

# **NATO Expansion versus Consolidation of the EU**

Intra- and interclass Dynamics in the context of the Next Cold War

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## **Abstract**

This paper tries to throw light on the global and European class dynamics underlying these European dynamics. It turns out that a detailed analysis of some national working classes, of national ruling classes and their factions (firm owners, state leaders, bankers) as well as a close study of the class of global financial intermediaries is needed to understand what is going on. Furthermore, an embedding in the selected global processes is proposed, in particular the further political development of the USA will influence the options available for Europe. From the contrast between either military-led NATO expansion or an economic deepening of European unification the text deduces three possible future scenarios by distinguishing between a unification process that is based on neocolonial outside relationships and an emancipatory pilot project Europe that dares to implement a continental social innovation. In a conclusion some suggestions for European policy are provided.

## **Introduction**

After eight years of recession following the financial collapse in September 2008, and with no return to pre-crisis conditions in sight, the global political economy now has taken a turn characterized by substantially stronger state interventions, including not just economic but also military actions. The expansion of NATO towards Eastern Europe had started decades ago, but even after the implosion of the Warsaw Pact on 1<sup>st</sup> of July 1991 there still remained a north-south band of nation states providing some distance between NATO forces and Russian troops. Only now, when - after the Eastern Enlargement of the EU in 2004 – more and more Eastern states became NATO members, a more explosive situation emerged.

The crisis of 2008 itself coincided with a change in US leadership; the Obama administration immediately started to shift the military focus from the Near East to the Pacific coast of China. This not only produced new turmoil in the Eastern Mediterranean (see [Hanappi, 2014a]), it showed in a very general and dramatic way that military and political intervention is no substitute for deep economic change.

Of course, the special situation of the EU has to be taken into account. After many years of disastrous austerity policy (see [Hanappi, 2013, 2014b]) even the most sanguine top decision-makers in the EU recognized that soon they only are one step away from a total collapse of the European project. This prospect led to a two-fold reaction: (1) Internally EU institutions (Commission, Parliament, and ECB) tried to invoke a shift in decision power; away from the heads of state of EU members and towards central EU bodies. (2) Externally a combined action with NATO was initiated, which was meant to divert attention of EU citizens towards extra-EU goals; i.e. first to start association agreements with new Eastern states, which then could end as NATO membership. In 2015 both action lines ran into severe problems.

The parliamentary elections in May 2014 not only proved that discontent with EU policy has already grown dramatically, the aftermath of the fight for the position of the president of the commission makes clear that the conflict between Brussels and the club of heads of state is not decided yet. The preliminary solution that crystallized in 2015 was to accept Angela Merkel as the informal leader of the EU – at least as long as she supports the European unification project. Only when in autumn 2015 the dramatic immigration waves from Africa and the Middle East surprised European policy-makers, Merkel's open-doors policy produced resistance in Germany as well as in several other European countries. Nevertheless, the ideological flexibility of Merkel already led to her support for a more restrictive immigration policy in 2016, since this appeared to be necessary to secure her dominant role.

With respect to the external strategy the case of Ukraine is telling: The dynamics typically are dominated by the military strategies (NATO and Russian forces), and the temporary parallel between the EU's economic welfare goals and NATO's strategic objectives has rapidly vanished.

Today the Ukraine is an economic disaster. Nevertheless, the same external EU strategy is still on the agenda in Georgia, Moldavia, and eventually soon in Belarus. To win a new NATO member with a border to Russia, a certain degree of externally stirred instability and provocation seems to be unavoidable. And instability in this case always runs the risk of interventions from the Russian side. The economic and democratic goals of a European Union evidently cannot be assumed to be identical to the expansionary military strategy of NATO. As all economic data of the last 25 years shows, cooperation and trade between Europe and Russia has been a welfare increasing component for Europeans. From an economic point of view there was no reason to stop this process, indeed economic practices on both sides had developed a *modus vivendi* that in the long-run promised to lead to a peaceful co-existence of both social systems<sup>1</sup>.

The contradiction between the military goal to establish NATO as the only global military force, i.e. to eliminate the role of the Red Army, and the peace project of a welfare enhancing European unification can hardly be hidden by smooth diplomatic rhetoric anymore. In the meantime, the military interventions of the strong global powers in the Middle East during the last fifty years have produced civil wars with high-tech weaponry, collapsed states, and a flood of refugees to Europe, that demonstrates the severe economic impact, which interventions based mainly on military strategies can produce.

Being confronted with these consequences – masses of immigrants, collapse of Eastern trade, a new cold war climate in diplomatic relations - the European population rather abruptly is forced to realize how directly its living conditions are linked to non-European geo-political strategies and global inequalities between continents. The latter manifest themselves as the other swelling stream of migration from North Africa that also can be traced back to a misguided development policy, at least since the end of World War 2.

In what follows this chapter will concentrate on the roots and the immediate consequences, which the mentioned global processes have in - and on - Europe. Why and how did the cooperation between Europe and Russia become successful? What is the logic of military expansionism? Which economic goals and groups are linked to it? What is the relative strength of Europe's contradictory class dynamic forces? Which coalitions can be formed that can prevent a return to a cold war, or even to a civil war? The wake-up call for European citizens could hardly have been more drastic: permanent high unemployment rates, flattening or decreasing income levels with surging inequality in income and wealth - and now a return to several police state measures and strong nationalist state policy in the name of managing the refugee crisis. On top of it, an increasing part of the population of several EU countries in a confused protest against their swindling economic

