diminishing supply of natural resources. On the other hand, this scenario would be highly unstable as global capitalism's ability to constantly grow and accumulate would break down, thus jeopardizing its survival. The system could even enter into a stage of gradual disintegration and systemic chaos, in which we will probably witness the breakdown of the international monetary system as we know it, and an increasing 'deglobalisation'. Such an unplanned deglobalisation would entail a traumatic and disorderly reversion towards the local and regional, together with a proliferation of complementary, local and regional currencies⁵³ which would be likely to be constructed in order to deal with such a cataclysmic breakdown and the resulting socially explosive situation. As such, this would result in societies become very ungovernable, and the current political structures would suffer a major blow to their legitimacy. The consequences of this would be impossible to predict. At a national level, this is what occurred in Argentina after the 19th and 20th December 2001, and the slogan 'Out with them all' should serve as a good warning to those in power about what such a scenario could entail.

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⁵³ Local currencies, are likely to be created by citizen's initiatives, together with systems of barter and others municipality or regional ones pushed by the political (and business) structures in order to guarantee a minimum level of economic functioning. Similar processes occurred in the 30s and in Argentina after its recent crisis.

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