A Resolute Faith in the Power of Reasonable Ideas

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Preface

David P. Calleo is Dean Acheson Professor of European Studies at SAIS and University Professor of the Johns Hopkins University. He entered Yale at age sixteen, receiving his BA in 1955 and Ph.D. in 1959. He founded (in 1968) and directed (until 2012) the preeminent American graduate program for the study of contemporary Europe. SAIS European Studies has formed hundreds of professionals working today in government, business, academia, and the press.

Calleo is one of the most thoughtful, multi-faceted, and original scholar-commentators of his generation. His interests have ranged from the international economy to transatlantic relations to European integration to the history of ideas. Few contemporaries can match the grace and elegance of his prose. His books include Follies of Power: *America's Unipolar Fantasy (2009); Rethinking Europe's Future (2001); The Bankrupting of America (1992); Beyond American Hegemony: The Future of the Western Alliance (1987); The Imperious Economy (1982); The German Problem Reconsidered (1978); America and the World Political Economy (with B. Rowland, 1973); The Atlantic Fantasy (1970); Britain's Future (1968); The American Political System (1968); Europe's Future: The Grand Alternatives (1967);* and *Coleridge and the Idea of the Modern State (1966).*

As director of European Studies at SAIS, he shepherded some forty doctoral dissertations to their successful completion (see Appendix to this volume). His Ph.D. students remember him as a demanding and generous teacher, an intellectual mentor-companion ever-present in spirit when not in the flesh, and a steadfast friend.

On October 19-20, 2012, many of David's friends, colleagues, and former students gathered in Bologna to honor him for his accomplishments, partake of his wisdom and special company, and, as the papers published here demonstrate, to reflect on and discuss his ideas. Thanks to the presence of Pierre Hassner, Gianfranco Pasquino, Robert Skidelsky, Paolo Calzini, Simon Serfaty, and Vera and Stefan Zamagni, among

others, the meeting was also a reunion of the Bologna's Center's distinguished 1970s faculty.
The title of the conference, and of this collection of papers, comes from a letter written by David, and captures something essential about his approach: a belief in the importance of the creative political imagination, a temperamental optimism, and an impatience with unreasonable ideas and clichés.
For their indispensable support of the conference, I would like to express my gratitude to Cole Frates, BC class of 1994, and to the director of the Bologna Center, Kenneth Keller. For her indefatigable efforts in organizing the conference I once more thank Alessandra Nacamù.
For their help in the publication of this volume, I would like to acknowledge Dea Di Furia and Laurentina Cizza.

John L. Harper
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Simon Serfaty

The Bologna Moment

This is an unusual meeting. The discussion was not truly conceived around a broad theme or some specific issues. Rather, it was designed to gather a group of younger scholars who were invited to deliver, in some ill-defined ways, a "final lecture" on behalf of the towering academic figure who sponsored them years and even decades ago. A few older core members of the Calleo Center of Excellence are here as well, together with the many ghosts who now insist on accompanying us all, wherever we go. But this moment in Bologna is being shaped by the participants themselves more than by the issues which they have been presenting eloquently, and about which they have written brilliantly. They had met when they were a bit like Ralph Ellison's Invisible Man, fleetingly seen when they were needed and barely audible when they were asked. This time, though, they gather here once again to remember who they were, but also and above all to respect what they have become while honoring the professor who did so much to get them to this point.

Admittedly, some of us may feel they lived their Bologna moment, many years ago, more intimately or even emotionally than David ever did. But all of us associate him with that time and those emotions even more closely than we ever thought. And as a result, all us have proven surprisingly eager to claim the place we deserve in the Calleo Hall of Fame, to which we were usually inducted at the Casa Fangati. In some odd ways, memories of our time there--a few days or a few weeks, once or often--unite us, like wartime memories. There, in Elba; then, during our Bologna moment; but also subsequently, after we returned to the seat of the Empire on Massachusetts Avenue, we learned to become something more. Here, at this conference, and now, whatever time it is, we meet again, anxious to uncover whether we have also become something else.

For me, at half-past my life, the Bologna moment was fulfilling. It lasted only four years as long as thirty years ago, and yet it has lived on ever since. As is the case with most, it is an indelible part of my past but never became the whole of my future even as it remained part of my present. Yet, whatever the tense, I cannot remember those years here without associating them to the decades of professional intimacy that followed, not only with David but with many of the people assembled here. Even when we did not meet we could still read each other; and even when we failed to read, we could still believe we heard each other.

For we too, the adults, remember that moment. We are past the time to measure each other, to be sure, but we have come to the time when every occasion seems to be shared with the ghosts of our past. And here, in this room, the ghosts are many. I can still hear them--those who have left us but who continue to live with me, reminders of a time when we, too, were on our way to being what we became: Grove, who started it all and Federico and Michael and Patrick and so many more who kept it going.[1]

All of us were born or grew to become transatlantic, moving East-West in Europe and both ways across the Atlantic. All of us shared with David and, like him, later refined "*une certaine idée de l'Europe*"--at last cured of its past excesses and sufficiently recovered to share the baton of Western leadership with the United States. On occasion, this belief looked a bit like a "fantasy" and even now no Prince Charming--not even David Calleo--has come to arouse the Sleeping Beauty we wanted to uncover into Europe's future and have kept courting ever since. Still, coming back to Bologna is reminding us of the invincible summer we spent here--what I recall the French poet Gerard de Nerval calling "the dark sun of melancholy."

As a true lover of Europe, Calleo indulged her weaknesses well and with much patience. The crises he anticipated in the early 1970s came to pass, without the lasting consequences we occasionally feared. But at the very last, the pluralist world system that David envisioned so very early is now upon us. In the pages that follow, Pierre Hassner evokes Stanley Hoffman while speaking of David: however intellectually compelling the reference may be, it is somewhat misleading. Hoffman went to the United States not to uncover and adopt his American-ness but to assert and deepen his French-ness. Born in Austria he wished to be French more than he ever wanted to become American. Calleo did it the opposite way: he studied and lived in Europe not to abandon his American-ness but to deepen his awareness of Europe, which he loved dearly one state at a time even though, admittedly, some more than others. This, I believe, has been a unique dimension of his work: the totality of his approach to intra-European and transatlantic relations--consider his books on Britain, France and Germany, as well as those on America, the Euro-Atlantic institutions, and the global setting within which they all evolve.

The role he came to play, for us and with us, was neither a design nor an ambition but a conviction nurtured by a deeply good mind and a genuine good will. This is what needed to be acknowledged.

ENDNOTES

[1] C. Grove Haines, the first director of the Bologna Center, and faculty members Federico Mancini, Michael Harrison, and Patrick McCarthy.

Benjamin M. Rowland

America and the World Political Economy Forty Years On

(T)he fundamental lack of complementarity between an integrated world-wide system of trade and exchange, largely subject to the rules of market economics, and an international political system of jealously independent national communities is, we may say, the basic problem of international order. – Lewis E. Lehrman[1]

"Convergence" is part of the same historical trend Marx highlighted in his writings on capitalism - the inexorable march of technology and capital to remove all barriers, boundaries, frictions, and restraints to global commerce. – Thomas L. Friedman[2]

National governments are effective… only insofar as they are agents of the world economy, anticipating its structural trends and shaping their own economies to conform. – Robert Mundell[3]

(W)e reject the common view that national politics should somehow "catch up" with the "realities" of world economics. That view, taking for granted the primacy of economic over political values, we believe pernicious. It continues to influence American policy strongly and is, as a result, a serious obstacle to America's adjusting its external economic policy to a plural world. – David P. Calleo and Benjamin M. Rowland[4]

THEN. The year was 1970. David had just published *The Atlantic Fantasy*. I was research assistant, a role I think more than a few other contributors to this volume have en-

joyed *The Atlantic Fantasy* offered a critical view of NATO and security relations within the Atlantic Community. It argued that the U.S. should reduce its military presence, both on grounds of cost and of sound strategy, to set Europe on the path of taking the main responsibility for its own defense. The term later adopted for the position America found itself in was "overstretch" - a condition David thought required an earnest re-examination of foreign priorities. Europe was a leading candidate for readjustment. Far from being a threat, a war on Europe's central front, he argued, was the most planned for but least likely theater of engagement in all of America's strategic relations.

As we planned for the book that would follow *The Atlantic Fantasy*, détente was in the air. The U.S.-Soviet "duopoly" seemed gradually to be lessening its grip on world politics and world imaginations. What would happen, we wondered, if the special transatlantic relationship no longer had the Cold War to underpin its existence? What if that relationship had to justify itself in economic rather than political–strategic terms? Would it hold? Or would the Atlantic Community drift apart, its economic "commons" a weaker kind of glue than geopolitics and military affairs.

The product of these musings, resting on the sturdy foundations of David's prior scholarship, was A*merica and the World Political Economy: Atlantic Dreams and National Realities*. Broadly speaking, it was a book on the nature of world political-economic order, written at a time of gathering economic crisis when the GATT was being tested, companies were fleeing the United States, and the Bretton Woods monetary system itself was falling apart. Was it mere coincidence that the world economic order seemed to be crumbling when the rationale for military integration was also increasingly coming under question? Was this, then, the true outcome of "integration?" That particularistic economic interests would rise up to swamp any broader version of community?

Peeling back the security "layer" revealed a dense web of economic relations - of trade, monetary policy, and financial and investment movements that were both beneficial to nation states and sources of intense interstate friction. Europe formed the centerpiece of the analysis, but also included were chapters on Japan and the Third World. Our topic was complex. We looked for help to the insights of historians and political scientists as well as economists.

This essay mainly tracks the organization of our book. First it looks at three large "ideas" - free trade, geopolitics, federalism - that contributed to building an Atlantic Community and, as it seemed to us, were hastening its decline. Then it examines economic dimensions of the Atlantic Community through its monetary system and trade and investment performance. The paper concludes with some thoughts on what relevance, if any, these

ideas, economic forces and lines of argument have "forty years on."

We identified historical antecedents with the idea of putting America's economic behavior in context: how the ideology of free trade ran through American thought, much as it had captured the imagination of nineteenth-century Britain; how several turn-of-the-century figures looked forward to a time when America would displace Britain as the world's hegemon; and finally how the American experience of federalism with its strong centralizing tendency offered limited guidelines to countries protective of their national sovereignties, a system we saw evolving in the EEC's confederal, continental Europe of States.

FREE TRADE. In the U.S., like Britain before it, the idea of free trade was advanced not just for its economic benefits but for its supposed superior virtue. We quoted *The Economist* from 1843:

"Free trade is itself a good, like virtue, holiness and righteousness, to be loved, admired, honoured and steadfastly adopted, for its own sake, though all the rest of the world should love restrictions and prohibitions, which are of themselves evils, like vice and crime, to be hated and abhorred under all circumstances and at all times."[5]

With free trade, the argument went, no economic advantages would be gained by annexing lands or building empires. Hence states would have no need for these war-like measures. Under a free-trade doctrine, the flow of goods and services would be open everywhere, not confined to areas of territorial ownership and control. With no economic reason to build empires, reasons for going to war would be reduced as well.

Critics of free trade, like the mid-nineteenth-century economist, Friedrich List, saw no coincidence that free trade and the global leadership of one country went hand in hand. It was the logical doctrine, he said, for a dominant country seeking to prevent the rise of competitors abroad. List's insight foretold the decline of free trade in twentieth-century Britain and its corresponding rise in an ascendant United States.[6]

During the 1930s Roosevelt's Secretary of State, Cordell Hull, carried the banner of free trade in America. Britain had turned its empire and Commonwealth members into an imperial system of economic preferences which, while tempering the effects of the Great Depression on the British homeland, did so in part by denying access to U.S. goods and services. Hull tried repeatedly to end the imperial preference system, finally winning a tepid Anglo-American Trade Agreement in 1938. For the political isolationist Hull, free trade was of a piece with the American interest. There was no need for entangling alliances while the trade routes remained open. The British might have bartered the Empire for a true U.S. commitment to a strategic alliance against Germany, but no such deal was

in sight. After the war, the U.S. exacted a commitment from a greatly weakened Britain to end trade and exchange controls in exchange for a $3.6 billion bilateral loan. As a condition of the loan, in 1947, Britain was forced to return to convertibility prematurely. It went badly. In the end, full convertibility for the pound and other European currencies did not come until 1958.

GEOPOLITICS. We asked why a supposedly isolationist America would assume, indeed create, a hegemonial military role for itself through NATO's military protectorate over Western Europe. The self-evident answer was that it matched the hardening of lines in the Cold War. But there were roots earlier in American history.

Until the late nineteenth century, America's interest in geopolitics lay largely in opposing European adventures in the Western Hemisphere. Then, at the turn of the century, a school of thought arose, including figures such as Brooks and Henry Adams, Henry Cabot Lodge, and Alfred Thayer Mahan, concerned with both the threat of a rising East and the opportunity for U.S. expansion offered by a Britain in relative decline. The U.S. had filled out its continental boundaries. It needed new challenges to remain vital. A certain bellicosity was also part of this school. Lodge was for a big navy and used his power in Congress to build it. The Adams brothers "hoped…for grand world challenges that might restore vigor and direction to American life and reinstate an American elite."[7] For Mahan, "Western penetration had aroused the East which would soon make a massive thrust to gain Western power and prosperity, while rejecting its spiritual values."[8]

Cultural affinities and Anglo-Saxon racism made Britain the natural, if junior partner to a thus revitalized America. The British, understandably, were less enthusiastic. One alternative, Joseph Chamberlain's vision of an empire linked by water into a single political and economic system was in part an imperial Britain's answer to the rising superpowers - America to the West, Russia to the East.

Following the War and the failure of the League of Nations America retreated into political and economic isolationism. Republican Congresses passed the protectionist Fordney-McCumber Act of 1922 and the infamous Smoot-Hawley Act of 1930. America's trading partners retaliated in kind. From 1929-1933, U.S. imports declined by sixty-six percent and exports by sixty-one percent - amounts even greater than the 50 percent decline in U.S. GDP for the same period.

The resumption of liberal trading policies formed part of Roosevelt's presidential platform of 1932. Soon, the Democrats passed a new framework trading law, the Reciprocal Trade Agreements Act of 1934. But as conditions in Europe deteriorated, not everyone in

the U.S. shared Secretary Hull's faith in free trade as an alternative to inter-state conflict. For Clarence Streit, author of the widely-read *Union Now* (1939),[9] free trade was not the antidote and alternative to power that it was for Hull. On the contrary, Streit believed a liberal world order required a hegemon. Regarding a monetary system, "None could restore stable money without first restoring its essential basis, a single overwhelmingly powerful government that is responsible for it."[10]

FEDERALISM. Streit also believed the U.S. Constitution was uniquely qualified to be the basis of a new world order. Nationalism was the enemy, the American Constitution the cure.

A constitution that is already universal in its scope, that allows for the admission to its Union of any state on earth, that never even mentions territory or language, and that mentions race and color only to provide that freedom shall never on that account be denied to any man.[11]

Streit proposed a world state built around an Anglo-American nucleus, its members including fifteen North Atlantic democracies, plus Australia, South Africa and New Zealand. As noted above, however, it could not be a union of equals. Its members might be nominally independent, but a liberal economic order could not be sustained without a strong, centralizing power.

Later, in the 1960's, the U.S. tried to reinforce a faltering military alliance with economic "interdependence." The Europeans, resistant to a U.S.-led liberalism when they were weak, were no more inclined to adopt it now that they had their own economic community. For the Europeans, an American military hegemony joined to a free-trade empire was not an acceptable solution.

Could the U.S. accept and live within a system that was not liberal and imperial, but liberal and plural, "a system composed of closely-related powers sufficiently equal … that none is able or perhaps even willing to exercise overlordship over the others(?)"[12] The answer, we argued, depended in part, on what the parties meant by federalism.

A federal system seeks the unifying order and certainty of an imperial system but without the hegemonic domination by a single state. Unity is maintained by either placing over the constituent states a supranational "federal" authority, designed to represent the federation as a whole rather than any of its units in particular, or else by establishing a confederal arrangement among the constituent states, designed to engage them in an organized procedure for making and carrying out certain decisions collectively. The United States after 1789 gives an example of the first kind of attempted federal system;

the Common Market gives an example of the second."[13]

American dominance did have some important European acolytes. Jean Monnet shared the U.S. view of combining Atlanticism and Europeanism, a position that met with little resistance as long as there was a Cold War to obscure the tensions in the arrangement. Charles de Gaulle, on the other hand, called attention to the tensions. On the military side he took France out of NATO. In economic matters, he "began to foster European resentment of American monetary hegemony which had evolved from Bretton Woods. In short, events began to shake the easy assumption that European unity and Atlantic partnership were complementary."[14]

ECONOMIC ISSUES WITHIN THE ATLANTIC COMMUNITY - THE MONETARY SYSTEM. When we were drafting our chapter on the monetary system in early 1971 we didn't know, of course, that events over the summer would bring the Bretton Woods system to an end. What was evident as we wrote, however, was that the system had been under strain for several years. No-one could say when a break would come. But we did not doubt that it would.

In 1958, economist Robert Triffin had published his famous paradox: if all countries needed growing reserves to keep pace with general economic growth, then at least one country, the U.S., would have to incur deficits. In time, it would become inevitable that America's net short-term debt would exceed its gold supply. In 1961, the U.S. created a gold pool along with seven European central banks to conserve its own gold stock. The U.S. share of redemptions was "only" fifty percent. Nonetheless, from the gold pool's founding until 1968 when the pool was replaced by a two-tiered payments system, the U.S. lost around ten billion dollars' worth of gold, approximately half its total gold reserves. "Roosa Bonds" were another device for conserving gold. These let the U.S. borrow medium-term funds in foreign currencies, meaning that the U.S. was taking the exchange rate risk. A "voluntary credit restraint program" in 1965 was replaced by mandatory restraints in 1968. Combining carrots and sticks, U.S. policies discouraged U.S. portfolio and long-term investments overseas as well as foreign use of U.S. capital markets. In 1950, gold had covered overseas dollars eight times. By 1970, U.S. gold cover of official dollar holdings was no more than twenty percent.

None of these programs, useful in themselves, addressed what we saw as the deficit's fundamental causes. "Were we preparing to adjust our policies to a new plural system in which we would be a country subject to the same rules as others, or were we trying to

make permanent the postwar Atlantic imperial system, in which we played the hegemonic role?"[15] We noted the close correspondence between America's basic deficits and American military expenditures overseas and suggested that the basic deficit itself was, from this vantage point, "more political than commercial."[16] Treasury Secretary John B. Connally appeared to agree: "I find it an impressive fact, and a depressing fact, that the persistent underlying balance-of-payments deficit which causes such concern, is more than covered, year in and year out, by our net military expenditures abroad, over and above amounts received from foreign military purchases in the United States."[17]

We acknowledged that creating a new system out of the wreckage of Bretton Woods would be exceedingly difficult, requiring, among other things the "funding" of outstanding overseas dollar amounts and major adjustments in U.S. domestic and overseas expenditures. Moreover, a replacement system would need to be cognizant of the major differences between Europe and the United States. A basic difference: the sum of U.S. exports and imports was, as we wrote, only nine percent of GDP. The equivalent figure for the EEC countries was forty percent. A European Monetary Union, with fixed rates among its members and a common rate toward outsiders seemed a logical solution.[18]

ATLANTIC COMMUNITY TRADE. Until the mid sixties, free-trade activists in the U.S. controlled the direction of trade policy. Building on the base of the Trade Expansion Act of 1934, the U.S., by 1947, had reduced tariffs to fifty percent of their 1934 levels. But after a twenty-five year period when trade liberalization commanded an "almost religious deference,"[19] the late sixties ushered in a period of mounting protectionism, especially in the U.S.

From 1947 through the early sixties, five rounds of trade negotiations had been conducted under the General Agreement on Tariffs and Trade *(GATT.)* In the fifth such round, the U.S. Trade Expansion Act of 1962, also known as the Kennedy Round, negotiators were allowed to bargain for the first time on across-the-board cuts instead of item-by-item reductions. Tariffs were reduced thirty-five percent on manufactures and twenty percent on agricultural products.[20] Two other goals of the Kennedy Round, the reduction of non-tariff barriers, and the participation of less-developed countries, were less successful. The Kennedy Round was also meant to hasten British membership in the EEC, a goal as much political as it was commercial. De Gaulle's veto not only upset the U.S. goal of an "outward-looking" Common Market, it reduced the permissible depth of tariff cuts for the negotiators.[21]

Following the Kennedy Agreement the balance of U.S. trading interests began to tilt

again in favor of the protectionists. In 1969, the U.S. introduced "voluntary" import restraints on steel and textiles, aimed at Japan as well as the Europeans. In 1971, the U.S. ran its first trade deficit in the twentieth century.[22] Meanwhile, two highly protectionist pieces of legislation, the Trade Bill of 1970 and the Burke-Hartke Bill of 1972, narrowly missed being passed into law. [23]

Multiple reasons explain the decline in America's trade balance and parallel rise in protectionist sentiment. Over the sixties, the dollar, over-valued and unable to devalue as long as it was linked to a fixed value in terms of gold, sapped the competitiveness of U.S. goods and services. Another set of explanations, we wrote, "sees America's trade balance declining less from short-term than from secular historical factors. Many Americans in the seventies, like many British in the sixties, perceive a general decline in their society, or at least in those virtues conducive to economic efficiency. Others see the gap between American and foreign labor not closing rapidly enough to compensate for a general loss of America's traditional advantages in management, technology and marketing."[24]

In spite of rising protectionist sentiments, trade volumes between Europe and the U.S. continued to grow. But trade among the North American countries and among the European countries grew faster. Thus, from the vantage point of trade flows, the Atlantic Community was coming to resemble two mercantilist blocs rather than one outward-looking construction. We saw this as part of a trend that was defining the limits of liberal internationalism. To acknowledge that there were economic interests on both sides that would not be bartered away was more honest than the literal-minded liberalism favored by academics. "Those concerned with preserving the achievements of the GATT should take care that its principles are not used to mask political imperialism or private greed."[25]

INTERNATIONAL CORPORATIONS. The above summary argues that American monetary and trading policies sought to supplant or if need be, replace America's role as military hegemon within a faltering Atlantic Community. In the years after World War II, America's economic engagement with Europe was widely accepted and highly beneficial for its European client states. By the 1960's on, however, that system was beginning to show its age. Dollars in circulation started greatly to exceed the value of gold held in U.S. reserves, thus calling into question the soundness of the Bretton Woods dollar-exchange standard. By some measures, however, the most significant economic change was the internationalization of U.S. corporations. By the early seventies, U.S. production overseas exceeded U.S. exports by a factor of three. Manufacturing investment accounted for forty percent of U.S. overseas production worldwide. In the EEC, manufacturing was sixty-one

percent of U.S. investment.

Multiple factors were drawing U.S. corporations to favor the EC as an investment site. Production was being pushed out of the U.S. by an over-valued exchange rate and simultaneously pulled into the EC by the Community's common external tariff and robust internal market. There was a knowledge advantage in serving markets locally. And location abroad generally gave U.S. corporations a natural hedge against perceived tax and regulatory excesses in their home country. But corporate behavior, we said, could only partly be explained by the forces of liberal internationalism. In addition, corporations practiced their own private form of mercantilism, often in conflict with the mercantilism of nation states. By contrast, Common Market corporations tended to merge and consolidate at the national level while doing relatively little in the way of intra-EC cross border mergers. Thus, close relations between EC companies and their respective national governments, i.e., the essence of a mercantilist system, could be maintained, while all benefited from the broader EC trading zone.

European companies, not being used to the U.S. style of aggressive competition, complained about the growing American corporate presence. A "manifesto" from UNICE, the Union of Industrial Employers in the EEC, sounded the alarm:

"It has become clear that certain American firms have been badly informed about the price mechanisms used in the European market" - mechanisms which the various continental rivals respect. A joint study of the production costs has allowed us to set up rules which, while safeguarding competition, have proved beneficial to all. We must not allow the American firms, from lack of knowledge of our own methods, to provoke a price war that would cause serious difficulties in the market.[26]

The UNICE manifesto described a fundamental difference between the U.S and European political economies. European economies did not resemble completely free markets but rather a Keynesian version of mercantilism, "an economic system which reflects the close interpenetration of government and business and their common interest in a predictable and favorable economic environment."[27] Proponents of U.S. business internationalism, on the other hand, saw multinational corporations as no less than the harbingers of a new world order. "Like Marxism, business internationalism has a strong Hegelian streak. Just as economic progress dictated that city-states give way to nation states, so now the internationalization of business is supposed to doom nations. Corporations are the world historical figures which reveal the new reality."[28]

NOW. The world survived the crises we thought imminent in the 1970's. By 1975, a

monetary system that floated (except when it was being "managed" by one or more participants) had replaced the Bretton Woods dollar exchange standard. Today's economies are also far more integrated than we imagined possible. In the U.S., trade in goods and services stood at $4.2 trillion in 2010, more than twenty-seven percent of GDP and over three times its level in the early seventies.[29] The EU's total trade of E 7.9 trillion (2010) equaled fifty-one percent of EU GDP, with sixty-three percent of the total taking place among EU members.[30] Meanwhile, bloc formation was proceeding apace on both sides of the Atlantic. "Inward growth," that is, the growth of trade within NAFTA and within the EU, grew faster than the "outward growth", confirming the pattern of trade blocs we anticipated in our study.

New international trade negotiations have stalled since the turn of the century. The "Doha Development Round" launched in 2001, has yet to conclude its business. U.S. efforts have focused instead on bilateral treaties, such as the ones recently signed with South Korea and Panama. Grand bargains seem distant. The "self-preserving intolerance" states exhibit when sensitive domestic interests are challenged remains on display.

In terms of investment, intra-EU foreign investment in 2010 was euro 4.4 trillion, more than fifty-six percent of the stock of total EU foreign investment. Thus our thesis that EU member states would not invest extensively in each other has not been borne out. The sum of inward and outward FDI stocks for the U.S. in 2010 was $8.3 trillion, or fifty-seven percent of GDP. For the EU, the comparable figure is $15.4 trillion, or more than one hundred percent of the EU's GDP. According to the UNCTAD World Investment Report (2011), foreign investment activity, responding to lower costs of information and transport, is increasingly dispersed across multiple countries and regions.[31] Supply chains, mixing direct investment, contracting out, royalties and open-market purchases have become standard practice for large and even mid-sized corporations, in the process thoroughly confusing standard distinctions between investment and trade.[32]

Where is the Atlantic Community in today's increasingly integrated world? When we wrote AWPE, with the Cold War ebbing, Europe seemed to us in some critical respects the stronger half of the Atlantic Community, its welfare states a superior model for national governance. At this writing, the euro-zone crisis unresolved, there is no certainty that welfare states themselves can survive in their present form. The prospect that the EU's nation states may have to cede authority over fiscal policy to a European center in order to overcome the debt crisis places European governance in new, unfamiliar territory. Certainly, it raises questions about the continued viability of a Gaullist confederal Europe of States. Necessity may lead Europe to adopt a new and stronger form of federal

organization. Nation states, however, will continue to command the first allegiance of their citizens. Conflict between these two models seems inevitable.

Europe, moreover, no longer seems the centerpiece of U.S. foreign policy. According to recent accounts, the primary U.S. diplomatic and security focus has undergone a "pivot" toward Asia. The South China Sea replaces NATO's central front as a main concern in foreign affairs. China's economic importance to both the EU and U.S. has soared over the past decade. The EU's transatlantic trade was four times its China trade in 2001. In 2011, the difference was just three percent.[33] And although U.S. relations with Europe are less conflicted than they were, for example, during the Bush administration, the policy differences that remain are substantial. Notably, they concern Europe's response to its own debt crisis. Less austerity and more current spending, U.S. officials argue, would strengthen the euro against the dollar and stimulate demand for American products, aiding our own faltering recovery.

Hopes for a greater Atlantic Community economy now reside, among other places, in a Transatlantic Economic Council (TEC), founded in 2007 and currently chaired by the European Commissioner for Trade. The faint echo of geopolitics joins more mundane concerns over trade in the TEC. With emerging market trade growing twice as fast as trade among the industrialized nations, "the relative weight of the EU-US commercial relationship is being diluted."[34] The way to meet the challenge of China and other emerging markets is through a "comprehensive bilateral trade initiative (moving) as close as possible to the removal of all duties on transatlantic trade in industrial and agricultural goods." Liberalization of services would also be included, as would public procurement, regulatory cooperation and "state of the art rules in competition, trade facilitation, labour, the environment and intellectual property."

Will China play the role previously played by the Soviet Union, allowing both sides of the Atlantic to bury their differences in the common interest of concerting against a rising power? Would such a world be stable? Would it continue to foster international trade and investment? China is so large, David Calleo has argued elsewhere, that its accommodation in an international economic order must inevitably depress living standards in the rest of the world, as many argue it already has.

Forty years ago, David and I could imagine that America, shorn of its hegemonic pretensions might eventually be an equal partner with a strong Europe, both constructive members in a liberal, plural world of blocs. We are not yet in that world. When we wrote, we did not foresee the fall of the Soviet Union or the rise of the "BRICS," the destruction caused by unregulated capital markets, the pattern of alliances and "wars of choice"

occasioned by the events of 9/11, or the possible unraveling of the euro-zone itself. Bad as the crisis of the early seventies was, it seems to me it was less existential than what we face today. An ugly populism of the Right threatens what many see as the crowning achievement of Western political thought, the welfare state. Order gives way to flux. The future of the Atlantic Community is unclear.

