

The Future of Europe: Final Report

April 2013

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Prepared for:

Director, Net Assessment, Office of the Secretary of Defense

Contract #: HQ0034-09-D-3003

Delivery Order 5

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Prefatory Note ¹

The author interviewed many Europeans across the political and economic spectrum to test various hypotheses and gain their assessments of the long term future of Europe. One person that the author wishes to single out, (b) (7)(C), University of London, is actually not a native European but rather a Canadian expert on European demography and nationalism. There is no demographer who is more qualified to assess the future of Europe in 2030 than (b) (7)(C). But he is more than a demographer. His contributions on rising nationalism, far right parties and anti-immigration opinion were vital. (b) (7)(C) also made a special contribution on the section covering the future of West Midlands, which comprises greater Birmingham, the second largest metropolitan area in the UK after London.

The author also extends thanks to (b) (7)(C), and to (b) (7)(C). In Berlin, I consulted frequently with former (b) (7)(C). In the (b) (7)(C). I learned much from two fine (b) (7)(C). The author presented on the future of Germany at (b) (7)(C), who was visiting in Munich during the last academic year, has been an unfailing mentor on this project.

In Italy, (b) (7)(C) introduced me to Wroclaw, Poland, the birthplace of his maternal grandfather when the city was Breslau, Germany, through the Wroclaw Global Forum, an annual June event that Fred helped create. In Sweden, (b) (7)(C) were all helpful. In Israel and Munich, (b) (7)(C), was also supportive.

¹ (b) (7)(C) is a London-based analyst specializing in comparative political and economic systems. He is a non-resident Senior Fellow at the Atlantic Council, Senior Advisor at the Chertoff Group and an Associate Fellow at the International Center for the Study of Radicalization (ICSR) at King's College London. He was a Middle East Fellow at the Council on Foreign Relations in New York from 1995-2000 and a Senior Associate Member of St. Antony's College, Oxford from 2004-2005. The Office of Net Assessment (ONA) of the US Department of Defense, through Booz Allen Hamilton, commissioned (b) (7) to write this Report, which follows on several previous studies for ONA including the Future of Europe (May 2011), the Future of Europe (April 2012), Europe and its Muslims (April 2008), and the Future of Pakistan (April 2009). The author's inaugural study for ONA (and NESAs) was a diagnostic study of the Future of Saudi Arabia completed in 2003.

Special thanks go to (b) (7)(C) for his help fixing up the manuscript, and to the author's wife, (b) (7), who, while completing her Ph.D at the London School of Economics, kept the author focused on report deadlines, to his daughter (b) (7)(C) for her transcripts and to his son, (b) (7) for joining him from Cambridge to edit this and previous Future of Europe reports. The author thanks (b) (7)(C) at Booz Allen Hamilton for invaluable feedback and support and, last but not least, to (b) (7)(C) and his colleagues, (b) (7)(C) in the Office of Net Assessment for making this Study possible and enabling it to go so smoothly from inception in 2009 to completion in April 2013.

Organization of the Report

The Report begins with a substantive overview in the Introduction followed by assessments of the future of Europe and of eight individual countries. Then the Report presents an in-depth analysis of demographic trends, immigration, Muslim demographics in Europe, trends toward residential segregation between immigrants and natives in European cities, and the rise of populism and far-right parties. The Report ends with a chapter on the impact of the growing Muslim presence on Europe's economic performance. A calculation of this impact appears as Appendix B. Finally, a survey of employers in Birmingham, West Midlands, UK and a report on a meeting with EADS/Airbus in Toulouse, France appear in Appendix A after the Conclusion.

Introduction

The Project's inception began weeks after the Lehman crisis in late 2008. The premise was that the US economy would fall deeper than Europe, but recover faster. The social cushion or 'safety nets' in Europe would constrain the economic consequences of the financial crisis. Europe, unlike America, provides free hospital treatment, low or no university fees, and job flexicurity where, for example, BMW's Munich area car plants reduced the work week and gave some extended vacations only to be called back to full time when demand picked up again less than 18 months later.

The negative side of the European model is that the private sector is not as dynamic as in the US, and the public sector cannot so easily engineer growth. Continental Europe offers a more corporatist, regulated economic system.

Growth in the eurozone will likely to be anemic. For Spain, the European Commission forecasts 1.4% negative growth in 2013 and 0.8% in 2014. This is in contrast to a US economy showing signs of recovery in 2013.

Not all is bad news in Europe's present and future. Take Poland, for example. The Poles, spurred by memories of the past, especially the Communist era, have kept their financial discipline, free market orientation, openness to best practices and vibrant democracy. Shock therapy in the 1990s, like the reforms in Sweden just before, and the Schroeder Fischer reforms in Germany later in the mid 2000s, put the Polish economy on track to take advantage of globalization and of intra-European trade and investment. Poland has also received funding from Brussels for the enormous infrastructure development that has and is taking place there.

Spain vs. Poland: two trajectories

It is remarkable how in recent years the two economies of Spain and Poland have performed so differently. After all, they share a similar dark past, and they both embraced Europe as a way to secure a better future.

Spain suffers from regionalism that, like Italy, weakens the center. Also, governance is plagued with corruption and conflicts of interest between politicians and contractors particularly on the local level. They build toll roads leading to nowhere with no traffic. They build regional airports with no airlines. The Spanish private sector went crazy with cheap finance for real estate development: a massive 17% of GDP in construction compared to 7% in the US at the height of its real estate bubble.

Another contrast between Spain and Poland is the labor market: in Poland, workers are willing to move for jobs. Many take two jobs in different Polish cities. Many move abroad to London when opportunities are not available in Poland, and then they come back when the UK economy lapses into recession. Meanwhile, Spain's unemployment rate is one of the highest in Europe. For the working young, under 25, it is close to 60%.

Another important difference between Spain and Poland is geography. Poland borders the economic giant of Europe: Germany, and emerging economies to its East, including Russia. Sometimes Poland is called a 'little Germany.' Its car plants are linked to the German car

manufacturing assembly chain, like car plants in greater Bratislava in Slovakia and Prague in Czech Republic.

The author asked a group of Polish economists and senior government officials at a meeting in Warsaw in 2012 which country will be Poland's closest ally in 2030. Germany received by far the most votes. This reflects fact that Poland and the other satellite countries around Germany are dependent on Germany's continued export-led growth.

Is Germany's economic dominance in Europe enduring? This is the central question for Germany going forward. There are dangers ahead. Take the following two scenarios:

1. China buys, steals or copies *mittelstand* businesses and their technology as China moves up the value-added chain;
2. The SPD wins the September election and retrenches from the reforms of the 2000s by expanding entitlements to stem the growing feeling of inequality and injustice;

and two trends:

1. Population declines due to low fertility rates over the last several decades are likely to continue; and
2. Lack of liberalization of the services sector and underperformance of the education system are also likely to persist.

These and other factors may signal the inevitable waning of the country's global competitiveness and, possibly, its dominant position in Europe. Germany needs to address its demographic deficit by coming up with a migration policy that welcomes non-European workers. They also could emulate France's women friendly child care system so they can bring up the female labor participation rate and birth rate at the same time. But such pro-natalist policies are unlikely to make much of a difference.

Germany's demographic dilemma is an example of the core long term problem for Europe: it is an aging society with an increasing dependency ratio of over 65 retirees to workers. It needs immigrants. The financial crisis has delayed an honest acknowledgment of the long term crisis since under current conditions few are concerned about the shortage of labor.

The eurozone crisis and economic downturn should be treated as a pause in a long culture war between Europe's cosmopolitan elites and its nationalist masses. The crisis, based on this reading, actually offers relief to a beleaguered establishment. Though people are angry at bankers and government economic mismanagement, they have been forced by austerity to focus on the economy rather than on cultural threats. Hard times have caused a drop in immigration, which has taken some of the wind out of the sails of the Far Right. High youth unemployment conceals the longer-term problem of population aging and low fertility. In all respects therefore, normal times - especially a boom - force a culture war while the bust delays it. When the economy in Europe recovers, and it will recover sometime before 2030, possibly even before 2020, then workers will become scarce. As a consequence, immigrants from North Africa/Sub-Saharan Africa and South Asia will come in larger numbers – legally or illegally.

Dark clouds ahead: the rise of populist nationalism. A pessimistic view of Europe is one in which the indigenous population feels besieged by non-European immigrants. Fortress Europe is an alternative to open Europe, and this will have negative implications on

economic growth. Even Germany, which has clamped down on skinheads and neo-fascist groups, has a euro-skeptic party called *Alternative fuer Deutschland* that was recently launched ahead of the coming September 2013 federal election.

Anti-immigration, anti-globalization and euro-skepticism are three sentiments-- there may be more-- that feed into the far right parties rising throughout Europe. Only one of the three sentiments has to be uppermost in the minds of these people at any given time. Today it is euro- skepticism. Tomorrow it may be anti-immigration.

One per cent drag on GDP per capita. In the United States, immigration has a broadly neutral effect on GDP per capita because even though immigrants take more from the state than they pay in taxes, they have a high workforce participation rate and are paid less than their productivity. In Europe, by contrast, immigrants from non-western (mainly Muslim) backgrounds are a net drag on the public sector, equivalent, in the case of Germany and Denmark, to nearly 1 percent of GDP per year. This number will rise as the proportion of immigration from Muslim majority countries increases, but is moderated by the increasing workforce participation of the second generation of Muslims. The two trends appear to have balanced themselves out in the past decade or two. If this continues, then Europe faces a future 1% 'Muslim tax,' which will slow growth but will not bankrupt the welfare state.

Employability deficit. The problem of shortages of labor with the requisite skills for employers goes beyond the qualifications of immigrants from Muslim majority countries. There is a general problem of *employability* among young people. In West Midlands (greater Birmingham), the second largest urban area in the UK, young workers lack the skills, motivation and 'self-leadership' to pursue employment. In a survey of local employers in West Midlands for this Study, applicants for the few jobs available are often exclusively from people over 55-years-old.² Two generations of high school graduates in areas around Durham, England have gone without steady jobs except for a handful of talented graduates.

An aging population will inevitably lead to a loss of dynamism. The dependency on a decreasing relative population of 16-64 year olds will compel European governments to trim the welfare state. But can they? This Report is not without some, albeit faint, optimism. Europe has an educated population and as they age, people will be able to contribute to the economy well into their 80s and beyond. The Nordic countries have shown the way by extending the retirement age. It is important to avoid demographic determinism. Things can change and analytically, this Study tries to dig deeper before reaching the conclusion that aging means a slow-growth Europe.

Will the EU hold together? Rumbblings from the UK, the author's current domicile, have been disconcerting though the best guess in 2013 is that the UK will not ultimately leave the EU. If they did, the British would no longer be taken seriously outside the UK by Beijing,

² The survey undertaken in Birmingham, West Midlands, the UK's second city, provides a snapshot of the issues facing Europe as the population changes amidst an economic recession. A brief survey report appears in Appendix A. To summarize, Europe has for several decades allowed immigration, often with guaranteed employment; now that is unlikely to continue except for skilled immigrants. The interviews sought to elicit views on the impact of immigration in the West Midlands, particularly those from Kashmir and Pakistan, on cohesion and competitiveness. Unemployment is known to be high, particularly for the young, and employment is nearly as low as Greece. For employers, recruiting the young can be a problem, given their negligible will to work and the impact of the "benefits culture" that further reduces incentives to work. Birmingham, if not the wider UK and Europe, need a new economic recipe for employing more of its people. Without a boost in employability, the prospects are dire. See Appendix A.

New Delhi, Moscow and especially Washington. Nor would Germany alone be taken seriously. These countries are less than 1% of the world's population. The most likely scenario is that individual countries will pursue bilateral relations, particularly with China, India and other emerging markets, but they will stick together in a European Union that allows for greater differentiation or, to use the word favored by the German policy planning team, 'subsidiarity'.

The future of the eurozone. The eurozone will hold as long as Germany wants it to hold. Germany has compelling geo-strategic and economic reasons to continue to support the eurozone. A Germany embedded in Europe arouses less fear than a Germany outside of a political union. German exports thrive within a eurozone. There is a waiting list of countries like Latvia and Poland who want to join the euro. But there are plenty of skeletons in the closet, especially in the banking sector and the overall lack of credit.

A north-south divide emerging in Europe. Some countries that were economic dwarves are going to be part of the more prosperous north. Germany is the economic engine or hub for the north, which extends outward to the east and west as well as to the north. But one should not exaggerate the extent of the north-south divide. **No growth** in the south versus **sluggish growth** in the north is not exactly a big divide. The key difference between north and south is that financial problems will continue to be more severe in the south.

The future of Italy. Bruce Scott emphasizes the importance of governance in the economic performance of countries, writing that "the crucial market failures in Italy are not in its economic markets but instead in its political markets and the related institutions of its political system." As the surprising performance of a start-up movement led by a comedian in the February 2013 election demonstrates, too many parties result in ever-changing alliances "making it difficult for any Italian government to have even medium-term plans, let alone aspirations for the longer term."³ The growing north-south divide within Italy, weak governance from Rome, and unfavorable conditions in the terms of global trade for Italy make this author pessimistic about Italy returning to growth by 2030.

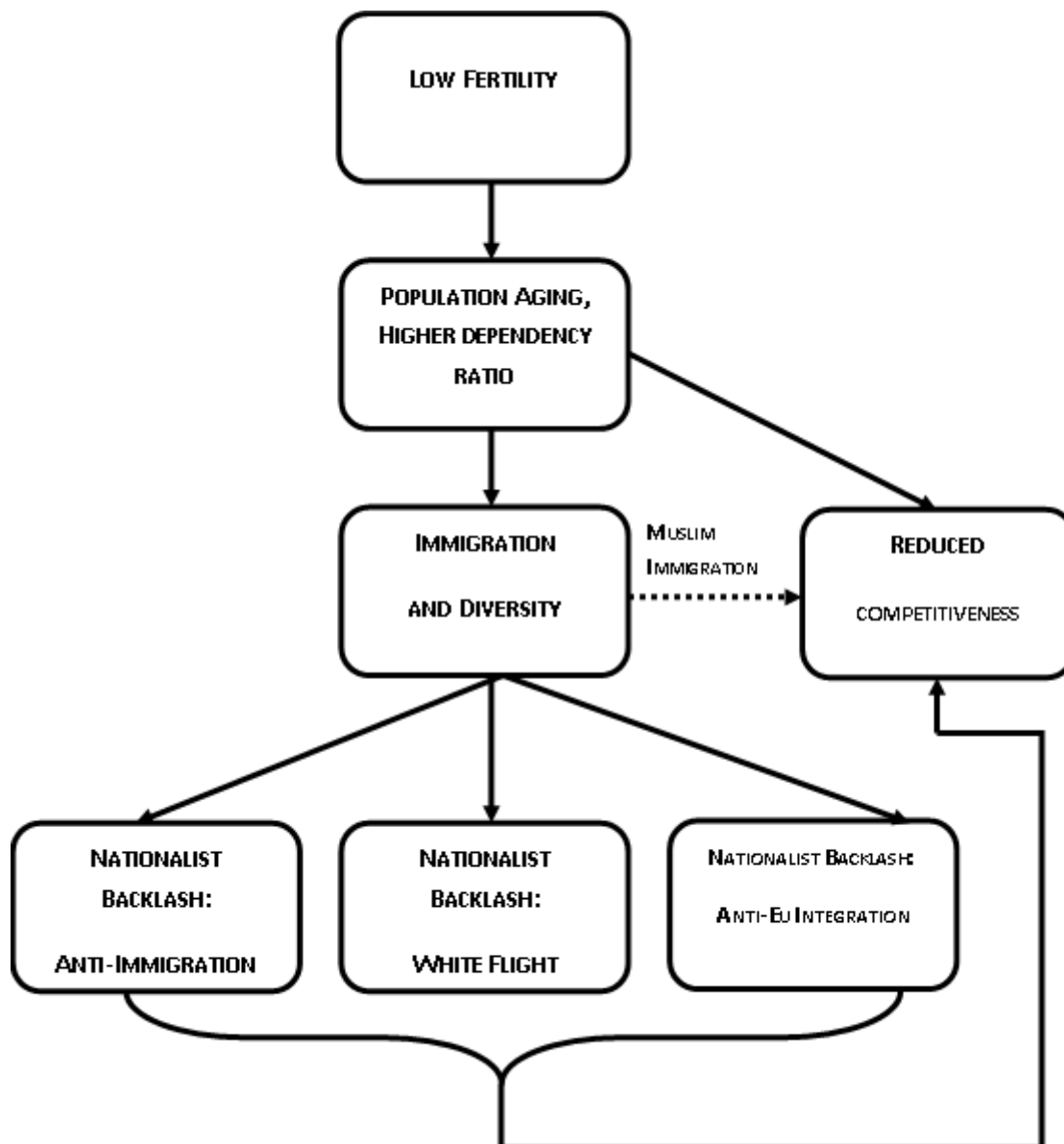
The future of France. One of the challenges with a north-south schematic for Europe is figuring out where France will be in 2030. It is pivotal to the future of the eurozone. Geo-strategically, France provides a cushion against naked German domination. France is also the only country in the eurozone that can intervene militarily in out-of-area campaigns such as Mali in early 2013. However, it is more likely than not that before 2030, French budget cuts in defense will render similar 'go it alone' Mali operations impossible. France's corporatist, regulated economy is flawed, and in the short term, a new Socialist government is struggling to find its way between growth and solidarity with the south, and prescriptions for austerity and deficit reduction from the north. France probably does not have the political will to reform its unsustainable but deeply engrained welfare state. On the positive side, it is not aging as fast as the rest of Europe, given robust demographic growth from both indigenous French and immigrants from North Africa and Africa. On the negative side, French banks are major creditors to the financially-imperiled south of Europe. France could go either the way of the north or the way of the south. Most likely, it will be a bit of both.

³ Scott, Bruce R. (2011). Capitalism: Its Origins and Evolution as a System of Governance (Kindle Locations 8998-9001). Springer. Kindle Edition.

THE FUTURE OF EUROPE 2030: AN ASSESSMENT

To best visualize the report as a whole, consider Figure 0.1.

Figure 0.1. Demography, Identity and European Competitiveness: an Outline of the Report



The diagram begins with the initial challenge of low native European fertility which gives birth to population aging, higher dependency ratios and ultimately population decline. This increases the costs and lowers the productivity of European workers. It also compels firms and European governments to clamor for more immigration. Muslim countries are youthful and close by, and supply a significant share of new workers. With the exception of Russia, most European countries' commitment to human rights prevents them from expelling workers and their families when their work commitments end, as is the case with some Gulf oil states. The result is a growing share of non-European immigrants and their descendants in the

population of European countries. Immigrants from Muslim majority countries tend to be a net drain on the GDP per capita of the host country. Non-Muslim minorities, on the other hand, generally contribute positively to national income. In Figure 0.1 above, the dashed arrow leading from immigration to competitiveness suggests this is a conditional relationship depending on whether immigrants are from Muslim-majority countries or not.

Meanwhile, the changing composition of the population alienates the ethnic majority, especially the white working class, who spearhead anti-immigrant sentiment and far right populism. The same group is in the forefront of 'white flight', leaving diverse areas for whiter areas. This increasingly isolates minorities in areas where they have few contacts with the norms and networks of the mainstream society, hampering minority upward mobility. Nationalism also reinforces anti-European integration opinion insofar as immigration is viewed as arriving from poor Eastern EU accession countries such as Romania, and from leaky frontier points in southern EU countries such as Spain, Greece or Italy. The net result is a closing off of borders to migration, which slows economic growth. Opposition to European integration moves hand in hand with anti-globalization, and this protectionist impulse reduces economic openness, acting as a drag on economic dynamism and innovation. This compounds existing competitiveness problems related to Europe's welfare state model, with its inflexible labor markets, soaring deficits and high government share of GDP, all of which crowds out investment and productivity. The eurozone crisis is not viewed as a long-term factor, except insofar as the benefits of a common currency (in the form of lower transaction costs) are exceeded by the costs imposed by a one-size-fits-all currency where richer countries are reluctant to transfer funds to poorer nations.

This Report is organized around two major themes: first, *Challenges to the Nation*, and second, the *Crisis of European Competitiveness*. The two are of course related, as shown in Figure 0.1 above, because the nationalist response to demographic challenges affects European competitiveness.

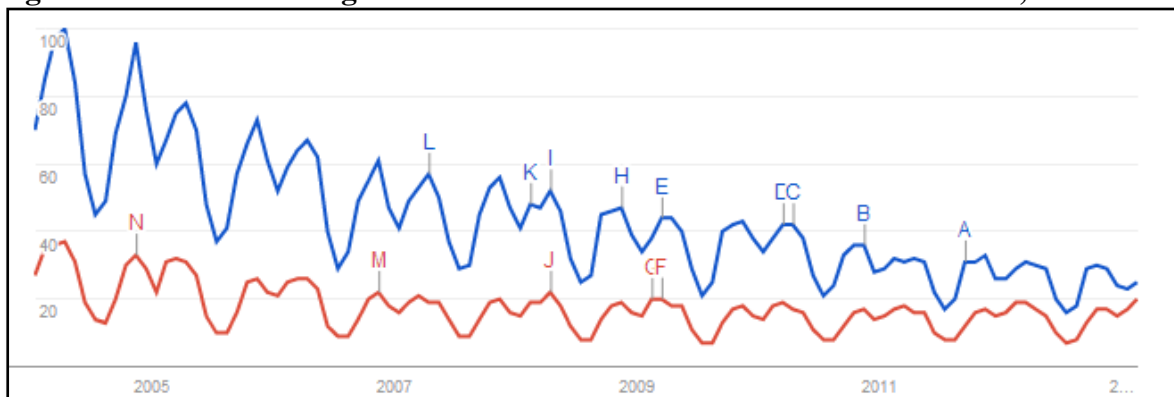
Part I. Challenges to the Nation

The late Daniel Bell once observed that the nation-state was too small for the big problems of life and too big for the small ones. Nations were too small to tackle transborder problems such as epidemics, environmental change or war, and too large to connect to people's lived reality. Francis Fukuyama prophesied the end of history and the inevitable erosion of national loyalties as people become aware of alternative traditions.⁴ Even Samuel Huntington downplayed nations in the early 1990s, suggesting that civilizations would take precedence in organizing international power flows.⁵ Yet the nation-state has faced down its challengers and proven stunningly resilient. One piece of anecdotal evidence is the gradual decline in the mention of the term '*globalization*' in Google searches since 2004 while '*nationalism*' has remained relatively stable. Notice in Figure 0.2 below that despite the academic cyclicity, the blue line for globalization has declined a great deal while the red line for nationalism has been more enduring.

⁴ Francis Fukuyama, *The End of History and the Last Man*, Free Press (1992)

⁵ Samuel P. Huntington, *The Clash of Civilizations and the Remaking of Modern Man*, Simon and Schuster (1996)

Figure 0.2 Trends in Google Searches for 'Globalization' and 'Nationalism', 2004-12



Source: Google Trends. Letters represent news headlines.

Europe, where the experiment in post-nationalism - represented by the European Union - has advanced furthest, witnessed a pronounced reaction against supra-nationalism beginning in 1990. Since then, Europe's cosmopolitan elites have been on a collision course with their increasingly nationalist mass publics, leading to a series of ructions which are playing themselves out in the form of political disenchantment, euro-skepticism and Far Right voting.

The ideology of nationalism, a blend of the French Enlightenment republicanism of Jean-Jacques Rousseau and the German romanticism of writers like Johann Gottlieb Fichte, is about aligning culture with politics. When these are out of alignment due to foreign rule, immigration or political fragmentation, nationalists seek to restore cultural-political congruence. These ideas broke up empires, led to secessionist movements by minority nationalists and drove immigration controls and national assimilation programs. Their power continues today.

Much of what has been taking place in Europe can be understood as a pushback by nationally-minded publics against the post-national visions of cosmopolitan elites. Elites have engineered European integration, opened up their societies to globalization and immigration, and dampened nationalist rhetoric. While the values of Europe's citizens have become more individualistic, tolerant and secular since the 1960s, their ethno-nationalism has remained resistant to change. Why is this so?

The eurozone crisis and economic downturn should be treated as a pause in a long culture war between Europe's cosmopolitan elites and its nationalist masses. The crisis, based on this reading, actually offers relief to a beleaguered establishment. Though people are angry at bankers and government economic mismanagement, they have been forced by austerity to focus on the economy rather than on cultural threats. An economic crisis offers an opportunity for elites to argue for increased integration on hard-headed rather than idealistic grounds. Meanwhile, hard times have caused a drop in immigration which has taken some of the wind out of the sails of the Far Right. High youth unemployment conceals the longer-term problem of population aging and low fertility. In all respects therefore, normal times - especially a boom - force a culture war while the bust delays it.

Europe's economy will eventually emerge from its current malaise and normality will return, bringing with it a return to cultural conflict which will burn considerably brighter in the 2020s than it did even in the turbulent 2000s before the 2008 financial crisis. This will also carry long-term implications for European productivity and economic structure which we address in the next section.

The main themes in this Report pertaining to nationalism include elements of demography: low fertility; immigration; differential growth rates between minorities such as Muslims and native whites; ethnic segregation and 'white flight'. The rise of the Far Right, hostility to multiculturalism and immigration, a backlash against European integration and the response to separatism are political outriders of the same process. Beneath it all, much of this boils down to a response to new demographic challenges.

A Crisis of Economic Competitiveness. The Report's second major theme revolves around Europe's crisis of economic competitiveness and examines both the *short-term*: the eurozone crisis and lackluster economic growth, corruption and tax avoidance in Europe's South and East; and the *longer-term* structural barriers to improved productivity: inflexible labor markets, high taxes crowding out investment, welfare states reducing incentives to work, public-sector jobs which stifle innovation, population aging, the drag effect of Muslim population growth on economic output, and the affordability of generous entitlements. Notice that several of the demographic elements which create problems for 'the nation' in Europe - immigration, aging and segregation - bring economic challenges as well. Thus demography underlies both the nationalism and competitiveness strands of this Report.

A. Challenges to the Nation

Demographic Upheaval

The starting point is the current state of Europe's population, where demographic change foretells developments in both nationalism and economic competitiveness. In five words, *Europe is undergoing demographic upheaval*. Nearly half a century of below-replacement fertility rates has led to rapid population aging and, as of 2005, absolute population decline. The pace of population decline will accelerate: 25 million will be lost from Europe (including Russia's) population by 2030, and a further 55 million between 2030 and 2050. Some societies in 2050 will contain populations in which over 40 percent are over age 60, and most will have 30-40 percent aged 60 and over, a doubling of the figures of today. Southern and Eastern Europe will be worst affected. Population aging will hit military commitments hardest as dependency ratios soar, budgets are skewed toward welfare spending and military personnel costs skyrocket. There is some good news for western Europe. Its economic performance may come through better because the high human and economic capital of Europe and its seniors can offset population aging.⁶ In this sense, aging may affect China's economy more than Europe's economy beyond 2030.

In Western Europe, immigration has more than made up for population decline and will continue to do so into the future. However, native decline coupled with immigration has produced a new set of problems related to what demographer David Coleman terms a 'Third

⁶ Seniors well into their 80s and beyond will be able to contribute sitting at computers in their homes on a flex-time basis.

Demographic Transition' toward wholesale ethnic change. Ethnic majorities of over 90 percent are in decline while the proportion of ethnic minorities is set to triple between now and 2050. Dominant white ethnic groups still account for close to 90 percent of the population in most European countries, but that will be changing. Despite the prominence of Muslim issues, most Europeans view their cultural politics through the lens of ethnicity and race. The increasing dissonance between ethnicity and the nation-state caused by the growth of minorities is what has ignited the rise of the Far Right since the mid-1980s. Far right support has tripled in most European countries since the mid-80s in response to higher immigration and the internal growth of nonwhite populations.

European Integration

For half a century, many European elites have pushed toward the sunlit uplands of 'ever closer union.' The momentum for this came from the cry 'never again' in 1945 after the bloodletting of two world wars. Its sources lay deep in Roman Catholic caesaropapism and, more recently, in Enlightenment cosmopolitanism. France long considered the European project to be an extension of its own civilizing mission. Germany came later to pro-Europeanize out of its acute post-World War II war guilt. Other continental European countries, reeling from conquest and collaboration, also joined enthusiastically to subsume their shame into a new project. The momentum of these ideals, and the trust which the masses placed in their state bureaucrats, church and union leaders, and party bosses, ensured that the European bicyclist remained pedaling toward functional integration and geographic expansion. The free movement of people across European borders, a common currency, a European Court of Justice whose liberal judgments take precedence over national courts, and a panoply of regulations to which nation-states must comply are beginning to chafe against the reality that the European Union has little claim over the loyalty of its peoples. European elites press for more EU decisions to take place on a majority rather than unanimous basis, seek a common foreign policy embodied in a strong EU president and foreign minister, speak of 'ever closer union' and a European Constitution, and push for increasing power through new treaties brokered between national and European elites.

Secession

In addition to immigration and Europeanization, the nation-state faces pressure from secession. As Europe's empires faded, many of its native ethnic minorities who had played major roles in the imperial effort - Scots and Basques in particular - switched their loyalty to native nationalism. Meanwhile the spirit of minority revolt spread globally, from third world decolonization to black American civil rights. As Quebec nationalism surged in the 1960s in Canada, the IRA began its campaign in Northern Ireland and the nationalism of the Basques and Catalans grew in Spain. Scots, Welsh and even Cornish in Britain followed suit; Corsicans and Bretons in France; Flemish in Belgium and even South Tyrolians in Italy reared their heads. The European Union sought to capitalize on this sentiment by floating the idea of a 'Europe of the Regions' which would strengthen the hand of Brussels by undercutting the nation-states and allying with numerous sub-state regions against their national capitals. Regional nationalists like Scots and Catalans repaid the favor, often touting EU membership as a guarantee against the negative costs of leaving their nation-states. This increases the sense of crisis experienced by members of the ethnic majority in these countries, like the English and the Spanish, who already feel their cherished ethno-nations coming apart due to immigration, Europeanization and globalization.

Islam and Multiculturalism

Muslim immigrants initially came to Europe in the 1950s and 60s, a period of relative liberalization when large firms were able to successfully press the case for low-cost labor to remain competitive in sunset industries like textiles. The presence of networks of co-ethnics in a particular country encouraged further migration. Existing communities provided the financial support, social networks, local information and even marriage partners for newcomers to establish themselves. Thus a disproportionate number of immigrants to Germany, the Netherlands and Belgium are Turks and Moroccans, while those from Pakistan and Bangladesh favor Britain, and Somalis and Iraqis find their way to Norway and Sweden. Net annual immigration to EU countries from outside the EU over the past few decades has been about 1 million, of which perhaps half (500,000) have been Muslim.

In Europe, immigration is concentrated in the western countries of Europe, despite an increasing flow of central Asians to Russia, and Russians and Ukrainians westward into Central/Eastern European countries. There are an estimated 15 million Muslims residing in Western Europe. In most west European countries, Muslims comprise between 2 and 6 percent of the population. While the proportion of minorities in the US will increase from a third to a half (a 50 percent increase) by 2050, **the Muslim population will triple (a 300 percent increase) from 3-5 percent to 10-15 percent in Western Europe by 2050. The rate of change is therefore much more dramatic and unprecedented in Europe, and will be especially marked in the urban areas where the overwhelming majority of Muslims reside.**

The speed of Islamization is likely to accelerate beyond 2030. This means that **most large western European countries will be between 10 and 15 percent Muslim in 2050, and Sweden may approach 20-25 percent.** But a 'Eurabia' scenario in which Muslims are a majority is unlikely even in 2100 due to declining Muslim birth rates in Europe and abroad, and population growth in other non-Muslim minorities.

Muslim immigration will be difficult to reduce. Europe's native population is aging and declining, with a soaring ratio of retirees to workers whose economic effects will become more apparent after 2020. This will prompt employers' organizations to push for further economic migration. Also, chain migration and illegal immigration are difficult to control in liberal societies. So the flow of roughly 250,000 Muslims into the EU each year will probably continue. It sounds like a trickle, and at 0.5 percent of the EU population it is. Still, the great wave of Latino immigration to the United States since 1970, which only averaged 1 percent of the total per year, has transformed the American population. Will Muslim immigration to Europe transform the European population?

High birth rates will drive Muslim growth even in the absence of immigration, though Muslim birth rates are coming down. Interestingly, the fertility of immigrant populations of North African and Turkish descent is often *higher* in Europe than in their home countries. This is especially true of Turks and Moroccans in Belgium. Complete convergence may never arrive, and even small fertility differences can lead to important shifts over generations. Why might convergence not occur? Religious women of all faiths have more children than the nonreligious. Among Muslims in Europe this is especially true: religious European Muslims are nearly 40 percent more likely to have two or more children than the least religious European Muslims even when controlling for age, marital status, income and

education. Muslim women tend to be more religious than others, and hence will probably remain more fertile on average.⁷

There is no evidence of Muslim secularization in Europe. Secularization can turn Muslims into secular Europeans, but in contrast to the sharp decline in Christianity, nothing of the kind has happened among Muslims. In Britain, attendance at mosques now exceeds attendance at the (established) Church of England. One exception to the trend of Muslim resistance to secularization is French Muslims, specifically Algerian Berbers. French Muslim secularization is important given that France has a much larger percent (5.7%) of people with origins from Muslim countries than any other west European country.

Muslims who are secular intermarry and vice-versa. Generally speaking, intermarriage with a secular partner is a prelude to secularization. Looking across western Europe, intermarriage rates are lowest among Muslim ethnic groups, averaging just 8 percent. Moreover, the second generation displays only a marginally higher level of intermarriage than the first, an increase from 6 to 10.5 percent. Only Algerian French men, half of whom married out in 1992, constitute a major exception to the rule of low Muslim intermarriage. Resistance to assimilation among Muslim ethnic groups gains strength because many Turkish, Pakistani and Moroccan children, in particular, are pressured to marry spouses from their home countries. In short, Muslims are unlikely to integrate at the rate of, for instance, American Hispanics. Whereas black Christian and East Asian immigrants to Europe largely intermarry and assimilate, this is generally not the case with Muslims. Though there are some exceptions, such as many French Algerians and German Iranians, this Report's general expectation is for Muslims to remain outside the mainstream of integration as they increase in number.

The sharp end of demographically-driven social change is first experienced in urban areas, which tend to receive most immigrants, especially in the primary schools and maternity wards of hospitals because new populations are often younger and more fertile than the aging native population. The urban effect is multiplied by the younger age structure of minority populations. For instance, 1 in 5 UK births is to a foreign-born mother, and in greater London, the proportion is 1 in 2. Voting-age populations remain overwhelmingly white - just as in America where minorities are 50 percent of births but just 25 percent of voters. Likewise, it will be a generation or more before a Muslim vote crystallizes at the voting booth, and even then, Muslim voters have tended to vote for left-wing rather than Islamist parties.

What has been the mass response to the challenges posed by population aging, low fertility, immigration, Europeanization, secession and globalization? Let's begin with native responses to immigration.

The Backlash Against Immigration and Multiculturalism

In July 2011, 32-year-old Norwegian Anders Behring Breivik set off a car-bomb explosion in central Oslo killing seven people. This was followed by a 90-minute shooting spree on a small island summer camp for supporters of the governing Labor Party. Breivik hunted down and killed at least 87 youth and children, some under 10. Far-right extremism has a long

⁷ Kaufmann, Eric. 2010. *Shall the Religious Inherit the Earth?: Demography and Politics in the Twenty-First Century* (London: Paradigm)

history in Europe, and remains a security concern alongside that of Muslim extremism. As the proportion of minorities rises, Far Right extremism could emerge as the main source of insecurity in many European countries. Muslim immigration in particular raises important questions about national identity and Islamization in the public arena, and brings decades of liberal policies into collision with a more assertive ethnic nationalism that could force a rethink.

Most surveys reveal that anti-European attitudes tend to accompany anti-immigration sentiment. Rooted in the rural and less educated population, these nationalistic positions are increasingly being expressed in Far Right voting. While younger people are more tolerant of immigration on average, they are heavily polarized between a tolerant university-educated group and a strongly nationalist high-school educated component. The latter is a leading source of recruits for the Far Right, including street movements like the English Defence League (EDL).

The Rise of the Far Right

Far Right parties have confounded their detractors over the past decade, showing an ability to retain their vote share in successive elections even as leaders come and go. This distinguishes the current Far Right from previous incarnations during the twentieth century. These parties reliably tap the concerns of working-class, often male, voters of all ages. These worries are not principally economic, nor do they reflect a mere anti-elitism. Instead, for Far Right voters, immigration, cultural diversity, Islam and sometimes Europeanism are the culprits. Nationalist concerns have pushed centrists like Nicholas Sarkozy and David Cameron to tackle immigration and campaign on promises to lower intake levels and pursue assimilation. In this sense, the Far Right has already achieved policy leverage. But the continued presence of high diversity levels in mainstream parties suggests that support for the Far Right will continue to grow.

Far right supporters are more likely to be male than female, with grade or high-school education, and are pessimistic about their financial future. They come from the economically precarious small proprietor class or the working class. Lower-class whites tend to cling to their ethnic identity more strongly than middle-class whites because it is their principal positive identity. They also lack the mobility to access the lifestyle options and consumption patterns needed to join high-status, trans-ethnic lifestyle subcultures. Supporters of the Far Right do not, however, spring from the ranks of the unemployed or the permanent underclass. They are also not apathetic nonvoters who have dropped out of politics in some way, but rather evince an above-average interest in politics which they consume often in tabloid newspapers carrying sensationalized accounts of minority criminality and other deviant behavior.

The most successful European Far Right parties are those, like the Vlaams Belang or Swiss People's Party, which began as liberal middle class movements and evolved toward a concern with ethnic nationalism and immigration. The current phase of the Far Right involves an attempt to downplay hard line themes such as anti-Semitism and overt white racism, which turn off middle class voters. In this manner, Far Right parties may be paving the way toward becoming mainstream actors on the European political stage.

Mainstream Hostility to Immigration and Ethnic Change

In order to undercut or co-opt the Far Right, the center-right and center-left have criticized multiculturalism and talked tough on immigration. However, it is also true that the European majority, especially the liberal middle classes, are reluctant to endorse a nakedly racial version of nationalism. Islam provides a useful foil in that it permits liberal-minded people to justify taking a stand against immigration for 'rational' reasons of security and 'liberal' ones such as protecting freedom of speech, women's rights and gay rights. There is certainly evidence of anti-Muslim politics and Muslim counter-mobilization. During 2004-5, the Madrid and London bombings, Van Gogh murder and Danish Cartoons controversy raised anti-Muslim sentiment to a fever pitch. Since then, things have cooled, though anti-Muslim politics have continued, most dramatically in Holland where Geert Wilders has won over 20 percent in local elections. When three Moroccan teenage soccer players at a youth game kicked a 41-year old Dutch linesman to death in early December 2012, Wilders' flagging support immediately jumped back to former levels, showing just how close to the surface anti-Muslim feeling resides in many European countries.

To the extent Muslims are stigmatized, they may develop a siege mentality and retreat even further into communal isolation and parallel lives, which would worsen economic performance. However, this scenario is deemed less likely. The best chance of it happening is in Belgium, Denmark, Norway and possibly Germany, where most minorities are poor and Muslim. Yet even here, there is talk of diversifying immigration to attract 'skilled' (i.e. non-Muslim) entrants. This would dilute the white-Muslim divide. The success of Geert Wilders' Freedom Party in Holland as well as the stir created by Thilo Sarrazin's book *Germany Does Away With Itself* may be harbingers of things to come. Yet we should not fixate on Muslims. Most Far Right activity focuses on race and immigration, and white nationalists have not been willing to broaden their tent to include non-Muslim minorities like Hindus, blacks and those of mixed race. Yet these non-Muslim minorities are often larger than Muslims, and will probably grow just as fast - in part because European countries are discussing the need to seek 'skilled' immigrants, which will mean more Indians and Chinese and fewer immigrants from Muslim-majority countries. In a plural Europe, 'pluropa', it is harder to focus white anxieties solely on Muslims.

The fact that white nationalists are concerned about all minorities means that even as they grow, Muslims can find allies within a broader anti-nationalist movement that includes other minorities and the white left. They can appeal even to the liberal middle classes in the name of Islamophobia and racism, all of which blurs the neat white-Muslim polarization and deflects the force of anti-Muslim politics. This should limit the extent to which Muslims feel targeted, and therefore moderate the extent to which they are driven into isolated worlds.

Euro-skepticism

What about the backlash against European integration? As a technocratic superstructure without a demos, the EU lacks the legitimacy to ask for more than 2 percent of Europe's GDP to spend. The eurozone crisis exposed the fact that the EU has assumed monetary powers without being granted fiscal ones. This mismatch led to elite calls for greater EU fiscal clout. However, the palpable lack of democratic legitimacy and pan-European fellow feeling among most ordinary Europeans has caught up with the elites. Brussels and its Euro-idealist functionaries and elite supporters in the nation-states can no longer push their creation against the will of the people. The results of over two decades of Eurobarometer polling and

numerous referenda show that the increase in Europhilia of the postwar period crested in 1990. In short, the writing is on the wall for a United States of Europe. The eurozone crisis offers a temporary excuse for elites to override national identity in the usual fashion, but there are limits: Germans will not subsidize Greeks because the common European identity is so much weaker than Germans' sense of nationhood. For the heirs of 'founding fathers' like Monnet, Schuman and de Gasperi, the dream is over. British Prime Minister David Cameron's willingness to offer the UK a referendum on Europe may be part of a strategy designed to defang the European Dream, terminate the notion of 'ever closer union' and replace it with a functional free trade area.

The danger of euro zone collapse is of course real, but in all likelihood the euro is too big to fail and the crisis will eventually abate. Europhile leaders in many ways welcome the crisis as an opportunity to revive the dream of integration. But in the aftermath will come sluggish growth and the cold reality of Europe as a socially fragmented, demographically fading and aging power. Europe will remain comfortable but its aspirations to world leadership may fall short in reality and its once-vaunted social cohesion may fray as minority growth, the shrinking of the state and Euro-skepticism take their toll. It is not clear what 'this-worldly eschatology' will replace the European Dream and multiculturalism. Perhaps we are heading for a period of post-idealistic, unglamorous social conflict between establishment elites and nationalist masses.

Diversity leads to less solidarity. The European social model rested on an unacknowledged ethnic homogeneity. The Norwegian word for equality means 'the same as me.' This homogeneity is being undermined by the growth of minority populations through immigration and higher birth rates. Minority growth has spawned a more assertive ethnic nationalism in the core states of western Europe. Globalization and immigration have eroded the old social contract between elites and the white working and lower-middle classes. Immigrants and minorities compete for jobs and housing with the white masses. This fuels both anti-immigration sentiment and a rise of the Far Right. White flight and Euro-skepticism rise in tandem. The cultural bonds which underpinned the rise of the post-war welfare state are also coming apart. As Robert Putnam, David Goodhart and a host of other writers have observed, there is a tradeoff between solidarity and diversity. This is very clear in neighborhoods with large numbers of minorities which see low levels of trust and civic voluntarism among local whites, who are also much more likely to leave such areas - especially if they have families. Europe has moved in the direction of diversity and is paying the price in the form of reduced solidarity. When those who are taxed feel little in common with recipients, this erodes the mutual solidarity which made possible the generous postwar welfare state.

White Flight

For American political philosopher Michael Walzer, communities require boundaries to exist. If boundaries are not maintained at the level of national borders, the ethnic majority in immigration reception areas will begin to self-segregate through 'white flight'. The ground zero of European immigration is its cities. Some, like Birmingham and Rotterdam, are already becoming 'majority minority' zones. Working-class whites in these cities begin by increasing their support for Far Right parties, then a portion leave. This pattern of white flight releases nationalist pressure, leaving relatively tolerant whites behind, as well as those ethnics in America during the twentieth century.

White Americans are generally unwilling to live in neighborhoods where they are in the minority. In fact, most white Americans prefer a neighborhood that is at least 70-80 percent white. As a result, even as minorities have moved into white areas, whites have generally not moved into minority areas. With a few high-profile exceptions of gentrification (i.e., New York, Washington, D.C.), the pattern is one of 'invasion-succession' in which larger and larger swathes of territory are essentially nonwhite. Europeans, despite the absence of a long history of color-based race conflict, share similar residential inclinations.

In fact, there is reason to believe these predilections may be even more intense than in the US because white Europeans are used to very low levels of minority presence and consider themselves to be an indigenous people. What is distinct in Europe is the possibility that Muslims (and to a lesser extent Hindus) may grow to become large groupings while retaining a much stronger own-group preference than is true of either American Blacks or Hispanics. This will have the knock-on effect of reducing whites' willingness to live in areas dominated by these minorities, thereby fuelling the expansion of all-minority neighborhoods.

The public spending cuts which have now begun to bite in Europe will exacerbate the problem of segregation and white flight. In general, segregation increases as the proportion of minorities rises. However, countries with strong welfare states like Germany and the Netherlands have been able to counteract segregation through public housing allocation decisions. Cuts to public spending have effectively ended the construction of public housing and increased the sale of public housing to private owners. The result will be to increasingly turn housing decisions over to consumers and private suppliers, generating greater ethnically-motivated residential decisions and, as a result, more segregation. In Britain, there has even been talk that the construction of new public housing in the eastern suburbs will lead to massive white flight, leaving inner London's low-cost housing as ghettos containing few white people.

The ethnic majority is responding to Muslim and minority growth through both anti-immigrant voting and 'white flight' from high-minority urban areas. Yet few have gone the extra step and flown abroad. Emigration to the New World has increased slightly in the 2000s, but this is not yet a significant development: North American and Australian immigration figures reveal that arrivals from Europe have been relatively modest and stable in recent decades.⁸

B. The Crisis of European Competitiveness

The second strand of the report considers short and long-term challenges to European economic competitiveness. Again we may begin with demography, the most predictive of the social sciences. Foremost among the drivers of change in Europe is low fertility, and its concomitants, aging and immigration.

Low Fertility

Low fertility has bedded down as a continental reality. Several decades' attempts to incentivize women to have more children have not raised fertility rates in most countries. In a

⁸ Despite anecdotal evidence from Germany of middle class professionals and their young families leaving Germany, the data does not support evidence of widespread emigration.

few select cases such as France and the Nordic countries, very high public spending on day care and feminine friendly work laws have made a marginal difference, but countries which have attempted to emulate these policies have not recouped the benefits. This suggests that the issue is rooted more deeply in the social fabric and culture of these nations. With austerity, funding for pronatalist policies - much of which goes to the middle class - has ebbed. For instance, the UK government cut its child benefit in 2012 on the ground that this was a form of government expenditure not targeted at the needy and which could thereby be slashed in the name of deficit reduction. We should expect further cuts to such universal benefits, and poorer European countries in the South and East, where fertility is spectacularly low, cannot afford them in the first place.

In Germany, women now no longer even seek the magic 2.1 children. Some speak of a self-reinforcing 'low fertility trap' in which low fertility begets lower desired fertility which in turn drives fertility ever lower, and so on, creating a spiral from which societies find it very difficult to escape. Though fertility rates in Europe have risen in the past decade, this is largely due to the 'tempo' effect whereby women's age at first birth has ceased rising. Levels remain well below replacement. Native white populations in Europe have reached a plateau and have begun to decrease in absolute terms. The pace of this decline will accelerate in the future due to the mathematics of compounding inherent in demography. Italy or Germany, for instance, given their current fertility rates, would only be a quarter of their size in a hundred years without immigration.

Throughout most of human history, those over 60 have never made up more than three or four percent of the population of any society. Today in Europe, that figure is over 20 percent. Almost all of the world's oldest societies are European, and by 2050, more than 40 percent of the population of some European countries will be over the age of 60. It is important to note that some European countries (France, Britain, Ireland, Nordic countries) have near-replacement levels of fertility while those in the South and East of Europe are below 1.5 children per woman.

Population Aging

Even in the highly unlikely event that fertility rates in Europe recover to replacement level from the current TFR of 1.5 to 1.7, it would take thirty years before this correction began to seriously check the slide. The decline in births will have all kinds of repercussions: there will be less demand for schools and maternity wards, and more demand for retirement homes and medical treatment for the elderly. Military recruitment, economic productivity and risk-taking entrepreneurship will suffer, though experts differ on the magnitude of these effects. It is less easy to predict how an older population will affect intangibles like the cultural mood or religious vitality. Will the sense of optimism which fuelled the Enlightenment and the great age of European expansion (and which coincided with a demographic boom) evaporate as Europe enters a gloomy atmosphere of population decline?

Funding for elderly care will come at the expense of defense spending. By 2040, the annual amount of money that the great powers pour into caring for seniors is going to dwarf what these states currently spend on their militaries, even after adjusting for inflation. Germany will have to increase its annual spending on elderly care more than seven times what it currently spends on defense. France will have to spend more than five times as much. As a result, political pressure may mount to divert funds from defense to public spending.

Social aging is likely to push militaries to spend more on personnel and less on other areas, including weapons development and procurement. This limits Europe's ability to contribute to future military campaigns. Since 1995, both France and Germany have dedicated nearly 60 percent of their military budgets to personnel. Germany spends nearly four times as much on personnel as weapons procurement. Belgium treats military spending mainly as a job-works program. Militaries will have to compete more intensively for scarce young workers, further driving up the proportion of military spending on personnel. The aging of existing military personnel is increasing armies' personnel costs at the expense of weapons procurement. Major western countries' pension obligations to retired military personnel are considerable. Growing pension costs for military retirees are important for international power relationships because these expenditures, which are not one time costs but ones that governments will have to pay every year for many decades, do nothing to increase power-projection capabilities. "State welfare kills warfare." Europeans tend to think in terms of the welfare state rather than external security. The social welfare mindset helps explain why most Europeans do not support meaningful military spending.

The impact of aging on the economy will be less severe than its effect on European force projection. Europe possesses important resources which help mitigate economic decline though they cannot allay military decline. Literate and healthy citizens do more to contribute to a state's economic power than unhealthy or poorly educated people. West European seniors are more productive than people in developing countries who are 20-30 years younger. Aging states are not like aging individuals. Japan and Germany are leaders in both innovative technology and in coping with the impact of aging. Older people may be more risk averse, but the climate for innovation offered to the relatively small generation of young people in older societies may more than compensate for this.

Crucially, however, a developed country cannot make up for specific occupations which require the strength, agility or fluid cognitive skills of youth. In particular, while Europe's economy may hold up well and ensure a high standard of living for its people, it is difficult to see how it can surmount its impending military malaise. For these reasons, we should assume that Europe's hard power - and its consequent usefulness for American-led military operations - will decline. It will also have to rely on continued flows of non-European immigrants, whom employers will clamor for in order to keep labor costs low in services and construction.

Immigration from North Africa and Africa

We expect immigration levels to return to their pre-crash levels by the late 2010s. East European sources will begin to dry up as Eastern Europe ages and develops economically. Europe will therefore increasingly look to Asia and Africa for new immigrants. The proximity of North Africa and Africa to Europe opens up the possibility of a US-Mexico scenario of large-scale illegal immigration. However, this would only become possible if a land route through Turkey opens up. As things stand, the Mediterranean acts as a formidable barrier to illegal immigrants from Africa.

What then is the prognosis for African immigration to Europe? It is useful to distinguish between the migration pressures likely to emanate from North Africa, and the pressures from Africa. A growing consensus believes that the Arab Spring is proving to be an economic bust. Egypt, Tunisia and Libya are anything but stable. The wildcards are the two large northwest African countries, Algeria and Morocco on the doorsteps of southern Europe.

The pressure from Africa comes from a demographic surge in and near the center of Africa, where populations are expected to increase dramatically over the next twenty years. Except for North Africa and the southern tip of Africa, the continent's high fertility rate is creating an 'arc of instability.' Even with good economic growth, (in fact precisely because of the new mobility generated by economic growth in Sub-Saharan Africa), there is likely to be spillover from the perpetual youth bulge these African countries will experience, leading to pressures for migration, and much of it northward. However, any scenario for future south-north migration will need to take into account the fact that Europe is not the only destination for African migrants in a globalized world. Migrants are sensitive to the economic fortunes of potential destinations.

The European response is likely to be along two tracks. The first is a recalibration of immigration policy in favor of selective immigration for workers having the skills most in demand. Second, the borders both outside and within Europe are likely to be more strictly enforced against illegal immigrants. One can also expect that the scope for political asylum will be tightened, particularly for people from regions where previous integration processes have been difficult.

Egypt is likely to become an important source of migrants in Europe for a variety of political and demographic reasons. The relatively modest migration from Egypt to Italy and other European destinations before the Arab Spring was due to the availability of jobs in the Gulf. Gulf countries no longer desire Egyptians as before in the early days of the energy boom. A new push factor is the dramatic rise of Islamist political power in Egypt, leaving the Christian Copts vulnerable and insecure. Europe bound migration is likely to increase steadily in the coming years based on expected political and economic hardships in Egypt.

The most likely scenario for future migration from south to north is neither massive numbers nor minute numbers. The expected flows are likely to be somewhere in the middle and depend significantly on the demand for low skilled migrant labor in Europe. Though such immigrants will fill gaps in the labor market, they will also be able to sponsor dependents once in Europe, and may thereby repeat the patterns of the Muslim immigrants of the twentieth century. This could involve a relatively productive generation of male immigrants but with higher levels of welfare dependency among their wives, children and other relatives which could negatively affect Europe's economic prospects.

Muslims and Europe's Economic Performance

Many of the new immigrants from Africa will be Muslim. Yet the Muslims now living in western Europe are underperforming economically. They are more than twice as likely to be unemployed as native Europeans and perform the worst of all immigrant groups. The good news is that the second generation is much better educated than their parents. In some cases, such as Britain, they are doing better than whites at high school and university. However, this success at school has not translated into much improved economic performance. Why?

The second generation is retaining or strengthening its Muslim identity, which has been proven to lower their economic performance. Furthermore, Muslims are becoming increasingly concentrated in Europe's major cities as white residents leave high-minority areas and are replaced by immigrants. Segregation makes it harder for Muslims to integrate in the future as they have fewer contacts with the host society. The explanation for this provided

by scholars has to do with networks, or social capital. Most people get a job through someone they know. Most of those doing the hiring are members of the white majority. If Muslims lack networks that connect them to the white majority, they are much less likely to be hired. Segregation may also pose security risks as Muslims lead 'parallel lives' apart from the host population.

It seems that a combination of Muslim attitudes towards women's employment, residential and social segregation, and host society discrimination is lowering Muslim workforce participation. Muslim economic problems are especially serious in continental European countries from Scandinavia to France, where strong welfare states and unions coupled with informal networks and inflexible labor markets make it harder for newcomers to enter the formal labor force.

