

## **The US and Europe in a Changing World**

*Martin Wolf\**

*Journalist, Financial Times.*

### **Post Cold-War World**

It has become increasingly obvious that 1989, the year communism collapsed, marked a watershed in world history. But it was not a watershed between an age of conflict, on the one hand, and an era of harmony and peace, on the other. The new age is as doubtful and dangerous as the old one, just different. It is one that will require not less, but more constructive cooperation between Europe and North America than before.

There are some who look back on the Cold War with nostalgia. It was cruel, they feel, but at least it was stable. I understand that view, but I also reject it utterly. The Cold War was the last and longest stage in an ideological conflict, born in the nineteenth century, between liberal democracy and totalitarianism.

No decent person should regret the latter's defeat. Nobody familiar with the anti-human degradation of life in the former Soviet bloc can feel anything but delight in its collapse. Since communism was a graveyard for civilised values, building something new out of its rubble will be hugely difficult. Sometimes the effort will fail, as it has done so horribly in the former Yugoslavia. But our goal must be to help manage this transition, not lament its necessity.

The new age should be welcomed. But its difficulties are also becoming ever more obvious.

Consider, first, just how much has changed in the political arena.

- Socialism has lost its credibility everywhere, while, paradoxically, conservative parties have also been deprived of their appeal as bulwarks against communism.
- Italy and Japan, both post-fascist, clientelist democracies, are now in disarray.
- Germany is struggling to make one nation out of the two created at the end of the Second World War.
- The European Union is called upon to embrace all of Europe, even though it has proved unable to agree on its own internal structure and ultimate aims.
- The United States has become increasingly obsessed with its internal economic and social difficulties.
- The purpose, functions and membership of NATO are in question, while defence establishments, not to mention defence industries, are being drastically slimmed down.
- More broadly still, there is unparalleled scepticism about the capacity of democratic politics and conventional politicians to make a difference to the lives of citizens of societies experiencing shattering social and economic change.

Consider, second, the economic background to these political upheavals.

- The virtually universal collapse of capital controls and the rise of the multinational corporation has integrated the global economy to a degree not seen since before the First World War and, arguably, not even then.

- More than 60 developing and former communist states have engaged in unilateral trade liberalisation since the start of the Uruguay Round in 1986.
- In recent years, emerging markets have been the most profitable location for portfolio investment.
- The Asia-Pacific Region looks set to become the world's largest region, measured by economic output, during the first decade of the next century.
- China is emerging as a great economic power, paralleling in its potential impact the rise of the United States in the late nineteenth century.
- Structural unemployment, notably in Europe, and declining relative pay of unskilled labour, notably in the United States, threatens the social stability of the industrialised countries.
- Trade conflicts, notably between the United States and Japan, threaten the credibility of the multilateral trading system.
- Protectionist sentiment, particularly *vis-à-vis* emerging economies, is on the rise in the old industrial countries, often in the guise of harmonising social or environmental standards.

The question that I wish to address is how we in the West should cope with these upheavals. The outline of what we need to do seems obvious.

- The West must sustain its mutual cooperation.
- It must try to accommodate new powers, such as China, within the framework of the liberal global market economy that the West itself created.
- And it must adjust to the social and economic changes imposed upon it.

### **Back to the Future**

The most obvious danger is a return to the rivalries that disfigured the pre-1914 world.

For the first time since the beginning of the century, the world's major powers are not in a state of conflict with one another, be it arms race or actual war. But what we have now is, at least potentially, a world of viciously competing capitalist powers. That was the world that produced Lenin's critique of imperialism. It was also the world that found its ultimate doom in the First World War.

This is a world without deep ideological conflicts. It is a world without an arms race. It is a world in which economic relations will be primary. They have, in fact, always been primary: mistaken economic policies helped lead to the Second World War; wise economic policies led to Western victory in the Cold War. GATT may be nothing like as sexy as NATO, but it has played at least as great a role. But now the primacy of economics is evident. Market-oriented democracies care about economics, because their electorates do.

The danger is that introspection, suspicion and even hostility amongst those who lie at the heart of the world economy - principally, the US and Europe, but also, of course, Japan - will cause disaster. If so, it would be the return of economic nationalism in its mercantilist guise that would be the proximate cause.

## **Dangers of Narrow Economic Nationalism**

Nationalism is a European value. One might suggest that it is *the* European value, certainly as much so as individual freedom and democracy, both of them relative newcomers in large parts of Europe. Nationalism has been at least as powerful a force in the last five centuries of Western history as love of freedom, while the nation state itself is a European invention.

Nationalism is the legacy that the European Community is trying to transcend, but is it only to create a wider European nationalism? A federal Europe, if that should come to pass, could be just as nationalistic' as ethnically or linguistically homogeneous states. It might be more so, since the greater the internal lack of homogeneity and the more feeble the central power, the greater the temptation to reinforce feelings of mutual solidarity by exaggerating differences with outsiders. The US itself has, after all, managed to be nationalistic', even though it is no nation. The world of today, one in which economics has gained primacy, could still be a nationalistic world. And a misguided economic nationalism could bring ruin on us all.

Economic nationalism involves a view both of ends and of means. The obvious end is pleasure taken in the knowledge that one's own country is amongst the wealthiest. Economic nationalists sometimes believe that it would be better for their country to be less well off, if only others were still poorer. Often this is because the aim of economic life is taken to be not prosperity, but national power.

If the overall wealth of their country were their sole concern, nationalists might be Manchester School free traders. But when economic life is viewed either as a struggle for - or a source of - power, economic life is itself usually seen a zero-sum game. Economic activity is, it is then felt, war by peaceful means. Nations compete for scarce markets, while a wise nation keeps its markets for its' producers.