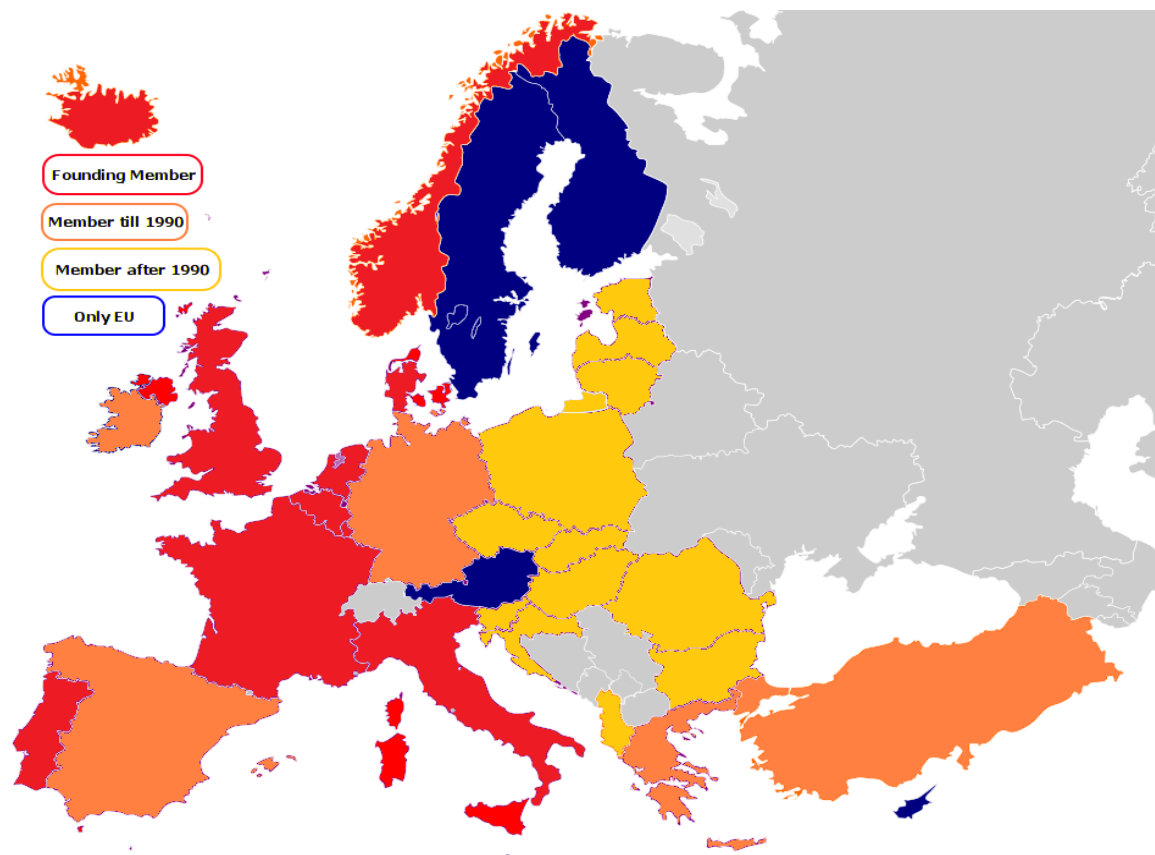
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<sup>1</sup> The difference between the two systems does not fit into the traditional theoretical framework of *capitalism versus socialism*. It goes beyond the scope of this text to explain the essential differences between the ways in which surplus exploitation works in these two types of society.

prosperity is supporting the right-wing parties engineering the latter trend. The original tenets of the European project are in severe danger.

## 1 – Record of empirically observed events

The first step towards an understanding of the complicated network of interdependent class forces that are involved in recent European dynamics is to take a look at the historical record it produced. As a starting point the end of WW2 is an appropriate choice. The history of the latent military conflict between the USA and the USSR (between NATO forces and the Warsaw Pact, later reduced to Russia's army) on Europe's territory is shown in figure 1. It is evident that there is a continuous expansion of the NATO controlled area. The largest gain clearly was possible when the EU enlargement coincided with the military goals of NATO after 1990.



**Figure 1: NATO Expansion**

Note also that this Eastern expansion threatened the access of Russia to the Mediterranean Sea, which explains Russia's military intervention on the Crimean Peninsula as well as its involvement in the battles at the Syrian coast shore. These two points for Russia are the two remaining access

points to the Black Sea and the Mediterranean Sea, if the Ukraine will become a NATO member state – a most likely future event.

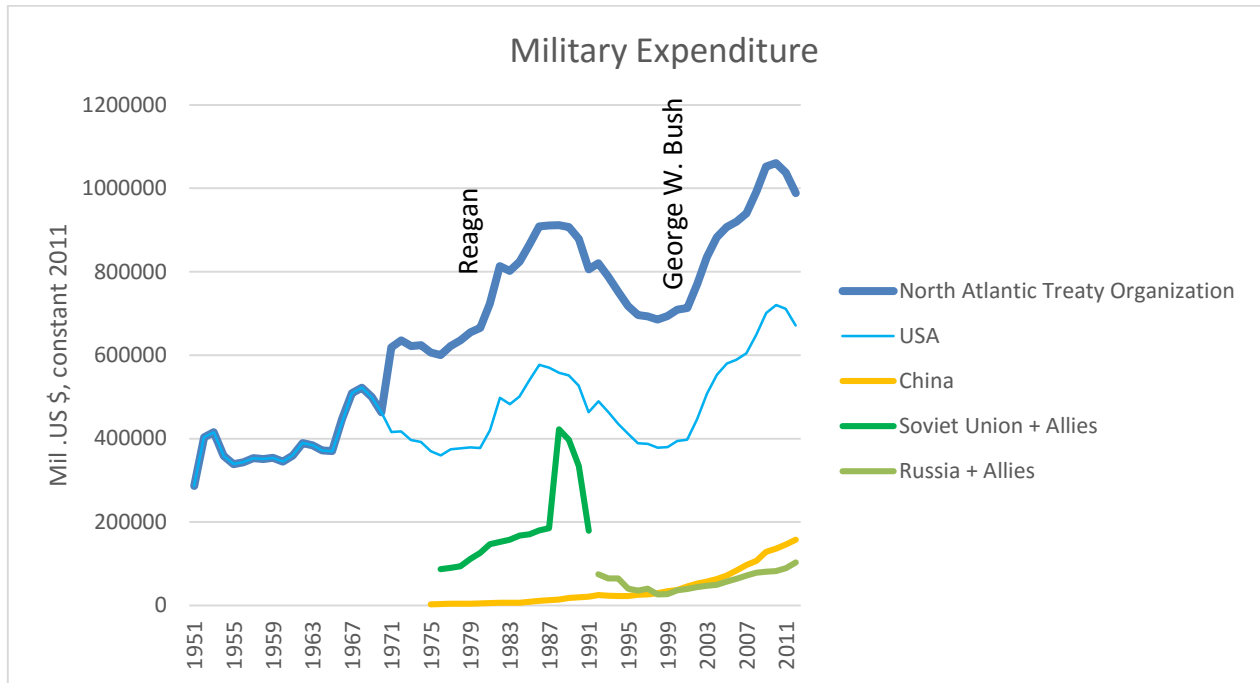
Moreover, a glance at this militarily organized geographical landscape reveals why the fight for influencing any solution in Syria is so important for Russia: With the strong NATO member Turkey in its West the fate of the states still under Russian influence, namely Azerbaijan and Georgia, is more likely to follow the route of former Eastern European satellite states if Russia's influence in the Middle East evaporates completely.

After having lost its grip on Afghanistan and with the uncontrollable Islamic neighbor Iran, Russia's influence around the Caspian Sea would be the next logical target for NATO. From an economic point of view these considerations of military strategy are also of vital importance for Europe, since the area holds major sources of energy that European countries could need in the future. It therefore is important to understand global military dynamics to assess the role it plays for European policy. Taking into consideration that the military force of the USA is estimated to be several times bigger than that of the five next strongest nations taken together, it is necessary to understand the driving forces of US politics.