What is the net effect of Muslim growth on Europe's economy? On the one hand, some argue that an aging Europe needs the vitality of a young population like the Muslims, who will do jobs that native Europeans spurn or will only consider for a much higher wage. However, the fact that so many European Muslims are out of work and heavy users of the welfare state means that their net contribution is negative.⁹

In the United States, immigration has a broadly neutral effect on GDP per capita because even though immigrants take more from the state than they pay in taxes, they have a high workforce participation rate and are paid less than their productivity. In Europe, by contrast, immigrants from non-western (mainly Muslim) backgrounds are a large net drag on the public sector, equivalent, in the case of Germany and Denmark, to nearly 1 percent of GDP per year. This number will rise as the proportion of Muslims increases, but is moderated by the increasing workforce participation of the second generation of Muslims. The two trends appear to have balanced themselves out in the past decade or two. If this continues, then Europe faces a future 'Muslim tax' which will slow growth but will not bankrupt the welfare

C. The Future of Europe (in the face of rising nationalism)

Swirling around Europe these days are three populist tempests:

1. Euro-skepticism
2. Anti-immigrant/integration tensions with non-European immigrants
3. Anti-globalization from difficulties in competing in a globalized world

At any given moment, populist leaders can galvanize support for any one of these three issues. Those populists/nationalists tend to espouse the first two, as there is a high correlation between being a euro-skeptic and being against immigration. Elites are much the same,

⁹ Is Israel's demography a window into the Future of Europe? Will Europe's failure to integrate its new immigrants lead to the eventual collapse of its welfare state? Israel provides a useful window into the European future because its population of dependent minorities (Muslim and ultra-Orthodox) is similar to what Europe's Muslim share could be beyond 2050. These groups are highly segregated, dependent on the state, underemployed and opposed to the Zionist philosophy of Israel. They are also growing rapidly due to very high fertility advantages over the mainstream Jewish population of Israel. The Israeli case shows that welfare-dependent minorities do sap the economic strength of the economy, and, if unchecked, will lead to economic collapse. It is also clear, however, that Europe does not face a problem of Israel's magnitude: European Muslims will slow European growth, but are unlikely to bankrupt the welfare state and cause a crisis, as may occur in Israel in the next decade or two.

though you may find elites who are euro-skeptic without being strongly anti-immigration. The third tempest is a result of Europe's eroding competitiveness. It comes to the surface from time to time, usually when there is an economic reckoning such as a huge balance of payments deficit or loss of export market share at the expense of emerging markets in Asia. Even an advanced economy like Sweden, which has cut its public share of GDP from 70% to 50%, may still not be sufficiently agile to compete with the Asian emerging markets.

National sovereignty is growing and the spirit of European unity is declining. When prime ministers go to Brussels for summits on budget or other issues, it used to be they would come home and point out how they strengthened the European project. Now they come home and brag about their successes for their country in defiance of Brussels.

In more halcyon times, solidarity was sometimes a mobilizing force for European integration, especially between the northern European economies and the southern ones. In the wake of the eurozone crisis, solidarity has been replaced by the logic of mutual surveillance and discipline, i.e., looking over one's shoulders and checking up on the others.¹⁰ Member states now pursue and prioritize their own bilateral commercial diplomatic strategies. Some Europeanists fear that the crisis will engender institutional splintering and a more 'instrumental spirit of inter-governmentalism' (which is bureaucratise for politicians who crow about national successes extracted from Brussels).¹¹

Each country looks at the eurozone with different interests:

- For France, the euro has always been about piggy-backing on German currency stability without restricting French state spending.¹² More fundamentally, the preambles of the 1957 Treaty of Rome show that 'ever closer communities' meant mobilizing the forces of the union to save the nation state.
- The German logic for political union is about increasing northern government control over EU budgets. Back to the preambles of the Treaty of Rome and one sees an entirely different motivation from the French. 'Ever closer communities' meant for the Germans getting rid of the nation state as far as possible and returning to a modern version of the Holy Roman Empire.¹³
- The southern European countries hoped that political union will continue to circumvent shortcomings on a national level.¹⁴

Whereas Germany sees political union as a means of tightening existing rules, southern European countries see political union as a means of challenging these same rules. German public opinion is moralistic on the need of the periphery to go through austerity. Italy's

¹⁰ Pawel Swieboda, "Beyond Europe's Zero-Sum Game", a chapter in Policy Exchange, Europe in search of a new settlement: EU-UK relations and the politics of integration (February 2013)

¹¹ Richard Youngs, unpublished manuscript with working title: "European disorder, global order: Aftershocks of the euro crisis." (February 2013), Chapter 2, p. 15.

¹² Richard Youngs, *ibid.*, p. 15.

¹³ The author thanks Prof. Michael Stuermer for pointing out the divergent interests as far back as the 1957 Treaty of Rome. Stuermer was an advisor and speech writer for Kohl who had warned Kohl, along with 157 economists, that the euro project was a mistake. A currency is the expression of a society, the essence of its identity. But having launched the project, Stuermer believes the euro currency cannot be reversed and thinks the majority of the German electorate will agree. Meeting with Michael Stuermer, Berlin, March 18, 2013.

¹⁴ Italy in particular had brought social peace through inflating the currency and allowing 25% of economy being 'black'. Putting Italy together with Germany was a mismatch. Meeting with Michael Stuermer, Berlin, March 18, 2013.

February 2013 election appears to suggest that the majority of Italian voters oppose Germany's preferences. Germany would like to impose their model on the others but this is not working well. It will be up to German leadership to reconcile the inconvenient realities of today's Europe and Europe's resurgence of nationalism with the attitude of similarly nationalistic German public opinion.¹⁵ This is the battle ahead for Germany and for Europe.

Some feel that the EU must either deepen or it will unravel. Europeanists still see a 'res publica' in the European Parliament, i.e., a new democratic union based on truly elected parliamentarians and an empowered European Parliament. Some like Sylvie Goulard, a French MEP, demand a more federal European Parliament at the expense of national parliaments.¹⁶

The Dutch counter the need for more direct democratic empowerment of the European Parliament by arguing that national parliaments are the answer to democratic deficit. That is where the voice of the people is expressed, and those elected national parliaments have leaders who sit on the Council on Ministers who make key decisions for Europe. The Council of Ministers is a collection of sovereign national states. The Dutch Foreign Minister, Fran Timmerman, replied to Sylvie Goulard that the Council of Ministers, not the European Parliament, is the body that can make the big decisions (the rules of the game, single market, trade, security and defense) leaving the member states to focus on micro-management and implementation on the local level.¹⁷ Pawel Swieboda echoes Timmerman's view, arguing that there is neither a democracy deficit nor a zero sum game between national parliaments and the European parliament. Let Europe deal with some of the macro issues where its size matters, such as single market and trade issues, and restore the responsibilities of national states to do the micro-management.¹⁸

Some of Spain's elite are becoming resigned to the fact that, in the words of one former senior official in the Ministry of Foreign Affairs, "the EU project is in a dead end, precisely because of nationalism, especially in Germany. The EU expanded very quickly and I don't believe there is political glue to cement a gigantic Union."¹⁹

Germany is in a no-win situation. They are asked to assume their objective leadership position, which is not easy with a provincial electorate which tends to see things as 'black and white' and is especially averse to change.²⁰ At the same time, they are resented by the deficit countries when they do try to exercise leadership. Those outside the periphery, in the words of the Polish foreign minister, Radek Sikorski, "fear German power less than [they are]

¹⁵ Marc de Blichambaut, email, March 17, 2013.

¹⁶ See Sylvie Goulard, "The EU five years from now? Integration, like it or not", a chapter in Policy Exchange, *ibid.*

¹⁷ Policy Exchange conference, February 28, 2013, *ibid.*

¹⁸ Pawel Swieboda, "Beyond Europe's Zero-Sum Game", in Europe in Search of a New Settlement: EU-UK relations and the politics of integration, Policy Network, London 2013 at http://www.policy-network.net/publications_detail.aspx?ID=4347

¹⁹ Martin Ortega, email, March 7, 2013.

²⁰ Wolfgang Ischinger criticizes the tendency for Germans to stick with the status quo. He relates a recent conversation with the 94 year old wise man of Germany, Helmut Schmidt, who urges Germans to embrace change in the midst of long term challenges of demography, migration (welcoming non-European immigrants), competitiveness, education and research, and Germany's global responsibilities in security and foreign policy. Meeting with Wolfgang Ischinger, Berlin, March 19, 2013.

beginning to fear German inactivity.”²¹ Caught in the middle of conflicting historical and event-driven pressures, Germany often behaves as if it has no idea what it wants strategically.²²

And what is the view of businessmen in the City of London? Whether the British decide to stay inside the EU or not, they are confident they can do business in Europe out of London. Like the Hong Kong model of ‘two systems one China,’ they will continue to transact business in the more corporatist, regulated continent, and yet be based out of an Anglo-Saxon capitalist city, just as businessmen from Hong Kong work profitably with state-ruled mainland China.²³

Future of Europe (competitiveness)

There are three broad scenarios for the eurozone. One is that it finds a pathway to success. The second is that it muddles through without finding lasting solutions but also without collapsing. The third scenario is one of a disorderly break-up and ensuing chaos.

What is the best case scenario? A German economist offers a framework for evaluating a best case scenario which calls for four pieces of reforms, or ‘unions’:

Economic union. The EU achieves stable economic growth, notwithstanding demographic and competitiveness obstacles. The ‘single market’ is extended to cover uniform labor flexibility and services.

Fiscal union. There are enforceable commitments to stable debt policies, or else the EU interferes. An EU finance commissioner is empowered to intervene in a country’s national tax or expenditure policies if necessary.

Banking union. There would be a European supervisory regime to achieve stable financial markets. This would comprise a recapitalization fund that is large enough to handle future banking failures in Spain, Italy and even France. The ECB gradually becomes the European banking supervisor.

Political union. There would be enhanced powers for the European Parliament, which is now largely irrelevant. It might become a two-chamber system. In order to overcome the democratic deficit and help Brussels gain more popular legitimacy, there would be direct election of the EU President, who might also serve as the head of the European Commission.

Furthermore, there would be explicit exit rules for countries that do not fulfil their commitments within the reformed European Monetary Union. Euro-exits would become

²¹ Lucas, Edward, “Sikorski: German inaction scarier than Germans in action”, *Eastern Approaches blog, the Economist*. November 29, 2011 at <http://www.economist.com/blogs/easternapproaches/2011/11/polands-appeal-germany?page=4>

²² R. Youngs, *ibid*.

²³ Lord Mark Malloch-Brown made the analogy to Hong Kong in a meeting on February 18, 2013, elaborated as follows: “What I meant by one Europe: two systems was in fact a full or partial repatriation of British sovereignty through exit [from the EU] or renegotiation. Either way companies could run their operations according to British laws.” Email to author, March 11, 2013

institutionalized. Figure 0.3 summarizes the four necessary building blocks for a successful eurozone ten years from now.²⁴

Figure 0.3 The European Monetary Union in 2022

The eurozone: Destination 2022

Economic Union Stable Economic Growth	Fiscal Union Fiscal policy discipline
<ul style="list-style-type: none"> • Agenda 2020 • EIP (Excessive Imbalance Procedure) • Completion of Single Market • EU Growth Initiative 	<ul style="list-style-type: none"> • European Semester • Reform of Stability Pact • EU Finance Commissioner • Sovereign insolvency law
Banking Union Stable financial markets	Political Union Political competences at EU level
<ul style="list-style-type: none"> • European supervisory regime • Recapitalization fund • Integration of financial markets 	<ul style="list-style-type: none"> • Enhanced initiative powers for EU parliament • Two-chamber system • Direct election of EU President/ Head of EU Commission • Rules for euro-exits

From a German point of view, these four unions make sense and appear to be workable over time. The mantra in Berlin is that there is no other choice except for ‘more Europe.’

The Italian election in February 2013 makes a best case scenario less probable, leaving ‘muddling through’ and collapsing eurozone scenarios as possible outcomes. When the majority of the Italian electorate rejected the Monti program, which had been Europe’s hope for a reformed Italy, a new uncertainty has been raised about Italy’s ability to tackle structural reform. Assuming the Monti policies atrophy under a subsequent anti-austerity or paralyzed government, Germany will likely oppose any ECB purchase of Italy bonds in the event that the market zeroes in on Italy.

Apart from sparking a banking and euro-crisis, an Italy adrift will find it difficult to grow, dragging down the eurozone and the EU, setting a negative example for other highly indebted countries and increasing the north-south divide in Europe. A worse case would see conservative pro-austerity governments in the UK and Germany replaced by more accommodating labour/social democrat governments. All of these developments make it again possible to imagine the collapse of the euro. Europe would find it especially difficult in this on-going crisis to address long term challenges, such as trimming its welfare state and public sector to accommodate an aging population with fewer taxpayers.

The hard line that the Cameron government in the UK takes toward Brussels is premised on the assumption that over-regulation by Brussels makes Europe less competitive. Cameron’s senior economic advisor said they would like to repatriate or renegotiate certain social

²⁴ Michael Heise, “Euro 22: the European Monetary Union in 2022”, Allianz Report, November 6, 2012, p. 8.

legislation and other compacts with the EU in order to unlock entrepreneurs and business.²⁵ The UK is especially worried that if the ECB, of which the UK is not a member state, takes on a banking supervisory role beyond its current monetary role, the ECB could act to diminish the City of London's advantages as a global financial center. The Tory hard-liners' success is no longer so assured in the wake of an anti-incumbency pattern of voting across Europe (and elsewhere).

Meanwhile, France continues to move in a direction opposite from that which would assuage the markets. Sooner or later, France's large public sector and high indebtedness will meet the market's punitive interest rates, bringing the euro crisis to the very heart of the eurozone. Germany cannot lean on President Hollande for support for greater fiscal discipline, as he looks to represent the southern European countries clamoring for less austerity and more growth.

Fundamental cleavages within the eurozone grow bigger between deficit and surplus countries. As long as European economic prospects remain bleak, divisiveness within the EU is likely to grow. Countries that used to work together increasingly see each other competitively in a zero-sum realpolitik.

In spite of the gloomy picture portrayed above, the eurozone has shown some resilience thus far, suggesting it could 'muddle through' for some time. As Richard Youngs writes,

There has been neither a great leap forward in integration nor a shattering disintegration; at most the EU has shifted slightly more towards inter-governmentalism, flexible constellations of leadership and a clearer ascendancy of German power.²⁶

An emerging North-South divide

As Europe 'muddles through' over the longer term, a north-south divide becomes more visible in economic terms. One German journalist suggests that eventually a smaller entity in the EU will be led by Germany, Austria, the Netherlands, some Scandinavian and Baltic states. He has strong doubts about France, seeing it as a Greece in waiting. He also foresees a new refugee wave from the Maghreb, resulting from post-revolutionary frustrations in North Africa (economy, unemployment, etc.). Europe will build walls to keep them from entering, and Schengen will be suspended.²⁷

The north-south divide does not exist presently between the eurozone and non-eurozone countries because some strong northern countries like Sweden are now outside the eurozone and several weak southern countries are inside. A hypothetical north-south divide can best be visualized by a look at the map in figure 0.4.

²⁵ Conversation with Ivan Rogers, October 6, 2012

²⁶ R. Youngs, unpublished manuscript, Ch. 2, conclusion, *ibid.*

²⁷ Email, Malte Lehming, editorial chief, *Tagesspiegel*, Berlin, March 17, 2013. See also the writings on the need for a north-south split in Europe by former business leader Hans Olaf Henkel, who is currently the ideological head of the new German political party, 'Alternative fuer Deutschland.'

Figure 0.4 European Union countries' currency status



The Economist, Nov. 17, 2012²⁸ (the yellow line dividing north and south was added)

The south would comprise the countries with borders on the Mediterranean, including Portugal, Spain, France, Italy, Greece, Malta, and Cyprus along with Romania and Bulgaria on the Black Sea.

The larger northern bloc could include the Basque country and perhaps Catalonia (Barcelona) in north and northeastern Spain, northern Italy (which is integrated into highly advanced Bavaria and German-speaking Switzerland), central and northern France, the Benelux countries (although the French-speaking Walloons of southern Belgium may belong with the south in contrast to the Dutch-speaking Flemish in the north), Germany, Slovenia, Hungary (assuming it returns to more stable governance from its current rightward lurch), Slovakia, Czech Republic, Poland, the Baltics (with the more advanced Estonia possibly moving into the Nordic group), the Nordic countries (Sweden, Denmark, Finland, Norway and Iceland), the UK and Ireland.²⁹

²⁸ “So much to do, So little time,” *The Economist*, Special Report on France, November 17, 2012 at <http://www.economist.com/news/special-report/21566233-france-slowly-heading-towards-crisis-says-john-peat-can-country-be-reformed>

²⁹ Russia, Turkey and the Eastern Six [Ukraine, Belarus, Moldavia, Armenia, Azerbaijan, Georgia] are not seen as moving into any European constellation for the moment, so it is not relevant to call any of them northern or southern. It is conceivable, however, that by 2030, one or more countries in the Eastern Six might join an enlarged European Union. Economically, they are more similar to a southern European country, hence the term

The difference between north and south is a better work ethic in the north, better governance in the north, a different attitude towards welfare entitlements and the role of the state in the south, the level of industrialization, the rule of law, corruption, savings rate, poverty, and all of those components that make up a prosperity index. Above all, the unemployment rate is significantly lower in northern countries like Austria (4.3%) versus southern countries like Spain where the unemployment rate is 26.2% overall and 56% for those under 25 years old.³⁰

The implications for the future of the euro currency from the north-south divide are unclear. One possibility is that the euro is replaced by a northern euro or ‘neuro’ with a neurozone led by Germany together with the countries east, north and west of Germany.³¹ This group would include those countries and sub-regions within countries along the west to east imaginary line described above.

It is not as if the north will be nirvana. One Paris-based German journalist writes:

The north-south-divide is very easy - no growth, big financial problems and no hope for a rapid, strong rebound in the South, **sluggish growth** and much less financial problems in the North, and there I include France.³²

No growth versus sluggish growth is not exactly a big divide, which is perhaps a reason for putting France in the North.³³ The key difference is that the financial problems will continue to be more severe in the South.

‘periphery,’ than to their more successful Central European ‘Visegrad Four’ neighbors [Poland, Czech Republic, Slovakia and Hungary].

³⁰ Eurozone won't begin recovery until late 2013, Mario Draghi says” *The Guardian*, Nov. 30, 2012, <http://www.guardian.co.uk/business/2012/nov/30/eurozone-unemployment-record-high>

³¹ The term ‘neuro’ was used by Timothy Garton Ash at an Intelligence Squared debate on Europe in London in 2011.

³² Thomas Henke, *Handelsblatt*, email, March 20, 2013

³³ Henke looks at the French situation optimistically. “Reforms have started, but they must be continued and widened. It is a [d]ifficult job for a socialist party with a strong left wing.” Second email, March 20, 2013

Introduction to Country Reports

The author made visits in the course of the 3 year study to several countries relevant to the study, including the three main European countries: Germany, France, and the author's base in UK. In addition, visits were made to each of Poland, as proxy for Eastern/Central Europe; Italy, as proxy for Southern Europe, plus Spain; and Sweden, as proxy for Northern Europe.

An assessment of seven European countries: Germany, France, UK, Italy, Spain, Poland, and Sweden appear below: They are divided into two parts: 'challenges to the nation' and 'the crisis of competitiveness.'

D. The Future of Germany: Searching for a German Narrative

How does Germany come to terms with being the strongest economy on the continent?

Does it step up and assume its objective leadership role in Europe? Will the German public support such a role? Some want Germany to be *primus inter pares* (first among equals). Other Germans prefer to keep small, look inward and avoid hard power.

Before answering those questions, the most striking aspect of the author's eight visits to Germany during this study was the difficulty in discovering the German narrative for its future role in Europe.

The Reluctant Leader. The post-World War II mind-set of Germany has been to 'think small', an understandable reaction to the long experience of militarism from 1870-1945 with brief exceptions. The post-war generation of Germans was taught to subsume themselves into a larger Europe so as to convince their neighbors and themselves that the demons of German domination of Europe have been put to rest.³⁴

Aside from a handful of aging strategic thinkers from the cold war like Egon Bahr, few people are willing to get out of their *geborgenheit* ('comfort zone') and think strategically. One head of a Berlin think tank speaks of German excellence in micro-analysis at the expense of macro strategy. Others point out that Germany remains provincial, rewarding its most promising bureaucrats for staying in Berlin rather than serving in Brussels or abroad. In the words of one Irish journalist who has followed Germany for years, 'Germany is like an adolescent boy who has suddenly sprouted up to 6 feet tall, skinny, gawky, uncomfortable and without a clear idea as to how the wider world works.'³⁵ The euro crisis cemented Germany's economic dominance in Europe, thrusting Germany into a leadership role for which it is only beginning to prepare.

The Rocky Road to Normalcy

German post-war leaders echoed this reluctance to 'keep small', to avoid any naked assertiveness of German interests and to pursue its interests through Europe. This began to change under Gerhard Schroeder a decade after the reunification of Germany. The euro crisis

³⁴ Ulrike Guerot with the ECFR Berlin, told the author that when she was a student in the 1980s at University of Bonn, students seldom heard even the German name of their country, as professors preferred to call it the 'Federal Republic.' Conversation, Berlin, August 6, 2011.

³⁵ Derek Scally, Berlin correspondent for the *Irish Times*, Berlin, August 6, 2011.

has crystallized a process that has been in progress for a decade or more, which is the normalizing of Germany. Take Jens Weidmann, president of the Bundesbank, the German central bank. In his mid-40s, he has no memory of World War II and does not feel beholden to Europe as an article of faith. Not unlike Chancellor Merkel, who grew up in East Germany unaware of the Western European vision of Jean Monnet and Robert Schuman, Jens Weidmann sees German national interests most clearly. Where those national interests diverge from European interests, he instinctively advocates German interests.

He and most of the young generation of the German elite do not care to be lectured by the US or UK on the financial crisis which many in continental Europe believe was caused by unrestrained Anglo Saxon capitalism.

Many critics, particularly in France and the southern European countries, argue that Germany's export surplus has created imbalances in the eurozone which can be corrected by increasing German consumer demand coupled with a moderate rise in inflation. Weidmann would disagree and raise concerns about inflation. It is not difficult to find where this German aversion to printing money and inflating a weak economy comes from.

Will normalcy lead to German hard power?

Does Germany's assertion of economic interest as part of its return to normalcy carry over to an equivalent assertion of national security interests through hard power? A rational observer might assume that Germany would seek hard power commensurate with its economic power, if only to safeguard its economic prosperity.

In a meeting with 20 senior foreign ministry officials in Berlin organized by the head of policy planning, I asked the State Secretary (Deputy Foreign Minister) Emily Haber whether Germany might move in the direction of more hard power. She replied rather ambiguously that Germany was going through a process, but her five points below suggest that the country is beginning to think about hard power:

1. We can't always be on the receiving end
2. Germany's abstention on the security council vote on Libya was a turning point³⁶
3. We can't have it both ways
4. We could become a victim of others instability
5. We cannot allow instability abroad to interfere with Germany's prosperity.

State Secretary Haber implied, without saying so explicitly, that Germany cannot be a free rider forever. She may be reflecting a [very gradual] rebalancing that is beginning to take place.³⁷ Normalcy implies returning Germany to a midpoint somewhere between Bismarckian militarism and post-war 'keep small' pacifism.

³⁶ Abandoning France and UK at security council vote

³⁷ Meeting at the German Foreign Ministry, Feb. 14, 2013. Those who advocate hard power worry about the US decline in relative military power and its pivot away from Europe. See Gideon Rachman, 'Disarmed Europe will face the world alone,' *Financial Times*, Feb. 18, 2013
<http://www.ft.com/cms/s/0/b4c057d0-79be-11e2-9015-00144feabdc0.html>

The author's assessment is that Germany is **not** likely to embrace hard power anytime soon for at least five reasons:

1. Most ambitious young future leaders want to be CEO of BMW or pursue a career in public or foreign affairs rather than become a general in the Bundeswehr. Thomas Bagger and Arndt Freytag von Loringhoven, two senior officials in the foreign ministry, are both sons of prominent generals.
2. The German public still has a fear of remilitarization and a culture of military reticence. German foreign ministers tend to adopt the rhetoric of avoidance, especially when it comes to 'out of area' conflicts.
3. Germans have a neo-Kantian view that the world is governed not by power but by the rule of law.³⁸ In a meeting in Berlin to discuss the Iran nuclear threat in early 2013, the ruling party CDU foreign policy analyst confessed that it would be impossible for the party to support any preventive attack by the US or Israel on Iran's nuclear program because such an act would lack legitimacy under international law.³⁹ Even the generals in Germany stress 'fair play' and parity, whether during the Cold War between the US and Soviet Union or in the conflict between Iran and the West presently. This German view echoes former Israeli foreign minister Shlomo Ben Ami's view of Europe as living in a post-conflict civilized bubble. Europe, especially Germany, finds itself handicapped in relating to the conflictual Middle East, which still operates according to the 'law of the jungle.'⁴⁰
4. Germany is perfectly happy to continue to enjoy free rider status in the NATO defense architecture. Budget cuts in the US military and the US 'pivot' away from Europe will not likely persuade the German public to fund an expansion in its defense budget. If anything, defense spending will continue to contract. The Secretary General of NATO noted at the February 2013 Munich Security Conference that the US pays 72 % of NATO costs in 2012, up from 50% in 1992. The US share is expected to rise even further in the coming years to 80%. NATO will continue to be the main western defense force, and the US will continue to dominate NATO, assuming the US is able to continue to be the primary funder.⁴¹
5. Finally, it is not clear what kind of hard power Germany would provide even if it decided to opt for more hard power. Currently, France and the UK provide the most hard power in Europe, giving them the ability to project forces abroad in expeditionary forces. The Dutch and Italians can chip in. But what exactly can the Germans provide aside from submarines and other military equipment, and training and financial support for those Europeans who still retain some serious military power and are engaged in active operations, such as the French in Mali in 2013?⁴²

³⁸ Prof. Michael Stuermer argues that Kant was no soft-power advocate. On the contrary, he saw clearly the necessity to back political will with hard power where necessary. Meeting in Berlin, March 18, 2013.

³⁹ Michael Broer and Jonathan Paris, Presentation to an American Jewish Committee roundtable on Iran, Berlin, Feb. 15, 2013

⁴⁰ Conversation with Shlomo Ben Ami, Langham Hotel, London, April 2004

⁴¹ See Philip Stephens, "Pay up for NATO or shut it down" *Financial Times*, March 8, 2013 at <http://www.ft.com/cms/s/0/4db6c7f2-8681-11e2-b907-00144feabdc0.html#axzz2Mf9J9QMx>

⁴² Conversation with David F. Gordon, Director of Research, Eurasia Group, London, February 21, 2013. Michael Stuermer points to a variety of contributions from Germany in hard power from aerial refueling, air

Germany and the competitiveness challenge for Europe

Before the German government and public are fully convinced of the need for Germany to embrace a leadership role in Europe, it will be useful to know whether its current economic dominance in Europe will endure. On balance, it appears that Germany's economic power in Europe will endure but that growth will be sluggish because of negative demographic trends.

Germany became known as the sick man of Europe in the late 1990s. The Schroeder-Fischer structural reforms of 2003-05, particularly those trimming the welfare state with some pain to the 'working poor,' set Germany on the path of its current success.

Is this economic success likely to endure? One can enumerate reasons why it would not:

1. Demographic decline of indigenous workers and failure to attract skilled immigrants.
2. Lack of skills in education system leads to less competitive manufacturing.
3. Eurozone breaks up and Germany is left with an appreciated DM that cuts its export growth.
4. Germany fails to find adequate energy for consumption due to the "energiewende" (no more nuclear power).⁴³
5. A possible geo-political shift by Germany away from US-Western Europe towards Russia, China and Turkey.
6. Absence of hard power handicaps Germany's ability to insulate itself from problems in the southern and eastern neighborhoods.
7. Growing inequality and demands for justice push German government to restore entitlements/wages that were shed in the 2003-05 reforms, and
8. China achieves value added manufacturing inside China, taking away heretofore safe, high-tech, niche *mittelstand* (small and medium sized enterprises) exports.⁴⁴

My own assessment is that Germany will continue to export at a prodigious rate because it manufactures machines using technologies that cannot be easily replicated by China and other emerging markets, although this could change in the future as China moves up the value-added chain. The *mittelstand* have adapted before and maintain close links between family owned businesses and their local communities, which provide vocational schools to train the workers needed by the *mittelstand*. These intangible values arguably transcend the uniqueness of any particular output at any given time. China can copy the output but not the societal roots that engender successful *mittelstand*. Based on prior performance, Germany is likely to continue to export under any currency scenario with occasional slow-downs when the global economy is weak.

transports and helicopters to some boots on the ground. In Senegal, Germany has 90 soldiers supporting the wider Mali operation, the second largest contingent and more than the number of UK troops. Meeting, Berlin, March 18, 2013.

⁴³ Michael Stuermer argues that cheap energy allowed Germany to recover quickly in the 1950s, and that nuclear energy allowed Germany to continue its economic growth in the 1970s. The Bavarians will suffer most from the Merkel decision to scrap the nuclear plants because they are located furthest away from coal and other sources of energy in northern Germany. He adds, "If the Greens had pushed this (scrapping nuclear energy) through, we would all have been up in arms. But the lady (Merkel) knows better." As the Fukushima disaster dominated the airwaves, she chose without consulting with the French or others, and this choice is not a good one for the future economy of Germany. Meeting in Berlin, March 18, 2013.

⁴⁴ These last two points were made by Robin Niblett, director of Chatham House, who is not convinced that German economic dominance is enduring.

The German brand. German cars, dishwashers, ovens and other consumer durables are likely to sell in 2030 as they do now in emerging markets like China because they are equated with high quality and technological and design excellence. BMWs and Mercedes have become status symbols in China. Perhaps a Chinese manufacturer can eventually copy the BMW, but wealthy consumers will prefer the real thing to a Chinese copy.⁴⁵

Germany's Demographic Challenge

One must be cautious about a long-term forecast of German economic dominance in Europe because of its negative demography. Italy, Germany, and Austria may have relatively good education levels but are saddled with a negative age structure. The economic boom in Baden Wurttemberg, in southwest Germany, was fueled by massive internal migration of young people from East Germany. But with the dramatic decline in the birth rate in East Germany following reunification in 1990, the supply of East Germans in their early 20's is fast disappearing.

There appears to be a consensus among Germans that they face some stark choices in the long term. Wolfgang Ischinger, director of the Munich Security Conference, points out that

“we are going to be unable to pay our pensions with more old people, and not enough young employees. We are going to have more migration or suffer serious decline in population and growth.”⁴⁶

Ischinger adds that the problem is an absence of government focus on the long term challenges. Governments think only about how to win the next election. A business journalist puts the contrasting futures for Germany in starker terms:

“[Germany] could be anything between an aging, increasingly frightful and egoistic society, and one that quite to the contrary decides to open up by developing a sensible policy for immigration that reverses the demographic trend.”⁴⁷

Just how bad is that trend? A Berlin-based demographer sees a dramatic decline in working-age Germans by 2030.⁴⁸ He argues that by 2050, Germany will have up to 30% less working age people than today. Such a decline can only be partly ameliorated by:

- increasing women participation in the labor force
- raising retirement age to 67 or higher
- introducing pro-natalist family policies to encourage larger families
- introducing a migration policy to compensate for the drop-off of East German immigration to former West Germany
- increasing technological innovation

Any pro-natalist policy will have a limited effect because the current pool of women of child-bearing age has already shrunk as a result of a TFR of 1.4 for the last 40 years in West

⁴⁵ Meeting, Malte Lehming, Tagesspiegel editor, Berlin, March 19, 2013

⁴⁶ Meeting, Wolfgang Ischinger, Berlin, March 19, 2013

⁴⁷ Thomas Henke, Handelsblatt, email March 20, 2013

⁴⁸ Meeting with Steffen Krohnert, Director, Berlin Institute for Population and Development and co-author of Europe's Demographic Future: Growing Regional Imbalances, Berlin, March 8, 2012

Germany compounded by the dropping fertility rates in former East Germany since reunification in the early 1990s.

Some business leaders talk about automation instead of low skilled migrants. German tax laws encourage companies to reinvest in their companies (i.e., to develop robotics) rather than distribute dividends to shareholders. But robots are expensive and do not compensate for the loss of dynamism in an aging society.

As for migration, Germany never needed a migration policy until now because of its available supply of East German workers. The problem with immigrants from Eastern Europe is both demographic decline and significant sub-regional differentiation. Polish and Czech workers might be welcome in Germany but they have alternative destinations, whereas Belarusian migrants would be less attractive given their lower educational and skill levels.

Germany may eventually consider a highly skilled migration program to attract skilled labor, especially from East Asia. The UK piloted a 'highly skilled migrant programme' in the 2000s, under which the author and his spouse qualified for UK residency. However, it will not be so easy to attract highly skilled workers. There is only a ten-year window to attract Chinese labor before China's working age population begins to decline rapidly. The Indians prefer to emigrate to English speaking countries. Unskilled migrant labor from Africa/North Africa might be easier to attract, but harder to integrate into the German productivity chain.

Germany will find it more expensive to build assisted living quarters and medical service centers for the elderly than it was to build schools for children during the baby boom years of the past. One of the reasons the private sector savings rate is so high in Germany is that the aging baby boomers are preparing for financial self-sufficiency when they are in their 80s and 90s. Their savings suggests they do not rely fully on pensions from their government or their employers.

When one changes the discussion from the euro to Europe, more Europe makes sense for Germany ⁴⁹ Three years into the eurozone crisis that began with Greece's debt problems, the German political and business elites reached a consensus that the way out of the euro crisis is to have 'more Europe.' They see the status quo is untenable and there is no going backwards. This is somewhat surprising because a natural reaction of a creditor nation to debtor nations would be for 'less Europe.' As creditors, Germany would not want to pay more than the minimum necessary.

On the need to embed itself in Europe. An analyst in the SPD (Social Democratic Party) in Berlin puts it this way:

There is no other European country with so many neighbors. Hardly any other country is both linked and exposed to Europe like Germany. It is the geopolitical centre and the economical core of Europe -- and its political elites know that. History shows that a German dominated Europe will trigger conflicts. An integrated Europe is the answer. Germany should believe -- in its own interest -- in the vision of an "ever closer union". ⁵⁰

⁴⁹ Wolfgang Ischinger, Dahrendorf Symposium, Berlin, November 11, 2011.

⁵⁰ Email from Dr. Oliver Schmolke, March 7, 2013. But as Michael Stuermer points out, 'ever closer union' means different things to the Germans and to the French. See previous section on Europe, *infra*.

When one speaks only of the financial crisis, it appears to Germans as a zero sum game between German creditors and southern European debtors. But when one speaks about a crisis of the European Union, then Germans recognize that they need to strengthen the European structure through ‘more Europe’ because Germany thrives politically, economically and security-wise within the larger structure. There are more euro-skeptics (i.e., currency union skeptics) than ‘Europe-skeptics’ in Germany. One German journalist spells out the different forms of skepticism when he remarked during the Cyprus crisis of the spring, 2013: "If this weren't about the future of Europe there would be only one appropriate response: Clean up your own mess."⁵¹

Accepting transnational union is also congenial to Germans as they have had a longer experience within the Holy Roman Empire than as a nation-state. For historical and geopolitical reasons, Germany sees its future in more Europe.

But are the economic reasons for more Europe sound? The most important benefit for Germany in the eurozone is that it is able to export its manufactured goods all over Europe in a euro currency that is lower in value than its Deutschemark would be. The weaker southern periphery keeps the value of the euro from appreciating to the level of a would-be Deutschemark.

An alternative narrative to the focus on Europe. At the same time, Germany sees its future growth in the emerging markets of Asia and elsewhere. The proportion of exports going to Asia is rising, while trade with Europe (still the biggest share) is declining. The political elite see this as “a chance -- and a problem. A chance because our network must reach out to the most dynamic regions. A problem because the European ties are getting weaker. Germany must invest its economical global strength into a stronger European project.”⁵²

Enough is enough

If Germany is continuously subject to ‘extortion politics’ and unending transfer payments to the southern periphery, it is easy to foresee the temptation of the German public to lose interest in the European project. The brand new ‘*Alternative fuer Deutschland*’ – alternative for Germany- party is attracting widespread interest, particularly from the middle classes who fear inflation and dislike the financial obligations of Germany to its weaker neighbors.⁵³ The number of Germans who have expressed doubt about the euro has increased in the last seven years from 40% skeptical to nearly 70% skeptical.⁵⁴ Despite Angela Merkel’s personal popularity and masterful tactical capabilities, some of the 70% may reject ‘muddling through’

⁵¹ ‘Merkel's Hard Line, Vilified in Nicosia, Cheers Germany’ WSJ, March 21, 2013, quoting Hugo Müller-Vogg, a well-known columnist for the mass circulation Bild newspaper at http://online.wsj.com/article/SB10001424127887324103504578372461781539472.html?mod=WSJEurope_hpp_LEFTTopStories

⁵² Email from Dr. Oliver Schmolke, March 7, 2013.

⁵³ See Bernd Lucke interview: 'Why Germany has had enough of the euro', *Sunday Telegraph*, April 7, 2013 at <http://www.telegraph.co.uk/news/worldnews/europe/germany/9975766/Bernd-Lucke-interview-Why-Germany-has-had-enough-of-the-euro.html>

⁵⁴ Michael Stuermer, ‘Chiefs but no Indians’, draft article for OMFIF, UK, March 18, 2013. One of the intellectual leaders of *Alternative fuer Deutschland*, Hans Olaf Henkel, former president of the leading industrial association in Germany, Bundesverband der Deutschen Industrie (BID), was a supporter of the euro who now wants to see it split between north and south.

and vote for the Alternative party in September 2013.⁵⁵ Even if they fail to win the minimum 5% to make it into parliament and receive state funds, the Alternative For Germany party will push Merkel's CDU to the right, making Germany less likely to be as generous towards member euro-zone states in crisis, such as Cyprus.

As the European dream fades, Germany sees its growth prospects determined by emerging market and other non-European countries. The feeling is mutual; in a meeting in Beijing with the leading think tank for the PLA in 2010, the Chinese said the "future of Europe is Germany and the future of Germany is Europe, the rest [of Europe] doesn't matter."⁵⁶

Still, it is doubtful that Germany would leave Europe to pursue bilateral ties with Germany. They are not mutually exclusive choices. It does not need to abandon Europe in order to keep its strong national presence in Shanghai, where Germany has over 160 staff members at its chamber of commerce, far larger than the Amcham Shanghai office. Alone, Germany is 1% of the world's population. As part of the EU, it is one of the largest trading blocs in the world with over 500 million people.

How will Germany confront the competitiveness challenges facing the weaker economies in Europe?

How not to win friends in Europe: 'Be like us Germans'. The initial German response in the eurozone crisis was moralistic: other Europeans, particularly those in the south, need to become more productive, hard working and thrifty. In other words, they need to become more German. Nothing riles the German public more than to hear stories about lazy Greeks living in yachts on state pensions. The German prescription for the euro crisis is to require more austerity in those profligate and debt-ridden countries.

The southern European states view increasing Germany supervision as an encroachment on their sovereignty, leading to results such as the February 2013 elections in Italy, where euro-skeptics were in a majority. Germany will likely stand back and reassess how it can soften austerity with measures to reduce unemployment in southern Europe, whose publics are showing warning signs of a rebellion, or at least 'austerity fatigue' at the polls. "Pure austerity is like medieval bloodletting - the patient will die."⁵⁷

No moral hazard and no transfer union

The German public fears 'moral hazard' in which the profligate southern European economies will be unwilling to get their debt under control if the wealthier northern countries bail them out through ECB purchases or the issuance of Eurobonds that carry implicit German guaranties. After more than two decades of absorbing 18 million destitute former

⁵⁵ The odds of success for a new euro-skeptic party in Germany are not great. One journalist, who recommended that the author see Henkel a year ago, thought that the Alternative "will unite all the frustrated, vain, nationalistic elements that hang around and vanish after a year or so. Just to be against the Euro is not a strong program, not even in today's Germany, where a lot of people feel cheated by the southern European countries, and don't want to pay for them, and where too many think that Germans are the best, the brightest and the strongest and should rather go it alone. In the end, a huge majority of Germany is in favor of Europe - for historical reasons, because they are not inclined to become isolated and because they know we need our European partners, irritating as they may be sometimes. But so are we." Email, Thomas Henke, Handelsblatt, March 20, 2013.

⁵⁶ Meeting with CISS, Beijing, June 25, 2013

⁵⁷ Schmolke, *ibid.*

East Germans, and then going through the heart-wrenching Schroeder/Fischer belt tightening reforms in 2004, the Germans are especially loathe to begin a decade or more subsidizing Greeks, Cypriots, Spanish, Portuguese and possibly Italians.

At the same time, saving Europe at all costs is a geo-political imperative as much as an economic convenience. Could Germany survive the break-up of the euro economically? Yes, but without a Europe into which Germany can embed itself, its neighbors will react defensively against the naked power of German dominance over Europe.

A Strong and a Good Germany

The narrative for Germany is a work in progress. The emerging generation of policymakers is free from war guilt and more assertive of German interests than previous generations. The core values that Germany would like to see become European values are an aversion to both military conflict and ‘unsafe’ technologies like nuclear energy, and support for renewable energy, ecology, tolerance, multiculturalism, and multilateralism. They like having power but they don’t want to exercise naked power. Military power is bad in all but exceptional circumstances. Political power is to be exercised through multilateral institutions and, where possible, through the Franco-German partnership with France taking the lead. That way, the reforms and associated pain being inflicted on the southern European countries do not look as if they are coming only from Germany. Economic power is exercised through the EU in Brussels, the ECB in Frankfurt, and the IMF in Washington but rarely directly by Berlin.

The irony of the euro crisis is that although Germany joined the euro in order to camouflage the brute power of the Deutschmark by mixing with weaker currencies, the euro crisis has unveiled the economic might of Germany for everyone to see. Given the historical memories of their neighbors, including the Austrian narrative of victimhood under the *anschluss*, Germany struggles daily to avoid appearing as the bully. One German journalist told me they want ‘to be the *primus* but not let everyone feel that they are the *primus*.’⁵⁸

By being ‘both strong and good,’ Germans try to resolve the tension between their self-interest in having a Europe that plays by German rules without, at the same time, arousing historical memories of German domination.⁵⁹ In one sense, they are fortunate to have the humble, motherly, tactical and self-effacing leader like Angela Merkel rather than the arrogant Schmidt, the towering Kohl or the red wine drinking, cigar-smoking, womanizing Gerhard Schroeder as their leader through this crisis in which Germany is so pivotal.⁶⁰

⁵⁸ Interview with Malte Lehming, editorial chief, *Tagesspiegel*, Berlin, November 8, 2011.

⁵⁹ Malte Lehming develops this theme in an English language article in “Germany’s humble strength” July 11, 2011 at <http://www.thelocal.de/opinion/20110705-36083.html>

⁶⁰ This may be a little unfair to Schmidt, who is now, at 94-95 years, is regarded as the senior mentor like Lee Kuan Yew of Singapore. Schmidt is calling on Germany today to embrace change. Schroeder has also been seen in a more positive light in Germany, both for his Agenda 2010 structural reforms in 2003-05 which helped propel Germany out of an economic rut, and his decision not to support the invasion of Iraq.

E. The future of France (challenge of nationalism)

Of all the countries in Europe, France's future is the most uncertain. Politically and economically there is much about which to be concerned. Yet historically, time and again, France has had periods of serious decline and then recovery.

Europe has difficulty asserting political and economic power because their constituent parts, especially France, are reluctant to surrender sovereignty to Brussels. In the earlier years of the EU, France was comfortable with the arrangement in Brussels, where the most competent bureaucrats in the European Commission and other European institutions were French. With no more than a dozen or 15 members in the EU, France could exert its sovereign power through Brussels. The EU was a larger version of France. However, the enlargement of the EU in the 1990s and 2000s, primarily with countries east of the Iron Curtain, led to a dilution of French authority. The Czech Republic and Poland did not see their political, security and economic interests through the French lens. France's power within the EU is diminished as a consequence.

The erosion of Franco-German Symmetry. The other profound change, the erosion of Franco-German strategic symmetry, began with German reunification at the end of the Cold War and has accelerated since 2010 with the eurozone and financial crisis. The fundamental glue that holds the European Union together is the partnership between France and Germany. Underlying this partnership was an unspoken symmetry. Sometimes France exerted more political influence while Germany stood behind France, preferring instead to focus on its economic interests. Germany was the engine, France the pilot at the steering wheel. But in recent years, the economic divergence between the two countries has upset the symmetry to such an extent that the stability of the underlying glue is becoming an open question. Germany's return to normalcy and economic stakes in the political resolution of the eurozone crisis make it less willing to cede the piloting to France.

Looking to the South. How has France attempted to compensate for its loss of equal status in its partnership with Germany? Since the election of Francois Hollande from the Socialist party in 2012, France has tacked somewhat away from Germany and the 'austerity camp' towards the southern European countries and the 'solidarity and growth camp.' This may be a temporary move resulting from the confluence of economic challenges. France is facing high deficit and zero-to-low growth conditions similar to that of the southern European countries. Still, uncertainties in Cyprus, Greece, Spain and Italy make this alliance a risky long term proposition. In an important way, the loss of French power in the symmetric balance is also attributed to enlargement, which shifted the locus of EU power eastward away from France.

Populist nationalism

At any one time depending on the public mood, French populist sentiment will be galvanized by anti-immigration, euro-skepticism (anti-Brussels sentiment) or anti-globalization arising from resentment over cheaper exports from China and the challenges of global competitiveness.⁶¹ Marine Le Pen leads the National Front, the largest and one of the most enduring far-right political parties in Europe. The party is unabashedly anti-Muslim and anti-immigrant in a country where approximately 8% of the 63 million French are of

⁶¹ Meeting, Aleksander Smolar, Batory Foundation and ECFR, Warsaw, Nov. 8, 2012.

Maghrebi/North African descent. France has more than double the number of Muslims of any other country in Europe and will remain the country with the largest Muslim minority in 2030. This minority has an impact on the future of France in a variety of ways: on competitiveness, on the possible contagion of instability in North and West Africa, of which Mali is a recent example, and on challenges of integration and assimilation into French secular society.⁶²

Just before the decision of the French to intervene to halt the advance of jihadists towards Bamako, the capital of Mali, Judge Marc de Brichambaut, a senior civil servant with wide experience in defense and foreign policy, warned that France was now ‘at the wall’ facing three major threats; the rise of populism domestically, the impact of instability just outside the borders of Europe on social tensions within France, and the inability of the German public and elites to assume, in his words, the ‘objective need for German leadership of Europe.’⁶³

The Competitiveness Challenge for France

There are some favorable trends in France that are sometimes overlooked in the pessimism surrounding much commentary on prospects for France. Its demography shows one of the strongest fertility rates in Europe with both indigenous and immigrant women having more than 2 children. France has a superior child care support system that enables women to participate in the labor force in relatively high numbers while having multiple children. French births are currently more than 60% higher than German births, pointing to possible demographic advantages for France in 2030.

France also has a decent education system, mostly meritocratic and committed to science and engineering, as well as the arts and humanities, and an excellent health system. The French enjoy an overall high quality of life not least because of its preeminent culture. Even in the digital age, one still finds people in book stores in France.

Its industrial base features very large companies that give France a comparative advantage in

- Nuclear and aeronautic space industry
- Luxury goods (fashion and food) and
- Banking industry

To maintain its innovativeness in high-tech, it has created dozens of research partnerships between its universities and industry.⁶⁴

⁶² See interview with the current French administrative judge for counter-terrorism, Mark Trevidic, warning that some French citizens of North or West African descent were going to fight with the jihadis in northern Mali against French and African armed forces in 2013. See

http://www.nytimes.com/2013/02/24/world/europe/french-intervention-in-mali-raises-threat-of-domestic-terrorism-judge-says.html?pagewanted=all&_r=0

⁶³ Meeting with Marc de Brichambaut, Paris, January 9, 2013.

⁶⁴ The previous French government introduced initiatives to create academic/business partnerships by establishing advance research centers at universities to enhance corporate competitiveness. University professors are now financially incentivized to get their own patents from their research. The scheme brings together the university, venture capital, entrepreneurs, marketing, and factory management in teams of approximately 15. Singaporeans, South Koreans, and Americans have been doing this, but not Germans, who are ‘living off industrial innovations from twenty years ago.’ France is hoping to take the technology lead in Europe. Conversation with Herve de Carmoy, Nov. 14, 2011.

In the author's interview in Toulouse with the competitiveness and human resources team at EADS/Airbus headquarters, the partnership between EADS and several universities was deemed critical to gaining technologically innovative employees at EADS in the future.⁶⁵

France has been criticized for sub-par work ethics. Its productivity has declined 20% relative to Germany in the last ten years. But a widely commented article by Howard Davies, former Director of the London School of Economics, shows that French workers are more productive per hour than British and American workers. The reason for their higher productivity is that French investment per worker is higher than in the UK and equal to that of Germany.⁶⁶ The only problem is the number of hours actually worked is much lower in France, at 1,453 hours/year versus 1,792 hours/year for US workers.⁶⁷

France has a stable political system with a superior judicial system and rule of law. France and the UK can project more hard power than any other European country. France's highly centralized top-down administrative tradition has demonstrated repeatedly in its long statist history an ability to implement large infrastructure projects, like high speed railways, perhaps not as quickly as contemporary China, but faster than either the UK or Germany.⁶⁸

Class warfare. The current Socialist government has highlighted a long-standing French social pathology: French society has a problem with wealthy individuals. It has a culture of intense jealousy that forces wealthy and entrepreneurial business people to emigrate, resulting in the loss of business investment. The wider ramifications of the exodus of French wealthy is not so much the loss of their approximately ten billion euros of wealth, which is miniscule compared to the massive French national deficit. Rather, the departure of those 2,000 plus job-creators represents a loss of approximately 200,000 jobs, dealing a significant setback to growth for the French economy. French industry has been losing 60,000 jobs a year for the past decade. High taxes will continue the exodus of global executives and of talented entrepreneurs unwilling to try to grow wealthy in an increasingly extractive state.

Entrenched welfare entitlements. Despite pressures from the market, France seems unwilling and unable to retrench a welfare entitlement system that is no longer affordable. After the 1973 oil crisis, Presidents Giscard and Mitterand weakened the remarkably effective post-war industrial system by introducing a more generous welfare state that essentially paid people not to work. By the 1980s and 90s, state subsidies for those who were not suitable workers became a permanent entitlement. The welfare subsidy shot up as high as a working salary, providing a strong incentive not to work. The golden age of seniors with free health care and medicine has led to growth in the 'old old,' who are costing more than the French welfare state can now afford.

⁶⁵ The meeting in Toulouse, France, March 12, 2013 was made possible by the office of EADS CEO, Tom Enders. See Appendix A.

⁶⁶ Howard Davies, "'Le French-bashing' misses the mark; France's primary problem is not worker productivity", *Financial Times*, February 22, 2013.
<http://www.ft.com/cms/s/0/28c05518-7c2b-11e2-99f0-00144feabdc0.html#axzz2N2Ln4pMp>

⁶⁷ The Howard Davies piece was a riposte to a *Wall Street Journal* editorial entitled "'How Stupid Do You Think We Are?' An American CEO speaks the blunt truth to the French state", February 20, 2013 at http://online.wsj.com/article_email/SB10001424127887323549204578316102560819808-1MyQjAxMTAzMDIwMTEyNDEyWj.html?mod=wsj_valetbottom_email

⁶⁸ Conversation with Sir Colin Budd, London, March 8, 2013.

Already, we see the new President, Francois Hollande, rolling back the pension age from 62 to 60 years of age for some workers.⁶⁹ One reason France is unable to retrench its welfare entitlement system is that French culture and ideology mandate the centrality of the state, and any systemic erosion of state authority will be fiercely resisted inside France, despite market pressures and fiscal realities.

The French value quality of life more than work ethic. One economist calculated that with the 35-hour week and mandatory vacations and other entitlements, a French worker effectively receives one week holiday every month.⁷⁰ The result is that in the last ten years, French labor competitiveness has declined 20% relative to German competitiveness.⁷¹ French car companies, Renault and Peugeot, are shrinking from overcapacity and declining demand in Europe and abroad in stark contrast to German car manufacturers.

The consequences of France's petrified structures and oversized public sector are a worsening unemployment problem, with over 3 million or 10% of the labor force out of work. For youth, the unemployment is closer to 25% and concentrated in the suburbs heavily populated with Africans and North Africans.⁷² Even if France did not have ethnic tensions, its unsustainable welfare state will likely create social and political upheaval in 2030. Today, the whiff of reform brings out frequent labor union strikes in the streets of Paris.

Labor market rigidity and increasing uncompetitiveness. France regulates pharmacies, taxis and other services that are being liberalized elsewhere in Europe. It has heavy regulation of the labor market, in which companies are afraid to hire new workers permanently for fear of litigation if they fire those workers in future recessions. As a consequence it has high unemployment among youth. Will French laws liberalize the ability of companies to fire employees so that they can afford to hire new workers? The unions are unlikely to concede the right of companies to fire workers, which will deter companies from hiring a meaningful number of new workers.

Disparagement of vocational schools and skills deficit. France has been slow to establish vocational schools as in Germany. Will France try to emulate Germany's reliance on vocational schools to produce workers with needed skills? Vocational schools are looked down upon in France, where a university education is the ideal. The jobs that vocational schools train young people for are also not desirable in French culture.⁷³

More broadly, France has failed to develop German-like *mittelstand* companies in between large behemoths and tiny shops. One reason small companies stay so small and rarely have a

⁶⁹ See Wall Street Journal Opinion, "Hollandism Begins," July 5, 2012, at <http://online.wsj.com/article/SB10001424052702304141204577506263804790988.html>

⁷⁰ Edward Cody, "Europeans shift long-held view that social benefits are untouchable," the Washington Post, April 25, 2011 at http://www.washingtonpost.com/world/europeans-shift-long-held-view-that-social-benefits-are-untouchable/2011/02/09/AFLdYzdE_print.html

⁷¹ Evans Prichard Jones, The Daily Telegraph, Nov. 29, 2012 http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/9707263/Francois-Hollande-shows-true-colours-with-threat-to-nationalise-ArcelorMittal.html

⁷² Steven Erlanger, "Young, Educated and Jobless in France", The New York Times, Dec. 3, 2012 at <http://www.nytimes.com/2012/12/03/world/europe/young-and-educated-in-france-find-employment-elusive.html?emc=eta1&r=0>

⁷³ Steven Erlanger, Ibid.

head count that surpasses 49 workers is because a whole raft of regulations, some 34 laws, come into play once a company has 50 workers or more.⁷⁴

Vulnerability of French banks to the eurozone crisis. When it comes to finance, France has been consistently hostile to banking, and not just under the current Socialist government. The Lehman collapse in 2008 gave the French ample justification for their castigation of the Anglo-Saxon capitalist model and promotion of the financial transactions tax and the cap on bankers' bonuses. Well before 2030, one or more French banks may suffer high profile failures, sapping the national government as well as the EU and European Central Bank safety nets designed for such bank failures on a much smaller scale.

Conclusion. As the north-south divide in Europe sharpens in 2030, France is drifting toward the low-performing south, although this trajectory could change with a French electoral shift to a reformist pro-business government.

Will France fall off a cliff? Commentators note that unlike the Socialist experiment under Mitterand in the early 1980s, which was rectified by Jacques Delors, his Finance Minister, in a course correction after two years of Mitterand nationalizations, the French economy today is stalled at 0.1% growth, its current account is not in surplus but in growing deficit, and its public debt and size of its public sector are much higher as a percentage of its GDP than in the days of Mitterand.

A large state appears to be part of the French DNA. Public appetite for austerity measures and reforms that tackle France's unsustainable economic trajectory are neither apparent now nor likely to appear later. It is only a matter of time before the markets will wise up to the increasing risk that France will go the route of the southern European countries, and end up in a crisis as bad as, and maybe worse than, Italy and Spain. Some commentators see the crisis of France going beyond its statism, suggesting that French people have lost patience with all of their political elites, whose out-sized privileges exceed their perceived value-added contributions to public sector efficiency. President Hollande is beginning to look like the hapless Louis XVI on the eve of the French Revolution.⁷⁵

⁷⁴ John Peet, "So much to do, So little time," *The Economist*, Special Report on France, November 17, 2012 at <http://www.economist.com/news/special-report/21566233-france-slowly-heading-towards-crisis-says-john-peet-can-country-be-reformed>

⁷⁵ Dominique Moisi, "Hollande must heed lessons of Louis XVI" *Financial Times*, April 9, 2013 at <http://www.ft.com/cms/s/0/c452f694-a038-11e2-a6e1-00144feabdc0.html#axzz2QBpaRuar>

F. The Future of the United Kingdom

Are we Europeans? One of the most important issues for the long term future of the UK is its decision to stay or leave the European Union. David Cameron, in his speech on Europe on January 23, 2013, called for a referendum in the UK to allow the British people to decide on whatever new arrangements come out of the eurozone crisis.⁷⁶ If there is a referendum, it would not take place before 2017, which could have a profound impact on the future of the UK and of Europe in 2030.