C

ENDNOTES

[1] Lewis E. Lehrman, "International Monetary Order" in David P. Calleo, ed., *Money and the Coming World Order* (NY: NYU Press, 1976), p. 76
[2] Thomas L. Friedman, *The World is Flat* (New York: Farrar, Straus and Giroux, 2005), p. 202
[3] As quoted in John Kay "Why the Reputation of Economists has Declined." *Financial Times*, Aug. 25, 2011
[4] David P. Calleo and Benjamin M. Rowland, *America and the World Political Economy* (Bloomington: U. of Indiana Press, 1973), p. 253
[5] *AWPE*, p. 23, as quoted in Julian Amery, *The Life of Joseph Chamberlain*, Vol 5, London, St. Martin's Press, 1969, p. 203.
[6] *AWPE*, pp.26-27.
[7] *AWPE*, p. 49.
[8] *Ibid.*, p. 49.
[9] Clarence Streit, *Union Now*, NY: Harper Brothers, 1939.
[10] *AWPE*, p. 60.
[11] *Ibid*, p. 60.
[12] *AWPE*, p. 9.
[13] *Ibid*.
[14] AWPE, p. 81
[15] *Ibid*, p. 94.
[16] *Ibid*, p. 97.
[17] *Ibid*, p. 99 Strictly speaking, it is not accurate to attribute a deficit to one specific flow or another.
[18] We did anticipate some of the problems that could befall a European monetary union.. "…a monetary union can easily bring disaster to its backward countries and regions. Such regions, unable because of their backwardness to compete at the general price level, and unable because of the union to restrict trade and capital movements or to change their exchange rates (could) see their capital float away and their economy sink into permanent depression." *Ibid*, p. 114.
[19] *Ibid*, p. 119.
[20] Victor A. Canto , "U.S. Trade Policy: History and Evidence," *Cato Journal*,, Vol. 3 No. 3 (Winter 1983/84), p. 682
[21] Where the combined world-wide market share of the European and American parties totaled 80 percent or more, a "dominant supplier" rule of the negotiations permitted tariffs to be cut to zero. Without Britain in the Common Market, this threshold rate was not attainable.
[22] Depending on the method of calculation, America's 1971 trade deficit was the first since 1888 (calendar year census basis) or since 1935 (balance of payments basis).
[23] Canto, op. cit., p. 683.
[24] *AWPE*, p. 121.
[25] *Ibid*, p. 142.
[26] *AWPE*, p. 181. As quoted in Jean-Jacques Servan-Schreiber, *The America Challenge*, NY: Atheneum, 1968, pp. 16-17.
[27] *Ibid*, p. 173.
[28] *Ibid*, p. 187.
[29] CIA *Factbook*, EU 2011
[30] *Eurostat*, March 2012
[31] UNCTAD, *World Investment Report, 2011: Non-Equity Modes of International Production and Development.*
[32] See Thomas L. Friedman, *The World is Flat*, chap. 12, "The Dell Theory of Conflict Prevention."
[33] Karel de Grucht, European Commissioner for Trade, "Reshaping Transatlantic Relations," European Parliament Workshop on Transatlantic Relations.
[34] *Ibid.*

Christopher S. Chivvis

The Gold Standard and the Balance of Power

Though recently revived in discussions in some circles in the United States, the classical gold standard has widely been viewed as an obsolete economic institution of little relevance or practical value when it comes to the challenges facing the world economy today. Ever since John Maynard Keynes began his campaign against the British decision to restore the pound sterling to its pre-World War I gold parity in 1925, most enlightened academics and historians, especially those with a progressive, Keynesian background, have used every possible opportunity to discredit the gold standard and portray its proponents, such as the French economist Jacques Rueff or President Charles de Gaulle, who have attempted to draw attention to the political and economic merits of the system, as adamantine, benighted, and even hostile to modern ways of thinking. There are many sound reasons to be skeptical about the relevance of the gold standard to the financial and monetary problems of the twenty-first century. The most obvious of these is that tying a national currency to gold prohibits activist monetary policy and imposes constraints on fiscal policy. Specifically, countries that tie their currencies to gold are unable to inject liquidity into the economy to prop up falling prices or generate inflation that improves returns to capital by reducing real wages. In a moment when investors are fleeing, economic activity is slowing, and consumer confidence is tanking, moving to the gold standard is clearly a bad idea if it involves immediate reductions in government spending in the name of "austerity". The experience of the Euro-area in recent years has made clear both the economic and especially the political costs of austerity.

But to acknowledge that an abrupt return to the gold standard and fiscal austerity is a bad idea for countries that find themselves in an economic crisis is by no means to concede that we should dispense once and for all with the gold standard as a useful model for thinking about how to manage modern economies in other times. To begin with, the political and economic critique of mainstream Keynesian economics that undergirds the better supporters of the gold standard contains important wisdom about not just the problems of modern economies, but also the challenges that liberal political systems

face. The idea of the gold standard becomes more useful when viewed as a block against some of the economic practices that give rise to economic crises in the first place. The monetary conservatives and neoclassical economists who supported the gold standard recognized the tendency of democracies – modern and ancient -- to tear themselves apart. For them, the gold standard provided an institutional barrier against democracy's debilitating proclivity for inflation and deficit spending. Contrary to what Keynes argued, these thinkers were not simply Victorian tightwads who thought deficits were immoral – although this may have been behind some of their views. Their anti-debt theory was rooted in the recognition that excessive debt could tear a republic – like any body -- apart when the bills came due and mutual recrimination about who should pay ensued. Especially from the French perspective, this was what the depression of the 1930s looked like. When debts grew, and financing options constricted, the normally lively debate that is part of a healthy democracy could become poisonous, tear a country apart, and erode fundamental faith in the value of democracy itself. Arguably, this is what has happened in Europe's crisis-ridden southern economies, where the appeal of less-than-democratic political parties of the right is increasing as voters lose faith in their political elites and politics as usual.

Keynesians and monetary conservatives held two very different views of the rise of fascism in the interwar period. Both Keynes and his critics emphasized the fragility of democracy and its susceptibility to authoritarianism. For Keynes, protecting democracy meant above all maintaining the working class's faith in liberalism as a political-eco formula. If the working class were asked to bear too great a burden for the overall economic adjustment of the national economy, it would lose faith in democracy and be seduced by authoritarian models of the left and the right. For monetary conservatives and advocates of the gold standard, however, the main risk to democracy arose from the failure to achieve consensus over basic questions of how to distribute a society's wealth. The degree of consensus over how to distribute a society's wealth was reflected in the size of the budget deficit. Countries with little consensus about how to distribute resources had large deficits, while countries with greater consensus could balance their budgets. It may have been naïve of the monetary conservatives to imagine that a perfect consensus could be possible, but their observation that too much disunity was detrimental was just good common sense. They noted, rightly, that while Keynesian pro-growth policies could allow a democracy to postpone the need to arrive at consensus about its fiscal bottom line, they did not exonerate a society from ultimately having to do so. By postponing the day of reckoning, Keynesianism could create exactly the kind of crisis it sought to avoid.

The gold standard, precisely because it limited the state's capacity for overspending, provided a set of rules that would protect democracies against this fate.

This is of course the heart of the famous disagreement between the Keynesians and conservatives over whether or not policy should focus on the long or the short run. The problem, however, as it has arisen in the three quarters of a century since Keynes's death, is less about whether or not to focus on the long- or short-run than it is about when to focus on the long- and when to focus on the short-run. Pretty much everyone agrees that in the face of a massive financial crisis, ivory-tower debate about the virtues of taking a strategic, long-term view are somewhat less than germane – and unlikely to be heard in any event. The problem, however, is that democratic societies have frequently found it difficult to turn to long-run policies when they have the chance to do so in more prosperous times. The result is an overall trend toward short-term policies shaped in times of crisis. This is why leaders like Angela Merkel insist on imposing policies aimed at rectifying long-term problems as the price of assistance in dealing with short-term crises. Keynesians were thus cognizant of the importance of economic growth to democratic stability while monetary conservatives were ever wary of the ways in which sustained bouts of inflation can erode public confidence in the state and the free market system that itself is critical to sustaining economic growth in the long-term (and providing a foundation for goods like the welfare state). There is truth in the views of both. Too bad the debate between then has tended to be so haughty, polarizing and shot through with near willful misrepresentations and hostility. These two perspectives reflect in part different views about redistribution of wealth through inflation, which monetary conservatives view as the worst way for the state to redistribute wealth, but by which Keynesians are less troubled.

THE GOLD STANDARD AND EUROPEAN NATION STATE. One dimension of the debate between these two currents in modern economic thought that too frequently takes a back seat is their international political economic implications. In his proto-defense of the gold standard, David Hume, as early as the 18th century, noted the equilibrating effects that gold had on the world economy: States that ran large trade surpluses over time had a tendency to accumulate large quantities of gold. This, in turn had a tendency to increase the price of domestic goods, such that foreign goods became more attractive, thereby reducing the surplus and attenuating the influx of gold. The result was a general tendency toward the even distribution of gold between the nations of the world. Hume's observation provided the foundation for the basic theory of the gold standard in

the following century, during which it entered its classical phase. Any country with a large trade deficit that adhered to the gold standard would find domestic prices fall such that the trade deficit would diminish and the outflow of gold decrease. This tendency toward balanced external accounts was in turn one of the major benefits that the gold standard provided for the intra-European as well as the emerging global economy. Insofar as the gold standard encouraged balanced trade it ensured against tariff and trade wars – two closely related economic evils that threatened to undermine European economic growth in those years. Not only did the gold standard ensure fixed exchange rates and thus a predictable basis for cross-border investment that leveraged the opportunities the international economy offered in terms of comparative advantage and economies of scale. By ensuring against tariffs and trade wars, it also protected the commercial exchange that was still the basis of that economy, and by avoiding distortionary tariffs, it ensured that domestic resources were appropriately allocated to take full advantage of relative local strengths and efficiencies which justified the whole system in the name of higher levels of economic growth.

But another dimension of the gold standard that was less frequently cited was the relationship between gold, the European balance of power, and the plurality of the European state system during the period when the standard reached its zenith. One of the main attractions of the gold standard in the later nineteenth century was that it provided a reliable basis for international economic exchange without need for overarching international institutions that would have deprived Europe's new nation states of their sovereignty. To be sure, some countries, notably Britain, occasionally took the lead to help ensure the proper functioning of the system from which they benefitted, but the system as a whole managed to ensure a fairly high degree of international political economic cooperation and development.

States chose to adhere to the gold standard on their own volition. The decision to join was entirely one of domestic policy. There was no application to this club other than to adopt a fiscal policy and monetary practices that ensured the national currency maintained its weight "in gold". States that were well managed could join the club and benefit from greater access to capital, steadier trade, and enhanced political prestige. They could do so without the impositions of either an international monetary fund or a European Central Bank. In contrast, the central problem for the Eurozone is clearly that it is a half-way point in which states maintained sovereignty in their fiscal matters yet were effectively guaranteed membership. Membership in the gold standard was, it might be said, a privilege and not a right. States that were unable, for whatever reason, to keep

their fiscal houses in order, would simply exit. The partial federalism of the euro-zone, which precludes exit, yet resists the necessary impositions on sovereignty, has proven extremely painful.

THE GOLD STANDARD AND THE BALANCE OF POWER. On purely empirical grounds, therefore, it is worth nothing the correlation between the gold standard and the functioning of the European balance of power. The balance of power has many meanings, some of which are more useful than others. From the perspective of later twentieth century political science, the balance of power was a descriptive term used to assess whether or not a particular international political system was ripe for war. Power imbalances were taken to be indicative of high-risk, and a balance of power viewed as evidence that a particular international order would remain relatively peaceful. In the eighteenth century, however, the concept of the balance of power was more than academic -- it was an accepted theory of statecraft through which kings and diplomats sought to sustain the plurality of the European political order. Although it has often been noted that states tended to favor the balance of power when its application did not come at their own expense, this does not mean that it did not play a role in guiding the policies of statesmen in their negotiations of the treaties that ended the Wars of Spanish or Austrian Succession, the Seven Years' War, or the Napoleonic Wars. The advantage that Europe enjoyed over the rest of the world, many international historians today agree, was its inherent pluralism, which lent a dynamism that other, arguably more advanced civilizations such as the Chinese or Ottoman, lacked. European leaders did not, of course, think in these terms. Their concerns were parochial and arguments in favor of the balance of power were normally deployed against perceived threats, as, for example, when Lord Castlereagh sought to establish large political masses in central Europe at the Congress of Vienna as a bulwark against future French expansionism. Indeed, for the British, who were among the most ardent proponents of the theory, balancing meant largely keeping Europe divided such that no single power could emerge and threaten their own dominant position on the high seas. If the gold standard was historically correlated with this system in its later years, it did not do much, on the surface, at least, to ensure the standard's functioning. To begin with, the gold standard is an economic formula and therefore could only impact the economic foundations of national power. Economic strength may have been the most important long-term dimension of national power in modern European history, but at any given point it is not necessarily the most important one. The organization of the state and its ability to transform economic wealth into military power is in

any given moment at least as important, if not more so. Power is also relative, and many states have faced geographical or historical challenges that weakened their relative power despite economic strength.

Even in the extent to which economic factors do determine national power, the gold standard cannot, by itself bring a balance into being. Some rough approximation of economic power between states would seem to be a necessary prior condition. Some states, simply by virtue of their vast expanses of land or other national endowments will always be wealthier and more powerful than others. Technological developments will always have a tendency to impact national economic systems unevenly, such that over time, some economies will expand at more rapid rates than others. A myriad of other factors also play a role. Nevertheless, within a system where states, or great powers, are fairly equal in their national economic endowments, and the natural challenges that these states face are relatively equal – for example where no one state has an outsized geopolitical weakness -- the gold standard should help to sustain not only free trade between these states, but also a tendency toward economic growth that equilibrates over time and thus supports the balance of power. In other words, the gold standard's tendencies that Hume identified can play a positive role in promoting a balance of power in the international system – if that is deemed desirable.

THE GOLD STANDARD AND THE EUROPEAN MONETARY UNION.

The balancing tendency of the gold standard, however, can and is often accomplished through other means, such as currency depreciation. Such means, however, leave open the possibility of currency volatility of the kind that can demolish economies, especially developing ones, and this too can often have negative political consequences. The currency tergiversations that Russia experienced, for example, in the late 1990s may well be linked to Russian skepticism about the western liberal model that it had implemented helter-skelter after the Cold War. Nevertheless, the practical arguments against a re-establishment of the gold standard remain formidable, so much so as to make it highly unlikely.

But the gold standard, at least as an idea, still offers something for a contemporary international financial system in turmoil. The European monetary system is, after all, a neo-gold standard of sorts. It imposes a single monetary policy on all the states who are members, just as the gold standard did. Unlike the gold standard, however, the post-Cold War political context in which it was conceived and established meant that it is viewed as a collective rather than an individualist enterprise. Like the euro, the gold standard

was a system that states joined of their own volition. Unlike the euro, the gold standard was a system that states could and did exit whenever the stringency of the system proved too excessive for domestic political institutions to endure. As long as the country exiting the system was not the United Kingdom, the damage that individual states falling off gold did to the system as a whole was relatively limited. With the euro, by contrast, because the political objective of the institution is greater unity, this is not possible, and a great deal of economic hardship has been forced upon the citizens of Europe as a consequence. This is not to argue that the political objectives of the euro are not valid. It is simply to note that the idea of the gold standard, which was at one time an institution that supported the plurality of a cooperative European system of nation-states no longer has much to do with the European monetary project, and perhaps to suggest that a common currency that returned to the principles of the gold standard would be more in line with a Europe built on nation-states. The tension between the Gaullist and Federalist visions for Europe has been particularly damaging when it comes to the euro.

As to discussions of the role of gold in the international monetary system more broadly, it seems unlikely that much will come of them. This is not because a return to gold would necessarily be deflationary or that a gold standard would be too much different in practice than a system in which the monetary authority is constitutionally committed to price stability. It is because of the practical challenges that would be involved and the resistance the idea would meet. As noted already, crises are the best and the worst times for major reforms. They are the best of times because the plasticity of institutions and arrangements is greatest and political attention and will are at their peaks. They are the worst of times, however, since the time-horizons of policymakers will necessarily be extremely short.

Nevertheless, the fact remains that the objectives which proponents of the gold standard sought to achieve -- price stability, fiscal balance, and international economic constancy -- have hardly been achieved with any regularity under the existing system of free-floating exchange rates and fiduciary money, and it is difficult to see how the fluctuations that have occurred under this system are conducive to the stability of the international political system. To those who think the future international political system will be more plural as new states assert themselves with greater confidence, especially in Asia, the gold standard, or at least the use of some neutral and universally valued asset as a monetary foundation for international exchange, might, at least in theory, come to be viewed again as a not undesirable means of achieving stable economic growth and thereby helping to ensure that differing rates of growth do not complicate efforts to achieve the power bal-

ances on which that system will have to be built. Europe, if it survives its current crisis, may show at least one path forward for the wider world. In any event, a more cohesive eurozone – whatever form that takes – should ultimately become a contribution to a more stable international monetary system – and a source of strength for Europe and its twenty-first century allies.

Matthias M. Matthijs

The Dollar Paradox: America Caught between Managing Decline and Enjoying Exorbitant Privileges

No man ever steps into the same river twice, for it is not the same river and he is not the same man. – Heraclitus (535-475 BC)

The reports of my death are greatly exaggerated. – Mark Twain (1897)

INTRODUCTION: THE DOLLAR PARADOX. Since the end of World War II, the world economy – led by the United States – has expanded at a rate unparalleled in human history and America's currency, the U.S. dollar, has played a dominant role in financing this growth by functioning as the indispensable lubricating oil of the global financial system. From the point of view of international monetary relations, it is useful to distinguish between two successive postwar periods. The first period – the "Thirty Glorious Years" of Keynesianism – lasted from 1944 to 1973. The bedrock of this period was the Bretton Woods system of fixed exchange rates anchored by the U.S. dollar, defined by an activist state, relatively free trade in goods and services but state controlled international capital flows. The second period – the post-Bretton Woods system of Neoliberalism – started in 1973 and broadly remains in effect today. The latter period is characterized by a retreat of the state from the economy, floating exchange rates, relatively free international capital flows, and the persistence of the U.S. dollar as the dominant global reserve currency.

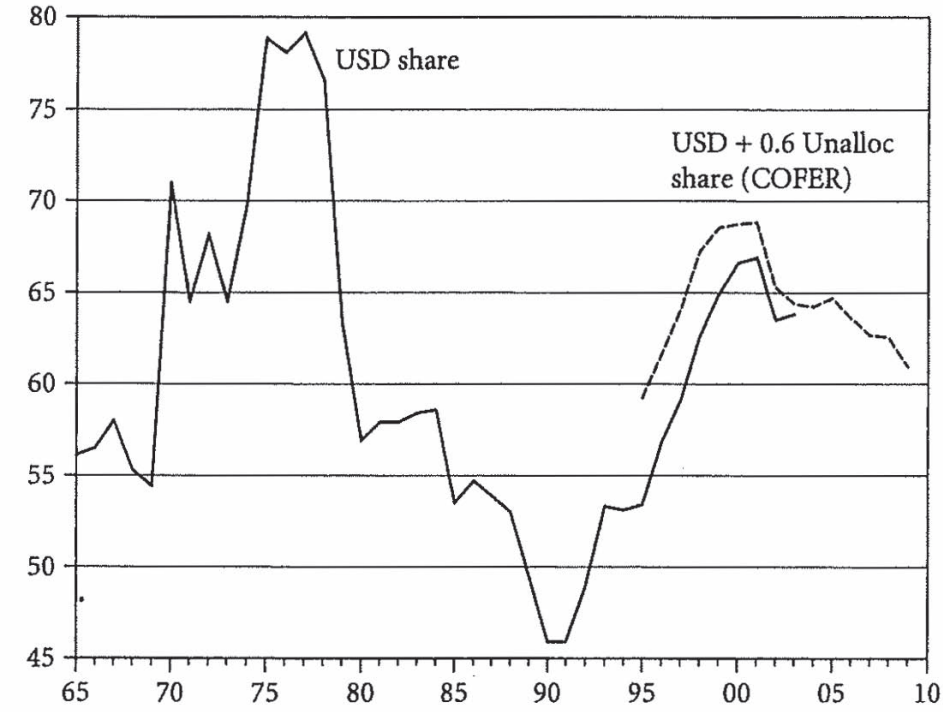

Figure 1: U.S. Dollar Share of Total International Reserves (1965-2010)
Source: Barry Eichengreen, Exorbitant Privilege (Oxford University Press, 2011), p. 64

The collapse of the Bretton Woods system in the early 1970s did not lead to an end of the dollar's hegemony, as was widely predicted by IPE scholars at the time, even though there were some notable dissenting voices.[1] Figure 1 shows the U.S. dollar's share of the world's total international reserves. From the mid-1960s to the late 1970s, the dollar's share actually increased from 55 percent to almost 80 percent, but fell rapidly during the 1980s to just over 45 percent by 1990. With the end of the Cold War, however, the dollar's share in the world's international reserves increased again to just over 70 percent by the year 2001. According to the IMF, the U.S. dollar comprises roughly 62 percent of all the world's official foreign exchange reserves in 2012.[2] However, it is hard to find anyone today who has been completely satisfied with this dollar-centric monetary arrangement; even while the dollar has been central to the smooth functioning and rapid growth of the world economy for the past seventy or so years.

Indeed, few subjects have invited more academic debate in postwar international political economy than the role and (in)stability of the U.S. dollar in the international mone-

tary system. The fall of the greenback from its hegemonic position has been repeatedly predicted, starting in the early 1960s with the first signs of military overstretch due to America's existential fight with communism during the Cold War. Yet every time the dollar's fate seems sealed, either domestic or international political events have come to its rescue. Even as the global financial crisis--which started in the U.S. housing market in 2007--hit the world economy in September 2008, the dollar initially strengthened and international investors rushed to its perceived status as safe haven. It was around that time that two IPE scholars, Eric Helleiner of the University of Waterloo and Jonathan Kirshner of Cornell University, brought together a group of economists, historians and political scientists to debate the future of the dollar. The resulting book underscored the profound disagreement about the currency's future among experts who had studied the dollar's international role for several decades.[3] The authors' dissenting views on the future of the dollar, Helleiner and Kirshner observed, heavily depended on the overall approach they took, distinguishing between a "market-based," "instrumental" and a "geopolitical" approach.

One of the contributors to the edited volume, *The Future of the Dollar*, was David Calleo, who combined a market-based with a geopolitical approach. Seeing persistent dollar weakness and volatility due to recurring budget and current account imbalances during the postwar period, and relative decline caused by unipolar overstretch and rising powers in the East, he naturally fell into the 'declinist' camp.[4] According to Calleo, the dollar's supremacy had endured during the Cold War because various U.S. administrations had been creative enough to develop their own unique formulas to manipulate the dollar in an effort to reconcile the twin demands for guns and butter. The Cold War meant that the U.S.' geopolitical allies were willing to support the dollar in return for American military protection, in effect paying an indirect "imperial tax."[5] However, Calleo pointed out, the end of the Cold War brought an abrupt end to the common Soviet threat and witnessed the birth of a new global currency in Europe--the euro--with the signing of the Maastricht Treaty in 1992. This would make it harder for future U.S. administrations to repeat the old Cold War trick of manipulating the value of the dollar. Calleo insisted a more plural world would require a more balanced multipolar monetary system, which would come about by rising economic powers, not just in Europe but also in emerging Asia.

The prospects for this new multipolar monetary order after the global financial crisis of 2008 will be examined in this paper. But before we look at the current situation, we first need to briefly review how we got here, starting with the U.S. global economic vision at Bretton Woods in 1944.

DOLLAR INSTABILITY FROM BRETTON WOODS TO THE GLOBAL CRASH OF 2008. In 1944, as World War II entered its final phase, the United States found itself in the unexpected position of most powerful country in the world. With over 40 percent of the world economy's total income and producing about 50 percent of global industrial output, the magnitude of America's economic primacy at the end of World War II dwarfed Britain's 9 percent of world output fifty years earlier, when it had been at its relative peak in 1899.[6] As delegates from 44 allied countries gathered in New Hampshire to discuss how to rebuild the international monetary and financial order after the Great Depression, it should therefore be no surprise that the compromise reached between Harry Dexter White and John Maynard Keynes would be much closer to the American position.[7] The final deal was a balancing act between reconciling a commitment to both an open multilateral world economy and domestic political priorities of full employment and social welfare. Key elements of the agreement included the institution of a "gold exchange" standard with currencies pegged to the U.S. dollar (whose value was set at $35 per ounce of gold), currency convertibility for current account transactions and capital controls designed to manage speculative and "disequilibrating" private financial flows, as well as the establishment of the IMF and the World Bank, with *de facto* U.S. veto power over both institutions.[8]

By 1947, with the Cold War heating up, Washington's policy elites realized that Europe and Japan were experiencing serious dollar shortages and would be unable to pay back their war debts without American support. The Truman administration decided to step in with the "Marshall Plan" for Europe and the "Dodge Plan" for Japan. Both programs were simultaneously in America's self-interest as well as acts of genuine American generosity--the Marshall Plan alone comprised close to 10 percent of the U.S. federal budget in its first year of operation. Sold to Congress as a necessary measure to stave off communism in strategically important parts of the world, the plans allowed Western Europe and Japan to rebuild their infrastructure and jumpstart their export industries, and laid the foundation for both regions' economic growth miracles of the ensuing thirty years.[9] But until 1958, the Bretton Woods system was in "virtual cold storage."[10] The currencies of European countries were not convertible and the U.S. government and regional institutions were playing the roles of the IMF and World Bank. All in all, the Bretton Woods system of fixed exchange rates would only last for 13 years, from 1958 (when European currency convertibility began) until 1971 (when Nixon closed the gold window). While the Republican administration of Dwight Eisenhower during the 1950s showed relative restraint both at home and abroad--starting with the end of the Korean

War in 1953, which had triggered a first worldwide spell of inflation, and resulted in a quasi-balanced fiscal budget over the 1950s business cycle--that would not be the case for his Democratic successors in the 1960s. As Calleo observed in his 1987 book, *Beyond American Hegemony*, "the problems of America's extended geopolitical posture have found a ready parallel in the strains of its international economic position. The Atlantic military alliance and the global economic system are complementary parts of the same *Pax Americana* and often affect each other directly."[11] Various U.S. domestic policies, such as the rearmaments for the Korea and Vietnam Wars, the Kennedy tax cut of 1964, and Johnson's "Great Society" programs of 1965, had consequences for the world economy, such as worldwide inflation and growing financial instability. Given that the U.S. started running persistent fiscal deficits in the 1960s (see figure 2), often accompanied by current account deficits, subsequent U.S. administrations needed to come up with a formula to finance those deficits amidst changing international economic conditions.

In effect, Calleo detected three different recipes for managing the U.S. dollar during the Cold War: Lyndon Johnson's combination of fixed exchange rates with expansionary fiscal and monetary policies; Richard Nixon's blend of floating exchange rates with loose mon-

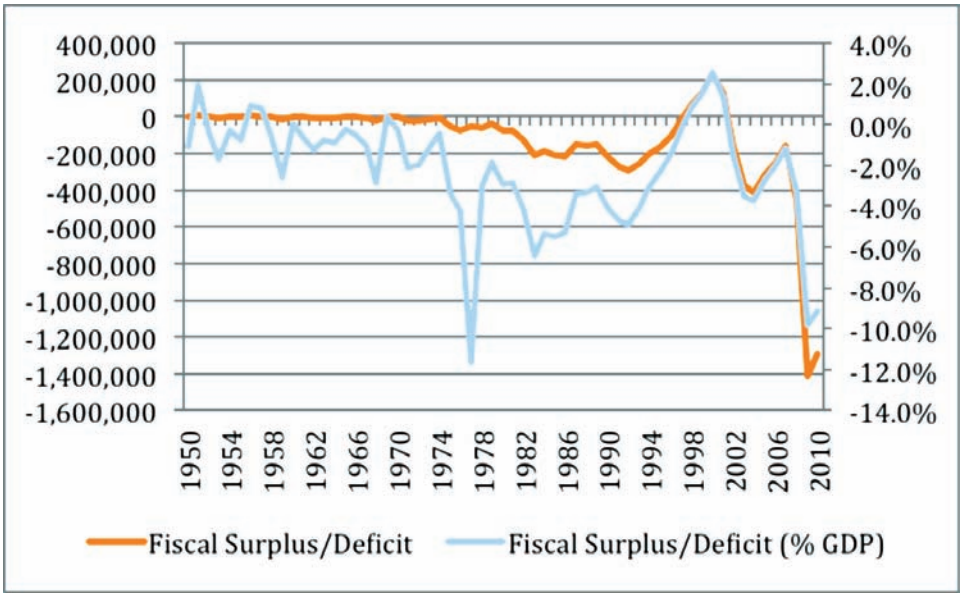

Figure 2: U.S. Fiscal Deficit (1950-2010)
Source: U.S. Government, The White House, Office of Management and Budget (2012)

ey and fiscal expansion ('benign neglect'); and Ronald Reagan's tax cuts and increased military spending in close coordination with Fed Chairman Paul Volcker's tight monetary policy to fight runaway inflation. The switch from fixed to flexible exchange rates in the early 1970s had long been in the making. At the heart of the Bretton Woods arrangement of the gold-exchange standard had been the "Triffin Dilemma," first noted in 1947 by the Belgian economist, Robert Triffin.[12] If the world economy relied on the U.S. dollar to be the single reserve currency, Triffin argued, the system would either suffer a dollar credibility problem or a dollar liquidity problem. The U.S. would have to issue lots of financial assets (i.e., government bonds) to grease the wheels of global commerce and meet the growing demand for reserves. However, the more treasury bills the U.S. issued, the less likely it would be to honor its debts in the future. As *The Economist* once summed it up: "In the end, the world's insatiable demand for the "risk-free" reserve asset will make that asset anything but risk-free."[13] No surprise that de Gaulle's favored economist, Jacques Rueff, saw the Bretton Woods system as the main source of worldwide inflation.[14]

Figure 3: USD Nominal Effective Exchange Rate (1970-2011)
Source: Bank for International Settlements (Note: 2005=100)

Ever since Richard Nixon embraced a floating dollar in 1971, the U.S. nominal effective exchange rate experienced wide swings characterized by long periods of depreciation (1970s, early 1990s, and 2000s) and long periods of appreciation (late 1970s-mid 1980s, second half of the 1990s), as illustrated in figure 3. Nixon, who had started out as every Chicago economist's dream president--campaigning on a platform of deregulation and less government control of the economy--eventually embraced Keynesian fiscal expan-

sion combined with wage and price controls to fight inflation. With monetary policy relatively loose, the U.S. was exporting dollars freely into world markets, and with a weakening dollar and the 1973-74 oil shocks, inflation only became more exacerbated. Monetary tightening to counter inflation would begin under Jimmy Carter, with Paul Volcker at the Fed, and continue under Ronald Reagan.[15] Reagan's formula of supply-side tax cuts, increased military spending and continued tight money, resulted in exceptionally high interest rates and an overvalued dollar, and saw the emergence of the "twin deficits" (large fiscal and current account deficits). The U.S. in effect began importing back from abroad the dollars it had exported before, and then using those funds to finance a growing external deficit.[16] Under Reagan, the U.S. went from a global creditor to a global debtor nation after 1985 (see figure 4). For many declinist thinkers, the writing was on the wall. For Calleo, the significance of the progression of the various formulas from Kennedy to Reagan was that the U.S. had managed to live beyond its means for well over three decades, resulting in persistent budget and widening current account deficits. The main reason for this situation, Calleo argued, was geopolitical. The rationale went as follows: as long as the bipolar strategic confrontation between the Americans and the Soviets lasted, the Western allies in Europe and Japan could not let the dollar crash, and were thus compelled to keep paying their "imperial tax" and prop up a flawed system that for many declinist thinkers had become unsustainable by the late 1980s.[17] But of course, as we know now, it would be the Cold War itself that would prove untenable, with the Soviet Union imploding first.