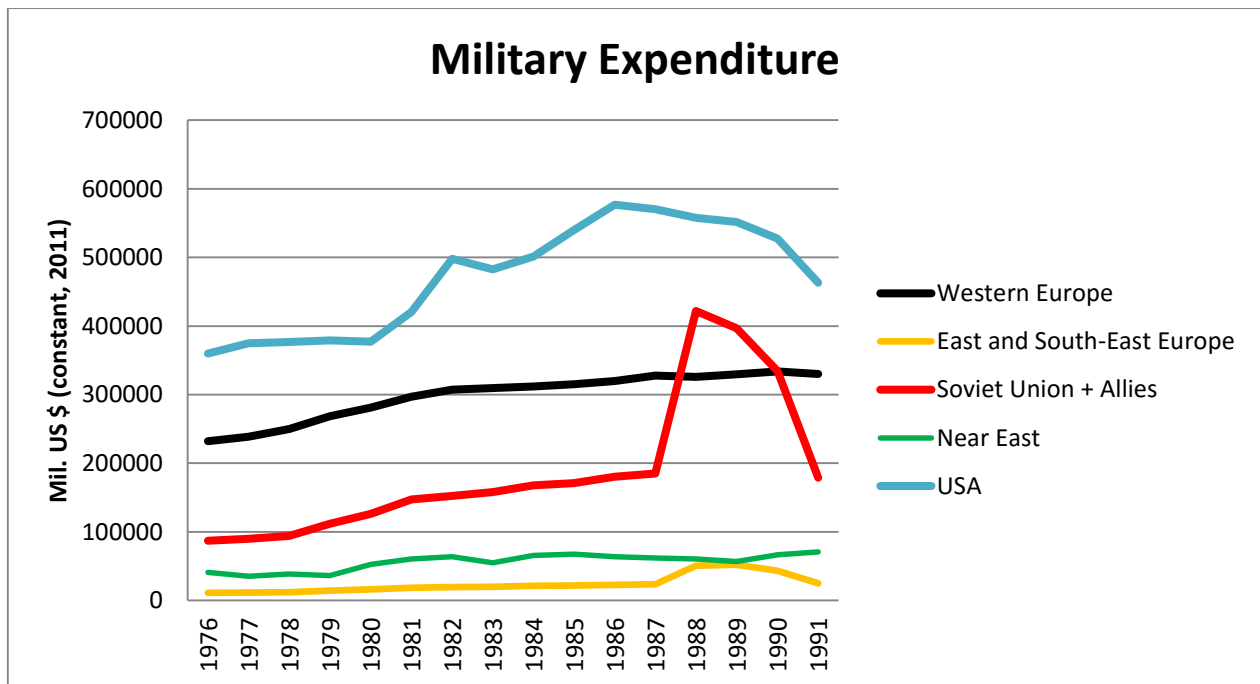
Taking a look at this development from the point of view of the USA shows that the internal evolution of US policy is closely linked to the country's military expenditure policy. Evidently Republican circles, if they win the presidency use their political power to increase military expenditure - not the least due to their closer links to the US weapon's industry. As shown in figure 2a the two large pushes in military expenditure of the USA are attributable to the policy stances of Ronald Reagan and George Bush<sup>2</sup>. Total NATO military expenditure follows the dynamics of US military expansion. The diagram also shows how dominant NATO actually is. After a brief surge just before the breakdown of the USSR, military expenditure of Russia and its allies now has fallen to a level comparable to that of 1975 and is about one tenth of the expenditure of NATO. Despite its tremendous economic upswing China's military expenditure also is only slightly higher than that of Russia, both being dwarfed by the US numbers.

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<sup>2</sup> The previous expansion is reflecting the Vietnam war initiated by the democrat J.F. Kennedy, showing that more aggressive foreign policy not necessarily is the sole domain of Republicans.



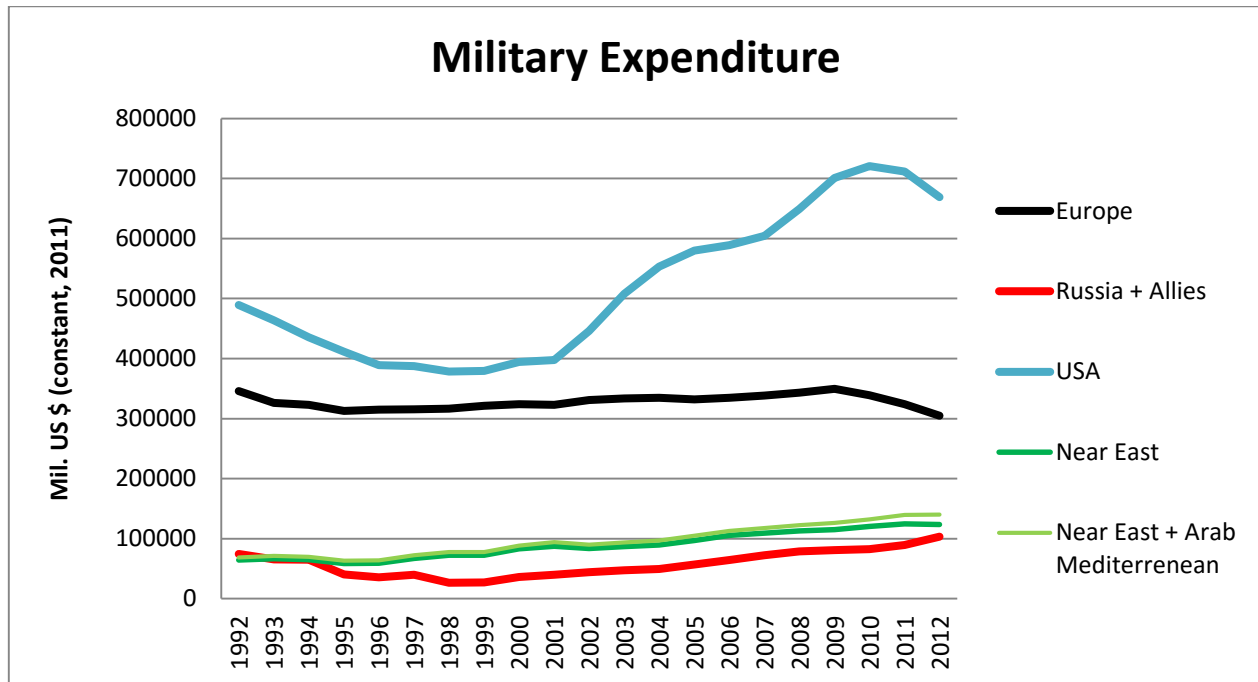
**Figure 2a: Military expenditure in selected countries – the after WW2 period**



**Figure 2b: Military expenditure in selected countries – the Reagan Era**

Zooming in to see a more detailed picture of the time just before the breakdown of the USSR (figure 2b) shows that it was the turn from expansion to the reduction of military expenditure in the USA (since 1987) and the USSR (since 1989) that was the most significant element. Europe and the

Near East stayed on the track of a slight increase. In the first two years of presidency (1981-1989) Reagan increased military expenditure by 32%, at the end of his term he had reached an increase of 53%.