These notions are misguided. Power is, indeed, a zero-sum game, because it is about relative positions. If someone else's power increases, those of others decline. But prosperity is a positive-sum game. Everyone can have more. If someone grows richer, the opportunities of others also increase.

The question is this: through what type of nationalistic lens will international economic relations be seen? Will it be through the benign lens of nineteenth century international economic liberalism, or will it be through the suspicious eye of eighteenth century mercantilism? Will Europe and America come to regard international economic relations as, in the present day jargon, a positive sum' or as a zero sum' game?

## **Benefits of Positive Internationalism**

The alternative to the narrow mercantilism that drives the United States in its current disputes with Japan - probably the first example of the pre-1914 world into which we could easily relapse - is a positive internationalism. Its basis would be the fundamental idea that maintenance of the global market economy and the institutions that underpin it is in the higher national interest of us all.

The end of the Cold War has, in fact, brought the opportunity to create a liberal and cooperative international economic order, embracing much of mankind. This is also what much of mankind desires.

But it will not happen if the United States and Europe do not cooperate to that end. At present their economies still account for close to half of global economic output at market exchange rates. They are the world's main import markets. As the end of the Uruguay Round showed, these two giants - which I call the trading empires' - are decisive in determining whether or not the framework of global cooperation will be sustained.

Sustaining cooperation will be made difficult by the absence of a shared strategic enemy. It will now be far easier to let lobbying by sectional interests, such as French farmers, or irritation over extraneous conflicts, such as that over policy towards Bosnia, destroy cooperation. For some time, that seemed to be the likely fate of the Uruguay Round. It took a heroic effort to snatch victory from the jaws of defeat and even that victory does not end the matter. The battle goes on.

### **Adjustment to the New Arrivals**

Suppose the West were indeed to sustain its cooperation. The question then would be cooperation for what. It is evident that Europe and North America share far more than divides them: an alliance; a predominantly European culture; political democracy; a high level of economic development; ageing populations; and growing burdens of welfare spending. One possibility would be for the West to cooperate to keep the new powers down.

Some voices in the West - Jimmy Goldsmith, the billionaire entrepreneur, being notable amongst them - recommend precisely this kind of cooperation. Let the advanced countries trade with one another, but protect themselves ruthlessly against the economically advancing hordes of the developing (no longer Third) world.

This would be an understandable reaction. But it would be an utterly mistaken one. Yes, with only 15 per cent of the world's population, the advanced industrial economies are doomed to relative decline; but no, we would gain little and lose much by trying to halt the advance of the newly emerging economies.

The aim must be to encourage them to become as like us as possible. Despite all the talk about a uniquely Asian, authoritarian way to development, the evidence suggests that countries become more democratic as they become richer, as has already been the case in South Korea and Taiwan. If, in the process, they manage also to sustain the positive features of their cultures, notably the central role played by family obligations, then we in the West would also have something to learn from them.

Why would efforts at exclusion be such a mistake?

- First, because it will not work, any more than British efforts to stop export of textile manufacturing technology to the United States worked. If a country like China harnesses the entrepreneurial talent of its people, nothing we do, short of nuclear war, will stop them.

- Second, because the more hostile and protectionist we are towards them, the more hostile they will become both to us and our values. Political conditionality may be detested only by tyrannical elites. Protectionism will infuriate entire peoples. At worst, it would create the self-fulfilling prophecy of hostile trading blocs.

- Third, because economic development of poor countries will create huge economic opportunities.

- Fourth, because protectionism would make us collectively poorer as resources are shifted from competitive export industries to less competitive import-competing ones.

### **Tackling our Internal Failings**

Yet if the West is to manage its engagement with a rapidly changing world economy in a positive way, it must also address its own internal failings. For it is beginning to become increasingly clear that both the post-Second World War welfare states of Europe and the post-

New Deal version of the American dream in the United States, are in crisis. The former is becoming unaffordable, while the second is becoming unavailable.

There are no easy answers. The shared problem seems to be the way in which the march of technology, the rise of labour-intensive exports from developing countries and the breakdown of the family have conspired to produce a growing number of unemployed and unemployable men. This, in turn, has led to rising crime and, in a vicious circle, further disintegration of traditional family and social structures.

The peculiarly European problem is the cost of the welfare state, which has overwhelmed Sweden already, but threatens other European states as well. Unemployment and social breakdown are one of the causes - and consequences of the steadily rising pressure for increased social spending. Others are ageing and technical improvements in health technology. The challenge facing Europe is how to balance popular expectations for welfare support with taxable capacity, how to create higher employment, while sustaining the incomes of those out of work. This may prove impossible, with dire consequences for political stability.

The peculiarly American problem seems to be two decades of falling average real wages, stratospheric levels of crime and the sense of hopelessness about the future overwhelming many ordinary Americans, shown so clearly in the support for Ross Perot.

### **The Challenge Ahead**

The market is global; the state is national. The tensions between the two are inescapable. But somehow they must be managed. Will they be? I do not know. Should we try to manage them by building on what we have created together? That I do know.

The post-cold-war world is one of great dangers and great opportunities. It is one in which Europe and North America will, together, also remain the most important players, at least for many years. But they must also co-opt others, Japan, notably, but in the longer term, China as well.

It will be hugely difficult. National rivalries are likely to grow. Economic adjustment is bound to become ever more painful. Political systems will be placed under great pressure. Crises will blow up, with no strategic need to sustain cooperation.

It will also be hugely important. As President Clinton has said, we must compete, not retreat!. Fortunately, we possess huge assets with which to do so, namely, our wealth, our skills, our technology and our political stability.

But we must do more than compete. We must also cooperate, with one another and with all those who would join the global economic system we have created. We owe it to the generation that follows us to bequeath the priceless asset of cooperation that we inherited from those that preceded us.

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