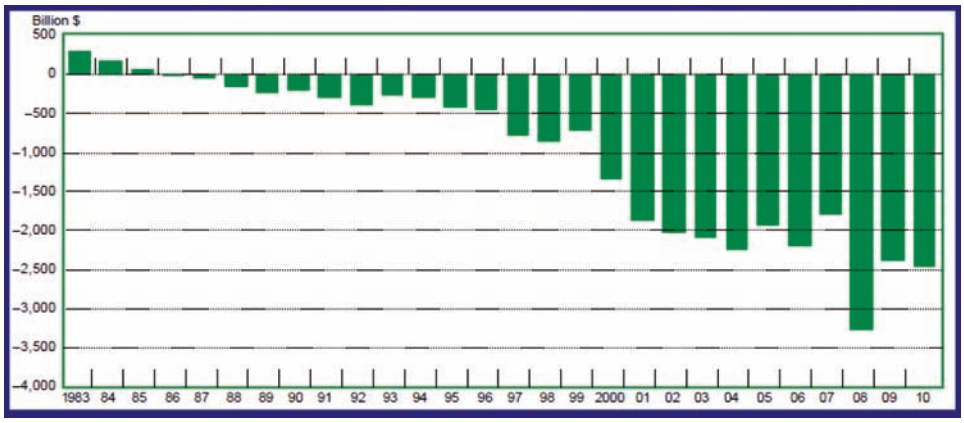

Figure 4: United States: Net International Investment Position (1983-2010)
Source: U.S. Department of Commerce, Bureau for Economic Analysis (2011)

The unexpected events of the late 1980s and early 1990s--the fall of the Berlin Wall, German Reunification, and the collapse of the Soviet Union--brought with them a renewed enthusiasm among U.S. elites for American prosperity and power. After all, from Washington's point of view, America had won, and most of the world's power was now in the U.S.'s democratic hands. In the end of the Cold War, Calleo observed, lay the kernel of America's dangerous unipolar imagination.[18] This would take two forms: the idea of an economic superpower under the Clinton administration, fueled by the technology boom of the "new economy," and the renewed enthusiasm to be the sole military superpower under the administration of George W. Bush, triggered by the tragic events of 9/11 and the ensuing War on Terror, with 'hot' wars fought simultaneously in Afghanistan and Iraq. But the disintegration of the Soviet Union also meant the evaporation of the common geopolitical threat to the West. It would be harder for the Americans to finance their twin deficits now that there was no longer an urgent need for Europe and Japan to underwrite the dollar's stability. In addition, with the signing of the Maastricht Treaty, the European Union pursued its own internal dreams of completing its Common Market with a common currency, the euro, and its own foreign policy, CFSP.[19] The Clinton administration responded by finally addressing the federal budget deficit with initial tax increases--already started under the George H.W. Bush administration--and significant reductions in military spending thanks to the "peace dividend" enjoyed at the end of the Cold War. The 1990s saw the U.S. economy experiencing a classic economic boom, with record growth fueled by the application of information and communications technology, increasing productivity, falling unemployment and record tax revenues which eventually closed the federal budgetary gap by 1998 (figure 2), resulting in a strong dollar that helped keep inflation in check. The 1990s were also marked by a relatively peaceful foreign policy with the exception of the interventions in the Balkans. Combining fiscal austerity with Fed Chairman Alan Greenspan's relative monetary restraint, the Clinton administration seemed to have found the ideal formula for a post-Cold War world.[20] However, with record current account deficits (figure 5), the U.S. basically kept living beyond its means, and grew increasingly dependent on cheap imports from Asia for its consumption, and accompanying cheap Asian capital inflows to finance its consumption binge. The continued success of the Clinton formula also depended on continued fiscal and monetary restraint. By 2000, the Clinton-Greenspan boom had turned into the 'irrational exuberance' of the dotcom bubble and burst, and the economy slid into recession. To make matters worse, America's sense of invulnerability was forever tarnished with the Al-Qaeda terrorist attacks of September 11, 2001. The administration of George W. Bush responded vigor-

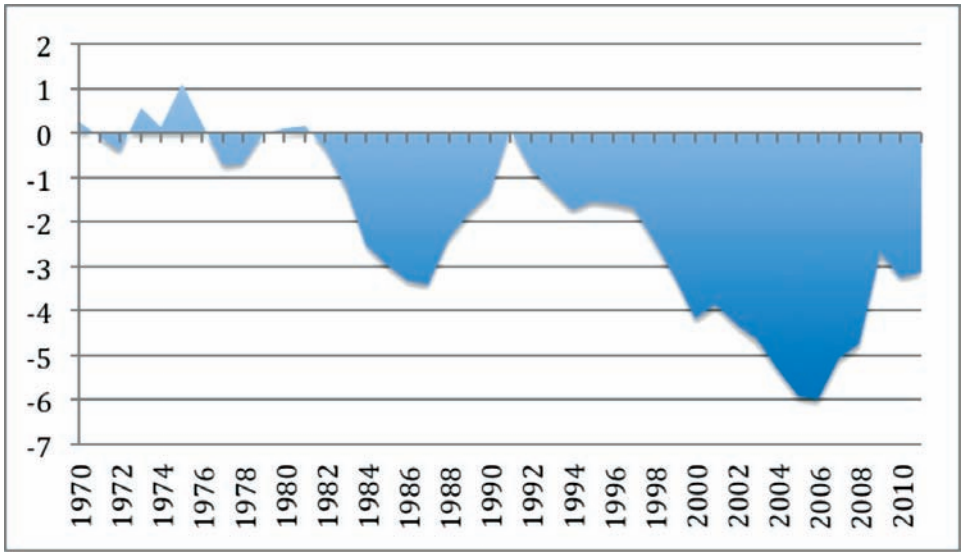

Figure 5: U.S. Current Account Deficit (1970-2010)
Source: IMF, International Financial Statistics (2012)

ously with two rounds of income tax cuts in 2001 and 2003, and massive increases in defense spending to finance the pending War on Terror. Bush had inherited a $236 billion surplus from Clinton in 2000; by 2004, the U.S. federal deficit reached $413 billion--one of the most extreme turnarounds in the country's fiscal balances in U.S. history.[21]

At the same time, Greenspan slashed interest rates and would keep the federal funds rate at the historically low rate of 1 percent for most of 2003 and 2004, known as the "Greenspan put." This fiscal and monetary activism quickly led to a new economic boom, this time fueled by the U.S. housing market. Together with a much more permissive financial environment, driven by the neoliberal policies of financial liberalization initiated during the Clinton administration, combined with a much more open global capital market, this led to a further widening of the current account deficit which reached a record 6 percent of GDP by 2006 (figure 5) and to a steep decline in the value of the U.S. dollar (figure 3). Given this dramatic reversal in the dollar's fortunes vis-à-vis the 1990s, and a world economy growing increasingly multipolar, with fast-growing Asian giants China and India, and an enlarged European Union with a single currency, the world economy seemed ready for a substantial overhaul of its international monetary system. Even more so after the great crash of 2008, which originated in the U.S., it was clear to most observers, including British Prime Minister Gordon Brown and French President Nicolas Sarkozy, that the dollar-centered world economy was badly out of balance, and in desperate need

of reform. Calls for a "new Bretton Woods" were rife in almost all corners of the world economy, and many analysts held out hope that the G-20--the new international body self-tasked with reforming the international economy, which included representatives of the twenty most important economies in the world--would take on the task.[22]

THE OBAMA-BERNANKE FORMULA: BALLOONING FISCAL DEFICITS AND PUSHING ON A MONETARY STRING. Even though there are still significant disagreements as to the causes of the global financial crisis in 2008, the broad sequence of events is well known by now.[23] Once the credit bubble in the U.S. housing market started to burst in late 2006 and early 2007, it was apparent that this was not going to be your everyday economic crisis. Through a giant maze of collateralized debt obligations (CDOs) made up of mortgage backed securities (MBSs), many of them 'subprime,' and insured by credit default swaps (CDSs), the whole global financial system was exposed multiple times to the risk of a U.S. housing collapse. With house prices falling by 20 percent over the course of 2008, the world economy faced its 'black swan' moment in September 2008 with the collapse of Lehman Brothers, which put an extraordinary amount of pressure on the U.S. and world financial system.

Stock markets plunged, and the financial crisis soon translated into a massive slide of the real economy, leading to falling output levels, rapidly increasing unemployment, and increasing savings resulting in a Keynesian liquidity trap. Governments and central banks worldwide would soon step in, but they would be unable to avoid the world's first global economic contraction since World War II in 2009. As soon as the crisis was underway, the blame game began, and everybody had their favorite culprit, depending on one's position along the political spectrum: from greedy bankers, regulators asleep at the wheel, reckless monetary policy, excessive government intervention in the housing market, deregulation of financial markets, too high Chinese saving or too low American saving, to global capitalism itself.

One of the more peculiar aspects of the global financial crisis was the initial strengthening of the U.S. dollar as institutional investors worldwide sought refuge in the perceived American safe haven (figure 3). With the new Democratic administration of Barack Obama in power in January 2009 and Ben Bernanke at the helm of the Federal Reserve, the new "Obama-Bernanke" formula to deal with the crisis began to take shape. On the fiscal side, the Obama administration passed a large budgetary stimulus of close to $800 billion in early 2009, combining various tax cuts with big increases in federal spending, which came on top of an almost equally big federal bank bailout enacted under the Bush

administration in September 2008. Naturally, this would lead to ballooning fiscal deficits (figure 2): from 2009 to 2012, the U.S. federal deficit would exceed $1 trillion for four consecutive years, adding up to a total of $6 trillion in four years, all of which had to be borrowed on domestic and international financial markets.

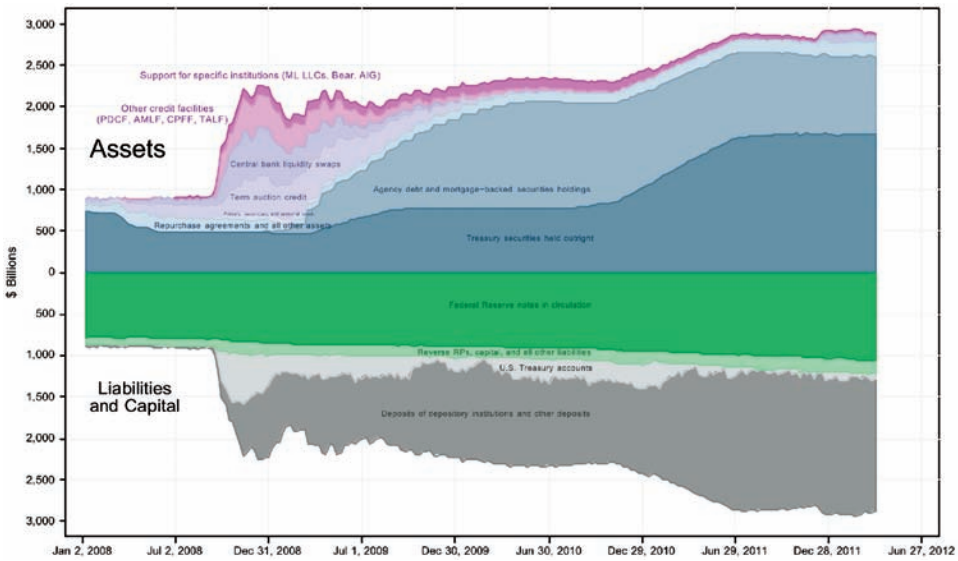

Figure 6: Federal Reserve Bank – Assets and Liabilities (2008-2012)
Source: Jaime Marquez, Ari Morse, and Bernd Schlusche, "The Federal Reserve's Balance Sheet and Overnight Interest Rates," FED Finance and Economics Discussion Series (September 2012)

On the monetary side, Fed Chairman Bernanke responded to the crisis with a series of unconventional measures (see figure 6). Initially cutting the federal funds rate to close to zero, but also trying to unfreeze the credit markets with a whole alphabet of "other credit facilities" and support for specific institutions, such as insurance giant AIG and investment bank Bear Stearns. As the initial responses seemed to stop the slide into despair, the Fed started to focus on reigniting growth in the U.S. economy, with multiple rounds of "quantitative easing", the last one open-ended, and a "twist" of the yield curve (i.e. buying long-term assets in return for short-term assets without printing additional money, hoping to lower long-term interest rates). As illustrated on figure 6, from the fall of 2008 to the fall of 2012, the Federal Reserve balance sheet exploded, nearly quadrupling from $800 billion to just over $3 trillion.

Most troublesome from a monetary policy point of view was the vast increase on the assets side of "agency debt and mortgage backed securities holdings" and on the liabilities

side of "deposits of depository institutions" on the Fed's balance sheet. In other words, the Fed was buying toxic assets from American banks in order to clean up their balance sheets and infuse fresh and much needed cash into the system, while at the same time those banks, refusing to lend to the real economy, just deposited those funds back at the Fed for an overnight interest rate of anywhere between 0 and 25 basis points. John Maynard Keynes could not have wished for a better illustration of his idea of interest rates as a piece of string: easy to pull during a boom, but difficult to push and therefore largely ineffective during a severe recession.

Given the dollar's unique status in the international monetary system, the irony is that the United States has been able to finance its gigantic fiscal deficits at record low interest rates, making the case for long-term fiscal reform at home seem much less urgent. With a U.S. Congress in full election mode at the end of 2012, in complete gridlock as to the fiscal way out, the Federal Reserve kept the show on the road. But rather than seeing a new international monetary order, reflective of the new and undeniably multipolar reality of the world economy, the status of the dollar seems, paradoxically, to have been enhanced by the global financial crisis. In order to make sense of this puzzle, we need to go back to David Calleo's two main reasons for why the dollar's exorbitant privilege would be unsustainable: the end of the Soviet threat would make it harder for the U.S. to finance persistent deficits from its Cold War allies and the creation of the euro meant a rival global currency that in some ways was more attractive than the dollar given its independent central bank and sole commitment to price stability.

In the next two sections, I will argue that America's paymasters in Europe and Japan have been replaced by a fast growing China together with the rest of emerging South and North East Asia, countries which deliberately undervalue their exchange rates, resulting in global economic imbalances; and that the internal contradictions and design flaws of the euro are more acute than the perennial weakness of the U.S. dollar.

GLOBAL IMBALANCES AND BRETTON WOODS II. After the Asian crisis of 1997-98, most Asian economies appear to have learned five valuable lessons. First, you open up your economy's financial account at your peril; gradual financial liberalization with occasional capital controls is a much more prudent way to proceed. Second, build up your central bank's foreign exchange reserves so massively that no international investor will see the benefit in shorting your currency. Third, diversify your medium-term economic strategy between investment-led and export-led growth, with the best way to stimulate exports and discourage imports being to artificially undervalue your currency.

Fourth, balance your investment portfolio between domestic and international sources in order to limit the fall-out from any 'crony capitalism.' Fifth, under no circumstances let the International Monetary Fund back into your country.

Together with America's voracious appetite for cheap Asian imports and continually deficient household and government saving, the result has been the emergence since the late 1990s of global macroeconomic imbalances. As shown on figure 7, the chronic U.S. and U.K. current account deficits are mirrored by current account surpluses in China (and the rest of emerging Asia), Japan, Germany and Saudi Arabia. Since most of Germany's current account deficit is with the European periphery, and Europe is practically in balance with the world economy, we need to focus on Asia.

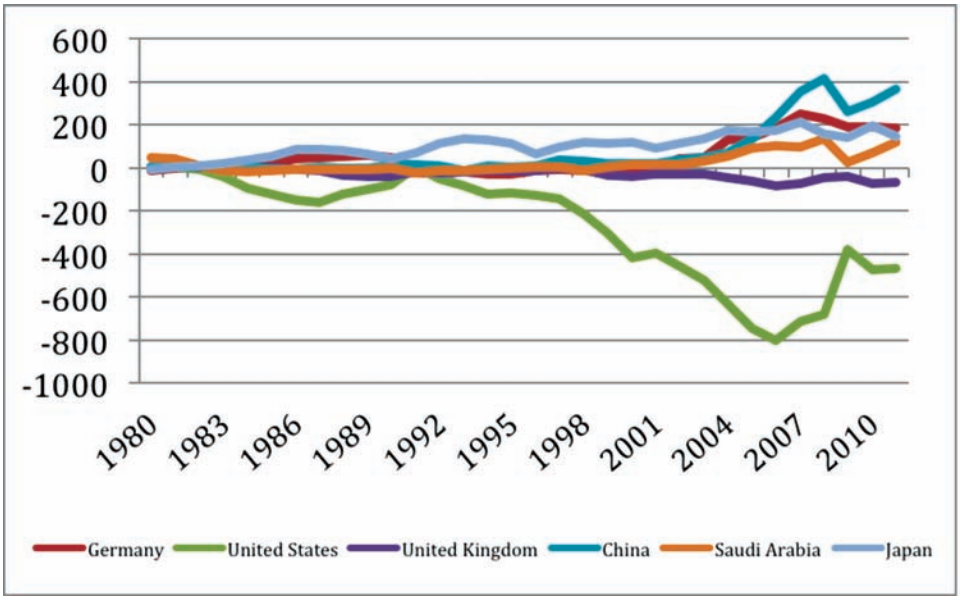

Figure 7: Persistent Current Account Imbalances in the G-20
Source: IMF, International Financial Statistics (2011)

There are various views on the emergence and role of global economic imbalances, summarized by Barry Eichengreen in "The Blind Men and the Elephant" as four different though not mutually exclusive views: U.S. savings are too low (Nouriel Roubini), U.S. investment is unusually high (Richard Cooper), Asian investment is too low (Niall Ferguson) and Asian savings are too high (Ben Bernanke, Martin Wolf).[24]

The more interesting point is that some views are closer to the truth than others at specific points in time; with the deficient U.S. savings view in combination with the global

savings glut view closest to reality from the early 2000s onwards. In other words, emerging Asian economies, led by China, are happy to export their way to faster growth, even if that means they are foregoing current consumption and investment opportunities, with their excess savings ending up financing the United States' consumption of their goods. The case of China is extreme: with just below $200 billion in foreign reserves in the year 2000, it managed to accumulate a total of $3.24 trillion in foreign exchange reserves by the summer of 2012.[25]

In an influential NBER working paper published in September 2003, Michael Dooley, David Folkerts-Landau and Peter Garber argued that "the economic emergence of a fixed exchange rate periphery in Asia [had] reestablished the United States as the center country in the Bretton Woods international monetary system."[26]

The authors noted that any "normal" evolution of the world's monetary system included a periphery that keeps its exchange rate undervalued by accumulating reserve asset claims on the center country. During the original Bretton Woods system, Western Europe and Japan played the role of the periphery, with the U.S. at the center. But now, since both Western Europe and Japan had "graduated" to the center themselves, the emerging economies of East Asia had filled the void. For Dooley, Folkerts-Landau and Garber, the current arrangement was "sufficient to keep the system intact for the foreseeable future." As Helleiner and Kirshner pointed out, this is one aspect of the "instrumental approach" which some scholars argue will maintain the dollar's current position in the international system.[27]

Of course such a *de facto* Bretton Woods II sponsored by never ending Asian savings brings with it all kinds of risks. It is not at all certain that either side will uphold its part of the bargain. On the one hand, the U.S. market--especially if it continues to linger in its current low growth equilibrium--could become less important for Asian exports, lessening the need for Asian countries to continue supporting the dollar, especially as the growing Chinese middle class starts to develop its own appetite for consumer goods. On the other hand, anti-trade sentiment and protectionist temptations in the U.S. might slow down American enthusiasm for cheap Asian imports. Also, one cannot deny the fragile geopolitical dimension of the arrangement. It is hard to believe that China will continue to maintain the dollar's international reserve status in the likely event of growing strategic tensions whether in the South China Sea, over Taiwan, North Korea, or the battle for energy resources. While all of those risks are there, Bretton Woods II helps to explain why the United States has continued to finance its deficits at record low rates, and the dollar remains the reserve currency of choice in most of the world today.

FRAGILE GLOBAL CURRENCY: THE EURO AND LOCAL IMBALANCES. In the global beauty pageant between the euro and the dollar, the latter still looks less ugly, at least for now, and hence is likely to prevail for the foreseeable future. While the creation of the euro was supposed to unify Europe further politically by bringing about convergence economically, it seems to have done the exact opposite. This has become painfully obvious over the past few years since the euro crisis broke, triggered by the admission of Greece, the euro-zone's weakest member, that its deficits were much worse than initially feared. The sovereign debt crisis that continues to shake the euro-zone and took Brussels-based policy elites by surprise in the spring of 2010 was in many ways the logical consequence of the global financial crisis, but has raised serious questions as to the original design and long-term viability of Economic and Monetary Union (EMU). The initial focus of the financial crisis during the autumn of 2008 was on those countries with heavily developed and exposed financial sectors, mainly the United States and the United Kingdom. There was even some veiled *Schadenfreude* in Continental Europe, with economic and political elites in Paris and Berlin to some extent feeling vindicated. In their minds the crisis was laying bare all the shortcomings of the Anglo-Saxon model of financialized capitalism. In Britain, there was even brief talk of the 'missed opportunity' of not having signed up to Europe's Economic and Monetary Union in the late 1990s.[28]

However, not for long: the crisis quickly spread from the United States to Continental Europe and to the rest of the developed and developing world. In order to stem wholesale financial collapse, all advanced industrial states of the euro-zone were forced to pass large bailouts of their financial sectors and put in place fiscal stimulus plans to stave off severe recessions. By mid-2009, financial markets were worried that many governments in Europe--with the Southern European countries around the Mediterranean and Ireland up front (the PIIGS)[29]--faced the consequences of a triple fiscal punch: a collapse in government revenue due to the recession, a rapid increase in spending due to rising unemployment and large stimulus bills, plus the extra cost of taking on all the bad private debt on the public sector balance sheet. This triple punch translated into ballooning budget deficits, and a steep rise in sovereign debt.

As Carmen Reinhart and Kenneth Rogoff reminded us in *This Time Is Different*, we should not have been surprised that financial crises often lead to fiscal and sovereign debt crises.[30] Yet, the financial markets somehow did seem surprised that governments, after having bailed out their financial sectors with an unmatched infusion of public money, found themselves with all the bad debt they had taken on from those private sectors;

as the initial focus of financial market participants shifted from private debt in 2008-2009 to sovereign debt in 2010, concerns about the long-term fiscal solvency of Europe's periphery led to the collapse of confidence in PIIGS bonds and a subsequent capital flight to safety. Bond traders sold risky Mediterranean sovereign debt and purchased perceived risk-free assets such as German *Bunds* and United States *Treasuries*. This led to widening sovereign debt yield spreads within the euro zone (figure 8).

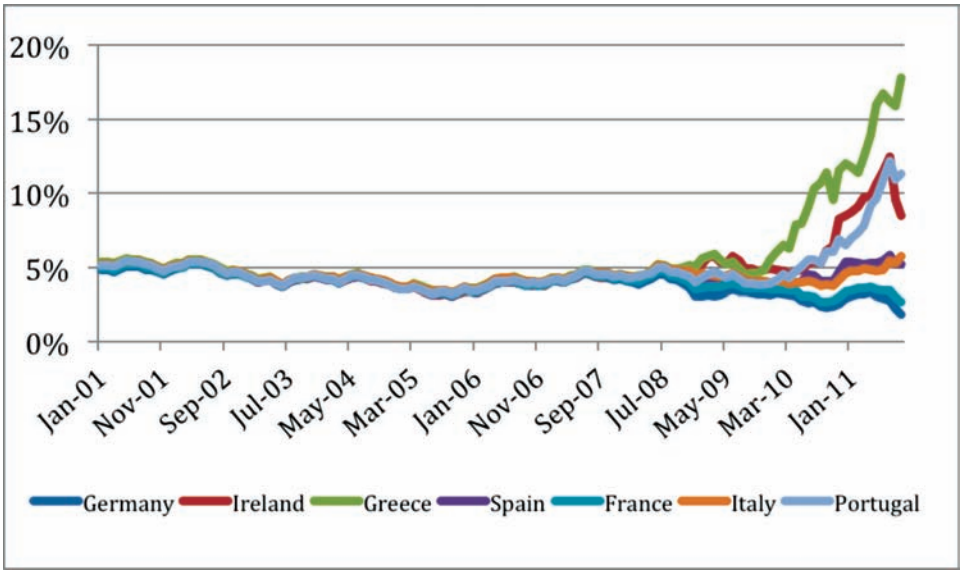

Figure 8: Ten-Year Bond Yields for Selected Euro Member Countries (2001-2011)
Source: Bloomberg (2012)

As during the global financial crisis in 2008, there were multiple competing crisis narratives and explanations of the EMU sovereign debt crisis of 2010. For American economists, it was a crisis of design, given that Europe was not an Optimum Currency Area and no monetary union would function properly without a fiscal and a banking union. For many German (and Northern European) policy elites, this was a fiscal crisis, due to unsustainable welfare states and ageing populations, while German business leaders saw it as a crisis of competitiveness in the Mediterranean. The most intriguing explanation for the crisis is that of the existence of persistent intra-EU imbalances-- Europe as a mini-world with "competitive" export-led Germany in the role of China and the "profligate" Mediterranean countries and former Celtic tiger Ireland in the role of the United States, though of course lacking similar exorbitant privileges.[31]

The rationale behind the 'local imbalances view' goes as follows: Initial bond spreads in the 1990s allowed financial market participants to buy higher yield Mediterranean bonds and sell their lower yield Northern European bonds. This flooded Southern European countries with capital, fueling a cycle of housing booms and consumer spending, causing their current accounts (and goods markets) to adjust. The evidence for this view seems overwhelming.[32] According to Eurostat, while Germany's trade surplus with the rest of the EU was €46.4 billion in 2000, it had grown to €126.5 billion in 2007. Looking at the evolution of Germany's bilateral trade surpluses with the Mediterranean countries, between 2000 and 2007 Greece's annual deficit with Germany grew from €3 billion to €5.5 billion, Spain's almost tripled from €11 billion to €27.2 billion, Italy's doubled from €9.6 billion to €19.6 billion, and Portugal's quadrupled from €1 billion to €4.2 billion.[33] Similarly, a IMF working paper by Claire Waysand, Kevin Ross, and John de Guzman on "European Financial Linkages" reveals Germany and France to be the two biggest net creditors within the Eurozone in 2008 with intra-Eurozone net investment positions of +€735 and +€764 billion respectively, the exact mirror image of Portugal (–€136 billion), Greece (–€199 billion), Italy (–€334 billion) and Spain (–€794 billion).[34] So, it was the capital flows that attended nominal interest rate convergence in the late 1990s and early 2000s that caused the current account divergences across Europe.[35] We need to look at private capital flows and private debt in order to understand the EMU crisis.

The only solution therefore is for Europe to re-balance its economy, which could be brought about by inflation in the north and deflation in the south. However, that solution is only politically possible once all parties accept the need to adjust.[36] Also, a solution to the euro crisis requires a significant leap forward in integration, including some kind of fiscal, banking and political union to deal with asymmetric shocks, a process that will take many years. There is also no guarantee that Europe will succeed. It will depend on the political will of Europe's elites. And as long as Europe continues to struggle to emerge stronger from its sovereign debt crisis, the euro does not look like a plausible alternative to a weak dollar.[37]

CONCLUSION: HERE TO STAY. Like Mark Twain's death, the reports of the dollar's impending collapse are greatly exaggerated. We can conclude that even though the United States has been in relative economic decline since the end of World War II, it has continued to enjoy the "exorbitant privilege" Valéry Giscard d'Estaing first assigned to it during the 1960s. During the Cold War, as David Calleo has argued, various U.S. ad-

ministrations dealt with persistent dollar weakness and volatility in imaginative but often contradictory and unsustainable ways. With the main underpinning elements during the Cold War being the 'imperial tax' paid by America's allies, and the absence of any global alternative, the dollar's status was upheld without too much effort.

But to paraphrase Heraclitus at the beginning of this paper, no U.S. administration ever steps into the same river twice. Every American administration comes to office facing new domestic and international circumstances and usually has different ideas on how to respond to them. With the end of the Cold War, both conditions that had kept the dollar going had vanished, but the endurance of the dollar as the dominant global currency was made possible by emerging Asia taking over the imperial tax from the Europeans and the inherent weakness--especially starting with Europe's sovereign debt crisis in 2010--of the euro as a potential rival global currency. Whether the current dollar arrangement is sustainable beyond the medium term is doubtful. In the longer run, a more balanced world monetary system with multiple leading currencies still seems desirable, not just for the United States, but for the world economy at large.

ENDNOTES

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[24] Barry Eichengreen, "Global Imbalances: The Blind Men and the Elephant," *Brookings Institution*, Issues in Economic Policy, Number 1, January 2006. Online available at: http://www.brookings.edu/research/papers/2006/01/01macroeconomics-eichengreen
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[26] Michael P. Dooley, David Folkerts-Landau, and Peter Garber, "An Essay on the Revived Bretton Woods System," *NBER Working Paper Series* 9971, September 2003
[27] Helleiner and Kirshner (eds.), *The Future of the Dollar*, pp. 12-13
[28] Author interviews in London in October and November 2008
[29] Those countries were soon dubbed the "PIIGS" (Portugal, Italy, Ireland, Greece, and Spain)
[30] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009)
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Erik Jones

The Euro and the Challenge of Bringing Stability to Europe

In 1999, David Calleo published a short essay in *Survival* on 'The Strategic Implications of the Euro. The essay was an early attempt to develop ideas that would later feature prominently in his larger work, *Rethinking Europe's Future*. As an early attempt, the essay succeeds in capturing the essence of ideas that Calleo was wrestling with and that would later prove crucial to the success or failure of European integration. Specifically, it draws out the complex relationship between the many different European unions – economic, monetary, and political.

Calleo foresaw a mix of pessimistic and optimistic scenarios. His pessimistic forecasts hew very close to what actually seems to have happened:

EMU leads to persistent stagnation in many parts of Europe because the EU lacks adequate mechanisms for fiscal transfers to handicapped regions.[1] EMU thus promotes deep quarrels over monetary and fiscal policy among major European states. . . EMU leads to greater income inequality and social turmoil in European states, and thus turns public opinion against the whole project of a unified Europe.[2]

The implication is that Europe is forced to depend ever increasingly on the United States for its security. By the same token, the United States can expect to draw little support from Europe. This is an outcome that makes the whole world less safe. It is fortunate, therefore, that it is not inevitable. However, the best way to avoid that fate is to make the euro a success.

The challenge is to achieve that objective. This is a challenge that Calleo returns to frequently in his writings on European integration. There are usually three possibilities. One is a loose association that never lives up to expectations. Another is a tight federation that violates the essential legitimacy of the European nation-state. And the third is a hybrid arrangement that offers only so much integration as is necessary to manage

interdependence while leaving sufficient autonomy for each participating country and people to remain master of its own fate.

The argument I want to make here is very 'Calleo-esque' in its orientation. The central claim is that Europe can solve its sovereign debt crisis using this middle way between disintegration and unification. The key is to find the right balance between Europe's different unions. The problem we face was foreseeable; the solution is equally easy to anticipate. This does not deny that Europeans will struggle mightily to implement a viable solution. Rather it suggests only that such a solution is not beyond their grasp.

The essay has six sections. The first introduces the economic union at the heart of the European project and shows the connection from economic union to monetary union. The second suggests why a banking union was overlooked and a fiscal union was ignored. The third brings in the idea of political union as a problem of both rules and discretion. The fourth shows how it worked during the 1990s and early 2000s. The fifth explains how it resulted in a sovereign debt crisis. The sixth offers a plan of action to bring this crisis to an end.

FROM ECONOMIC UNION TO MONETARY UNION. The argument begins with the 1992 project that lay at the heart of the re-launching of Europe in the 1980s. That project focused primarily on the elimination of non-tariff barriers to trade through the promotion of a new approach to technical harmonization and standards. Nevertheless, it also included a renewed effort to embrace the fundamental principle that goods, services, labor and capital should be able to move freely across the European market place in order to help Europeans compete at the global level and so enhance prosperity and welfare for all countries involved in the project.

This idealistic vision contained risks on all fronts. Goods should not trade freely to the detriment of national health and safety standards. The trade in services should not be allowed to undermine standards for training and quality either. Labor mobility should not shunt the burden of unemployment or other social benefits from one country to the next. And capital flows should not give rise to destabilizing speculation.

This last point about the destabilizing effects of financial speculation was particularly important. European economic performance during the 1970s and early 1980s was scarred by the unexpected volatility of international currency markets after the breakdown of the Bretton Woods arrangement. European policymakers tried many times to broaden the zone of monetary stability. Ultimately, from about 1983 onward, they managed to calm currency markets by coordinating macroeconomic policy around Germany

as a role model.