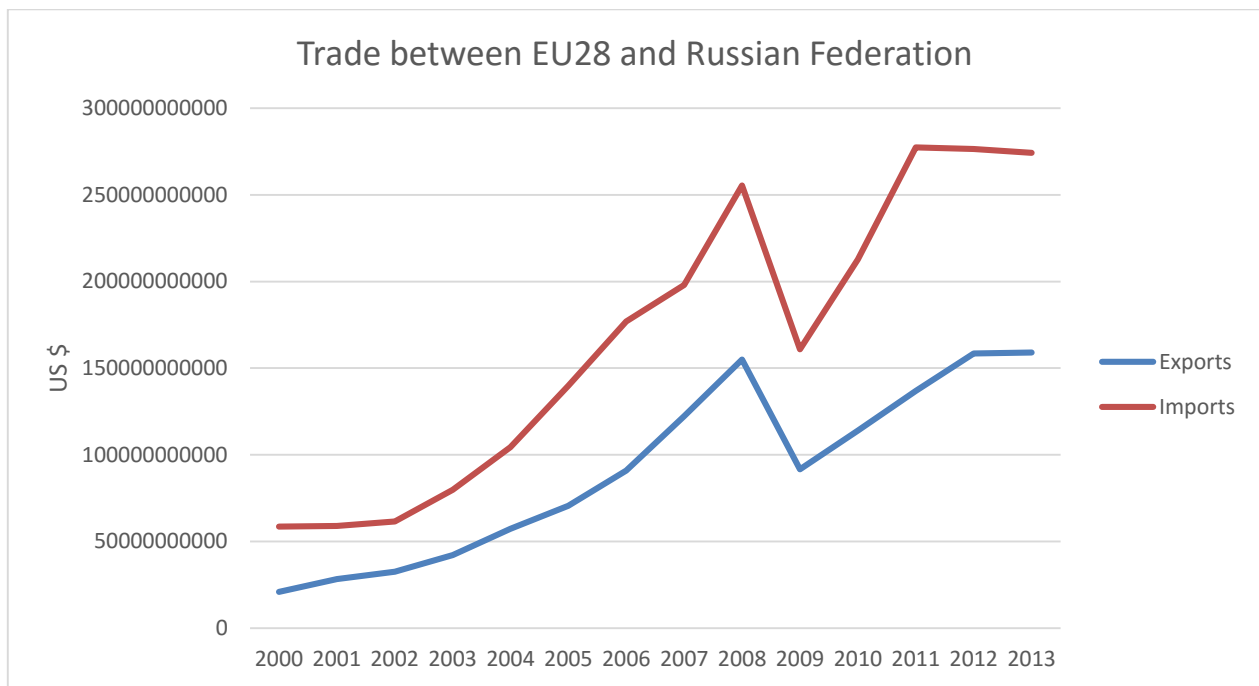
**Figure 2c: Military expenditure in selected countries – the Bush Era**

After the end of the USSR the Clinton presidency (1993-2001) led the military budget of the USA back to the levels of the mid-seventies, compare figure 2c. But then George Bush junior again initiated a tremendous boost of 83% increase during his presidency (2001-2009). The military potential in Europe as well as in the Near East and Russia was left far behind.

Then came Barack Obama and the focus on military intervention in the Near East was loosened. Attention was shifted to the Pacific Basin, in particular to China.

As a matter of fact, an increase of military spending always implies a demand pull for certain domestic industries, which the additional government expenditure causes. In a first step this can only be done by curbing government expenditure in other areas, in most cases by reducing social transfers. With the crisis years starting in 2008 the Obama administration stopped the strong increase in military expenditure and thus the shift within US industries. Nevertheless, the economic thrift towards rapidly growing inequality in the USA remained, social tensions were continuously increasing. This indicates that in recent decades the opposition between the leading elites of Democrats and Republicans in the USA became less and less important while the power of the small elite of super-rich families that governs the large transnational companies, vis-a-vis the

majority of US citizens explodes. This is the background in front of which the race for the next presidency in the USA takes place. The role of the president as representing a political party therefore becomes less important, it rather will be a distinction between two groups of TNCs that will be the background of the presidential candidates. It currently can be expected that the next president – be it democrat or republican – will be inclined to follow the path of big industry, either along the lines of weapons industry and its network, or along the lines of Wall Street. In both cases the impact on Europe probably will be the effort to implement tighter links to the USA; in one case predominantly military links, in the other case mainly financial links.



**Figure 3: Trade between EU28 and Russia**

As a consequence, it is likely that after 2016 the relations between Europe and Russia will be called into question even more aggressively by the USA. This might take place in the form of stronger military US forces in Europe<sup>3</sup> as well as in the form of a stronger dominance of US finance<sup>4</sup>.

<sup>3</sup> This process already is running ahead of the US election. In early 2015 meetings of NATO ministers decided that a new Multi-National Division Southeast would be established in Romania. Six NATO Force Integration Units would also be established to coordinate preparations for defence of new Eastern members of NATO.

<sup>4</sup> European financial intermediaries had developed a different style of banking that with the growing dominance of US banks will rapidly vanish. The stronger involvement in overarching questions of welfare policy will be substituted by stricter rule sets and agenda setting dictated from a main US hub.



In contrast to this upcoming threat the positive development of economic interdependencies and growth between Europe and Russia in recent years has been remarkable, compare figure 3. It is significant that the most recent interruption of further cooperative evolution, the crisis in the Ukraine, was characterized by a quick interplay between economic and military actions. Economic insurrection can and will lead to military reactions (upheavals of paramilitary groups, civil war), which in turn will produce economically significant effects. Rather sooner than later such an outbreak of internal violence caused by this spiral of economic decline and loss of democratic political institutions will invite foreign states to intervene. Indeed, expecting such a development has always been a good reason for foreign powers to help to stir unrest in a country<sup>5</sup>.

This could be a more general pattern for several other states at the Eastern border of NATO. And it is exactly this type of disadvantageous scenario of local civil war that is in direct conflict with the development of a prosperous and unified Europe. While military strategy would point towards a stepwise conquest of more and more territories of the former USSR that then eventually will force Russia to surrender, i.e. to subordinate its army to the command of NATO, a strategy of further increase of European economic welfare would try to establish more, and more stable trade relations to exploit the fruits of enhanced division of labor. At this point it has to be noted that NATO strategy is not just the result of NATO's top military command structure. This top command of the military is closely bound to the *economic goals of the most influential power group* in the country that contributes most to the finance of NATO, namely the USA<sup>6</sup>. In the 60-ties left-leaning economists have called this power group the *military-industrial complex of the USA*<sup>7</sup>. It still plays an extremely important role, not only for an understanding of the evolution of the class structure in the ruling class of the USA, but also for the dynamics of global political economy. Despite a decline in global arms sales in 2010 due to recessionary pressures, the U.S. increased its market share, accounting for a whopping 53 percent of the trade that year.