Reasons why a British exit from the EU is likely:

1. The Cameron speech sets up a national mood of estrangement from Europe that becomes a self-fulfilling prophecy.
2. Voting in European elections has been anti-establishment and anti-incumbency. A 2017 vote against Brussels would be consistent with the pattern of elections. A precedent may be the rejection of a proposed European constitution in both a French and a Dutch referendum in 2005.
3. The root of UK separateness from Europe lies in an British national identity that is different from continental Europe due to its unique British history, culture, and geography (as an isle with an empire based on its control of most of the world's sea lanes.⁷⁷ Unlike the continental countries, some in the UK believe it has an alternative commonwealth). One must add to empire and commonwealth the special relationship with the US.
4. As the eurozone countries integrate and achieve more political and economic union, the UK, with its own currency, will find itself an outsider treated like a second class citizen, which British voters will reject as humiliating and unacceptable.
5. The UK will be large enough to be on its own by 2030, at 75 million moving towards 80 million (as opposed to 63 million today). Perhaps the demographic case can persuade voters in 2017 that the UK has the wherewithal go it alone in the long term.
6. Any referendum is unpredictable.
7. A scenario for referendum under Labour:
 - a) Labour gets forced into a call for referendum before the scheduled election for 2015(who can deny the right of the people to vote?;
 - b) A Labour government wins back power in the election;
 - c) Conservatives stir up the emotionalism of the British public against the ruling Labour party (which would want to stay in the EU), thereby gaining traction with the anti-incumbent and anti-Brussels vote; and
 - d) a referendum for Brexit is approved.⁷⁸
8. The City of London financial center is undercut by incremental regulation from Brussels, moving free-market, Anglo-American capitalist sentiments toward a 'Brexit' (British exit).

⁷⁶ See transcript of David Cameron's speech on Europe with comments from BBC analysts, Jan. 23, 2013 at <http://www.bbc.co.uk/news/uk-politics-21160684>

⁷⁷ Meeting with Sir Malcolm Rifkind, former British Foreign Minister and Defense Minister, London, March 15, 2013.

⁷⁸ Charles Grant, director of the Centre for European Reform, described a similar scenario in a CER bulletin, January 2013.

Reasons why an exit from the EU is unlikely:

1. It is likely that there won't be a treaty change required from the eurozone integration, which was the original basis in Cameron's speech for having a referendum in 2017.
2. Conservatives might lose power in 2015 and Labour might be able to fend off making any promise to hold a referendum.
3. The UK gains enough concessions from Brussels to sway voters that the 'deal I've got for Britain' is a compelling reason to stay in a 'reformed' European Union.⁷⁹
4. If the key to the vote is emotionalism versus pragmatism, with the emotional voter wanting an exit, then British pragmatism is likely to win out because that is the way British behave when the chips are down. Unions and interest groups will all weigh in to stay in because of the possible loss of jobs and economic decline with a Brexit.
5. By 2017 the economic climate is improved for the much-stabilized eurozone, making the EU more attractive to the UK.
6. Many European countries will want the UK in and will make some concessions needed to keep the UK inside the EU. Countries like Netherlands, Germany, and even France, all for different or overlapping reasons, will want the UK to remain in.
7. The best way to protect the City of London is to retain a voice within the EU. Even euro-skeptics like Thatcher and John Major managed to keep a seat at the table in Brussels.
8. Financial market competitiveness is deemed to be an issue in the enhanced single market basket as opposed to a eurozone issue. Single market issues are governed by the EU where the UK will be able to exert leadership if it stays in the EU.

Can the UK remain competitive?

Tackling welfare entitlements. The UK, as pointed out to the author by Robin Niblett, the Director of Chatham House, is the only country in Europe that is now tackling benefit entitlements, apart from the Swedes and Danes, who trimmed their welfare state before the financial crisis. Germany had also reduced some welfare subsidies to unemployed, but the majority of its reforms in 2003-05 were labor-related reforms. The UK had gone through its labor market reforms decades ago under Margaret Thatcher.⁸⁰

Productivity. There is concern about the decline in British productivity. Some speculate that although the UK can avoid a dire crisis in its economy by devaluing its currency, it avoids the tough reforms that Spain and other eurozone countries are now undergoing in order to compete in exports (since eurozone countries cannot unilaterally devalue their currency).

⁷⁹ Items such as budget reform, changes to the common fisheries policy, opt out or reform on Justice and Home Affairs and on the jurisdiction of the European Court of Human Rights in Strasbourg. The latter has irritated the British public in preventing the UK from deporting to Jordan an Al Qaeda leader, Abu Qatada, on the basis that Jordan might torture the individual, even though Jordan has agreed with the UK that it would not use torture.

⁸⁰ Meeting with Robin Niblett, London, March 8, 2013. One of the reasons the British government wants to opt out of 'Social Chapters' is that they are seen as reversing the Thatcher reforms and bringing back labor immobility and rigidity.

Others are concerned that manufacturing has left the UK, never to return. There are pockets of exceptions for defense and auto related industries, including the Indian owned Tata car plants, the largest private sector manufacturer in the UK.⁸¹

Knowledge-based service sector. Regaining manufacturing in the UK may be less important than enhancing the UK's comparative advantage in knowledge-based skilled labor, including the work of thousands of academics and professionals in London, Oxbridge and other university towns and cities. There is a growing north-south divide within the UK where the London region enjoys a GDP that is rising faster than the old rustbelt and agrarian areas in the north. But the north has pockets of growth like the City of York, with a major university, good governance, tourism, some manufacturing and a highly educated population.

The future of the City of London. Will the London financial center hold its own? The financial services industry in New York and London may be in secular as opposed to cyclical decline. Banking as an industry may no longer be a place to make huge profits and bonuses through trading. Banks appear to be returning to a more regulated industry, as in the days of the Glass-Steagall Act. The primary purpose of many large banks will be to serve as custodians of depositors savings under the Volcker Rule and its British version.⁸² But the demise of London's role as a global financial center has been predicted, wrongly, several times in the past. Frankfurt and other cities in Europe simply do not offer the amenities, cultural, professional, geographical and philosophical, that would attract the quality of people who come from all over the world, and especially from the US, to work in the London capital markets.

UK's higher fertility rate. London has better experience with multiple immigrant pools, and has become known for its tolerance and cosmopolitanism. It has a global identity from the days of the empire. The question is whether growing anti-immigrant sentiment, white flight and far-right extremism will stem the tide of immigration. This is unlikely as immigrants will come as long as there is economic growth. Even without the massive immigration that the UK experienced in the Blair years before the 2008 financial crisis, the relatively robust indigenous fertility rate suggests that the UK will have a population approaching the high 70s or 80 million by 2030.

Scotland stays in the UK. The Scotland referendum will take place in September 2015 two years ahead of Cameron's proposed UK referendum. The Tories have little representation in the Scottish Parliament, which is dominated by the Scottish National Party and by Labour. The Tory initiative to have a referendum on a Brexit is unlikely to be popular in Scotland.

⁸¹ Taking a long term view, one can look optimistically at the future of UK productivity in manufacturing by examining the case of northeast Ohio. Ford Motor has announced it is investing significantly in Cleveland, Ohio, which is the author's birthplace, for the first time in over fifty years. Shale gas and oil discoveries and extraction in nearby western Pennsylvania and lower wages in the city make the rust belt region somewhat attractive again for investment and manufacturing. Could the same happen in the West Midlands, UK? (See Appendix A)

⁸² See Volcker, Paul A. "Keynote Speech" presented at The Economic Club of New York, April 8, 2008. The UK version of the Volcker Rule is the Vickers Report, produced by a banking commission chaired by Sir John Vickers.

One could envision the following scenario:

1. The Scottish referendum to exit in 2015 is rejected.
2. Two years later the UK votes to leave the EU.
3. In light of the Brexit, Scotland convenes a second referendum. Scotland may decide it has little use for a United Kingdom not in Europe. The Scots vote to leave the UK and apply for membership into the EU.
4. This in turn would diminish the UK's demographic, economic and political prospects for 2030.

Scotland's likely negative reaction is yet another reason for the UK to vote in favor of staying in the EU in the 2017 referendum. The knock-on effect of Scotland's departure from the UK for Wales and even Northern Ireland is not promising for the future of a federated United Kingdom. England could end up on its own, though this is not likely.

Trimming the Welfare State. The major economic challenge for the UK will be to trim the welfare state while maintaining quality health care and education. The generous state-provided health and hospital care, subsidized university education and transport subsidies for age 60⁸³ may not be affordable given lack of job-creation from the private sector, and the inability to reduce substantially the public sector's share of GDP, as reflected by the loss of the UK's AAA credit rating in Moody's downgrade on February 22, 2013.⁸⁴

The major political challenge for the UK is to find a *modus vivendi* with Europe. Its crown jewel, London, is likely to remain a global capital of the world. Politically, one could envision an implosion in the Conservative Party, but the historical precedents suggest the UK will remain a country that alternates power between the two dominant parties with a third party, the Liberal Democrats, alongside.⁸⁵

⁸³ Free local public transport begins at 62 years of age for most of the UK. However, Boris Johnson, Mayor of London, has extended the benefits of free transport in metropolitan London to 60 and above.

⁸⁴ *Financial Times*, February 24, 2013 at <http://www.ft.com/cms/s/0/64b41684-7ea3-11e2-a792-00144feabdc0.html#axzz2M5xEEE1E>

⁸⁵ While difficult to forecast politics, based on recent British history, the Liberal Democrats should remain capable of playing a pivotal role either inside or outside the ruling government but are less likely to become the ruling party.

G. The Future of Italy (weak national identity)

The Italian people identify far more with their local regions than with the state. One of the global megatrends for 2030 is the weakening of the national state nearly everywhere. As the state gets weaker globally, it gets even more frail in Italy. A possible sign of the future is the recent election in Italy in February 2013, in which a comedian turned candidate, Beppe Grillo, won 25% of the vote and 45% from young voters. Berlusconi did better than expected as well, suggesting a real danger that Italy will be unable and unwilling to carry out the necessary reforms to get its economy growing again after a decade of no growth and an even longer period of slow growth.

Berlusconi and Grillo reflect the rise of celebrity politics based on the charismatic and media savvy individual rather than party institutions. The disintegration of the Christian Democratic Party in the early 1990s left a political vacuum that was filled by celebrity politicians like Silvio Berlusconi and now Beppe Grillo.

The pessimistic outlook for Italy since the 2013 election is based on four observations:

1. Europe will be unable to help Italy achieve political and economic reform if Italy becomes ungovernable and/or unwilling to carry out the reforms begun by the technocratic government of Monti that was rejected overwhelmingly by the Italian voters.
2. This in turn delays the recovery of the eurozone.
3. Confidence in the concept of a European community could fade as other countries' electorates, such as the UK, follow with plebiscites driven by emotionalism rather than pragmatism, and
4. Democracy is potentially devalued.

Is the recent Italian election the beginning of a downturn that undermines the economic reform process necessary for Europe to hang together, or is the election merely the last scream of frustration before the reforms start to kick in, and Italy and Europe begin to grow again?

In 2030, it is likely that Italy's state will remain weak, family values strong and thriving, particularly in the Italian Diaspora. Italy itself will not necessarily fragment although it is possible that the prosperous northern regions of Italy will secede. More likely is their continuing devolution of authorities, including taxes, and the rise of equivalent 'southern leagues' calling for greater autonomy of the region around Naples, all at the expense of the Roman capital. The essential political difference between France and Italy is that the French have a strong centralized state based in Paris, an effective rule of law and a sense of French nationalism. Italy lacks all three of these attributes.

The Future of Italy (can it regain competitiveness?)

In the last ten years, Italy's competitiveness has declined both within the eurozone and globally. It has had nearly zero growth for a decade. Several reasons explain this:

Rigid labor markets and lack of pension reform. The basic problem is that incumbents who have permanent jobs with benefits need to surrender some of their security and benefits

to allow for more benefits and jobs to accrue to younger Italians. Just about the only jobs available on entry are contract jobs for fixed terms, usually up to three years, with no benefits and little training offered by the employer. The pension system, which gives inordinate advantages to the older generation with generous payouts, is raising the cost of hiring young workers full time to the extent that unemployment among young working age people is nearly 40% in the first quarter of 2013.⁸⁶

Brain drain. People educated in Italy (scientists, architects, economists, engineers) are leaving the country for better job prospects. Many are leaving for education. In London and Oxford, one sees the *futura classe dirigente*, i.e., the young Italians who have the potential to be the future leaders of the country. They study abroad in the best universities and most do not return to Italy. Where will the young ministers and heads of small and medium size family businesses come from with the brain drain abroad of Italy's best and brightest? Italy will truly turn the corner only when its young talent give up their careers abroad and return home.

Bureaucracy. Bureaucratic red tape, excessive regulations and an inefficient and cumbersome legal system creates barriers to private sector growth and expansion of family companies to medium sized international companies. Like France, it is difficult for companies to grow over about 49 employees without facing prohibitive regulatory paperwork. The smaller companies cannot tap the export markets abroad, especially in emerging markets, because of their size. Not only does Italy lack medium sized companies, but the small family owned companies which had been the backbone of the Italian economy, the second largest exporter after Germany in the EU, are now in deep crisis. As a result of austerity measures, political uncertainty and the consequent lack of business investment and consumer spending, the small companies are going bankrupt at a rate of 1,000 per day.⁸⁷

Made in China in Italy. China has carved out an area in Italy around the city of Prato to create a manufacturing hub of products that are made exclusively by Chinese in Italy. The factories produce goods under a 'made in Italy' label. Prato is in Italy, but the employees are mainly illegal Chinese workers.⁸⁸

Public Debt. The deficit is not the problem for Italy. Rather it is the size of the public debt and the inability of Italy to grow out of its debt, in contrast to other countries with high debt relative to GDP such as the US, UK, Ireland and even Spain.⁸⁹

⁸⁶ Bruce Scott writes that "in addition to demanding high wages, the unions were strong enough to block the downsizing of the labor force that would be needed to boost productivity growth. From the 1970s onward, Italy's economic performance was average at best among its neighbors, *as it borrowed to finance generous public expenditures, especially pensions.* (emphasis added)" See Scott, Bruce R. (2011), Capitalism: Its Origins and Evolution as a System of Governance (Kindle Locations 8560-8563). Springer. Kindle Edition.

⁸⁷ See Liz Alderman, "Italy's travails are hitting small firms the hardest: Backbone of economy is buckling under weight of austerity and policies", International Herald Tribune, March 12, 2013

⁸⁸ Guy Dinmore, Rome correspondent for the Financial Times, has written extensively on the Chinese factories in Prato. Meeting, Rome October 15, 2011.

⁸⁹ Bruce Scott notes one of the main causes of the ballooning of government debt was self-inflicted by poor governance: "Parliament passed new legislation creating the *cassa integrazione* to finance early retirement, thereby facilitating the layoffs at and restructuring of the major firms. The *cassa* wasn't really a solution to Italy's economic problems, however; rather, it was a way to shift the cost of redundant employees off of corporate payrolls and onto the state's retirement rolls. As this happened, Italy's pension and patronage obligations ballooned, with Italian government debt rising from 60% of GDP in 1976 to 120% in 1993, a position twice that permitted by the European Union. Pensions and government jobs facilitated the creation of patronage regimes financed by debt, with the Socialists vying with the Christian Democrats for a share of the

Demography. Italy's demographic prospects are among the worst in Europe with a long period of low fertility among indigenous Italians. It will need immigrants, particularly skilled immigrants to work in the mechanical drawing/high-tech niche industries in northern Italy. Its geographic proximity to North Africa, now going through political meltdown and economic catastrophe, and to Sub-Saharan Africa with its population surge, could spell disaster in the coming decades. Unskilled irregular (illegal) migration could lay siege to the country from the south.

Italy's own north-south divide. Italy is increasingly divided along regional lines. Economically, this has always true, even though the disparity is widening in recent times. As Bruce Scott writes in his landmark book, Capitalism, "Northern Italians are fond of saying that the Third World starts south of Rome....Italy has been one country with two systems in a political and legal as well as cultural sense. While it had one legal system in terms of form, it had two legal systems in terms of enforcement and thus in reality."⁹⁰

The salient aspect is the political dimension of this regional divide. The Northern League (Lega Nord), a political party that controls Venice and Lombardy, is pushing for 'fiscal federalism,' which would allow these richer areas to keep more of their tax revenue. One outcome may be "a Belgium situation" where it is difficult to form a government, and where regions become so strong that they become de facto mini-countries. The poorer southern parts of Italy are dependent on tax transfer payments and subsidies from the wealthier parts of Italy. As northern Italy starts to collect its own taxes, Rome will not have enough tax revenue to subsidize the south.

The black market and government waste and corruption. A sizeable portion of the economy is controlled by organized crime, primarily but not only in the south. It is estimated that as much as 25% of the Italian economy is black market.⁹¹ A Calabria-based group known as the *ndrangheta* is considered the most effective organized crime group in Italy. Where cash is king, the *ndrangheta* is busy funding companies for the Milan World Expo in 2015. Much of the property market in Rome is funded through laundered cash from organized crime. Italian crime groups work together with three main foreign criminal groups active in Italy, the Albanians, considered the most dangerous, the Russians and the Nigerians.⁹²

The two chambers of parliament are large, expensive to maintain and duplicative. An example of public sector waste associated with supporting legislators and their perquisites is the anecdote heard in Rome that a hairdresser for the parliamentarians makes as much income as the US president.⁹³ The upstart 'Grillinos' are serious about reforming the political system inside Italy.

spoils." See Scott, Bruce R. (2011), Capitalism: Its Origins and Evolution as a System of Governance (Kindle Locations 8571-8576). Springer. Kindle Edition.

⁹⁰ Scott, Bruce R. (2011), Capitalism: Its Origins and Evolution as a System of Governance (Kindle Locations 8983-8984). Springer. Kindle Edition.

⁹¹ Meeting with Michael Stuermer, *ibid*.

⁹² Meeting with Rachel Donadio, Rome correspondent for the New York Times, October 15, 2011. For a brief history of the mafia in Sicily, see Bruce Scott, (2011), Capitalism: Its Origins and Evolution as a System of Governance, Chapter 8, entitled, Italy as "One Country, Two Systems."

⁹³ Two Italian views on the outcome of the Feb. 2013 election: One journalist sees the Beppe Grillo and Centre-Left PD reaching agreement in a coalition government on "reforming the institutions (e.g. reducing the number

An economist's formula for growth:

- Complete the reform of the pension scheme that was started in 1995.
- Introduce more flexibility in labor market, at least making it easier to dismiss unproductive employees.
- Change the culture in southern Italy from one characterized by rent seeking (i.e., seeking development subsidies from Brussels or Rome), a poor work ethic, a much higher incidence of disability claims than in the north, to a culture that provides incentives for people to start their own businesses.⁹⁴
- Reduce tax avoidance by making the system more transparent and giving people incentives to obtain invoices. It should be socially unacceptable for so few people in the private sector to pay anything but nominal taxes.
- Italy does not have an alternative to export markets as its internal markets are too limited for its manufacturing base. Therefore, companies should continue to take advantage of the crisis to modernize their production processes and maintain Italy's global brand in the four f's (fashion, furniture, fast cars and food).⁹⁵

Italy's prospects. Italy is a difficult country to predict over twenty years. On the plus side, it has a resilient and educated population and a global Diaspora. It had a decent chance of achieving a balanced budget and restoring the confidence of the markets under the Mario Monti technocratic government. The reforms were having a short term positive effect on market perceptions of Italy. On the minus side, the February 2013 election has erased all of that positive effect and more. One should not project the crisis of 2013 on the prospects for 2030.

of MPs), cutting the politicians' salaries, approving new anti-corruption laws, providing some help to the weakest parts of society (e.g. by extending the minimum wage to short term, part time contracts), changing Italy's role in Europe. As for Europe, leaving the euro doesn't seem to be on ANY agenda; a new role for Italy in Europe would basically mean a tougher anti-austerity voice (such a government would line up with the German SPD, not with Greece's Syriza)." Lorenzo Biondi, email, March 3, 2013.

An Italian academic sees similar political reform as well: "Regarding reforms. I think we might be in for some serious reforms, although most of them won't really be about the economy but about "politics". Electoral law might be changed, reduced money to parties, reduced number of parliamentarians, anti-corruption laws and maybe the anti-conflict of interest (i.e. Berlusconi) laws."

He is more concerned with the conspiracy theory that overlays Grillo's party's ideology:

"Here is a video by Casaleggio the mind behind Grillo. As you see, it is a totally different ideology from the classical ones, an absolute form of liberalism, of horizontal network anti-establishment politics (close to conspiracy theories), and of individualization of politics (something like that of the "pirates" in northern Europe). This new form of ideology, in the context of Italy, is somewhat married with the celebrity politics of people like Grillo. <http://www.youtube.com/watch?v=sV8MwBXmewU> Gregorio Bettiza, email, March 5, 2013.

⁹⁴ The culture of dependency in the South may not be so easy to change. Bruce Scott notes that "an artificially high wage structure, subsidized state-owned enterprises, excess government employment, and generous transfer payments all contributed to a culture of dependency, limiting the incentives for those in the [South] to take advantage of Northern growth and dynamism. Implicitly, Rome's economic strategy exacerbated the region's worst clientelistic traditions by fostering dependence....In the absence of sustained societal demand for far-reaching change, vastly unequal power relationships established in colonial times can carry forward indefinitely." Scott, Bruce R. (2011), *Capitalism: Its Origins and Evolution as a System of Governance* (Kindle Locations 9019-9021). Springer. Kindle Edition.

⁹⁵ Meeting with Alessandro Lanza, economist and CEO of ENI Corporate University. Rome, October 14, 2011.

The most restrained forecast one can make about Italy in 2030 is that the jury is still out as to whether any reforms enacted by a future government will be sufficient to inject much needed flexibility, economic dynamism, and anti-corruption mechanisms into the system in the long run. Italy still faces the demographic challenge of an aging society losing its dynamism and remaining unwilling to grant citizenship to, or otherwise embrace, immigrants.

India, like Italy, has a governance problem and widespread corruption, inefficiency and a slow moving bureaucracy. There is one big difference: In cities across India, one sees wealth creation in both manufacturing and service industries. In Italy, by contrast, the emphasis is on wealth preservation and maintaining the status quo. For those who resist change in order to preserve their positions and entitlements, there is a local Italian saying that 'Italy needs to change in order to stay the same.'

H. The Future of Spain (nationalism)

Governance issues. The political class is losing credibility among the populace due to conflicts of interest and corruption among the political and business elites. This is a relatively recent development given the popularity of political elites during the transition from Franco to democracy and membership in the EU in the 1980s. Political reforms may be more difficult than economic reforms. There is a web of cronyism where regional politicians put their friends on the boards of the regional banks and *cajas* (savings associations). They also award other cronies lucrative construction projects such as toll roads that often have little basis in economic demand.⁹⁶ It is astonishing that Spain has 50 airports compared to Germany's 18 airports servicing a much larger country.⁹⁷

Secessionist Trends. One looming political issue for Spain is the possible secession of the Catalan region from Spain. The leading Catalan politician behind the referendum movement is using the threat of secessionism to obtain a new political arrangement with Madrid similar to the one long held by the Basque province. Under an agreement decades ago, the Basques collect their own tax revenues and spend them locally. Catalan, with its capital city of Barcelona, would also like to collect and retain their tax revenues locally as they feel they contribute more to Madrid than they receive back. The irony is that the Catalans have asked for a bailout from Madrid to cover growing deficit shortfalls caused in part by the same local and regional government corruption that plagues the rest of Spain. The economic benefits to Catalan of secession are less than obvious.

Secessionism is being driven more by cultural, language and identity issues not dissimilar to the ones driving the Quebec secessionist movement in the 1970-90s. Although the current parlous state of the Spanish economy encourages the secessionists, the possibility that an independent break-away Catalonia would ever be permitted by the central government, and then would be able to join the EU as a separate mini-state, is unlikely.

Education. The quality of education in Spain is deteriorating. Some attribute it to doing away with the vocational schools from the Francoist era and allowing all free education through university. An anomaly exists wherein none of the Spanish universities are ranked in the top 200 universities in the world, and yet three of its business schools are in the top 20. This accentuates the growing inequality in Spanish society. One mistake that the central government made during the transition period in the 1980s is to give regional control over education. Much will need to change if the quality of education is to improve as Spain ranks low compared to other EU countries in the standardized PISA scores.

Low fertility and close proximity to North Africa/Africa. In its economic boom years prior to the financial crisis, Spain became a destination for migrants mainly from Latin

⁹⁶ 'Regional governments quickly passed laws to take over the *cajas de ahorros*, then filled the boards with politicians, unionists, friends and cronies. Under their leadership, the savings banks financed or created yet more businesses, agencies and affiliated foundations with no clear goal other than to provide more jobs for people with the right connections.' See Cesar Molinas devastating critique of the political class in *El Pais*, September 2012 at http://elpais.com/elpais/2012/09/12/inenglish/1347449744_053124.html

The author's brother, who just spent a week driving around Spain, says that there are beautiful empty toll roads everywhere that do not seem to go anywhere. Rather than a road from Barcelona to Toledo that goes roughly as the crow flies, the new toll roads zig-zag across medium-sized out of the way cities that add hours to an expensive car ride.

⁹⁷ Meeting with Jose Maria de Areilza Carvajal, Director, Aspen Institute Madrid, October 15, 2013.

America. Moroccans also came across the Mediterranean, and Sub-Saharan Africans came via the Spanish controlled Canary Islands off Mauritania in northwest Africa. In its bust years, nearly a million Latin Americans returned to their homes, but most of the Moroccans and Africans stayed, given the superior condition of their children's schools, health care and overall comparative political stability. Spain has not seen nationalistic, anti-immigrant political parties thus far, as the number of non-Spanish speaking immigrants (i.e., from countries other than Latin America) has been relatively small. As Spain's economy recovers and its indigenous population continues to age and decline due to low fertility rates in the next two decades, both the number of non-Spanish speaking immigrants and current overall tolerance could change.⁹⁸

The Future of Spain (can it regain competitiveness?)

Economy. The real estate and construction industry at the peak of the bubble in the US represented 7% of GDP. In Spain, it represented a much higher 17% of GDP. As a consequence, the collapse of the property sector in Spain was deeper than in the US.

Spain was sailing along nicely with a tripling of GDP from \$10,000 in 1982 to around \$30,000 when the financial crisis hit. Spain's finance minister was satisfied with health of banks as late as 2007, and was wholly unprepared for systemic collapse of the global financial system in late 2008.

Collapse of credit for businesses. Spain's export growth is constrained by lack of credit from banks. According to Olli Rehn, the European economics commissioner, the "EU needs to address the credit crunch with EMU reform to unlock growth." Rehn also mentioned the boosting of the lending power of the European Investment Bank based in Luxembourg for new lending in infrastructure, transport and communication.⁹⁹ There are few signs that the credit crunch will be lifted anytime soon in Spain.

The export story. Exports are the one bright spot for Spain's economy. The paradox of export growth is that while the Spanish economy has been losing competitiveness in terms of costs, prices, and productivity, the recession pushes companies to seek markets abroad. In addition, many young Spaniards are working abroad and sending remittances as in previous economic slowdowns.

Spain's international business presence is quite remarkable. A Spanish company, BAA, operates Heathrow airport in London. Telefonica owns one of the largest mobile telephone companies in the UK, and Santander is one of the largest global banks. Zara women clothes shops are the second largest clothes maker in the world.¹⁰⁰

As Spanish exporters go abroad, will foreign companies return to Spain? The Economist strikes an encouraging note:

⁹⁸ Spain's fertility rate has rebounded from earlier lows, and it is no longer the lowest in the EU. Pedro Robles, Chairman, Fride, Luncheon with Transatlantic Academy, Madrid, October 16, 2013. But the fertility rate will remain well below replacement rate, meaning that Spain's aging trend will continue.

⁹⁹ Policy Network Conference on "Prospects for Revival in the Eurozone – and what place for Britain in Europe?" London, February 28, 2013.

¹⁰⁰ Zara's parent company is called Inditex.

While these giants seek their fortunes in the wider world, foreign interest in Spain is reviving. Renault, Nissan and Ford have all announced plans to invest in car production, encouraged by reforms that let firms undercut national wage agreements. For the past 20 years Europe's carmakers have looked to eastern Europe for cheap labor. But Spain is loosening its labour laws while eastern wages are rising. So Spain is now back in fashion for car assembly—helped by a thriving auto-parts sector.¹⁰¹

Joblessness. It is hard to imagine that Spain's unemployment rate in 2030 will be nearly as high as it is today. Spain's current unemployment of young adults is well over 50%, and the government has belatedly announced a €3.5bn fund to address youth unemployment.¹⁰² Spain has long had a problem of joblessness and for many years was a country of emigration. From the late 1990s until the property market collapse in 2009, Spain became a destination for immigrants from South America, North Africa and Eastern Europe. Since the economy's collapse, a million people have left Spain, 80% of them having recently immigrated to Spain. A good portion of those emigrants were construction workers returning to Ecuador, Colombia and other South American countries. As the financial crisis continues, many architects, engineers and other middle class Spanish citizens are emigrating for opportunities in Germany and elsewhere around the world.

Growth. The long-term future of Spain is clouded by the absence of a blueprint for returning to growth. The economy has shrunk for five quarters in a row, and the feeling in Madrid is that things will get worse. There is an expression in Madrid these days: '2012 will be better than next year. 2013 will be better than the year after.' Recent growth forecasts for Spain from the European Commission are for negative growth in 2013 and anemic growth of less than 1% in 2014.¹⁰³

The critical factor for Spain's long term viability in the eurozone is its ability to return to growth in the next few years. Structural reforms would need to be implemented over a wide array of the political economy including labor mobility, improved education with vocational schools, reforms of the pension, health care and judicial systems, and above all, anti-corruption reform of the political class and its conflicts of interest.

¹⁰¹ See W. Chislett, "The Rise of Spain's International Presence" Realcano Instituto, October 15, 2012. [The Economist](#) also notes that "A handful of multinationals cannot drag Spain out of its troubles. That will take stability in public and private finances and policies to help small and medium-sized enterprises, which are still cut off from credit. Ferrovial, Telefónica, Repsol and the others are building up, but they are still surrounded by rubble." See "Foreign gain, domestic pain: In the rubble, signs of hope", [The Economist](#), March 9, 2013 at <http://www.economist.com/news/business/21573153-rubble-signs-hope-foreign-gain-domestic-pain>

¹⁰² Dubbed the '100 measures', President Rajoy's catalogue of plans have been introduced in an effort to reduce Spain's 55 per cent unemployment among its youth; the measures include

- tax breaks for young freelance workers and companies that hire staff in their twenties.
- lower social security contributions for young autonomous (self-employed individuals)
- unemployment benefit paid to budding entrepreneurs hoping to start their own business
- young interns currently undergoing an official training programme would be offered a contract within four months of completion.

'Spain announces €3.5bn fund to ease youth unemployment' [Viva](#), March 14, 2013 at <http://www.yourviva.com/blog/2013/03/14/spain-announces-e3-5bn-fund-to-ease-youth-unemployment/>

¹⁰³ The European Commission forecasts 1.4% negative growth in 2013 and 0.8% in 2014. Email, W. Chislett, Realcano Instituto, Madrid, March 6, 2013

Looking Ahead. Two Scenarios for Spain

The optimistic scenario is one in which Spain is able to cover its borrowing costs, which stabilizes Spanish credit at lower interest rates. Businesses can borrow again and internal demand resumes. This leads to a return of FDI and risk capital. People from Germany or the UK say, ‘maybe I’ll buy a house in Andalusia.’

With more capital, people begin to invest in new industry that has potential for accelerating export growth, which is one of Spain’s few bright spots. Spain returns to sustainability with 1% GDP growth by 2015. (Note that 1% growth is hardly something to be optimistic about).

The pessimistic scenario is one where spending cuts take their toll on internal demand. A downward spiral ensues wherein the tax revenue does not grow despite increases in value added taxes (VAT) to replace falling income. Falling consumption leads to further bank write-downs that deter investors from abroad. After a few more years of onerous transfer payments to keep Spain afloat, northern European public opinion compels Germany and other northern European countries to pull the plug on Spain.

Resilient Spain. One should not underestimate Spanish resilience. The Rajoy government announced in March 2013 one hundred new measures with 3.5 Billion euros to target youth unemployment. Spain is also not without some comparative advantages. Its Basque region in the north is blessed with an entrepreneurial culture, which may explain that region’s low unemployment. Spain has above average multinational companies spurring Spanish exports, second only to Germany in the EU. One product of Spain having punched above its weight in Brussels in the 1980s and 1990s is the sizeable infrastructure investments made by the EU in Spain. It retains fairly strong family cohesion with three generations of families often living in single households, enabling grandparents to provide free rent and childcare for the young children of working parents. Spain is a cultural powerhouse and a magnet for tourism, and its people are known for their imagination and creativity in adversity. Its people have one of the highest ‘healthy longevities’ in the world due in large part to life style and diet.

Spain has a reservoir of governance resilience saved up from its transition from dictatorship to democracy. The historical memory of the Francoist era should provide Spain with sufficient social unity to get through the next few years of austerity and economic pain. Currently there are no right wing populist parties as in many other countries in Europe. The demonstrations in Madrid against ‘austeridad’ have been in the 1,000-5,000 range, not the hundreds of thousands that would signal widespread dissatisfaction. Most Spaniards understand that they have been bingeing on cheap euro money and that the party has ended.

Spain should muddle through if its people can put up with the structural reforms and internal devaluation. It would benefit Spain if it can have a period of steady and effective governance that mitigates the current disconnect between political elites and the populace, between the regions and Madrid, between socialists and conservatives, between the young and old, and between the comfortable middle class and the poor. The banking crisis, though largely a technical one, has triggered events that will test Spain’s social cohesion and young democracy in the coming years.

I. The Future of Poland (national stability within Europe)

There is one piece of good news in the future of Europe in 2030. Poland is likely to do well. Poland is a young democracy in good shape. For Poland joining the European Union in 2004 was about the country's return to Europe after decades of being forcibly part of the Soviet bloc. Having gone through an extraordinarily difficult 20th century, Poland has put political stability first, maintaining a disciplined approach when given an historic window of opportunity to emerge as an integral part of Europe.

Poland also benefits from good geo-politics. Being situated between Russia and Germany is an advantage in the 21st century even though it was a great liability during the 20th century. Former cold war battlefields like Bulgaria are now economic battlefields, and Poland can compete in its region. Still, much of Poland's future depends on what happens to Russia, its neighbor to the east, and to the EU and Germany facing the west.

Poland sees Germany as its closest ally today and in the future for strategic and economic reasons. Like Germany, Poland will be a big loser if the eurozone fails and the EU becomes weaker. A diminished Europe affects Poland's sense of security from Russia. For geo-political reasons, Poland seeks a strong Europe as a bulwark against an aggressive Russia and instability among its near eastern neighbors, especially the Ukraine and Belarus. As a consequence, Poland wants a seat at the high table in Brussels alongside Germany, France and the other large European countries. It will likely join the euro after the eurozone crisis recedes, as early as 2015, not later than 2018.

The Weimar triangle and Visegrad Four sub-regional bloc. The question for Poland will be how it leverages its power within the core eurozone once it joins. The Weimar Triangle or Weimar Three, comprising France, Germany and Poland, is promising but not wholly satisfactory because of Poland's marginal weight in the troika. Some suggest that Poland become leader of a sub-regional bloc comprising the Czech Republic, Slovakia and Hungary. Known as the Visegrad Four, these countries are on similar long-term economic trajectories.¹⁰⁴ While some economists and activists see a strong role for the Visegrad bloc, most Poles dismiss the prospects of Czechs or other members subordinating their status in favor of the larger Poland. Historically, these countries have not cooperated. Poland is more likely to remain an independent actor in Europe with shifting alliances between the inner core and outer tier countries, though with an unmistakable tilt toward the German center.

Potential clouds. The current ruling government, called Civic Platform, is a center-right coalition that basically seeks reforms in the guise of 'adjustments.' Its incremental approach fits the mood of the country, which (like Germany) does not have an appetite for major changes. The one potential negative for Poland is the nationalist party, Law and Justice, which appeals to the disenfranchised, euro-skeptic and deeply religious constituency. Their prospects are constrained by concentrated support among elderly and rural Poles, two cohorts that are likely to diminish over time. The elderly will be replaced by current middle aged

¹⁰⁴ Conversation with Ryzhard Petru, economist, Warsaw, November 5, 2012. The Czechs and Hungarians were historically more industrialized and urbanized than the Poles, though Poland has surged ahead economically in recent years. In 2030, they are likely to become part of the northern Europe divide or 'hard-working Nords', grouped around Germany. Joined by the Baltic states, they are likely to be economically successful relative to the southern European periphery. All of these countries have fairly disciplined, rule of law-oriented governance with the possible exception of Hungary, whose governing capabilities may deteriorate under the sway of the right wing, nationalist party called Jobbik.

people who are not major supporters of the nationalists. The growing secularization and urbanization of Polish society also means that church-going Catholics are beginning to decline as they have in Spain and Italy in recent decades. The Party, which is led by the twin brother of President Lech Kaczynski, killed in an airplane crash in Smolensk, Russia, has been unable to get more than 35% of the vote, in contrast to the more centrist Civic Forum.

If, however, the German economy drops and Poland sinks with it, one could imagine the nationalist party (Law and Justice) possibly winning a coalition and pushing Poland toward an anti-Russian, conspiratorial, muscular, euro-skeptic and anti-secular direction.

The Future of Poland (competitiveness)

In the fall 2012, the author visited Madrid and Warsaw. The contrast between Spain and Poland could not be sharper. Spain has a banking sector crisis and negative economic growth, noisy Catalan separatist pressures, and a longer term question about where Spain's future growth will come from.

By contrast, Poland's economic prospects are good, though they are now impacted by Europe's slowdown. The flexibility of their labor force and the pragmatic common-sense approach of their government all bode well for their future prosperity and stability. Poland is still enjoying what many people in the country call a "golden decade." Although it is gradually catching today's infection from the eurozone, Poland's GDP has grown by 15.6% since the global recession began in 2008, a period when most European economies contracted.

How did Poland get on track?

First, starting from a centrally-planned economy which went bankrupt in the 1980s, Poland committed itself to the free market. Since the rise of President Reagan and Prime Minister Margaret Thatcher in the 1980s, Polish intellectuals embraced the Anglo-American free market model. The post-Communist state today is lean with fewer than 500,000 civil servants compared to Spain's approximately three million civil servants on the pay-roll as of 2012. The so-called 'shock therapy' in the mid-1990s allowed the state to shed subsidies for big state-owned dinosaurs and spared Poland of privatization-theft by oligarchs seen in Yeltsin's Russia.¹⁰⁵

Second, like Slovakia and the Czech Republic, Poland is part of the industrial supply chain for German companies, especially automobile assembly plants. Poland's economy, with a relatively low paid, but medium to high skilled labor market, is increasingly integrated with German manufacturers. It attracts the highest Foreign Direct Investment in Central and

¹⁰⁵ After the fall of communism, Poland went through the shock therapy of the 1990s, removing subsidies for the big state-owned dinosaurs and, equally important, spawning Polish entrepreneurs out of the remnants of those large companies. The best people were the first to leave voluntarily, forming new lean and mean companies. For example, an engineer buys five machines and takes 10-15 of the best people on the assembly line. Over time, those engineers became innovators with access to European and Russian markets.

Whereas Russia did little to break down big inefficient state companies, the problem of subsidies disappeared for Poland, leading to vibrant entrepreneurial economy. Poland avoided the Potemkin style privatizations of Russia under Yeltsin which created a class of oligarchs. The Ukraine also fell into the oligarchy trap. Even the Czechs privatized their banks in a destabilizing way, losing ten years of progress.

Eastern Europe. Poland's market share of EU exports grows with each EU downturn. It is also gaining in cost competition with Germany.

Third, emerging out of those Soviet era state-owned dinosaurs were smaller more entrepreneurial and nimble manufacturers that have been a driver of Poland's economic transformation. Poland's emerging *mittelstands* have energized the country's exports, especially within the EU. By developing its own export base, Poland is slightly less dependent than its Central/Eastern European neighbors on the fickleness of the global supply chain, and on maintaining the lowest wages.

Fourth, Poland opted for a balanced model of development with pricing stability and economic security. It has put in place a number of safety-valves such as a 'debt brake' into its constitution. Its banking deposit guarantee scheme is among the best in Europe, reflecting a sense of caution learned from the economic turmoil following the 1989 transition. The Poles knew then that they could not fail in this once-in-a-lifetime opportunity to escape their misfortunes. They wisely resisted the temptations of encouraging short-lived bouts of growth based on massive inflows of investments without knowing whether the cash went to productive or unproductive use.¹⁰⁶ Poland also went to great length to address the problem of social and sub-regional cohesion. As a result, its Gini coefficient has fallen sizably in recent years.

Finally, Poland's work force, having been inured to difficult economic circumstances in the past, is hard-working, mobile and flexible. Workers take on second jobs and move to where the jobs are nationally, regionally and globally, only to return home when local economic conditions turn upward.

Prospects for future competitiveness

Innovativeness. Poland is not an advance economy in that it is not yet technologically innovative. Assembling advance products and improving techniques invented elsewhere are not the same as innovating technology. Poland has favorable trends that may allow it to catch up in terms of income per capita to Spain and Portugal. The bigger question is whether Poland can avoid the 'middle income trap' and move up the technology chain to become an advanced exporting economy.

Demography. Like Germany and much of continental Europe, Poland faces an aging population and a low fertility rate. Putting a positive spin on its demographic challenge of low fertility, Poland has an opportunity between now and 2030 to

1. increase women participation in the labor force. Low participation of women in its labor force can change as the government raises the early retirement age for women from age 55 to closer to the male retirement age in the mid-60s.
2. encourage unproductive farmers to move into higher value-added agri-business or leave for cities in Poland and Europe where they can gain skills. An untapped rural labor force can close the working age labor shortage as agricultural workers move to local towns or national cities. Today, 28% of the Polish working population are

¹⁰⁶ Unpublished article, "Spain and Poland: Destiny Twins", Jonathan Paris and Pawel Swieboda, Feb.26, 2013.

farmers but only 3.5% of Poland's GDP comes from agriculture. Poland can therefore realize a significant boost in GDP as it urbanizes.

3. increase immigration from Ukraine and other eastern European countries who fit in with a relatively homogeneous Slavic population.¹⁰⁷ Given the low number of immigrants in Poland relative to the population of Poland, which is close to 40 million, Poland has a larger margin of tolerance. It has the capacity to absorb more immigrants from the East, including from fellow-Slavic countries of the Ukraine, Belarus, Moldova and Russia.¹⁰⁸

Summing up the demographic challenge, Poland has a better chance than other European countries in cushioning its aging population with more women working longer, more young people leaving the farms and gaining the education and skills required to work in cities, and many thousands of eastern European immigrants who will 'invade and become Poles.'¹⁰⁹

The prospects for Poland look encouraging. It is fortunate to have started in 1989 from essentially the bottom and built up a vibrant market-oriented economy. Politically, it has been blessed with pragmatic, common sense decision-making. One example was the Minister of Health's decision a few years ago not to undertake costly mass vaccinations throughout the country for the avian flu, which fizzled out despite initial public alarm.

Poland's young democracy is in good shape. Far right parties have fared poorly in elections. It is less euro-skeptic because there are deeply ingrained historical, geo-political and economic reasons for Poles to want more Europe rather than less.

Demographics. Poland has some cushions against an aging society. It also has a better urban mix than neighboring Czech Republic and Slovakia. In those countries, the mega metropolises of Prague and Bratislava, where many of the VW and other German car manufacturing plants are located, are thriving at the expense of the countryside. By contrast, Poland has 7 thriving metropolitan areas, each with distinct comparative advantages. Warsaw, a city of only 2 million, is the business and government capital but not the dominant city like London in the UK. There is also Wroclaw, Poznan, Katowice, Lodz, Gdansk and the cultural, university and religious center of Krakow. In addition, there are several second tier cities like Szczecin (Stettin) and Bialystok, which are growing.

¹⁰⁷ Traditionally a place where people emigrate, Poland has only recently begun to deal with immigration, and in relatively small numbers. There are 70,000-90,000 Vietnamese in Poland who are thriving. The main source of labor is from the east, with over 300,000 Ukrainians, half illegal. Meeting with Marek Belka, former Prime Minister and currently President of the National Bank of Poland, November 6, 2012.

¹⁰⁸ Immigration looms as an unknown for Poland because it has had such little historic experience with it. While Ukrainians will fill needs in the care, cooking and construction jobs, there are not so many Ukrainians to attract given other European countries' need for similar workers and Ukraine's declining fertility. Inevitably, Poland's move up the economic chain will make it an attractive destination for Africans and South Asians who currently go to Western Europe. The ethnic homogeneity of Polish society, which was a by-product of the tragic decades under Hitler and Stalin, has enabled Poland to avoid some of the ethnic tensions that have befallen the other Central and Eastern European countries like Hungary and Romania. It has far fewer gypsies (15k) than other countries in the sub-region. One can debate whether Poland's continuing ethnic homogeneity is such a good thing. Currently, minorities are being attracted into Gdansk and some other cities. As Sweden discovered, it is not such a bad thing to have some Nigerians and Indians in Stockholm or Warsaw. Diversity can, arguably, make the society more tolerant and outward-focused. Conversation with Pawel Swieboda, President, Demos Europa, November 7, 2012.

¹⁰⁹ Meeting with Marek Belka, *ibid*, Nov. 6, 2012.

Energy. Poland has abundant energy supplies, both in coal and in shale gas reserves. It also has abundant water resources.

What to worry about for Poland 2030?

1. The collapse of Europe. Any diminution of the European political and economic marketplace is a negative for Poland. Although it is fortunately not part of the eurozone during the current crisis, it will eventually join the eurozone, assuming the eurozone survives. Unlike the larger and more geographically remote UK, Poland will likely be marginalized by Europe if it remains outside the eurozone indefinitely.
2. If Poland allows wages to rise and adopts generous entitlements modeled after western Europe, this could become unaffordable. Pension funds go broke and the retired are impoverished because they did not accumulate any meaningful savings. This scenario is unlikely given the automatic brakes that ensure fiscal and monetary discipline.
3. The judiciary fails to reform. This is the one institution that did not undergo reform at the end of the communist regime, partly because of the post-Communist reluctance to interfere with the independent judiciary. The problem is that today's judges are not experienced in regulating a modern economic society.
4. Education mismatch; not enough engineers. The research done at universities is not coordinated with the needs of industry. Business schools churn out marketing persons while there is a deficit of engineers who are needed for Poland's technological advancement. Vocational schools are looked down upon as communist relics, notwithstanding the success of Germany's *mittelstands*, which rely on vocational schools for trained labor.
5. Energy abundant Poland fails to make the transition from coal to natural gas despite having large shale gas reserves.
6. Poland fails to attract enough Slavic immigrants and, as a result of a surge of African and South Asian immigrants, Poland's social cohesion is frayed and populist right wing parties gain.
7. Unemployment not only remains stubbornly high but worsens.

In a November 2012 roundtable on the future of Poland hosted by the German Marshall Fund in Warsaw, the author asked the participants which country they thought would be Poland's closest ally in 2030. The response was overwhelmingly in favor of Germany (5 votes) with the US, France and Turkey garnering 2 votes each.¹¹⁰ Germany's success or failure will have a big impact on future of Poland, which helps explain the informal vote outcome of the GMF Warsaw meeting participants that Germany would be Poland's most important ally in 2030.

¹¹⁰ It is remarkable how far Poland has moved in the last decade from the fervently pro-US 'New Europe,' referred to by former Secretary of Defense Donald Rumsfeld, to a pro-Germany, pro EU stance. Its relations with the US have cooled following two politically costly military engagements in Iraq and Afghanistan for which Poland feels it did not receive America's gratitude.

J. The future of Sweden (challenges to the nation)

Sweden, like the other Nordic countries, has a small population living in an advanced, peaceful and wealthy society. They are likely to continue to prosper through 2030. The Nordic way means societies that are flexible toward work/motherhood, tolerant toward outsiders and trustful of the state, which is seen much more positively than in the US and elsewhere. People trust the state more than they do in Germany or Italy, where the family is the bulwark. Consequently, there is concern about the deterioration of family values.

Individuals are especially empowered in the Nordic states in several ways. Teachers in Finland are encouraged to design their own curriculum for students. It is no surprise that according to the 2012 Legatum Prosperity Index , which measures 142 countries based on eight different factors ranging from good governance, entrepreneurial opportunities to the economy, Norway is ranked number 1, Denmark 2nd , Sweden 3rd , and Finland 7th .¹¹¹

The Nordic countries have positive fertility rates and high labor participation rates among women. They have found a formula for enabling women to combine work with maternity. Sweden and the US have high divorce rates, but Swedish society makes it easy for both parents to be with the kids once they've been divorced. Women are able to work, stay home, divorce or stay married as it suits them without feeling financial coercion to delay having children or returning to work.

One serious challenge that the Nordic countries will face in the future is integration of non-European immigrants. In Sweden, the number of Muslim immigrants may make up as much as 25% of the population in 2030. The fact that the labor participation rate is around 50% for non European immigrants compared to 80% or higher for the rest is problematic in protestant/Lutheran societies that frown on the unemployed and unproductive. There are growing integration problems of asylum holders and other immigrants, especially from Muslim-majority countries. Norway has an even more significant integration problem with Muslim immigrants. This is likely to worsen by 2030 as number of immigrants from Muslim majority countries continues to rise.

As a consequence, euro-skeptic and anti-immigration parties have grown in recent years and will likely stay strong in the future. The True Finns and Swedish Democrats are both concerned about north-south issues and subsidizing southern European countries. They are probably more concerned about the increasing non-European minorities in their cities with enclaves that are becoming parallel cities.

Future of Sweden (competitiveness)

Sweden has been able to trim its bloated welfare state. More widely, the reduction of the State share of GDP in the Nordic countries from 70% of GDP to 50% of GDP in the last two decades has helped stimulate growth. Some see trimming the welfare state as another way of extending the market into the state. The old model is changing. No longer do the large companies generate enough money to support the state, with the exception of Norway's Statoil. Also, people are more demanding and no longer accept direction from above.

¹¹¹ See Legatum Institute web page at www.li.com

Sweden was fortunate to have gone through a painful banking debt crisis in the early 1990s. Without the economic, banking, debt crisis of the early 1990s, Sweden would have been unable to shake off its complacency and institute hard reforms and budget discipline that have trimmed the state sector and made it more efficient.¹¹²

There are concerns. Some say that 50% is still too high for public sector share of GDP if Sweden wants to compete in emerging markets in Asia. On the other end of the spectrum, some see limits on how much the state can privatize and squeeze savings out of schools and hospitals.¹¹³ Swedes have high private debt, which could turn into a bubble, in part because the feeling of social and financial security provided by the state makes people adventurous and willing to buy another apartment.

Vocational schools are not so popular, which creates shortages in manual skilled labor like carpentry as everyone wants to go into high-tech. Denmark is the best at matching industry needs with schools training by ensuring close feedback between business and the state education organs. Denmark is pioneering the ‘intelligent state’ where they learn how to make business out of things that they want to do anyways for political and social reasons.

The new Nordic Model is still characterized by a large state, but relatively little product market regulation and strong adherence to open markets and free trade. In the Danish version of the model, moderate employment protection legislation – making it relatively easy to hire and fire – is combined with a generous welfare safety net, often referred to as ‘flexicurity.’¹¹⁴ A possible concern is the growing prosperity of the capital cities, like Stockholm and Oslo, at the expense of smaller cities that are stretched out along difficult terrain and long distances.

Looking ahead, Estonia, which is now a Baltic country, is likely to be part of the Nordic community. Its capital, Tallinn, is close to Helsinki, and Estonia shares an etymological connection with the Finns. More relevant, companies like Skype suggest an entrepreneurial flair that makes them compatible with Finns, who are leaders in the region in start-ups.

¹¹² Sweden was inoculated from the current debt crisis by their own 1991-94 debt crisis. They have been very careful to keep government spending in check and domestic banks solid. The Swedish finance minister also makes the point that being outside the euro fosters discipline: “Being an outsider [of the euro], you must make sure your competitiveness and public finances are in order. We have had to impose on ourselves a self-discipline that euro countries did not feel they needed. If you know the winter will be very cold, you have to ensure the house has been built well. Otherwise you will freeze.” “Sweden and the euro, Out and Happy,” *The Economist*, Dec. 3, 2011 at <http://www.economist.com/node/21541032>

¹¹³ *The Economist*, Special report, February 2, 2013, at <http://www.economist.com/news/special-report/21570831-generous-welfare-state-does-not-cost-earth-more-less>

¹¹⁴ See Graeme Leach, *Economic Lessons from Scandinavia*, Legatum Institute, 2011, p. 3, 10

K. The Future of Norway

One country in Europe where the welfare state has a good chance to continue into 2030 is Norway, which the author visited in 2011. It has a small population of 6 million, a culture that is anti-hierarchical, a nationalism that (atypically) arose historically from a liberal tradition, a sense that redistribution to reduce inequality is part of being Norwegian, and a windfall from the development of the North Sea oil and gas finds of the 1970s. Statoil, the national oil company, is a textbook example of how to exploit petroleum reserves to maximize the growth of subsidiary industries, especially along the western coast of Norway. The sagacious plan to place the oil revenues into a trust fund for future generations gives Norway financial security that is the envy of other larger countries, including Sweden.

The Norwegian ethos of egalitarianism confronts immigration.

A reputable Oslo-based business advisor expressed concerned that immigration, especially immigration from non-European countries, is imposing a welfare burden that will lead to public deficits in the state budget by 2025 and force the government to spend the corpus funds in the North Sea oil trust.¹¹⁵

The population of immigrants is growing. Out of 600,000 immigrants, 450,000 are foreign born and 150,000 are children born in Norway. The immigrant population is growing 50,000 a year at a rate of 8%. At that rate, Norway will have in 2025 one million immigrants or 20% of the entire population, twice the 10% that immigrants make up of the population in 2010.

His concern is not the usual cultural clash narrative that most anti-immigration Europeans emphasize.¹¹⁶ Rather, his concern is an economic one. Most immigrants from non-western countries and their offspring are underperforming in schools and in the work force, creating a deficit in the labor needs of Norwegian employers. The Norwegian social system is based on high participation in the work force. Almost everyone in Norway is either paid to work or paid by the state not to work. Unlike Germany, there are few housewives.

Norway's productive sector requires high labor competency. The reward for this investment in human capital is a highly competent and productive work force. The economy discourages low-wage jobs and encourages automation in Norway, leaving few jobs for unskilled grocery baggers and parking attendants.

Immigrants, by contrast, often have lower competence and no language skills, rendering many of them unemployable.¹¹⁷

¹¹⁵ Baard Meidell Johannesen, <http://blogg.nho.no>

¹¹⁶ Hege Storhaug, founder of Human Rights Services, and a journalist who has exposed the government of Norway's fecklessness in the name of cultural multiculturalism in acquiescing in crimes committed within immigrant communities, particularly, the honor killings and gender repression prevalent among the Pakistani communities in Norwegian cities and towns, offered four scenarios for the future of Muslims in Norway:

Scenario 1: Integration through Education

Scenario 2: Backlash, or what she calls, a Norwegian awakening.