This convergence on German macroeconomic performance was effective in bringing stability to European currency markets, but only assuming that the forces for destabilizing speculation did not grow much stronger. Hence any facilitation of the movement of capital across borders carried the risk of undermining what Europe's leaders had accomplished. This argument was made explicitly in the report published by the reflection group headed by Tomaso Padoa-Schioppa in April 1987:

The institutional fragility of the EMS [European Monetary System] will be tested in fundamental ways by the process of removing exchange controls, as envisaged in the White Paper [on the completion of the internal market]. The degree of convergence of inflation rates and coordination of monetary policies will have to be raised to a very high standard, if the present exchange rate regime is not to be destabilized.[3]

The Padoa-Schioppa group considered three possible responses to this problem – maintain the fixed-but-adjustable exchange rate regime at the heart of the EMS, loosen currency pegs to allow exchange rates to float more freely in the marketplace, and tighten the system of fixed-but-adjustable exchange rates by introducing closer monetary policy coordination. The first option was impractical given the increase in potential speculation as capital moves more freely from one country to the next. The second would create more harm than benefit as exchange rate volatility threatened to undermine the trade in goods and services across the single market. Hence, the Padoa-Schioppa group concluded that 'the third option – stronger EMS mechanism coupled with strengthened monetary coordination – is the course to be followed if the basic performance of the EMS is to be preserved as capital movements are liberalized.'[4]

The Padoa-Schioppa group stopped short of calling for the introduction of irrevocably fixed exchange rates – which is the basic criterion for a monetary union. The reason, the report explained, is that the group was 'essentially concerned with minimum changes required successfully to implement, and benefit from, full economic and financial integration in an enlarged Community by the year 1992'. Nevertheless, the report acknowledged that:

In several respects, the monetary union is the first best solution from an economic point of view, because it offers two main advantages compared with an EMS-type exchange rate system. Firstly, the absence of exchange rate uncertainty fosters integration and rationalization of economic activity. Where uncertainty exists, businesses require a higher rate of return on investments that will serve the union-wide market. Secondly, with countries no longer able to pursue accommodating monetary policies, private agents will be much

less tempted to seek price and wage increases in the belief that the possibility repercussions will be offset through devaluation, and fiscal authorities will be subject to a tighter capital market constraint.[5]

Soon after the Padoa-Schioppa report was published, European Commission President Jacques Delors provided the first blueprint for what would become the euro.[6] This blueprint included a hardening of the EMS as an intermediate stage and it took most of the concerns raised by the Padoa-Schioppa group into account. Specifically, the Delors plan called for a program of nominal convergence to tighten the coordination in monetary policy across countries and to help reconcile existing differences across countries in public debts and deficits.

NEITHER BANKING UNION NOR FISCAL UNION. The Berlin Wall fell soon after the release of the Delors report. As a consequence, the debate about European monetary union got caught up in larger concerns about German unification and the fate of Europe. When European politicians turned their attention to the single currency, it was always part of a wider political project. Nevertheless, it would be a mistake to believe that the politics surrounding the choice for monetary union had much impact on the design. A few questions of timing and character were resolved only once the dust began to settle following the collapse of communism in Central and Eastern Europe. But most of the main features were there beforehand. Indeed, the most salient parts of the architecture of Europe's monetary union reflected the conventional wisdom spelled out in the Padoa-Schioppa report. To begin with, cross-border banking and other financial services were only tangential to the debate. Instead, these issues were part of the 1992 project to complete the internal market. As such, they reflected the decentralizing ethos embedded in the new approach to technical harmonization and standards. Rather than attempt to impose a uniform set of detailed European regulations and supervisory mechanisms, the idea was to do the minimum necessary to ensure that banks and other financial services could be permitted to do business across national boundaries 'on the basis of the principle of mutual recognition and "home country control".'[7]

Hence, while the architects of the single currency argued that the movement of capital across national boundaries militated in favor of monetary integration, they did not extend that argument to claim that cross-border financial institutions should be treated any differently inside or outside the monetary union. This attitude derived from a commitment at the heart of the theory of optimum currency areas that factor market integration across countries not only weakens the case for national currencies and flexible exchange

rates but also eases the problem of adjustment within a common currency. Robert Mundell's original theory of optimum currency areas makes this point explicitly.[8] The seminal works in the field from Ronald McKinnon to Peter Kenen in the late 1960s and early 1970s, and from Barry Eichengreen to George Tavlas in the early 1990s repeat the same claim.[9] There were more cautious voices regarding the benefits of capital mobility within a single currency like W. Max Corden and J. Marcus Fleming, but few who rejected the claim entirely.[10]

Within this scholarly literature about the conditions for successful monetary integration, it is hard to find a single mention of the potential significance of cross-border banking or insurance in terms of union-wide prudential oversight or systemic risk. The whole topic lay outside the debate. It lay outside the architecture for the single currency as well. The Maastricht Treaty left open the possibility that the European Central Bank (ECB) could play a role in bank supervision, but built on the presumption that cross-border banking and financial services would remain under home-country control. The idea of creating a 'banking union' was rarely if ever discussed.

By contrast, the question of fiscal union was considered and rejected as too controversial. The debate started with Peter Kenen's 'eclectic view' of the conditions for stabilizing a common currency in the early 1970s. Kenen argued that any differences in economic performance across regions could be accommodated automatically through the existence of a common tax and transfer mechanism that would reduce the revenues pulled from regions that fall into difficulty and increase the payments made in those regions to compensate for the fall in income and the rise in unemployment. The effect in regions that experienced an upturn in performance would be the reverse; tax revenues would rise and benefits payments would fall.[11]

Kenen's insight penetrated almost immediately into European debates when Europe's first plan for monetary union foundered in the mid-1970s. Robert Marjolin led a reflection group that excoriated the member states of the European economic community for failing to coordinate their macroeconomic policies effectively in the face of the turbulence in international currency markets after the breakdown of the Bretton Woods system;[12] in response, Donald MacDougal led a reflection group on 'public finance in European integration' that suggested even a modest pan-European tax and transfer system could offer significant potential for stabilizing differences in economic performance from one country to the next.[13] Coming, as it did, during the difficult debates about the British budgetary contribution, the MacDougal report was quietly shelved. An appropriate context for reopening the debate never arose. Indeed, when the European Commission

conducted a further study into the requirements for an effective pan-European fiscal stabilization mechanism, the findings were embargoed until after the ratification of the Maastricht Treaty was complete.[14]

Instead the focus of attention lay on fiscal convergence and specifically on the prohibition against running excessive deficits. On one level, this prohibition fits within the goal of maintaining price stability insofar as excessive deficits are inflationary. On another level, the prohibition against excessive debts and deficits is important for preserving the macroeconomic autonomy of the member states. The more heavily a government is indebted already, the less room it will have to use fiscal policy to stimulate the economy in a downturn. Hence, governments should pay down their debts and rein in their deficits so that fiscal policy could be available for aggregate demand stabilization within the monetary union. This deeper implication was lost on contemporary commentators who would more focused on the consolidation efforts required in some countries to bring their debt levels back into line. However, it is consistent with the broader framework of treaty provisions for macroeconomic policy coordination that underpinned the single currency. Neither the Maastricht convergence criteria nor the subsequent stability and growth pact ever stipulated a constraint on the level of public expenditure in the gross domestic product nor did they prohibit deficit spending during periods of duress. What they offered were benchmarks for consolidation and guidelines for restraining indebtedness. Critics of this approach have been quick to suggest that it is an inadequate alternative to fiscal solidarity across the union as a whole. Supporters counter that fiscal convergence is less likely to engender conflict than fiscal transfers.

The empirical evidence offered by the critics of the Maastricht Treaty was debatable. Although some estimates showed that U.S. common fiscal institutions offered significant income stabilization across regions, other estimates showed less influence and some even demonstrated perverse effects. The empirical evidence offered by supporters of the European approach to fiscal convergence as opposed to common fiscal institutions was more robust. Conflict over inter-regional transfers is evident in virtually every federal system and in a few unitary countries (like Italy) as well. Conflict over net contributions from the member states to the European Union is even more apparent. The architecture for Europe's single currency failed to include the institutions for a fiscal union as a consequence.

POLITICAL UNION. The question that bedeviled the architects of the single currency from the outset was the relationship between the monetary union that they debated

before the fall of the Berlin Wall and the political union that the heads of state and government negotiated in a parallel intergovernmental conference leading up to the Maastricht summit in December 1991. The Maastricht Treaty sowed the seeds for two different conceptions of Europe, one aspirational and the other more pragmatic. The aspirational view is found in the broader debate about identity and citizenship. This is a notion of political union in the broadest and most democratic sense.

The more pragmatic vision focuses narrowly on those elements of political union that are necessary to sustain a single currency. This is the notion of political union that the German constitutional court emphasized in its October 1993 ruling on the Maastricht Treaty. Having decided that a true European democracy does not yet exist, it then looked for patterns of democratic legitimacy that could sustain a more limited European political construct. There are three ways to understand this problem. Political union can be a collection of norms or values shared across those countries that participate in the project; it can be a framework of rules that member states must accept as a condition for participation; and it can be a collection of institutions for the member states to use when making decisions about the management of the project as a whole.

The political union that Europe's heads of state and government promoted was a mixture of shared norms and values together with commonly accepted rules. The Maastricht convergence criteria are a good example. Three of the criteria – for price inflation, nominal exchange rates, and long-term interest rates – measure a convergence around the norm of price stability. Governments must show that they are able to keep inflation in check, that they can convince the markets that national performance will be the same as in other countries, and that they are committed to this goal over the long term. The other two Maastricht convergence criteria focus on rules – to avoid excessive deficits and to take the politics out of central banking. The stability and growth pact only added to this predilection by strengthening the mechanisms for enforcing European commitments while at the same time adding new rules into the mix.

What the architects of the single currency left out was any room for political discretion. Indeed, the Maastricht Treaty makes it clear that any discretion over the management of the single currency must be held outside politics. Not only are the member states enjoined from trying to influence the conduct of monetary policy, but the ECB also has the power to define its own mandate. Indeed, the lack of discretion extends across the framework for macroeconomic policy coordination. Hence the treaty provided procedures for enforcing the rules against excessive deficits but it did not provide procedures for setting the rules aside.

The absence of political discretion was not a simple omission. It was a conscious choice. In part this reflects a German bias for rule-based economic systems. In part it also reflects the reality that macroeconomic policy choices are contentious. Rather than create institutions to channel this conflict up to the European level, the architects of the single currency sought to manage macroeconomic policy decisions within the member states. The role of European macroeconomic institutions – like the ECB – was to create a stable environment within which national political conflicts over macroeconomic policy decisions could take place. Political union exists in the framework of norms, values, and rules that promote stability. Political union does not extend to choices about amending or suspending this framework.

BEFORE THE CRISIS. The completion of the internal market had an impact before the first steps toward monetary union could even take place. Indeed, the progress toward economic union almost derailed the single currency altogether. Cross-border capital flows broke apart the fixed-but-adjustable exchange rate mechanism first in 1992 and then again a year later. The results were not everywhere the same. The United Kingdom (and Denmark) abandoned any pretense of joining the single currency; other countries like Ireland, Italy, and Spain redoubled their efforts to achieve membership. Even Greece began to position itself as a candidate for membership.

Once the turmoil in European currency markets subsided, the influence of capital mobility across Europe was dramatic. The easiest way to show this is to look at two different measures of variation – the standard deviation across long term sovereign debt instruments and the standard deviation across current account performance as a percentage of gross domestic product. A fall in the variation across national interest rates implies a convergence in the price of capital across countries. A rise in the variation of current account performance implies a movement of capital from countries with surplus savings to countries with greater opportunities for investment. Both of these movements started in the early 1990s and stabilized by the end of the decade. They reflect the influence of the liberalization of capital markets and an explicit objective of the 1992 project.

The flow of capital from countries with surplus savings to countries with opportunities for investment had two different consequences: it increased the supply of productive capital and it changed the relative prices of domestic assets. For countries like Greece, this resulted in an increase in productivity growth alongside the preservation of manufacturing employment. Hence, not only did Greek productivity growth surge past Germany, for example, but it managed to hold onto more high paying jobs – even manufacturing work-

ers who moved into retirement could be replaced. For countries like Italy, it resulted in an increase in foreign holdings of government debt obligations. In turn, this reduced the cost of servicing the national debt as a share of the gross domestic product.

The launch of the single currency took place in the middle of this process and the effect varied from one country to the next. It provided an anchor for countries like Greece that had struggled to hold off distributive conflict. Hence Greece lost twice as much of its relative labor cost competitiveness in the 1990s as it lost in the 2000s – and it experienced no increase in relative real unit labor costs once the single currency was in place. But for countries like Ireland or Italy that forged broad social *partnership* in order to achieve the goal of participation, the single currency created an excuse to relax. Both countries surrendered some of the gains in competitiveness they had made in the 1990s as workers struggled to recapture foregone wage increases.

Much has been made of the relative competitiveness gains that Germany experienced after the introduction of the single currency in the early 2000s. However, a longer analysis shows that this is exaggerated. Germany lost much ground immediately after the country's unification at the start of the 1990s and recovered again after the reforms introduced at the start of the 2000s. Meanwhile the countries on the periphery of the euro area never suffered a dramatic loss and so never required an equivalent recovery. The implications can be seen in the comparison between levels of manufacturing employment in Germany and in the peripheral countries of Portugal, Ireland, Italy, Greece and Spain (PIIGS) over the period from 1991 to 2007. This is a generalization of the story from Greece. Both Germany and the PIIGS start out with roughly 10 million manufacturing workers in the early 1990s; by the mid-to-late 2000s, the PIIGS still have roughly 10 million manufacturing workers while Germany's manufacturing labor force has fallen to 7.5 million. Moreover, the difference is not due to relative labor market rigidities. Over any 17 year period, roughly 40 percent of the manufacturing labor force moves into retirement; in the PIIGS those retired workers were replaced.

A similar point can be made in reference to export market shares. Germany is a much larger exporter at the world level than the PIIGS combined. Nevertheless, it is possible to index their relative market shares to compare performance over time. If 1991 market shares equal 100, for example, Germany's share of the world market was down to 82 in 2007, having recovered from a low of 75 in 2000. In 2000, the PIIGS still had 92 percent of their 1991 world export market shares; by 2007 that figure had fallen to 85 percent. Germany showed improvement under the euro and PIIGS performance worsened, but the PIIGS still come out better in the end.

On the whole, however, the combined influence of capital market integration and a common currency was mixed. The peripheral countries were more productive and competitive than they would have been without access to foreign sources of capital but their business models were contingent upon having continuous access to cheap finance. Meanwhile, the price of many assets in peripheral economies was overinflated by the surge in foreign demand for everything from government debt and commercial real estate to bank deposits and consumer finance. The interdependence was evident in the European core as well. The banks in Germany and elsewhere were heavily exposed to peripheral country assets even as German manufacturers were dependent upon access to peripheral country markets.

DURING THE CRISIS. The tipping point came when investors started to worry about the safety of their investments. The shock came with the collapse of Lehman Brothers in September 2008. Two countries were at the forefront: Ireland and Greece. The Irish government struggled to stabilize it banks; the Greek government struggled with its finances.

The onset of the Irish crisis is straightforward. The Irish banks had assets under management far larger than the country's gross domestic product (or the government's tax base). Many of those assets were exposed to losses in commercial property markets in Ireland and some even to mortgage paper or derivatives based on mortgage paper issued in the United States. Nevertheless, the Irish Taoiseach, Brian Cowen, decided to stabilize the banks by guaranteeing the liabilities of the Irish banking system. Investors holding Irish sovereign debt instruments saw the government's debt-to-GDP ratio increase from 25 percent in 2007 to 44 percent in 2008 – with clear signs of a steep upward trajectory.

The onset of the Greek case was more unexpected. The Greek government issued a small upward revision for its annual deficit in October 2008. This revision was unsurprising given both the small size of the adjustment and the country's reputation for poor statistical management, nevertheless the timing was bad. Investors spooked by Lehman Brothers reacted strongly. The difference between Greek and German long-term sovereign debt yields jumped from 89 to 165 basis points (or one-hundredths of a percent) across the month of October and capital started to flow out of Greece on an unprecedented scale. The situation stabilized in early 2009 after German finance minister Peer Steinbrück made an explicit commitment that euro area countries would not be allowed to go bankrupt. It worsened again in March 2010 when German Prime Minister Angela Merkel insisted that aid to member states would only come as a last resort. In between those two

episodes, Greece held national elections in October 2009 and the government changed over from center-right to center left. That changeover brought the Greek crisis to the popular attention because the incoming Pan-Hellenic Socialist (Pasok) government restated the government's accounts again, increasing the deficit much more significantly. However, the market reaction to this increase in the deficit was muted: the yield on Greek long-term sovereign debt instruments remained roughly unchanged and capital actually flowed into the country, not out.

The failure of the Greek government to contain its finances is only important to financial markets to the extent to which it threatens the principal of cross-border investments. While investors could believe that Greece would be bailed out, it was reasonable to worry more about Ireland where the scale of the government's commitment to the Irish banking system was hard to imagine. Once it became clear that Greece would not be rescued, however, investors had good reason to switch their attention. Greek sovereign debt markets collapsed in April 2010, forcing the Greek government to request a European bailout. When Chancellor Merkel began talking about the need for private sector involvement in re-profiling Greek sovereign debt obligations, the fear spread from Greece back to Ireland – pushing the Irish government to request a bailout of its own. Then when the first Greek bailout proved inadequate, the contagion spread to Portugal and the Portuguese government also requested a bailout.

From one episode to the next, the crisis has been defined by the level of investor confidence and the flight of capital from the periphery of the euro area back to the core. In this sense, the speculation that used to plague currency markets now haunts the markets for sovereign debt instruments. The first victims were countries that were heavily indebted to other parts of Europe, like Ireland, Greece and Portugal. However, the crisis soon engulfed countries with little net foreign exposure. Belgium narrowly escaped an implosion of its sovereign debt markets by bringing its historic political crisis to an end; Italy experienced a similar narrow escape by replacing Silvio Berlusconi's center-right government.

After Italy moved out of the spotlight, investor concern focused on Spain. The Spanish case is less like Greece than like Ireland. The Spanish government had solid finances; its weakness was Spanish banks. Unlike Ireland, however, the larger banks were not the problem. Instead the losses concentrated in the smaller institutions. Nevertheless, the consequences were much the same. The Spanish government did not commit to underwrite the whole of the country's banking system but it did commit to provide sufficient resources to stabilize the systemically important smaller banks. Such commitments

undermined investor confidence in Spanish public finances without inspiring sufficient confidence in the financial system more generally. Hence the country has experienced a massive flight of capital abroad.

This resulted in a series of European pronouncements – by the European Council in June 2012 and by European Central Bank President Mario Draghi both late July and early September of the same year. The goal of these messages was to reassure the investment community that the crisis could be contained. So far the results have been positive but this optimism may prove only temporary.

MAKING THE CRISIS GO AWAY. The solution to the crisis is to restore confidence in cross-border investments in order to stabilize the functioning of the internal market. Economic union remains the foundation of the European project. That confidence will not be enhanced if the single currency is taken away. The result of such an action would only be to restore the old concern about destabilizing speculation – the status quo ante of the early 1990s. Even the loss of one participant from the single currency would make it harder to reassure the markets that the others are there to stay. It would not be the end of the internal market, but it would make the internal market more volatile and less efficient by undermining investor confidence and encouraging speculation. The creation of a banking union would do much to improve the situation. The main lesson we have learned from the crisis is that monetary integration fundamentally changes the nature of cross-border banking by strengthening the interdependence across national banking systems and between separate national banking systems and individual member states. The problem with this arrangement is that it is only as strong as the weakest link in the chain. Hence it is necessary to create institutions for system-wide reinforcement. This is what current European Commission proposals for common euro area banking supervision, deposit insurance, and banking resolution are meant to achieve. These institutions are necessary to stabilize the overlap between economic union and monetary union. They were not recognized as important when the single currency was originally created. We know they are important today.

A banking union does not require a fiscal union. So much as possible, the institutions for deposit insurance and banking resolution should draw resources directly from participating banks just as the banks themselves draw profits from doing business across the internal market – or, in the case of smaller banks, from doing business with private sector actors whose own prosperity is enhanced by the existence of an integrated European marketplace. The free movement of goods, services, labor and capital means that

banking and other financial institutions are 'national' in name only.

A European fiscal union remains too controversial to contemplate in the current environment. It is also unnecessary. Most of the damage done to peripheral economies during the crisis comes from the rapid reversal of capital flows across the single market and the requirement for national governments to bail out pan-European banks either directly, as in the case of Ireland, or indirectly, as in the case of Spain. The sudden unwinding of cross-border investments also jeopardized countries like Italy that, while heavily indebted domestically, had little net foreign borrowing. The reason is not the size of the Italian debt market, but the large share of foreign participation over more than a decade. A European fiscal union would not address this type of exposure. Instead it would only create highly visible patterns of redistribution from countries that repatriated their investments abroad (like Germany) to countries that suddenly experienced a run on their domestic deposits (like Italy or Spain).

There is, however, one fiscal institution that could help to channel volatility in international capital markets into less damaging pathways during the flight to safety. The creation of a common 'risk-free' asset that could trade equally across all euro area countries would make it possible for investors to move their capital to safety without necessarily shifting it across national boundaries. This would prevent the sudden evacuation of liquidity in the markets of those countries that have been net recipients of foreign capital and it would also prevent the inundation of capital in those countries that have surplus savings and that offer only limited opportunities for investment. The simplest way to construct this risk free asset in quantities sufficient to play the role of safe haven for capital across the eurozone as a whole would be through the mutualization of sovereign debt obligations across euro area countries. There are already proposals on the table to prevent such debt mutualization from creating problems of moral hazard. The challenge now is to build consensus around implementation.

This is where discussion inevitably turns to political union. However, the question is not whether Europe requires more or less political union. It is whether it requires a political union that is somehow characteristically different from what has existed before. Up to now the single currency has rested on a union of norms or values that are embedded in common and rules for good behavior. New institutions will necessarily expand the political union on both fronts – by introducing shared notions of acceptable banking risk and common risk for sovereign debt obligations, for example.

What may be unclear is whether either a banking union or mutualized sovereign debt instruments make it necessary for the single currency to create new institutions for exercis-

ing discretion over macroeconomic policymaking. They do not. The euro exists to serve the common market. A banking union would help underpin both the common market and the euro. Common debt obligations would strengthen the collection of institutions – common market, single currency, banking union – as a whole. Within this tight area of overlap, it still makes sense for European institutions to focus on creating the conditions for stability. The euro area can continue to function without politicizing macroeconomic policy. Indeed, the single currency would be more stable if conflicts over macroeconomic policy could be managed at the member state level.

ENDNOTES

[1] Erik Jones is Director and Professor of European Studies at the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University and Head of Europe at Oxford Analytica. An early and abbreviated form of this essay was published as an original policy brief by the Finnish Institute for International Affairs (FIIA). That material is used here with the generous permission of the FIIA.
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Gabriel Goodliffe

The European Nation State in the Age of Globalization

The European sovereign debt crisis has elicited a number of explanations regarding its causes and implications. For some, it is indicative of conceptual flaws in the design of the euro. According to these critics, the lack of fiscal integration to match the monetary integration implied by the single currency had made a crisis inevitable.[1] For others, the crisis marks the end of the exceptionally propitious geopolitical and cultural conditions that had attended the process of European integration. Explanations in the first vein posit that (Western) Europe was only able to integrate and prosper economically thanks to the protective glacis thrown up by the United States during the Cold War. Following the end of the latter and with Europe increasingly looking to itself as the U.S. turns its attention to other strategic priorities, this argument implies that European integration was deprived of its favorable geopolitical context, rendering it increasingly fraught and uncertain.[2] Meanwhile, cultural explanations maintain that as the horrors of Europe's thirty year war between 1914 and 1945 recede into history, the collective memory that spurred postwar cooperation and integration has progressively faded, depriving the European project of the powerful normative foil that once drove it forward.[3] In short, in a post post-Cold War world in which memories of World War II and of the Soviet threat have been gradually subsumed into Europe's collective subconscious, the key factors that had inspired and sustained the continent's economic and political integration disappeared. This in turn facilitated the resurgence of the centrifugal nationalist forces within Europe's member states as well as the reappearance of traditional national rivalries between them.

Though there is undoubtedly something to these explanations, I would aver that the current crisis is of a deeper provenance. Specifically, it is first and foremost a crisis of the European nation state. Since the state is the constitutive basis of the confederal intergovernmental system that emerged in Europe after World War II, the crisis could

not but imperil the functioning and erode the legitimacy of this system of European governance. This essay adumbrates the causes of the crisis and traces its evolution through the course of European integration. It argues that, beginning in the 1980s, the process of integration, by tracking an increasingly neoliberal course of reform, has progressively undone the interventionist and welfarist dispensation that restored European nation states to economic health and democracy following the collapse of the liberal order in the 1930s and '40s, and which underlay and impelled their confederal cooperation. On the contrary, by privileging economic rationality over communal values and market efficiency over social goals, European integration since the 1980s has fatefully undermined the functional and normative bases that made cooperation possible in the first place. From this perspective, the ongoing euro-zone crisis must be read, both in its manifestations and in the failure of the responses that so far have been crafted to deal with it, as the culmination of and microcosm for the dismantlement of the interventionist guarantees of the democratic nation state underpinning European confederalism. As such, the crisis may herald not only the end of the latter as we know it, but also a regression of the democratic state in Europe—an eventuality with ominous historical resonances, to say the least.

OF NATION STATES, WELFARE STATES, AND EUROPE. Before we sketch out the modalities and implications of the present crisis for Europe's nation states and, by extension, the confederal European system, it is first necessary to define the concept of the nation state and specify the philosophical and historical conditions of its emergence in Europe. The nation state represents a concatenation of the idealist conception of the state that is traceable to classical Greek philosophy on the one hand, and the ideal of the nation traceable to European—specifically German—Romantic philosophy on the other. According to this idealized conceptualization, the state was defined as a consensual community of engaged citizens who seek to realize the ideal of a 'good' society, i.e. a society in which, pace Plato and Aristotle, citizens exemplified the virtues of a peaceful and fulfilling collective life organized according to the dictates of reason. Such a conception found its most advanced expression in Jean-Jacques Rousseau's articulation of the 'general will' according to which the state was cast "as a moral partnership of consenting citizens." However, the latter presupposed a common political identity that underpinned the state as an "ideal […] participatory political community"—in short, a theory of community to delineate and legitimize it.[4]

Such a theory would be supplied by Romantic nationalists, such as Johannes Gottfried von Herder and Johann Gottlieb Fichte, who advanced the concept of the 'cultural na-

tion' in order to describe the sense of collective belonging in which individual citizens could mutually recognize themselves, and which was reinforced by a commonly shared history—whether real or imagined.[5] Over time, specifically in the wake of and in reaction to the French Revolution, this conception of national identity would evolve in Europe in an 'open,' inclusionary, and democratic guise, or a 'closed,' exclusionary and authoritarian one.[6] However, whichever form it assumed, this sense of national identity came to serve as the basis for the sense of collective identification and mutual obligation of citizens with the modern European state.

The positing of this national-cultural basis of a moral community embodied in the state in turn raised the question of how such a sense of collective identity was to be sustained and preserved. This was particularly the case in the face of the social dislocations attending economic modernization, as well as the political institutionalization of social conflicts along class lines, due to the extension of the franchise and the ensuing democratization of Europe's nation states. In effect, the advent of liberalism, first in a constitutionalist authoritarian guise and then in its democratic incarnation, posed a direct challenge to the communitarian conception of the state that had been developed by the romantic nationalists. Whereas this communitarianism was congruent with political liberalism since it served as the natural collective grounding for republican or democratic polities, it sat at cross-purposes with economic liberalism as the latter's assertion of competition, and the ensuing generation of winners and losers, rendered it socially and politically divisive. In short, the communitarian imperative of mutual obligation and solidarity underpinning the democratic nation state inevitably conflicted with the affirmation of individual self-interest and competition affirmed by classical economic liberals.

European history since the mid-nineteenth century has been about how to manage this contradiction between political and economic liberalism and its implications for the nation state. This conflict came to a head during the 1930s and '40s when the disruptive social impacts of the free market helped to obliterate the communitarian foundations of the democratic polity, fueling an anti-liberal communitarian backlash in which the nation state reconstituted itself in totalitarian guise in Germany and Italy.[7] To preserve the communitarian national basis of the democratic state, this experience suggested the need for a commensurate communitarian national form of economy. The latter proceeded from the realization that, free from internal and external restraints, the capitalist free market could not be relied on to fulfill the economic needs and ensure the social well-being of the national community. Hence, as early as the mid-nineteenth century when liberal capitalism and free trade gained intellectual and institutional primacy, dissenting commu-

nitarian nationalist voices such as Edmund Burke and Samuel Coleridge in Britain, and Friedrich List in Germany, began to argue for state intervention in economic affairs on the grounds that economic, social, and political life could not be assessed and arbitrated exclusively by the market.[8]

These debates led to two principal forms of intervention that would set the template for future European state and intergovernmental development. At an international level, following from List's theory of economic nationalism, state intervention entailed mercantilist policies to control the commercial and capital exchanges between states and ultimately, regional blocs. This meant employing a combination of protectionist and industrial policies to build up the nation state's comparative advantages vis-à-vis more technologically advanced and economically productive competitors while safeguarding social cohesion from the divisive impacts of trade competition.[9] At the domestic level, interventionism was embodied in the form of statism and welfarism. By statism was meant coordination by the state of investment and production to simultaneously address economic and social goals by advancing modernization while improving the living standards and enhancing the consumption possibilities of the citizenry. Welfarism, on the other hand, implied the establishment and underwriting by the state of a system of social security to dampen the harmful material and social impacts of economic modernization. In both instances, key sectoral and class actors were enlisted in the framing of economic and social policies in order to ensure that the latter enjoyed the legitimacy flowing from societal consensus, while satisfying the imperatives of modernization and growth. In effect, the incorporation of such consensus-building mechanisms served to reinforce the democratic basis of economic as well as political life, giving rise to the European social model that accompanied—and, in the eyes of many, underpinned—the thirty year boom that followed World War II. This model came in various guises: state-regulated versus corporatist, Christian democratic versus social democratic, Keynesian versus Fordist; however, these systems shared a common commitment to fashioning economic and social policy with the goal of strengthening the communitarian bases of the national democratic state. This was not simply a matter of tempering the socioeconomic inequities and class divisions that were exacerbated by the free operation of the market for the utilitarian purpose of preserving social stability. More importantly, as Tony Judt has observed, such policies were also geared towards strengthening the bonds of trust that bound the members of the national community and forged them into a moral collectivity.[10] Of particular import was that these policies were couched in the language of moral obligation, thereby affirming the normative basis of the state's communitarian identity as well as the ethical

compact that underpinned democratic citizenship and participation. In short, by the end of the thirty-year postwar boom, the welfare state and more broadly state intervention in the market had become not only the central leitmotivs of economic theorizing and policymaking, but also the functional and normative lynchpins underpinning the democratic nation state and securing citizens' allegiance to it.