Once goals are set, the just mentioned military strategy is straightforward and, as is usual in command-oriented hierarchical organizations, just needs a consequent personnel for the operative performance. In contrast, the route to prosperous economic cooperation of a future Europe is a much more complicated task. It can only be implemented by a loosely connected network of actors situated at different levels of Europe's distributed political economy<sup>8</sup>.

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<sup>5</sup> More recent examples include former Yugoslavia, Afghanistan, Iraq, and the Ukraine.

<sup>6</sup> Given the strictly hierarchical organization of an army it is easy to identify the dominance of the USA in NATO: Since 1951 till today the Supreme Allied Commander Europe has always been a general (or admiral) of the U.S. Army.

<sup>7</sup> The term was introduced by US president Eisenhower in 1961, when in a speech he warned to 'guard against the potential influence of the *military-industrial complex*'. During the Reagan presidency this concept gained importance again.

<sup>8</sup> This difficulty has been discussed extensively, see e.g. [Gramme and Hobolt, 2015], [Rose, 2015].

## 2 – Prelude to a stylized model of the sequence of events

Like any other model the one presented here first has to lay bare what is to be considered as essential, and what is thought to be ignorable. One of the most decisive events always is the presidential election in the USA. As displayed in figure 2a there is a rather close relationship between military expenditure push and the victory of a conservative candidate. Seen from the other side of the coin one could argue that the economic interests of a certain part of industry (related to weapons production<sup>9</sup>) puts forward a presidential candidate in the hope to be favored by a subsequent policy. So voting success depends on financial election support and election support depends on expected additional gains once the candidate was successful.

On the other side of the Atlantic, in Europe, the most essential feature is the success of further unification and under which general economic policy regime it takes place. The great divide in Europe that currently is approaching thus concerns that either one out of a set of accelerated unification scenarios takes place, or one of the possible nationalist implosion scenarios will turn out as future trajectory. Which of the two ways will be followed will be the result of the current European metamorphosis process<sup>10</sup>, a phase transition of the European power structure.

The rapid dynamics of a metamorphosis are characterized by the necessity that political agents, e.g. formalized as the players in a game theoretic setting, have to find satisficing solutions to a set of burning - *interdependent* – social and economic problems. When metamorphosis starts there already exists a power structure, usually multi-layered and with well-established alliances that guarantee a certain capacity to stabilize minor irritations<sup>11</sup>. But then the simultaneous occurrence of multiple, not conventionally solvable contradictions signal that a profound metamorphosis cannot be avoided<sup>12</sup>. In the language of game theory this means a change of the rules of the game including the set of players and their payoffs. The question therefore is how to determine the dynamics that lead from the existing power structure game at the beginning of metamorphosis to a possible new game structure, given that some existing players lose their importance and new players can quickly emerge. Moreover, the confusing situation produced by urgency on the hand and limited information processing capacity (perceiving plus interpreting and synthesizing

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<sup>9</sup> Ignoring all further repercussions, the direct suppliers of weapons include Lockheed Martin, Boeing, Raytheon, Northrop Grumman, General Dynamics, United Technologies Corporation, and L-3 Communications. In 2013 each of these firms sold arms for more than 10 billion US \$.

<sup>10</sup> Compare [Hanappi and Scholz-Wäckerle, 2015] for a detailed discussion of alternation between crystal growth phases and metamorphosis phases in societies.

<sup>11</sup> The vast literature on the stability of economic equilibrium growth paths is the theoretical mirror image of an outgoing crystal growth phase.

<sup>12</sup> See [Hanappi, 2016a] for a possible list of Europe's set of most burning problems and their interdependence.

variables and models) on the other hand, gives additional momentum to the role of information and communication technology as well as to the excessive emergence of pre-scientific metaphors – from the fallback to religious beliefs to the praise of the purity of ancient forms of social biotopes, e.g. older governance regimes<sup>13</sup> or imagined Arian race societies. Along the lines of the set of problems the major old players formulate their answers to each question using their internal model that was derived from the mechanics of the outgoing crystal growth phase. As far as their recipes do not work anymore, e.g. austerity policy fails, old alliances start to crumble and eventually some players disappear from the bigger stage<sup>14</sup>. At the same time new players are trying to jump on this bigger stage, and to do so they often have to form new alliances and coalitions. The respective plans to form a coalition then lead to bargaining and temporary joining of forces until a relatively stable new political power structure is reached.

It is this type of stepwise procedure that for both sets of scenarios, more Europe and ‘no Europe’, has to be mimicked by a model. Figure 4 presents a sketch of the structure of such a model.

The European development is embedded in the evolution of the world economy and *in the mid-run* the most important influence from outside Europe will come from the most powerful country in the world: the USA. As described above, the presidential elections in 2016 are driven by specific parts of US industry supporting their respective political frontrunner. Depending on the outcome of this election the efforts to dominate Europe will either focus mainly on financial dominance (Democratic Party, Hillary Clinton, Wall Street), or on military dominance (Republican Party, Donald Trump, military-industrial complex). This will have an important influence on Europe’s metamorphosis, i.e. the fundamental re-structuring of the network of European political power relations.

A first compressed expression of this impact will be seen at European elections in some major EU-member states, in 2017 in Germany and France and in 2018 in Italy<sup>15</sup>. The economic consequences of different types of dominance for certain European countries are somewhat difficult to disentangle. France and the UK do have important military-oriented sectors, Germany – in particular if the UK suffers a drawback by BREXIT – can point at its central role in finance. On the other hand, a major basis of Germany’s financial importance in the material production sphere