Scenario 3: Subsidies of Muslims are reduced, leading to protests and violence against a weakened state.

Scenario 4: Self-governed areas under Sharia law emerge in Muslim neighborhoods, beginning in the UK and spreading to Rotterdam, Oslo, and cities in France and Germany, stoking right wing nationalist groups and ending ultimately in the possibility of civil war. Meeting with Hege Storhaug and Bruce Bawer, author of "While Europe Slept" and "Surrender", Oslo, March 1, 2011

¹¹⁷ Norwegian citizens are required to contribute to their universal health system the equivalent of \$8,000 a year or 10% of GDP. The higher unemployment percentage for immigrants means a higher percentage of them are

He ranks immigrants by country of origin in terms of level of competency:

1. Swedes – same language as Norwegian
2. Germans- largely specialists
3. Poland and Balts- hard working
4. Viet Nam - mainly the boat people (asylum). Strong focus on education
5. Iranians- tend to be more educated (asylum)
6. Pakistanis who came in the 1970s as guest workers
7. Iraqis, mainly Kurds (asylum)
8. Somalis who came recently (asylum)

Immigrants from Muslim majority countries have the lowest education among immigrants except for Bosnians. Vietnamese have a high rate of labor participation, good work ethic, and strong pro-education cultural values. Second generation immigrant offspring from non-western countries in general and Muslim majority countries in particular are doing less well than the indigenous Norwegian majority. Fifteen-year-old immigrant children are one year behind the majority in reading and writing skills. Paradoxically, Muslim families have more high school drop outs and, at the same time, higher university participation than their indigenous Norwegian cohorts. Part of the explanation is that Muslim boys tend to drop out of high schools and girls tend to go to university and even medical school.¹¹⁸

As in France, generous welfare state subsidies put upward pressure on the minimum wage in order to incentivize welfare recipients to join the work force. The aggregate level of the social benefit package provides an implicit minimum wage. He sketched a simple graph which shows that surplus from oil fund investment income from 2011 to 2020 will be eaten up by the welfare budget deficits beginning in 2020 so that by 2025, all of that previous surplus will be spent covering deficits. Not later than 2025, Norway will have to begin spending the oil trust corpus to fund welfare state deficits.

The bottom line for Norwegian employers is competency. If one extrapolates into the future, Pakistanis, Moroccans, Turks and Somalis appear to be a continuing drag on the Norwegian economy. The burdens of an immigrant community growing at 8%, combined with a rapidly growing elderly native population and a high ration of person on disability schemes, could overwhelm a welfare state even as rich and endowed with strong governance as Norway.¹¹⁹

unable to contribute to the state health system, further undermining the solidarity between taxpayer and health services beneficiary on which the Nordic system of high state trust is built.

¹¹⁸ A similar gender difference in education performance is seen in East Birmingham, UK, where Kashmiri, Pakistani, and even Somali girls, in contrast to boys, want to work, go to college and be successful before marriage. David Page, former head of Special Branches, Birmingham Police force, in email dated March 26, 2011. Curiously, 60% of female Norwegian Muslim medical students do not go on to become doctors. Having completed medical school, which is free in Norway, they opt for traditional marriage and becoming housewives. Ms. Hege Storhaug, a human rights activist, sees the medical degree as a way for Pakistani women in Norway to increase the prospects of attracting a better husband. Meeting with Hege Storhaug, Oslo, March 1, 2011.

¹¹⁹ Work participation rates as of 2009 for Norway. 76.4% for non-immigrants, 63.5% for immigrants as a whole. 31.9% for Somalis at the bottom. If the numbers are age-adjusted, the differences will increase – the immigration population is younger than the natives, and should therefore have a higher participation rate.

Conclusion

Europe is showing signs of greater divergence even as it tries to come up with new mechanisms of convergence. Three gaps are emerging: the gap between the European elites and the voters; the gap between states within the EU; and the gap between competing European visions and projects.

Regarding the first gap or the so-called 'democratic deficit,' the EU is pushing fiscal integration from the top down as a technocratic solution to the euro-zone crisis. Yet this does not have the full assent of the national electorates of the northern countries or even the southern ones. The EU is a democracy without a demos, possessing a parliament without a people. Fellow-feeling resides at the level of nations, and national politics either ignores the EU or blames Europe for their problems. It is not a bad bet to be pessimistic about Europe's future. According to this scenario, national publics are growing ever more Euro-skeptic because of a perceived 'democratic deficit' between them and unelected EU functionaries, who are forcing them further down the road of integration. This will lead to an even greater backlash against European integration.

The result is functional integration by the elites and growing detachment and alienation among the masses, with the two strata pulling in different directions.¹²⁰ The EU is becoming an elite shell and will stall in the years ahead, with all attempts at further integration derailed by 'no' votes against treaties unless they are explicitly necessary to avert a crisis - as recently with the Irish vote. France and the UK are particularly susceptible to campaigns for no-votes against further transfers of sovereignty to Brussels. Germany, once backbone of European integration and federalism, is almost certainly going to become more sour and less idealistic as they are compelled to pay to support the weaker members.

The second gap is increasing tensions between states within the EU. France and Germany are no longer joined at the hip. As Timothy Garton Ash writes, Germany and France are no longer the perfect partners they had been before 1990, *when Germany was the engine and France was at the steering wheel*.¹²¹ Germany insists that expenditures of fellow eurozone countries be centrally monitored if liabilities are going to be shared. France, by contrast, wants to put brakes on further fiscal compacts and political unions until there is real money on the table. France wants economic stabilizers and transnational social security whereas Germany wants sanctions with teeth for those countries whose debt exceeds fiscal guidelines. France seeks to represent the cause of solidarity with the club med countries, calling for more growth and less austerity. Germany presses on with austerity as a prerequisite for and enabler of future growth.

The UK is diverging from continental Europe in a steady path toward a semi-detached status or even an exit from the EU. As France and Germany seek greater monetary union within the eurozone, the UK worries that London's pre-eminence as a financial center might be eroded

¹²⁰ An extreme version of the disillusionment with political elites in France is articulated by Dominique Moïse in "Hollande must heed lessons of Louis XVI," *Financial Times*, April 9, 2013 at <http://www.ft.com/cms/s/0/c452f694-a038-11e2-a6e1-00144feabdc0.html#axzz2QBpaRuar>

¹²¹ Timothy Garton Ash, "Can Europe Survive the Rise of the Rest," *The New York Times*, Sept 1, 2012 at http://www.nytimes.com/2012/09/02/opinion/sunday/can-europe-survive-the-rise-of-the-rest.html?_r=1&emc=eta1

by onerous eurozone financial regulations. More fundamental is the institutional conundrum between eurozone insiders led by Germany who prioritize eurozone interests and the disparate group of outsiders in the second tier, who feel that they must ratify what the eurozone countries decide. The UK is in a difficult spot. It will not be happy with the loss of influence within the EU in a two-tier Europe. At the same time, most Britons will not accept a go-it-along approach in which they become another Norway or Singapore.

Then there is the north-south divergence over immigration. The one trigger for a break-up in the future might be a dispute over leaky weak points on the European perimeter (like Greece, Italy, and Spain) that allow non-European immigrants into Europe because of incompetence or corruption or lack of manpower.

Finally, there is tension between new accession countries in central and eastern Europe like Poland which receive subsidies for infrastructure development and those like the UK which want to freeze the EU budget. Some countries like France receive subsidies for their farmers through the Common Agricultural Policy, and yet remain net contributors of funds to countries like Poland. As the recession continues, divisiveness grows, compromise becomes more difficult, exits become increasingly attractive, and the idea of Europe suffers.

The third gap is competing European visions and projects. As Europe turns inward and focuses on deeper integration, what will happen to other European projects like deepening the single market, pacifying the European continent or projecting outwards the vision of a potent global Europe that can compete with China, India, the US and other global neo-giants? It is better to be a giant of 500 million than a middle country of 30-80 million. And yet, the temptation for individual European countries to forge bilateral relations with countries outside the EU is becoming greater. One reason that Germany's current account surplus remains high despite the collapse of imports of Germany goods by other eurozone countries is Germany's increasing exports outside to emerging markets. The bilateral temptation will weaken and may even undo global Europe.

These three gaps did not appear overnight. Europe had lost much of its luster because the original drivers for unification have dissipated. Those who remember the Second World War are now in their 80s and 90s. Anything as ominous as the Soviet threat is not likely to emerge in a post-Putin Russia. After Europe acquiesced in Germany's reunification, Germany has become less enthusiastic about the European idea and now behaves more like the sovereign country that it is. Merkel will not defer to Hollande at the steering wheel. Above all, the economic crisis for Europe, now four years on since the collapse of Lehman, means that for many people Europe no longer means a rising standard of living. Now when people say Europe, the image that comes to mind is of a region heavily indebted, aging, uncompetitive and in perpetual crisis.

Yet the breakup of Europe is still difficult to conceive. Young people have grown used to inexpensive 'Easy Jet' travel from one country to the next without pre-EU passport controls, multiple currencies and restrictions against foreign labor. And not only are the young people pro-Europe. German elites are convinced that the crisis demands more Europe, not less, and they may have the economic power to achieve more Europe. Just two years ago, few would have thought that Europe would be on such an ambitious path toward economic, fiscal, monetary and political union. The reason for this dramatic movement is that the alternatives are unbearable.

What will Europe look like in 2030?

European idealists see a European Republic or *res publica* superseding the nation-state, which they believe will become an historical artifact. Meanwhile, from below, they envision the nation-state being undermined by regionalism to produce a 'Europe of the regions'. A diluted Germany allows Bavarians to assert their dual European and Bavarian identities. Catalans feel more European than Spanish. The Scots prefer to be part of a larger European Republic than an English-dominated United Kingdom.

Is this the right vision for the wrong era? The timing for promoting the eclipse of the nation could not be worse as the economic recession spurs national employment and industrial protectionism. Banks are mainly lending within their sovereign state. Stepping back from the current economic malaise, one can see a wider panorama in which demography is central. Europe's birth rates have been below replacement for nearly half a century and will continue in this direction in the decades to come. Native white populations will get older and smaller - dramatically so in some cases such as Italy, where the native white population may be only a quarter of its present size in a hundred years. This birth dearth has been made up by immigrants and their children, with all the attendant social conflict that brings.

Populism and nationalism will grow rather than shrink as tensions with immigrants increase. Western European cities are likely to have large neighborhoods consisting primarily of minorities and, in many cases, Muslims. These enclaves will contain few indigenous Europeans. This may lead entire cities or regions - Brussels, London, Paris - to be seen as foreign colonies, which will be exploited by populists, much as was the case in the US between 1890 and the 1920s when the anti-Catholic APA and Ku Klux Klan were at their height. Curiously, it was the Depression which dampened down Protestant ethno-nationalism in the US as the supply of immigrants slowed and people turned to pocketbook issues. So too in Europe today. Far right populist parties are likely to gain at the expense of the mainstream parties which fail to attract young people. Global competition will put pressures on the welfare state and create tensions between those who want to keep their entitlements while worrying that their jobs will move abroad, and, on the other side, the globalized capitalist elite and their well-paid, mobile knowledge workers.

Europe is aging rapidly, and many countries will be on their way to having a third or more of the population aged over 60. The economic slowdown permits employers to stretch their existing employees, but as this situation lifts there will be a ratcheting effect whereby rising demand for labor from recovery is accompanied by rising worker demands for more money or shorter hours as they acquire more alternatives to their current job. The net effect will be an acute labor shortage which will lay bare Europe's dearth of young workers and the rising pensions and welfare bill caused by an aging population. Employers and governments will clamor for cheap immigrant labor to remain competitive, especially in services, construction, agriculture, elderly care and other labor-intensive sectors which natives shun. At the top end, they will demand talented IT workers and scientists from Asia. When the economic crisis lifts, the cultural crisis will reassert itself with force.

At that point, the demographics of Europe will require many countries to come up with a migration policy that attracts qualified and skilled migrants. Since a finite number of skilled migrants are being lured by many countries all over the world, a large bulk of migrants

coming to Europe will be unskilled Africans and South Asians. Migration does not spare those countries with exceptional (on the high side) fertility rates, like the UK, France, Ireland and the Nordic countries. France and the UK already contain large numbers of immigrants from North Africa and Muslim South Asia, with accompanying ghettos, economic disparities and social tensions. Native whites will vociferously oppose immigration, yet the right kind of immigration may be vital for Europe to grow. This suggests two paths: the first involves a US-style society with high immigration, rapid economic growth and increasing integration. The second path points to reduced immigration, government deficits, slow growth and stalled or reverse European integration. Of the two scenarios, the second is more likely.

The democratic deficit will be difficult to overcome, slowdown or no slowdown. Populist parties have three different targets, globalization, immigration and euro-skepticism. Often Europe is seen as the source of all three. The saliency at any given time of at least one of those targets makes it difficult for Brussels to gain the legitimacy it needs to succeed in its stated aim of 'ever closer Union.'

Will there be a eurozone and a European Union in 2030? Perhaps. Will it be a vibrant economic engine with a generous social security cushion? It is hard to see how, given the prevailing demographic, economic, social and political trends.

Chapter Summaries

Chapter 1: The Demography of Europe

Europe is undergoing demographic upheaval. Nearly half a century of below-replacement fertility rates has led to rapid population aging and, as of 2005, absolute population decline. Though birth rates appear to have risen since the 1990s, this growth is largely illusory, and consists of a halt to the rise of women's age of having their first child. Moreover, the financial crisis has led to a 10-20 point drop in most country's total fertility rates. The pace of population decline will accelerate: 25 million will be lost from Europe (including Russia's) population by 2030, and a further 55 million between 2030 and 2050. Some societies in 2050 will contain populations in which over 40 percent are over age 60, and most will have 30-40 percent aged 60 and over, a doubling of the figures of today. Southern and Eastern Europe will be worst affected. Population aging will hit military commitments hardest as dependency ratios soar, budgets are skewed toward welfare spending and military personnel costs skyrocket.

Western Europe's economic performance may come through better because the high human and economic capital invested in Europe's seniors can offset population aging. For now, the economic crisis has eviscerated the demand for labor and permitted firms to stretch their employees rather than hire, thereby masking the long-term aging problem. Once economic normality resumes, the crisis will burst to the fore as many firms will face the double-whammy of hiring more workers to meet demand and adding extra workers in order to reduce the burden on existing staff who will no longer be content to work extra hours in a buoyant labor market. The crisis thus allows Europe to appear less demographically challenged than it will be in the long term.

Chapter 2. Immigration to Europe

In Western Europe, immigration has more than made up for population decline and will continue to do so into the future. However, native decline coupled with immigration has produced a new set of problems related to what demographer David Coleman terms a 'Third Demographic Transition' toward wholesale ethnic change. Ethnic majorities of over 90 percent are in decline while the proportion of ethnic minorities is set to triple between now and 2050.

Net annual immigration to EU countries from outside the EU is about 1 million. One strong driver of immigration is the presence of networks of co-ethnics in the country, who can provide the financial support, social networks, local information and even marriage partners for newcomers to establish themselves. Thus a disproportionate number of immigrants to Germany, the Netherlands and Belgium are Turks and Moroccans, while those from Pakistan and Bangladesh favor Britain, and Somalis and Iraqis find their way to Norway and Sweden.

The fastest aging societies - Italy and Spain - have admitted the largest number of immigrants. Spain, which contained fewer than 200,000 foreign-born as recently as 1985, now has 4 million non-EU born residents and another 2.2 million EU-born. In 2009 alone, over 300,000 entered Italy. Both governments and employers organizations seek to increase the supply of immigrants to achieve lower labor costs and higher productivity. Human rights laws make it difficult to discriminate against particular ethnic groups or world regions, or to

regulate spousal and family reunification or deport those with refugee claims. The economic slowdown has dried up the inflow, but when economies return to strength, that flow will resume with a vengeance. All of which affirms the idea that the economic crisis has allowed for a pause in Europe's cultural crisis. Illegal immigration may become a larger issue in the future as land routes from Sub-Saharan Africa through to the Balkans develop. This suggests that as Europe ages, it will increase its immigration. In Europe, immigration is concentrated in the west, despite an increasing flow of central Asians to Russia, and Russians and Ukrainians into Eastern European EU countries.

Chapter 3. The Demography of Muslims in Europe

There are an estimated 15 million Muslims residing in Western Europe. In most west European countries, Muslims comprise between 2 and 6 percent of the population. While the proportion of minorities in the US will increase from a third to a half (a 50 percent increase) by 2050, the Muslim population will triple from 3-5 percent to 10-15 percent in Western Europe. The rate of change is therefore much more dramatic and unprecedented in Europe, and will be especially marked in the urban areas where the overwhelming majority of Muslims reside. The speed of Islamization is likely to accelerate beyond 2030. This means that most large western European countries will be between 10 and 15 percent Muslim in 2050, and Sweden may approach 20-25 percent. But a 'Eurabia' scenario in which Muslims are a majority is unlikely even in 2100 due to declining Muslim birthrates in Europe and abroad, and growth in the non-Muslim minority population.

Muslim immigration will be difficult to reduce. Europe's native population is aging and declining, with a soaring ratio of retirees to workers whose economic effects will become much more apparent after 2020. This will prompt employers' organizations to push for further economic migration. Also, chain migration and illegal immigration are difficult to control in liberal societies. So the flow of roughly 250,000 Muslims into the EU each year will probably continue. It sounds like a trickle, and at 0.5 percent of the EU population it is, but remember that the great wave of Latino immigration to the United States since 1970 only averaged 1 percent of the total per year and has transformed the American population.

High birthrates will drive Muslim growth even in the absence of immigration, though Muslim birthrates are coming down. Consider Austria, one of only four countries (along with Switzerland, UK and Slovakia) which ask a religion question on the census. The Muslim total fertility rate in Austria in 1981 was 3.09 children per woman as against a population average of 1.67. In 1991, the ratio was 2.77 Muslims to 1.51. In 2001 it stood at 2.34 Muslims to 1.32. Thus even as Muslim fertility declined, the continued plunge in the fertility rate of the dominant Austro-German ethnic group has maintained differentials in favor of Muslims as a percentage of the population. However, we expect Muslim birthrates to converge, even if not completely, with native white populations. The TFR of immigrant populations of North African and Turkish descent is often *higher* in Europe than at home. This is especially true of Turks and Moroccans in Belgium. Why might convergence not occur? Religious women of all faiths have more children than the nonreligious. Among Muslims in Europe this is especially true: religious European Muslims are nearly 40 percent more likely to have two or more children than the least religious European Muslims even when controlling for age, marital status, income and education. Muslim women tend to be more religious than others, and hence will probably remain more fertile on average.

There is no evidence of Muslim secularization in Europe. Secularization can turn Muslims into secular Europeans, but in contrast to the sharp decline in Christianity, nothing of the kind has happened among Muslims. In Britain, attendance at mosques now exceeds attendance at the (established) Church of England. One exception to the trend of Muslim resistance to secularization are French Muslims, specifically Algerian Berbers. French Muslim secularization is important given that France has a much larger percent (5.7%) of people with origins from Muslims countries than any west European country. Muslims who are secular intermarry and vice-versa. Generally speaking, intermarriage with a secular partner is a prelude to secularization. Looking across Western Europe, intermarriage rates are lowest among Muslim ethnic groups, averaging just 8 percent. Moreover, the second generation displays only a marginally higher level of intermarriage than the first, an increase from 6 to 10.5 percent. Only Algerian French men, half of whom married out in 1992, constitute a major exception to the rule of low Muslim intermarriage. Resistance to assimilation among Muslim ethnic groups gains strength because many Turkish, Pakistani and Moroccan children, in particular, are pressured to marry spouses from their home countries.

The sharp end of demographically-driven social change is first experienced in urban areas, which tend to receive most immigrants, especially in the primary schools and maternity wards of hospitals because new populations are often younger and more fertile than the aging native population. The urban effect is multiplied by the younger age structure of minority populations. For instance, 1 in 5 UK births is to a foreign-born mother, and in greater London, the proportion is 1 in 2.

Islam gains power by serving as a badge of identity, regardless of its spiritual appeal. As noted in previous ONA studies on Muslims in Europe, second-generation Muslims feel detached from their ethnic roots but also rejected by the white majorities in their nation-states. This identity vacuum makes the option of Muslim identity much more enticing. A British citizen of Pakistani/Kashmiri origin may not feel very Pakistani, Kashmiri or English, but he or she may feel very *Muslim* in terms of cultural identity. One does not have to be especially religious to cheer for 'Team Islam.'

Chapter 4. White Flight? Residential Segregation in Europe

Ethnic segregation has been linked, in study after study, to greater levels of ethnic conflict, social tension, inequality and polarization. While minority movement is one part of this equation, white behavior is arguably more central in the long run because studies reveal that whites are least willing to live as a minority in what they consider to be 'their' homeland. What can we learn from the growing body of research on ethnic segregation - and 'white flight' in particular - in Europe? Overall, we find that minorities are likely to move out of their zones of concentration to a large extent because such areas are also poor, but whites are not going to take their place, and will instead be seeking whiter areas in which to settle. Thus minority population growth is predicted to drive the deepening and expansion of minority zones, pushing whites further out. Minority dispersion to neighboring inner suburbs will be insufficient to produce spatial assimilation - especially in the case of Muslims, but also for other non-Christian groups with high endogamy and a preference for residing near co-ethnics. Muslims will also grow in their areas of concentration due to a young age structure and higher birthrates, adding to the segregation problem.

Chapter 5. Backlash: White Ethnic Nationalism in Europe

Dominant white ethnic groups still account for close to 90 percent of the population in most European countries. Despite the prominence of Muslim issues, most Europeans view their cultural politics through the lens of ethnicity and race. The increasing dissonance between ethnicity and the nation-state caused by the growth of minorities is what has ignited the rise of the far right since the mid-1980s. Far right support has tripled in most European countries since the mid-80s in response to higher immigration and the internal growth of nonwhite populations. In order to undercut or co-opt the far right, both the center-right and the center-left has criticized multiculturalism and talked tough on immigration.

However, the European majority and the liberal middle classes are reluctant to endorse a nakedly racial version of nationalism. Islam provides a useful foil in that it permits liberal-minded people to justify taking a stand against immigration for 'rational' reasons of security and 'liberal' ones such as protecting freedom of speech, women's rights and gay rights.

There is certainly evidence of anti-Muslim politics and Muslim counter-mobilization. During 2004-5, the Madrid and London bombings, Van Gogh murder and Danish Cartoons controversy raised anti-Muslim sentiment to a fever pitch. Since then, things have cooled a bit, though anti-Muslim politics have continued, most dramatically in the Netherlands where Geert Wilders has won over 20 percent in local elections.

To the extent Muslims are stigmatized, they may develop a siege mentality and retreat even further into communal isolation and parallel lives, which would worsen economic performance. However, this scenario is deemed less likely. The best chance of it happening is in Belgium, Denmark, Norway and possibly Germany, where most minorities are poor and Muslim. Yet even here, there is talk of diversifying immigration to attract 'skilled' (i.e. non-Muslim) entrants. This would dilute the white-Muslim divide.

The success of Geert Wilders in the Netherlands as well as the stir created by Thilo Sarrazin's book in Germany, may be harbingers of things to come. So-called Counter Jihad groups like the English Defence League (EDL) are springing up and seeking to rally support by claiming to be defending western freedom against Muslim groups who seek to stifle free expression and enslave women. On the other hand, most far right activity focuses on race and immigration, and white nationalists have generally not been willing to broaden their tent to include non-Muslim minorities like Hindus, blacks and those of mixed race. Yet these non-Muslim minorities are often larger than Muslims, and will probably grow just as fast - in part because European countries are discussing the need to seek 'skilled' immigrants, which will mean more Indians and Chinese and fewer Muslims. In a plural Europe, 'pluropa', it is harder to focus white anxieties solely on Muslims.

The fact that white nationalists are targeting all minorities means that even as they grow, Muslims can find allies within a broader anti-nationalist movement that encompasses all minorities and the white left. They can appeal even to the liberal middle classes in the name of Islamophobia and racism, all of which blurs the neat white-Muslim polarization and deflects the force of anti-Muslim politics. This should limit the extent to which Muslims feel targeted and moderate the extent to which they are driven into isolated worlds. Thus, the rising white backlash is not likely to exacerbate Muslims' net drag on the European economy.

Chapter 6: Muslims and Europe's Economic Performance

The Muslims of Western Europe are seriously underperforming economically. They are more than twice as likely to be unemployed than native Europeans and perform worst of all immigrant groups. The good news is that the second generation is better educated than their parents. In some cases, such as Britain, they are doing better than whites at high school and university. However, this success has not translated into much improved economic performance. Why?

The second generation is retaining or strengthening its Muslim identity, which has been proven to lower their economic performance. Furthermore, Muslims are becoming increasingly concentrated in Europe's major cities as white residents leave high-minority areas and are replaced by immigrants. This may make it harder for Muslims to integrate in the future as they will have fewer contacts with the host society. Segregation may also pose security risks as Muslims lead 'parallel lives' to the host population. Meanwhile, the ethnic majority is responding to Muslim and minority growth through both anti-immigrant voting and 'white flight' from high-minority urban areas. Fewer have gone the extra step and flown abroad. Emigration to the New World has increased slightly in the 2000s, but this is not yet a significant development: North American and Australian immigration figures reveal that arrivals from Europe have been relatively modest and stable in recent decades.

It seems that a combination of Muslim attitudes towards women's employment, residential and social segregation and host society discrimination is lowering Muslim workforce participation. Muslim economic problems are especially serious in continental European countries from Scandinavia to France, where strong welfare states and unions coupled with informal networks and inflexible labor markets make it harder for newcomers to enter the formal labor force.

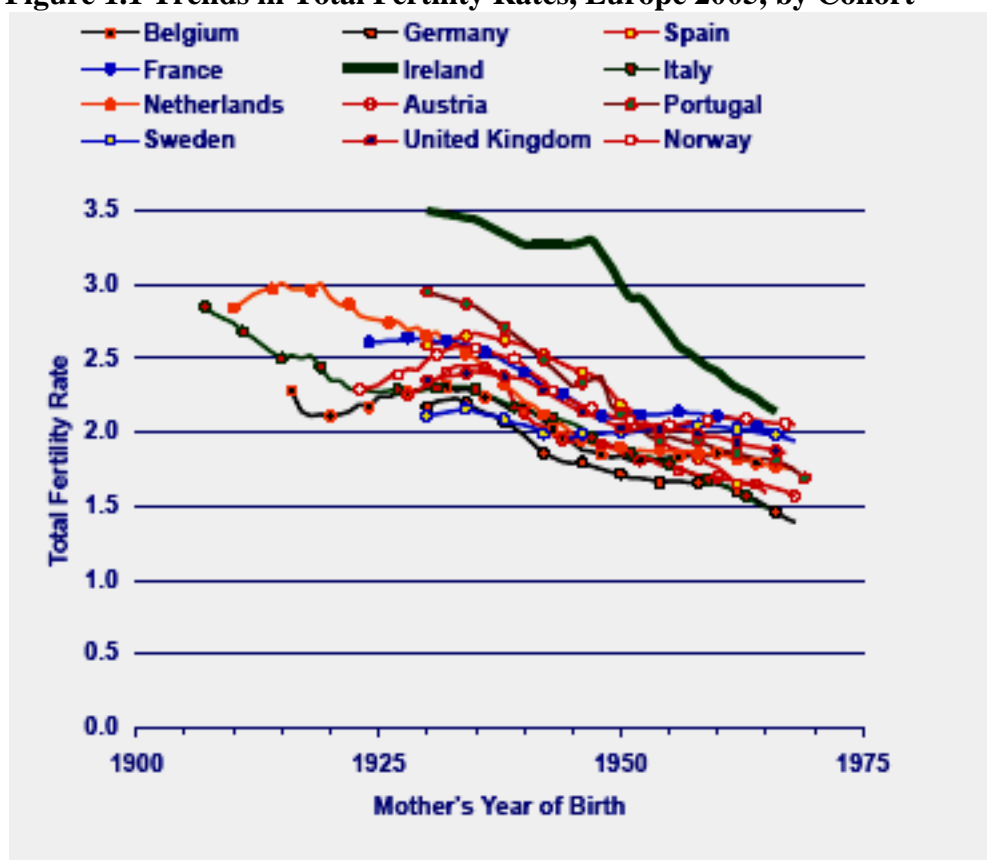
What is the net effect of Muslim growth on Europe's economy? On the one hand, some argue that an aging Europe needs the vitality of a young population like the Muslims, who will do jobs that native Europeans spurn or will only consider for a much higher wage. However, the fact that so many European Muslims are out of work and heavy users of the welfare state means that their net contribution is negative. In the United States, immigration has a broadly neutral effect on GDP per capita because even though immigrants take more from the state than they pay in taxes, they have a high workforce participation rate and are paid less than their productivity. In Europe, by contrast, immigrants from non-western (mainly Muslim) backgrounds are a large net drag on the public sector, equivalent, in the case of Germany and Denmark, to nearly 1 percent of GDP per year. This number will rise as the proportion of Muslims increases, but is moderated by the increasing workforce participation of the second generation of Muslims. The two trends appear to have balanced themselves out in the past decade or two. If this continues, then Europe faces a future 'Muslim tax' which will slow growth but will not bankrupt the welfare state.

END OF CHAPTER SUMMARIES

Chapter 1. The Demography of Europe

The demographic transition from a stable population based on high birth and death rates to one based on low birth and death rates took place gradually in Western Europe between 1750 and 1950. During this period, depending on the country, the population of Western Europe expanded 3 to 8 times.¹²² However, since then, native populations in Europe have plateaued and begun to fall. Period total fertility rates (TFRs) in many western countries dipped below two children per woman in the late 1960s or 1970s. Figure 1.1 shows how TFRs declined steadily, so that in 2005, mothers born in 1975 (age 40) had fertility well below replacement in nearly all European countries while those born in 1935 (age 70) had above-replacement fertility in all countries.

Figure 1.1 Trends in Total Fertility Rates, Europe 2005, by Cohort



Source: Hout 2006.¹²³

This was not supposed to happen. Most western societies rebounded nicely from their interwar fertility doldrums, giving rise to the famous 'baby boom' of the 1940s, 50s and early 60s - a gentle bump which can be graphically seen in figure 1.1 among women born between about 1920 and 1935. This fuelled an optimistic theory of population equilibrium based on the magic replacement-level total fertility rate (TFR) of 2.1 children per woman, which

¹²² Skirbekk, V. (2009) 'Human fertility and survival across space and time', *World Population Program, IIASA, Working Paper*.

¹²³ Hout, M. (2006) 'The Demographic Imperative in Social Change: Political Implications,' presented at *Political Demography: Ethnic, National and Religious Dimensions*, London School of Economics, September.

became the orthodoxy. Henceforth, family sizes would rise and fall in cyclical fashion in response to economic opportunities. Large birth cohorts would have to squeeze themselves into tight labor markets adapted to the previous small cohort. The end result would be an older age of marriage and reduced fertility. Smaller generations (like the Generation Xers of the 70s) would behave in the opposite manner, having larger families in response to the roomy structural opportunities they inherit from their parents' large generation, correcting for its baby bust.¹²⁴

Needless to say, this smooth script didn't quite work out. Fertility in many western countries dipped below two children per woman in the late 1960s or early 70s. Most demographers foresaw a rebound as per the optimistic theory of population equilibrium, but, as we now know, the anticipated 'correction' never took place despite evidence of a partial uptick in certain countries. Total fertility rates (TFRs), which measure the number of children that women in the 15-45 age range will bear over their lifetime, seem stuck at low levels in most of the developed world.¹²⁵

The stubborn downward trends took most demographers by surprise. Some argued that TFR would rebound because women in countries with below-replacement fertility actually want larger families but cannot realize their intentions. Ultimately, proponents of this view base their arguments on evolutionary drives which have allowed the human species to survive for millennia. However, this may rest more on blind faith than demographic reality:

There is a strong counterargument, namely, that through the introduction of modern contraception, the evolutionary link between the drive for sex and procreation has been broken and now reproduction is merely a function of individual preferences and culturally determined norms.¹²⁶

Other demographers, failing to see any signs of a rebound in Europe's fertility statistics, advance the contrarian claim that lower fertility makes smaller families more acceptable, thereby lowering even *desired* fertility rates below the replacement level. They point to evidence that shows that in countries such as Germany, women now no longer even seek the magic 2.1 children. The authors hypothesize a self-reinforcing 'low fertility trap' in which low fertility begets lower desired fertility which in turn drives fertility ever lower, and so on, creating a spiral from which societies will find it very difficult to escape.

Already, in 2005, 34 countries had TFRs below 1.5.¹²⁷ At TFRs above 1.6 children per woman, population decline is gradual. A country with a TFR of 1.8 will be 80 percent as large after a century of decline whereas one with a TFR of 1.3 - as in much of southern and

¹²⁴ Easterlin, Richard A. (1976) 'The conflict between aspiration and resources', *Population and Development Review* 2:418-25.

¹²⁵ There is some evidence of a marginal increase in TFR in the wealthiest countries, but this does not correct for the effects of fertility postponement. Much of the recent rise is probably the result of older women having children later in life rather than any broad-based increase in TFR. See Myrskylä, M., H. P. Kohler, and F. C. Billari. (2009) 'Advances in development reverse fertility declines.' *Nature* 460 (7256):741-743.

¹²⁶ Lutz, Wolfgang, V Skirbekk, and Maria Testa. (2006) "The Low Fertility Trap Hypothesis: Forces that may lead to further postponement and fewer births in Europe.", paper presented at conference on *Political Demography: Ethnic, National and Religious Dimensions*. LSE, London.

¹²⁷ Ibid.

eastern Europe and among the Asian 'tigers' - collapses to a mere quarter of its size by the end of the 21st century.¹²⁸

For a while, below-replacement fertility can persist without revealing itself because of the effects of demographic momentum. A large generation of mothers, even if they bear less than two children apiece, can still produce enough children to exceed the numbers dying off. But, like a railcar which has run out of steam on its way up a hill, Europe (including Russia's) population has slowed and stopped after 30-40 years of below-replacement fertility. In fact, Europe's population has begun to fall, and will do so with increasing speed in the future. In 2010, the UN estimates 728 million Europeans. By 2030 it projects that this number will have declined to 704, and by 2050, as the contraction gathers speed, it will plummet below 650 million (see figure 1.2). Note that this includes immigration, which is why the populations of some countries show an increase to 2030.

Figure 1.2 Projected European Population Decline To 2030

	2010	2030	2050
ALL EUROPE	728	704	650
UK	61.3	64.3	64
France	61.6	63.2	61
Germany	82.3	79.6	73.6
Italy	58.1	55.4	50.4
Spain	40.5	39	35.5
Netherlands	16.8	17.7	17.7
Belgium	10.4	10.4	9.8
Russia	140.8	126.5	110.8
Poland	38.7	37.4	33.8
Czech Rep.	10.2	9.6	8.5
Hungary	9.9	9.3	8.4
Portugal	10.7	10.7	9.9
Ukraine	46.2	42.3	37.7

Source: Goldstone 2007¹²⁹

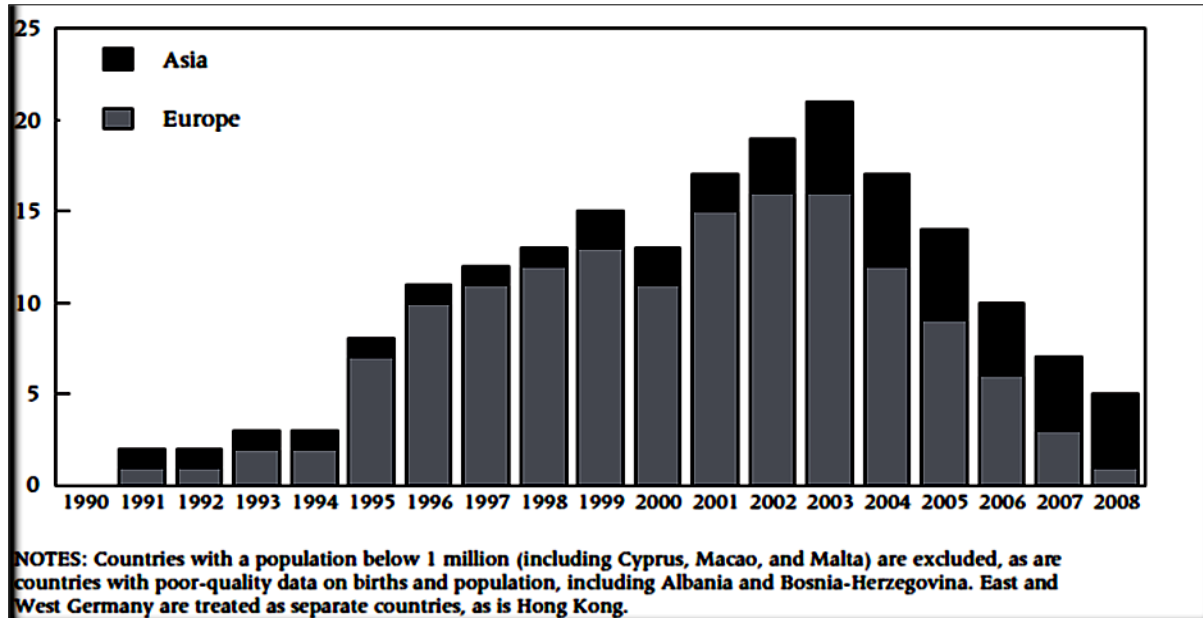
Is Europe doomed to disappear? Not so fast, some argue. Several writers claim that in the past decade, fertility in Europe has begun to rebound. This seems particularly clear since the

¹²⁸ Caldwell, Christopher (2009) *Reflections on the revolution in Europe: immigration, Islam, and the West*. 1st ed. New York: Doubleday, p. 16

¹²⁹ Goldstone, J (2007) 'Flash points and tipping points: Security Implications of Global Population Changes, 2005-2025', Woodrow Wilson Center, Washington, DC

late 90s/early 2000s.¹³⁰ Figure 1.3 shows a notable drop in the number of European countries with a 'lowest-low' fertility of 1.3 or less. Notice that this has not taken place in East Asia.

Figure 1.3 Number of Countries in Europe and Asia with a Total Fertility Rate Below 1.3, 1990-2008



Source:¹³¹

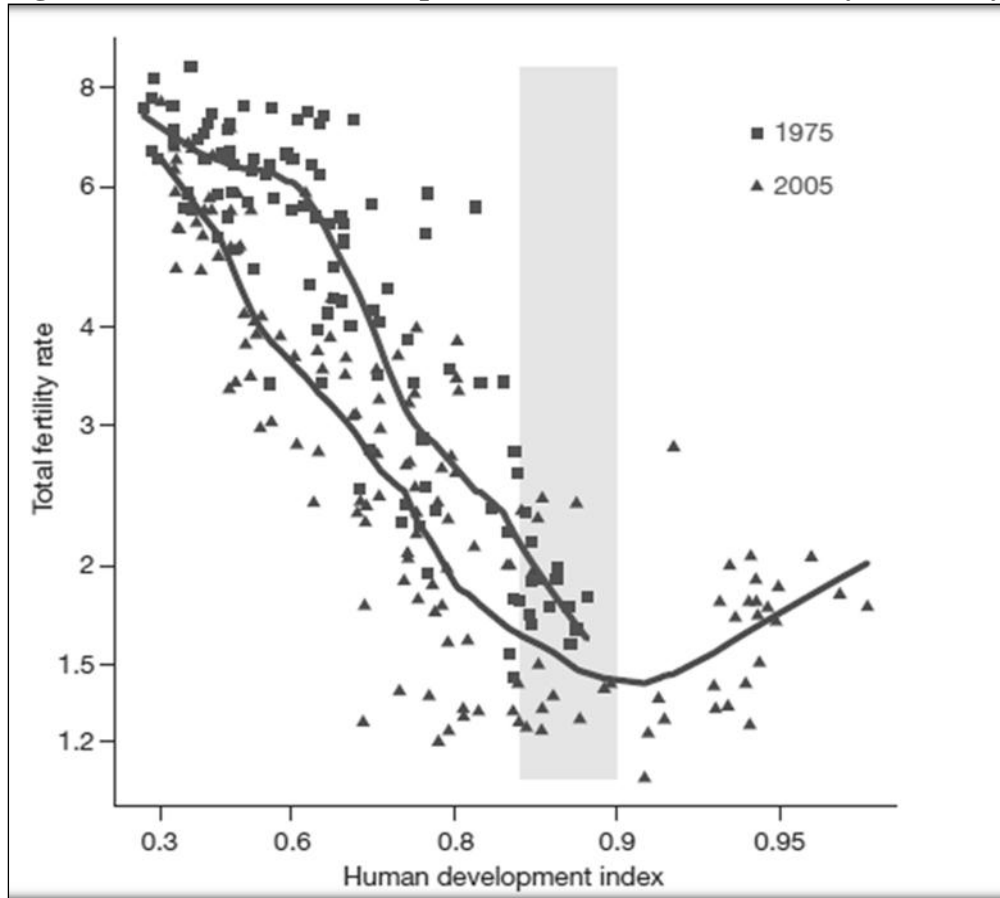
A high-profile piece in *Nature* in August 2009 argued that fertility rates had in fact increased in the most developed societies of Europe over the past decade or two. Their claim was that whereas in 1975 the wealthier countries with higher human development indices (HDIs) all led the way towards low fertility in the 70s and 80s, this relationship had shifted markedly by 2005. Today, it appears that many of the rich countries have turned the corner toward higher fertility rates - in some cases, approaching the magic 2.1 replacement level (see figure 1.4).¹³²

¹³⁰ Goldstein, J., T. Sobotka, et al. (2009). 'The end of "lowest-low" fertility?', *Population and Development Review* 35(4), pp.663-99.

¹³¹ Ibid.

¹³² Myrskylä, M., H. P. Kohler, and F. C. Billari. (2009). 'Advances in development reverse fertility declines.' *Nature* 460 (7256), pp.741-743.

Figure 1.4 Human Development Index and TFR, by Country, 1975, 2005



Source:¹³³

Foreign-born Women and Fertility Increases

One exception to the rule that native trends are responsible for Europe's fertility rebound is Italy, where immigrants and their higher fertility made up about two-thirds of the .11 TFR increase in Italy recorded between 1998 and 2004. However, in Spain, foreign-born women contributed only about 16 percent of the TFR increase of 1998-2006, which was more typical. This contribution is still important, but not overwhelming. Still, the net result is that European total fertility rates were never as low as some feared, nor have they rebounded as sharply as many are now claiming.

Reversals in European Fertility Increases

Before we swallow the optimistic assessment that Europe's TFR is heading for replacement level, a number of caveats are in order. First, the rise in fertility has been caused not only by rising native birthrates, but by a) an end to the steady post-1960s increase in mothers' age at first birth since the average age of a woman having a first child has reached 30 in many countries and is not rising further; b) the effects of immigration since immigrants tend to be younger and have larger families than natives. Of the two effects, the first is much more important. It explains a majority of the rise in fertility in most western countries in the past two decades. Of course, the fact that women have children relatively late means that there is more space between generations, so that even if Europe's fertility rate is the same as Iran's

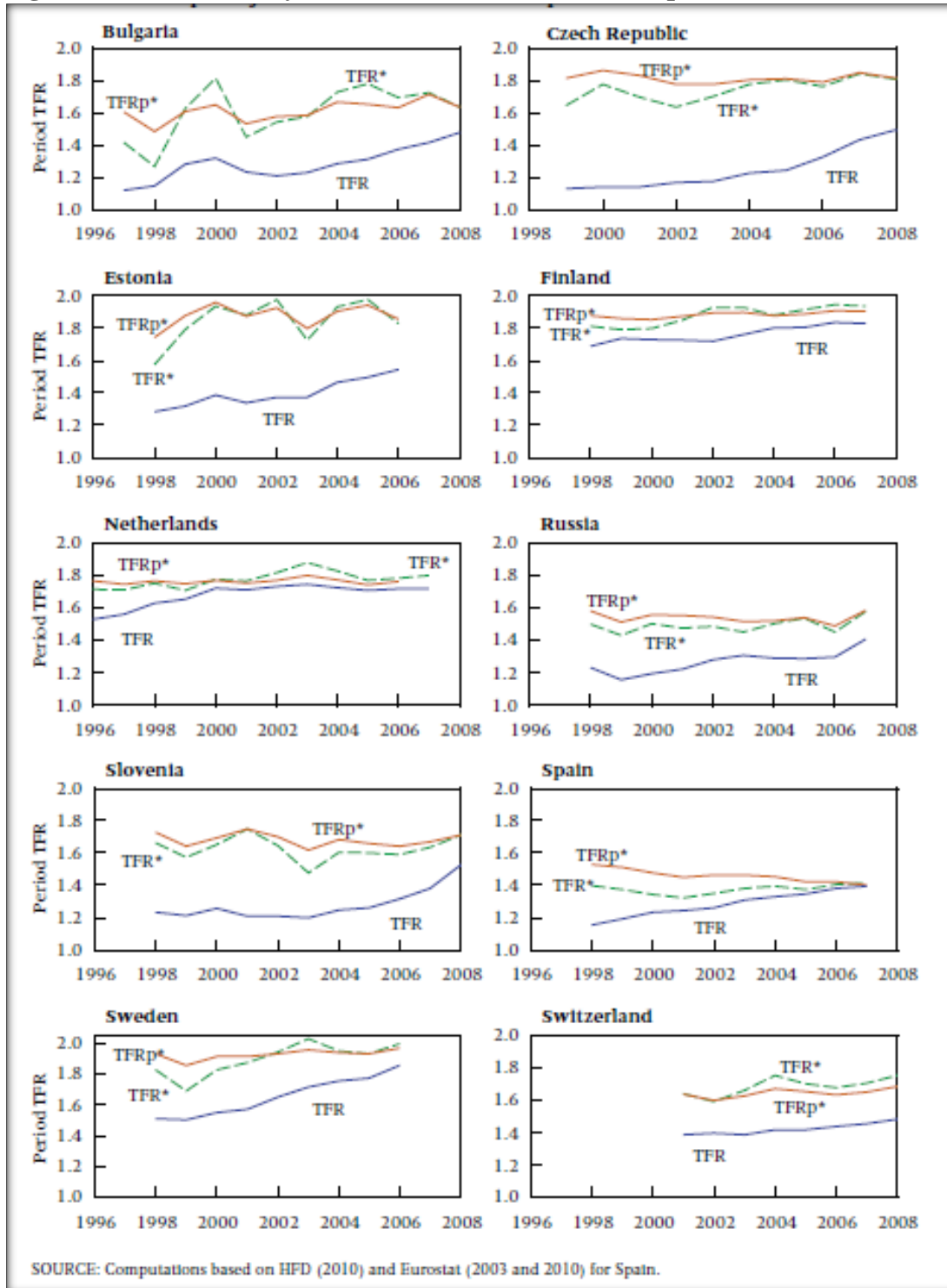
¹³³ Ibid.

(roughly 1.7), Iranian women have children much earlier and so Iran will not age and decline as fast as Europe.

This said, the so-called fertility increases appear to have stalled or slightly reversed in the two years prior to the economic crisis in Western Europe. Since then TFRs have fallen by around a point due to a poor outlook for the future and in some cases, i.e. Spain, because high fertility immigrants went home. Overall, then, experts predict that the true level of European fertility is close to 1.5 for the low fertility countries (southern/eastern Europe, Russia, German-speaking countries) and nearly 2.0 for the high fertility ones (Scandinavia, France, Britain) with other western European countries in between (i.e. the Netherlands).

Figure 1.5 below shows that the TFR in many European countries rose 10-30 points during 1996-2008. However the tempo-adjusted TFR (labeled TFR* or TFRp*) shows little or no rise. All told, we need to take the news of Europe's rising fertility with an appropriate dose of skepticism. Below-replacement is truly the new normal.

Figure 1.5 Total Fertility Rates in countries across Europe, 1996 - 2008

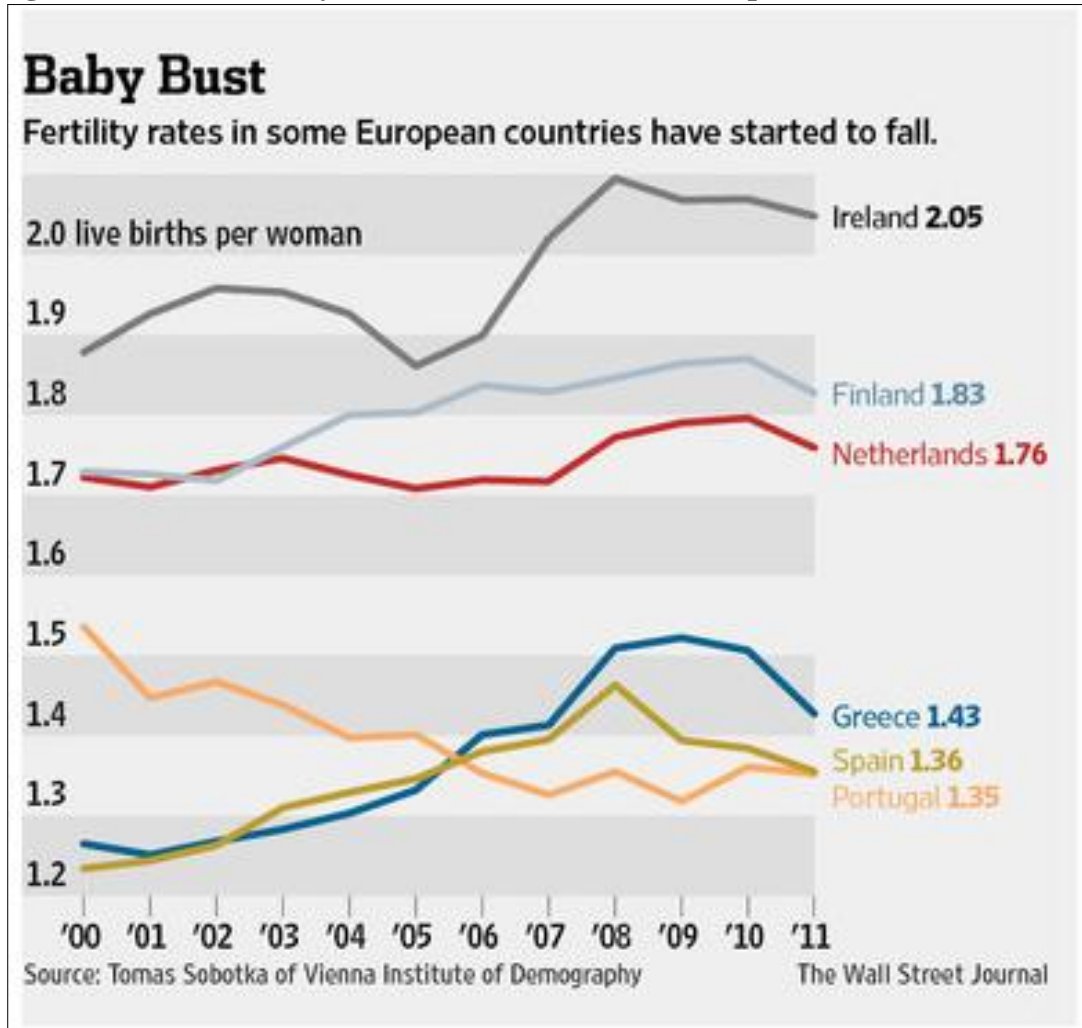


Source: Sobotka and Bongaarts 2012

The economic crisis also led to a drop in American TFR from 2.1 to 1.9, an all-time low, causing some handwringing.¹³⁴ Likewise, the Eurozone crisis has reversed the gains of the boom years of the 2000s.

¹³⁴ 'America's baby Bust', Jonathan Last, *Wall Street Journal*, Feb 12, 2013

Figure 1.6 Total Fertility Rate in countries across Europe, 2000 - 2011



'Slowing Birthrates Weigh on Europe's Weak Economies,' Patricia Kowsmann, *Wall Street Journal*, January 7, 2013

Leading demographer Tomas Sobotka estimates that of the 22 European Union countries with comparable data, 15 have registered a drop in fertility rates since the financial crisis started in 2008 compared to a rise in 19 of the 22 countries during 2005 to 2008. An added reason for this in some countries (i.e. Spain, Italy) is that immigrant women have returned home, bringing their higher fertility with them.

This configuration suggests that the continent will continue to have below-replacement fertility into the future and that the recent rise will not allow it to halt population decline or aging. This means that Europe is set to age rapidly, along with East Asia. Throughout most of our history as human beings, those over 60 have never made up more than three or four percent of the population of any society. Today, in Europe, that figure is over 20 percent. In table 1.1, we can see that almost all of the world's oldest societies are European, and by 2050, some will have more than 40 percent of their populations over 60 and in virtually all cases, this proportion exceeds 30 percent. This means that the ratio of elderly dependents to those of working age will soar.

We don't really know what a society is like when 40 percent of people are over 60 and a majority is over 50 because we've never been there before. But one thing we can be sure of is

that the change is coming - demography is the most predictable of the social sciences because the fifty-somethings of 2050 have already been born.

Table 1.1 World's Oldest Countries

Country	2005		2050	
	15-59	60+	15-59	60+
Japan	59.7	26.3	44.9	41.7
Italy	60.4	25.6	45.5	41.3
Germany	60.6	25.1	50.1	35.0
Sweden	59.2	23.4	53.0	30.9
Greece	62.7	23.0	49.6	36.8
Austria	61.8	22.7	49.2	37.2
Latvia	62.8	22.5	48.0	38.3
Belgium	60.8	22.4	51.4	33.3
Bulgaria	63.8	22.4	48.4	38.8
Portugal	61.8	22.3	49.3	36.3
Croatia	62.4	22.1	50.0	35.6
Switzerland	61.7	21.8	50.8	33.7
Estonia	63.3	21.6	50.6	33.6
Spain	64.3	21.4	46.1	39.7
Finland	61.4	21.3	52.0	32.6
Denmark	60.1	21.1	55.2	28.2
France	60.7	21.1	51.2	33.0
United Kingdom	60.9	21.1	54.2	29.4
Ukraine	64.2	20.9	48.1	38.7
Hungary	63.5	20.8	50.1	36.2
Lithuania	62.6	20.7	48.9	37.9
Slovenia	65.6	20.5	47.2	40.2
Czech Republic	65.3	20.0	47.5	39.3
Norway	60.4	20.0	53.7	30.0

Source:¹³⁵

The Effects of Below-Replacement Fertility in Europe

We need to begin preparing for this future now because even in the highly unlikely event that fertility rates in Europe recover to the replacement level from the current TFR of 1.5-1.7, it would take thirty years before this began to seriously check the slide. This change will have all kinds of repercussions: there will be less demand for schools and maternity wards, more demand for retirement homes and medical treatment for the elderly. Military recruitment, economic productivity and risk-taking entrepreneurship will suffer, though experts differ on the magnitude of these effects. Harder to determine are intangibles like the impact of an aging population on the cultural mood and the fate of religion in Europe. Some social scientists question whether the sense of optimism which fuelled the Enlightenment and the great age of

¹³⁵ Goldstone, J (2007) 'Flash points and tipping points: Security Implications of Global Population Changes, 2005-2025', Woodrow Wilson Center, Washington, DC

European expansion (and which coincided with a demographic boom) can be sustained in an atmosphere of population decline.¹³⁶

European Aging and Europe's Defense Capabilities

In concrete terms, annual public benefits to the elderly (both pension and health care) as a percentage of GDP are forecasted to rise by 2040 by 13 percent in France (to an overall percentage of 29); by 10 percent in Germany (to an overall percentage of 26); and by 6 percent in Britain (to an overall percentage of 18). The comparable increase in the US is 11 percent (to an overall percentage of 20).¹³⁷ By 2040, the annual budget for elderly care among the world's current major powers will increase to a level many times higher than what these states currently spend on their militaries, even after adjusting for inflation. Germany will have to raise its annual expenditure on elderly care by over seven times its current defense outlay. France will have to raise it five times as much, and Japan fifteen times as much.¹³⁸

Political pressure will mount to divert funds from defense to public spending, as the debate over Britain's trident nuclear submarine program revealed during the 2010 election campaign. Similar pressure for cuts in defense spending to finance elderly-care costs is building in Germany and France. In February 2006 the EU Commission warned Germany that it had to cut substantially discretionary spending across the board "to cope with the costs of an aging population". In the same year, the French president requested the creation of a new body, the Public Finance Guidance Council. The council's primary purpose is to reduce France's national debt, which has ballooned in recent years largely due to the rising costs of elderly care. The institution's main policy recommendation is to cut expenditures "of all public players," including the military.¹³⁹

Social aging is also likely to force militaries to spend more on personnel and less on weapons development and procurement. This will severely curtail European nations' ability to contribute to modern military campaigns. Since 1995, for instance, France and Germany have set aside nearly 60 percent of their military budgets for personnel costs. Germany spends nearly four times as much on personnel as weapons procurement; France, Japan, and Russia roughly 2.5 times more. By comparison, the United States spends only slightly more (1.3x) on personnel than weapons.¹⁴⁰ The aging crisis - set to intensify in the 2020s - will lead to labor shortages. Militaries will have to compete more intensively for scarce young workers. A 2006 report endorsed by EU defense ministers underscored these points, noting that the aging of Europe will "inevitably" lead to rising military personnel costs.¹⁴¹

A second factor that is increasing states' military personnel costs at the expense of weapons procurement is the aging of existing military personnel. The great powers' pension obligations to retired military personnel are considerable. Russia, for example, consistently

¹³⁶ Jackson, R., N. Howe, et al. (2008). 'The graying of the great powers: demography and geopolitics in the 21st century' *Center for Strategic and International Studies*, Washington, D.C., p. 218.