This state interventionist dispensation underlying the postwar (Western) European national states was in turn vital to the process of European integration. First of all, it did so, as we saw, by sustaining the democratic nation states that served as the constitutive agents for the confederal inter-governmentalism that drove European integration from the 1950s on. The Gaullist conception of a *'Europe of states'* that underlay intergovernmental cooperation, resulting in the pooling of sovereignty across a growing array of functions and competencies, was grounded in the conviction that Europe's nation states "would and should remain the continent's centers of democratic legitimacy" as a function of the historical and cultural bonds that held together their peoples.[11] From such a perspective, a centralized federal European technocracy could never replace democratically elected states in supplying and nourishing these bonds essential to Europeans' national identities. On the contrary, attempting to substitute such a federal core for European nation states would "enfeeble [the latter] and leave Europe's peoples without the means for collective political will, vulnerable to internal strife and tyranny, and to external domination."[12] In this respect, a key rationale for Europe's model of inter-governmentalism was that it enabled nation states to safeguard the material and institutional requisites of their communitarian compacts and social cohesion in an era of growing international economic competition and rapid technological change. Thus, while opening their economies to one another so as to reap the efficiency gains of a larger internal market, Europe's western states set up an external customs union to minimize the dislocations of international economic integration on their societies. This implied extending nation states' communitarian mercantilism to the confederal level in the form of the European Economic Community (EEC).

By the same token, in combination with the robust welfare states that emerged in Western Europe in the postwar period, the EEC's confederal form of mercantilism became an essential ingredient in sustaining the communitarian identities of the continent's nation states. By coordinating the actions of states which, due to their geographic proximity and political and cultural diversity had always impinged on each other, the EEC in practice expanded the freedom of action of its members, thereby enriching rather than diminishing their real sovereignty within the European and global systems, as well as

enhancing their legitimacy in the eyes of their citizens and their state partners.[13] In short, the European confederation that grew through the postwar period simultaneously fed off and helped to sustain the European nation states, thereby providing the key impulse that drove its consolidation and deepening up through the 1970's.

EUROPEAN INTEGRATION AND THE CRISIS OF THE NATION STATE. Given the evident success of this confederal model of European governance through its first quarter century, as well as of the communitarian nation states on which it was predicated, the analytical onus must necessarily be on accounting for their relative decline and dysfunction from the mid-1980's on. As a result of changes, particularly in the economic realm, introduced at both national and European levels, the communitarian basis of Europe's nation states has been progressively weakened, thereby undermining the national foundations of European confederalism and eroding support for European integration among a growing proportion of their citizens.[14] Specifically, the abandonment of communitarian economic policies that sustained the resurgence of the democratic nation state in Europe after World War II in favor of policies that have sought to determine economic and social outcomes according to economistic criteria of market rationality and efficiency, have critically undermined the European social model which tied European publics to their states and have fueled growing disenchantment with Europe.

The current euro-zone crisis represents both the culmination and microcosm of this neoliberal shift in economic policy and its adverse sociopolitical impacts. However, the severity of this crisis—the worst that Europe has experienced since the 1930's--poses hard questions about the viability of integration and indeed, the survival of the European project. The remainder of this essay attempts to account for this neoliberal course and, in the light of the current crisis, to assess its implications and prospects for Europe and the democratic nation states that make it up.

Profound shifts in the functioning of the world economy, wrought by technological change and the globalization of markets for goods, services, and capital exposed the limitations of the communitarian nation state-based economic and social models that had emerged in Europe through the postwar period.[15] Combined with the extraneous economic shocks of the 1973 and 1979 oil crises and the demise of the Bretton Woods system in the mid-1970's, Europe's states found themselves increasingly threatened by the prospect of eurosclerosis, the combination of slow growth married with high inflation and currency instability. This led political leaders, starting on the Right but increasingly including the Left, to blame the market rigidities, high labor costs, and onerous social security

contributions and tax rates associated with the European social model for the failure of Europe's economies to achieve more than anemic growth and to control inflation. This set the stage for a process of economic liberalization and welfare retrenchment undertaken at both the national and European levels—with decisions taken on the latter often serving as a means of 'liberalization by stealth' of the former—which effectively eviscerated Europe's social model, significantly eroding the communitarian framework of mutual obligation and protection that had grown to characterize the postwar European nation state. Needless to say, as this process advanced, it encountered mounting social and political resistance. Such resistance was increasingly directed at European institutions and elites as well as their national counterparts, and reached a paroxysm during the 2009-2012 eurozone crisis.

The process of dismantling the European social model followed an incremental, two-step process. In a first phase, markets were liberalized and structural and institutional impediments to their functioning were removed, particularly in respect to labor. In turn, in a second phase, the welfare state, which had grown rapidly as a result of the explosion of social spending in order to help cushion the pain of liberal reform, was progressively cut back.[16]

The successive stages of economic integration that were undergone by the European Community and Union beginning in the early 1980s served as important practical levers and sources of political legitimation for this process of reform. Specifically, the European Monetary System in the 1980s and '90s followed by currency union in the 2000s constituted important constraining macroeconomic frameworks that impelled and sustained the structural reform and then the welfare retrenchment undergone by Europe's states. The imperative of price stability governing these frameworks implied severely restricting the money supply and corresponding interest rate rises that forced the latter to achieve competitiveness through 'competitive disinflation,' i.e. internal adjustment by enhancing worker productivity and reducing wage costs. This imposed unprecedented labor market flexibility in member states. In turn, the Maastricht criteria—later replaced by the Stability and Growth Pact—which were set out as preconditions for European Monetary Union (EMU) acted as powerful constraints on fiscal policy. By limiting aggregate government debt levels and annual budget deficits to strict ceilings of 60% and 3% of GDP respectively, these constraints served as the bases for reducing welfare expenditures, introducing 'workfare' laws, and enacting pension reform. By the same token, once state budgets were brought under control, these criteria justified lowering income and corporate tax rates on the grounds that this was necessary in order to promote domestic sav-

ings and investment, as well as to attract foreign investment. Finally, the Single Market Act of 1987 was the driver of widespread privatization and public sector retrenchment throughout the member countries, subjecting formerly public as well as remaining state-run firms to the rigors of the market while launching the Europe-wide liberalization of services, particularly in the area of finance.

Taken together, these reforms have dramatically eroded the postwar social models of the Western European democracies. They eliminated the skein of protections and benefits that had been secured by workers and their organizational representatives as part of the postwar communitarian social compact. They downgraded the corporatist mechanisms of social concertation and degraded the regulatory frameworks safeguarding the rights of workers and other sectoral actors in the economy. Finally, these reforms marked the abandonment of the stakeholder conception of the firm, in which investment and production decisions were made with longer term, communitarian as well economic imperatives in mind, in favor of a shareholder model of corporate governance privileging the maximization of short-term profits over any other consideration. In short, the process of economic integration engaged at the European level since the 1980s has surreptitiously but steadily moved the Western European political economies in a classical liberal—or American—direction that favors growth over security and enrichment over stability.[17]

The social costs of this process have been immense. First and most obviously, it has led to the rapid rise in unemployment and perhaps more importantly, underemployment and increasingly precarious forms of temporary and part-time employment throughout the EU. The privileging of price stability over reflation by the Bündesbank and then European Central Bank, large-scale privatizations, and the dismantling of the social and labor market protections afforded workers under the postwar welfare state, led to massive layoffs and high unemployment rates which, particularly in Europe's Latin and Southern economies, have yet to abate.[18] Secondly, financial liberalization, the reduction of corporate and income tax rates, and the loosening of regulations on capital in order to encourage private investment and a fall in workers' real wages has presided over a noticeable increase in income and wealth inequality by enabling a rapid transfer of wealth to the EU's richest citizens.[19]

Third, there has been a substantial rise of poverty in EU states. This is due in part to the persistence of unemployment and the growth of low-paid and precarious employment, and to the evisceration of social safety nets as a result of European-driven welfare retrenchment. Fourth and finally, this growth of poverty has been accompanied by a corresponding rise in the social pathologies that are linked to it, such as burgeoning alcohol-

ism, drug use and teenage pregnancy as well as higher crime and incarceration rates.[20] In turn, these negative indicators linked to the evisceration of the European social model have dramatically worsened since the onset of the European sovereign debt crisis, particularly in the worst-affected deficitary countries on the eurozone's periphery—the so-called PIIGS.[21] The insistence of EU technocrats and leading member states such as Germany that these countries adopt draconian austerity programs in exchange for assistance—apart from the fact that, in the midst of a recession, such programs are likely to only worsen the balance-of-payments deficits that triggered their crises in the first place—effectively stripped their welfare states to the bone, thereby generating levels of unemployment, inequality and poverty within them that have not been seen since the Great Depression.[22] Such levels of unemployment and impoverishment are clearly politically unsustainable. Unless something dramatic is quickly done to arrest the crisis and restore these countries to growth, it is only a matter of time before they experience severe social and political backlashes.

In light of these circumstances, the question must be, given the failure of this neoliberal process of economic integration to deliver the growth and employment which it promised and the attendant political and social backlash it is generating, why does it continue to serve as the fundamental template for European economic policy?[23]

Here, the answer is surely ideological, reflecting the adoption by European elites of the neoclassical economic ideas laid out in the works of the Austrian liberal economists and reprised by the monetarist school in the United States, as the primary conceptual framework for framing the economic policies and structuring European economic integration from the 1980s on.[24] In part, the spread of these ideas to continental Europe was inspired by the economic growth achieved in Thatcher's Britain and Reagan's US (though in retrospect doubts remain as to whether this growth in fact reflected the application of their ideas), particularly given the persistence of Eurosclerosis in their own countries. Yet, what undoubtedly gave these neoliberal ideas their greatest salience was the patent failure of the Soviet command economies to meet their citizens' needs and the oppressive totalitarian societies they underpinned, followed by their abject collapse from 1989 to 1991. These seemed to lend credence to Friedrich Hayek's critique, set out in *The Road to Serfdom*, that state intervention in the economy inexorably led to its totalitarian control of economic, social and political life.[25] Despite the empirical falsity of this argument—the postwar European interventionist states manifestly did not degenerate into totalitarian ones—the dysfunction and collapse of Communism had the unfortunate effect of discrediting all forms of state economic intervention and thus, of ideologically

delegitimizing the European social model that had underpinned the continent's postwar democratic nation states.

Thus, the communitarian values that underpinned the latter were abandoned in favor of an amoral economistic calculus judging the value of economic and by extension, social, policies and outcomes according to the strict metrics of economic rationality and efficiency. Reflecting Margaret Thatcher's famous remark that "There is no such thing as society, there are only individuals and families," this ideology consecrated the privatization of economic gains through the affirmation of individual initiative and competition. Reaching in Tony Judt's words "near theological status" in the US and Britain, it led to a predictable "sanctification of bankers, traders, the new rich and anyone with access to large sums of money."[26] European corporate elites, a growing proportion of whom are trained in US business schools and/or have worked at American firms, and their political allies in turn were keen to embrace this neoliberal ideology and see it applied both within their national polities and at the European level. Thus, it lent a powerful rationale to the emergence of what have been termed 'winner-take-all' societies in the US, the UK and increasingly, continental Europe as well.[27]

In both its amoral precepts and iniquitous results, such an ideology stands diametrically opposed to the morally informed, communitarian values that had underpinned the postwar democratic European nation state and inspired the interventionist and welfarist models that accompanied it. Yet, as thinkers from Adam Smith to Karl Polanyi have reminded us, untrammeled individualism, unfettered by communal norms and moral restraints, is not sustainable for long. As the former observed in *The Theory of Moral Sentiments*, "The disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect, persons of poor and mean condition…[is]…the great and most universal cause of the corruption of our moral sentiments."[28] Socially pitting an increasingly shrinking constituency of winners against a growing mass of losers, such an economy, when left to itself, can only breed the conditions of its own destruction. As against the depredations of the market and the widening inequality to which it leads, people will always fall back on the forms of communal organization that historically offered them security and protection—in short, the state. This is what we are witnessing in the throes of the euro-zone crisis; people are increasingly turning to the state for assistance as a final preserve against despair and want.

THE RETURN OF THE EUROPEAN NATION STATE. This falling back of European citizens onto the state is taking increasingly disturbing form, however. At a first

and most obvious level, this is translating into a growing suspicion of and disdain for European institutions. Highlighted by a number of indicators including worsening Eurobarometer polls, declining turnout in European parliamentary elections, and the rejection of EU policies and/or institutions in national referenda (most spectacularly of the proposed European Constitution in France and the Netherlands in 2005), these sentiments have translated into a growing 'democratic deficit' whereby Europe's citizens are increasingly disengaging from the EU and falling back instead on their own national politics.[29] However, this communitarian reversion is increasingly occurring in the form of a restrictive, exclusionary nationalism that goes beyond expressing a distrust of the EU to the wholesale rejection of foreigners and immigrants. It is captured in the upsurge of radical right-wing parties across Europe which, in addition to the fight against immigration, have made rejection of Europe their signature issue.[30] The latter has become particularly salient since the eruption of the euro-zone crisis in 2009, both in the peripheral countries directly affected by the crisis—witness the entry of the neo-Nazi Golden Dawn party into the Greek parliament following the May and June 2012 national elections—as well as in Northern European states increasingly professing bailout fatigue—such as the True Finn party in Finland, which became the third largest and principal opposition party in parliament after the 2011 elections.

At a second level, in part as a reflection of domestic political pressures but also suggesting the weakening of Europe's confederal structure, we are witnessing the resurgence of nationalist competition and rivalry between states, a phenomenon that has also grown more pronounced since the onset of the euro-zone crisis. Firstly, these divisions are evident in the split between northern European states, who profess to be tired of bankrolling the profligacy of their southern partners, and the southern countries who view themselves as victims of the unreasonable demands and antidemocratic dictates of the north.[31]

Secondly and of greater potential concern, however, has been the new particularistic nationalism displayed by Germany vis-à-vis the rest of Europe since the start of the crisis. This is not simply a question of the xenophobic tenor of the country's tabloid press in respect to the Greeks and other southern Europeans. It is also evident in the increasingly highhanded and dismissive character of Germany's European diplomacy. According to one experienced EU observer, whereas in the past Germany fully embraced European integration and assumed the burdens of European solidarity so as "to reenter the good graces of neighbors, prove Germany civility and reliability, and overcome memories of the Nazi era," the country, particularly in reaction to the euro-zone crisis, has shed the postwar solicitude and restraint it formerly showed its partners in favor of a far more

assertive, even domineering great power politics.[32]

For example, its forcing through the adoption of the 'Competitiveness Pact'—a more intrusive and restrictive version of the Stability and Growth Pact—during the winter of 2011 despite widespread opposition from other EU members, including France, signaled for this observer "a fundamental shift in [the country's] European outlook… from a position that sought to defend German positions and ideas to one which sought to impose German approaches on others."[33] From this standpoint, the much-heralded fiscal integration that Germany and other northern European countries hope to impose on the euro-zone in exchange for agreeing to mutualize the debts of its members, thereby ensuring the imperatives of price stability and deficit reduction will continue to steer Europe's economic integration, might be too much for some of Germany's EU partners to stomach. Notwithstanding the economic spuriousness of this one-size-fits all deflationary prescription,[34] Germany's new assertiveness is disturbing because it is likely to disrupt the internal balance of power central to Europe's confederal system of governance. Exemplified in the Franco-German partnership that had steered Europe from the beginnings of the EEC through EMU, the two countries had married the effective imperatives of hard command power as Europe's core continental nations with the political legitimacy—or 'soft' power—they garnered as representative agents for their partners within the EU.[35] However, the delicate balance that underlay this relationship is threatening to become undone as Germany increasingly seeks a political role that is commensurate with its economic predominance. In short, roughly eighty years after they shattered the bases of political and economic liberalism in Europe, the forces of nationalism are on the march on the continent once again. This time, however, they threaten to undo the confederal system of governance that had ensured democratic moderation at home and collaborative restraint abroad, prompting Tony Judt to observe, "it is as if the twentieth century never happened."[36]

CONCLUSION. Upon her election, Margaret Thatcher made the case for the neoliberal deregulation of the British economy by famously arguing that "There is no alternative" to such a course of reform and that soon all the advanced economies would be following in Britain's footsteps. Two decades on, David Calleo remarked that European Monetary Union, undertaken in part as Europe's collective response to Thatcher's challenge, represented a world historical wager by which European countries sought to address the challenges of globalization by setting down the road of integrating their economies.[37] Ten years after that, it appears that, at least in its present neo-liberal dispensation, this bet is being lost, thereby threatening not only the euro's viability, but that of the Europe-

an project as a whole.

The present difficulties associated with monetary union and the broader ambition of European economic integration—specifically their inordinate social costs for a great many Europeans—suggest the need to return to the principles, if not to the exact policies, of Europe's postwar communitarian societies. First and foremost, something needs to be done to arrest the alarming growth of inequality within and between European societies, inequalities that threaten to tear asunder the weakened social compacts of the continent's democratic nation states and to critically undermine confederal governance among Europe's member states. A mix of policies, drawn in some cases from the past, is equipped to do this, though these would obviously have to be tailored to the particular political cultures and socio-economic circumstances of the individual member states. These might include strengthening the welfare systems within states and transfer mechanisms between them, restoring a more progressive income and corporate tax system,[38] adopting EU-wide protectionism and broader mercantilist policies to safeguard European jobs and wage levels, and finally imposing controls—starting with some form of transfer tax—and more robust regulations on capital flows to minimize destabilizing financial outflows as well as to reduce the likelihood of the type of systemic financial meltdown we saw in 2008. In short, what is needed is a return to a mix of heterodox policies that serve the needs of society as well as the imperative of economic growth and thus to restore the communitarian bases of Europe's democratic nation states.

However, in order to rediscover these communitarian national principles, a fundamental shift is required in the way in which we conceptualize social and economic problems and the articulation between the two. Specifically, we need to abandon the rigid and reductive economism that affirms economic rationality and efficiency as ends in themselves and instead to subordinate economic processes to the fulfillment of broader social and national ends. As David Calleo instructs us, "Nationalism helps to remind us that economies exist to serve societies, not the other way around."[39] In short, society and politics must be restored once again to their rightful dominion over economics, by constitutionally re-establishing the bonds of mutual obligation and protection that had defined the postwar democratic European nation state, and refurbishing Europe's confederal governance to reflect this shift.[40]

A *contrario* Thatcher's *bon mot*, there must be an alternative for Europe to the current process of neoliberal economic integration and the hyper-individualist and anomic model of society it implies. As the twentieth century has taught us, the failure to grasp this truth and to harness the social forces unleashed by globalization through democratic

means is to tempt their resurgence in an extremist guise. Should this come to pass, we will be guilty not only of having forgotten the lessons of the past, but of having deliberately unlearned them.

ENDNOTES

[1] C.f. Paul Krugman, "Can Europe be Saved?" *New York Times Magazine,* January 2011. Available from http://www.nytimes.com/2011/01/16/magazine/16Europe-t.html?pagewanted=all, accessed January 20, 2011, and Martin Feldstein, "The Failure of the Euro: The Little Currency that Couldn't," *Foreign Affairs* 91(1)(2012), 105-16.
[2] C.f. Robert Kagan, "Power and Weakness," *Policy Review*, No. 113 (June 18, 2003), 1-22.
[3] C.f. Timothy Garton Ash, "The Crisis of Europe: How the Union Came Together and Why it's Falling Apart," *Foreign Affairs* 91(5)(2012), 2-15.
[4] David Calleo, *Rethinking Europe's Future* (Princeton: Century Foundation, 2001), 49.
[5] Herder in particular combined the idea of a distinct people (Volk) with that of a specific national culture (*kultur*) to develop this concept of a shared national identity subtended by a "bundle of linked ideas, memories and sentiments that was a [people's] reaction over time to a particular environment and collective historical experience" that came to link nations' citizens together and to their state. Ibid.
[6] On this distinction, see Michel Winock, *Nationalism, Anti-Semitism and Fascism in France*. trans. J.M. Todd (Stanford, CA: Stanford University Press, 1998), Ch. 1.
[7] For a vivid account of this historical dynamic, see Karl Polanyi, *The Great Transformation* (Boston: Beacon Hill, 1957), particularly Chs. 19-20.
[8] See Calleo, *Rethinking*, 60-1, 69-72. Though it may seem incongruous from the perspective of contemporary political debate, it is not incidental that such intervention was initially defended by conservative thinkers and, particularly in its welfarist guise, first applied by conservative statesmen such as Disraeli in Britain, Bismarck in Germany, or even Clemenceau in France. Indeed, whereas in the 19th century, the Left still dreamt of overthrowing the capitalist system and the national community that went with it, these thinkers and leaders were already thinking about how to preserve the latter from the depredations of the former.
[9] C.f. Friedrich List, *The National System of Political Economy*. New York: Kelley, 1966.
[10] The welfare system is a case in point. The reciprocal linkages that tie the citizens of a country together as taxpaying contributors to and beneficiaries of the welfare state not only assured them material security, but also united them in an implicit relationship of mutual obligation and trust that was 1.) universal, i.e. benefiting all members of society regardless of class background or income level and 2.) intergenerational, in that it linked "past taxpayers and present beneficiaries, present taxpayers and past and future beneficiaries, and present beneficiaries and future taxpayers." Tony Judt, *Ill Fares the Land* (New York: Penguin: 2010), 52, 64-5.
[11] Calleo, *Rethinking*, 139.
[12] Ibid.
[13] See Ibid., 141-2.
[14] Thus, the positive image of the European Community/Union declined from a high of 72% in 1992, to 49% (versus 14% who viewed it as negative) in 2000, to only 31% in 2012 (vs. 28% negative). Meanwhile, support for the single currency fell from a high of 64% in favor (versus 25% opposed) in 1998 to 52% (vs. 40% against) in 2012. European Commission, *Eurobarometer Public Opinion in the European Union* No. 53 (2000). Available from http://ec.europa.eu/public_opinion/index_en.htm, and *Eurobarometer Public Opinion in the European Union* No. 77 (2012). Available from http://europa.eu.int/comm/dg10/epo/, both accessed Sept. 15, 2012.
[15] The explosion in global financial flows is perhaps the most striking indicator of this globalization process. In 1980, the sum of all international bank lending was $324 billion a year. By 1991, this figure had grown to $7.5 trillion a year, and by the onset of the 2008 global financial crisis, it had reached $35 trillion a year. See Tony Judt, *Postwar: A History of Europe since 1945* (New York: Penguin, 2005), 736, and Bank of International Settlements, "BIS Quarterly Review, December 2008: Statistical Annex," p. A7. Available from: http://www.bis.org/publ/qtrpdf/r_qa0812.pdf, accessed September 15, 2012.
[16] See Jonah Levy, "Redeploying the State: Liberalization and Social Policy in France," in *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. W. Streeck and K. Thelen (New York: Oxford University Press, 2005), 103-26. Although Levy limits his analysis to the French case, his argument applies to the other continental European welfare states as well.
[17] Objections to this argument often note that the persistence of some of the specific institutional attributes of the European social model across European countries disprove its implication of a convergence between the continental

European and American/Anglo-Saxon political economies. However, it can be shown that though they continue to give European economies their specificity in a formal sense, these institutions—such as co-determination in Germany, or branch-level collective contracts in France—have seen their protective or regulative function either bypassed or diminished by the adoption of new, often *ad hoc* measures with the unstated but clear goal of removing impediments to market efficiency. Likewise, the similar impacts of the 2008-2009 financial crash in Europe and the US and the common systemic risk it posed on both sides of the Atlantic underscore the extent to which the European political economies reformed themselves along Anglo-Saxon lines, in this instance in the area of corporate governance and financing, with many of their own banks having internalized the risky, profit-seeking culture of Wall Street in their lending and leveraging practices. C.f. Chris Howell, "The Dilemmas of Post-Fordism: Socialists, Flexibility, and Labor Market Deregulation in France." *Politics and Society* 20(1) (1992), 71-99; Anke Hassel, "The Erosion of the German System of Industrial Relations," *British Journal of Industrial Relations* 37(3)(2009), 493-95, and Michael Lewis, "It's the Economy Dumpkopf!" Vanity Fair. September 2011. Available from http://www.vanityfair.com/business/features/2011/09/europe-201109, accessed September 15, 2012.

[18] Unemployment for the 9 EEC members, which was under 5% in 1980, increased to 8.1% in 1990 (EU15) and peaked at 10.5% in 1994, before falling to a new low of 7.4% in 2001. Since then, the eurozone's unemployment rate has risen steadily to a high of 11.3% in July 2012. Even in countries such as Germany in which unemployment has substantially fallen since undertaking pro-market reforms, this has been accompanied by a substantial transfer of value-added away from labor towards capital so that, despite the country registering robust economic growth since the mid-2000s and successfully weathering the shock of the 2008-2009 financial crisis, German workers have seen their real wages stagnate or even fall. See US Department of Labor, "Unemployment rates in the European Union and Selected Member Countries Civilian Labor Force Basis (1), Seasonally Adjusted, 1990-2004." October 9, 2004. Available from http://digitalcommons.ilr.cornell.edu/key_workplace/67 and Eurostat, "July 2012: Euro area unemployment rate at 11.3%." August 31, 2012. Available from http:ec.europa.eu/eurostat/euroindicators, both accessed September 16, 2012; Markus Grabka *Entwicklung der Einkommens und Vermögensverteilung in Deutschland.* (Berlin: Friedrich Ebert Stiftung 2008.) Available from: http://www.fes.de/wiso/pdf/verbraucher/2008/190608/grabka.pdf , accessed June 20, 2011, and Markus Dettmer and Dietmar Hawranek, "Letter from Berlin: Despite Boom, Little Hope of Big Pay Hikes in Germany," Der Spiegel [online]. September 8, 2010. Available from: http://www.spiegel.de/international/business/letter-from-berlin-despite-boom-little-hope-of-big-pay-hikes-in-germany-a-716376.html, accessed June 22, 2011.

[19] For the EEC/EU15 as a whole, the Gini coefficient, the standard measure of inequality, has increased from 28.8 in 1985-1990 to 30.5 in 2010 (compared to 30.1 to 38.6 for the U.S.) However, this broader trend masks significantly greater increases in certain countries, which can be attributed in part to the unequal impact of European economic integration. Thus, the three countries which saw the biggest jumps in inequality were, Sweden (from 19.7 to 24.4), the UK (from 27.0 to 33.5), and, perhaps most surprisingly, Germany (from 24.4 to 32.1.) See A.B. Atkinson, "Income Distribution in Europe and the United States," *Oxford Review of Economic Policy* 12(1)(1996), 20, and Eurostat, "Tables, Graphs and Maps: Gini coefficient (Source:SLC.)" September 20, 2012. Available from: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab =table&init=1&plugin=1&language=en&pcode=tessi190, and Francesca Bastagli et al., "Income Inequality and Fiscal Policy," IMF Staff Discussion Note. June 28, 2012, p. 20. Available from http://www.imf.org/ external/pubs/ft/sdn/2012/sdn1208.pdf, both accessed September 21, 2012

[20] As the most liberal European economy, the UK unsurprisingly presents the worst statistics in this regard. By 1995, for example, following Thatcher's assault on the state and welfare system, 14 million people out of a population of 58 million were living in poverty, including 4 million children. In turn, the UK's example underscores the paradox of the state's growing repressive control over society as its economic decontrol progresses. As Tony Judt observed, as the social pathologies associated with the evisceration of the safety net worsened, "the panoptic control that the [British] state… exercise[d] over its subjects […] continued to expand." And although the British case is an outlier compared to continental European societies, the latter, though obviously not yet exhibiting the levels of inequality, crime and incarceration of the US and UK, have displayed a worsening secular trend in regard to these indicators which in turn tracks fairly closely with the liberalizing course engaged by these states from the 1980s on. Thus, from 1990 to 2007 Austria saw its prison population increase from 82 to 108 per 100,000 people, Belgium from 66 to 101, France from 82 to 100, Germany from 82 to 90, the Netherlands from 44 to 115, and Sweden from 58 to 75. This compares to a jump of 90 to 148 per 100,000 people for the UK (England and Wales) and 297 to 506 for the U.S., which presents the highest incarceration rate in the world. See Judt, *Postwar*, 739; *Ill Fares the Land*, 107; Council of Europe, "Detention rate per 100,000 population on 1 September: 1990-1997," *European Sourcebook of Crime and Criminal Justice Statistics—1999* (Strasbourg: Council of Europe, 1999). Available from: http://www. europeansourcebook.org/chapter_4/4b1.pdf, accessed September 15, 2012; Council of Europe, in *European Sourcebook of Crime and Criminal Justice Statistics—2010* (Strasbourg: Council of Europe, 2010), 295, and Department of Justice: Bureau of Justice Statistics, "Incarceration rate, 1980-2009." December 21, 2010. Available from http://bjs.ojp.usdoj.gov/content/glance/tables/incrttab.cfm, accessed September 25, 2012.

[21] This unfortunate—and one suspects, not accidental—acronym stands for Portugal, Ireland, Italy, Greece and

Spain.

[22] In Greece and Spain, the two worst-hit eurozone economies, the unemployment rate reached 23.1% in May and 25.1% in July 2012 respectively. Meanwhile, youth unemployment in both countries hit catastrophic levels of 54% for Greece and 53% for Spain. Eurostat, "July 2012: Euro area unemployment rate at 11.3%."

[23] To be fair, the crisis has elicited a deepening split between the Southern Europeans (including France) who increasingly advocate reflationary and countercyclical policies, even at the risk of violating the Stability and Growth Pact, to address the problem of declining eurozone growth versus the Northern Europeans, led by Germany, who refuse to countenance any relaxation of the monetary and fiscal criteria underlying EMU and are instead trying to impose the time-worn formula of competitive disinflation as an impetus to achieve growth through structural reform. As long as such divisions remain, and particularly so long as Germany refuses to shift its deflationary orientation, Europe's neoliberal policy template is likely to persist.

[24] Calleo, *Rethinking*, 76-8, 166-7, 180-1, and Judt, *Ill Fares*, 91-106.

[25] *The Road to Serfdom* (Chicago: University of Chicago Press, 1972.)

[26] Judt, *Ill Fares*, 104.

[27] A recent study on intergenerational social mobility published by the OECD in 2010 found that that the U.K. and U.S. currently exhibited the first and third lowest rates of intergenerational social mobility, finding a correlation of 50% and 47% respectively between the salary levels of fathers and those of their sons in those two countries, versus a correlation of 33% for Spain and Germany, 28% for Sweden, and under 20% for Denmark, Austria, Norway, Finland and Canada. These findings convincingly refute the myth, often invoked by their defenders, that economically liberal societies offer more opportunities for long-term economic advancement and achieving a better life than do interventionist ones. OECD, "A Family Affair: Intergenerational Mobility across OECD Countries," in *Economic Policy Reforms: Going For Growth* (Paris: OECD, 2010), pp. 184-6.

[28] Quoted in Judt, *Ill Fares*, 23.

[29] See Judt, *Postwar,* 730-1.

[30] The new-look Front National in France under the leadership of Marine Le Pen is a case in point. Presenting the FN as the principal bulwark against EU-led globalization as well as against immigration in France, Le Pen garnered a record 18% of the vote in the first round of the 2012 presidential election. When this result is combined with the 11% polled by the far left *Parti de gauche*, we surmise nearly one Frenchmen out of three cast their vote in favor of explicitly anti-EU parties in the first round of the presidential election.

[31] Perhaps the most strident expression of this sentiment was the comparison of Chancellor Angela Merkel to Hitler and of present-day Germany to its Nazi precursor in the Greek media following her insistence that Greece adopt a draconian austerity program in exchange for EU assistance in meeting its debt payments.

[32] George Ross, *The European Union and its Crises: Through the Eyes of the Brussels Elite* (New York: Palgrave, 2011), 155. See also Jürgen Habermas, "Germany and the Euro-Crisis," The Nation. June 28, 2010. Available from: http://www.thenation.com/article/germany-and-euro-crisis, accessed September 15, 2012.

[33] Ross, 155.