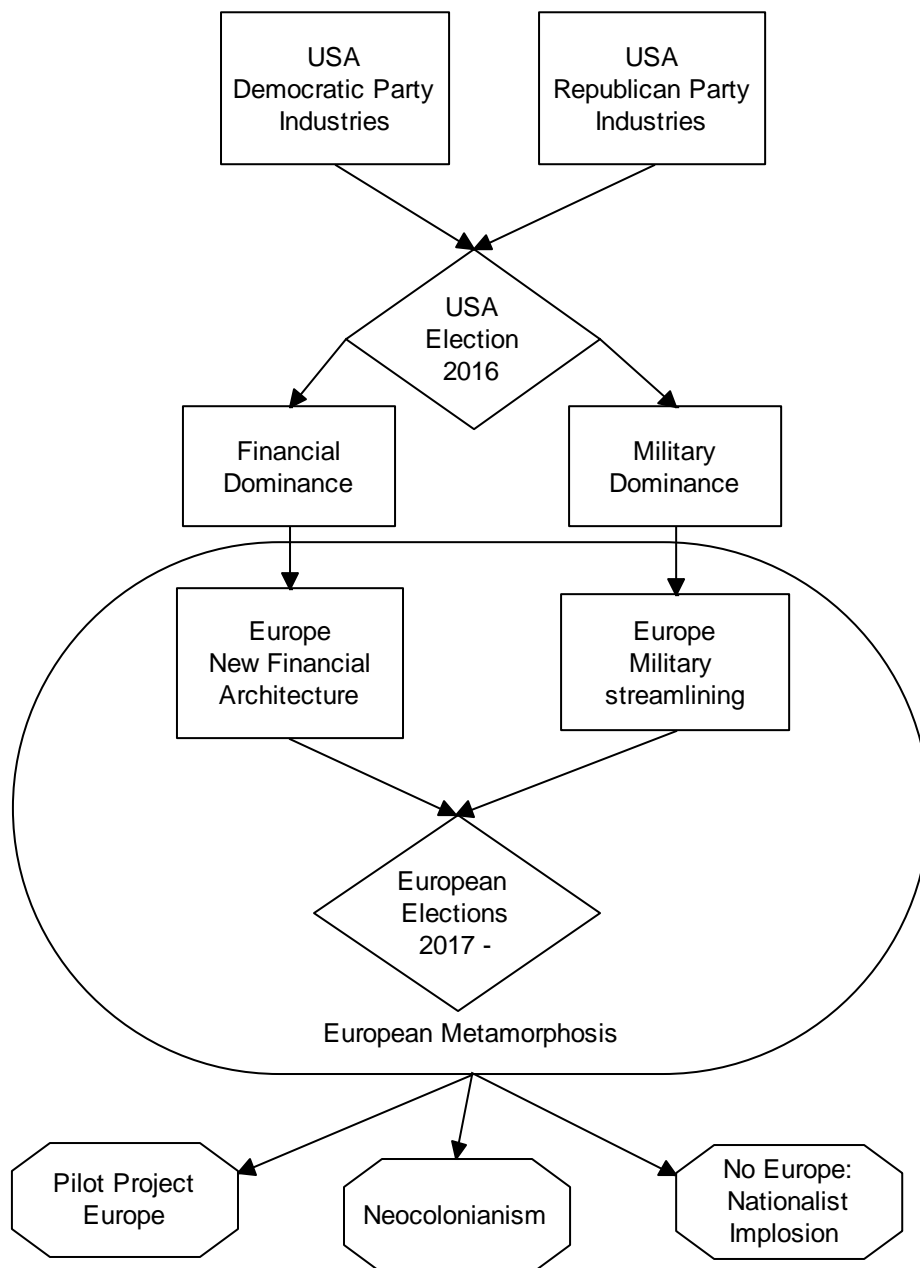
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<sup>13</sup> The classic text to this idea stems from Karl Marx: ‘At the very time when men appear engaged in revolutionizing things and themselves, in bringing about what never was before, at such very epochs of revolutionary crises do they anxiously conjure up into their service the spirits of the past, assume their names, their battle cries, their costumes to enact a new historic scene in such time-honoured disguise and with such borrowed language.’ [Marx, 1852].

<sup>14</sup> Examples are PASOK in Greece, Andreotti’s Democrazia Cristiana in Italy and the labour union organizations in the UK.

<sup>15</sup> The year 2016 (most probably) will lead to new elections in Spain and the impact of the BREXIT referendum in the UK. If Spain turns left and thus joins Greece and Portugal, then this certainly influences internal politics in France and Italy. If additionally, BREXIT becomes reality – which has a low probability – then in 2017 from the five main countries of the EU only three (France, Germany, and Italy) remain as the core.

are the exports of its car industry. And with decreasing imports of China and Brazil in this area this basis is dwindling away.



**Figure 4: A Model of mid-run evolution of Europe**

In the European election year 2017 a pivotal role will be played by nationalist parties on the extreme right. It can be expected that their support from across the Atlantic will be higher if military dominance is the name of the new game. In that case these elections can turn out to be the trigger event for the deathblow of European unification. This mid-run result is shown on the far-right in figure 4. It implies that a US governed NATO rules the split set of European nation states, a type

of global neocolonialism with the USA as neocolonial super-power<sup>16</sup>. Local nationalist heads of state will be materially and financially supported to keep their populations in clean hierarchical order. There are designs of mechanisms of indirect democracy that – complemented with manipulative use of information technology – can avoid too much coercive power and can conform to democratic-looking constitutional law. A mid-run consequence for the majority of the European population would most likely be a decrease in political participation and thus real income<sup>17</sup>.

But this does not have to happen. For a dominance of international finance groups with home base Wall Street military expansion of NATO need not be the preferred road to invest in profitable projects. Even if they concentrate on the short-run, these groups are more keen to promise their investors that in the mid-run there will be a smooth stream of returns. In economic terms, they are forced to pretend that they optimize mean-variance utility functions. As far as can be seen in the moment, they would ‘cooperate’ with a British or a German financial alley to guarantee returns from European investments<sup>18</sup>. The question then is how the profit rates from which these interest rates are deducted can be made. Two answers to this question appear to be feasible.

One possibility is an arrangement with the globally powerful international finance group that allows a future EU governance to install its own little neocolonial network south-east of Europe. With such an arrangement for the Middle East and North Africa there would also be the opportunity to integrate NATO-oriented groups that are interested in military dominance. After all, FRONTEX is a NATO organization that could play an even more essential role in installing neocolonial viceroys in the colonies<sup>19</sup>. The problem of sufficiently high profit rates would be solved by keeping crude oil and gas prices extremely low, supported also by cheap wages of labor immigrants from Central Africa and India. This would take the heat out of NATO expansion towards Russia – though at least the thread potential from the Middle East would rise – and European finance institutions even as subsidiaries of US banks could perhaps participate a bit. The current development (May 2016) seems to hint at this type of mid-run perspective of the EU. Europe’s big business as well as several heads of state of EU countries, who follow its wishes, are assuming to be able to continue business as usual if this solution is envisaged.

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<sup>16</sup> Donald Trump’s slogan ‘Make the USA big again!’, plays directly with this vision.

<sup>17</sup> Additionally, the nationalist split-up would also reverse the income-increasing effects of division of labour between EU member states.

<sup>18</sup> In the moment the most important transmitter of the goals of international finance to European governance is ECB president Mario Draghi, a former Goldman Sachs director. It can be assumed that his intervention in 2012 saved Greece from GREXIT (see [Hanappi, 2015]), which fits pretty well in the argument given above.

<sup>19</sup> Colonialism managed to make profits from world trade by using different, pre-existing economic and cultural properties of countries, and uniting them with a global hegemony of military strength of a dominant state. Neocolonialism achieves an analogue result, but now with the dominance of a transnational corporation using its global value chains. Two new types of resistance emerge too: global migration movements and a global rise of consumption aspiration levels transported by new information and communication technologies.

The other possibility would be an emancipatory jump forward towards a newly structured European unification project. This project has been labelled Pilot Project Europe (compare [Hanappi, 2013]). The main point to avoid neocolonialism would be a substantially improved integration policy of a Europe with open borders, combined with a restructuring of labor organization (labor time reduction, coordinated incomes policy, etc.) and close cooperation at eye level with developing countries. This type of policies will probably induce a few TNCs to transfer their headquarters to North America, but for many SMEs, which provide the overwhelming majority of European employment, this scenario means a better chance of survival. If trade ties are not monopolized by TNCs – an issue to be solved politically - then a different type of growth phase, namely growth of a different kind of welfare, can be envisaged. And this is exactly the point where productivity increasing investment could set in, which in turn might enable a modest rate of interest for European investment banks too. This scenario is called a *pilot* project because it entails features that never existed before in any large modern society; it is exploring new ground. To get implemented it will need very skilled coalition building (national, international, global) cutting across the traditional lines of any 19<sup>th</sup> century class codex<sup>20</sup>.