¹³⁷ Ibid.

¹³⁸ Haas, M. L. (2007). 'A geriatric peace? The future of US power in a world of aging populations', *International Security* 32(1), pp. 112 & 120-21.

¹³⁹ Office of the Prime Minister, France, 2006

¹⁴⁰ Ibid. pp. 140-1

¹⁴¹ European Defense Agency 2006, 6.

spent significantly more on military retirees than on either weapons procurement or military research and development in the 2000's.¹⁴² Growing pension costs for military retirees are important for international power relationships. Why? Because these are not one-off costs but burdens that governments will have to bear every year for many decades. This kind of spending does nothing to increase states' power-projection capabilities. Every dollar spent on retirees is one less dollar for weapons, research, or active personnel. Secretary of State Clinton recently urged Britain not to slash its military spending and enjoined European countries to continue to support NATO.¹⁴³ However, the recent economic downturn may be a straw in the wind, pitting sacrosanct 'ring-fenced' medical and social security spending against seemingly expendable military costs.

According to a French defense specialist, Europeans think in terms of the welfare state rather than in terms of external security. "State welfare kills warfare," meaning that the welfare mindset helps explain Europeans' disinclination to spend scarce public money on the military.¹⁴⁴ While the US will also age, the working age populations of Europe by 2050 will be in absolute decline or increase modestly (Britain), but will increase by 23 percent in the United States. Thus the gap between American and European security commitments - already substantial - is set to grow to canyon-like proportions.

Skills and Human Capital: Europe's Salvation?

Will Europe fulfill the 20th century French demographer Alfred Sauvy's prophesy of a 'society of old people, living in old houses, ruminating about old ideas'?¹⁴⁵ The effects of this could be tragic. After all, productivity *does* decline with age: most Nobel Laureates did their leading work in their 30s and 40s. Entrepreneurship peaks in the 25-44 age bracket. Physical and cognitive agility tends to decline after the 30s. 'Fluid' cognitive skills (reasoning and perceptual speed) decline relatively steadily beyond age 40 though 'crystallized skills' such as verbal ability, built through experience, are retained across the life cycle.¹⁴⁶ This may suggest that aging societies will become less productive.

But there may be important countervailing factors. 'Old' in an advanced industrial democracy isn't what it was when social security systems were devised. 60 may not be the new 40, but 65-year-olds are no longer the dependents of yesteryear. Some writers have recently remarked that the population aged 65 to 75 is healthier, wealthier, and better educated than in the past. In the future, the elderly are likely to be even better off, redefining retirement and old age.¹⁴⁷

Furthermore, despite a growing share of the population over 65, states can enact policies that minimize the productivity loss which accompanies population aging. Literate and healthy citizens do more to contribute to a state's potential power than those who lack this human capital. Hence recent work indicates that European - especially west European - older people are more productive than their younger peers in developing countries. For instance, eighty

¹⁴² Ibid. pp.142

¹⁴³ 'Hilary Clinton warns UK on defense cuts', Channel 4, Oct 15, 2010

¹⁴⁴ Meeting with Etienne de Durand, Senior Fellow at IFRI, in London, July 20, 2010.

¹⁴⁵ Wattenberg, B (1987) *The Birth Dearth* (New York: Pharos Books).

¹⁴⁶ Skirbekk, V. (2008) 'Age and Productivity Capacity: Descriptions, Causes and Policy Options', *Ageing Horizons* (8), pp.4-12.

¹⁴⁷ Friedland, R. B. and L. Summer (2005). 'Demography Is Not Destiny, Revisited', *Center on an Aging Society* at Georgetown University, Washington D.C.

year-olds in Sweden and the US were found to have short-term memory scores equivalent to those of 53 year-olds in China. Health and education levels, coupled with differing norms regarding aging, explain the difference.¹⁴⁸

Education-adjusted demographic simulations confirm that a better-educated populace is productive for longer than a less-educated one. This effect thereby mitigates many of the economic costs of aging. When we factor in education and health-adjusted dependency, Europe comes out as having much lower dependency than supposedly 'younger' countries like China. Notice, however, that the ameliorative environments found in Western Europe may be lacking in the less developed Eastern part of the continent - though higher mortality (especially in Russia) may cull the aged, reducing dependency ratios.¹⁴⁹

Absolute labor strength is only one driver of economic growth. Technology, efficiency, and capital are also essential. Developed states are attractive for investors because they are stable, with well-educated populations and established infrastructures. They command stocks of assets - universities, smooth-running institutions, rule of law, infrastructure, and deep capital markets - that enhance the productivity of individuals. They can leverage these advantages despite higher dependency ratios. Less developed states which have or will enter their 'demographic dividend' phase (few young dependents with few retirees), often suffer from poor infrastructure and capital markets, ineffective laws and regulations, and other problems. Thus they pose a greater risk for investors.¹⁵⁰

Aging states are not like aging individuals. Japan and Germany, for instance, are leaders in innovative technology at the same time they lead the world in aging. Older people may be more risk averse, but the climate for innovation for the (smaller) young generation in older societies may more than overcome this. According to the World Intellectual Property Organization, applicants from Japan, the US, Germany and South Korea accounted for 73 per cent of total patent grants worldwide in 2006.¹⁵¹ This indicates that there is much more to innovation than youth. The relatively patriarchal, aging societies of southern Europe (and East Asia) may also possess an important card which they can play in the future: women. Thus they may be able to realize a demographic dividend by raising female labor force participation.¹⁵²

The Military Deficit: No Way Out?

Europe's healthy, educated seniors may be able to offset the paucity of young workers in the economy, but it is difficult to see how the continent can surmount its impending military

¹⁴⁸ Skirbekk, V. (2010) 'Population Ageing and International Productivity Variation'. International Institute for Applied Systems Analysis, Laxenburg, Austria.

¹⁴⁹ Skirbekk, 'Population Ageing and International Productivity Variation'; Lutz, W., S. Basten et al. (2011) 'The Future of Fertility', in E. Kaufmann and W. B. Wilcox (eds.) *Wither the Child: the Causes and Consequences of Low Fertility in Europe*, forthcoming (Paradigm Press).

¹⁵⁰ Sciubba, J. D. (2011) 'A New Framework for Aging and Security: Lessons from Power Transition Theory', in J. A. Goldstone, E. Kaufmann and M. Toft (eds.) *Political Demography: identity, conflict and institutions*, (Boulder, CO: Paradigm Press).

¹⁵¹ WIPO, *World Patent Report: A Statistical Review*. 2008, World Intellectual Property Organization: Geneva, Switzerland.

¹⁵² Sciubba, J. D. (2011) 'A New Framework for Aging and Security: Lessons from Power Transition Theory', in J. A. Goldstone, E. Kaufmann and M. Toft (eds.) *Political Demography: identity, conflict and institutions*, (Boulder, CO: Paradigm Press).

malaise. For these reasons, Europe's hard power - and its consequent usefulness for American-led military operations - may decline.

Of course, Europe will continue to possess considerable cultural allure, or 'soft' power, which may be useful for the West. Europe can serve as a tourist destination and a source of ideas, fashion and education. It may thereby help to westernize world citizens into the common currency of liberal democracy. That said, the importance of such ties should not be overrated. Europe's legacy of colonialism may well stand as a form of negative soft power which may impede the developing world's acceptance of western values and initiatives. During the Cold War many developing nations preferred to look to the Soviet Union (untainted by colonialism) as a role model rather than the West.

Chapter 2. Immigration to Europe

One way European nations have tried to address their aging problem has been through immigration. A surging global South and aging North has produced significant South-North population pressure: roughly 60 million from the third world resided in the developed world by 2007. Net immigration into both the EU 15 countries and the United States is over one million immigrants per year. In 2006, for instance, the gross inflow into the EU 27 countries was 3 million and the net influx 1 million, of which 60% was from non-EU countries, and a quarter each from the rest of Europe, the Americas, Asia and Africa.¹⁵³ Migration theory tells us that one of the strongest drivers of immigration is the presence of networks of co-ethnics in the country, who can provide the financial support, social networks, local information and sometimes marriage partners necessary for newcomers to establish themselves. Thus a disproportionate number of newcomers to Germany, the Netherlands and Belgium are Turks and Moroccans, while those from Pakistan and Bangladesh favor Britain, and Somalis and Iraqis may find their way to Norway and Sweden.¹⁵⁴

Might the numbers come down? Everywhere in Europe since 1987, Far Right anti-immigration parties have been making headway.¹⁵⁵ Centrist parties have got the message and are also talking tough on immigration. No European government campaigns on the kind of open immigration platforms one finds in Canada, or among liberals in the United States. But it is difficult in practice to reduce numbers because of the influence of pro-immigration business lobbyists, family reunification provisions and asylum regulations.¹⁵⁶ Denmark and the Netherlands have successfully reduced their intake by imposing stiff language and marriage requirements for prospective citizens. Denmark's annual intake, for instance, dropped from 9,300 to 3,900 between 2001 and 2006.¹⁵⁷

But these are outliers. Overall, immigration to Europe remains steady at around 1 million per year. The fastest aging societies - Italy and Spain - have admitted the largest number. Spain, which contained fewer than 200,000 foreign-born as recently as 1985, had 4 million non-EU born residents and another 2.2 million EU-born by 2007.¹⁵⁸ In 2009 alone, over 300,000 entered Italy. This suggests that as Europe ages, it may increase its immigration flow.¹⁵⁹

Migrants from Eastern Europe - typically the younger, most dynamic elements of their (aging, declining) countries, are an important aspect of the post-2004 immigration flow. They are generally preferred to those from outside Europe. Britain contains over a million residents from Eastern Europe (both EU citizens and non-EU). Ireland also contained many prior to the economic downturn. Spain is home to numerous Romanians and Ukrainians. East Europeans are among the most mobile elements of the immigration flow, and some have returned home since 2008 due to adverse economic conditions. Still, most have stayed on, many with their

¹⁵³ Eurostat news release, 18 November 2008.

¹⁵⁴ Pedersen, P. J., M. Pytlikova, et al. (2006) 'Migration into OECD Countries, 1990-2000', in C. Parsons and T. M. Smeeding (eds.) *Immigration and the Transformation of Europe*, (Cambridge: Cambridge University Press, pp. 43-84.

¹⁵⁵ Norris, P. (2005) "The 'new cleavage' thesis and the social basis of radical right support", America Political Science Association, Washington, DC.

¹⁵⁶ Goodhart, D (2010) 'Accidental Immigration', *Prospect* 167).

¹⁵⁷ Goli, Marco and Shahamak Rezaei, (2007) 'Denmark', in Triandafyllidou, A. and R. Gropas (eds.) *European immigration: a sourcebook*. (Aldershot, England ; Burlington, VT, Ashgate

¹⁵⁸ Enriquez, Carmen Gonzalez (2007) 'Spain', Triandafyllidou, A. and R. Gropas (eds.) *European immigration: a sourcebook* (Aldershot, England; Burlington, VT: Ashgate). xviii, 379 p.: 321, 326; Eurostat 2010.

¹⁵⁹ 'Immigration pushes EU population above 500 million', Euroactiv.com, July 28, 2010.

families, and this can be seen in the makeup of various states' populations. Thus most west European countries are, like the United States, about 10 percent foreign-born, with East Europeans comprising perhaps 10-20 percent of the total.

Immigration in the Context of European Demography

Immigration has been a technique of nation-building pioneered by France in Napoleonic times, given that country's historically low birthrate compared to its chief rivals Britain and Germany.¹⁶⁰ Yet it is noteworthy that immigration is not a long-term solution to the aging problem: immigrants' age and their family sizes converge to host levels, thus the number of immigrants required to maintain a given age structure multiplies exponentially. In fact, merely to maintain their working age population sizes, the 15 pre-accession EU countries need to bring in 1.5 million net immigrants per year, roughly twice the current intake. To maintain the same dependency ratio - between those of working age (15-64) and those over 65 - about 13.5 million are needed each year, *20 times the current influx*.¹⁶¹

Expected Future Immigration Levels

The demand for labor in sectors like construction, care for the elderly and services will remain high, and business will continue to lobby for more workers. Therefore immigration is expected to remain at levels of at least 1 million per year. If anything, as the examples of rapidly aging Spain and Italy show, numbers may rise as Europe grows older. *Though the EU contains more people than the United States (500 million vs. 300 million), its total fertility rate (TFR) of 1.5-1.6 is much lower than the US with a TFR of 2.1.* Second, in Europe, immigration is concentrated in the west - despite an increasing flow of central Asians to Russia, and Russians and Ukrainians to Eastern Europe.

The pre-2004 EU has a roughly similar population to the US and is a good basis for comparison. The white (non-Hispanic) share of the American population will decrease from about 65 to 50 percent between 2010 and 2050. During this same period, the native-born white share of Europe's population is projected to decline from 95 to about 85 percent.¹⁶² Note, however, that while the proportion of minorities in the US will increase from a third to a half (a 50 percent increase), it will jump from 5 to 15 percent in Western Europe, a 300 percent increase. The rate of change is therefore much more dramatic and unprecedented in Europe, and will be especially marked in the urban areas where the overwhelming majority of the non-European population resides.

The Cultural and Political Consequences of Immigration

Immigration, unless it involves co-ethnics from a Diaspora, has the tendency to alter the ethnic composition of the host population.¹⁶³ In the United States, for instance, the population

¹⁶⁰ King, L (2001) 'From Pronatalism to Social Welfare? Extending family allowances to minority populations in France and Israel', *European Journal of Population* 17(4): p. 305-322.

¹⁶¹ Parsons, Craig, and Timothy M. Smeeding. (2006) 'What's unique about immigration in Europe,' in T. Parsons and T. M. Smeeding (eds.) *Immigration and the Transformation of Europe*, (Cambridge: Cambridge University), pp.16.

¹⁶² Coleman, D. (2006). "Immigration and Ethnic Change in Low-Fertility Countries: A Third Demographic Transition." *Population and Development Review*, September 32(3): 414

¹⁶³ Goldstone, J. A., Eric Kaufmann and Monica Duffy Toft (2011) *Political Demography: identity, conflict and institutions*, (Boulder, CO, Paradigm Press)

of New England descended from British stock declined - due to European immigration - from close to 100 percent in 1830 to perhaps 10-20 percent by the 1980s.¹⁶⁴ In Europe, the foreign-born typically did not make up more than 1 percent of a European country's population in 1900, far lower than the 12-15 percent foreign-born population of America at the time.¹⁶⁵ France and Switzerland were two exceptions. Both recruited from European Catholic countries like Spain, Belgium, Italy and Poland. In an age when the Protestant-Catholic dichotomy was often intense and linguistic boundaries jealously guarded, these flows were just as controversial as they were in the United States.

A Short History of Immigration in Europe

It is worth revisiting the recent history of immigration to Europe. Most European growth centers of the nineteenth and early twentieth century looked to surplus labor in other parts of their states, and these labor pools were frequently Catholic or Jewish. Thus Catholic and Jewish Poles flocked to Protestant Berlin, Slav-speakers to German-speaking Vienna, southern Spaniards to Catalonia, the Catholic Irish to Protestant England and Scotland, and Catholic Swiss to Protestant centers like Zurich. These movements were often extremely traumatic for both migrants and hosts, and this should not be overlooked when considering the Muslim-Christian controversies of today. In France, the Dreyfus Affair - coming in the context of post-1882 Jewish immigration from Russia - convulsed France in the 1890s and early 1900s.

This bit of history should alert us to the real reason for anti-immigrant rhetoric in Europe: ethnic nationalism. In ex-German Central Bank board member Thilo Sarrazin's words, the fear is that ethnic majorities (in his case Germans) will 'abolish themselves', declining as they are out-birthed by ethnic minorities.¹⁶⁶ The principal reason that most Europeans worry about the growing Muslim population has less to do with shari'a and jihad and more to do with an old-fashioned desire to see the ethnic majority remain dominant in the nation-state.

Muslim Immigration to Europe

Muslims are a major component of the post-1950 immigration into Europe. The first wave of immigrants came from ex-colonies: Caribbeans and those from the Indian subcontinent came to Britain between 1948 and the 1960s, Antilleans, Indonesians to the Netherlands, Indochinese and North Africans to France. The second movement brought so-called 'guest workers' from poor villages in Turkey and Morocco to Germany, Belgium and the Netherlands. At first these consisted of men only, but wives and children followed, especially after the 1960s. Since the early 1990s, Somalis, Iraqis, Afghans, Bosnian Muslims and other refugees from war-torn countries have arrived in significant numbers. Some headed for Scandinavia, whose welfare state and asylum policy served as a magnet. The non-European component of most west European nations' immigrant flow increased steadily as southern European sources dried up. This influx split roughly 50-50 between Muslims and non-Muslims, but varied greatly by country.

This does not mean that Muslims faced universal opprobrium. Catalonia has the largest Muslim component in Spain in part because many Catalan nationalists prefer Muslim

¹⁶⁴ Conzen, M.P. (1990) *The Making of the American Landscape* (London: Harper Collins).

¹⁶⁵ Baycroft, T and M. Hewitson. (2006). *What is a Nation? Europe, 1789-1914* (Oxford: Oxford University Press), pp.328

¹⁶⁶ Slackman, Michael, 'With Words on Muslims, Opening a Door Long Shut', *New York Times*, November 12.

immigrants who are willing to speak Catalan to Spaniards who refuse to speak Catalan. In fact, one reason why Catalonia held off from endorsing the Spanish burqa ban in 2010 is because Spanish and Latin American 'immigrants' to Catalonia are resented as much, if not more so, than Muslims. Even in the rest of Spain, Muslims are not necessarily the biggest worry. In 2008, the immigration issue flared in Spain, but the chief complaint focused on Ecuadorean and other Latin Americans rather than the smaller Muslim population, which in any case was not connected with the Madrid bombings.¹⁶⁷ In other words, fear of exotic strangers is not necessarily more intense than Freud's 'narcissism of minor differences' between very similar peoples which drove the slaughter in Nazi Germany, Rwanda and the former Yugoslavia. Indeed, if we turn back the page of European history we find a fear of Catholic fertility and Papal conspiracy. Most of this was the product of ethnic anxieties among majorities concerned that they would be bred into submission.

Popular fear of Catholicism, like today's fear of Islam, springs from the loss of social cohesion and the decline of the kind of cultural continuity that knits a particular land to an ethnic community of imagined common ancestry. This, rather than a defense of Enlightenment values, is the principal reason for the rise of the Far Right in Europe. The behavior of Muslims matters less to most Europeans than Muslims' disruptive growth potential and resistance to European attempts to digest them. If they were demographically moribund and small, Muslims would arouse little worry -regardless of the odd bomb or burqa. If Europe faced large-scale Latin American immigration, as in Arizona, or parts of Spain, it would be worrying mainly about Hispanics, not Muslims. That said, violent jihadism and illiberalism *do* reinforce European anxieties and provide a liberal justification for policy change which matters for European elites. This means we need to consider Islam in Europe a little more closely.

Illegal immigration may become a larger issue in the future as land routes from sub-Saharan Africa through to the Balkans develop, but, as yet, the flow remains relatively and small and manageable, constrained by the difficulty of traversing the Mediterranean.

North African and Sub-Saharan African migration to Europe ¹⁶⁸

Immigration levels are expected to return to their pre-crash levels by the late 2010s. East European sources will begin to dry up as Eastern Europe ages and develops economically. Europe will therefore increasingly look to Asia and Africa for new immigrants. The proximity of North Africa and Africa to Europe opens up the possibility of a US-Mexico scenario of large-scale illegal immigration. However, this would only become possible if a land route through Turkey opens up. As things stand, the Mediterranean acts as a formidable barrier to illegal immigrants from Africa.

What then is the prognosis for African immigration to Europe? It is useful to distinguish between the migration pressures likely to emanate from North Africa, and the pressures from Africa. A growing consensus believes that the Arab Spring is proving to be an economic bust. Egypt, Tunisia and Libya are anything but stable. The wildcards are the two large northwest African countries, Algeria and Morocco on the doorsteps of southern Europe. The pressure from Africa comes from a demographic surge in and near the center of Africa, where

¹⁶⁷ Bezunartea, Patricia, José Manuel López, and Laura Tedesco (2009) 'Muslims in Spain and Islamic Religious Radicalism', in M. Emerson (eds.) *Ethno-religious Conflict in Europe: Typologies of Radicalization Among Europe's Muslim Nations*, (Brussels: Center for European Policy Studies) pp. 140-1

¹⁶⁸ The long version of this section appears as Appendix III in the separate Supplemental Appendices

populations are expected to increase dramatically over the next twenty years. Except for North Africa and the southern tip of Africa, the continent's high fertility rate is creating an 'arc of instability.' Even with good economic growth, (in fact precisely because of the new mobility generated by economic growth in Sub-Saharan Africa), there is likely to be spillover from the perpetual youth bulge these African countries will experience, leading to pressures for migration, and much of it northward.

The European response is likely to be along two tracks. The first is a recalibration of immigration policy in favor of selective immigration for workers having the skills most in demand. In Italy the marginal value of new immigrants is below the average, which means that labor productivity is declining. Second, the borders both outside and within Europe are likely to be more strictly enforced against illegal immigrants. One can also expect that the scope for political asylum will be tightened, particularly for people from regions where previous integration processes have been difficult. The conventional wisdom is that Sub-Saharan African economic development will constrain the migration of their rapidly growing populations northward to North Africa and beyond to Europe. Conversely, in the absence of development, people in the poor countries in the Sub-Saharan Africa will leave in large numbers. Paradoxically, the patterns of migration show that when poor countries begin to develop with universal schools for primary age children, roads that connect the villages to the cities, and other infrastructure, migration picks up dramatically. Development spurs mobility in all directions: internally, with thousands leaving their villages to live in cities within their country, and externally to other countries in the region and ultimately to different continents. Senegal and Ghana are two countries in the take-off stage that might be major sources of migration to Europe through 2030.

Any scenario for future south-north migration will need to take into account the fact that Europe is not the only destination for African migrants in a globalized world. Migrants are sensitive to the economic fortunes of potential destinations. They are also sensitive to political earthquakes that compel them to leave countries where they had relatively decent jobs, as in the case of the Libyan revolution of 2011. Not only have the remittances of Africans working in Libya ceased but the remitters are returning with few prospects for generating income locally. Libya's revolution precipitated the violent return of the Tuareg to their homelands in northern Mali, which is a direct cause of Mali's political and economic collapse in 2012, the Islamist takeover of northern Mali and the French-led intervention beginning on January 11, 2013.

While migrants are sensitive to political dislocation, migration patterns develop over long periods of time with more continuities than one might expect. The Arab Spring did not create the expected flood of North Africans in 'biblical proportions' as an Italian minister warned. Only 43,000 or 12% of the total number of displaced people from the North African conflicts in 2011 reached Italy and Malta, with another 2,000 perishing at sea on the way. Once migrants from the south settle in Europe, they are not likely to return. Despite high unemployment and prospects for more austerity in Spain, Moroccan parents are unlikely to uproot their children from school and return home because of an economic recession and lack of employment.

Though African demography and climate change are important factors, one cannot simply say that people in overpopulated countries or in drought-stricken regions will emigrate in greater numbers. Migrants tend to go where their kinsmen are already settled in the Diaspora as in the case of Moroccans throughout Europe. Desertification and droughts have less impact

on the increasingly urbanized Africa/North Africa because they are less dependent on rainfall in cities than in rural areas.

The conventional wisdom is that European policies driven by populist anti-immigrant sentiment will restrict immigration from North Africa and Africa. This is already the case, but both employer demands and relatively lax border surveillance may permit a rise in African immigration in the future. Rather than restrict all migration, European governments are increasingly managing migration to emphasize highly skilled workers as well as temporary visas that encourage migrants to return home for visits periodically in a pattern known as circular migration. Restrictions on immigration have the effect of motivating temporary migrant workers to stay for fear they will not be readmitted. They also increase the role of organized smuggling and crime and the number of irregular migrants. Having said this, Europe's people are less reticent than Americans about identity cards and employer checks.

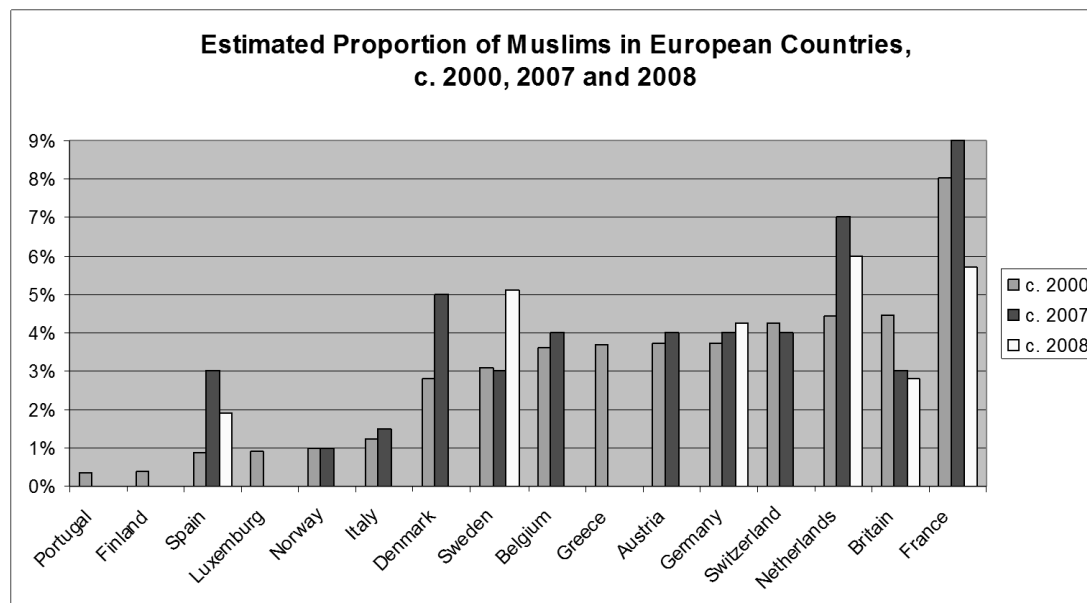
Egypt is likely to become an important source of migrants in Europe for a variety of political and demographic reasons. The relatively modest migration from Egypt to Italy and other European destinations before the Arab Spring was due to the availability of jobs in the Gulf. Gulf countries no longer desire Egyptians as before in the early days of the energy boom, having shifted their immigrant preferences eastward to Bangladeshis, Indonesians and other Asians who are apt to be more politically docile than Egyptians. A new push factor is the dramatic rise of Islamist political power in Egypt, leaving the Christian Copts vulnerable and insecure. Europe bound migration is likely to increase steadily in the coming years based on expected political and economic hardships in Egypt.

The most likely scenario for future migration from south to north is neither massive numbers nor minute numbers. The expected flows are likely to be somewhere in the middle and depend significantly on the demand for low skilled migrant labor in Europe. Though such immigrants will fill gaps in the labor market, they will also be able to sponsor dependents once in Europe, and may thereby repeat the patterns of the Muslim immigrants of the twentieth century. This could involve a relatively productive generation of male immigrants but with higher levels of welfare dependency among their wives, children and other relatives which could negatively affect Europe's economic prospects.

Chapter 3. The Demography of Muslims in Europe

Immigration has led to an unprecedented rise in the Muslim presence in western Europe. There are an estimated 15 million Muslims residing in western Europe. In most west European countries, Muslims comprise between 2 and 6 percent of the population. Recent work shows that previous estimates were occasionally too high, and in other cases too low - or have been overtaken by population changes since 2000. (see figure 3.1 below)

Figure 3.1 Estimated Proportion of Muslims in European Countries c.2000, 2007 and 2008



Source: Marechal, B. (2002) *A Guidebook on Islam*.¹⁶⁹

Ethnic Differences between Europe's Muslims

Country networks structure migration and shape fertility rates, cultural outlooks and political orientations toward Islamism. Intermarriage across ethnic lines, i.e. Arab-Turk, Pakistani-Bangladeshi, is rare. For example, in Britain in 2001, just 25 of more than 8,700 couples in a census sample involving a Pakistani also included a Bengali. In all, roughly the same numbers of Pakistanis were married to whites as to Asians. Just 19 of 4,482 couples involving a Sikh included a Muslim.¹⁷⁰ Radical Islamist groups like Hizb-ut-Tahrir provide one of the few settings in which inter-ethnic marriage occurs, suggesting that Islam only overrides ethnic loyalties in the white heat of the most intensely Islamist environments.¹⁷¹

French Muslims are largely from North Africa, with a significant (60%) Kabyle Berber element among the Algerians comprising the largest component.¹⁷² British Muslims are

¹⁶⁹ Maréchal, B. (2002) *A Guidebook on Islam and Muslims in the Wide Contemporary Europe*. (Louvain-la-Neuve: Academia Bruylant); Westoff, C.F. and T. Frejka (2007) 'Religiousness and fertility among European Muslims', *Population and Development Review* 33(4): p. 785-809.; IIASA/Pew 2009, ongoing project

¹⁷⁰ Own calculations from ONS Longitudinal Survey 2001 (London: Office of National Statistics)

¹⁷¹ Private conversation with Shiraz Maher, February 2008

¹⁷² Silverstein, P. A. (2004) *Algeria in France: transpolitics, race, and nation*. (Bloomington: Indiana University Press), xi, pp.284

mainly South Asian. 43 percent are Pakistani, and of these, 70 percent come from the Mirpur district of Pakistani Kashmir.¹⁷³ Among British Bangladeshis, 95 percent come from the northeastern region of Sylhet. Once again, the ethnic boundaries and specificity of the immigrant populations are important. These continue to structure links via arranged marriage, often to cousins. In Germany, the Netherlands and the Benelux countries, most Muslims are Turkish (typically from pious Anatolian villages rather than the cosmopolitan west coast) or Moroccan. Norway and Sweden have a considerable Somali component to their Muslim populations. It is worth mentioning that there is limited representation in Europe from the most Salafi Islamist regions, i.e. Saudis and other Mideast Arabs, Pashto and Baluch.

Muslim Birthrates: High but Falling

Relatively high Islamic birthrates remain an important factor in European Muslim population growth and power change even in the absence of immigration. Take Austria, one of just four countries (along with Switzerland, UK and Slovakia) which ask a religion question on the census. The Muslim total fertility rate in Austria in 1981 was 3.09 children per woman as against a population average of 1.67. In 1991, the ratio was 2.77 to 1.51. In 2001 it stood at 2.34 to 1.32. Thus even as Muslim fertility declined, the continued plunge in the fertility rate of the dominant Austro-German ethnic group has maintained differentials. Native Austrian fertility has risen somewhat since, thus Muslim fertility is probably converging with that of other Austrians. This is what has happened in much of the rest of Europe.

Though most Muslim countries have TFRs above 3.0 and slowing demographic transitions due to Islamist pressure, a number of important European source countries have relatively low fertility. This includes Iran, Turkey, Algeria and Tunisia (all near or below replacement) and Morocco (2.59), but excludes Pakistan (3.60) and Somalia (6.52). Home country demographic transitions affect those of the receiving country. In Germany, Turkish immigrant TFR declined from 4.4 births per woman in 1970 to 2.4 in 1996. In England and Wales, Pakistani and Bangladeshi immigrant TFR dropped from 9.3 to 4.9 between 1971 and 1996; in Belgium, Moroccan-born TFR fell from 5.72 to 3.91 between 1981 and 1996. On the one hand, Muslim fertility is about three times as high as that of natives in Britain and Norway, largely due to the Pakistani and Somali nature of the source country flows. On the low side, Iranian immigrant fertility is close to that of natives in all countries, and Turkish nationals (including immigrant and native born) in the Netherlands have fertility that is approaching that of the European-origin population. All indications are that Turkish fertility will approach that of natives in most European countries - certainly over 1-2 generations.¹⁷⁴

Still, it is worth noting that the TFR of immigrant populations of North African and Turkish descent is often *higher* in Europe than at home. This is especially true of Turks and Moroccans in Belgium. Complete convergence may never arrive, and even small fertility differences can lead to important shifts over generations. Why might convergence not occur? Religious women of all faiths are more fertile than the nonreligious. Among Muslims in Europe this is especially true: religious European Muslims are nearly 40 percent more likely to have two or more children than the least religious European Muslims even when controlling for age, marital status, income and education. Muslim women tend to be more

¹⁷³ Rai, M. (2006) *7/7: the London bombings, Islam and the Iraq War*. London, Ann Arbor, MI: Pluto Press, p. 72

¹⁷⁴ Westoff, C. F. and T. Frejka (2007). "Religiousness and fertility among European Muslims." *Population and Development Review* 33(4): 785-809.

religious than others, and hence will probably remain more fertile on average - though with less of an advantage than previously.¹⁷⁵

Muslim Secularization?

Secularization can turn Muslims into secular Europeans. European minority surveys show that most immigrants are more religious than their west European hosts.¹⁷⁶ Data from three UK studies from of ethnic minorities in the 1994-2003 period demonstrate strong Muslim religious retention in the second generation. This is especially true of mainly Muslim ethnic groups like the Bangladeshis and Pakistanis, a finding confirmed for North Africans in a recent study of the Dutch case.¹⁷⁷ This reflects widely reported trends such as the relative youth and vitality of Muslim congregations in Britain and the fact that weekly Mosque attendance now exceeds weekly attendance for the Church of England.

The same dynamics operate in other west European countries, where the European Values Survey (2000) and European Social Survey (2004) show no difference in mosque attendance between the oldest and youngest generations. A recent Dutch study confirms these results: the proportion citing 'no religion' among second-generation Turkish (4.8% across 566 cases) and Moroccan (3.1% across 514 cases) Dutch respondents is far lower than the general population and differs little from the first generation, though attendance shows a modest decline. Statistical analyses make it clear that generation has no effect on the religious identity of respondents from these Muslim ethnic groups and only a modest impact on mosque attendance.¹⁷⁸ What's more, Europe-wide social surveys find that Muslims under 25 are as devout as those over 55, a big contrast with Catholics or Anglicans. Indeed, Muslim youth are often stricter than their elders: a 2006 poll discovered that 37 percent of 16-24s would prefer to live under Shari'a compared to just 17 percent of those over 55.

French Muslim Exceptionalism?

The great exception to these trends is French Muslims, specifically those of Algerian origin. This is important given the fact that those with origins in Muslims countries now number 5.7 percent of the French population, the largest of any west European country¹⁷⁹. In the 1999-2000 World Values Survey, Algeria had the lowest proportion of self-identified 'religious' (55%) respondents of any Muslim country, by far the lowest in the MENA region.¹⁸⁰ Kabyle Berbers in Algeria have an especially strong secular tradition of opposing the Algerian state's Islamist ideology, and some 60 percent of Franco-Algerians are of Kabyle origin.¹⁸¹ This probably explains why 60 percent of second-generation French with at least one Algerian

¹⁷⁵ Courbage, Y (2007) 'Migrants in Europe: Demographic Characteristics and Socio-Economic Conditions', *INED Working Paper* (Paris); Frejka and Westoff, "Religiousness and fertility among European Muslims."

¹⁷⁶ Van Tubergen, F (2006) 'Religious Affiliation and Attendance Among Immigrants in Eight Western Countries: Individual and Contextual Effects', *Journal for the Scientific Study of Religion*, **45**(1): p. 1-22.

¹⁷⁷ Van Tubergen, F (2007) 'Religious Affiliation and Participation among Immigrants in a Secular Society: A Study of Immigrants in Holland', *Journal of Ethnic and Migration Studies* **33**(5): p. 747-65.

¹⁷⁸ Phalet, K. and F. Haker (2004) 'Moslim in Nederland. Diversiteit en verandering in religieuze betrokkenheid: Turken en Marokkanen in Nederland 1998-2002', SCP-werkdocument 106b, *Sociaal en Cultureel Planbureau*, Utrecht, & Ercomer-ICS, Universiteit Utrecht.: 17-22)

¹⁷⁹ Based on unpublished work by IIASA colleagues for Pew Charitable Trust.

¹⁸⁰ The question reads 'are you a religious person? 1-religious, 2-Not religious, 3-Atheist.'

¹⁸¹ Silverstein, *Algeria in France*,

parent claim to have no religion.¹⁸² This may also account for the lack of religious mobilization surrounding the *banlieue* riots of 2005, the limited degree of recent French homegrown terrorism, or the fact that a majority, albeit slim, of French Muslims supported the headscarf ban in state schools. The author pointed out in *Foreign Affairs* (citing Pew Forum evidence) that 81 percent of British Muslims said they were Muslim first and British second, compared with only 46 percent of French Muslims saying they are Muslim first and French second.¹⁸³ More recently, doubts have been raised by surveys which show a decrease in the proportion of French Muslims saying they have 'no religion', from a third in 1992 to just 10 percent in 2008, so the community may be becoming re-Islamized due to the growing profile of Islamic issues in France.

Muslim Inter-marriage

There is an organic link between inter-marriage with the host population and secularization. Generally speaking, inter-marriage with a secular partner is often the prelude to secularization.¹⁸⁴ Looking across Western Europe, inter-marriage rates are lowest among Muslim ethnic groups, averaging just 8 percent (see table 3.2). Moreover, the second generation displays only a marginally higher level of inter-marriage than the first, an increase from 6 to 10.5 percent. Only Algerian French men, half of whom married out in 1992, constitute a major exception to the rule. This can be compared with the West Indian inter-marriage rate of 26 percent in the first generation and 53 percent in the second generation.¹⁸⁵ In Germany, meanwhile, just 7.2 percent of German Muslim men and 0.5 percent of Muslim women were married to someone of another religious faith.¹⁸⁶ Religion appears to pose a larger barrier than race to assimilation.

¹⁸² Amiraux, V (2004) *L'Islam en France Encyclopaedia Universalis* (France: Paris).

¹⁸³ Paris, J. (2007) 'Europe and its Muslims', *Foreign Affairs* 86 (1), pp.182-184.

¹⁸⁴ Voas, D. (2003) 'Inter-marriage and the Demography of Secularisation.' *British Journal of Sociology* 54(1), pp.83-108.

¹⁸⁵ Lucassen, L. and C. Laarman, (2009) 'Immigration, inter-marriage and the changing face of Europe in the post war period', *The History of the Family* 14(1).

¹⁸⁶ Haug, S., S. Mussig, et al. (2010). *Muslim Life in Germany*. (Nurnberg, Federal Office for Migration and Refugees).

Table 3.2 Outmarriage in Europe, 1st and 2nd Generation (by % of Ethnic Group Intermarried)

	Male 1st	Male 2nd	Female 1st	Female 2nd	Average
West-Indians (UK, NL)	26	60	26	46	40
Italians, Greeks, Yugoslavians (Ger), Spanish, Portuguese (Fr.)	22	48	15	38	31
Moroccans, Turks (Ger, NL, Be) Algerians (F.)	11	16	5	8	10
Algerians, Moroccans (Fr.), British-Indians, Pakistanis, Bangladeshis (UK), Indo-Surinamese (NL)	5	11	7	10	8

Source: Lucassen and Laarman, "Immigration, intermarriage and the changing face of Europe".

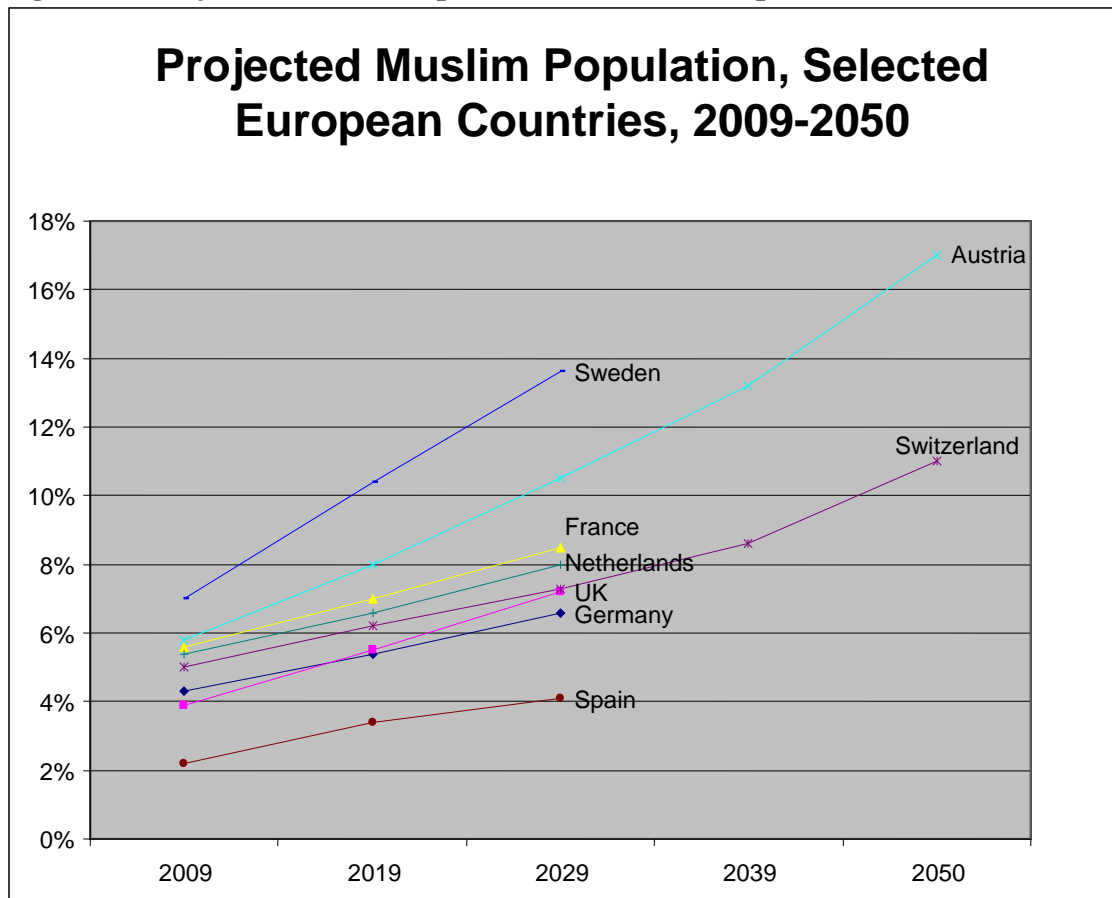
The resistance to assimilation among Muslim ethnic groups gains strength because Turkish, Pakistani and Moroccan children, in particular, are pressured to marry spouses from the home country. In the Netherlands, for 1988-2002, 71 percent of second-generation Turks and 59 percent of second-generation Moroccans chose a spouse from the home country. Trends appear to be similar in Belgium, the only other case where we have good data. Only France is an exception, with just 17 percent of second-generation Algerian-origin men (but fully 54 percent of second-generation Algerian origin women) opting to find a spouse in Algeria. Some suggest that restrictive immigration laws since the 1970s amplify the pressure on European Muslims to seek spouses abroad, especially for women – who may be more subject to traditional patriarchal moral restraints.¹⁸⁷

Eurabia? Projected Muslim Populations of Europe in 2030, 2050 and 2100

Figure 3.2 shows the latest (unreleased Pew) Muslim population projections for eight west European countries. Only two, Austria and Switzerland, have currently been projected out to 2050, but their trajectory gives us a good sense of what we might expect for other countries. These projections assume no Muslim secularization, current rates of immigration and that Muslim fertility will converge with that of the native population by 2050. While it is reasonable to assume that some Muslims will become secular, it is also likely that Muslim fertility will not converge completely to host society levels, so the projections are not systematically biased up or down.

¹⁸⁷ Lucassen, L. and C. Laarman, (2009) 'Immigration, intermarriage and the changing face of Europe in the post war period', *The History of the Family* 14(1).

Figure 3.2 Projected Muslim Population, Selected European Countries, 2009-2050¹⁸⁸



Source: Pew 2011

Notice that Muslim populations in 2050 are projected to fall well shy of a majority, but that the curve of increase bends upward over time, causing the speed of Islamization to accelerate beyond 2030. This means that most large western European countries will be between 10 and 15 percent Muslim in 2050, though Sweden may approach a 20-25 percent Muslim by that date while countries like Spain whose inflow is more Latin American will be little more Islamic than they are today.

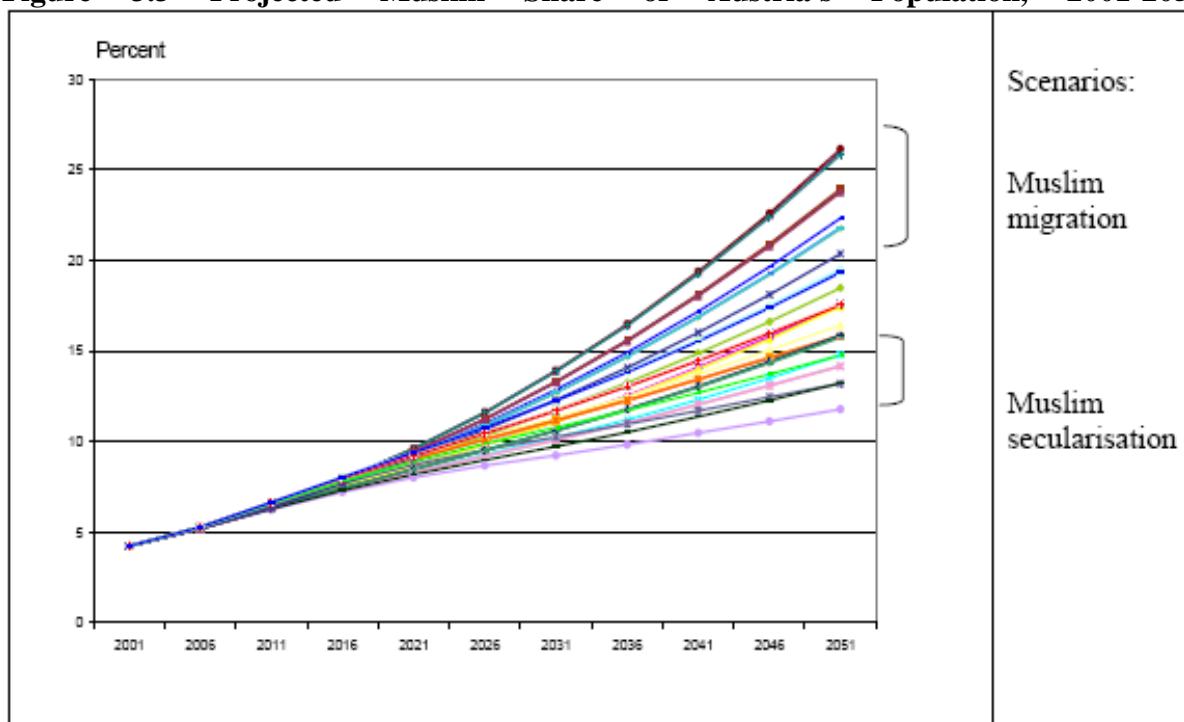
While Europe will not even approach a 'Eurabia' scenario in 2050, there will be significant changes by 2100. In Austria, if fertility rates between Muslims and others do not converge, the country will be 36 percent Muslim in 2100 with Muslims in a slight majority among those aged 0-14. Muslim TFR seems likely to approach that of other groups, but even if the gap closes by 2030, Austria would still be more than a fifth Muslim by the turn of the century. In Switzerland, projections based on current fertility differences and immigration flows show that roughly a quarter of Swiss will be Muslim in 2100, rising to nearly 40 percent of those

¹⁸⁸ Pew Forum on Religion and Public Life. 2007. Muslim Americans: Middle Class and Mostly Mainstream. Washington, D; Goujon et al. (2007) 'New Times, Old Beliefs: Investigating the Future of Religions in Austria and Switzerland', Paper Presented at Joint Eurostat/UNECE Work Session on Demographic Projections, Bucharest 10-12 Oct 2007, Luxembourg; Office for Official Publications of the European Communities.

under 14. If we assume that birthrates between Muslims and mainstream Swiss converge by 2030, then the population will stabilize at the much lower figure of 10 percent Muslim.¹⁸⁹

Much depends on the level of Muslim immigration and the pace of secularization of Muslims. Recall that we expect little or no secularization and steady or rising Muslim immigration in the future. This would incline the Muslim share of countries' populations toward the high side as a plot of multiple scenarios for Austria shows. (Figure 3.3) In Switzerland, lower levels of immigration and slightly lower Muslim fertility (and older age structure) produce an expected Muslim proportion closer to 11 percent in 2051.¹⁹⁰ (Figure 3.4) Immigration levels will therefore play a considerable role in determining population composition in 2050, despite the built-in Muslim advantage accruing to fertility and age structure.¹⁹¹

Figure 3.3 Projected Muslim Share of Austria's Population, 2001-2051



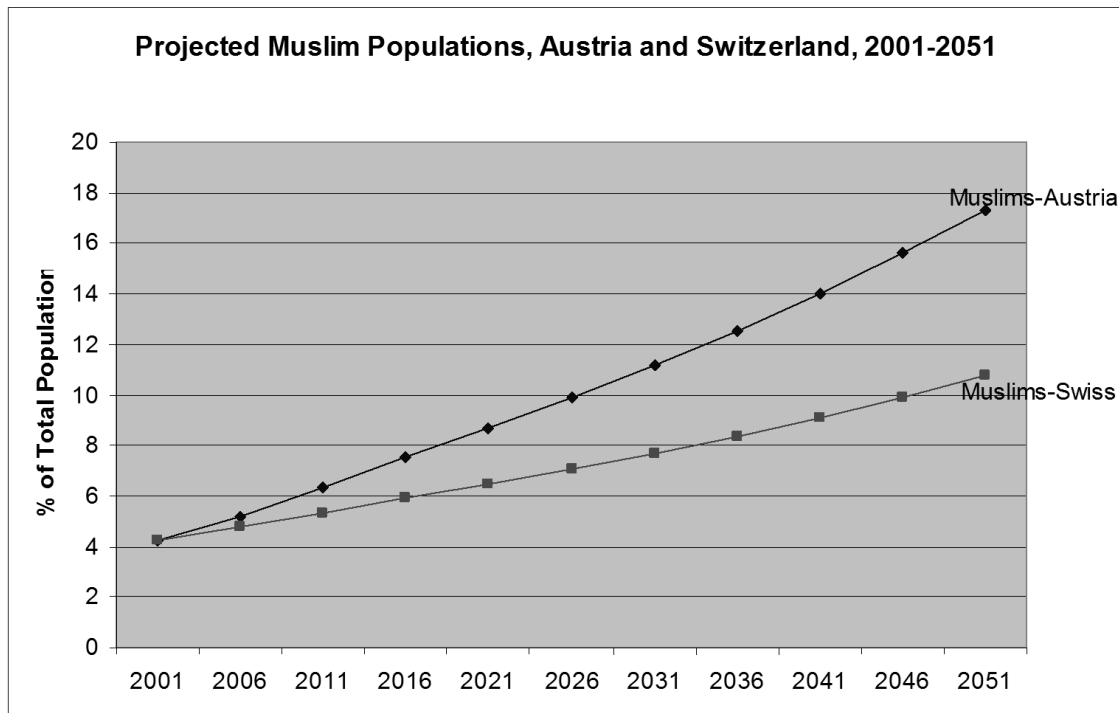
Source: Goujon et al., "New Times, Old Beliefs".

¹⁸⁹ Goujon, Anne. Projections with Austrian and Swiss census data, unpublished.

¹⁹⁰ Ibid. pp.347-60.

¹⁹¹ Coleman, D. (2006) 'Immigration and Ethnic Change in Low-Fertility Countries: A Third Demographic Transition.' *Population and Development Review*, September 32(3)

Figure 3.4 Projected (Expected) Muslim Share of Population, Austria and Switzerland, 2001-51



Source: Goujon et al., "New Times, Old Beliefs", my own calculations with their data.

That said, even if immigration stopped tomorrow, Muslims' higher fertility and young age structure would ensure a continued rise in the Muslim share of the total. What's more, there are many good reasons to believe that severe cuts in immigration levels are not in the offing. Europe's native population is aging and declining, with a soaring ratio of retirees to workers whose economic effects will become much more apparent after 2020. This will prompt employers' organizations to push for further economic migration. Asylum, chain migration and illegal immigration are likewise difficult to control in liberal societies.¹⁹² So the flow of roughly a quarter million Muslims into the EU each year will probably continue. It sounds like a trickle, and at 0.5 percent of the EU population it is, but remember that the great wave of Latino immigration to the United States since 1970 only averaged 1 percent of the total per year and has transformed the American population.

Muslim Concentration: the Geography of European Islam

The sharp end of demographically-driven social change is first experienced in urban areas, which tend to receive most immigrants, especially in the primary schools and maternity wards of hospitals because new populations are often younger and more fertile than the aging native population. In Amsterdam in 2004, 49 percent of the city's 739,000 people were of non-Dutch ethnic origin (mainly of Antillean, Turkish and Moroccan descent), a majority among the under-25 population. This is in a country with less than 9 percent of non-European origin.¹⁹³ Often the urban effect is multiplied by the younger age structure of minority

¹⁹² Goodhart, D (2010) 'Accidental Immigration', *Prospect* (167).

¹⁹³ Alexander, M (2007) *Cities and labour immigration: comparing policy responses in Amsterdam, Paris, Rome and Tel Aviv* (Aldershot: England). xiii, 242 pp.166.

populations. For instance, 1 in 5 UK births is to a foreign-born mother, and in greater London, the proportion is 1 in 2.¹⁹⁴

Italy's foreign-born population stood at little over 5 percent in 2004, yet in Rome, a study by La Sapienza University in that year found that 15 percent of mothers giving birth were of wholly or partly foreign origin. In Turin the number was 25 percent.¹⁹⁵ In Moscow, the Russian character of the city belies rapid ethnic change as the country's plunging working-age population combines with an oil-fueled demand for workers to change the makeup of the young population. In 2008, the city's statistical office released figures showing that 30 percent of newborns in the city were to mothers born outside Russia. This almost certainly underestimates the size of the young population since most illegal immigrants do not register their births. Most are from impoverished Muslim ex-Soviet republics in Central Asia. Caucasian Muslims are also prominent.¹⁹⁶ Overall, despite the 10 million hits for the YouTube video 'Muslim Demographics', we will not experience 'Eurabia' in the next 50 years, except in the delivery rooms and public schools of the main immigration-gateway cities. This will be significant, but not culturally transformational. The big shift, if it takes place, will only occur during 2050-2100, a period by which much else could change.