[34] C.f. Matthias Matthijs and Mark Blyth, "The World Waits for Germany", *Foreign Affairs* [online], June 8 2012. Available from: http://www.foreignaffairs.com/articles/137697/mark-blyth-and-matthias-matthijs/the-world-waits-for germany, accessed June 20, 2012, and Adam Tooze, "Germany's Unsustainable Growth," *Foreign Affairs* 91 (5) (2012), pp. 23-30.

[35] *Rethinking*, 141-2.

[36] *Ill Fares*, 193.

[37] *Rethinking*, 205-6.

[38] In France, the 75% marginal tax rate proposed on earnings exceeding €1 million by the new Socialist government has elicited considerable criticism, much of it in the Anglo-Saxon press, on the grounds that it would diminish the country's private savings and investment rate. Yet, it is worth remembering that during the Eisenhower Administration in the 1950's, the income tax rate on the richest Americans was at 90%, which coincided with the highest rate of growth in US history.

[39] "Reflections on the Idea of the Nation State," in *Nationalism and Nationalities in the New Europe*. ed. C. Kupchan. (Ithaca NY: Cornell University Press, 1995), 36. As critics of contemporary market societies have pointed out, neoliberal economists and politicians who make the case for such societies are guilty of the same reductive economism as the Marxist theorists who had been their prime antagonists. Indeed, despite—or perhaps reflecting—their irreducible ideological competition, neoliberalism and Marxism belong, in the words of John Gray, to "the same style of thinking" that ascribes social and political outcomes to monocausal economic processes. See "The World is Round," New York Review of Books 52(13) (Aug. 11, 2005.) Available from http://www.nybooks.com/articles/archives/2005/aug/11/the-world-is-round, accessed September 15, 2012, as well as Judt, *Ill Fares*, 103-4.

[40] For an affirmation of European constitutionalism, see Jürgen Habermas, "Europe's Post-Democratic Era," *Guardian* [online]. November 10, 2011. Available from: http://www.guardian.co.uk/commentisfree/ 2011/nov/10/jurgen-habermas-europe-post democratic?INTCMP=SRCH, accessed September 15, 2012.

David W. Ellwood

Britain's Future in Hindsight

This paper revisits David Calleo's book of 1968, simply entitled *Britain's Future*.[1] Produced thanks to a year's fellowship at Nuffield College, Oxford, it was a typical Calleo production, brilliantly combining politics, economics and history in a fashion which in this case also turned out be impressively prescient. It was of course beautifully written. In the lines which follow I try to contextualise David's reflections, highlight those dilemmas which British governments of the time faced then, as identified by him, and note how many of them are still with us.

Britain in 1967. A deeply contradictory place. The youthful revolution of the 1960s in full swing, incredibly creative, hedonistic, great fun, especially if you were among the privileged few at one of the glamorous new universities springing up across the land. 1967: the year of *Sergeant Pepper's Lonely Hearts Club Band* and of student riots at the LSE. Colour television began on the BBC in 1967, making everything up until then look like, well, many shades of grey. The BBC itself was revolutionised by the 1960s, as were theatre, art, literature, fashion, design, morality. These were the years when divorce, homosexuality, abortion and censorship were all liberalised, the so-called permissive years.[2] 'The sense then of being on the verge of a breakthrough into a different kind of society was vivid and widely felt', wrote the greatest analyst of the era, Ian Macdonald, thirty years later… 'as a rebellion of free essence against the restraints of outmoded form, the Sixties began with a flood of youthful energy bursting through the psychic dam of the Fifties'.[3] The governing Establishment faced all the upheavals with various degrees of bewilderment, if not apoplexy - reactions echoed again and again in later years by Thatcher, Blair, and even Sarkozy. And of course the more outraged the guardians of cultural orthodoxy, the happier were the sensation-seekers among the rising generation. Historians such as Dominic Sandbrook insist that the permissive, swinging scene was the privilege of a minority in a minority.[4] If so, we may ask why the backlash has persisted so vigorously and in conservative circles so comprehensively over time.[5] But there was a strong undercurrent of anxiety and alienation even among the younger of the cultivated

minds of the era, and, as 1967 drew to a close, 'a palpable sense that the optimism and glamour of the mid-sixties had disappeared', says Dominic Sandbrook.[6] Britain's most prominent playwright today, Alan Bennett, had his first West End play in 1968. Entitled 'Forty Years On', it was a pastiche of British upper class life since the First World War, and strongly suggested that the old place was sliding into insignificance and nostalgia. In the same year Eric Hobsbawm said the problem was that the British couldn't imagine for themselves a future with even half of the attractions of the past, a judgment which evoked Dean Acheson's withering comment of 1962 about the British having lost an Empire and not yet found a role. This was an observation which lay at the heart of David's exploration, and which still echoes and stings in British political culture, and not just at election times.[7]

But for Britain's government of 1967-8, led by Labour's Harold Wilson, the overwhelming political and economic reality of their days was profound concern – even panic at times - about the country's immediate financial situation. The agonizing saga which led to the sterling devaluation of late 1967 came after a series of violent monetary spasms, and against all hopes it did not put an end to them. Far from it. For want of about £800 million pounds, the country nearly ran out of reserves on various afternoons in these months, and more than once had to be propped up by the Federal Reserve and some of Europe's central banks. In relation to GNP - just over £34bn - or the volume of external trade – £11.5bn - the sums involved were relatively small. But this did not make the emergencies any less acute. They just showed how fragile was the contingent situation.[8] The official yearbook of 1969 explained: '(Britain) has a very large excess of long-term assets over long-term liabilities and a considerable excess of short-term liabilities over short-term assets'. At the end of 1967 the country still owed almost £3bn from the immediate postwar settlement, mostly to the US and Canada.[9] But it was the Middle East '6 Day War' of June and then a new strike in the docks that put paid to any hopes of a re-balancing in that year, and opened the way to the anguished devaluation of November 1967. It was to research issues in areas such as these that David Calleo came to Oxford and Nuffield College in that year. It certainly wasn't to investigate the cultural revolution then going on. That is only glancingly referred to in his phrase about the 'witless frivolity' swirling through the country at the time.[10] How witless or frivolous Oxford was in the late '60s I don't know. One witness was Paul Addison, now a leading historian of contemporary Britain, and – as I discovered this summer - a contemporary of David's at Nuffield. Paul spent his teaching career in Edinburgh, where I see him every year. He recalls a young American gentleman who was unusually generous – especially by the Oxford

standards of the time - with his hospitality. He also says that the Brits there all assumed David was a secret agent, but they certainly didn't hold it against him.

In his 2010 book *No Turning Back* Paul Addison presents the mission statement that the Labour governments of these years had offered the nation when first elected in 1964. It revolved around the conviction that the 'white heat of the scientific revolution' of the time was the key to remaking Britain if the opportunity could be seized. A contemporary observer called it 'socialism through science'.[11] Addison summarises:

The remedy for Britain's malaise was state intervention to ensure economic planning and investment in science and technology. Sustained economic growth would provide the resources for an ambitious programme of social reform, and a new meritocratic Britain would take the place of the old class-divided society.[12]

In this vision, Labour's innate social compassion would take care of those of those displaced by the inevitable changes.

Three years later, in 1967, little of this dream remained.[13] It did in part motivate the re-nationalisation of the steel industry in 1967, and it launched a Ministry of Technology which enthusiastically embraced novelties like Concorde. It also ensured that the new universities would be present at the birth of the computer revolution. (I took my first computer course in 1966). Tony Benn, the far left Minister of Technology – still around today and defending Concorde[14] – claimed that he was 'interested in technology because it liberates the mind.' Benn did see the future of computers and was the first to talk of lifelong learning. But by betting on shipbuilding and civil *aircraft*, and devices like the Hovercraft, he was unwittingly leading the nation down a technological blind alley.[15] Here a reminder is due that J. J. Servan-Schreiber's enormously influential *Le défi américaine (The American Challenge)* first appeared in 1967. It too bet on technology and predicted the computer revolution. But it assumed – not unreasonably - that atomic energy and supersonic aircraft would also be keys to the future. However Servan-Schreiber insisted that only by gearing up at the European level would the nations of the region acquire the scale and dynamism to compete with America's high-tech corporations, a position which Calleo discusses quite extensively.[16] As we see the British government of today wrestling with the fate of British Aerospace – torn between Europe and the US – the force of this prediction once more hits home, a question I come back to in the conclusion. At the time, Servan-Schreiber's lesson went unheeded in Britain, with results which included the long-term decline of the British civil aircraft industry, as we were reminded in a fine television documentary this summer (2012). The Vickers VC10 of 1964 – designed for the presumed imperial needs of the flag carrier BOAC – was hammered in sales by the

earlier Boeing 707.[17]

In an era which fervently believed in macro-economic *planning*, Labour came to power equipped with a National Plan, which included among among other novelties a Channel tunnel. The Plan was brutally cast aside after only two years.[18] It had predicted growth of 25% over 6 years. In reality growth per annum never rose above 2.6%, rather less than the post-1950 trend line of 2.9%.[19] And far from eliminating the stop-go policies of deflation and reflation that it had always condemned, the Labour government began to depend on them, in the ceaseless, round-the-clock effort to uphold confidence in sterling.[20] Incomes policies were another invention of the time developed with the same aim. Their failure set off the vast crisis surrounding the role of wages, unions and industrial conflict in the economic life of the nation, which only came to an end with Mrs Thatcher's destruction of trade union power in the early 1980s. The underlying truth was that a government run by a star economist – Harold Wilson – and which imported economists into Whitehall for the first time,[21] had in reality come to power with what one of David's favourite sources, the radical economist Richard Pryke, called 'only the sketchiest ideas about the central problem of the balance of payments and the modernization of the economy'.[22] The results explain perhaps why no economist has ever since been entrusted with the government of Her Majesty's Treasury.

Deflation has been and still is the default setting of the British economy. The 1960s version was best explained by our much-missed friend Susan Strange in her 1971 book on *Sterling and British Policy*.[23] The problem, she said, was not that the weakness of the British economy undermined sterling, but that the inability of the British governing class to reconcile themselves to sterling's loss of its world supremacy to the dollar had a severely weakening effect on the British economy - because of stop-go, and especially because the accelerator and the brakes were often applied at the wrong time.[24] All through decolonization, said Strange, British governments had used sterling to maintain the old networks, and British investors would still prefer investing there than in Britain itself if they could, not to mention Europe. In 1967 30.4% of British exports went to the sterling area, 19.2% to the EEC, though the single largest market remained the US.[25] The second most important holder of sterling was not the US or Australia but Kuwait. Britain was still third largest trading country in world, and London intended to keep it that way. Its denizens insisted that 25% of world trade was still done in pounds sterling, whose reserve currency status remained intact.[26]

But by the end of 1968 the Sterling Area was unravelling. Too many crises had happened. 'The instability of the balance of payments, wrote Strange, was mainly attributable to the

loss of Top Currency status, since it was this which made sterling so vulnerable to the so-called 'gnomes of Zurich' (Harold Wilson loved to blame invisible Swiss bankers for his problems); that is to say, unpredictable failures of confidence at home and abroad.... 'it is hard (she went on) for an ex-Top Currency to appreciate that as it loses its monetary leadership, it must seek not just to maintain but actually to *improve* its desirability.'[27] Instead, inward investment was low in the 1960s until the promise of North Sea oil appeared, and domestic capital formation remained weak. A big Brookings Institution study of *Britain's Economic Prospects*, also of 1968, showed that it had averaged only 16.1% of GDP over the years 1955-62, and was lower than in any other industrial economy. In 1967 it had picked up to 20%, but half of the sum came from the public sector, and half of that from the large nationalized industries.[28] When the balance of payments crises became really severe, from 1966 on, outflows were officially discouraged, and inflows encouraged. Micro-management was tried. When I first went to the US in 1968, I was allowed the dollar equivalent of £50, i.e., $120. One disaster plan called for all holidays abroad to be suspended.[29]

On foreign policy the patterns were and are very similar. They were and are crucial to the financial situation, since so much of the balance-of-payments pain then, and the enduring deficit/debt questions now, have come from what postwar governments felt obliged to spend on projecting their idea of the nation's military status around the world.[30] Labour in power never challenged these assumptions until forced to do so by economic reality. Harold Wilson was a Commonwealth man by instinct, said another leading historian of the period, Kenneth Morgan, and took its affairs very seriously. The influential political commentator, Hugo Young, wrote in 1999 that the leading Foreign Office men of Wilson's era were all 'pickled in the heritage of the Commonwealth'.[31] But the government's defence of Britain's role 'East of Suez' makes painful reading today, as does its failure to impose its will on the white settler movement in Rhodesia after it had declared independence from British rule in 1965.[32] It is true that Britain never sent a single soldier to Vietnam, but the UK did keep 40,000 soldiers in East Asia well after the Malaysia emergency was over in 1966, and the Americans noticed this: it had been a key condition of some of their emergency aid packages. But Washington had no illusions whatever about the general strategic usefulness of the British, or about their declining military strength. With the big rupture of January 1968, British forces were withdrawn from all the area between the Persian Gulf and Singapore. Key players in the sterling area, like Malaysia and Singapore, felt abandoned.[33]

Harold Wilson's late 60's governments had no ideas at all – much less a defined policy -

on the great challenge of European integration, a burning issue in the corridors of power by the end of the decade, if not at all in the country.[34] In 1967 Wilson demanded assurances on and attention to four key questions as conditions for entry: consideration of the balance of payments, the effect on sugar, the effect on New Zealand, and guarantees on the scope for control of capital movements.[35]

With London quite oblivious to the true dynamic of the European project, De Gaull vetoes of 1963 and 1967 came as a complete surprise, and caused great offense. But as Calleo showed at the time, given the special status of sterling and the structure of British trade, payments and investment – not to mention the lack of respect the British had always shown to the European project – the French President's attitude was entirely comprehensible.[36] Susan Strange agreed. She demonstrated that in managing currency markets, for example, the UK was drawing much closer to the US than to the Europeans, busy trying to develop rules for closer collaboration on capital markets and investment policy. The Euro-dollar market, whose vast dimensions first came to public notice in 1967, had been a largely British invention, emphasizing dimensions and dynamics of the City that could not be controlled by any single government.[37]

Yet Calleo thought that the City might play a key role in anchoring a new regional currency bloc: 'a "European" [sic] solution might translate sterling from a purely British into a common European reserve curency'. Just as other Americans of the early 1960s had tried to persuade the British to give up their nuclear deterrent, Calleo suggested that over-burdened, over-blown sterling surrender its pretensions and lend its weight to the common currency implied in the logic of the European project. But he insisted that the real question was deeper, and not economic at all:

> Sterling is a kind of metaphor for what many people feel instinctively is England's basic problem. There remain too many institutions and skills which, while they embody much of what is finest in English life, are on too large a scale for the shrunken dimensions of post-imperial Britain... There is widespread fear that an isolated Britain would lose not only her institutional grandeur, but those aspects of her national character that make her a great nation. In a broad sense, many people want Britain to go into Europe to restore her own morale.[38]

Moving on, we can see that Britain's eventual entry into the EEC in 1973 did nothing for the nation's morale. In the awful circumstances of that time, perhaps it never could have done. Post-Bretton Woods, in full-scale industrial crisis, with sterling afloat and oscillating around its lowest levels ever and the bank rate at 11.5%, the nation was entering its worst

years since 1945.[39] The great postwar settlement – the one that had built the welfare state – came to grief in stagnation, inflation and a panic-stricken crisis of basic governability. In all the succeeding years there has been nothing like the desperation that gripped the governing class as they arm-wrestled the National Union of Mineworkers over 'who governs Britain', and in January 1974 put the entire national economy on a three-day week. As the preceding Christmas approached, a Cabinet minister told his wife and children that, '...we should have a nice time, because I deeply believed then that it was the last Christmas of its kind that we would enjoy.'[40]

It was from the misery of this disintegration that the Thatcherite project arose, and affirmed its hegemony over the succeeding thirty years and more. There are many definitions of this great crusade. I prefer the one offered by the leading economic commentator Will Hutton in 2002. He characterised it as Mrs Thatcher's 'two-fold mission: to pull down the social democratic settlement [of the post-1945 welfare state] and to construct in its place a simulacrum of the United States.'[41] The first part of this critique is familiar, the second much less so and I shall return to it in conclusion.

Few doubted the need for radical action if the country was to emerge from the slough of despond which threatened to engulf it in the late 1970s. Nor did anyone underestimate the impact of Thatcher's action, or its long-term implications.[42] Yet in 2009, on the 30th anniversary of Thatcher's accession to power, with the country deep in the travails of a banking crisis whose roots could easily be traced back to the liberalisation of financial markets she had set off in 1986, there seemed little doubt that her experiment too had finally come crashing to the ground. The editorialist Gideon Rachman wrote in the *Financial Times*: '...almost 20 years after she left Downing Street, the British economy is in deep trouble. Almost everything that Thatcher opposed – nationalisation, raising taxes, Keynesian economics (and money printing) – is back in fashion'. Thatcherism had also lost the moral high ground, said Rachman, since her push to restore the virtue of traditional values such as hard work and thrift had been brought into ridicule by the 'spectacle of bankers driving their institutions into bankruptcy while being rewarded with million-pound bonuses and munificent pensions.' Yet, as Rachman also acknowledged, the great shadow she had cast over the New Labour years was plain to see, as was the enduring legacy she had created of privatisation, deregulation, anti-unionism, the exaltation of wealth creation over wealth redistribution, the magic of the market-place in all things.[43]

There are three simple ways of looking at the state of Britain in the years since Thatcher using the prism offered by David's book: what has changed for the better over the

intervening years, what has changed for the worse, and what has not changed at all. On the positive side of the balance we can, perhaps surprisingly, take the growth record. In an analysis compiled for this paper by an Oxford friend, the economist Charles Young, we can see that according to the criteria used, over the years 1970-2011, the UK performed at least as well as France, Germany, Italy and the US, perhaps slightly better. At around 2% p.a., none of them of course performed as well as they had done in the postwar years.[44]

The balance of payments anxiety has in practice disappeared, as the floating system which everyone - including Calleo - thought quite impractical in 1967, now goes almost unchallenged. At the time he pointed out that the situation of the currency reserves was not just a question of pride and confidence at a time of fixed exchange rates. The reserves were needed to back up payments for every day's imports of food, energy and raw materials.[45] That situation at least has changed radically, as Charles Young shows in his tables. The nation is more or less self-sufficient in food, and the energy equation has been changed by North Sea oil and gas (still flowing).[46] The scale of manufacturing has dwindled to a point – it produces less than 10% of GDP in 2012 compared to 35 % in 1967[47] - where its foreign exchange preferences concern no-one, beyond - that is - the present government. They hope that the 25% devaluation of sterling since the crisis began will help their policy of re-balancing the economy away from services and back to making stuff.[48] First dreamt in the 1960s, and apparently killed off by Mrs Thatcher, this vision has been resurrected by David Cameron. It has yet to produce any measurable results, with the possible exception of the motor industry. The remarkable resurgence of car manufacturing – output is now back to 1980 levels – confirms one of Richard Pryke's perceptions, that foreign companies are much better at producing in Britain than British ones.[49]

On Britain and Europe, majority public opinion seems even more deeply confused and alienated than it was in the 1960s, and it seems doubtful that a referendum on a straight in or out proposition could be won by the pro-Europeans today, as it was in 1975. Opinion polls have found that only 15% of those interviewed would join the EU if given the choice now, while 50% would only do so under renegotiated terms.[10] But a commentator in the *Wall Street Journal* citing these figures, explained the true picture in these terms:

> …euroskepticism in the U.K is more nuanced than often portrayed. The movement largely grew out of opposition to U.K. membership of the euro, a do-or-die struggle to preserve the U.K.'s independence in the face of what was seen as an inevitable step towards political union.
>
> Now the single currency debate has been comprehensively won, there

> has been a splintering of the ranks. At one extreme, hardliners believe the European project is a historic aberration and believe the U.K.'s best interest lies in the collapse of the euro and Britain's withdrawal from the E.U. At the other end of the spectrum are those that believe the U.K.'s best interest lies in the euro's survival and that Britain should seek a new relationship with the euro zone while remaining inside the E.U.[50]

No serious political personality or group actually proposes leaving the EU, said Simon Nixon in the *Wall Street Journal*, but the majority position in the print media remains overwhelmingly hostile, and the violence of some of the language used totally contradicts the image of benign tolerance and common-sensical fair-play that the British establishment likes to think it projects to the world.[51]

'Unable to reconcile European and Atlantic goals, (Britain) has been unable to decide on either', said Calleo, and '…by not choosing one path or another, (the nation) has been gradually forced to let down all three (of its key circles of action, the Commonwealth, Europe and America)… The continual overstraining of military, diplomatic and economic resources has today reduced the country to a position that is not only painful but faintly ridiculous'.[52] This situation – which Calleo believed to be unsustainable - continues totally unchanged. When we hear of front-line soldiers returning from Afghanistan to a future of unemployment, when we read of the ancient VC 10 still flying as an aerial tanker in the Libyan campaign, when we see new multi-billion pound maritime surveillance aircraft cut up without ever going into service, then the lines of continuity become all too clear.[53]

The great compensating mechanism for imperial overstretch, said the late Fred Hood in a talk at the Bologna Center in 2007, was always the so-called 'special relationship' with official America. Apart from Vietnam, it was hard to think of a war in which the US was involved which did not also see action from British armed forces. Iraq was the nemesis of this line of behavior, said Hood, exploding all the myths of Britain's military weight in the world, of the role of the military in British society, of the willingness of public opinion to support such expeditions.[54] But it was also a nemesis because of the bewildering extent to which the 2003 Labour government seemed willing to accommodate and support American policy, and abandon its thereto stated policy of acting as a 'bridge' between Europe and the US, just as Wilson and company had fancied that they might act as 'bridge' between the US and Russia, or the US and North Vietnam. What Susan Strange said of Wilson was even truer of Blair and Brown: 'Even more than its Tory predecessors, the Wilson government has acted as if a rupture with Washington were unthinkable'.[55]

The basic reality is that most of the political class and London media still hanker after a world role, which as Cambridge political historian Andrew Gamble pointed out in 2003, will always mean insisting on the link with America at the expense of any European security policy, and at the cost of repeated humiliations from Washington.[56] The dilemmas presented by this situation are being replayed one more time in the controversy surrounding the proposed takeover of British Aerospace (BAE) by the EADS consortium, a prospect which suddenly appeared in September 2012. No-one has any illusions about the seriousness of the issues involved. The Chairman of the House of Commons Public Administration Select Committee asked in a newspaper article at the time: 'How determined is the Government to maintain Britain's sovereign power and security? What research and industrial capacity do we need for that purpose?... The question of (BAE's) ownership is about whom the UK can trust, and to which country's influence the UK should choose to submit.' Naturally this Tory chose the US, expressing the hope that the Americans would take over BAE. The obvious defects of this view are, first, that BAE's pain is due to the relative failure of its efforts to build up an independent manufacturing and sales position in the US, and second, that the US aerospace industry has never shown the slightest interest in investing in Britain, even when it could have bought any of the British civilian or defence companies in the sector at any time in the last 50 years.[57]

But the most fundamental reality linking Calleo's reflections of 1967-8 to the present is to be found in the unresolved puzzle of *national identity*, understood firstly as a question of what keeps the United Kingdom united, and secondly where and how it fits into the world, economically, politically and culturally. As he and others, e. g., Charles Young, make clear, economics alone does not explain the weight and persistence of these issues. Today the 'identity' word is on everyone's lips. A Turin political scientist, Francesco Remotti, has even written a book to denounce the 'identity obsession' he sees all around.[58] As I have discussed elsewhere, every nation large and small in Europe has seemed to enter into some sort of intensified identity crisis after the end of the Cold War, not to mention places like Canada, Russia, Turkey, even the US itself.[59]

Over recent years, the concept most often called upon to take the strain of analysis in this situation in the UK has been 'Britishness', in other words the old 'who we do we think we are?' question revived once more. In his *Patriots. National Identity in Britain, 1940-2000,* the historian Richard Weight demonstrated how the 1990s witnessed the most intense inquiry into the nature of Britishness since the Suez drama of 1956. The political scientist Joel Krieger explained in 1999 that:

> … the boundaries of inclusion and exclusion (are) fluid and vexed, the representations of nation hotly contested, the attachments at once robust and uncertain...[60]

This post-Cold War effort of self-interrogation has never ceased and is still going on.[61] Like France, the land has for twenty years been caught up in self-conscious and politically-oriented debates on its ideas of citizenship, community, ethnicity, nationality and other identity characteristics and labels, debates led in the final era of New Labour from the top, by the Prime Minister himself. Compared to President Sarkozy however, Gordon Brown preferred a more discreet approach, using speeches, interviews and debates and inspiring an important essay collection.[62]

The financial crisis and all that lies behind it has simply made more urgent to the governing classes in Britain the dilemmas faced by their long-established national settlements. From the 1990s onwards, deep anxieties began to emerge over everything to do with 'Europe', around immigration and multiculturalism, the unity of the kingdom, the monarchy, the structure and function of the armed forces, the welfare state, the mass media, the education system. Since the crisis, they embrace the balance of the economy: the hegemony of financial services and the marginalisation of manufacturing industry, the reliance on a bloated universe of private credit and ever-increasing house prices, the resentments of the winners and the losers in the trends of the last 20 years. Meanwhile, in daily life, the nation presents itself as the land of the phantom limb, where reflexes from long-gone body parts still throb. The class system, the Empire, World War II, heavy industry, steam engines, British pop music all twitch ceaselessly in the media, in folk memories and in everyday encounters. In exceptional circumstances the phantom limbs can be seen quivering together, as in that 'danse macabre', which was the Opening Ceremony of the 2012 London Olympics.[63]

By looking at all this through the lens of 'identity', such phenomena become in a sense domesticated and made familiar to all. Sovereignty and hence a sense of control have been reasserted, however illusory. In my conclusion I would like to suggest that one of the resources the British governing class feels it is able to count on in its search for a stable, renewed identity is 'America'. Not American policy or money of course, not even that 'Special Relationship' which London clings on to so desperately and forlornly.[64] Instead it's an inspirational version of the United States, a source of models, examples, energies, ideas, stimuli, standards; an invoked America whose soft power influence and prestige never fade. It is a form of virtual political capital which governments from Thatcher to Cameron feel they can draw on to compensate them for all their frustrations in Europe,

their humiliations in the wider world, and the intractability of their problems at home.

As previous versions of this essay have tried to show, there has long been an American question in Britain's identity debate.[65] It has not been put there by artists, experts, army officers, sports personalities, or even Rupert Murdoch. It has been imported systematically and with great persistence by the governments of the last thirty years, and with it they have brought a series of possible answers. The underlying purpose has been to solve the identity crisis by way of ceaseless efforts to 'modernise' the nation, to renew its democracy but also to raise its ranking in those league tables of world competitiveness which the land of Darwin takes so seriously, and – of course - to distinguish it from everything supposedly going on in the European Union. Where better than America to find inspiration and encouragement for this permanent revolution of change the governing class repeatedly insists upon?[66]

David Cameron has followed the American path laid down by Thatcher, Blair, and Brown with a zeal and ambition at least equal to theirs. The Tory foreign policy platform for the 2010 election was written in the Heritage Foundation. Just as the outgoing Labour administration created a British Supreme Court, the incoming coalition has set up a new National Security Council, with a National Security Adviser. After November 2012, the country will get elected police commissioners, and perhaps a single school commissioner. But Cameron's affiliations in America seem to be deepest in parts of California where even Tony Blair did not reach, in particular the Google Corporation. A featured speaker at Google Zeitgeist conferences, Cameron is said to believe that the internet revolution as configured by Google, 'meshes with the modern conservative mission – flattening hierarchies and empowering people…a revolution which is flipping the balance of power from – for instance – Fleet Street to the High Street.' With repeat visits to Silicon Valley and Google in particular by Cameron and his strategists, this is the place where they find the ideas to rebuild post-recession Britain, says an admiring journalist, a land where 'a dynamic economy meets the family-friendly work-place… where hard-headed businessmen drink fruit smoothies and walk around in recycled trainers.' A Parliamentary Question in 2012 asked the Prime Minister why he had met top Google executives 23 times since coming to power. Answer came there none.[67]

First Thatcherism then New Labour tried with more or less conviction to overcome radically the deficit of political imagination on the national scene which Calleo deplored in 1967.[68] Cameron's Tories invented the notion of the 'Big Society', applying an American-style slogan to a campaign for 19th century values of voluntarism, charity, self-respect, and personal responsibility for the good of the community.[69] But it's hard to

democratise *noblesse oblige*, especially when times are bad, and little is now heard of this notion. The British of course are far from alone in suffering from this profound withering of the faculties of political creativity.

The evidence of the last 40-odd years suggests that in their failure to invent a generally agreed moral theme or narrative of change for their society, and in the final crumbling of both these projects, the British governing class clings to the America of their imaginations to fill the void, to give direction to the problem of where to look for answers to all the challenges of the times. Not because the creed of Americanism as such, far less American politics as currently displayed, can provide the cohesiveness required but simply because US experience over time appears to show how a uniquely powerful machine of consensus and aspiration, embodied in institutions, law, documents, rituals, stories, and proclaimed values, can keep a multicultural nation glued together and provide ever-lasting hope of renewal.[70] The depth and unending nature of the financial crisis has for now eclipsed these issues, questions which Tories were never happy discussing in any case. But a reading of Calleo reminds us of just how abiding and acute they are. 'Britain in Transit: the Postwar Muddle' is the title of his third chapter. Materially, Britain is a much better place to live in than it was in 1967, but it is still a nation in transit, and once more it is back to muddling through to find its way forward to the future.

ENDNOTES

[1] D Calleo, *Britain's Future*, London: Hodder and Stoughton, 1968.
[2] Brian Harrison, *The Transformation of British Politics*, 1880-1995, Oxford: Oxford U.P.,Ch. 9, esp 484-91.
[3] Ian Macdonald, *Revolution in the Head. The Beatles' Records and the Sixties*, London: Pimlico, 1995, pp.4, 6.
[4] Dominic Sandbrook, *White Heat. A History of Britain in the Swinging Sixties*, London: Abacus, 2007, pp.197-200, 275, 412-13.
[5] cf. Sandbrook, op.cit., p. 342.
[6] Ibid., p. 606.
[7] Hobsbawm, *Industry and Empire*, London: History Book Club, 1968, p.7 ; Cf Philip Stephens, 'British foreign policy should be realist', *Financial Times*, Sept. 20, 2012.
[8] *Britain. An Official Handbook*. 1969 Edition, London: Her Majesty's Stationary Office, 1969, pp. 224, 378.
[9] Ibid., pp.393, 394; specific figures for Dec. 1967 in Calleo, op.cit., p.33.
[10] Calleo, op.cit., p.168.
[11] P.Addison, *No Turning Back. The Peaceful Revolutions of Post-War Britain*, Oxford: Oxford University Press, 2010; Richard Pryke, *Though Cowards Flinch. An Alternative Economic Policy*, London: Macgibbon and Kee, 1967, p. 124.
[12] Addison, op.cit., p. 145.
[13] Comprehensive survey in Merton J.Peck, 'Science and Technology', Ch.X of Richard Caves et al. (eds.), *Britain's Economic Prospects,* Washington DC: Brookings Institution, 1968.
[14] Benn's new film biography, *Will and Testament*, was presented at the Edinburgh Fringe Festival in August 2012; details at http://www.edfringe.com/whats-on/events/tony-benn-will-and-testament.
[15] Full discussion of Benn and his Ministerial career in Sandbrook, op.cit., pp. 326-9.
[16] Jean-Jacques Servan-Schreiber, *Le défi americaine*, Paris: Editions Denoel, 1967, translated as *The American Challenge,* London: Hamish Hamilton, 1968. Servan-Schreiber was a glamorous and prominent Parisian media entrepreneur, founder of the French equivalent of *Time* magazine: *L'Express*; Calleo, op.cit., pp. 70-1.
[17] *Jet! When Britain Ruled the Skies* BBC 4, 28 Aug., 4 Sept. 2012.