Of course, this sketch of a model should be implemented as a computer simulation with estimated quantities, and relations between the essential endogenous variables. Unfortunately, simulation models of social metamorphosis processes are rare. The major obstacles are how to model (1) emergence and disappearance of agents, variables, and relations; (2) internal models of agents that also regard the fact that the same agent often maintains different models (sometimes of the same process) and switches by conclusions of analogy; (3) the fitting process that allows only a limited amount of possible combinations of the different (internal model guided) actions of the involved agents<sup>21</sup>. But these are only the difficulties of translating ideas into a formal algorithmic language.

A problem that is at least as challenging as this simulation language difficulty is to uncover the dynamics of class structures of the European - and global – societies, which in the end govern the motions of agents in day-by-day political life. This will be dealt with in the next section.

### **3 – Coalition Options and Class Dynamics**

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<sup>20</sup> It often is forgotten that even Lenin's success in 1918 was based on a successful coalition building process between proletariat, farmers and farm workers. Despite the terrible deterioration of the USSR that followed, this surprising takeover of power in a highly militarized feudal regime shows the strength of vision building if it is combined with skilled pragmatism.

<sup>21</sup> This, of course, can be understood as a hint to the analogue problem in theoretical physics when it deals with phase transitions (see [Hanappi, 2016b]). To describe social phase transitions much more sophisticated modelling is needed, since molecules don't use internal model-building to choose their actions.

Start with what is immediately perceived. What can easily be observed is an immensely grown influence of processes in the information sphere, which can to a large extent be explained by the omnipresence of advanced ICT and a worldwide surge of alienation, which in turn is fueled by an exploding global division of labor and global value chains. All these elements have to be duly considered, their immediate impact on metamorphosis dynamics cannot be doubted. Nevertheless, there still exists a deeper level of explanation, namely the level at which the dynamics of social classes is studied; their emergence, their interaction and eventually their disappearance. This level is *deeper* since it assumes that the actions based on internal models of physical individuals are not just given, innate properties, they are assumed to be substantially framed by class-specific socialization. Class dynamics have been a central topic of classic political economy in Britain in the 19<sup>th</sup> century<sup>22</sup>. Only with the advent of marginalist economic theory towards the end of the century the concept of class dynamics was lost out of sight and was substituted by the less useful focus on physical human individuals. Almost 150 years later it can safely be stated that the project of methodological individualism – the tenet of the marginalist approach - failed. Returning to what Karl Marx analyzed as the evolution of class struggle in his time shows how precarious these issues are. Marx conclusion was that in the history of class struggles a purification process had finally reduced the number of classes, so that in the 19<sup>th</sup> century only two classes, the capitalist class and the proletariat, would stand in direct opposition. The victory of the proletariat, which he did fight for, would finally end all class struggles. This forecast of the second half of the 19<sup>th</sup> century turned out to be – at least - premature.

If today the classical procedure to define classes according to their role in the social production process is applied, then this is still possible (compare [Hanappi H. and Hanappi-Egger E., 2012a, 2012b]). But with globally distributed production processes and the diverse cultural conditions they are embedded in, it is better to start with the assumption that there are more than just two social strata to be considered. A first warning already came in the 20<sup>th</sup> century when the phenomenon of a mass movement of Fascists was hard to understand from the perspective of an over-simplified two-class perspective. The same can be said about the class of finance capitalists that Rudolf Hilferding had characterized at the beginning of this century [Hilferding, 1910]. For the 21<sup>st</sup> century a profound theory of the prevailing class structures and their dynamics does not exist yet.

What are the classes, the social strata<sup>23</sup>, to be distinguished in the 21<sup>st</sup> century? The minimum set of distinctions to be made is: (1) distinctions according to the global level (continents, regions), (2)

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<sup>22</sup> Compare [Wright, 2005] for the history of the class concept from a sociological perspective.

<sup>23</sup> ‘Social strata’ is a wider concept than class structure in the sense that it allows for a group consciousness that is not directly linked to the immediate position in the production process. If the firm-owner faction of the ruling class with its profits finances a group of high-income managers for the direct control of the work process, then this group can be

distinctions according to the continental level (country groups), (3) distinctions between public and private agents (state institutions and private firms), (4) sectors of private firms and finance firms, (5) firm owners, firm managers, workers, unemployed, children/pupils/students (CPS), retired, (6) male, female. Since a minimum of class consciousness is a necessary condition for class action, a common language and territorial closeness play an important role: classes first appear at the national level. It is at this level at which the role in the production process becomes the distinctive characteristic for further class membership. Firm owners constitute the capitalist faction of the national ruling class, the leaders of state institutions form the state faction of the national ruling class, money-owners (banks) are the third faction of the ruling class, low-level management and workers constitute two factions of the national working class. The remaining social strata (CPS, unemployed, retired, etc.) are not directly involved in the production process, but today nevertheless are organized sufficiently to maintain their respective *surrogate class consciousness*. The same holds for *women*, whose surrogate class consciousness due to reasons of a common type of socialization (and biological reconnaissance) has expanded to the global level. In general membership in one of the social strata or classes more or less overlaps with membership in a different one. With respect to race membership in a non-white race of the USA to a large extent overlaps with membership in the working class.

These overlaps therefore also produce a more or less split surrogate class consciousness. More important even is the loss of a one-to-one relationship between class status and class consciousness if the enormously increased influence of modern information technologies is taken into account, compare [Dicken, 2015, pp. 83-98]. In several historical episodes this has led to an inversion of the traditional direction of causation: It was not the economic base that determined the superstructure of class consciousness, but it was an – eventually manipulated – group consciousness that shook-up the economic base. The most drastic example, of course, is the temporary success of a stipulated Arian race that in World War 2 destroyed large parts of the world economy. The ever more important influence of alienation in global production systems adds to such dangers and leads to a highly fragile system of classes and social strata. In short, the current process of metamorphosis will need very skilled ‘political entrepreneurs’ to arrive at a relatively stable set of more durable coalitions.

To provide a simple example of the difficulties of coalition building: In Europe the three factions of the ruling class (firm owners, bankers, and state executives) exist at both levels, continental as well as within each nation. For some national factions, usually firm owner factions, unconstrained economic interaction with Russia is favorable, whereas for another faction, e.g. the state executives

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added to this faction of the ruling class. But if the group of retired elderly people or the group of CPS is considered, then they are elements of the system of social strata.



that are closely cooperating with certain US departments<sup>24</sup>, trade sanctions against Russia are the preferred strategy. Things are getting even more complicated if not just the conflicts within the same class are considered but factions of the working class are added. In other words, a rich playground for strategic coalition building with respect to the three mid-term scenarios mentioned in the previous section becomes visible.