Muslim Identity in Europe

The liberal optimists who claim European Muslims will soon resemble American Hispanics in their pace of integration are mistaken.¹⁹⁷ A small and growing portion of Muslims are intermarrying and a trickle is secularizing, but the pace of change is slow. One also has to factor in the power of Islam as a supra-ethnic, civilizational identity. Religion can thrive in a secular setting when it serves as a prop of identity. This allows it to remain relevant and resist erosion by secular forces.

Second-generation Muslims are detached from their ethnic roots but also feel spurned by the white majorities in their nation-states. This condition of existential purgatory makes the option of Muslim identity more enticing. One may not feel very Pakistani or English, but one can be a *Muslim*. You don't even have to be religious to cheer for Team Islam. The British Pakistani young men who daub ' Hamas rules OK ' graffiti on the walls of their Yorkshire (England) slums are indulging in an Islamic machismo no different to the French Muslim rioters of the *banlieues* who chanted 'Allah Akbar' to police. These are boundary-marking identity games with little connection to the obligations of Islam or abstruse debates about shari'a.¹⁹⁸ Identity practices are relatively costless, and you can indulge them without embracing the discipline of Islamic practice.

This is not irrelevant to religious revival. Identity politics stimulates spiritual curiosity and strengthens communal norms of piety that might otherwise crumble. Historically, we find this among the relatively religious Poles, Bretons, Basques, Northern Irish Nationalists and others who consider the Catholic religion a key element of their national identity. The revival of

¹⁹⁴ Office of National Statistics, *no. 33*, in *Birth Statistics Series FMI*. 2006.

¹⁹⁵ See http://www.wantedinrome.com/news/news.php?id_n=2396. Also Caldwell, Christopher (2009) *Reflections on the revolution in Europe: immigration, Islam, and the West*. 1st ed. New York: Doubleday pp. 18

¹⁹⁶ Goble, P. (2008). 'Nearly one-third of Moscow newborns are children of migrants'. *Window on Eurasia*, from Kavkaz Center Russian Events. 12 February.

¹⁹⁷ Zolberg, A. R., and L. L. Woon. (1999). 'Why Islam is like Spanish: Cultural incorporation in Europe and the United States.' *Politics & Society* 27 (1):5-38.

¹⁹⁸ *Ibid.* pp. 97

Islam in the Muslim world - manifested in the wearing of the headscarf and rise of Islamist organizations - makes Islam hip for Europe's nominal Muslims. They feel part of a growing worldwide movement, the *umma*, or community of believers. Once a vague abstraction, the *umma*, remarks the always perceptive Aziz Al-Azmeh, has been reinvented as a political and territorial 'nation' knit together by cyberspace, Islamist NGOs and globalization.¹⁹⁹

Figure 3.5 Shiites celebrating holiday in the Hague, Netherlands (2011)



Shiites celebrate the day of Ashura in the Hague, Netherlands, 2011 (photo credit: Jan kranendonk/Shutterstock.com)

Global communications allow Al-Jazeera and other transnational Islamic cultural products to enter European living rooms. Islamist websites proliferate, many translated into European tongues. The *umma* even has a political vision. The message that Islam should supersede national and ethnic attachments may ring hollow in the Middle East where nations and sects are locked in competition, but it strikes a chord with Europe's deracinated Muslims.²⁰⁰ 31 percent of British Muslims claim a stronger connection with Muslims in other countries than with their fellow Britons, and the figures are much higher among those aged 18-24.²⁰¹ For Islamic reformists like Tariq Ramadan, this ethnic uprooting offers European Muslims a better chance to realize true Islam than their parochial brethren in the Muslim world. He proffers a 'Euro-Islam' which is at once purer and better adapted to modernity. European Muslims who seek to cut loose from backward ethnic traditions like arranged marriage may even gravitate to Salafi fundamentalism because Salafis deride these proscriptions as human innovations.²⁰²

¹⁹⁹ Al-Azmeh, Aziz. (2007). 'Afterword', in Aziz Al-Azmeh and Effie Fokas (eds.) *Islam in Europe: Diversity, Identity and Influence*, (Cambridge: Cambridge University Press), p. 210

²⁰⁰ Cesari, Jocelyne. (2007) 'Muslim Identities in Europe: the snare of exceptionalism,' in Aziz Al-Azmeh and Effie Fokas (eds.) *Islam in Europe: Diversity, Identity and Influence*, (Cambridge: Cambridge University Press), pp. 58, 62-4

²⁰¹ Mirza, Munir, Abi Senthilkumaran, and Zein Ja'far (2007) 'Living Apart Together: British Muslims and the paradox of multiculturalism.' London: Policy Exchange, p. 38

²⁰² Klausen, Jytte (2005) *The Islamic Challenge: Politics and Religion in Western Europe*, (Oxford University Press), pp.100-2; Ramadan, Tariq. (2002) 'Europeanization of Islam or Islamization of Europe,' in S. Hunter (eds.) *Islam, Europe's second religion: the new social, cultural, and political landscape*, (Westport, Conn: Praeger), pp. 211-13; *Ibid*, pp. 219

Chapter 4. White Flight? Residential Segregation in Europe

White Flight

White Flight is important for the future of Europe because even if minorities desire to integrate, majority disinclination to do so will help reproduce a segregated society. The truth is that both minorities and whites tend to self-segregate. Moreover, whites appear to be more reticent about living as a minority than are some minority groups. This drives white self-selection out of areas with a minority feel. Over time, this makes it harder to dissipate growing zones of minority concentration, even as these overflow their boundaries and spread into adjacent white areas. The result is a more balkanized and polarized society. This kind of ethnic geography has been linked to greater inequality, more minority alienation and ethnic conflict.

Moving from a macro migration picture of global flows between world regions to smaller geographies brings immigrant-receiving metropolitan areas into focus; and, beneath these, census tracts or wards averaging several thousand people. It is these geographies which most closely correspond to the neighborhoods where global ethnic change is unfolding fastest. What is taking place in these microcosms of global change?

Minority Self-Segregation in Europe: A Mixed Picture

To what extent does relatively white Europe resemble an increasingly diverse America? In both, ethnic status systems and myths of indigenous national ethnicity operate strongly. As in the US, white neighborhoods in Europe tend to have a wider range of amenities than more diverse ones. One would thereby expect - despite the absence of a tradition of black segregation - whites from Europe's national ethnic groups to exhibit residential proclivities as pronounced as those held by American whites toward. Work on ethnic segregation in Europe has primarily concerned itself with aggregate patterns, paying close attention to the movements of minority groups and the structural barriers which constrain their choice of neighborhood. It has generally been assumed that patterns of segregation reflect structural constraints and minority preferences rather than majority behavior (Musterd and De Winter 1998; (Arbaci 2007; Andersson 2009). Yet recent data suggests that while immigrants tend to locate near co-ethnics, those in the second generation are more mobile than ethnic majority Europeans (Vidal and Windzio 2011). This raises the possibility that patterns of segregation are being generated not by minority concentration and white stasis, but, at least in part, by white flight and avoidance.

For example, ethnic minorities in Germany, and those with an immigrant background in Eastern or Western Europe (i.e. Italy, Greece, Spain) or the Rest of the World, are more likely to move than native Germans. However it must be noted that this may be an artifact of age since younger people move more and minorities have younger age structures than native Germans. There is also evidence that ethnic minorities in Germany who acquire German citizenship are more mobile. The odds of a second-generation German ethnic minority person moving are almost 1.5 times higher than those of a first-generation immigrant who arrived after 1989.²⁰³ This is corroborated by a recent Belgian study which finds that the immigrant

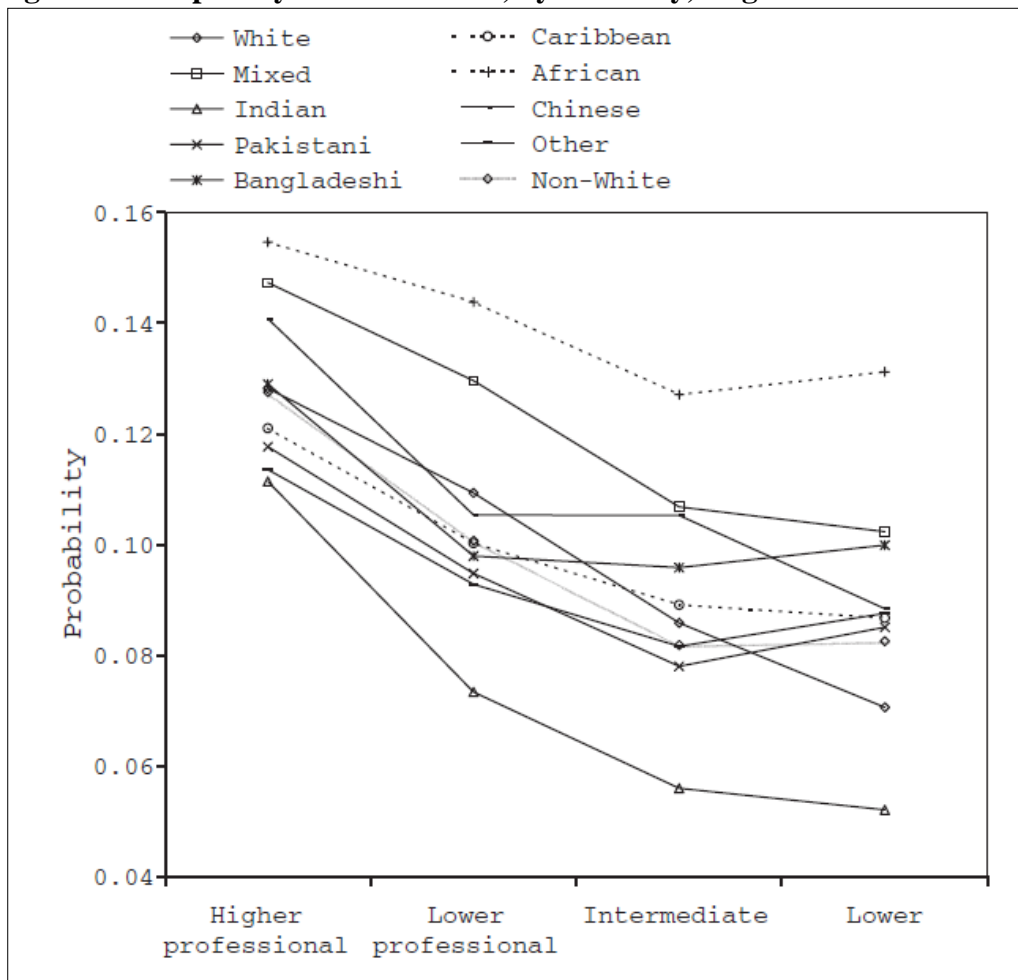
²⁰³ Those who arrived earlier tend to be older, hence their lower likelihood of moving.

second generation is more likely to suburbanize and move longer distances than the first generation (de Valk and Willaert 2011).

Ethnic Segregation in Britain

In Britain, we see similar patterns. When we examine patterns of dispersal by ethnic group and class (figure 4.2), we find that the various nonwhite groups are as likely as whites to move: their likelihood of moving by class tracks that of whites, suggesting that mobility is pretty similar. Compared to whites of the same occupational class, minorities from the upper and lower ends of the class distribution are actually more likely to move from an area than whites.

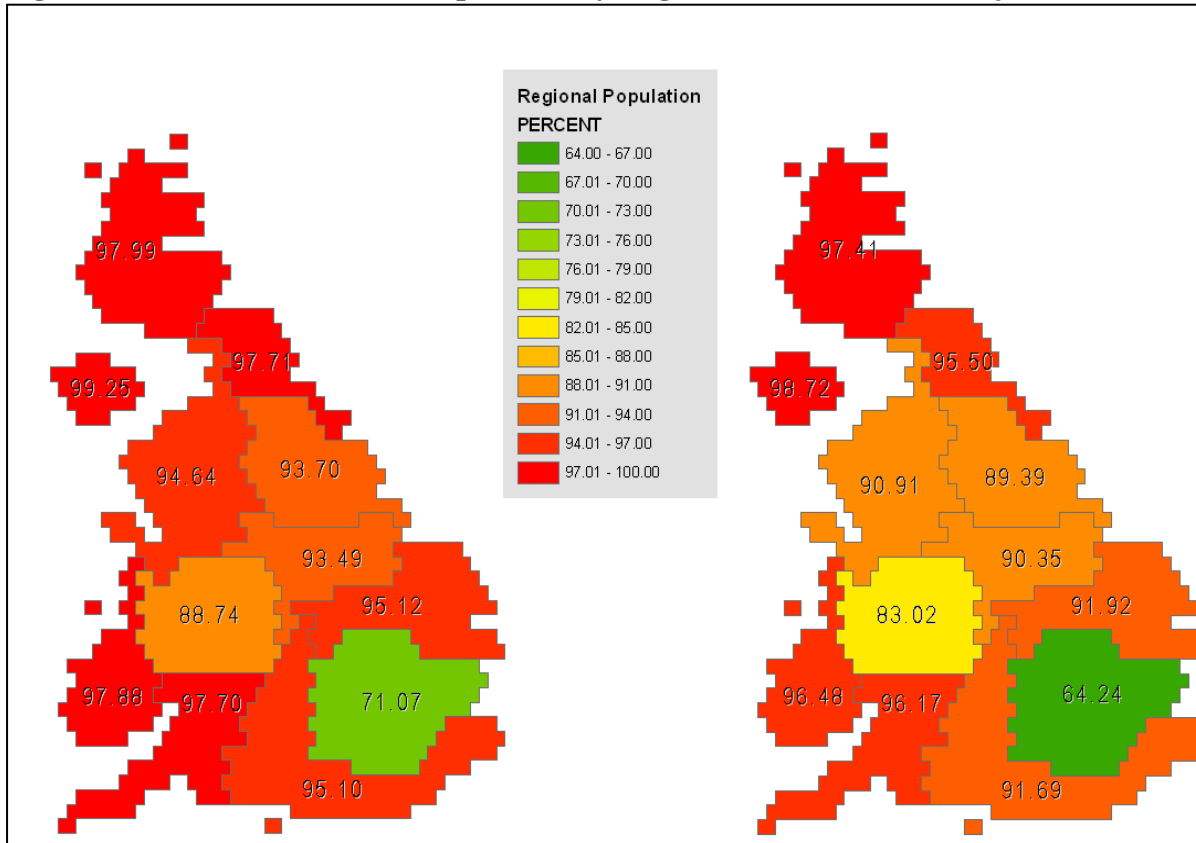
Figure 4.2 Propensity to Leave Ward, by Ethnicity, England/Wales 2001



Source: (Catney and Simpson 2010)

In Britain, there has been a strong regional concentration of ethnic minorities, focused on London and the Southeast region, but also the Midlands around Birmingham, Manchester, Bradford and Leeds (see figure 4.3). *It is worth adding that London gains minorities through both natural increase and immigration while in the Midlands, gains are largely through natural increase alone, and are thus less marked. London's minorities include a substantial black population alongside Asians whereas those in the Midlands are predominantly South Asian.*

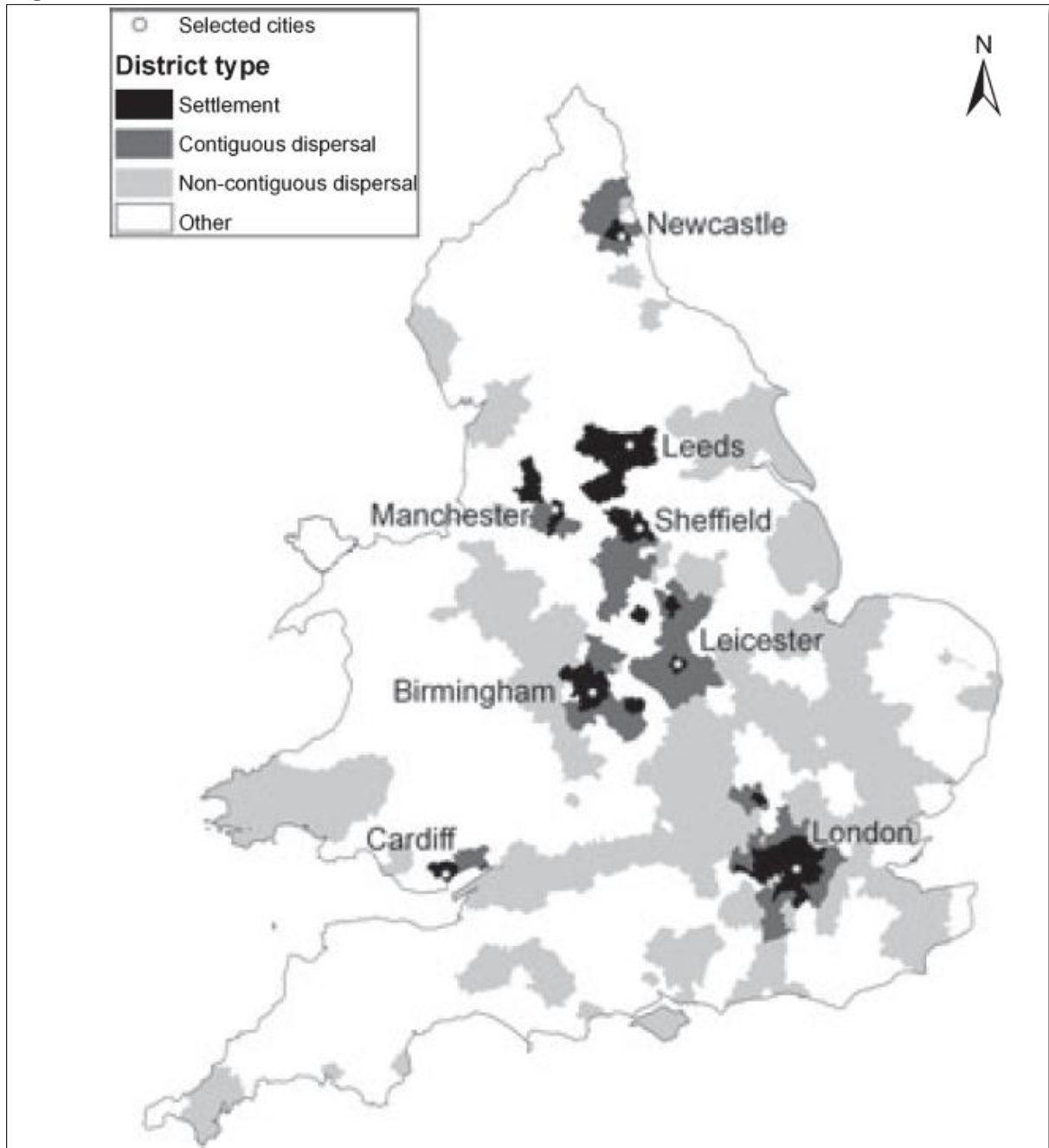
Figure 4.3 UK White Share of Population by Region, 2001 and 2020 (Projected)



Source: Rees, Phil. 2007. 'Ethnic Population Projections: Review and Illustration of Issues', Manchester: CCSR

Figure 4.4 shows areas of minority concentration in England and Wales and the adjacent urban zones they tend to disperse to. Most minorities who move go to areas adjacent to their concentration zones ('contiguous dispersal') while a small number venture farther afield to the lighter shared 'noncontiguous dispersal' area.

Figure 4.4 Areas of Minority Settlement Concentration and Adjacent Dispersal, England/Wales, 2001



Source: Catney and Simpson 2010

Researchers find that minorities' likelihood of leaving their ethnic neighborhoods for whiter areas is nearly as great as is the likelihood of whites leaving such areas. More successful minorities are especially apt to leave such areas for whiter areas.

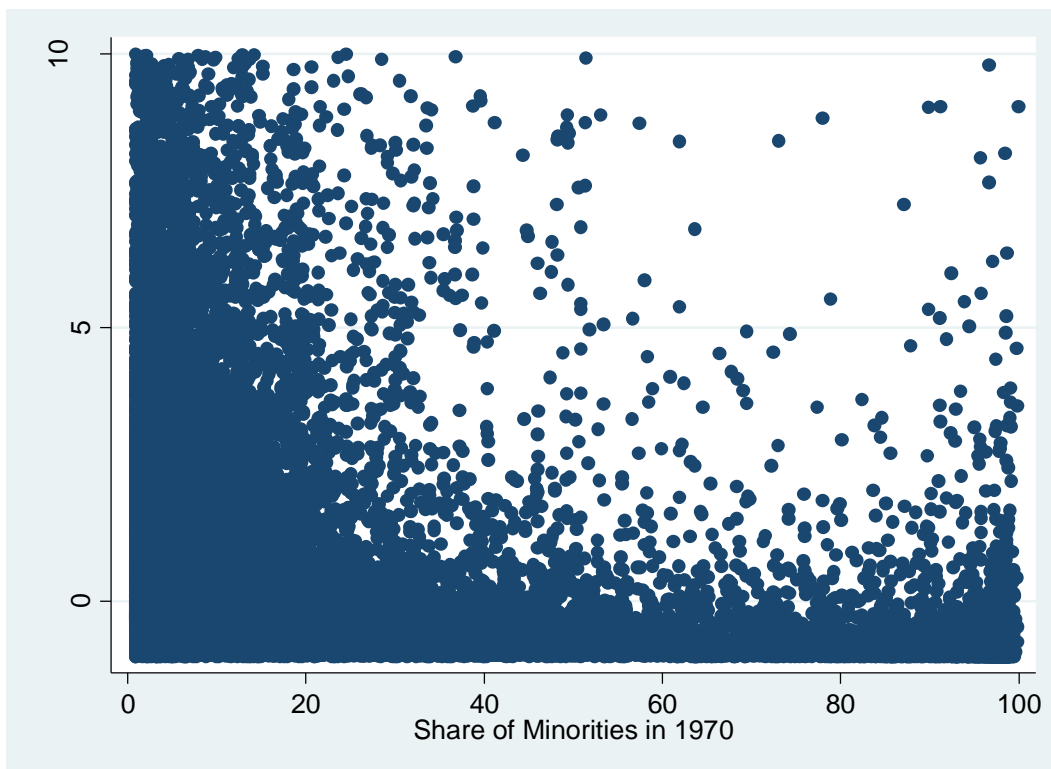
Thus there is a general view that minorities are as or more mobile than whites and the second generation is more likely than their parents to leave their ethnic areas. This said, minorities tend to move to adjacent neighborhoods which already have some minority population rather than heading for the heavily white countryside and small towns which are attracting urban whites.

White Flight in Europe?

Work on white residential responses to diversity in Europe using individual data at neighborhood level is in its infancy. A pioneering study in this regard is that of Bråmås (2006) which uses Swedish register data to specify individuals' migration patterns in diverse locales, using place of birth as a proxy for ethnic origin. This work demonstrates that ethnic Swedes are tending to avoid diverse satellite high-rise estates such as Husby, on the periphery of Stockholm.

Let's compare trends in the United States over 1970-2000 with those in Stockholm 1990-2000 and England 2001-2011. What is remarkable is that in all three locations there is a clear curvilinear relationship: the higher the share of minorities in a ward or census tract (population 10,000-30,000) in the starting year, the greater the outflow of white population over the period of measurement (1970-2000, 1990-2000, 1991-2001).

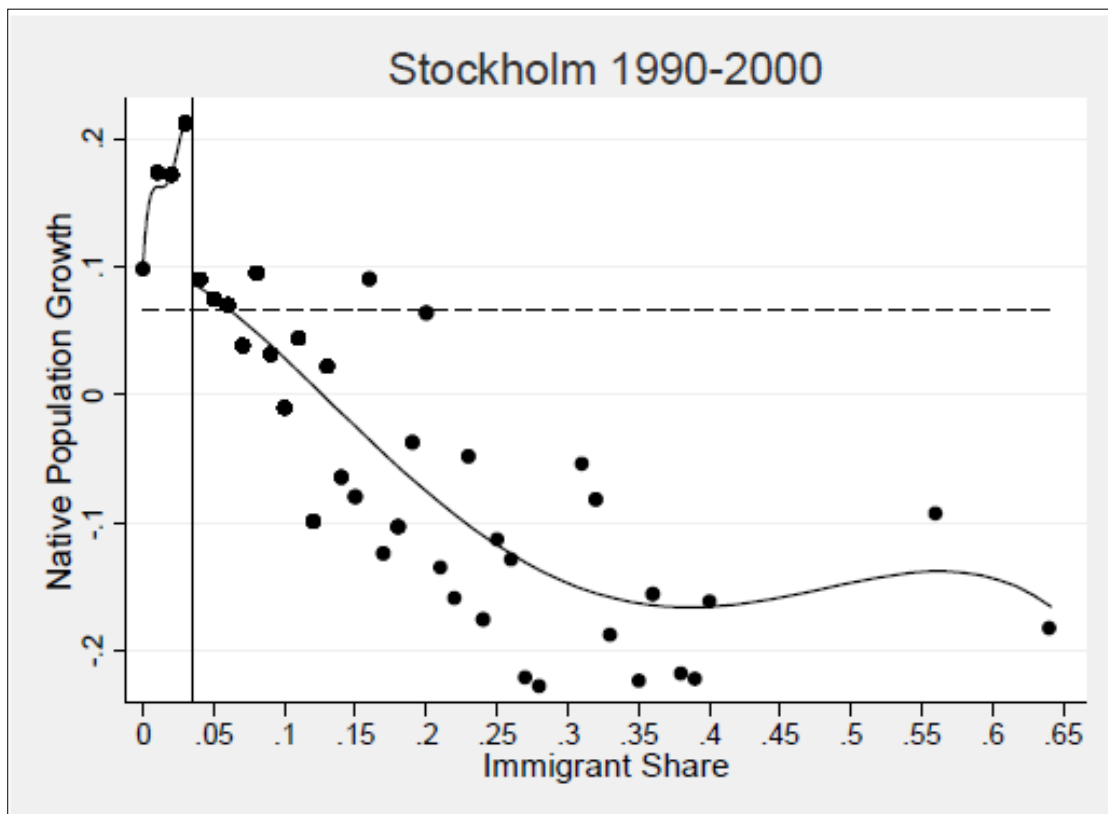
Figure 4.6 White Population Change 1970-2000, by Census Tract, against Share of Minorities in the Tract in 1970, United States



Source: data from Mas, Card and Rothstein 2008, own manipulations.

And here is the data for Stockholm. Note the similarity.

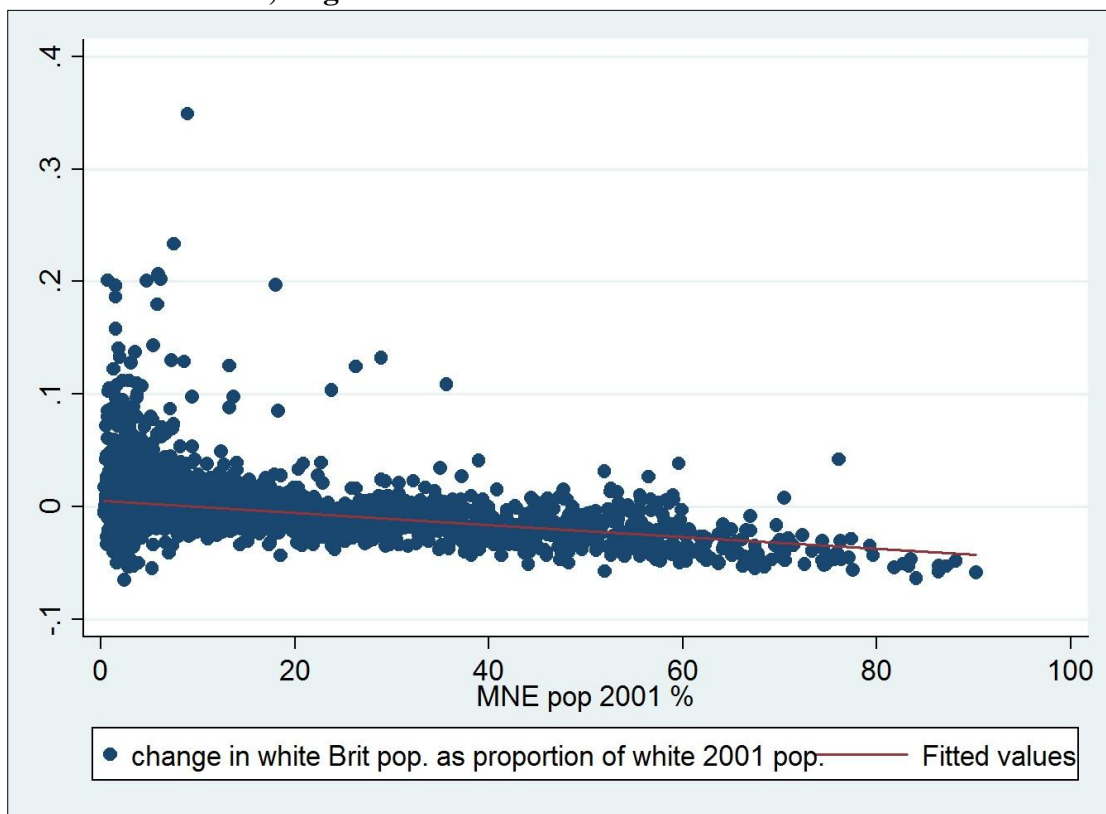
Figure 4.7 White Population Change 1990-2000, by Census Tract, against Share of Immigrants in the Tract in 1990, Stockholm



Source: Andersson, Hammarstedt, Neuman 2012

The same relationship has appeared with the recently released UK census data, which dovetails with headlines in the news about the decline in London's white British share of the London population from 58 to 45% in just ten years:

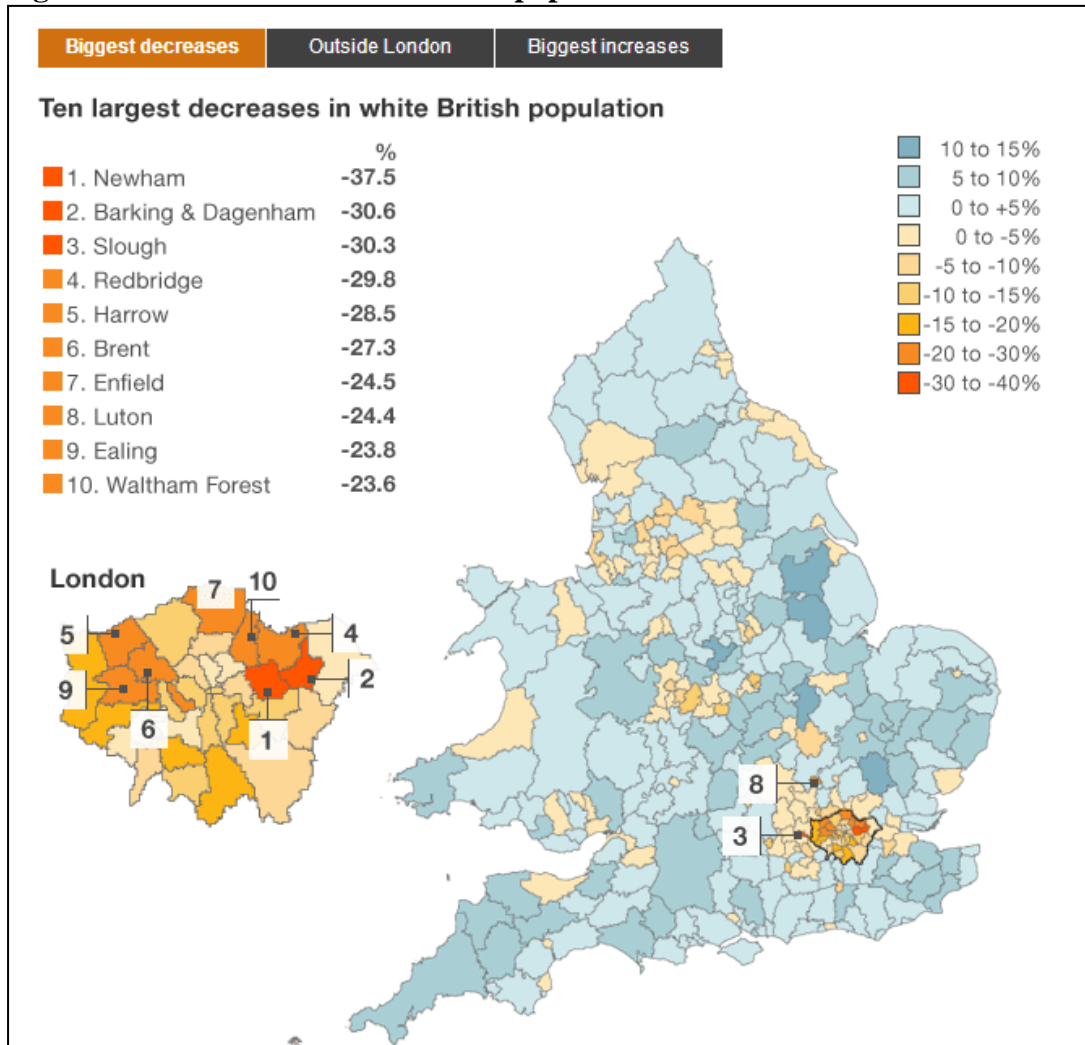
Figure 4.8 White Population Change 2001-2011, by Ward, against Share of Minorities in the Ward in 2001, England and Wales



Source: 2011 UK Census, own manipulations.

Notice the concentration of white British population loss in the London area, shown in figure 4.9. Within London, the boroughs that are already the most diverse lost the largest number of whites, exacerbating segregation.

Figure 4.9 Decreases in white British population



Source: Mark Easton, 'Why Have the White British Left London', *BBC News*, February 19, 2013

Overall, white Europeans are leaving areas of minority concentration and clustering in areas with over 80% white population.

At the same time, BråmÅ found scant evidence of disproportionate ethnic Swedish 'white flight' from Husby, leading her to conclude that much of the shift in the ethnic composition of formerly Swedish-dominated neighborhoods could be attributed to majority avoidance, minority preference and higher *in situ* rates of natural increase. Likewise, a Dutch survey of intentions to leave one's neighborhood in Utrecht found that neighborhood ethnic composition was not a significant reason provided by respondents once neighborhood reputation, length of residence and several other factors were taken into account (Permentier et al. 2009).

Holland's roughly 10.5 percent minority population (as of 2006) is strongly concentrated in four cities: Utrecht, Amsterdam, Rotterdam and the Hague where they make up roughly a third of the population. An in-depth study of mobility patterns for whiter Dutch and minority groups found powerful evidence that white Dutch people are avoiding areas with large shares of minority residents. Thus, over the period 2002-2006, 22% of white Dutch left high-

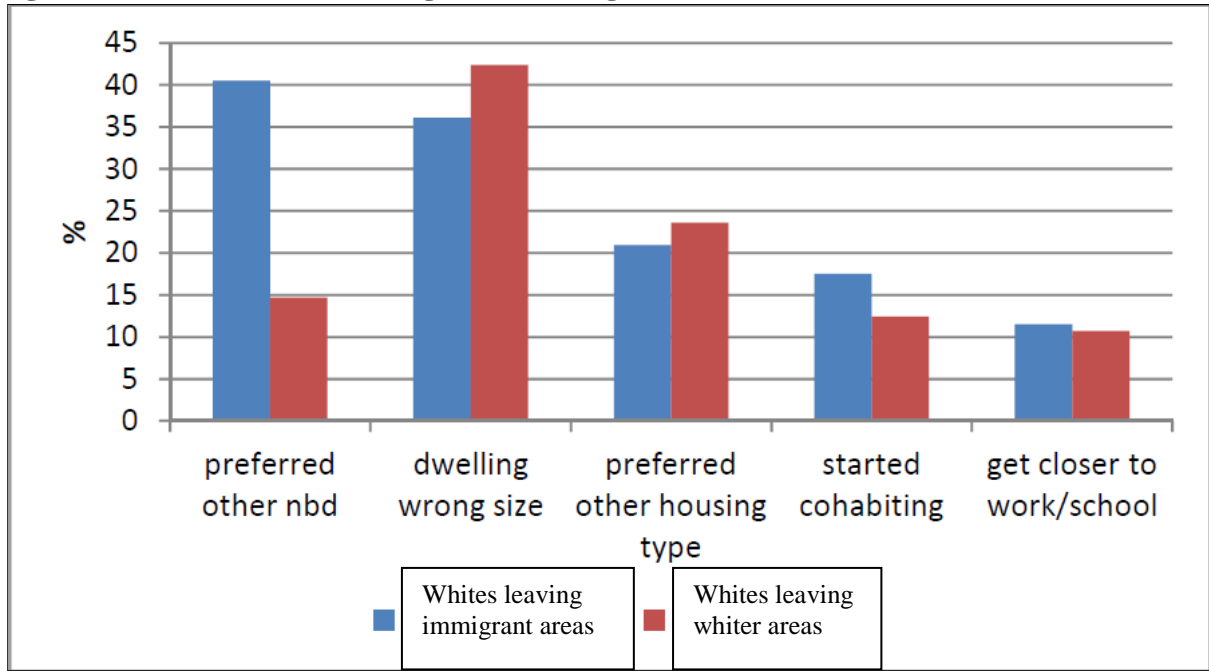
minority areas. However, the proportion of black Caribbeans (22%), Turks and Moroccans (18%) and other minorities (23%) leaving these areas was comparable. The big difference is in white avoidance rather than flight. Thus of those leaving high-minority zones, 72% of white Dutch chose whiter areas whereas just 40% of minorities did so - with the remaining 60% opting for other high-minority areas. There was little difference between Caribbean and Muslim groups in this respect.

Minorities are also avoiding white areas. Of minorities leaving whiter areas, 25% of Caribbeans and almost 40% of Muslims chose to move to nonwhite zones as opposed to a mere 7.6% of whites. Once again, avoidance contributes to sorting patterns which result in gradually larger areas that are becoming ever more heavily minority. Ethnicity is a bigger factor for Turks and Moroccans (the two main Muslim groups) than for Caribbeans and other Asians, but is important for all groups. Tellingly, white Dutch express an 87% satisfaction with very white areas while Muslims living in the same areas are only 75% satisfied.

The bottom line is that, as in the US, whites are the least willing to live as a minority of all groups and tend to prefer white areas. As the authors of that study write: 'the ethnic differences in neighborhood choices can only to a very limited extent be attributed to differences in socioeconomic status. The reluctance of many native Dutch to live in a neighborhood with a substantial proportion of members of minority ethnic groups forms a major obstacle for urban policy aimed at countering segregation' (Bolt et al. 2008: 1380). Similar results, fingering the prevalence of white avoidance and white flight, have been found in Oslo and Helsinki.

Swedish research is especially advanced due to excellent data. In a recent study, 28.5 per cent of native Swedish movers from Stockholm's most immigrant-dense neighborhoods claimed that "too many immigrants" was an important reason for them to move. When asked whether they enjoyed living in their previous neighborhood, just 19 percent of Swedes who left high-minority areas claimed to have liked their former neighborhood. This contrasts with the 60 percent of Swedes who left whiter areas who expressed approval of their former tract of residence. While just 15 percent of those leaving white areas cited the neighborhood as a reason for moving, this was true of fully 40 percent of those departing high-minority areas (see figure 4.11).

Figure 4.11 Reasons for Leaving Former Neighborhood, Stockholm, 2009-10

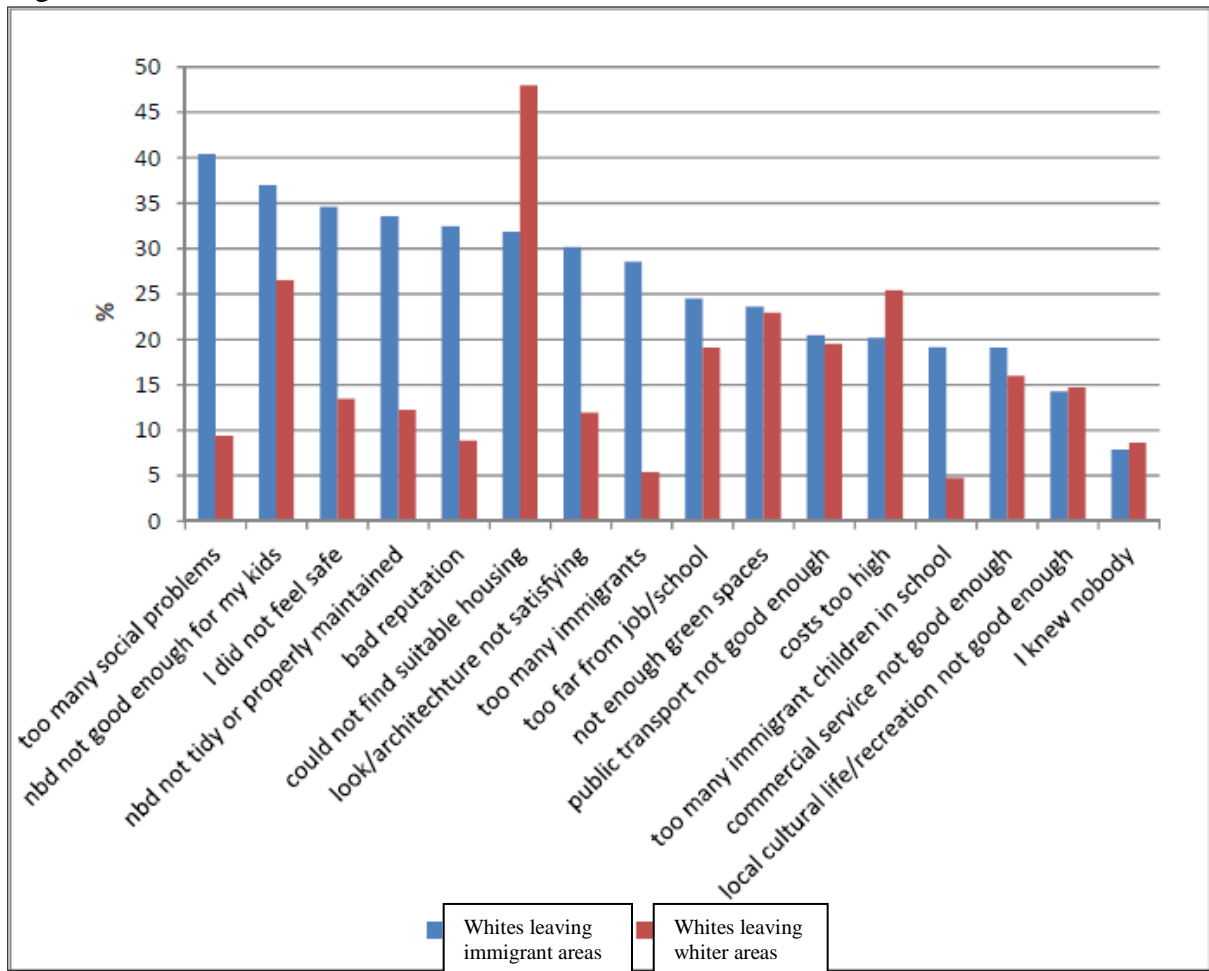


Source: (Hedman and Holmqvist 2012). **Note that 'nbd' refers to neighborhood.**

Figure 4.12 shows that white Swedes who leave minority areas tend to be much more critical of their areas in terms of social problems and crime than is true of those moving from whiter Stockholm neighborhoods.

Figure 4.12 Percentage of respondents stating the reason to leave the neighborhood was important (answer “important” or “very important”)

Q: How important were the following reasons for your decision to leave your former neighborhood?



Source: Hedman and Holmqvist 2012. Note that 'nbd' refers to neighborhood.

White Flight in Britain

A similar picture emerges in Britain, despite strenuous attempts by some academics to account for white flight and avoidance in materialist terms. It is probably impossible to tell with certainty how prominently white preference is operating on whites' decisions as to where to live. However, this is relatively immaterial when it comes to the aggregate pattern of ethnic residential segregation. Even if whites move for schooling, safety, 'social problems' or upward mobility, **the result of minority population growth is a growing set of increasingly large minority concentrations.** Consider the index of segregation for minority groups in England and Wales in 1991 and 2001 in figure 4.13. The index of dissimilarity measures how well a group is distributed across the national territory and the index of isolation measures how much contact they have with other groups. So the white English, who are most of the population, have a pretty similar distribution to most of the population, so have low dissimilarity. But many rural white English people have no contact with nonwhites and so are ethnically isolated. By contrast, Jews and Sikhs are concentrated in certain areas, but are too small to be a majority of even those areas. This means their dissimilarity is very high, but their exposure to other groups is also very high. Where do Muslims stack up in this

equation? From figure 4.14, it appears that all groups became less segregated over 1991-2001 since numbers fell across the board. However, the index of isolation, which is a measure of how exposed a group is to other groups, shows that segregation rose among Africans and among Pakistanis and Bangladeshis, the main Muslim ethnic groups.

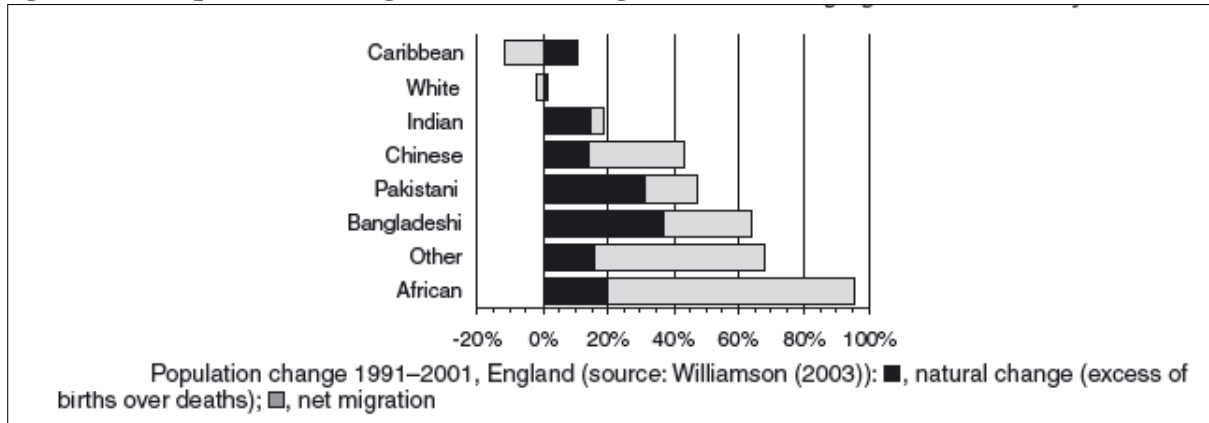
Figure 4.14 Indices of Segregation for Different Ethnic Groups, England and Wales 1991 and 2001

<i>Index</i>	<i>Group</i>	<i>Results for 1991</i>	<i>Results for 2001</i>
<i>Evenness</i>			
Index of dissimilarity	White	61.4	58.8
	Caribbean	68.9	67.0
	African	71.1	70.6
	Indian	65.3	62.1
	Pakistani	75.1	71.7
	Bangladeshi	74.2	71.6
	Chinese	42.2	41.3
<i>Exposure</i>			
Index of isolation	White	95.3	93.5
	Caribbean	7.6	7.3
	African	4.3	8.2
	Indian	15.6	15.5
	Pakistani	13.9	17.4
	Bangladeshi	10.9	13.8
	Chinese	0.8	1.2

Source: Simpson and Martin 2007: 413.

There is a reason for this: namely that population growth through natural increase tends to drive isolation up. Immigration to existing ethnic areas powers it even more. In other words, *minority population growth tends to drive minority isolation over time. It's almost a mathematical certainty when populations are growing fast.* Even if single-ethnic group ghettos break up, their place is taken by other minorities creating 'mixed-minority' areas. Consider figure 4.15. It reveals that natural increase through high fertility and a young age structure have fuelled significant minority growth. Immigration adds to this picture. One exception are the Afro-Caribbeans who have declined in number because their 'net migration' (immigration and natural increase in their areas of concentration minus outflow to other areas) has been strongly negative. This is also picking up Afro-Caribbeans' tendency to marry whites and for their children to cease identifying as Afro-Caribbean, which then lowers its isolation and dissimilarity (segregation) indices.

Figure 4.15 Population change 1991-2001, England

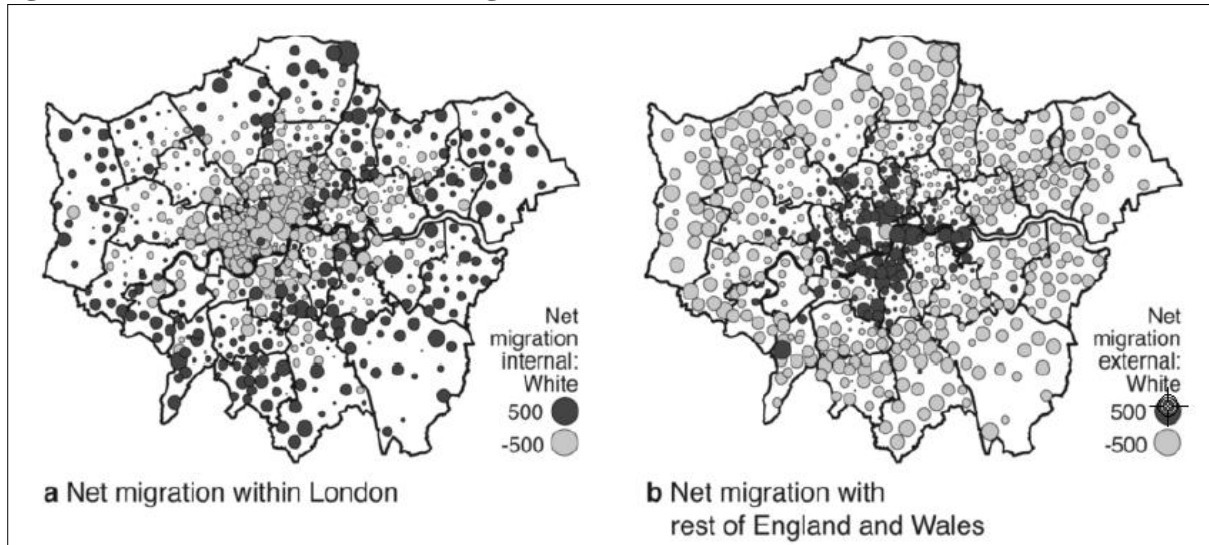


Source: Simpson and Martin 2007.

In other words, the black Caribbeans have assimilated into the white or mixed race population, resulting in falling levels of ethnic isolation. *Most other groups - especially Muslims - have increased their isolation due to strong natural increase in their neighborhoods combined with minimal out-marriage.* These growth factors overwhelm the effect of Muslim dispersal to neighboring areas to reproduce isolation, albeit on a larger scale. What this reveals is that, by and large, *where there is high minority population growth without deep assimilation, heavily minority areas will become even denser in ethnic concentration and expand in size.* This will serve to further repel whites from these areas. Here it is worth noting that minority areas in England are only about a third nonwhite on average, with a mere 8 majority minority wards out of 8850 nationwide. However, with population growth, one should expect to see many of these areas 'fill in' with minorities, experience white flight and tip to become 'majority minority' in the future.

Figure 4.16 shows that in the year 2000-2001, whites left inner London in droves for areas on the periphery of the city. More spectacularly, whites used these outer London settlement points as a staging post for migration out of London toward the leafier exurbs (or outer suburbs) outside the M25 Ring Road and beyond to the countryside and provincial cities of the Home Counties. While there is some movement of young white singles and couples from outside London into the city centre, this is dwarfed by the significant outflow from outer London to areas beyond. What appears to be occurring is an escalator of population churn in which a decreasing flow of white gentrifiers moves to outlying neighborhoods and then out of London entirely as they move through the life course.

Figure 4.16 White Movement at Neighborhood Level in London, 2000-2001



Source: (Stillwell 2011)

Generally speaking, at the district level (tens of thousands population), South Asian immigrants are being drawn to areas where they are ethnically concentrated. These areas, with high concentrations of Asian and Black groups, are, however, dispersing to whiter areas as these ethnic groups seek to improve their living conditions. This falls broadly into line with the 'invasion-succession' model in that minorities are not straying far from established ethnic areas but rather colonizing adjacent zones.

Whites are leaving areas of minority concentration through net migration within London to the outer suburbs. From there, massive net outflows are taking place to the rest of England and Wales - in some cases, this consists of retirees, given the white population's older age profile (Stillwell 2011). *Overall, the growth of minority populations, combined with minimal South Asian intermarriage and some upward mobility, will result in a deepening and extension of Muslim (and perhaps Hindu and Sikh) minority pockets which are likely to become ever more isolated over time. There is evidence that as minorities become wealthier, they seek out better areas - but also that they prefer to live in wealthier minority suburbs rather than wealthy white ones (Peach 2002).*

One could thereby imagine a scenario in which ever denser concentrations of non-assimilating minorities create minority-dominant pockets that gradually spread out from initial clusters. Upward mobility may create 'minority gentrification' and render these minority areas more suitable places for the minority middle class to put down roots. One can also envision a drying up of momentum behind white gentrification as the supply of young whites declines and minority zones become more intensely concentrated. This would have the effect of consolidating the hold of minorities - especially Muslims - on their areas. As in America's 'majority minority' metros, *this will create large swathes of both the inner city and inner suburbs where whites are almost entirely absent and unwilling to enter. The difference is that in Europe, non-Christian minorities may be less willing than American Hispanics or Asians to seek integration and outward migration. Though smaller in size, this means we might expect Europe's Muslims to be more enclaved than American Hispanics and Asians per size of population.* Black Caribbeans, however, seem likely to follow a path of spatial and marital assimilation in which 'melting' into the dominant population proceeds rapidly enough

to reduce the group's level of isolation much as took place with 'white ethnics' in America during the twentieth century.

Public Housing and Segregation

After comparing levels of segregation and types of welfare regimes across a large spectrum of cities, the authors of one study concluded that Chicago and Port Elizabeth, South Africa, where welfare is minimal and segregation highest, lie at one extreme of a scale. At the other end are northern European cities like Hamburg, Stockholm and Amsterdam, which have low segregation and strong welfare states and public housing programs. The cities that lie in countries with the strongest welfare states (Germany, France, Austria, Scandinavia) tend to be less segregated than the more free market countries (UK in particular). Holland and the other Low Countries are somewhere in between.

However there is also a relationship between the proportion of minorities in a metropolitan area and their degree of residential segregation, with greater segregation in high-minority cities.

The old order is fading. Structural conditions are evolving. The large suburban housing projects which deliberately mixed their populations are yielding to greater private ownership as government housing budgets have been slashed. In Britain, though a quarter of the population lives in social housing, almost the entire stock of local government housing dates to the pre-1980 period.²⁰⁴ With the retrenching of the welfare state since the 1990s, segregation has begun to accelerate in continental Europe. A system that predominantly fosters home ownership, requiring market competition for land, produces a dual housing system (private-public). This tends to constrain the provision of non-profit and public housing. Across several European cities, the recent change in housing policy towards fostering home ownership and the privatization of the social rental stock has accelerated gentrification and, in so doing, has created more segregated urban areas.²⁰⁵

Privatization marginalizes the access of low-income groups—both native and foreign households—within the housing market and channels them either (i) into the residual part of the private rental stock (degraded or poor quality of housing), as shown by Turks and Moroccans in Brussels; or (ii) into the social rental sector, when available (which is developed as a marginalized segment of the sector), as with Black Caribbeans and Bangladeshis in London and Manchester; or (iii) into the informal housing market and/or subletting, as is the case of Africans in Lisbon or Moroccans in Barcelona.²⁰⁶

Often a blend of private and public provision creates the most integrated neighborhoods. This might explain the relatively low degrees of spatial segregation of North-Africans in Frankfurt, Dusseldorf or Paris municipality. Too much of one housing type - either public or private - can promote segregation. In Amsterdam, the larger scale of social housing (big housing projects) actually produces a significant degree of spatial segregation of Black Caribbeans, but not as much as the segregation of Muslim Bangladeshis in UK cities). Amsterdam's concentrated nineteenth century rental housing stock also works to compound the segregation of Turks and Moroccans. This suggests that the scale and geography of housing stock, along with immigration levels, contributes to segregation.