[18] On Plan, Kenneth O.Morgan. 'The Wilson Years: 1964-1970', in Nick Tiratsoo (ed.), *From Blitz to Blair. A New History of Britain since 1939*, London: Weidenfeld and Nicholson, 1997, p. 139, Harrison, op.cit., pp. 309-11.
[19] Caves et al, op.cit., p. 22.
[20] Sandbrook, op.cit., pp.657-8; Calleo, op.cit., pp. 28-9; Pryke, op.cit., p. 7; *Britain's Economic Prospects*, cit., n 13, offers a graphic table of the successive stop-go phases between 1950 and 1966; op.cit., p. 43.
[21] Anthony Sampson, *Anatomy of Britain Today*, London: Hodder and Stoughton, 1965, pp. 310-12.
[22] Pryke, op.cit., p. 7.
[23] S. Strange, *Sterling and British Policy. A political study of an international currency in decline*, Oxford: Oxford U.P., 1971.
[24] Ibid., pp.284-9; Caves et al., op.cit., pp. 4, 197, 488.
[25] Cf. *Britain, An Official Handbook*, cit., p.381; Strange, op.cit., pp. 86-7, 89-90,142 and Ch. 4 in general.
[26] Cf. Caves et al, op.cit., p.180; Strange, op.cit., pp.75-6 and Ch.3 in general.
[27] Strange, op.cit., pp. 299-301.
[28] Caves et al, op.cit., p.271; Cf *Britain, An Official Handbook*, cit., pp. 225-6.
[29] Caves et al, op.cit., p.177.
[30] Cf. Pryke, op.cit., pp. 26-8,30, 79,81,124; Strange, op.cit., p. 44.
[31] Morgan, op.cit., p.144-5, Hugo Young, *This Blessed Plot.Britain and Europe from Churchill to Blair*, London: Macmillan, 1999, p.176.
[32] Cf. Pryke, op.cit., pp. 82-4.
[33] Morgan, op.cit., pp.143, 147; Pryke, op.cit., pp. 125, 127-130.
[34] Young, op.cit., p 181-3, 190.
[35] Alan Sked and Chris Cook, *Post-War Britain. A Political History,* Harmondsworth: Pelican, 1979, p. 300.
[36] Calleo, op.cit., pp.62-5.
[37] Strange, op.cit., pp. 22-3, 30-6,40-1.
[38] Calleo, op.cit., pp.71- 72.
[39] Sked & Cook, op.cit., p. 296; graphic evocation of these years in Philip Whitehead, *The Writing on the Wall. Britain in the Seventies*, Michael Joseph: London, 1985.
[40] Cit. in David Thomson, *England in the Twentieth Century*, Harmondsworth: Pelican, 1981 edn, p.320; cf. now Dominic Sandbrook, *Seasons in the Sun. The Battle for Britain*, 1974-1979, London: Allen Lane, 2012.
[41] Will Hutton, *The World We're In*, London: Abacus, 2002, p. 267.
[42] A good entry point to the vast Thatcher bibliography is Stanislao Puglese (ed.), *The Political Legacy of Margaret Thatcher,* London: Politico's 2003.
[43] *Financial Times* 27 April 2009; cf. Martin Wolf, 'The post-post Thatcher era begins', in ibid., Dec. 3 2009.
[44] Charles Young supplies the following table, (noting however that figures vary significantly according to which measure of growth is used):

COUNTRY	2011 GDP PER CAPITA	1970 GDP PER CAPITA	AVERAGE ANNUAL GROWTH	
	Yr 2000 US $	Yr 2000 US $	1970-2011	1965-2011
France	23,017	11,573	1.7%	2.0%
Germany	26,081	11,895	1.9%	2.2%
Italy	18,935	9,502	1.7%	2.1%
UK	28,033	12,540	2.0%	2.0%
USA	37,691	18,229	1.8%	1.8%

Source: www.data.worldbank.org. The data series shown are NY.GDP.MKTP.KD divided by SP.POP.TOTL. Data for Germany from 1965-1970 estimated from Volkseinkommen1950.xls downloaded from www.destatis.de.

[45] Calleo, op.cit., pp. 33-4; discussion on floating rates in ibid., 119-25
[46] Calleo, op.cit., pp. 33-4; discussion on floating rates in ibid., 119-25
Charles Young offers the following table and comment:
Table 1: Indicative British self-sufficiency ratios over different periods

pre –1750	around 100% (in temperate produce)
1750 – 1830s	around 90-100% except for poor harvests
1870s	around 60%
1914	around 40%
1930s	30 - 40%
1950s	40 - 50%
1980s	60 – 70%
2000s	60

For all food unless stated. Source: DEFRA
As a result of the boost to domestic agricultural production, and the rapid expansion of industrial trade, imports have

food have fallen from 30% of total imports to just 7% in 2010. Net imports of food, feed and drink, which in 1951 peaked at over £30bn (in 2010 prices) fell to a low of under £9bn in 1993, and are currently £17bn.

[47] On manufacturing picture in 1967, *Britain. An Official Handbook,* cit., p.224; on situation in 2012, Larry Elliott in *The Guardian*, April 2 2012, at http://www.guardian.co.uk/business/economics-blog/2012/apr/02/uk-manufacturing-reasons-cheerful.

[48] http://www.guardian.co.uk/business/economics-blog/2012/jun/12/uk-manufacturing-performance-poorer-than-appears.

[49] Government figures and comments at http://www.ukti.gov.uk/uktihome/item/358080.ht ; cf. *The Guardian*, 16 Aug. 2012, at http://www.guardian.co.uk/business/2012/aug/16/uk-car-industry-rise-production; Pryke, op.cit., p. 98.

[50] *Wall Street Journal* 19 August 2012.

[51] Eg *Daily Mail,* May 27 2003, *The Sun*, August 4 2005, Ambrose Evans-Pritchard, 'Europe's betrayal of Spain', in *Daily Telegraph* Sept. 27 2012, and comments, at http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100020401/europes-betrayal-of-spain/#disqus_thread.

[52] Calleo, op.cit., p.185.

[53] On troop unemployment, *Daily Telegraph*, 20 June 2012; on VC 10 and Libya ibid., 22 Aug. 2011; on Nimrod story, ibid., 27 Jan., 19 Sept. 2012.

[54] Fred Hood, 'British Foreign Policy post-Blair', Bologna Center, 14 May 2007.

[55] Strange, op.cit., p. 60; British analyses of the Blair government's behaviour in the Iraq crisis include Peter Riddell, *Hug Them Close. Blair, Clinton and the 'Special Relationship'*, London: Politico's 2003, James Naughtie, *The Accidental American. Tony Blair and the presidency*, London: Macmillan, 2004; Geoffrey Wheatcroft, *Yo Blair!* London: Politico's 2004.

[56] Andrew Gamble, *Between Europe and America*, Basingstoke: Palgrave Macmillan, 2003, p.232; cf. Sir Jeremy Greenstock, 'We must learn from our mistakes', in *New Statesman,* Sept. 10 2007, p.31. Greenstock was the UK's special envoy to Iraq, 2003-4.

[57] Bernard Jenkin, 'Let's break up BAE – or sell it to the US', in *Daily Telegraph*, 25 Sept. 2012; cf. Philip Stephens, 'British foreign policy should be realist', in Financial Times, 20 Sept. 2012; the proposed merger collapsed in October 2012.

[58] Francesco Remotti, *L'ossessione identitaria*, Rome: Laterza, 2010.

[59] Ellwood, *The Shock of America. Europe and the Challenge of the century*, Oxford: Oxford UP, 2012, pp.509-12.

[60] Richard Weight, Patriots. *National Identity in Britain 1940-2000* London: Macmillan, 2002, p.665; Joel Krieger, *British Politics in the Global Age*, Oxford: Oxford U.P., 1999, p. 137; cf also R. Samuel (Ed.) *Patriotism: The Making and Unmaking of British National Identity,* London: Routledge, 1989, 3 volumes, and M Guibernau, *The Identity of Nations,* Cambridge: Polity Press, 2007.

[61] In 2004, for instance, the Royal Society of Arts carried out a world-wide survey on Britishness, and matched the results with a similar a survey in an English town. The results were summed up by the former US Ambassador Raymond Seitz: the British "seem to know mainly what they used to be"; *Daily Telegraph*, 15 Nov. 2004; among many texts on the subject, the articles in *Britishness*. Perspectives on the British Question, edited by Andrew Gamble and Tony Wright (Oxford: Wiley-Blackwell, 2009) are particularly incisive.

[62] President Sarkozy's formal effort in the same direction appeared to have back-fired at the time, cf. *Le nouvel observateur,* Dec. 2009; the Brown-inspired essay collection is Matthew D'Ancona (ed.), *Being British. The Search for the Values that Bind the Nation*, Edinburgh: Mainstream, 2009, with particularly important contributions from the Archbishop of Canterbury, the Chief Rabbi, the Cardinal of Westminster and leaders of the Muslim community. I have discussed this book in 'Bemused by America, Terrified of Europe? The Politics of Identity in Britain from Blair to Cameron', in *Bologna Center Journal of International Affairs*, Spring 2010.

[63] The TV documentary *Jet!,* mentioned at n. 17, offers a classic demonstration of the 'phantom limb' mechanism at work. Many commentators reflected on the relationship between the Britain presented by the London Olympic Games and national identity; eg editorial and Simon Schama column in *Financial Times*, Aug. 11 2012; the same newspaper's music critics claimed that with British performers accounting for 12.6% of global music sales in 2011, they spoke for a country which had lost real power like no other, but which still maintained unique cultural influence or 'soft power'; ibid. Every other old country has its own phantom limbs, of course.

[64] In the final phase of the Labour government under Gordon Brown, the House of Commons Foreign Affairs Committee published a detailed report on the US-UK Relationship, calling for the use of the phrase 'Special Relationship', and all it implied, to be generally abandoned. Details at http://www.publications.parliament.uk/pa/cm200910/cmselect/cmfaff/114/11402.htm. As the friendship between Obama and Cameron has developed, the lessons of this analysis appear to have been completely forgotten, and the old language resurrected once more.

[65] 'The American Challenge Renewed', in *The Brown Journal of World Affairs,* Winter/Spring 1997; 'American Myth, American Model…'cit.; 'Bridge, Beacon, or 51st State ?', *in Bologna Center Journal of International Affairs*, Spring 2004; 'Bemused by America..', cit. n. 62.

[66] In the run up to the general election of 2010, the political satirist Armando Iannucci prepared a YouTube video showing the identical language used by Blair and Cameron in ceaslessly urging change on the nation's citizens; at

http://www.youtube.com/watch?v=xmVhB01-nIk&feature=related

[67] Fraser Nelson, 'They wish we all could be Californian: the new Tory plan,' in *The Spectator*, 28 Feb. 2009. Bloggers who commented on this article, published in the leading conservative weekly, largely poured cold water on the idea of California as offering any sort of model, and the relevance of Google in particular to Britain's problems; other references to Cameron's American heroes – including John F.Kennedy and George W.Bush – in Christopher Caldwell, 'Arriva Cameron', in *Internazionale,* 23 Oct. 2009 (translated from *The New York Times* magazine, n.d.); Parliamentary Question seen on BBC Parliament, 23 July 2012.

[68] Calleo, op.cit., Ch.VIII; on 'New Labour's Normative Community', Krieger, op.cit., pp. 143-5. Krieger wrote (in 1999): '.. the normative appeal of New Labour's narrative of community has enormous cultural and political force, and lies at the heart of its claim to a third way model of organizing politics'; loc. cit., p.145.

[69] For a believer's guide, Jesse Norman, *The Big Society. The Anatomyof the New Politics,* Buckingham: the University of Buckingham Press, 2010; Norman was a Tory MP, and Chair of the All-Party Parliamentary Group on Employee Ownership.

[70] Daniel T. Rodgers's *The Age of Fracture* (Cambridge MA: Belknap 2011), discusses the weakening of all these mechanisms of national cohesion in America in recent decades. Judging from the latest Social Attitudes Survey, a similar unravelling may be happening in Britain, especially on attitudes to the welfare state; discussion in David Goodhart, 'Goodbye Beverdidge: welfare's end nears', in *Financial Times*, 29 Sept. 2012. This explicitly mentions American parallels.

Michael Stürmer

France and Germany – Deux Rèves dans un Seul Lit: An Essay in honor of David Calleo and his perennial endeavour to understand the political economy of money

War... brings things to light that otherwise remain obscure": What General de Gaulle once remarked about shooting wars is also true of the present "currency wars" inside the European Union, or more precisely the Eurozone, with France and Germany at centre stage.[1] Things have gone from bad to worse, from irreconcilable divergences among the respective partners to massive bailouts that contravene fundamental agreements like the Maastricht Treaties of 1992. What has haunted the whole of Europe is a deep crisis of trust among banks and governments, and increasing doubts in the population at large that political decision makers know what they are doing. This is no longer a technical problem for monetary wizards to resolve: What is at stake is the very cohesion of the European Union, its internal balance, its legitimacy and its direction. It is no longer impossible to think that the EU could fall off a cliff. But whatever the fate of the Euro itself, if the Eurozone countries do indeed opt for a strict and binding fiscal union, with ever more control and authority vested in the European Commission, and ever less respect for national identity, there is no way that Great Britain will remain part of the European Union.

France under President Nicolas Sarkozy had been managing the fall-out from the global financial crisis in tandem with Germany under Chancellor Angela Merkel, trying, alas unsuccessfully, to convert the rest of Europe to Germanic fiscal virtue. But once François Hollande was voted into the Elysée Palace, the balance of power inside the Euro-Zone changed fundamentally. Hollande, instead of following the German lead towards fiscal rectitude and austerity, began to form a protest movement of the Mediterranean countries to recover as much as possible of their lost monetary sovereignty, and to transform the ECB from a clone of the Bundesbank into the spitting image of the old Banque de France. Germans could be forgiven for remembering the unpromising situation, thirty years before, that had been at the origins of the common currency: in France the socialist majority in the Assemblée Nationale, together with a socialist president, had gone on a welfare spending spree in an attempt to make the Communists redundant. Within less than two years the franc français was under severe strain, its exchange rate not only against the dollar but also the deutschmark impossible to defend, and the so called "snake" – the mutual obligation to stabilize the exchange rate vis-à -vis the dollar – was close to falling apart. The Bundesbank warned the Bonn government in no uncertain terms that it could no longer defend the French currency, that intervention had exhausted its means, and that something had to be done. The result was two-fold: the Bundesbank was encouraged by the Kohl government to save both French prestige and the franc français, while the Bundesbank in turn insisted that the Banque de France must become as independent from the political authorities as the Bundesbank itself. For more than a decade thereafter French monetary policy tended to come from Frankfurt -- courtesy of the Bundesbank-- while in order to avoid the lasting humiliation of the French *classe politique* and a growing disequilibrium between France and Germany, the project of Economic and Monetary Union was recovered from the archives where the Werner Plan rested in peace. EMU, however, continued to be seen by the Bundesbank as nothing but wishful thinking, idealist daydreaming, an impractical, indeed a dangerous idea. What began as a seemingly abstract exercise soon proved to be a serious but open-ended power struggle between Paris and Brussels on one side and Frankfurt and Bonn on the other.

Jacques Delors, the powerful and activist president of the Brussels machinery, a great European and an even greater Frenchman, soon initiated what was meant to be a decisive step towards the "ever closer union" that the partners had promised each other in the original EEC Treaty of 1957--without ever stopping to assess the wider political implications. Delors knew that he was up against entrenched German opinion as well as that most powerful and respected of all German institutions, *"le monstre de Francfort" as Le Monde*

at the time was calling the German central bank. Delors was a little more flattering when he observed: "Not all Germans believe in God but they all believe in the Bundesbank". But then history intervened. The Soviet Union fell victim to its hubris in Afghanistan, its generic inefficiency in information technology, and the fall of oil prices in the mid-1980s. When the Berlin wall fell, the European chessboard changed, and new rules and new chessmen had to be invented. The French political class, by and large, saw the central European sea-change as a defeat and began to fantasize about *"le quatrième empire"* east of the Rhine. Mitterrand was enough of a realist to link his consent to the "Two plus Four" agreement on German unity to the common currency. But he made it clear that without a leap forward, the Franco-German couple would face a difficult time. Kohl in turn suggested accelerating Economic and Monetary--which meant overriding the Bundesbank--and complementing EMU with political union. While Mitterrand insisted on the common currency he was not interested in political union: The two Maastricht treaties, the fat one on EMU and the lean one on PU reflected the new Franco-German balance. Kohl ultimately decided that it was impossible, in fact dangerous, to try to build the future of Europe on a deep-seated feeling of humiliation and loss in Paris. It can be said that without Kohl and his sense of a historical trauma--he repeated time and again that EMU was a matter of war and peace--the Euro would never have seen the light of day. While Kohl and Finance Minister Theo Waigel reassured German voters that the common currency would be as hard as the deutschmark, and the European central bank statute as unforgiving as the Bundesbank's, German industry through its official spokesmen made no secret of the fact that its leaders were looking forward to a lighter currency. One way or the other, both sides underestimated the forces that were to impact on the common currency long before the global financial crisis had struck. The entrance test that future Eurozone members had to pass resembled a statistical stress test, more or less mildly applied, with a lot of latitude for countries who engaged in creative book-keeping. The Euro was a political project, rather than one brought about by economic and financial necessity, and it worked for a while. It also reflected, to no small degree, the arrogance of power. "La politique avance, l'intendanture suivra", General de Gaulle had said, long before the common currency was in the offing, thereby forgetting how many generals, by ignoring the "intendanture", had lost their wars. There was, among the politicians who were out to redraw the economic maps of Europe and the world, an unlimited optimism that they could change the laws of political economy and ignore the lessons of history, such as the failure of all previous common currencies, with the marginal exception of the Franc Belge, legal tender in both post-war-Belgium and the Grand Duchy of

Luxembourg. The warning of Joseph Schumpeter ("Vom Wesen des Geldes)", Austrian politician and Harvard professor, expressed only the common opinion of the academic community: "Monetary policy means more than to form influence, setting rules for a special domain of market economics. The often passionate, always great interest pertaining to all money-matters and especially the value of money can only be explained by the fact that the monetary system of a people reflects everything that this people wants, suffers, is, and that the monetary system exerts a substantial influence on its economy and, in fact, its destiny. The state of a people's finances is a symptom of its overall condition".

Schumpeter, if still alive in 1990, would have warned policy-makers on both banks of the Rhine not to try to merge heterogeneous societies, ways of life, and net debt positions--but he would have been ignored as the bearers of bad news have always been ignored, if not punished, by the powers that be.

Meanwhile, five years into an unforgiving test of the Euro, of political leadership, and of political confidence, the outcome is still uncertain. The German chancellor was the first among top policy-makers to admit that something had been wrong in the construction of the Euro from the start, that subsequently more serious mistakes had been made--such as admitting the wily Greeks to the Eurozone--and that the crisis might consume the best part of the next ten years. Politicians, somewhat academically, have insisted that the problem at hand is not a Euro-crisis but one due to the accumulation of ever-increasing state debt, a crisis of trust among banks, of capital flight, and a whole array of financial plagues amounting to a great recession. Consequently, there is the widespread belief, especially on the political left and in Southern Europe, that fiscal rectitude and austerity are not hopeful medications and that a little inflation would be greatly appreciated—as well as ECB bailouts, mutualisation of debt, and Eurobonds. All of this is publicly vented to the growing horror of the more conservative parts of the German electorate. Their overriding fear is not so much run-away inflation--a trauma of the distant past--but the disappearance of the ground under their feet, the failure of crisis management thus far, the loss of confidence in the future, and the erosion of trust in the competence of politicians.

Is the answer to be found in the fiscal compact that has been discussed throughout Euroland? This would be a leap in the dark, for many reasons. It would be the post-Maastricht Growth and Stability pact all over again, but with added unspecified powers for the European Commission to meddle in the internal affairs of Eurozone countries, far beyond anything that has been tried to date in the course of makeshift interventions in Greece and elsewhere. Can that be done within the existing political and constitutional frameworks of the member countries? Probably not. German politicians from both the right

and the left, and some intellectuals, believe that the Euro crisis is a once-in-a-lifetime chance to make great strides toward the United States of Europe. Others, like the much of the British public, note with horror what is brewing on the continent. Some regard it merely as a spectacle staged by German politicians who have run out of ideas on how to save the Euro--a spectacle that will come to naught once the 70 percent of Germans still daydreaming of the deutschmark feel that a referendum might be the moment of revenge against politicians who have led the country to a place where most people never wanted it to be. While the chancellor and even the parliamentary opposition seem to believe that "more of Europe" is the answer, most people would be happy to wake up one day and not be greeted by more bad news about the currency and, by implication, their futures.

France under a socialist president, meanwhile, has embarked on a course of anti-austerity, "in-your-face" to German chancellor Angela Merkel. There is not much of an attempt to improve France's laggard economic performance or to follow German concepts like the apprentissage, the late pension, and subsidies for short working hours in times of recession. France, like much of the South, suffers from an entrenched lack of competitiveness. This has forced the president into an undesirable policy choice.

- He can tell his fellow country men to pull up their socks, shed many socialist idiosyncrasies, and risk industrial unrest but in so doing lead France once again to play in the first league of Europe: *"S'asseoir à la table des grands"* and *"tenir le rang"* were, after all, the driving motives for the founder of the Fifth republic and his major policies. Long after de Gaulle, the same ambition was behind the drive for the common currency under his predecessor François Mitterrand.
- Or Hollande could take the soft option and become chief manager of Club Med. There would be, however, two unpleasant consequences: First, rival Germany will, after a brief period of socialist temptation, once again forge ahead as a global player, a kind of super Switzerland. Second: The man in the gilded halls of the Elysée will discover that globalisation has no pity, not even for Marianne.

Enfin et surtout: Both France and Germany will pursue different dreams, because their social contracts are different, and in parts incompatible. Therefore it looks like Europe, first the Euro and then the Union, is more likely to break up into parts than to stick it out together.

ENDNOTES

[1] See the perceptive lead story in *The Economist*, October 10, 2010.

Ömer Taşpınar

Europe, Islam and the Muslim Periphery

This chapter will analyze whether the Arab revolutions and the ongoing destabilization in the Middle East since late 2010 will change Europe's approach to its Muslim periphery from its current lethargic state to more active economic and political support for democratization. I will argue that no major changes will occur in European policies. There are three key reasons why "business as usual" with only cosmetic changes is likely to remain the norm. First and foremost is the fact that Europe is in deep economic and financial crisis. With growing discord between France, Britain and Germany and financial challenges in Cyprus, Greece, Portugal, Spain and Italy, not only the future of the monetary union but the very foundations of the European Union, as a political project, are at stake. Consumed by its own existential crisis, a serious re-thinking of foreign policy is not like to become a top priority for the EU.

The second reason why we should not expect Europe to seriously change its policy towards the southern Mediterranean is Islamist victories in the ballot box. For decades, Europe's primary concern in the southern Mediterranean has been security and economic development. Anti-terrorism cooperation, border controls against immigration, and economic assistance to corrupt but friendly authoritarian regimes were the hallmarks of a series of EU projects--ranging from the Barcelona Process (becoming the Union for the Mediterranean in 2008) to Euro-Mediterranean Partnership (EMP) and the European Neighborhood Policy (ENP). This "security and development first" mindset came at the expense of genuine support for democratization in countries like Egypt, Algeria, Tunisia, and Morocco. The logic behind such European programs-- and similar American policies--can be best summarized as the fear of the alternative. Autocrats like Egypt's Mubarak became masters at exploiting such Western fears by presenting radical Islam as the only alternative to their repressive regimes. Now that Islamist parties in Egypt are well ahead in parliamentary elections, some serious second thoughts about democracy in the Arab world are likely to emerge.

Finally, the third reason why Europe is unlikely to change its foreign policy is the con-

tinuing reluctance to embrace Turkey and the growing backlash against Muslims and multiculturalism within Europe. The backlash against multiculturalism and fear of Islam is a major problem in Europe. This paper will focus on this challenge in a separate section below. The related issue of Turkey's diminishing EU membership prospects is not less important. Any serious re-thinking of European influence on its Muslim periphery would normally entail a fresh look at the country whose own success as a prospering secular democracy owes so much to its European vocation. To be sure, the EU cannot offer membership prospects to its southern neighbors in North Africa. Yet, the fact that even a country like Turkey is sidelined by France and Germany shows the limits of Europe's current geostrategic vision of the Muslim world.

Despite all these shortcomings, the European Commission is trying to reorient its approach to the southern Mediterranean with proposals such as a "Partnership for Democracy and Shared Prosperity" and new task forces for the region. Conceived in March 2011 as the EU's response to the uprisings in the Arab southern Mediterranean, the partnership puts emphasis on democratic transformation and institution-building, civil society contacts, and economic development underpinned by an improvement in educational and health systems. Further areas of engagement are fundamental freedoms, constitutional reform, reform of the judiciary and the fight against corruption.[1]

What is missing, however, is an effective application of conditionality and a clear sense of priority attached to democratization. Past European efforts have also emphasized the importance of the rule of law, democratization and human rights but they failed to prioritize these issues with clear metrics and conditionality for further economic assistance. Instead the traditional approach of the European Union has been inspired by modernization theory, based on the notion that economic development will lead to incremental democratization.

The expectation that higher economic growth would trigger political reforms stood in sharp contrast with the realities on the ground where entrenched authoritarianism co-existed with economic stagnation. After 9/11 European policy-makers had additional incentives to prioritize security cooperation with authoritarian regimes in areas such as counter-terrorism and intelligence cooperation.

Similar dynamics were in play on the other side of the Atlantic. But the grueling years of state building in Iraq and Afghanistan lessened the Bush administration's sure-footedness in the region. The push for democratization that characterized the approach of the Bush administration between 2002 and 2005 underwent reevaluation after significant electoral gains by Islamists in Egypt, Lebanon and Palestine. Although it continued

funding for the Middle East Partnership Initiative, this represented a small fraction of the billions in foreign military funding. Despite the aggressive rhetoric, the Bush administration did not follow through. The U.S. administration did not punish Egypt for the trials of Saad Eddine Ibrahim and Ayman Nour, nor did Zine el Abidine Ben Ali pay a price for his violations of press freedoms.

Ironically, the Arab Spring came right when both Washington and Brussels were growing more comfortable with the old paradigm of sustaining what they knew to be unsustainable. Even President Obama's famed Cairo speech soft-pedaled democracy promotion in the hope that the old regimes might hold the key to an enduring Israeli-Palestinian settlement.

Despite the sense of relief that the uprisings were not led by Islamists, the recent turn of events has begun to cause alarm in Europe. If the revolts were in themselves surprising, however, the rise of moderate Islamist parties in elections in Tunisia, Morocco, and Egypt did not come out of nowhere. The Tunisian Ennahda had received 14.5% of the vote in 1989 and the Moroccan Justice and Development Party won almost 13% of parliamentary seats in 2002. The Muslim Brotherhood and the Salafist Al Nour together received nearly two-thirds of the seats in Egypt's three-stage parliamentary elections. An Islamist government in Egypt in coalition with Salafist group has certainly diminished EU's enthusiasm for elections and democracy in the Arab world. Although the Muslim Brotherhood was widely predicted to emerge as the top party, almost no one expected the more radical Salafists to score as high as they did. Understandably, there have been voices in Western media expressing serious concerns, even panic, about a radical Islamic turn in Egypt. But instead of being excessively alarmist, Western analysts should try to understand the nature of this complex phenomenon generically called "political Islam" in the Arab world.

ANALYZING POLITICAL ISLAM IN THE MUSLIM PERIPHERY. The place to start is the role of Islam in societies under the thumb of authoritarian regimes in the Arab world. From North Africa to Saudi Arabia and Yemen the absence of good governance, democratic politics, and free elections has been the most fundamental feature of entrenched political systems. Islam, in this repressive context, emerged as the only meaningful avenue for passive dissent. The mosques, in the absence of political parties, grass-root oriented ngos, and of freedom of association and expression, have become the only place where disenfranchised masses could gather and engage in collective action. While politics was the realm of the wealthy and corrupt elite, religion was the realm of

the silent majority. Since the mosques were the only available political and social outlet in these otherwise very repressive regimes, what emerged was a phenomenon that can be best summarized as the Islamization of dissent. Since Islam was often "the only game in town" the Islamization of dissent also created a parallel process of "politicization of Islam" as the conversations in mosques turned more and more political. The fact that Islam puts tremendous emphasis on the concept of justice also helped. The equality and unity of all believers and the absence of hierarchical structures controlling the relationship between God and believer are very important features of Islam. The call for justice against tyranny is an inherent aspect of the faith. Concepts such as freedom, human rights, or democracy have alien, Western connotations in the Islamic world. But "justice" is part of the Islamic lexicon in an authentic way. And the concept of justice naturally resonates with humiliated, repressed, and frustrated masses. It is not a coincidence that from Turkey to Morocco to Egypt, political parties that wish to emphasize their conservative, religious, and populist credentials against entrenched power elites refer to "justice." It is also important to note that in most Arab countries Islamic movements have become very effective at providing social and economic assistance to the impoverished masses. The weakness and corruption of the state stood in sharp contrast to the organizational capacity and willingness to help of Islamic movements such as the Muslim Brotherhood. In short, what we call political Islam, filled an important vacuum in the social and economic sphere as well.

Together, these dynamics should help us understand why Islamic movements have a tremendous head-start in post-authoritarian Arab societies. There is nothing surprising in their electoral victories and the West should not panic over their rise. Instead, what we are witnessing is a tremendous opportunity. By coming to positions of political power, Islamic movements will soon realize that their long cherished slogan of "Islam is the solution" will not work. Given the complexity of problems they will face, Islamists will have to adapt to the new environment by becoming more pragmatic and competent. In case they insist on ideological rigidity and doctrine, their failure will provide an opportunity as well. Simply put, this failure will "demystify" political Islam as the magic solution. In either case, it will be a win-win for both the West and Arab societies. Instead of panicking, the European Union should see what is unfolding in Egypt as an opportunity for the moderation of political Islam in power or the demystification of a powerful force. Given its geographic proximity, it is only normal that Europe has much at stake in the outcome of the revolutions in the southern Mediterranean. In addition to proximity, another important reason Europe feels deeply involved is the presence of 15 to 20 million Muslims

within the borders of France, Germany, UK, Holland, Spain, and Italy.

ISLAM IN EUROPE. A very alarmist mood has lately become the norm among European experts on Islam. Is Europe doomed to become an extension of the Arab West? If you ask the eminent historian Bernard Lewis, the answer is yes. Migration and demography are working toward creating "Eurabia." This allegedly unstoppable march of Islam in Europe is causing unprecedented anxiety for both Europeans and Americans. Emotions run high, and facts are in short supply on both sides of the Atlantic. For Europeans, the danger is much closer--in their very own home. Unaccustomed to being a land of immigration, they are increasingly worried about their cultural identity, economic well-being, and physical security. When emotions run so high, perception defines reality: Futuristic novels entitled, *La Mosquée de Notre-Dame*, urban legends about Mohammed being the most common name for newborns in Europe, and arguments over which European city will become the capital of Eurabia define what has become a sensationalistic debate.