The fact that in a metamorphosis phase decisions usually have to be taken rather fast implies an additional feature: There is no time for extended analysis and profound information processing<sup>25</sup>; therefore, bluffing and pretending starts to become a general habit. The opponent will not have the time to discover the trick anyway. This then is the type of dynamics that leads to suddenly escalating bubbles, first in the communication sphere but often also emanating into the material world. In the current situation of a rather long and profound metamorphosis phase – since 2009 the world is tumbling through repeated disasters along different dimensions – these bubbles don't have the time to become too large. They are exploded by ad-hoc measures, but their origin is not really understood and the basic contradictions are only transferred into another dimension. Instead of learning, only short-sighted crisis management becomes general practice.

For a complete understanding of the dynamics of the complicated network that determines the final choice between NATO expansion and consolidation of the European Union a simulation device would be extremely helpful. But this clearly goes beyond the scope of this chapter. Here only the rough guidelines for such a device could be explained, and the necessity to base it on a careful analysis of a larger set of classes (as well as social strata not covered by the traditional class definition) and their respective (surrogate) class consciousness has been emphasized.

## **Conclusion**

The process of a unification of Europe – politically, economically, and culturally – has been on its way since the end of World War 2. As a response to the successful relaunch of US dominance in the early eighties and its negative impact on Europe, unification gained momentum in the mid-eighties. The end of the bi-polar world at the beginning of the next decade inspired European politicians as well as military leaders of NATO to reach out for Eastern European countries. For

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<sup>24</sup> As the WikiLeaks Files show: 'Behind closed doors, State Department personnel use both carrots and the threat of sticks ... to ensure that their European allies come to heel. The expectation is unmistakable – whenever powerful groups or individuals on the continent challenge Washington's authority ... European governments are to make the problems go away or suffer serious damages in their bilateral relationships with the United States. For the most part, as a long parade of cables suggests, they fall in line.' [Busch, 2015, p. 210].

<sup>25</sup> This is the reason why the well-developed game-theoretic perspective on coalition formation, compare [Ray, 2007], can barely be applied by the players in this game.

more than two decades their goals more or less coincided, the economic integration envisaged by European economic leaders mostly ran parallel to military expansion plans<sup>26</sup>.

Then the global crisis pushed the world economy into a metamorphosis phase. While economic policy in the USA reacted astonishingly fast and to some extent successful, the European policy process reacted slow and disintegration set in. NATO, being dominated by the USA, also quickly saw a window of opportunity to advance further towards Russia. Cautiously, of course: By coupling the deteriorating economic situation in some countries and the possible remedy by closer ties to the EU with the offer to join NATO, the plan was to use the crisis as a vehicle for further expansion. By and large such a plan had worked since 1990, compare figure 1. But in the case of the Ukraine NATO aspirations – in the eyes of Russia at least – had crossed a red line. To lose the major military stronghold in the Black Sea was not an acceptable option for Putin. Neither the loss of access to the Mediterranean Sea via Syria's ports was easy to swallow, hence Russia's support for Assad early on.

From a European perspective these global war games look dangerous and are economically very undesirable<sup>27</sup>. EU member Cyprus is just some 250 km from the warzone in Syria and EU member Greece is flooded by refugees, while Moscow is 2300 km away and Washington with 9500 km is just on the other end of the world. For Europe the danger to bear the direct and indirect cost of this conflict is extremely high due to the pure facts of geography only. What makes the NATO expansion scenario even worse is that increased economic welfare in the EU member states was based on economic integration and advances in internal division of labor, and this integration included former USSR satellite states as well as Russia itself. Economic sanctions that are part of a cold war strategy hit Europe's further development substantially. To avoid the scenario on the far right at the bottom of figure 4 therefore clearly is in the interest of the vast majority of Europe's population.

Taking a look at figure 4 with the eyes of a game theorist and considering it as an extensive form game it is straight forward to apply backward induction, i.e. to start with the most desired outcome, the best future scenario, and work upwards to find the necessary switch points to arrive there. As already argued, the NATO expansion scenario should be avoided. For the remaining two scenarios in figure 4 the pilot project Europe would be preferable since it promises a much greater long-run stability of modestly increasing welfare of a larger number of people; welfare includes countries neighboring Europe. But despite this advantage, the scenario of European neo-colonialism

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<sup>26</sup> A first divergence can be seen in the EU accession of Bulgaria and Romania in 2007. This clearly was rather in the military interest to reach the shores of the Black Sea, while the accession of economically more advanced countries, like Croatia, would have been a priority from the point of view of economic integration.

<sup>27</sup> Some EU countries will vividly remember the cost of war in Iraq that were not balanced by any political or economic benefit.

currently seems to have a higher probability to become reality. The reason for this puzzling result can be found in the strange class dynamics that characterize European countries since the early 90-ties. In Western and central EU countries the prevailing class compromises between the two large camps of local conservatives and local social democrats have eroded any kind of class consciousness – amplified by the general trends underlined in the last paragraphs of the previous section. When the global crisis did hit these societies in 2009 most suddenly impoverishing households blamed a diffuse ‘political elite’ and could easily be agitated by neo-nationalist right-wing parties. The goals of national elites (consisting of conservative and social democratic leaders) were *split* into *local country-specific tasks*, the necessary financial center of gravity in Brussels still only commands 1 percent of the financial power of the EU. The ECB, due to its control of the Euro, turned out to be the only institution with enough power to interfere in European politics at all. It thus is no surprise that local national leaders jump on every train of US superpower, be it financial cooperation be it military aid, to achieve national advantages and to withstand local right-wing challengers. There is turmoil in the marketplace of political survival with rapidly changing alliances and surprising turns of policy. In such a situation the strongest player with the most all-embracing attitude, i.e. openness for financial US dominance *plus* explicit support of NATO goals, has the pole position. This player today has a name: Angela Merkel. And it is exactly this two-fold strategy of the strongest player that makes a neo-colonial scenario the best guess for the near future.

Fortunately, the near future not necessarily will prevail in the mid-run. Moving up the game tree in figure 4 the random draw of nature at the root – the outcome of presidential elections in the USA from a European perspective is an exogenous event – can improve chances for a more finance dominated regime. In that case the possibilities for coalitions in Europe pushing a pilot project Europe at least in the mid-run could be improving. As the history of Europe’s political economy shows, the best guess for a catalyst of such a development can only be a newly emergent player, an alliance of European intellectual workers; another social stratum with a sophisticated surrogate class consciousness. In a sense this would be the final arrival of Antonio Gramsci’s (aggregate) ‘organic intellectual’ [Gramsci, 1930], a global new social entity overcoming the fallback into right-wing nationalism and possibly a third World War. This is what can be hoped and worked for.

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