²⁰⁴ Stone 2003

²⁰⁵ E.g., the 'Right to Buy' schemes in the UK and Italy.

²⁰⁶ Musterd *et al.*, 1998; Malheiros, 2002

The result when comparing the neighborhoods and housing stocks where North African or Caribbean groups are settled, is: 'the impression is that social and physical conditions are worse in cities such as Brussels, Paris [agglomeration], London and Manchester and better in Amsterdam, Stockholm, Frankfurt and Dusseldorf.'²⁰⁷ As a whole, *Europe is moving in a British direction, toward more segregation.* The supply of public housing was already in decline when welfare spending was buoyant. As these budgets are cut, the pressure on social housing will only increase, and local government will increasingly look to the private sector to provide low-cost alternatives to council housing.

Higher minority populations and flat levels of public housing are therefore likely to power *unprecedented levels of white flight as the more rooted working/middle class of white families seek more homogeneous areas which reinforce their sense of national identity.* The idea that one inhabits a community of shared ancestry, tied to a particular territory, is important for many white Britons. The sense of existential security provided by a community that precedes one's birth and will succeed one's death is an important anchor for many white English people.²⁰⁸ If the state cannot guarantee the boundaries of this community, private residential and schooling decisions will come into play to create - as Walzer noted - the sense of 'boundedness' that underpins all cultures.

²⁰⁷ Musterd *et al.* 1998: 185

²⁰⁸ Skey 2011

Chapter 5. Backlash: White Ethnic Nationalism in Europe

The ethnic majority in Western Europe has always been ambivalent about immigration - be it from poorer European countries in southern and eastern Europe, or from further afield. Muslim immigration was more exotic than Christian when it began in the 1930s in France and 1950s in other west European countries, but Islam *per se* was not a major issue at the time. Even as recently as the late 1990s, the Swiss voted against granting citizenship to many of the foreign-born and their children, who largely consisted of Italians and other south and east Europeans who had been in the country for generations.

The Rise of the Far Right

The tripling of support for the Far Right after the mid-1980s in many western European countries, from about 5 percent to 15 percent popular support between 1987 and the late 1990s, took many by surprise. It showed that the white working, rural and small-business classes did not see a place for themselves in multiculturalism, except as its despised 'other.' The central plank of the far right message was ethnic nationalism, which called for a defense of the 'native' ethnic majority against rootless elites and growing immigrant minorities. However, agitation against multiculturalism and 'reverse discrimination' struck a chord as well and attracted some who might not have considered voting for the radical Right.²⁰⁹

Though Far Right movements rise and fall to some extent based on charismatic leaders (like Jorg Haider in Austria or Jean-Marie Le Pen in France), their continued vitality flags the popular basis of their support. Even in the UK, where the first-past-the post system makes it hard for single-issue minority parties to emerge, the British National Party (BNP) has seen its support increase with each successive election. In 2006 the BNP won 55 councils and in 2009, a poll discovered that 22% of respondents 'would consider' voting BNP.

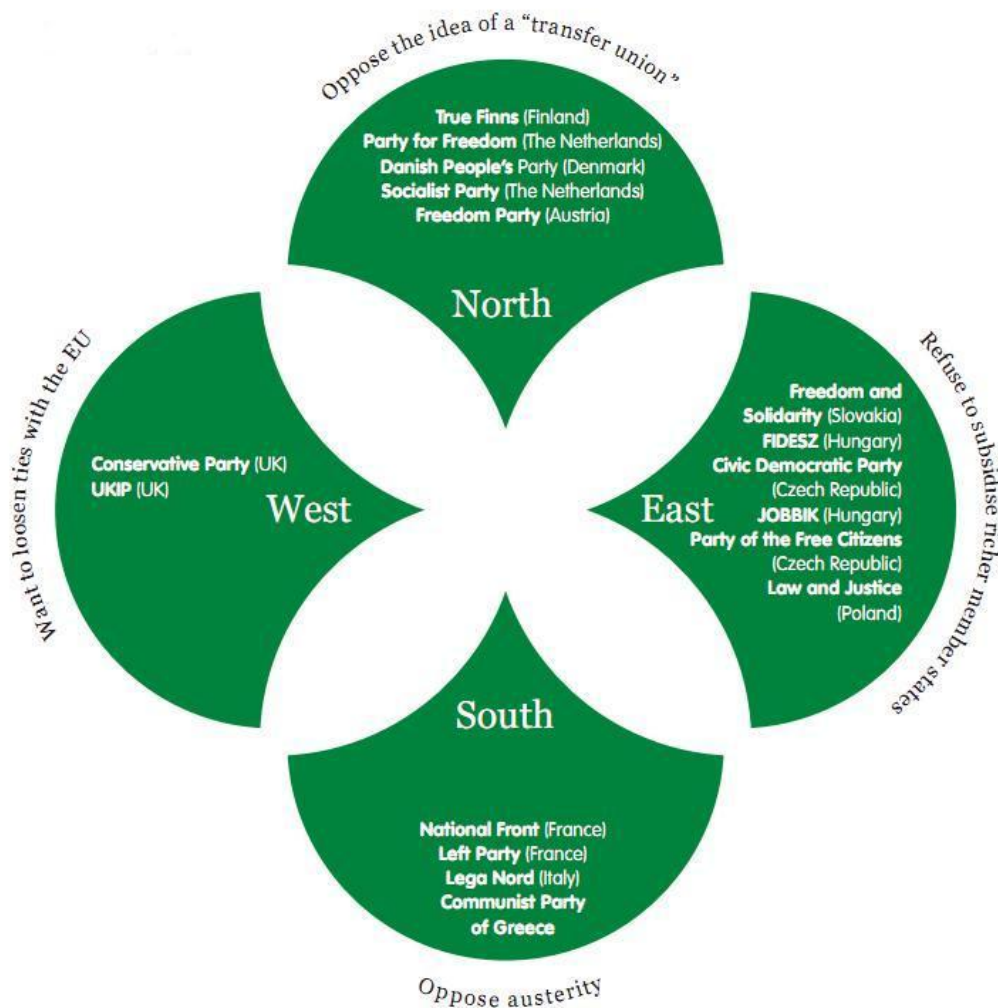
The rapid increase of ethnic diversity and Islam in Europe is producing a populist backlash which seeks to restore the congruence between ethnicity and the nation-state which has been disrupted by cultural outsiders. In numerous opinion polls, there is an important correlation between opposition to European integration and to immigration.²¹⁰ This combination of views makes sense from the point of view of nationalism - which seeks to protect borders from cultural and political transgression. An anti-European stance also animates the platform of far-right parties like the Britain's British National Party (BNP) and more middle-class UK Independence Party (UKIP), France's Front National (FN) and Belgium's Vlaams Belang (VB). See the Anatomy of Populisms below in figure 5.1.

Often the EU is viewed as a fig-leaf for liberal cosmopolitanism, and its freedom-of-movement provisions derided. EU border controls are deemed a weak point: inefficient, overly liberal, and accused of erecting a Union which is only as strong as its weakest entry point.

²⁰⁹ Mudde, Cas. (2007) *Populist radical right parties in Europe*. (Cambridge, UK; New York: Cambridge University Press).

²¹⁰ Evans, Jocelyn. 2001. 'The Attitudinal Bases of Anti-EU Sentiment in Norway and France,' paper presented at *International Political Science Association*, Quebec City, Canada, August

Figure 5.1 An anatomy of populisms



Source: Mark Leonard, "Reinvention of Europe" European Council on Foreign Relations, Nov. 2011 at http://www.ecfr.eu/page/-/ECFR43_REINVENTION_OF_EUROPE_ESSAY_AW1.pdf

Anti-Islam feelings play an important role in the opposition towards Turkey's entry to the European Union.²¹¹ The significant Turkish population in many western European countries inclines them to fear an influx of millions more unpopular, olive-skinned Muslim immigrants. This populist pressure will continue to stay the hand of European statesmen, despite the American desire to integrate a Muslim country into the western orbit.

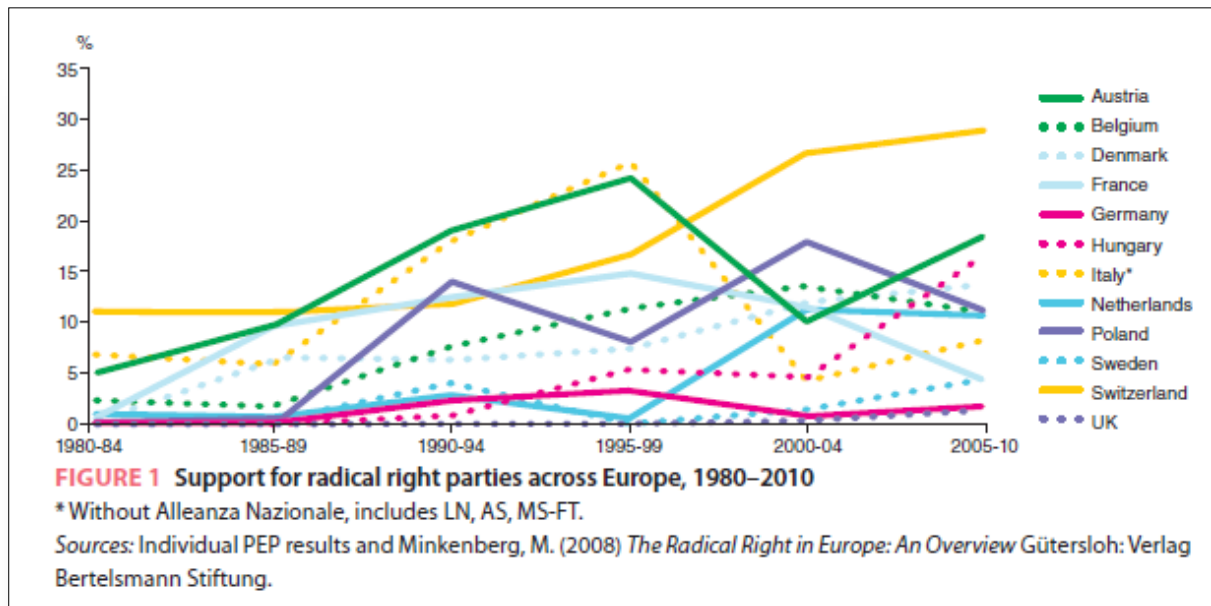
While previous research (and hopes) emphasized that far right parties tend to rise and fall with their charismatic leaders, the evidence now suggests they are more durable phenomena. Moreover, the claim that such parties represented a protest vote by deskilled workers against the political establishment - or that they reflected economic woes - have been largely negated by survey analysis. In fact, immigration and issues of cultural identity are by far the strongest predictor of voting for a far right party. In addition, men are in many cases twice as likely to support far right parties as women though both are equally opposed to immigration.

For the first time since the inter-war years, the far right has not only become part of the established political landscape but has gone on to participate in ruling coalitions. In Italy, the

²¹¹ De Vraes, Claes, 2008, 'REM – Religion, Euro-skepticism and the Media.' See http://www.relemerge.org/project_06.

Alleanza Nazionale, joined the House of Freedom coalitions on three occasions with its leader Gianfranco Fini becoming deputy prime minister in 2001 (currently President to the Chamber of Deputies). The party finally merged with Silvio Berlusconi's People of Freedom Party in 2009. Also in Italy, the regionalist Lega Nord won 8.3% in 2008 of the vote and went onto to form an influential bloc in Berlusconi's Party of Freedom Alliance coalition forming arguably Europe's most right-wing government²¹²

Figure 5.2 Trends in Support for the Far Right in Europe, 1980-2010



Source: Goodwin 2011.

Violent Manifestations of the Far Right

In July 2011, 32-year-old Norwegian Anders Behring Breivik set off a car-bomb explosion in central Oslo killing seven people. This was followed by a 90-minute shooting spree on a small island summer camp for supporters of the governing Labor Party. Breivik hunted down and killed at least 87 youth and children, some under 10. His 1500-page manifesto, “2083: A European Declaration of Independence”, used the date of 2083 to signal the period when Muslims would demographically take over Europe. Breivik describes himself as a member of an organization called the Knights Templar Justiciar, made up of 12 to 18 members, who pledge to use “martyrdom” to crush Muslim immigration, multiculturalism, and the individuals and parties who tolerate immigrants, who they characterize as “Marxists” or “multiculturalists.”²¹³

A rising spirit of anti-immigrant, anti-Muslim, anti-EU nationalism seems to suffuse the continent. In many ways, this reflects the passing of the mood of war-weary cosmopolitanism associated with the postwar economic boom and its aftermath. This is not an ignorant

²¹² <http://www.irr.org.uk/2008/april/ha000035.html> (accessed on 06/04/2011).

²¹³ Saunders, Doug, 'Norway's Breivik: The Terrorist Wing of Europe's Anti-Immigrant Movement,' *Toronto Globe and Mail*, July 25, 2011.

nationalism, but rather one that knows foreigners well yet rejects the idea of diversity. Its fringe expresses itself violently.

Demand for the Far Right: is it driven by Culture or Economics?

It is generally the case that the far right gains most support from the white working-class. Why? Though economic factors such as labor market competition with immigrants and the loss of status experienced by outsourced native white workers may appear to be the cause, this is misleading. Recent academic research has abandoned the knee-jerk liberal tone that dominated research in earlier decades. This work sometimes wrote off the far right as a fascist response among the deskilled or ascribed far right voting to a kind of false consciousness, to use Marxist terminology. However, the idea that far right voting represents a displacement of economic anxiety, or is a protest vote against established elite parties, receives only partial support from the data. We now have a generation of solid survey-based and electoral research on the far right.

In terms of their social profile, far right supporters are more likely to be male than female, with grade or high-school education, and are pessimistic about their financial future. They come from the economically precarious small proprietor class or the working class. They do not, however, spring from the ranks of the unemployed or the permanent underclass. They are also not apathetic nonvoters who have dropped out of politics in some way, but rather evince an above-average interest in politics.

The most successful far right parties have stitched together a coalition of lower middle class and blue-collar workers. Yet the bulwark of most far right parties remains the working class. Mainstream left-wing parties like the Social Democrats do not win the majority of white working-class votes in any major West European country. In fact, in countries such as Denmark and France the radical right has proven so popular among white workers that they have emerged as the parties with the most working-class support base of any party. In Denmark, between 2001 and 2007, the far right DF recruited most of its support from workers at the expense of the Social Democrats. Similarly, the French FN emerged as the most popular party among the working classes, with polling in 2011 suggesting that leader Marine Le Pen recruits almost 50 per cent of the working class vote. Across Europe more broadly, research indicates that workers are twice as likely as middle-class voters to support the radical right in Austria, are three times as likely in Belgium and France, and four times as likely in Norway. By contrast, these parties have largely failed to win the backing of the university-educated.²¹⁴ The class composition of these parties might suggest that economic grievances underlie such support. Why might social change elicit a distinct response from the majority working class? There is an important psychological dynamic at work among low status members of majority ethnic groups. Social identity theorists remark that the university-educated middle-class achieves a positive status identity through its credentials, occupation and lifestyle. This enables the middle class to more easily relinquish its ascribed ethnic identity. Lower-status members of ethnic groups, by contrast, benefit more from their ethnicity because it is often their most positive social identity. This explains why lower-status

²¹⁴ Goodwin, Matthew. 2011. "Europe's Radical Right: Support and Potential." *Political Insight* 3 (1); Ford, R., and M. J. Goodwin. 2010. "Angry White Men: Individual and Contextual Predictors of Support for the British National Party." *Political Studies* 58 (1):1-25; Oesch, D. (2008) 'Explaining workers' support for right-wing populist parties in western Europe: evidence from Austria, Belgium, France, Norway and Switzerland', *International Political Science Review*, 29 (3), 349-73; Transatlantic Trends (2010) *Transatlantic Trends: Immigration*. http://trends.gmfus.org/?page_id=2770.

members of dominant groups (i.e., poor 'redneck' whites in the American South, Sephardi Jews in Israel, rural Afrikaners in South Africa) have often been the staunchest defenders of ethnic boundaries and privileges²¹⁵. Accordingly, when it comes to majority group behavior under conditions of ethnic change, we would expect lower-status members to be more resistant to diversity.

In Britain, qualitative research finds that white working class people often experience multiculturalism and rising diversity as a threat to their psychological security and well-being. Minorities are considered a challenge to what they perceive to be a postwar social contract between the white working class and the British welfare state. In addition, the white working-class, even in largely homogeneous areas, has difficulty locating itself within narratives of multiculturalism²¹⁶. Quantitative research generally shows that cultural concerns loom larger than economic ones when it comes to predicting support for the far right British National Party²¹⁷.

Recent literature disputes earlier interpretations that focused almost exclusively on the role of 'protest voting', or the supposed irrational motivations of far right supporters. Instead, those who vote for the radical right are much like other voters: they have clear ideological and policy preferences. They more closely resemble voters for mass nativist single-issue parties like the American Party ('Know-Nothings') of the 1840s and 50s than fascist supporters²¹⁸. More than anything, they want immigration and rising ethnic diversity slowed, stopped or even reversed. Though strongly alienated from mainstream politicians and elites, it is their negative attitudes to immigrants, asylum seekers and multiculturalism that is the most consistent statistical predictor of a far right vote.

An influential psychological experiment showed that when people are cued with cultural threats, they react much more viscerally and decisively in favor of the far right than when cued with economic costs or benefits. This aligns with recent research in behavioral economics which indicates that most people do not behave according to rational calculations of costs and benefits, but often act on the basis of emotions which are rationalized after the fact²¹⁹. This emotional behavior is as true of nationalism as it is for interviewing or deciding whether to spend or invest savings²²⁰. Indeed, research suggests that the stories told during genocidal episodes such as the Rwanda genocide draw heavily on powerful emotional tropes like the threat of being exterminated by the other side²²¹.

²¹⁵ Yiftachel, Oren. 1999. "Ethnocracy: the Politics of Judaizing Israel/Palestine." *Constellations* 6 (3):364-90.

²¹⁶ Skey, Michael. 2011. *National belonging and everyday life : the significance of nationhood in an uncertain world*. Basingstoke: Palgrave Macmillan.

²¹⁷ Ford, R., and M. J. Goodwin. 2010. "Angry White Men: Individual and Contextual Predictors of Support for the British National Party." *Political Studies* 58 (1):1-25.

²¹⁸ Billington, Ray Allen. 1938. *The Protestant Crusade, 1800-1860: A Study of the Origins of American Nativism*. New York, NY: Macmillan.

²¹⁹ Sniderman, P. M., L. Hagendoorn, and M. Prior. 2004. "Predisposing factors and situational triggers: Exclusionary reactions to immigrant minorities." *American Political Science Review* 98 (1):35-49.

²²⁰ Kahneman, Daniel. 2011. *Thinking, fast and slow*. 1st ed. New York: Farrar, Straus and Giroux; Akerlof, George A., and Robert J. Shiller. 2009. *Animal spirits : how human psychology drives the economy, and why it matters for global capitalism*. Princeton: Princeton University Press.

²²¹ Kaufman., Stuart J. 2001. *Modern Hatreds: The Symbolic Politics of Ethnic War*. Ithaca, NY: Cornell University Press.

Far Right Respectability

One of the important differences between far right parties of various kinds in Europe is that some have the ability to draw votes from the mainstream while others remain beyond the pale. One of the keys to understanding this difference lies in the lineage of respective far right parties. The British National Party, like its ancestor, the National Front, rose out of the unsavory world of street politics, where football hooliganism, the skinhead movement and other violent working-class subcultures flourish. This is well documented in Bill Buford's inside account of football hooliganism in Britain in 1990, *Among the Thugs*²²², where he witnessed firsthand how the National Front and football hooligans drank from similar wellsprings. The BNP, despite adopting public relations techniques and attempting a makeover under the leadership of Nick Griffin, is considered unrespectable by a vast swathe of the electorate. This greatly limits the party's appeal beyond working-class 'white van' tradesmen and their macho subculture²²³.

By contrast, the most successful European far right parties are those, like the Vlaams Belang or Swiss People's Party, which began as liberal middle class movements and evolved toward a concern with ethnic nationalism and immigration. Though tapping similar concerns to the rougher-edged BNP, such parties have been better able to dispel imagery linking them to violent fascist subcultures. The Front National (FN) in France stands somewhat in between: its brand is not viewed as a dressed-up form of street politics as is true of the BNP. Yet the FN is hobbled by its historical baggage. This begins with party founder Jean-Marie Le Pen's anti-Semitic statements and extends to the negative associations between the far right and episodes in the French past such as the Dreyfus Affair. Yet the party has managed to thrive despite this, and Marine Le Pen has softened the party image and purged overt anti-Semitism from party ranks.

Islam as Wedge Issue

It is difficult to know whether the far right's about-turn on anti-Semitism is heartfelt or tactical. However, the shift away from an explicitly white racial nationalism to a more anti-multiculturalist, anti-Islamic, 'counter-Jihad' frame is noticeable. European hostility to Islam stems from both conservative anti-immigrant sentiment and a new development: middle-class liberal anti-Muslim sentiment. This permits liberal-minded people to justify taking a stand against immigration for 'rational' reasons of security and 'liberal' ones such as protecting freedom of speech, women's rights and gay rights. There is a new group of French citizens who repudiate racism, but are sympathetic to the anti-Muslim stance of the National Front even if they are reluctant to vote for them. Such people fear the impact of Islamism on liberty and minority rights.

Islamist threats to free speech and gender equality have become banner issues in Holland, Denmark, Sweden and Germany. Notable is the fact that gay and feminist figures have been in the forefront of the new nationalism. Pim Fortuyn, assassinated in 2002 by an animal rights activist, is a paradigm case. A charismatic, openly homosexual politician, he combined a strong defense of secular liberties with anti-Islamist Dutch nationalism. Likewise, Bruce

²²² Buford, Bill. 1991. *Among the thugs*. London: Mandarin, 1992.

²²³ Harris, Gareth. 2012. *The Rise and Fall of the British National Party: the demand for extreme right politics in the UK*, unpublished PhD dissertation, Dept. of Politics, Birkbeck College, Univ. of London.

Bawer, the publicly gay author of While Europe Slept urged Europe to respond more robustly to what the Oslo-based Bawer described as the Islamic threat in its midst.²²⁴

Other liberal minorities changed their minds too. European Jews increasingly voiced concerns about multiculturalism. This followed a rise in anti-Semitic incidents largely perpetrated by European Muslims frustrated at both local Jewish success and Israel's hard-line policies toward the Palestinians. The latest stanza in this story is that of Mohamed Merah, a 23-year-old, French-born, homegrown terrorist. For ten days in mid-March 2012, he terrorized southwestern France. His killing spree culminated in the murder of a number of Jews at a local synagogue, hardening French attitudes against a prospective Muslim threat.²²⁵

In addition to secular Jewish intellectuals like Alain Finkielkraut in France, Jewish critics of multiculturalism and Islam's influence have included mainstream community leaders like Britain's chief rabbi Jonathan Sacks. Sacks urges a shift from rights-based to responsibility-based citizenship, and is openly critical of the trend toward difference. Melanie Phillips, who writes for Britain's right-wing Daily Mail tabloid, is an outspoken Jewish critic of immigration, Islam and multiculturalism in Britain who is very much at the centre of the British nationalist right.

The clash between conservative Islam and western norms also permits it to function as a lightning rod for white working-class anti-immigration sentiment. More tragically, there has been a notable rise in Islamophobic attacks. In Britain alone, there were 200 reported incidents and 65 violent attacks on Muslims in the immediate wake of the London bombings of July 2005, including a fatal stabbing where attackers repeatedly screamed 'Taliban' at their victim.

The growing importance of anti-Muslim sentiment is reflected in the dynamics of support for these parties and the attitudinal profile of their voters. In Denmark, for example, whereas 35 per cent of DF voters in 1994 held the view that Muslims threatened national security, by 2007 the figure had rocketed to 81 per cent (and compared to 21 per cent of all voters). In Britain, supporters of the BNP are similarly twice as likely as the average voter to view Islam as a danger to 'western civilization'.

One comparative study of public opinion across Europe revealed that upwards of 50 per cent of the populations in Germany, France, Italy, Portugal, Poland, Hungary and the United Kingdom said there were 'too many immigrants' in their country, while the percentages viewing Islam as 'a religion of intolerance' were 48 per cent in the United Kingdom, 53 per cent in Germany, France and Hungary, 60 per cent in Italy and 62 per cent in Portugal and Poland. A representative survey of public attitudes in France and Germany similarly suggested that more than 40 per cent perceive Muslim communities as a threat to national identity, whereas less than one-quarter view them as a source of cultural enrichment. Broader

²²⁴ Bawer, Bruce. 2006. *While Europe Slept : how radical Islam is destroying the West from within*. 1st ed. New York: Doubleday.

²²⁵ On a Monday in March, the attacker rode up to a Jewish school and shot dead three children and a rabbi, firing an automatic Colt handgun at their temples. He chased one of the victims, a seven-year-old girl, pulled her by the hair and shot her while filming it on a video camera around his neck (Guardian, March 23, 2012)

policy challenges within the areas of integration and cohesion are revealed by the clear and large majorities of 75 per cent in Germany and 68 per cent in France who perceived these Muslims communities as failing to integrate into society.²²⁶

The far right has changed tack over the past decade, bypassing biological racism in favor of Alain de Benoist's²²⁷ new policy of stressing immigrants' (notably Muslims') inassimilable cultural differences.²²⁸ They have stressed an Islamophobic message in light of security and free-speech concerns regarding homegrown Islamist radicals. Opposition to the building of mosques, Islamic cultural practices and the perception of Muslims as a potential fifth column have become a central part of the extreme right's appeal across Western Europe²²⁹. The SVP in Switzerland successfully campaigned for a moratorium on the building of minarets, the Lega Nord's recent success in Italy with a doubling of the vote utilized an explicitly anti-Islamic appeal, and Pim Fortuyn in the Netherlands highlighted the challenge posed by Muslim immigrants to Dutch liberal values²³⁰, a theme continued by Geert Wilders. The call for an end to the 'Islamification' of Sweden was a core part of the message of the Sweden Democrats who also achieved national representation in 2010²³¹. What is interesting is that Muslim immigrants have emerged as a foil for the far right in every European country, and their effect also heavily shapes the geography of far right voting, as we shall see in a moment.

Islam and Liberalism

'It was the coolness of his manner, the composure of a person who knew precisely what he was doing, that struck those who saw Mohammed Bouyeri, a twenty-six-year-old Moroccan-Dutchman in a gray raincoat and prayer hat, blast the filmmaker Theo Van Gogh off his bicycle' writes Ian Buruma. Though Van Gogh begged for mercy, Bouyeri shot him several more times, slit his throat with a machete and left his weapon planted in Van Gogh's chest. He then pulled out a smaller knife and pinned a note to Van Gogh's body.

The note was directed to Ayaan Hirsi Ali, a Somali-Dutch critic of Islam who wrote the film *Submission* which Van Gogh produced. The provocative movie dramatized the abuse of women in Islam by projecting Quranic quotations onto the naked bodies of several young women. Van Gogh was murdered on 2 November 2004. Many Dutch considered this the last straw and reacted by staging street protests. Others went further. There were 47 cases of violent attacks - including arson - on mosques and Muslim schools. In retaliation, Muslims attacked churches in 13 separate incidents.

²²⁶ Goodwin, Matthew. 2013, *The Roots of Extremism: The English Defence League and the Counter-Jihad Challenge*, Chatham House, March (2013).

²²⁷ Alain de Benoist is a French theorist, a founder of the Nouvelle Droite and the think tank, GRECE and is a proponent of 'ethnopluralism' which proposes that ethnic groups should develop separately to preserve cultural difference and prevent conflict. The Nouvelle Droite has been an important influence on the contemporary extreme right as it has sought to deflect charges of biological racism.

²²⁸ Balibar, Etienne, and Immanuel Maurice Wallerstein. 1991. *Race, nation, class : ambiguous identities*: Verso; Solomos, John & Les Back, 1999, *Theories of Race & Racism: Reader*. Florence, KY; USA: Routledge; Eatwell, Roger, and Anthony Wright. 1999. *Contemporary political ideologies*. 2nd ed. ed. London: Pinter.

²²⁹ Skendrovic, D. (2007) Immigration & the Radical Right in Switzerland. *Patterns of Prejudice*. 41 (2) 155-176.

²³⁰ See <http://www.guardian.co.uk/world/2007/oct/11/thefarrightreligion> (accessed on 11/04/2011)

²³¹ See Sweden Democrats manifesto, 99 suggestions for a better Sweden http://sverigedemokraterna.se/files/2010/09/Valmanifest_2010.pdf (accessed on 11/04/2011)

Van Gogh's flamboyant style and open lampooning of Islam made him a hate figure among Dutch Muslims, especially Islamists. He especially enjoyed riling militant fundamentalists. In June 2003, he called Abou Jahjah, of the European-Arab League, a 'pimp of the Prophet' after Jahjah arrived in a theatre surrounded by his fierce bodyguards and refused to take part in a debate Van Gogh was moderating. Outside the theatre, some of Jahjah's supporters yelled that they would 'get that fat pig [Van Gogh] and cut him open' and Jahjah's bodyguards threatened event organizers.²³² In the year following Van Gogh's assassination, Geert Wilders, an anti-Islamist politician, went into hiding and Ayaan Hirsi Ali relocated to the United States.

This reinforced a pattern of Islamist extremists threatening anyone who dared publicly ridicule Islam. The opening shot in this war was the fatwa issued by Ayatollah Khomeini in 1989, calling for the murder of British-Indian author Salman Rushdie. This came in the wake of large protests by largely Sunni British Muslims against the book, some of whom called for Rushdie's execution.²³³ Street actions like this convinced the European public that Islamists do not understand free speech. If the concept does not involve tolerating views one disagrees with, then free speech becomes meaningless.

Van Gogh's murder was followed, a year later, by the Danish Cartoons Controversy of September 2005. The cartoons, published in Denmark's Jyllands-Posten newspaper were relatively benign portrayals of the Prophet, offensive only because of the fundamentalist injunction against a human depicting the Prophet. While there were local Danish Muslim protests, it took the global entrepreneurialism of Danish Islamist Abu Laban to whip up the Muslim world. In order to achieve the desired effect, he appended three incendiary images to the cartoons, including that of a man wearing a pig snout, purportedly a picture of Mohammed. As a result, protests erupted across the Middle East. Danish embassies were burned in Lebanon, Syria and Iran and attacked in Egypt. Attempts were made to boycott Danish goods and Muslim leaders called for a meeting with the Danish Prime Minister.

Critics claim that Islamist threats effectively stifle criticism of the religion, and even produce self-censorship among those who might otherwise do so. While other religions are open to ridicule or scrutiny, Islam is not, and this constitutes a double-standard.²³⁴ Just as galling to European sensitivities is the response of mainstream politicians, many of whom fell over themselves to respond to the new threats by reviving disused or discarded blasphemy laws while bending to Islamist requests. The work of anti-Muslim polemicist Oriana Fallaci and even that of fiction writer Michel Houellebecq were targeted for censorship.²³⁵ For many Europeans, banning free speech to soothe the sensitivities of irrational zealots seemed a step in the wrong direction.

The Shari'a debate becomes especially poignant in view of the widespread abuse of women in many Muslim countries, a phenomenon chronicled by successive UN Arab Human Development reports. Unsurprisingly, some of this cultural baggage has arrived in Europe.

²³² Buruma, Ian. (2006) *Murder in Amsterdam*. (New York: Atlantic Books), pp. 2, 100.

²³³ Rai, M. (2006) *7/7 : the London bombings, Islam and the Iraq War*. (London, Ann Arbor, MI: Pluto Press), pp.75; Caldwell, Christopher (2009) *Reflections on the Revolution in Europe: Can Europe be the Same with different people in it?* (Allen Lane), pp.253. Note that British Sunnis in 1989 rallied behind a Shia Iranian fatwa, suggesting that the divisions within Islam of Shia versus Sunni are blurred depending on the issue.

²³⁴ Ibid. pp. 253-6.

²³⁵ Jenkins, P (2007) *God's Continent: Christianity, Islam and Europe's Religion Crisis*, (Oxford University Press, US), pp. 240-5.

The issue of female genital mutilation has aroused controversy in a number of European countries, notably Sweden. In Britain in 2007, a scandal ensued when it was discovered that public money had been used to fund dozens of 'hymen replacement operations' to restore Muslim women's virginity. Honor killings and the gang raping of supposedly 'loose' women in Muslim ghettos by local Islamist thugs are another sore point. Both revolve around the idea that Muslim women should be chaste and refrain from dating western men or adopting western sexual mores or face the consequences. In Germany, some forty-five honor killings took place in the 2000-5 period alone including that of Hatun Sürücü, slain by her brothers in broad daylight for 'dishonoring' her family. Her crime: dating a German and raising a child on her own.²³⁶ Honor killings reflect Kurdish and Pakistani ethnic customs rather than Islamic law, but Shari'a was perceived as offering *carte blanche* to abusers because of its sexist take on marriage, divorce, virginity, women's testimony and domestic violence.

European Muslims are less supportive of all aspects of Shari'a and domestic abuse than Muslims elsewhere. However, support for Shari'a is not absent in Europe - worse, it appears to be rising among the new generation. Comparing British Muslims aged 16-24 with those over-55, a 2006 poll discovered that 37 percent of youth would prefer to live under Shari'a compared to just 17 percent of those over 55. 37 percent of 16-24 year-olds would opt to send their children to Islamic schools versus just 19 percent among their elders; 31 percent of those 16-24 believe that conversion should be punished by death, against 19 percent among the older group; and 74 percent of youth prefer women to wear the hijab (headscarf) while only 28 percent of elders do.²³⁷

Shari'a might be interpreted as a harmless badge of Muslim pride, which people support in principle, but not in practice. There is some evidence for this: a recent survey of women in Turkey's (Islamist) Welfare Party found that while 95 percent supported Shari'a, the vast majority also opposed legal changes which would implement its specific precepts.²³⁸ A less sanguine view is that Muslim identity politics leads to a steadfast adherence to doctrine. Gilles Kepel writes that when Salafist organizations reach a critical mass in deprived French neighborhoods, their men begin to enforce Islamist norms on local women. The women in turn start to agitate to wear the headscarf in local schools.²³⁹

Islam and the Politics of Backlash

Note that despite all of these outrages, Islam only played a modest role in anti-immigration sentiment. What really lay behind rising concerns was a growing realization that the ethnic cores of European nations were declining and newcomers were not being assimilated into the ethnic majority. These concerns were also expressed in America with regard to Hispanic immigration in books like Samuel Huntington's *Who Are We?* (2004) The importance of Islam is that its moral conservatism on issues like women's rights, gays, marriage and freedom of speech provides a 'respectable' liberal reason to oppose immigration and multiculturalism. This means that members of the university-educated middle class who frown upon outright racial appeals can embrace an Enlightenment version of nationalism and immigration restriction based on opposing Islamist 'feudalism'.

²³⁶ Ibid. pp. 213-18.

²³⁷ Mirza, Munir, Abi Senthilkumaran, and Zein Ja'far. (2007). 'Living Apart Together: British Muslims and the paradox of multiculturalism'. London, Policy Exchange, pp.41.

²³⁸ Ayoob, Mohammed, 'The Many Faces of Political Islam', *Belfer Center Seminar*, Harvard University, October 22, 2008.

²³⁹ Kepel, Gilles (2004) *The War for Muslim Minds*, (Harvard University Press) pp.251.

Sarkozy's tough response to the *banlieue* riots of 2005 which burned for over three weeks and consumed nearly 9000 vehicles helped him win office. As Interior Minister, he pledged to a mother at one riot scene that he would deal with the 'riff-raff' behind the trouble. His ascent reflects a major shift in European attitudes that has been building since the mid-1990s. In 2004, France and five German state governments banned the wearing of the headscarf in public schools. The hijab had become a symbolic issue of national identity in which the French state would brook no compromise.²⁴⁰ Despite four major demonstrations in which veiled demonstrators protested that their human rights were being violated, the French government went ahead with the ban. This was widely supported. Even a slim majority (52 percent) of French Muslims supported it.²⁴¹

Though only France and some German states banned the headscarf, the issue was increasingly politicized throughout Western Europe. Banks, cleaning companies, department stores, food chains, day care centers and hospitals refused to hire hijab-clad women.²⁴² In 2006, British Labor MP Jack Straw, a former foreign secretary who represents a constituency with a significant Muslim population, made headlines when he called the headscarf 'a visible statement of separation and of difference' and asked women who wore the veil to remove it when visiting his constituency office.²⁴³

Criticism of the hijab remains controversial since it can be interpreted as both an individual choice and a coercive community norm and there is no easy way of determining the wearer's motivation. As one moderate Dutch Muslim cleverly put it, 'It is a crime to force a woman to wear a headscarf, and it is a crime to prevent her from wearing it.'²⁴⁴ While hijabs expose the face and can even be fashionable, the burqa, which completely covers the face, provides a clear affront to European sensibilities. In September 2009, French president Nicolas Sarkozy took the bold step of openly blasting the burqa as a symbol of oppression. 'In our country, we cannot accept that women be prisoners behind a screen, cut off from all social life, deprived of all identity,' Sarkozy declared to an applauding crowd of lawmakers. 'The burqa is...a sign of debasement...It will not be welcome on the territory of the French Republic.' The Dutch went further, banning the burqa in public places via an act of parliament.²⁴⁵

Islamist terrorism after 9/11, and especially after the 2004 Madrid bombings added fuel to the fire. The Far Right seized upon Islamophobia to broaden its electoral appeal, something clear in the appeals of new groups like the English Defense League. Islamist threats to free speech and gender equality became banner issues in the Netherlands, Denmark, Sweden and Germany. Notable was the fact that gay and feminist figures were in the forefront of the new nationalism. Pim Fortuyn, assassinated in 2002 by an animal rights activist, is a paradigm case. A charismatic, openly homosexual politician, he combined a robust defense of secular liberties with anti-Islamist Dutch nationalism. Likewise, Bruce Bawer, gay author of *While Europe Slept* (2006), urged Europe to respond more robustly to the Islamic threat in its

²⁴⁰ Silverstein, P. A. (2004) *Algeria in France: transpolitics, race, and nation*. (Bloomington: Indiana University Press), pp.139-42

²⁴¹ *Ibid.* pp.246

²⁴² Klausen, Jytte (2005) *The Islamic Challenge: Politics and Religion in Western Europe*, (Oxford University Press), p. 171

²⁴³ 'Straw's veil comments spark anger.' *BBC Online*, October 5, 2006.

²⁴⁴ *Ibid.* p. 91

²⁴⁵ Keaten, Jamey. (2009). 'Sarkozy: Burqas Are 'Not Welcome' In France,' *Huffington Post*, June 22; *Ibid.* p. 474.

midst.²⁴⁶ Ayaan Hirsi Ali also emerged as a high-profile anti-Islamic politician in the Netherlands in this period.

Other liberal minorities changed their minds too. European Jews increasingly voiced concerns about multiculturalism. This followed a rise in anti-Semitic incidents largely perpetrated by European Muslims frustrated at both local Jewish success and Israel's hardline policies toward the Palestinians.²⁴⁷ In addition to secular Jewish intellectuals like Alain Finkielraut, Jewish critics included mainstream community leaders like Britain's Chief Rabbi Jonathan Sacks. Sacks urges a shift from rights-based to responsibility-based citizenship, and is openly critical of the trend toward difference.²⁴⁸

Liberal criticism of multiculturalism was vital. It helped relax the elite consensus which had conflated multiculturalism with diversity and anti-multiculturalism with white racism. This old paradigm still operates in Canada and the United States, so there appears a major difference in discussions of multiculturalism between the two sides of the Atlantic. In Europe, you can fault immigration and multiculturalism for encouraging illiberalism, whereas this remains difficult in elite circles in North America. The Dutch government was among the first to take its cue from the new mood of liberal integrationism. It introduced a citizenship video for prospective immigrants, which featured two expressive sexuals kissing and emphasized women's freedom as a core national value. France's ban on headscarves in public schools, largely inspired by nationalism, was also legitimated by the need to regulate conservative religious subgroups which restrict women's freedom.

Security has certainly played into the mix, but is not the main driver of cultural politics in Europe. 9/11, Iraq and Afghanistan elevated the security factor in the integration conversation. In the words of British Labor MP Tony Wright, 'Before September 11 it [multiculturalism] looked like a bad idea, now it looks like a mad idea.'²⁴⁹ The Madrid (2004) and London (2005) bombings sent security concerns to the top of governments' agendas. Residential segregation, seen as an incubator of radicalism, was cited as yet another pernicious effect of the old multiculturalist approach of celebrating and encouraging difference. In 2005, Trevor Phillips warned that Britain was 'sleepwalking into segregation', and the Cattle Report reaffirmed this position, urging integration.

But in the main, the cultural tensions over immigration and multiculturalism that run close to the surface in many west European countries are not primarily linked to a fear of terrorism. In other words, they bear more similarity to the furor over the Ground Zero Mosque than they do to worries about local Muslim attacks. And immigration and ethnic change remain the number one concerns of the electorate. Consider former German Central Banker Thilo Sarrazin's high-profile new book, *Germany Does Away With Itself* (2010). A runaway

²⁴⁶ Buruma, Ian (2006) *Murder in Amsterdam* (New York: Atlantic Books) pp.67; *ibid.* pp.12.

²⁴⁷ *Ibid.* pp. 259-61.

²⁴⁸ Sacks, Jonathan. (2007) *The home we build together: recreating society.* (London ; New York: Continuum).

²⁴⁹ *Ibid.*, p. 481.

bestseller, copies flew off the shelf, selling out in days. It soon became the best selling nonfiction book in Germany. In its pages, Sarrazin derides the illiberal characteristics of Islam: 'No other religion in Europe makes so many demands. No immigrant group other than Muslims is so strongly connected with claims on the welfare state and crime. No group emphasizes their differences so strongly in public, especially through women's clothing. In no other religion is the transition to violence, dictatorship and terrorism so fluid.' However, underlying the argument is a deeper worry about the demographic decline of the Germans as an ethnic group destined to become a minority in their own country.

Civic Nationalism?

Center-right parties began to form governments with the Far Right in the 1980s, edging out the mainstream Left in countries as diverse as Norway, Italy and Austria.²⁵⁰ To head off this challenge, Center-Left parties began to call for a renewal of national identity, albeit in inclusive, 'civic' form. Territory, history, values and institutions could be adopted by anyone, regardless of bloodline. The French in particular could offer a rich republican tradition based on the Revolution, high culture and a history of immigrant incorporation. The Dutch government withdrew public funding for ethnic organizations, abolished dual citizenship and scrapped public airtime for multicultural groups.²⁵¹ In Britain, immigrants were obliged to swear an oath of national loyalty, demonstrate proficiency in English and take a citizenship test.

Ironically, the Far Right helped to change the minds of the Center and Center Left in much of Europe on the question of multiculturalism - a policy predicated on the idea that recognizing minority cultures raised the self-esteem of minorities. Intellectually, the sea-change began in continental Europe in the 90s. Center-Left French writers like Alain Finkielkraut, Andre Taguieff and Emmanuel Todd were the first to break ranks. In France, the slogan *droit à la différence* (right to difference) gave way to *droit à la ressemblance* (right to be like others). 'What happened to the ascendant differentialism?' asks Rogers Brubaker. 'Two words: Le Pen.' The Far Right's deployment of the language of ethnic essentialism - 'they can never be like us' - revealed to many centrist intellectuals how politicizing cultural differences has dire consequences.

In Germany, the Left no longer agitated for non-citizens to enjoy rights while remaining apart. Instead, they encouraged immigrants to integrate into a common citizenship.²⁵² In Britain, the Parekh report of 2000 was the last gasp of the old order. Bhikhu Parekh, a genial and bright Labor Peer of Bangladeshi origin, chaired a report into community relations which contained much good sense but also reproduced some of the shibboleths of the academic New Left. The report called for Britain to officially commit itself to multiculturalism. This would legally define society as a collection of groups, not merely individual citizens.²⁵³ The report's statement that British nationalism was inherently racist was uncontroversial among the professoriate, but this time, Tony Blair's hitherto pro-multicultural New Labor administration

²⁵⁰ Bale, T (2003) 'Cinderella and Her Ugly Sisters: the mainstream and extreme right in Europe's bipolarizing party systems.' *West European Politics* 26 (3):67-90.

²⁵¹ Entzinger, Han. (2006). 'The Parallel Decline of Multiculturalism and the Welfare State in the Netherlands,' W. Kymlicka and K. G. Banting (eds.) *Multiculturalism and the welfare state: recognition and redistribution in contemporary democracies*, (Oxford; New York: Oxford University Press).

²⁵² Brubaker, R. (2001) 'The Return of Assimilation? Changing perspectives on immigration and its sequels in France, Germany and the United States', *Ethnic and Racial Studies* 24 (4), pp. 536-78.

²⁵³ Parekh, Bhikhu. (2000) *The Future of Multi-Ethnic Britain: the report of the Commission on the Future of Multi-Ethnic Britain*. London: Profile Books.

pushed back. Gone was talk of 'Cool Britannia' and celebrating differences. Responding to grassroots annoyance, Blair's Home Secretary David Blunkett and Foreign Secretary Jack Straw advanced ever more robust defenses of Britishness and even Englishness.²⁵⁴

A growing chorus of left-leaning writers and officials lambasted multiculturalism as divisive. Some, like Kenan Malik, Stuart Hall or Trevor Phillips, were nonwhite. Phillips, Head of the Commission for Racial Equality, emerged as one of multiculturalism's most forceful critics. After 2004, his high-profile agency demanded that funds only be handed out for anti-racism or integrated activities and not to parochial ethnic associations which promoted an agenda of difference. In taking this stand, he clashed with socialist London mayor 'Red Ken' Livingstone - part of a frosty relationship which dates back to 1999 when the unlikely duo ran on a joint mayoral ticket.²⁵⁵

Some in the British republic of letters stepped beyond integration policy to question cultural pluralism. In a controversial intervention, David Goodhart, editor of *Prospect*, a leading intellectual magazine in the country, boldly asked his largely center-Left readers in 2004: 'Is Britain Too Diverse?' Drawing on research which found more ethnically diverse parts of the United States to be less supportive of social provision, Goodhart warned that growing diversity could erode the sense of communal obligation needed to persuade middle-class Britons to share their wealth.

After all, he argued, if universal need rather than shared nationality is the rationale behind the welfare state, the malnourished of the third world are much more valid claimants on the middle class purse than low-income Brits. The subtext of Goodhart's argument was that the task of integrating minorities into the nation must go beyond the obligations of citizenship. Integration also requires a deeper melting of some of Britain's growing diversity. For Goodhart, British society has to choose between higher levels of diversity with a minimum commonweal, as in America, or greater homogeneity in a more caring society, as in Europe.²⁵⁶ Throughout most of these debates, Islam played only a bit part in the drama, but this was to change in the mid-2000s.

The Future of the European Backlash

The issue of immigration and multiculturalism in Europe is far from resolved. Tighter immigration laws in northern Europe may make some difference, but it will be difficult to close the door entirely due to the right of citizens to marry foreign nationals, and the European Convention on Human Rights provisions for asylum and family reunification. Meanwhile, the pace of Muslim intermarriage and assimilation remains glacially slow and may take a generation to change if at all.

Most Europeans will accept a melting pot at the edges of the ethnic majority but will not countenance an increasingly multicultural society. Without some change in this state of affairs - through immigration restriction or faster assimilation of minorities - the backlash will continue. The success of Geert Wilders, who has won over 20 percent of the poll in local

²⁵⁴ Blunkett, Sir David. (2005). 'New Challenges for Race Equality and Community Cohesion in the 21st Century', 7 July, *Institute of Public Policy Research*. <http://www.ippr.org.uk>

²⁵⁵ Meer, Nasar, and T Modood (2009) 'The multicultural state we're in: Muslims, "Multiculture" and the "Civic Re-balancing" of British Multiculturalism.', *Political Studies* 57 (3)

²⁵⁶ Goodhart, D.(2004) 'Is Britain Too Diverse.' *Prospect* (February); Goodhart, D.(2006) 'Progressive Nationalism: Citizenship and the Left.' *London: Demos*, p.72.

elections and whose party holds 24 of 150 seats in the Dutch parliament, is a barometer of this. Another is enduring support for the Far Right in France. In March 2011, Jean-Marie Le Pen's daughter Marine was running first in the French presidential poll. In Sweden, which has never had a far-right presence in parliament, the Sweden Democrats came out of nowhere to grab 20 seats. Given demographic trends in the country, we should expect this figure to steadily increase. Across the continent, issues of immigration and multiculturalism - with Islam at their center - will only become more important as the proportion of Muslims rises. France, with its fast-assimilating Muslims and robust civic nationalism, may prove an exception to the rule in the longer term. Still, the prognosis for the rest of Europe is toward growing majority antagonism and backlash politics in the decades to come.

Should Muslim demographic trends remain as they are, this pressure may build toward a critical point. Overt violence will probably remain sporadic and localized, but the Muslim question may emerge as a pivotal electoral cleavage akin to the Protestant-Catholic divide which defined the politics of the northern United States between the 1840s and the election of John F. Kennedy in 1960. The effect of a majority backlash on the macroeconomy of Europe is unclear. Even societies with significant inter-communal antagonism, as in Northern Ireland or Gujarat in India, can prosper. It is only when violence breaks out that investment dries up and the economy falters.

Should the Muslim/non-Muslim cleavage lead to a permanent Muslim underclass, then the kind of rioting that gripped France in 2005 may become more common, affecting productivity to some extent. A Muslim bloc vote could shore up support for the Left, which may increase the size of the state, crowding out private investment. Yet these are not imminent, nor are they of great importance to the economies of Western Europe. What could be more consequential is the downstream effect of a white backlash causing a persecution complex among Muslims, reinforcing their communal boundaries and poor economic integration. This would see Muslim segregation and unemployment persist or worsen and integration stall as the share of Muslims rises. White anxiety would ratchet up in tandem with this Muslim withdrawal. Non-Muslim minorities like blacks or Indians could be mobilized into the anti-Muslim camp. These developments would in turn push the drag on European productivity up to Israeli levels.

Yet there are reasons to doubt that this is the most likely outcome. Why? Two reasons present themselves. First, because non-Muslim immigration from Eastern Europe, India, Latin America and Southeast Asia will dilute the white-Muslim divide. Immigrants from these sources already outnumber Muslims in most European countries, and they occlude the neat immigrant = nonwhite = Muslim equation. Even in countries where Muslims are virtually the only nonwhites, authorities are seeking to attract more 'skilled' (i.e. non-Muslim) immigrants (Zimmermann 2004). The result should be an increasingly diverse 'pluropa' of white seculars, white Christians, nonwhite Muslims, nonwhite Christians, a growing mixed-race population, and 'Others' like Hindus, Sikhs and Buddhists [50]. Second, white nationalists' ideology is fundamentally about ethnicity and race rather than religion. This does not permit the inclusion of foreigners or minorities, regardless of their creed.

An ethnic nationalist backlash tars Muslims and non-Muslims with the same racial brush, which weakens its capacity to single out Muslims and force them into an inward-looking shell. Instead, Muslims can make common cause with other racial minorities.

Another possibility is that a new political alignment could emerge in which moral conservatives of all religions oppose secular liberals of all faiths. This would represent an American-style 'culture wars' politics where conservative evangelicals, Hispanic Catholics, Mormons and even devout blacks and Muslims unite around issues like abortion or gay rights and are opposed by seculars of all stripes. Though unlikely, it is possible to envision conservative European politicians seeking to woo conservative Muslims to their cause on a 'values voter'-style platform. After all, this has been the recent strategy of the Republican elite, who have spurned the Patrick Buchanan/Lou Dobbs anti-immigrant wing in favor of attracting Hispanics into their camp. In Antwerp and London, the Far Right does not do as well in 'majority minority' wards as in the majority white wards next door to them. When minorities become large enough, the 'immigrant' vote becomes more important than the 'anti-immigrant' vote and a new politics emerges, much as occurred in the US post-Kennedy as anti-Catholicism faded to be replaced by anti-abortion and other moral issues that appealed to both conservative Protestants and the Catholic bloc that had swollen to a third of the US population²⁵⁷

In the medium term, however, the greater likelihood is an increasingly pluralistic Europe, in which the *Eurabia* issue becomes entangled in a wider politics of ethnic nationalism and immigration. Muslims, despite their conservative moral views, will continue to fall into a broad left-wing coalition that includes white liberals and many Hindus, black Christians, and a chunk of the mixed race population. This coalition could rapidly challenge white dominance since the mixed-race group alone may form the majority by 2100²⁵⁸. White nationalists will not relax their boundaries to include Hindus and blacks in an anti-Muslim tent, though temporary alliances may form, as with the English Defense League's pact with local Hindu groups in the English Midlands. All told, the crosscutting cleavages of race, religion and class will probably prevent the Islam issue from taking center stage in most countries, and blunt the stigmatization of Muslims. This is already noticeable as the heated anti-Islamic events of 2004-5 in Europe fade in public memory. All of which means that the white backlash is unlikely to exacerbate Muslim economic underperformance except in countries like Germany, Belgium, Norway and Denmark where low-income Muslims form the overwhelming majority of the nonwhite population.

²⁵⁷ Kaufmann, E. (2010) *Shall the Religious Inherit the Earth*, (London: Profile Books).

²⁵⁸ Coleman, D. 'Projections of the Ethnic Minority Populations of the United Kingdom 2006- 2056.' *Population and Development Review* September, 2010.

Chapter 6. Muslims and the European Economy

Muslims and Europe's Economic Performance

Assessing the impact of Muslim growth on the national economies of Europe is a tricky task. On one side are those who argue that the youth and vitality of new Muslim populations can revitalize an aging Europe. They cite Muslims' willingness to work in jobs (in construction or services like hospital care) that natives will not do, or will only perform for a much higher wage. On the other hand, detractors point to Muslims' high unemployment, welfare dependency and disproportionate use of social services. Their social problems spawn increased security spending, further depleting national coffers while crowding out investment in capital, infrastructure, education and other preconditions of growth. The fact that Muslim immigrants arrive poor creates a downward drag on GDP per capita. In other words, Muslim immigration and growth are 'importing poverty' to Europe.

Chapter 3 considered a series of demographic indicators of Muslim integration: secularization, urbanization and intermarriage. This chapter looks at Muslim residential patterns and then considers the economic integration of Muslims in the labor market. The chapter concludes by evaluating the impact of an increasing Muslim urban population on local and national economies.

Muslim Residential Segregation

In Britain, half of Pakistanis and Bengalis live in the most depressed ten percent of British wards, where the unemployed are often in the majority. These include segregated mill towns like Oldham and Burnley in the British North, where white-Muslim riots broke out in June 2001. The Cattle Report into the riots pinned much of the blame on the 'parallel lives' led by whites and Muslims there. As a Muslim respondent quoted in the report remarked: 'You are the only white person I shall meet today.' In view of these developments, Commission for Racial Equality chairman Trevor Phillips, himself an Afro-Caribbean immigrant and once a cheerleader for difference, turned against multiculturalism. In 2005, he warned that Britain was 'sleepwalking into segregation.'

It is not clear how ghettos can be dispersed. Muslim demography reproduces them even though upwardly mobile Muslims try to escape their clutches. This in turn impedes intermarriage and integration for the most vulnerable, who are in turn most susceptible to radicalism.²⁵⁹ The trends are not all one way, however, since the minority outflow can sometimes be high enough to offset the weight of new immigrant arrivals. This has certainly been true for black Caribbeans in both Britain and the Netherlands. It is also true for Muslims in some cases. Thus, while the level of segregation increased slightly for Muslims in Amsterdam, levels are stable in the Hague and slightly declining in Rotterdam.²⁶⁰ Despite these encouraging signs of upward mobility, a significant proportion of European Muslims continue to live in ethnic slums, islands of desperation in a sea of prosperity.

²⁵⁹ Ibid, pp.59-60; Ibid, pp.128-9; Ibid, pp.68.

²⁶⁰ Ibid. pp.41-60; Musterd, Sako and Wim Ostendorf (2009) 'Spatial Segregation and Integration in the Netherlands'. Karen Schonwalder (eds.) *Residential Segregation and the Integration of Immigrants: Britain, the Netherlands and Sweden*. Berlin, WZB.

Integration and the Economy

Integration and economic performance are linked insofar as a group which is badly integrated will be unlikely to possess the social capital (in terms of networks) to secure good jobs, nor will they have the information to spot opportunities to contribute in the labor market. The converse also holds: unsuccessful groups are less likely to participate in the mainstream of a country's economic life. But it is also important to note the many exceptions: a group can be successful, but poorly integrated culturally and maritally (Sikhs and Hindus in much of urban Europe fit this profile). On the other hand, some groups integrate well in cultural terms, but do badly because they integrate into the worst-performing white subcultures. Afro-Caribbeans are one such group - they are no more successful than Muslims despite being heavily intermarried and culturally assimilated.

Minorities and the White Underclass

A further complicating factor in Muslim integration concerns relations between Muslims and their most immediate neighbors: white working-class urban whites. Unlike most American cities, many European ones - especially in Britain - have a significant white underclass. This arose as a result of deindustrialization and the decline of social bonds following cultural changes of the 1960s such as the rise of youth subcultures and more relaxed attitudes to divorce, marriage and out-of-wedlock births.

The extent of the problem was made clear in a speech by Patricia Hewitt MP, Secretary of State for Trade and Industry in the Labor Government in Britain. In launching the White Paper on the Commission for Equality and Human Rights, she pointed out:

“We used to talk, for instance, of the educational disadvantage of the Black and minority ethnic community. The reality, of course, is far more complex. Take school results, on average boys and girls from Chinese and Indian British families are doing better than anyone else. White girls do better than White boys; middle class children better than working class. Boys, especially, from African Caribbean and particularly, working class Punjabi and Bengali families have far lower attainments. But lowest of all, in those average test results, are White working class boys.”²⁶¹

This has significant ramifications at the national level given the large number of working-class whites in the country as a whole (see table 6.1). Note that even with the better-performing white middle class included, British whites do worse than Muslims (Pakistanis and Bangladeshis) in high school.

Table 6.1 Proportion of British high school students achieving no high school qualifications, 2003

Ethnic Group	% Passing No Courses
Indian	2.2%

²⁶¹ Iqbal, K. (2005) 'Underachievement of White Disadvantaged Pupils in Birmingham', Birmingham, *The Forward Partnership*.

Bangladeshi	4.3%
Pakistani	4.5%
White	5.3%
Mixed	6.1%
Black	6.5%

Source: Iqbal 2005.

Muslim Underachievement

The British case shows that Muslim educational performance is not necessarily substandard. However, Britain is well-known for its inequality and class divisions, and has a larger white underclass than other west European countries, as reflected in its infamous levels of soccer-related violence. Second, Muslim educational achievement has not translated so easily into better economic performance. This is due to both discrimination and low women's workforce participation. In Britain, 30 percent of Muslim men are economically inactive, nearly twice the rate of Christian men. Even of those who work, 40 percent perform low-paid service jobs, more than double the Christian rate. Meanwhile, Muslim women are more than twice as inactive (68%) as other British women. Racial discrimination is only part of the problem. Traditional Muslim gender roles mean that in Britain, only a quarter of inactive young Muslim women even *want* to work.²⁶²

Discrimination matters less in Britain's Anglo-Saxon, flexible economy. However, in continental Europe's highly regulated labor markets, this creates significant inequality. Poverty in turn impedes integration and heightens alienation. It also impairs Muslims' ability to leave their high-rise ghettos, locking in deprivation. In the period 1980-2001, for example, the unemployment rate among Turkish and Moroccan immigrant men in Belgium was 33 percent, far above that for Italian immigrants (14%) or natives (5.3%). In the Netherlands, roughly a quarter of Turkish and Moroccan immigrant men were unemployed compared to just over 3 percent for natives. The picture for Turkish and Moroccan women was even worse: 45 percent of Moroccan women in Belgium and France were unemployed compared to 10-12 percent among their native counterparts. While Turkish and Moroccan men lagged a few percentage points behind western European natives in terms of labor force participation, the Turkish and Moroccan female participation rate was just half that of native women.²⁶³

More encouraging is that economic performance rises dramatically the longer an immigrant is in the country, the higher their education and the better their language skills. Most Muslim newcomers to Europe spring from the poorest, least educated sectors of their homelands, unlike North American Muslim immigrants, who are largely well-educated.²⁶⁴ Even so, their children are doing considerably better. In Britain, as noted, Muslim children now outperform

²⁶² Mirza, M., A. Senthikumar, and Z. Ja'far, *Living Apart Together: British Muslims and the paradox of multiculturalism*. 2007, Policy Exchange: London, pp. 68-9

²⁶³ Van Tubergen, Frank (2006) *Immigrant integration : a cross-national study*. (New York: LFB Scholarly Pub. LLC), pp.77-82

²⁶⁴ Pew, Forum on Religion and Public Life. 2007. *Muslim Americans: Middle Class and Mostly Mainstream*. Washington, DC.

natives in both high school and university. Upward educational mobility has been most dramatic for Pakistani Muslims, and this will result in significant economic mobility, at least for men. The gap may not close entirely, however, since Muslim Indians, who vastly surpass British whites in terms of educational qualifications, still experience lower income levels.²⁶⁵ In France, studies find that even with the same level of education, Muslim youth are twice as likely to be unemployed as non-Muslims. Research using fake resumés shows that having a Muslim surname or address in a *banlieue* (satellite high rise suburb) worsens one's employment prospects. A parallel study in Sweden found that an Arab surname also reduces the chances of being called to interview²⁶⁶.

Muslim Public Sector Dependency

One way of gauging the effect of different groups on the economy is to ask whether they are net contributors to, or beneficiaries of, the welfare state. Most European countries have generous welfare states, and to the extent that Muslims are on benefits and/or pay less in tax, their net contribution to the public purse will be affected. An interesting and comprehensive study of Germany and Denmark examined a number of minority groups. Broadly speaking, those from Lebanon, Iran and the former Yugoslavia fared worst, Turks did better, and Poles best in that fewer Poles received public assistance (see table 6.2).

Table 6.2 Share of Population Receiving Social Assistance (Welfare), by Origin, Germany and Denmark, 2001-2

	Germany 2002			Denmark 2001		
	Men	Women	Household	Men	Women	Household
F. Yugoslavia	15	15	18	16	22	23
Iran	14	15	18	29	35	36
Lebanon	33	41	45	40	54	56
Poland	5	7	7	7	12	12
Turkey	5	7	9	10	15	18
All 5 countries (immigrants only)	9	10	13	15	20	22
All 5 countries (inc. naturalized)	-	-	-	13	18	21
German	2	4	2	-	-	-
Danes	-	-	-	2	2	3

Source: Rockwool Foundation Unit 2004 News, p. 20.

The authors note that immigrants, especially from Muslim countries, might be thought of as contributing relatively more to the public purse in Germany and Denmark because they are

²⁶⁵ Samad, Yunas. (2004) 'Muslim Youth in Britain: Ethnic to Religious Identity,' for conference on *Muslim Youth in Europe: Typologies of religious belonging and sociocultural dynamics*. Edoardo Agnelli Center for Comparative Religious Studies, Turin.

²⁶⁶ See Rooth, D.O. (2007) 'Implicit Discrimination in Hiring: Real World Evidence'. *A. IZA Working Paper* 2764.

younger than the rapidly aging native populations in both countries. As they note, 'a significant part of the work of the public exchequer is geared to the redistribution of money from people of working age to those who have retired.'²⁶⁷ This largely takes the form of old-age pensions and public services, particularly elderly care and hospitals.

That said, younger people, and those of working age, can also be dependent if they are on welfare, unemployed or on low incomes. This is especially characteristic of Muslim immigrants. There is an emerging view that while cheap labor was in demand in Europe in the late 40s and 50s when Europe's industrial base was strong, the ensuing period has been one of progressive deindustrialization and unemployment among the low skilled²⁶⁸. As a result, today's supply of non-European immigrants - which is largely unskilled and consists almost entirely of refugees and family-reunification immigrants - does not mesh with the demands of the new economy. Is the relatively low proportion of elderly dependents among immigrant groups enough to offset the poor labor market performance of these groups? Will the situation change in the second generation? This is a critical point because the typical argument in favor of immigration in Europe is that it compensates for the aging problem.

In this sense, the study is highly revealing. Table 6.3 compares the net contribution to public finances of two categories of immigrants. The immigrant population is divided into 'western' immigrants - largely from Scandinavia and the EU (pre-Eastern European accession), and non-western countries (largely Muslim). What is dramatic about table 6.3 is that it demonstrates that immigrants from largely Muslim (non-western) backgrounds are a large net drag on the public sector, equal to -.84 % of GDP. On the other hand, white immigrants from western countries contribute +.30% of GDP to the public purse. Second-generation Muslims do slightly better, but only marginally so, and seem to follow in the dependent footsteps of their parents. Despite some improvement within the second generation, the net drag on the economy rises over time because of the size of the Muslim population is increasing.

Table 6.3 Total net transfers to the public sector, by immigrant group (as % of GDP)

	1991	1995	1998	2000
Western Immigrants and their Children	+0.13	+0.09	+0.19	+0.30
Non-Western Immigrants and their Children	-0.54	-0.85	-0.75	-0.84

Source: Tranaes and Zimmerman, 2004, Ch.10.

The steady increase in payouts from the public sector to non-Western immigrants occurred even during the boom years of the late 1990s. The size of the net transfer is largely driven by unemployment: it is the low rate of employment among non-Western immigrants that explains why they are net recipients, rather than contributors, to public finances. Finally, the data suggest only marginal improvement among the second generation, with Muslim ethnic groups progressing least. As table 6.4 shows, second-generation Lebanese and Iranians, in particular, are almost as dependent as their parents. Turks do better in the second generation, but fall well shy of the gains made by European immigrants. Though the children do better than their parents, the cycle of Muslim dependency seems likely to continue for another

²⁶⁷ Rockwool Foundation Unit 2004 News, pp. 19-20.

²⁶⁸ Zimmermann, K. F. (2004) 'European Labour Mobility: Challenges and Potentials.' *German Institute for Economic Research*, Discussion Papers of DIW Berlin 460, DIW Berlin.

generation at least. This will impose a small but growing tax on the economic vitality of Western Europe.

Table 6.4 Net Contribution to Public Finances, by Immigrant Group

Ethnic Group	1st generation	2nd generation	1st and 2nd Combined
Iranians	-2254	-2903	-2274
Lebanese	-11831	-8115	-11698
Poles	-2423	1199	-2095
Turks	-5962	-2546	-5213
Fmr. Yugoslavia	-3575	622	-3161

Source: Tranaes and Zimmerman, 2004, Ch.10.

By way of comparison, in the United States, National Academy of Sciences (NAS) estimated that the net fiscal drain (taxes paid minus services used) from immigrant households in 1997 was \$11 to \$20 billion a year. Against a US GDP of \$14 trillion, this represents less than .1 percent of GDP. So Muslim immigrants in Germany and Denmark are ten times as large a drain on the state as immigrants in the United States²⁶⁹

US Census Bureau data indicate that one-third of those without health insurance in the United States are either immigrants (legal or illegal) or U.S.-born children (under 18) of immigrants. One-fourth of children living in poverty in the United States have immigrant fathers. In 2008, 53 percent of immigrant households with children used at least one major welfare program, primarily food assistance and Medicaid. These fiscal costs were incurred despite US immigrants' high rates of labor force participation, which stands in contrast to the profile of Muslims in Europe. With respect to the US, Camarota writes, 'the tiny economic gain is probably entirely offset by the fiscal drain immigrants create on taxpayers.'²⁷⁰ In Europe, this effect is even more pronounced because Muslim groups are much bigger net recipients of state largesse than US Hispanics and pay far less into national coffers in taxes due to their lower rate of workforce participation.

Immigration's Impact on Europe's Economic Growth

The foregoing discussion begs the question: what is the impact of Muslim population increase on Europe's economic growth (expressed as GDP per capita)? Unfortunately there is no academic work on this subject. However, it is possible to reason by analogy with the United States. Leading US labor economist George Borjas of Harvard and the President's Council of Economic Advisers²⁷¹ use a formula to calculate the impact of immigration on economic growth that is based on the extent to which immigrants produce more than their wage (see Appendix B).

²⁶⁹ Smith, J. P., B. Edmonston, et al. (1997) *The new Americans: economic, demographic, and fiscal effects of immigration*, (Washington, D.C., National Academy Press). chs. 6-7.

²⁷⁰ Camarota, S.A. (2010). 'Immigration and the US Economy', *Testimony Prepared for House Judiciary Committee Subcommittee on Immigration, Citizenship, Refugees, Border security and International Law*, September 30, 2010

²⁷¹ See Lazear, E. P. and D. B. Marron (2007). 'Immigration's Economic Impact.' *CEA* (Council of Economic Advisers); and Borjas, G.J., *The Economic-Benefits from Immigration*. *Journal of Economic Perspectives*, 1995. 9(2)

This finds that the net gain from immigration in the United States is 0.24 percent of GDP. If GDP is \$14 trillion, then the net benefit to the US economy is \$33 billion. As Steven Camarota writes, 'three important points emerge from this analysis. First, the net effect of immigration on the existing population is positive overall, though not for all workers. Second, the benefits are trivial relative to the size of the economy, less than one-quarter of one percent. Third, the benefit is dependent on the size of the wage losses suffered by the existing population of workers. Or put a different way, the bigger the wage loss, the bigger the net benefit.'²⁷²

To the extent that immigration drives down wages, it increases the productivity of native capital and higher-skilled workers, increasing GDP per capita overall. Of course, this also means that the benefit to GDP comes largely through competition with the poorest native-born workers. Therefore immigration increases inequality, and with it, social conflict. In Europe, Muslims' high unemployment means less economic conflict with the white working class, but lower Muslim contribution to GDP. If we repeat the calculation of benefit to GDP using the Borjas/CEA formula, *we find Muslim immigration contributes a scarcely noticeable .013% to Europe's per capita GDP before we consider the offsetting negative effects of net welfare payments.*

Ideally, we would also take into account the added cost in terms of crime and security (in the US, immigrants commit less crime than natives, but the reverse is true in Europe), as well as the net outflow of remittances by immigrants to relatives in their homeland. This would, however, require independent modeling that is beyond the scope of what we can provide. Nonetheless, a broad estimate of the impact of Muslim growth is discernible by subtracting the net loss in social assistance from their net contribution to GDP per capita.

This works as follows: in the US, the NAS study estimated a net economic benefit of \$1 billion to \$10 billion a year from immigration. Thus, the estimated fiscal drain of \$11-20 billion in social services was about \$10 billion larger than the \$1-10 billion economic benefit of immigration to the US²⁷³. If, in the US case, immigration's effect is roughly neutral or slightly negative, then it is reasonable to claim that Muslim immigration exerts a clear negative effect on Europe. Specifically, if we take the positive contribution of Muslim workers to GDP/head of +.013 of GDP and subtract the roughly 1 percent net negative contribution to public finances, this gives a net effect of -.84% of GDP per year (assuming Germany and Denmark are broadly representative of western Europe). *In effect, the Muslim population imposes a tax of nearly 1% of GDP each year on the west European economy.* As the Muslim population grows, this would automatically rise, but the growing loss could be counterbalanced by improved Muslim workforce participation in the second and subsequent generations.

Much will depend on whether the better-educated second generation of Muslims wishes to, or is permitted to, integrate into the European economy. Since the low workforce participation of Muslim women is a big part of the equation, a great deal will hinge on shifts in Muslim social attitudes. If Muslims reject women's equality and insist on women remaining in the home, the net drain on the European economy will increase year-on-year. The poor cultural

²⁷² Camarota, S.A. (2010). 'Immigration and the US Economy', *Testimony Prepared for House Judiciary Committee Subcommittee on Immigration, Citizenship, Refugees, Border Security and International Law*, September 30, 2010.

²⁷³ Smith, J.P., et al. (1997) *The new Americans: economic, demographic, and fiscal effects of immigration*. (Washington, D.C.: National Academy Press). xi, 434 p., chs. 6-7.

and marital assimilation of European Muslims suggests that a significant chunk of the Muslim population may resist the transition to female employment. Recent survey evidence from the UK even suggests that young Muslims are more conservative than their parents when it comes to gender roles.²⁷⁴ In addition, researchers find that newcomers who are more attached to their ethnic identities do worse in the labor market, even after education and other factors are taken into account.²⁷⁵

On the other hand, specific sub-sectors of the Muslim population may move toward more modern orientations. This is evident in table 6.5 below, where the proportion of seculars among Iranians and Central Asians in Germany is higher than it is among white immigrants from the former Yugoslavia. This integration pattern is much less evident among Arabs, Turks and Asian Muslims, however. In these groups, close to 90 percent remain attached to their Muslim identity²⁷⁶.

Table 6.5 Religious Breakdown of Different Ethnic Groups in Germany, 2007

	SE Eur	Turkey	Russia/ C. Asia	Iran	S. /SE Asia	Middle East	N. Africa	Other Africa	Tot
Muslims	37.3	88.2	1.5	50	59.6	64.4	84.7	22.9	54.1
Christians	41.3	2.5	62.3	9.3	10.3	17.8	1.9	66.4	25.9
Jews	0.2	0	4.5	0.7	0	1.6	0	0	1.3
Others	0.7	1.6	1.9	2.9	16.3	3.2	0	1.5	2.2
No religion	20.4	7.7	29.8	37.1	13.8	12.9	13.5	9.2	16.6
Total	100	100	100	100	100	100	100	100	100

Source: Haug, Mussig et al. 2010, p. 106.

The Future Impact of Muslim Growth on the European Economy

At 5 percent of the total west European population, Muslims are still a small entity. It is beyond our scope to project what the full effect of these changes will be by 2050 as the Muslim share of the west European population approaches 10 or 15 percent. This would require original academic research in the form of detailed modeling and a triangulation of data from a number of sources. What this study does, however, is examine a case where the Muslim minority already exceeds 20 percent and has a similar workforce participation, growth rate and welfare dependency profile to European Muslims, namely, Israeli Arabs. In addition, Israel contains a fast-growing ultra-Orthodox Jewish population of 10 percent, which adds to Israel's financial burdens. The combined drain of these net claimants on the Israeli economy is impressive, and their drag on economic growth has been analyzed in some detail by Israeli economists. Their research offers a good indication of how Muslim growth might affect Europe's economy after 2050, and whether an ensuing economic decline is possible.

²⁷⁴ Mirza, M., A. Senthikumar, and Z. Ja'far, *Living Apart Together: British Muslims and the paradox of multiculturalism*. 2007, Policy Exchange: London.

²⁷⁵ Battu, H. and Y. Zenou (2009) *Oppositional Identities and Employment for Ethnic Minorities: Evidence from England*. IZA Working Paper 4517.

²⁷⁶ Haug, S., S. Mussig, and A. Sticks, *Muslim Life in Germany*. 2010, Federal Office for Migration and Refugees: Nurnberg.

Conclusion

Europe is showing signs of greater divergence even as it tries to come up with new mechanisms of convergence. Three gaps are emerging: the gap between the European elites and the voters; the gap between states within the EU; and the gap between competing European visions and projects.

Regarding the first gap or the so-called 'democratic deficit,' the EU is pushing fiscal integration from the top down as a technocratic solution to the euro-zone crisis. Yet this does not have the full assent of the national electorates of the northern countries or even the southern ones. The EU is a democracy without a demos, possessing a parliament without a people. Fellow-feeling resides at the level of nations, and national politics either ignores the EU or blames Europe for their problems. It is not a bad bet to be pessimistic about Europe's future. According to this scenario, national publics are growing ever more Euro-skeptic because of a perceived 'democratic deficit' between them and unelected EU functionaries, who are forcing them further down the road of integration. This will lead to an even greater backlash against European integration.

The result is functional integration by the elites and growing detachment and alienation among the masses, with the two strata pulling in different directions.²⁷⁷ The EU is becoming an elite shell and will stall in the years ahead, with all attempts at further integration derailed by 'no' votes against treaties unless they are explicitly necessary to avert a crisis - as recently with the Irish vote. France and the UK are particularly susceptible to campaigns for no-votes against further transfers of sovereignty to Brussels. Germany, once backbone of European integration and federalism, is almost certainly going to become more sour and less idealistic as they are compelled to pay to support the weaker members.

The second gap is increasing tensions between states within the EU. France and Germany are no longer joined at the hip. As Timothy Garton Ash writes, Germany and France are no longer the perfect partners they had been before 1990, when Germany was the engine and France was at the steering wheel.²⁷⁸ Germany insists that expenditures of fellow eurozone countries be centrally monitored if liabilities are going to be shared. France, by contrast, wants to put brakes on further fiscal compacts and political unions until there is real money on the table. France wants economic stabilizers and transnational social security whereas Germany wants sanctions with teeth for those countries whose debt exceeds fiscal guidelines. France seeks to represent the cause of solidarity with the club med countries, calling for more growth and less austerity. Germany presses on with austerity as a prerequisite for and enabler of future growth.

The UK is diverging from continental Europe in a steady path toward a semi-detached status or even an exit from the EU. As France and Germany seek greater monetary union within the eurozone, the UK worries that London's pre-eminence as a financial center might be eroded

²⁷⁷ An extreme version of the disillusionment with political elites in France is articulated by Dominique Moise in "Hollande must heed lessons of Louis XVI," *Financial Times*, April 9, 2013 at <http://www.ft.com/cms/s/0/c452f694-a038-11e2-a6e1-00144feabdc0.html#axzz2QBpaRuar>

²⁷⁸ Timothy Garton Ash, "Can Europe Survive the Rise of the Rest," *The New York Times*, Sept 1, 2012 at http://www.nytimes.com/2012/09/02/opinion/sunday/can-europe-survive-the-rise-of-the-rest.html?_r=1&emc=eta1

by onerous eurozone financial regulations. More fundamental is the institutional conundrum between eurozone insiders led by Germany who prioritize eurozone interests and the disparate group of outsiders in the second tier, who feel that they must ratify what the eurozone countries decide. The UK is in a difficult spot. It will not be happy with the loss of influence within the EU in a two-tier Europe. At the same time, most Britons will not accept a go-it-along approach in which they become another Norway or Singapore.

Then there is the north-south divergence over immigration. The one trigger for a break-up in the future might be a dispute over leaky weak points on the European perimeter (like Greece, Italy, and Spain) that allow non-European immigrants into Europe because of incompetence or corruption or lack of manpower.

Finally, there is tension between new accession countries in central and eastern Europe like Poland which receive subsidies for infrastructure development and those like the UK which want to freeze the EU budget. Some countries like France receive subsidies for their farmers through the Common Agricultural Policy, and yet remain net contributors of funds to countries like Poland. As the recession continues, divisiveness grows, compromise becomes more difficult, exits become increasingly attractive, and the idea of Europe suffers.

The third gap is competing European visions and projects. As Europe turns inward and focuses on deeper integration, what will happen to other European projects like deepening the single market, pacifying the European continent or projecting outwards the vision of a potent global Europe that can compete with China, India, the US and other global neo-giants? It is better to be a giant of 500 million than a middle country of 30-80 million. And yet, the temptation for individual European countries to forge bilateral relations with countries outside the EU is becoming greater. One reason that Germany's current account surplus remains high despite the collapse of imports of Germany goods by other eurozone countries is Germany's increasing exports outside to emerging markets. The bilateral temptation will weaken and may even undo global Europe.

These three gaps did not appear overnight. Europe had lost much of its luster because the original drivers for unification have dissipated. Those who remember the Second World War are now in their 80s and 90s. Anything as ominous as the Soviet threat is not likely to emerge in a post-Putin Russia. After Europe acquiesced in Germany's reunification, Germany has become less enthusiastic about the European idea and now behaves more like the sovereign country that it is. Merkel will not defer to Hollande at the steering wheel. Above all, the economic crisis for Europe, now four years on since the collapse of Lehman, means that for many people Europe no longer means a rising standard of living. Now when people say Europe, the image that comes to mind is of a region heavily indebted, aging, uncompetitive and in perpetual crisis.

Yet the breakup of Europe is still difficult to conceive. Young people have grown used to inexpensive 'Easy Jet' travel from one country to the next without pre-EU passport controls, multiple currencies and restrictions against foreign labor. And not only the young people are pro-Europe. German elites are convinced that the crisis demands more Europe, not less, and they may have the economic power to achieve more Europe. Just two years ago, few would have thought that Europe would be on such an ambitious path toward economic, fiscal, monetary and political union. The reason for this dramatic movement is that the alternatives are unbearable.

What will Europe look like in 2030?

European idealists see a European Republic or *res publica* superseding the nation-state, which they believe will become an historical artifact. Meanwhile, from below, they envision the nation-state being undermined by regionalism to produce a 'Europe of the regions'. A diluted Germany allows Bavarians to assert their dual European and Bavarian identities. Catalans feel more European than Spanish. The Scots prefer to be part of a larger European Republic than an English-dominated United Kingdom.

Is this the right vision for the wrong era? The timing for promoting the eclipse of the nation could not be worse as the economic recession spurs national employment and industrial protectionism. Banks are mainly lending within their sovereign state. Stepping back from the current economic malaise one can see a wider panorama in which demography is central. Europe's birth rates have been below replacement for nearly half a century and will continue in this direction in the decades to come. Native white populations will get older and smaller - dramatically so in some cases such as Italy, where the native white population may be only a quarter of its present size in a hundred years. This birth dearth has been made up by immigrants and their children, with all the attendant social conflict that brings.

Populism and nationalism will grow rather than shrink as tensions with immigrants increase. Western European cities are likely to have large neighborhoods consisting primarily of minorities and, in many cases, Muslims. These enclaves will contain few indigenous Europeans. This may lead entire cities or regions - Brussels, London, Paris - to be seen as foreign colonies, which will be exploited by populists, much as was the case in the US between 1890 and the 1920s when the anti-Catholic APA and Ku Klux Klan were at their height. Curiously, it was the Depression which dampened down Protestant ethno-nationalism in the US as the supply of immigrants slowed and people turned to pocketbook issues. So too in Europe today. Far right populist parties are likely to gain at the expense of the mainstream parties which fail to attract young people. Global competition will put pressures on the welfare state and create tensions between those who want to keep their entitlements while worrying that their jobs will move abroad, and, on the other side, the globalized capitalist elite and their well-paid, mobile knowledge workers.

Europe is aging rapidly, and many countries will be on their way to having a third or more of the population aged over 60. The economic slowdown permits employers to stretch their existing employees, but as this situation lifts there will be a ratcheting effect whereby rising demand for labor from recovery is accompanied by rising worker demands for more money or shorter hours as they acquire more alternatives to their current job. The net effect will be an acute labor shortage which will lay bare Europe's dearth of young workers and the rising pensions and welfare bill caused by an aging population. Employers and governments will clamor for cheap immigrant labor to remain competitive, especially in services, construction, agriculture, elderly care and other labor-intensive sectors which natives shun. At the top end, they will demand talented IT workers and scientists from Asia. When the economic crisis lifts, the cultural crisis will reassert itself with force.

At that point, the demographics of Europe will require many countries to come up with a migration policy that attracts qualified and skilled migrants. Since a finite number of skilled migrants are being lured by many countries all over the world, a large bulk of migrants coming to Europe will be unskilled Africans and South Asians. Migration does not spare

those countries with exceptional (on the high side) fertility rates, like the UK, France, Ireland and the Nordic countries. France and the UK already contain large numbers of immigrants from North Africa and Muslim South Asia, with accompanying ghettos, economic disparities and social tensions. Native whites will vociferously oppose immigration, yet the right kind of immigration may be vital for Europe to grow. *This suggests two paths: the first involves a US-style society with high immigration, rapid economic growth and increasing integration. The second path points to reduced immigration, government deficits, slow growth and stalled or reverse European integration. Of the two scenarios, the second is more likely.*

The democratic deficit will be difficult to overcome, slowdown or no slowdown. Populist parties have three different targets, globalization, immigration and euro-skepticism. Often Europe is seen as the source of all three. The saliency at any given time of at least one of those targets makes it difficult for Brussels to gain the legitimacy it needs to succeed in its stated aim of 'ever closer Union.'

Will there be a eurozone and a European Union in 2030? Perhaps. Will it be a vibrant economic engine with a generous social security cushion? It is hard to see how, given the prevailing demographic, economic, social and political trends.

Appendix A: Survey of employers and related experts in West Midlands, United Kingdom and Report on a meeting with EADS Human Resources/Competitiveness Managers in Toulouse, France,

Survey of Employers and related experts in West Midlands, United Kingdom

‘Birmingham: a city in decline’

This Report was prepared at the author’s direction by David Page, a retired police officer who through his role in counter-terrorism and counter-radicalization in the West Midlands Police until 2011, became well known among the Muslim communities in Birmingham. David is noted for his ability to take a fresh viewpoint on issues and his skill at networking. The author facilitated a number of meetings with employers in West Midlands through MPs (members of Parliament) from the region, particularly, Gisela Stewart and Emma Reynolds.

Summary of Survey Findings:

The small survey undertaken in Birmingham, the UK’s second city, and the surrounding West Midlands area, provides a snapshot of the issues facing Europe as the population changes amidst chronic economic recession. Europe has for several decades allowed immigration, often with guaranteed employment; now that is unlikely except for the skilled. The interviews sought to elicit views on the impact of immigration on cohesion and competitiveness. Unemployment is known to be high, particularly for the young and employment is nearly as low as Greece. For employers, recruiting the young can be a problem, given their negligible will to work and the impact of the “benefits culture” that further reduces incentives to work. Birmingham, if not the UK and Europe, need a new economic miracle that employs more of its people; without a boost in employability, the prospects are dire. David Page’s report follows:

“I was impressed that those spoken to, especially the private employers, were optimistic about the future of their business. Their priority is to make and sell a good product at a profit. A wider agenda, whether economic, social, or political, comes very low as a personal and business priority.

For several years now I have been pessimistic about the economic well-being of Birmingham and the surrounding urban region, but optimistic about social relationships in a city of many cultures and faiths. Birmingham is the UK’s second city, with 1m people and 1.7m more in the wider, urban region. It once prided itself on being a ‘city of many trades.’ In the past Birmingham made things, but now it is not sure what to do.

The city is young, with 37% under-25yrs (404,000), with a growing number of mixed heritage: 55% of those under-15yrs (in 2009) come from parents of different race/heritage, and the offspring have social attitudes that are reported to be different from the older generation. In September 2012, only 56% of those of working age (16-64yrs) were in employment. The Greece employment rate is 54% and the UK national rate is 72%. A large 49,000 claim Jobseekers Allowance (JSA); 57,000 claim Incapacity Benefit (Disability) and the youth unemployment rate is 20.5% (12,600), which is probably understated.

How Birmingham promotes itself as ‘the UK’s most energetic city’ eludes me.

It became clear that employers made little or no provision for religion at work, in a city that has a strong non-white population. For employers, color and religion do not matter, as they can recruit the ‘best of the best.’ They often cited as a bigger obstacle to employment the ‘benefits culture’ for those in and out of work.

So in 2030 what will Birmingham look like? Young people without work will increase; some employers will simply retire and close – notably small businesses. The public sector will not be recruiting to compensate; instead, the public sector may decline further.

Birmingham will be a far more mixed, younger city with immense potential for private personal and family conflict, notably within South Asian families and between the sexes. Is the city an attractive place to work? Behind the city centre glitz there are many problems such as transport delays and a wide skills shortage affecting employability.

What does this mean strategically for the UK? A once proud, vibrant multi-ethnic city is even more dependent on state subsidies – which the state cannot afford. The people of Birmingham are not political enthusiasts, so political change outside the mainstream parties is unlikely. Public violence is possible, but as recent years have shown for Muslims and white British, extremism is unattractive.

I do wonder how the British public will react to more officially approved immigration of skilled people, as proposed by the PM David Cameron. Frank Field, a Labour MP, calls for ‘British jobs for British jobless’. I fear for British political legitimacy for many reasons. By enabling such an influx of immigrants, many natives will suffer without a job, unable to afford a university education with their families in despair. More skilled people will leave and who then will pay for public services, let alone pensions?

Prologue

So who was spoken to? Respecting their request for privacy no one is named or details given that could identify them.

- IT Services employer (large employer) referred to as ITS
- Retailer (small, owner business) referred to as SOB
- Manufacturer (small, owner business) referred to as SMB
- Engineering / Manufacturer (medium sized, owner business) referred to as MEM
- Business Analyst (local employers group) referred to as FBA
- Lawyer (a non practising Muslim) referred to as FLP
- Investor (a practising Muslim) referred to as MIP

What were the questions raised once rapport was established?

What is the long-term impact of immigration, particularly immigration from Muslim-majority countries on the future social cohesion of UK cities, and on the competitiveness of UK companies?

What is the impact on competitiveness of companies that have significantly more employees from non-white groups? Is there a difference between the traditional, indigenous labor pool and the one emerging from a much wider community? We are particularly interested in immigration from Muslim majority countries like Pakistan and Somalia.

Some statistics for background

‘New’ immigration is not primarily from Muslim countries. In 2010, 532,000 Poles were officially recorded as UK residents. In Southampton, a city with a population of 200,000, they were one in ten of the population. Polish is now the second most spoken language in England.²⁷⁹

The late 2012 employment figures are also interesting (covering those of working age 16-64yrs): The Employment levels are listed by country of birth and nationality:²⁸⁰

Total UK: 71.7%

UK 72.5

Non-UK 67.9

EU14 74.8 (the ‘old’ EU states)

EUA8 79.4 (the ‘new’ EU, including Poland)

USA 72.2

Africa (excluding South Africa) 52.3 (heavily represented by Zimbabwe and Somalia)

S. Africa 79.7 (Largely white)

Aust & NZ 78.7 (Young and on their “gap” years between school and work)

India 74.1

Pakistan & Bangladesh 50.2% (Note how much lower this employment level)

²⁷⁹ BBC News Report <http://www.bbc.co.uk/news/uk-21305026>

²⁸⁰ See the official UK government statistics:

http://www.ons.gov.uk/ons/taxonomy/search/index.html?newquery=emp06&newoffset=&pageSize=50&nscl=L_&about+Market&sortBy=none&sortDirection=none&applyFilters=true

Key Themes

1. Economic competitiveness, recruiting and retaining employees are not seen as a significant future issue. Different explanations were given. No one referred to competition for employment if there was a return to economic growth. Their assumption was that the UK would continue to have a large employment pool.
2. There was little sign that the current changing ethnic / faith composition of the future work force was formally recognized.
3. Repeated emphasis was given to the public 'benefits trap' restricting employment both for those in work taking promotion or gaining new skills, and for those not in work.
4. Smaller, often local factors can affect competitiveness and employment.
5. Competition from non-economic and non-employment factors. Curiously this was cited only by the two Muslims.

Recruiting and retention of employees 'We don't care about religion. The needs of the business, not race are the determining factor. We recruit very little from the immediate locality, which is majority BME (Black and Minority Ethnic) and Muslim in part due to the poor schools'. ITS

'Our experience is that for young people it is not cool to work. When we advertised for part-time staff, we had six or seven no-shows and we don't give second chances. Now we have two women, both in their late fifties. We need employees that are driven, who want to work and do better. We recognize flexibility. SOB

'We have around fifty staff, a mix of ethnicities and a mix of the 'old' and the 'new' immigrant communities. Everyone must have basic English and be numerate. The 'old' tend to be from the Commonwealth, who want to do better and get jobs. The younger generation does not want to follow the first and second generation. The 'new' are a mix of refugees who have lost everything in fleeing tyranny and those from across the EU who are better qualified, with a strong work ethic and so get jobs. Immigrants, whether 'old' or 'new' rely on word of mouth to identify good employers and they seek comfort in numbers of their own'. SMB

'Look less than half our engineers are professionally trained. We all know there is a national skills gap. We need colleges to change, they currently teach what students want and what they can deliver. This is an international business, we have a small number of Indian engineering graduates here, on two year contracts to gain experience and India is increasingly a supplier of labour for our plant in Dubai. We have a mix of ethnicities here, with a handful of Poles and have noticed with immigrant staff that there is a stark difference between their lives at home and at work. Some of our training is in-house and we've proudly retained the majority of our apprentices'. MEM

'The current labour market means that 'Only the best of the best get in'. For an employer their employees need to be good; colour and religion do not matter. We often hear about a skills gap as if it is in technical areas; it is not. There is a lack of leadership skills, A third of potential growth is missed due to this; this is very noticeable in the food processing and textile manufacturing areas. Birmingham has a large number of family-based businesses;

many have no succession plans in place and exhibit no willingness to change. “Bumbling along” is simply a disaster waiting to happen. *You often find small engineering companies in the city have no young staff; those companies will one day soon end, even though the business is there. Nor should we ignore the changing gender aspects in employment; how will some immigrant communities, which have had a traditional outlook, react to having women in supervisory and management positions? Age is another issue of concern, for example one local company advertised for five semi-skilled vacancies, to work in a clean environment; every single applicant was over fifty-five years old.*’ FBA

‘By 2030 the UK legal profession will not look like it does now. That is in both perceptions and demography. Until recently the entry level ratio between men and women was 60:40; now it is 50:50 and at partner level 79:21. There are huge issues over promotion and those, not always women, who seek flexibility in working. Flexible working practices have to be offered due to the changing economy and to better meet staff needs. For BME they make up 12% at entry level and 4% at partner level. What is emerging, notably in London, and maybe other English cities, is the pressure from corporate clients for the profession to change. They complain about the lack of diversity; simply put they do not like being “pitched” by white males’. FLP

‘For religious reasons certain jobs are not open to Muslims, notably involvement with alcohol’. MIP

Comments

A regional report on the skills shortage in 2010 put this at 16% for the West Midlands, ranging from 25% in Wolverhampton to 11% in Solihull. Six factors accounted for someone being at a high risk of workless: disability, long-term health problems, some minority groups, older people, young people and people with no qualifications. ²⁸¹

I did not expect to hear so many references to age being a factor; **many young people have no will to work**. In February 2013 the unemployment rate in Birmingham was 10.6%, almost double the national rate; on a parliamentary constituency basis it ranges from 2.9% to 18.7% and rises to 30% in some parts of the inner city. The latest employment figures show 56% of those of working age are employed; there has been a consistent decline since January 2008 compared to the regional and national rate of 72%. ²⁸²

Yes training and education may soak up a number, but one has to ask what 29-33% of the population is doing? I am aware that some think self-employment and caring for elderly relatives absorbs a number. From my own knowledge and observations I find it hard to accept the official figures for youth unemployment rate, which seems much higher.

Lack of formal recognition over a changing future work force

‘We employ a variety of faiths, including those of Pakistani origin and Sikhs. We make no allowance for on-site facilities for religious observance or informal arrangements for religious holidays’. ITS

²⁸¹ 2009 West Midlands Regional Observatory report on employment and diversity

²⁸² See: <http://birmingham.gov.uk/birminghameconomy>

‘As a small company which is export oriented we recognize the impact of religious festivals and rely on our network of local agents to ensure success. I’ve never even thought of asking an employee their faith’. SOB

‘With a mixed workforce we know faith can have an impact, but we only informally manage absences during religious periods; so if time is taken off by BME (Black and Minority Ethnic) staff, they will have to compensate working longer hours, say in the pre-Christmas period’. SMB

‘We have no issues with religious observance, but we make no special provisions for faiths (no prayer room or noting religious festivals)’. MEM

Comment

These comments may reflect their own personal position on faith and as the latest Census found there is a growing number of those without a declared faith. Elsewhere comments were made on the distinction made by employees between their life outside work and that at work. I had expected some comment on the advantages of a multi-cultural / lingual workforce, which appears in official literature as an advantage for business in Birmingham and the wider region. If the UK is to export outside the EU, and target the BRICs, have employers assumed using English would suffice?

Impact of the public ‘benefits trap’

‘There is a clear problem with the economics of state benefits; why work? I recall a trained employee sought to return after fourteen years as a responsible “house husband”. *He was receiving eighteen hundred UK Pounds a month and it would be madness for him to return to work on the pay scales we could afford*’. SMB

‘We have ample examples of *staff refusing education and promotion as they lose state paid benefits*. A twenty UK Pounds per week wage increase can lose fifty UK Pounds in benefits. In this local authority area to the west of Birmingham those claiming Jobseekers Allowance (JSA) account for 12% of the working age population; 15-16% claim Incapacity Benefits. Long term this is a big national and local problem’. MEM

‘Do not overlook the level of dishonesty amongst South Asians, who see no harm and little risk in earning and claiming an illegal state benefit’. MIP

Comment

For many years the UK government have massaged the unemployment figures, either by re-definition, the transfer of the long term to other categories – like being disabled so they can claim Incapacity Benefits, and by simply reducing the paid benefits so it is questionable whether it is worth claiming?

Some smaller, local and larger factors

‘In the IT sector, technical staff is often local Sikhs. As very few live locally, they commute some distance from their own homes. We do use a European location for the most sophisticated problem solving – they are the epitome of efficiency, university educated,

multi-lingual, performance driven and they respond within the hour to new directions. We have a problem with ‘new’ immigrant labour, as they cannot get UK government security clearance for at least five years, so they are limited to commercial contracts. Long ago the company made a commitment to working in the inner city; now we have to look at alternative locations for some staff; for example the hours lost by sales staff by delays on the roads and there being no alternative – there is a constant pressure to drive down costs’. ITS

‘The cost of housing is the major determinant for where immigrants initially settle; as their economic status improves they move outwards from the inner city and other low-income areas. This affects their transport costs. Yes our location is important as we work shifts, we are close to multiple bus routes and we have limited, safe parking’. SMB

‘Ethnic businesses become ethnic employers in my experience’. MEM

‘Back to the skills gap; this exists in Human Resource expertise; it is shown in the burden of succeeding with overseas sales, which crowds out new demands and so ends with employers not spending to gain. These failings lead to a failure to adapt and respond to a changing labour pool. Even though we have a number of universities in Birmingham graduate retention is low. Another obstacle is the lack of credible career advice at schools and elsewhere. There has been a steady decline in provision at schools’. FBA

‘The local “black” economy in this city can vary from 5-25% of the local economy. This part of the economy does not employ many people and those it does are at the lower end of the market. When the economy is in recession some Muslim communities have their own methods of raising funds, akin to a credit union and are not so reliant on the banking system. “Dirty money” from the drugs trade needs to be cleaned or laundered.’ MIP

Comment

The impact of ‘white flight’ from the inner cities and suburbs to smaller towns and to a lesser extent rural areas has been a fact for a very long time, even if not officially referred to for decades. Recently the BBC’s Home Editor, Mark Easton, wrote ‘Why have the white British left London’. His explanation was simply that white people, especially those finishing work could sell their homes for a good price and were now able to afford to move to further away. He found the decline of the white British population to be 11.1% in Birmingham, 10.4% in Coventry and 9.7% in Wolverhampton.²⁸³ In the 2011 Census in Birmingham, 66% identified themselves as white British.

The impact of personal attitudes on immigration and faith strongly featured in a recent Chatham House report ‘The Roots of Extremism: the EDL and the Counter-Jihad Challenge’,²⁸⁴ especially the findings that attitudes towards Islam vary between generations and another report is cited on similar attitudes on immigration.²⁸⁵

²⁸³ See: <http://www.bbc.co.uk/news/uk-21511904>

²⁸⁴ See: <http://www.chathamhouse.org/publications/papers/view/189767>

²⁸⁵ See: http://www.huffingtonpost.co.uk/matthew-goodwin/islam-britain-generational-struggle_b_2848943.html?utm_hp_ref=tw

Other factors

‘What exactly does ethnicity and diversity mean to us – in the legal profession and to us as a nation? Ethnicity is not the issue; it is social class. In my profession it is clear that for those BME (Black and Minority Ethnic) from a privileged background their success comes from their social skills, such as the ability to talk about golf and rugby’. FLP

‘The ‘radicals’ encourage the young not to work for the kuffar, so weakening the UK. What is the impact of the social enforcement by some Muslims? This has been underway for a long time, the recent You Tube clip from East London was unusual as they filmed themselves and placed it in the public domain.²⁸⁶ **There is pressure within Muslim and some South Asian communities to discourage education for girls; there is a fear that girls becoming more educated means they will become more independent**’. MIP

Comment

Only one other person referred to the impact of social enforcement and only in the context of seeing reports on the East London You Tube clip. This is an issue, for individuals, families, communities and government. For many reasons few wish to acknowledge it, let alone take positive action within those communities at risk and any response by government is unlikely except by law enforcement.

Far more significant is that there can be pressure to discourage education for girls and adult women. Anecdote suggests several different Muslim communities, along with others, are aware of the pressures on traditional family life from girls being better educated than boys.

Some fifteen years ago The Economist noted that amongst Afro-Caribbean women the majority were having relationships outside their own community; not wanting to be “baby mothers”, with no regular partner, limited opportunities and a low income.

If that is repeated, even in smaller numbers, in the South Asian community, that will create tension primarily within families; There are a few clear public signs such as withdrawal of girls from education, taking girls to Pakistan for extended periods, girls being reported as missing by outsiders and reported domestic violence.

For several decades there has been an expectation that **Birmingham would soon become a majority BME (Black and Minority Ethnic) city**, although a prominent local researcher is adamant this will happen closer to 2030. **There are long established, settled South Asian (248,000; 24%) and Afro-Caribbean (47,000; 5%) communities.**

In conversations with young friends, after explaining the research it was noteworthy that many cited examples of a current ‘brain drain’ with those with a variety of skills emigrating. One former student stated half his class in media studies had left in the past seven years and that his own son, who is in the IT sector, is going to Shanghai in May. Another, a Muslim referred to a small number of Muslims leaving, with an IT manager going to Malaysia, who had cited a well paid job, with opportunities in a country that spoke English, which was Muslim and where he could afford a private education.

²⁸⁶ See initial BBC report: <http://www.bbc.co.uk/news/uk-england-london-21142148>

An insert in The Spectator February 2011 'Britain's Skills Crisis' (co-funded by BAE Systems) refers to a skills exodus of 380,000 per annum. 'Those leaving tend to be the lower middle class, who find their skills can purchase them a far better quality of life in Australia, the US and Canada (the top three destinations) than in Britain'. Citing an OECD reports on the world's exiles, Britons are the second largest, at 3.4m; Mexicans being first, with 9.4m.²⁸⁷

Mention is sometimes made in the media of the Britons working in considerable numbers in Dubai, Hong Kong and smaller numbers scattered across oil & gas producing locations.

[The interviewee said he] recently gave a short talk aimed at inspiring children at an inner city school, 1700 children in a building for 700 and overwhelmingly South Asian. Not one person with a white face in the audience of 180 children. A teacher afterwards explained that 'participation isn't cool', as the interviewee was stunned at the lack of simple engagement, e.g., hands up if you've been to Pakistan. Another speaker, a barrister who had attended the same school, remarked the children had very limited horizons: home, school, local park and maybe shopping, with any holidays taken in Pakistan. In one part of east Birmingham I am very familiar with, research in 2007 found there had been no private investment for over twenty years; the only exception was a local, South Asian owned wholesaler whose decision to invest depended on EU funding."

END OF WEST MIDLANDS, UK REPORT

²⁸⁷ See: <http://www.exacteditions.com/read/the-spectator/britain-s-skills-crisis-supplement-8273/4/2?dps=on>

Meeting with EADS Human Resources and Competitiveness Group on March 12, 2013 in Toulouse, France

Summary:

The EADS information below is a good illustration of a globally active, high-tech employer which now thinks, plans and acts in response to global market needs, almost as if it was non-national, non-European. 'Passion for product' is an interesting comment and probably modern personnel management practice.

One concern is that such industries, while globally effective, are divorced from their surroundings, almost like the medieval universities. How much of their employment impacts those around them? Are there spin-off from EADS?

In the UK there are examples of similar employers, like BAE and Rolls-Royce, which have a niche market almost regardless of what is around them. If an employee cannot be recruited, go further afield and beyond the UK. It will be interesting to see how such companies that were once so reliant on defense spending are able adjust.

Regrettably, the EADS people hardly addressed the long-term changes in the labor market, especially in the Toulouse-Marseilles region, referring indirectly to social and cultural recruitment, and efforts to identify disadvantaged high school students for mentoring in their 'Junior Program.' It is curious that the photograph of the EADS Junior Program students does not contain anyone who looks North African, Middle Eastern or South Asian.²⁸⁸

Below are my notes from the meeting with two members of EADS Human Resources Management, followed by their memo written in response to my questionnaire, which appears after the EADS Memorandum.

Head count at EADS: 140,000
At Airbus: 60,000
At Toulouse, France: 24, 000²⁸⁹

Key points for EADS: globalization, high tech engineering; innovative employees

EADS Airbus is on several university boards.

They look for the obvious: technical skills, engineering, customer services, program management.

'Employability' elements. They also look for 'employability' which includes exposure to international experience, ability to work in a team, multicultural environment with 130 different nationalities and over 100 nationalities just within Airbus; agility; ability to do

²⁸⁸ see: EADS Junior Program at <http://www.eads.com/eads/int/en/work-for-eads/Undergraduates/EADS-Juniors-Programme.html>

²⁸⁹ See <http://www.airbus.com/work/>

multi-tasks; work in cross-functional teams; engaging and motivated and above all, passionate about the product.

They are one of the few companies in the EU that have been hiring steadily, over 10,000 new employees during the last hiring period. 35% of the new employees are from France, Germany, Spain and the UK, which are the core countries where EADS has plants. The rest are non-national hires (e.g., outside the 4 country-core).

Diversity: Gender diversity. Goal is 25%
Intergenerational
Cultural and social background

Fighting the French attitude that if one doesn't get into top universities, one is worthless. Horizontalism in esteem; vocational schools viewed as important.

German model of vocational schooling is being copied by France.

Dual studies: intern and study at universities.

Child care: 16 weeks paid plus parental leave.

No crèches in Germany. They lag behind France in child care.

Lateral hiring: gap in experienced engineers

Assistance for southern European countries; EADS hosts employability webinars for prospective employees in Portugal, Spain and Greece.

EADS MEMORANDUM

To: (b) (5),

From: (b) (7)(C), EADS/Airbus Human Resources, Toulouse

EADS is an innovative & high tech company with 140,000 employees worldwide representing 130 nationalities

Globalization: with population rising from 7.1 billion to 8.3 billion, we face evolving demographics

EU:

- population aging due to low fertility rate, higher life expectancy, baby boomers go to retirement
- Immigration is therefore key for EU and for any company
- More and more people with higher education

Market will evolve:

- ❖ Asia will become the number 1 on economic side. Potential to have same or more economic power than US & EU combined;
- ❖ Demand for EADS products & services will follow and big potential is in Asia & Middle East

Therefore, key challenges & actions are:

1. Find enough Human capital to design and manufacture our product: EADS recruits the best qualified candidates.
 2. The difference is mostly on the technical skills to be able to innovate continuously and be above the environmental/legislation employability is key, and working with higher education institutions is crucial for the competences of the future. Globally EADS has strong partnerships with key universities & schools to influence educational curriculum.
 3. Internationalization of EADS: Where do we find the right competence: local versus global recruitment (find the right balance)
- ✓ Diversity is key:
 - 25% gender diversity recruitment as a target since 2010
 - 20% Non-National (and out of our 4 core countries)
 - 40% (for Airbus) early careers to prepare the next generation of leaders
 - ✓ Vocational training/ Apprentice/ dual studies: High focus in the next year to come – All population welcome from blue collars to top qualified students (huge mix of social background)
 - ✓ Special attention to “less advantage areas”: e.g suburbs & the association “Nos quartiers ont des talents”
 - ✓ How to tackle the career of senior? As we know that people will go later on retirement – need to transfer knowledge to the younger generation
 - ✓ Keep the attractiveness of employer brand & foster it worldwide
 - ✓ Recruitment process enable us to focus on competences (regular audit and strong involvement on Ethics & compliance)

**QUESTIONS FOR DISCUSSION AT TUESDAY, 12 MARCH MEETING
AT EADS, BLAGNAC, TOULOUSE, FRANCE**

1. How does EADS see the future of Europe in terms of competitiveness with the rest of the world in 2030?
2. How does EADS see the future of France in terms of competitiveness with the rest of Europe in 2030?
3. What will be the long-term impact on EADS of a changing labor force in France/Europe with a higher immigrant component?
4. What programs does EADS have to ensure diversity in attracting qualified minority candidates, and in retaining them given the increasingly free movement of labor?
5. How likely will second and third generation offspring of immigrants be able to attain similar skill levels in education and the workforce to that of their indigenous cohorts?
6. If there were one or two things that local government could be doing to raise the level of human capital resources, what would they be? What about national government?
7. Any other aspects of skills development, competitiveness and human resources that you care to add?

Appendix B: Calculating the Impact of Muslims on the European Economy

Net gain from immigration as a share of GDP = $-.5 * \text{labor's share of income} * \text{wage elasticity} * \text{immigrant share of labor force squared}$.

“Labor share” refers to the percentage of GDP that goes to workers, which in the US case is estimated at 70 percent, the rest being capital. The immigrant share of the US labor force is 15 percent.²⁹⁰ In Western Europe, the immigrant share is broadly identical, though a larger proportion of immigrants in Western Europe are from Europe (typically southern and eastern Europeans). Muslims make up around 5 percent of the western European working age total.

“Wage elasticity” refers to the percentage change in wages from immigration increasing the size of the labor force by one percent. As Steven Camarota writes, 'The size of the elasticity is a contentious issue.' A major 1997 National Academy of Sciences study in the US assumed an elasticity of .3.²⁹¹

This means that each 1 percent increase in supply of labor caused by immigration reduces wages by 0.3 percent. Put a different way, if immigration increased the supply of workers by 10 percent, it would reduce the wages of American workers by 3 percent. This reduction is bad for native workers at the bottom, but good for the economy as a whole. Putting the values into the formula produces the following estimate:

$$0.24\% = -.50 * .70 * -0.3 * (.15 * .15)$$

In Europe, an elasticity of .3 is undoubtedly too high because the large number of unemployed Muslims reduces wage competition with natives. If we repeat the calculation of benefit to GDP using the Borjas/CEA formula, using an elasticity of .15 (assuming Muslims in Europe have at least twice the unemployment rate of US immigrants), we get:

$$0.013\% = -.50 * .70 * -0.15 * (.05 * .05).$$

²⁹⁰ See Borjas, G.J., *The Economic-Benefits from Immigration*. Journal of Economic Perspectives, 1995. 9(2): p. 3-22.; Lazear, E.P. and D.B. Marron, *Immigration's Economic Impact*. CEA (Council of Economic Advisers), 2007.

²⁹¹ See Smith et al., 1997, chs. 6-7

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