The sense of despair and panic over the Islamization of Europe comes in different forms. The most classical one involves demographics. According to this thread of Eurabian literature, ever-increasing Muslim birthrates will dwarf Christian populations and radically alter the social fabric of the continent in the next 30 to 40 years. Another variant of Eurabia is ideological, whereby rampant Islamo-fascism is met by typical European appeasement and pacifism. In this version, by the time Europe finally wakes up and tries to put an end to its naïve and helpless attitude toward militant Islam in its midst, it will be too late. In all the varieties of Eurabian narratives, though, nothing less than Europe's cultural identity and values, based on democracy and enlightenment, are at stake.

It is not surprising that Islamophobia is fueled by such alarmism. In its most subtle form, concern about Eurabia creates a backlash against multiculturalism. Ironically, this is the case even in countries like France and Germany, where multiculturalism was never the norm. The recent rash of burqa-banning laws and the Swiss ban on minarets are examples of this European rebellion against cultural relativism. According to this view, multiculturalism, itself based on cultural relativism, breeds parallel societies and the ghettoization of Islam in which Islamic radicalism thrives.

Finally, there is a foreign policy dimension to the problem: growing European opposition to Turkey's European Union membership. A Muslim and increasingly Islamist Turkey, it is argued, will only worsen Europe's nightmare with uncontrolled Muslim immigration and Islamization. After all, Turkey already has a population of 75 million and will be the largest country in the EU if it becomes a member in the next 10 years or so.

Are Europeans right to be so concerned? Is Europe really turning into Eurabia? To answer that question in a balanced way, we need to take a closer look at current facts and trends. Let's start with demographics. Yes, Muslim birth rates in Europe are high compared to the Christian majority, but the trend is in decline. Indeed, it is very likely that Muslim birthrates will flatten in the next decade and slowly begin to converge with European norms. The projections showing a Muslim majority in Europe by 2050 are wildly off the mark, for the simple reason that they project a population increase based on a one-off trend from the 1980s, when family reunification programs doubled the number of Muslims in Europe.

Some history is required to shed light on this important issue. The presence of large Muslim communities in Europe--especially in France, Germany, Britain and Holland--goes back to the 1950s and 1960s. In the aftermath of World War II, a devastated Europe was in desperate need of a larger labor force. France and Germany had lost close to one-fifth of their male populations between 1913 and 1946. By the 1950s, as economic recovery began, Paris and London turned to their colonial territories for manpower. Algerians, Moroccans, and Tunisians found their way to France, while South Asian Muslims--Pakistanis, Bengalis, and Indian Muslims--flocked to Britain. Germany, without colonies, turned to the Republic of Turkey.

This first generation of Muslim workers shared common characteristics. They were predominantly from poor and rural areas of their home countries. They had very little education and some were even illiterate. They were all placed in factory jobs as low-skilled workers. Not surprisingly, they were more interested in sending money to their families back home than in adapting to European norms or fighting for equal rights when they were discriminated against. The host countries also shared some characteristics. None of them was very interested in integrating or assimilating the newcomers. With characteristic frankness, Germans called the arriving Turks *"Gastarbeiter,"* or guest workers. And like good guests, these workers were expected to leave once the party was over.

By the 1970s, after 20 years of high-level growth, Europe's party was over. As stagflation and unemployment hit the continent, host-country governments encouraged their Muslim guests to leave. In particular, right-wing governments wanted to impose repatriation programs and financial incentives facilitating their departure, in order to open job opportunities for their citizens. But for the millions of Algerians, Turks and Pakistanis who made a decent living in the unionized and welfare-state-oriented countries of Europe, going back was no longer an option. They simply had no economic prospects in their home countries. In fact, instead of leaving, they were much more interested in bringing their

own families to Europe. Their demands for family reunification were hard to refuse in Western European liberal democracies, where a combination of European colonial guilt, the legacy of the Holocaust, and strong progressive values worked in favor of accepting such family reunification programs. Most Muslims workers were now legal residents, and large numbers of them, particularly in France and Britain, had become citizens. Denying their basic civil right of family reunification was not an option.

To the dismay of anti-immigration and xenophobic right-wing groups, millions of new Muslim immigrants came to Europe in the 1980s thanks to family reunification programs. By the end of the 1980s, the Muslim population of France had tripled from 1 million in the mid-1960s to 3 million. Similar dynamics were in play in Germany, Britain, and the Netherlands. Most of the alarmist demographic projections pointing at Muslim majorities by 2050 use the sharp increase in the 1980s as the norm for future trends and are therefore misleading. Even relatively sober projections focusing on the current Muslim birthrate overlook the fact that fertility rates of Muslim women in Europe are in decline. In Germany, for instance, Muslim women initially gave birth to two more children, on average, than their native German counterparts. In 1996 the difference was down to one, and in 2008, it dropped to 0.5. Those who argue that Europe will turn into a Muslim-majority Eurabia should remember that the total Muslim population in the EU-25 is around 15 million, or just 3.7 percent of the total population. By 2030, if current trends continue, the Muslim population is likely to increase to 25 million, or 6 percent of the total. By any stretch of the imagination, these numbers are not conducive to the "Muslim Europe" Bernard Lewis seems to fear.

Yet, all is not well in Europe. As the Muslim population doubled in the 1980s, Europe faced a major challenge: growing unemployment. Due to a combination of labor market rigidities, overly generous welfare states financed by high taxation, and low growth, economic prospects were in decline. This situation stood in sharp contrast to the 1950s, when the first generation of Muslims arrived and European growth was in double digits. In the absence of employment opportunities, the integration of the second generation of Muslims into national labor markets became a daunting task. Perhaps more troubling was the mounting social, cultural, and political expectations of the new generation. Unlike their parents, second-generation Muslims were relatively better-educated and bilingual. They were also very much interested in gaining equal rights and quite sensitive to any sign of discrimination. European governments, for their parts, had to wake up to the fact that they no longer had Muslim workers, but Muslim citizens and families who were determined to stay and demand equal status. Europe was now officially a land of

immigration with growing ethnic and religious diversity.

Europe, of course, is not a monolith. Different European governments decided to deal with the new situation in different ways. The different historical and political traditions--in terms of citizenship, nationalism and secularism--of France, Germany, Britain, and the Netherlands became increasingly relevant to the ways they approached the challenge. In France, for instance, the legacy of the Revolution, with its emphasis on secularism, played a major role in the headscarf debate. When Muslim girls wearing headscarves wanted to go French public schools, memories of the cultural war between the Catholic Church and the secular Republic came back to haunt the country.

Whether there should be room for religion and religious symbols--such as the cross or the Bible--in the "public square" was an extremely polarizing problem in France during the 19th century. In fact, relations between the French secular state and the Catholic Church had to go through various stages before finding a precarious balance whereby a strict separation became the legal norm in 1905. French historians often refer to the pre-1905 stage, when the Jacobin Republic tried to control, subvert, and domesticate the Catholic Church as "Laïcité de combat"-- the most militant stage of French secularism. Less-confrontational phases of "Laïcité de cohabitation" and "Laïcité de tolerance" characterized most of the 20th century, as religion in general and Catholicism in particular no longer presented a threat to the secular ideals of the Republic.

With church attendance in France down to 5 percent, the shift from militant laicism to indifference was hardly surprising. Yet, things rapidly started to change with the headscarf issue and the larger debate over Islam in France. The defensive political reflex of the Republic, with a heavy dose of "Laïcité de combat," once again kicked in. Many generations had passed since the culture wars, but France was once again polarized and at a loss to find a tolerant approach to a few hundred girls determined to go to school with headscarves. Perhaps not so surprisingly, it was the Catholic Church that showed more sympathy for their cause. Particularly after the 2005 ban on all visible religious symbols in public high schools, most of the Muslim girls wearing headscarves began to attend private Catholic schools. Another legacy of the French Revolution has to do with citizenship. "Liberty, Equality, and Fraternity", the official slogan of the Revolution, refutes communitarian structures, multiculturalism, and hyphenated identities for minorities. By this ideal, there should be no ethnic, religious or sectarian barriers between the Republic and its citizens. The state therefore has no business collecting data about ethnic, religious or sectarian backgrounds. Having rejected the concept of minorities, France has a duty, even a sort of "civilizing mission", to assimilate all its residents into a

citizenship based on the progressive, secular, and enlightenment values of the Republic. Demands for both affirmative action, or positive discrimination, as the French call it, and multiculturalism are therefore against the spirit of the Republic.

If we apply the same analysis--looking at the type of secularism and model of citizenship--to Britain and Germany, we quickly see that Europe is indeed very diverse in its approach to Islam. In Britain, for instance, there is no strict separation of church and state. The United Kingdom has an official religion, the Anglican Church. In Germany, the state recognizes certain religions as official and collects a "church tax" from citizens belonging to these faiths. In the Netherlands there is a similar type of organic relationship with the Catholic and Protestant "pillars" of society. As a result, British, German, and Dutch secularisms are not as strict and separation-oriented as the French version. And it is no coincidence that Britain, Germany, and the Netherlands did not face the same legalistic debate about the headscarf in their high schools. Despite growing Islamophobia, Muslim headscarves are allowed in these countries. The legal debate is not about students, but rather about whether public school teachers should be allowed to wear headscarves.

There are also major differences among the British, German, and French approaches to citizenship. Both France and the U.K. embrace a civic understanding of territorial citizenship, jus soli, whereby everyone born within national borders is entitled to citizenship. Germany, on the other hand, had a citizenship system based on ancestry, jus sanguinis, which discriminated against foreigners until relatively recent times. Thanks to a major overhaul of citizenship laws in 2000 during the SPD-Green coalition government, Germany now gives citizenship to those born within its national borders. Yet, dual citizenship after age 23 is still not permitted, and one of the parents of the newborn has to be a legal resident.

But beyond the legal aspects of citizenship models, perhaps the most drastic difference between France, Germany, and the U.K. is in their political approach to diversity. While France sees assimilation as the norm, Britain and the Netherlands have a much easier time accepting multiculturalism. Germany, on the other hand, favors neither assimilation nor multiculturalism, even as it struggles to define an approach that goes beyond the "marginalization" of Muslims, which was the norm until 2000. Yet, even in the case of supposedly more tolerant Holland and Britain, official policies of multiculturalism basically amounted to indifference. Multiculturalism, in practice, meant that the state was reluctant to interfere with Muslim affairs. Despite such differences, in terms of approaches to secularism and citizenship, all of Europe faced the same dilemma once

Muslim communities became more visible and permanent in the 1980s and 1990s: the failure to integrate.

POLITICAL ISLAM AND THE BACKLASH AGAINST MULTICULTURALISM. The integration of Europe's second-generation Muslims could have been made easier by upward economic mobility. Yet jobs were lacking, and youth unemployment was on the rise across the European Union. To make things worse, political Islam was also on the rise as the most powerful social force in North Africa, the Middle East, and Pakistan. After the Islamic revolution of 1979 in Iran and the powerful ascent of the Muslim Brotherhood across the Arab world, European governments became increasingly concerned about radicalism among their own Muslim communities. Such concerns proved well-founded, as disaffected Muslim youth, particularly in Britain, rallied behind the fatwa of Iran's Ayatollah Khomeini against Salman Rushdie. Images of Islamic fury and book burning were hard to digest for a secular continent. France, like Britain, was concerned about Islamist contagion as political Islam gained electoral victories in Algeria. When that country's Muslim Brotherhood appeared close to coming to power in 1991, Paris saw no harm in siding with the Algerian military's intervention, which led to a civil war during the 1990s killing more than 150,000 people. With Algeria in chaos, radical Islam and terrorist vengeance subsequently turned into a domestic challenge for France. Finally, things went from bad to worse during the first decade of the 21st century. Samuel Huntington's "clash of civilizations" seemed to turn into a self-fulfilling prophecy after the terrorist attacks of Sept. 11, 2001. Populist American media outlets such as Fox News began to treat Europe as a "jihad factory," and issues like the headscarf ban or the Mohamed cartoon crisis in Denmark were portrayed as global confrontations between Islam and the West. Much more serious and troubling events, such as terrorist attacks in Madrid and London that killed hundreds of people, further polarized the debate about Muslims in Europe. Even in the Netherlands, previously seen as a post-modern paradise of multicultural tolerance, the assassination of Theo Van Gogh by a Dutch Moroccan extremist led to a nasty backlash against multiculturalism. Not surprisingly, such polarization mainly benefitted populist demagogues such as Geert Wilders, who wants to ban the Koran and headscarves, and xenophobic, anti-immigration, extreme right-wing political parties. As Britain and the Netherlands rapidly turned against multiculturalism, an alarmist debate about national identity began. The emerging British and Dutch consensus, to the delight of France, was one that required much more emphasis on assimilation. Yet, even assimilation-oriented France was not immune to social unrest. The 2005 riots

in the *banlieue* of Paris made it abundantly clear that the French model was also in crisis. Despite the country's vaunted attachment to its historic ideals of liberty, equality, and fraternity, disaffected French Muslim youth felt anger and resentment due to the lack of social and economic upward mobility. Although the riots were not Islamic per se, many populist media outlets referred to a "jihadist rebellion" or a "French intifada," which they characterized as a reaction to the headscarf ban.

Although it never embraced multiculturalism, Germany, too, was not immune from the growing European backlash. For instance, citizenship tests in various German Lander now try to assess the reaction of would-be citizens to alternative lifestyles, such as homosexuality. The premise of this alarmist backlash against conservative Muslim tradition, dress, and practice is clear: Islam is increasingly seen as a threat to the Enlightened West. In short, there is a tendency to conflate the threat of political Islam with customs and traditions associated with that religion. As a result, Islam is perceived as a religion that does not conform to the conventions of Western democracy, liberalism, secularism.

CONCLUSION. Is there a way out of this polarized and alarmist situation? Some argue that Turkey's membership in the European Union would be the best answer to Huntington's clash of civilizations. Yet, it remains unclear how the membership of a single Muslim country would improve the social, economic, and political conditions of Muslims in France, Britain, or the Netherlands. Instead of questioning the compatibility of Islam with Western democracy and secularism in the abstract, it would help to focus more on the concrete economic, social and political problems of the silent majority of Europe's Muslims.

The majority of Muslims in Europe are regular citizens concerned about their economic well-being and social status. Improving education and employment opportunities would go a long way to achieving real integration. In fact, there are hopeful signs that accommodation of conservative Muslim traditions is possible in the framework of reasonable dialogue. It is important to underline such success stories of coexistence and harmony wherever such local mechanisms exist. A different interpretation of multiculturalism would also help. Multiculturalism does not mean a multi-legal context where different laws apply to different minorities. As long as they abide by the law, people who share different cultural traditions and political values should be able to live together, in the spirit of "unity within diversity."

In that sense, the current backlash against multiculturalism is highly counterproductive. The multi-ethnic and multi-cultural context of Europe is now a fact. And there is no rea-

son for multiculturalism to clash with integration, as long as social, economic, and political conditions are conducive to upward mobility. As is often argued, integration is a two-way street. As long as Muslim communities and European governments show pragmatism and prioritize the legal context, multiculturalism and integration can go hand-in-hand. As for the authors of "Eurabia" who constantly focus on misleading demographic projections and growing Islamic radicalism, they should instead relax, take a deep breath, and look a bit more carefully at the complex and evolving picture of Islam in Europe.

ENDNOTES

[1] Tobias Schumacher, "The EU and the Arab Spring: Between Spectatorship and Actorness", *Insight Turkey*, Vol. 13 N.3, 2011.

Dana H. Allin[1]

Calleo and Transatlantica

The capital of Transatlantica can be reached, as I first reached it 26 years ago, by ferry departing the port of Piombino. If you were a graduate student in 1986, you most likely travelled by train – and the connections here were ludicrous. Clanking cars stopped at every ridiculous half station – each seemed about 80 meters from the last one. The train shunted three times – in both directions, for some reason, then back again – past the belching stacks of Piombino's steel works. These were not quite Satanic Mills insofar as Satan, we can presume, would be better able to keep labor costs down and market share up. It was a bleak scene. Yet, if you were a graduate student in Italy in 1986, your heart was open to those gusts of romantic exaltation, the force of which grew, like an off-shore wind, by stages of atmospheric contrast: the rusted detritus of a sagging industry; evening light on the ocean's edge; sea-spray over ferry prow; and suddenly, the Tuscan archipelago's most astonishing rough jewel, rising one thousand meters from the sea.

One reason that Elba must be recognized as the capital of Transatlantica is that it so embodies the European purpose of a certain American pilgrimage. It is a real island, of course, but also an imagined part of that literary landscape travelled upon, recorded and recast in the works of Hemingway and many American others. David Calleo, who has spent every summer since 1971 on this island, follows the tradition of Americans who have managed to take possession of the landscape without, in any essential way, divesting from American places – Hudson Valley or Capitol Hill – that they carry along. Elsewhere in this volume, John Harper and Pierre Hassner both brilliantly capture the true American and true European that David Calleo embodies without negating or even compromising either one.

A more important reason to call Elba the capital of Transatlantica is that this is the island where Calleo -- putting pencil to yellow legal pad and then (as all graduate students visiting Elba know well) scribbling upon, revising and re-revising the printed product of every generation of processed word in all the generations of word processing that have ever existed -- has produced a major body of scholarship that might be labeled

Transatlanticism. I call it a Transatlanticism to distinguish it from the more conventional "Atlanticism." Calleo's work is full of moral sentiment generously embracing a common transatlantic fate and a common transatlantic civilization, but it was not least against a lazy and, he argued, dangerous sentimentality that the young Calleo dedicated that slim masterpiece of American Gaullism, *The Atlantic Fantasy* (the last of his books not written on Elba). Indeed, in that book he described Atlanticism as "a sort of political religion – although perhaps befitting its Anglo-Saxon origins, the Atlantic catechism appears less systematized and less doctrinaire."[2]

Sentimental Atlanticism is problematic, in the argument he laid out in many more books, because it neglects or actively denies things that are undeniable and important. It is idealistic about American power where there is a need for realism, balance and restraint against the hubris and the follies of power. And it elides or diminishes nationalism when it is necessary to acknowledge the durability and, one might say, irreducible dignity of the nation state. Sentimental Atlanticism glorifies and thereby distorts the meaning of Transatlantica. But Transatlantica is, nonetheless, a real and valuable place. The West has literary roots, political, philosophical and religious traditions, and, for the foreseeable future, economic primacy. The West also retains huge strategic importance. But it is today under considerable stress. Many Americans and not a few Europeans are tempted to believe that, in strategic terms, Transatlantica is a mere fig leaf for naked American power. Calleo has been resolute in warning against this temptation. The George W. Bush years vindicated his warning because they showed what happens when allies were ignored and restraints denied. In the most recent US presidential campaign we have seen, from the Republican challengers, a sustained and astonishing campaign of repudiation against what might be called the transatlantic civilization: a post-World War II welfare state capitalism that has suffered many travails, but remains a huge accomplishment. And, of course, the ongoing financial and economic crisis has severely undermined Western confidence while threatening one of its most ambitious projects, the euro.

What follows are three sets of reflections on these three current challenges to a certain idea of Transatlantica. They are refracted, in fundamental ways, through the body of work and the lessons I have learned from David Calleo. Of course, what Calleo taught is not, in every precise respect, what I have learned. He would not agree with everything I write, not least because -- I suspect -- I am more under the sway of conventional Atlanticism. Yet, without David's teachings, I wouldn't know where to begin.

LIBERAL REALISM: POWER AND RESTRAINT. For all of my lifetime,

Transatlantica has been largely congruent with the military alliance instituted in the Washington Treaty. Alliances are about pooling and projecting power -- in this first instance, against a threatening Soviet Union. But a complex assembly of nation states inevitably will take on various purposes relating to varying national interests. This is obviously the case when the alliance long survives the Soviet power against which it was established. One of David Calleo's great contributions, however, was to illuminate – even at the height of the Cold War – those plural interests and purposes.

One such purpose, along with the projection of power, has been restraint of power. American neoconservatism developed in the later years of the Cold War in large measure as a reaction to the possibility that European allies might act to restrain American power in confronting the Soviet Union. In the years after September 11 the neoconservative reinvention and resurgence was likewise driven by outrage that key European allies would act as anything but enablers of American determination to demonstrate its capabilities on a grand scale against Iraq.

Restraint can work both ways, as even the most cursory consideration of transatlantic history reminds us. The aphorism about keeping Russia out, America in and Germany down has been repeated to the point of silliness. It is evident, however, that German rearmament was far less unsettling in the implicit restraint of the American alliance, an arrangement that included a long-term presence of American troops. Through the early postwar period it was the recurring American concern to curb what was considered the folly of European imperialism, a word that Senator John F. Kennedy, in 1957, carefully equated with Soviet imperialism when he decried France's conduct of the war in Algeria, criticized US arms supplies for that war, called for negotiations with the FLN, and worried that "the problem is no longer to save a myth of French empire. The problem is to save the French nation, as well as free Africa."[3] Kennedy was also taking political aim at the Eisenhower administration's support for France's war; yet no other American president has more brutally reacted to a European imperial adventure than Eisenhower reacted to the Suez campaign a year before Kennedy's speech. What might have happened had the US not intervened against the Suez intervention would make for fascinating counter-history. What did happen was a fierce demonstration of the limits of French, British (and Israeli) autonomy in alliance with a more powerful United States.

This historical demonstration has obvious salience today. The Israeli plotter in the Suez attack has been openly considering a military attack on Iran, and the US has been urgently warning the Israelis not to do anything rash. There are domestic political reasons, and other reasons, to imagine that the Obama administration's reaction would not be

nearly as decisive, or harsh, as Eisenhower's. Still, Washington's urgent counsel of restraint, and worries about how America might react if the counsel were to be ignored, loom large in the Israeli public debate and in Israeli government deliberations. Prime Minister Benjamin Netanyahu evidently decided to do nothing at least until sometime after the US elections, having been attacked by much of the Israeli national security establishment, cautioned by President Shimon Peres, and abandoned by his hitherto ally on the matter, Defense Minister Ehud Barak. Some of the critics have taken issue with the strategic logic of a preventive attack, but all have warned about the presumably high costs of defying American opposition. American power can be overweening and imperious, but in this instance, as at Suez, it is a factor for restraint and, arguably, peace.

No obvious examples of less powerful European allies exercising decisive restraint on US military adventurism come to mind, but there are at least episodes in which they tried. De Gaulle famously warned Kennedy that Vietnam was a mistake; a familiar one to the French, and that America should cut its losses. More effectively, perhaps, European sensibilities dictated that the decision to deploy US Pershing IIs and ground-launched cruise missiles in Western Europe had to be accompanied by a serious negotiating effort to curtail both US and Soviet deployments of such weapons. The pairing of deployments with a negotiating track was heartily deplored by neoconservatives such as Richard Perle, who worried about the US being tied down, Gulliver-like, by the pacifist Lilliputians of Europe. In fact, the INF negotiations turned out to be an important component of the Reagan-Gorbachev rapprochement. Other vehicles of Europe-driven détente, notably an *Ostpolitik* that long outlasted the Brandt government, played an important role in convincing reformist Soviets that they no longer needed to fear a reunited Germany.[4] The US had its own policies and proponents of détente, of course; we cannot establish beyond doubt that absent European restraints, America would have been much more belligerent. We can infer, however, that in a Cold War competition for allegiances, ignoring European appeals for restraint would have cost more than Washington wanted to pay. In the most serious superpower confrontation of the Cold War, for example, President Kennedy heard the pretty-much united counsel of his advisers against any trade of US missiles in Turkey for the Soviet missiles in Cuba.

Kennedy by instinct felt the need to allow his adversary a way to climb down without humiliation, however, and weighed less seriously his advisers' warnings about the insidious effects of appeasement on alliance resolve. On the contrary, the President's first reaction was to avoid offending the world's common sense. "To any man at the United Nations, or any other rational man, it will look like a very fair trade," said Kennedy as soon as the

Khrushchev offer came into the White House. Kennedy made the trade.

The notion that America really could act without regard to alliance concerns or world opinion was a notion that could only truly flourish in conditions of seeming unipolarity following the Soviet demise. And even then, it probably required the grievous blow to the collective American psyche constituted in the September 11 terrorist attacks to make the unipolar idea a matter of dedicated strategy. Ignoring counsels of restraint almost seemed to be part of the idea: a spectacular demonstration of US strategic power against a major Arab state, one that had nothing to do with the terrorist attacks themselves, was considered necessary to restore US credibility as well as a proper "balance of power that favors freedom," in George W. Bush's words.[5]

Without wanting to quibble about words, it was hardly "balance" that the Bush administration was pursuing. Indeed, the French and German governments, finding that advice was insufficient, flirted with the idea of restraining American power by balancing against it in an increasingly multipolar system of world powers. That idea proved to be at least premature, however, insofar as its pursuit mainly had the effect of deeply dividing a European Union that had been recently enlarged to include new members who were inclined to give America the benefit of the doubt.

Even so, the US administration reacted fiercely to any talk of multipolarity. In the summer of 2003, a time when the US government could still imagine that its demonstration of power had succeeded, National Security Adviser Condoleezza Rice addressed the neo-Gaullist challenge in a speech delivered to the International Institute for Strategic Studies in London:

> [S]ome have spoken admiringly – almost nostalgically – of 'multi-polarity', as if it were a good thing, to be desired for its own sake. The reality is that 'multi-polarity' was never a unifying idea, or a vision. It was a necessary evil that sustained the absence of war but it did not promote the triumph of peace. Multi-polarity is a theory of rivalry; of competing interests – and at its worst – competing values. We have tried this before. It led to the Great War – which cascaded into the Good War, which gave way to the Cold War. Today this theory of rivalry threatens to divert us from meeting the great tasks before us. Why would anyone who shares the values of freedom seek to put a check on those values? Democratic institutions themselves are a check on the excesses of power. Why should we seek to divide our capacities for good, when they can be so much more effective united? Only the enemies of freedom would cheer this division.[6]

It was David Calleo, not surprisingly, who offered the best one-sentence reaction to this worldview. "Unwittingly, no doubt, this is the language and mindset of tyranny."[7]

TRANSATLANTIC CIVILIZATION: THE COMMON WELFARE. The negative reaction to alliance restraints is understandable, even if pernicious. Power may need restraint; that doesn't mean it has to like it. The neoconservative reaction is, in any event, by now an old and familiar story.

More recent and more bizarre, in a sense, is the right-wing American demonization of the European welfare state, and the effort to inject that demonization into American politics in a way that inflames our already intense left-right polarization. Like the neoconservative abhorrence of any balancing of US power, this demonization is related to a grandiose and patently absurd definition of American Exceptionalism. Exceptionalism as an idea is logically precarious but perhaps intellectually palatable in moderate doses. There is a reasonably well-considered secular vision of it, embraced along today's ideological spectrum from Robert Kagan to Barack Obama. Kagan's key argument in his Policy Review essay "Power and Weakness" was that the "exceptional" role of America in the world had mainly structural rather than moral or cultural causes.[8] America's immense military capabilities shaped the national psychology about when it is useful to employ military force, while its historical traditions made it a natural champion of universal liberty. Barack Obama, asked at a Strasbourg press conference early in his presidency whether he believed in American Exceptionalism, delivered a lengthy response that conveyed some of the same ideas argued by Kagan.[9] Obama took care, however, to add the common-sense observation that other nationalities could feel that their countries were pretty exceptional too. In specific regard to Europe, both Kagan and Obama have expressed considerable admiration for the continent's post-World War II accomplishments.

The more extreme versions of Exceptionalism are shaped by religious conviction. They carry theological implications going well beyond my areas of expertise -- though I feel reasonably confident in assuming that even a personal deity would not be in the business of picking individual countries on planet earth over others. Like many religious ideas, this one can be taken to virulent extremes. In current American politics it has been lashed to the most virulent attacks on the allegedly un-American otherness of Obama and his schemes.

To live in the real world, to understand our connections with Europe and what Europe and America can learn from one another, above all to value the progressive community that I call Transatlantica, is to betray the essence of Americanism. This is so ludicrous as

to be laughable: except that, within three weeks of the conference where this paper was first presented, a chief proponent of this view appeared to have a good shot of becoming President of the United States.

We have become inured to this language, but it is really quite remarkable. "I want you to remember," said Mitt Romney in a campaign speech after winning the New Hampshire primary, "when our White House reflected the best of who we are, not the worst of what Europe has become."[10] Obamas intended dystopia was a "European-style entitlement society… This president takes his inspiration from the capitals of Europe; we look to the cities and small towns of America." This kind of rhetoric went on and on. "He's taking us down a path towards Europe. He wants us to see a bigger and bigger government, with a healthcare system run by the government. He wants to see people paying more and more in taxes."[11] In another speech Romney claimed that Obama "wants to fundamentally transform America," and added, "I kind of like America. I'm not looking for it to be fundamentally transformed. I don't want it to become like Europe."[12]

The American tradition of Europe-bashing, albeit often less crudely than this, is old: it goes back to founders' disputations about whom to align with in the wars between England and France. There is a certain logic insofar as passionate Exceptionalism requires a defining contrast, for which Europe has served since at least the time of Jefferson. But the intensity, not to mention the monotony, of the present-day anti-Europe campaign is surpassing strange not least because it is hardly obvious that it has much political resonance: most Americans have favorable and even warm views of Europe.[13] In part, linking Obama to Europe may have been a coded suggestion of alien otherness. Racist dog whistling from, for example, Newt Gingrich during the primary campaign was barely disguised,[14] and the Romney campaign's false accusations about the alleged Obama plan to end welfare work requirements were also laden with racial undertones. However, the racist line of attack, still potent to some considerable extent, is obviously better served by tying Obama to Africa – and indeed, to the anti-European anti-colonialism of African liberation movements, as the conservative writer Dinesh D'Souza has attempted with hearty support from Gingrich.[15]

The most plausible way to interpret Republican attacks on Europe is to take them seriously as a wholesale rejection of the transatlantic model of welfare capitalism that emerged from the Great Depression and from World War II. The American version was, in some respects, underdeveloped, but Obama's health care reform would go some way towards bringing America up to European standards. As an American liberal, I have to admit that I don't really understand conservatives' objection to universal health care or,

indeed, their definition of a state of freedom that is fundamentally threatened by liberal governance of the kind that establishes health care as a right rather than a privilege – with commensurate taxation to fund that right. I even wonder if there is a massive misunderstanding at the heart of America's left–right division.[16]

George Will, an erudite and respected conservative columnist, has written repeatedly that liberals agitate for action against global warming and other environmental hazards because we are fundamentally determined to expand the role and control of government over the lives and liberties of individual Americans. Will must believe this, and yet it represents, as far as I am concerned, a surreal misunderstanding of the liberal view of government.

New York magazine's Jonathan Chait has written about this eloquently. Liberals like me do not value government, and its control over people's lives, as an end in itself, but as a necessary means to an end. And certain ends, such as limiting carbon emissions, correcting "market failure" in the market for health care, or indeed, fighting necessary wars, can only be attained through government. It is true that these tasks do tend to enlarge and strengthen government, and so the question that remains is whether they are so necessary as to make bigger government palatable. (George Will, to his credit, recognizes the importance of war in empowering the state, and is correspondingly less sanguine than many US conservatives about the use of military force.)

Making health care a right does entail a further redistribution of wealth via progressive taxation, and taxation is, at least in the abstract, an infringement on liberty. But I gladly pay taxes because the alternative would be a Hobbesian dystopia that would threaten my liberty far more concretely. It is not going too far to suggest that the conservative reaction to Obamacare is part of a larger repudiation of a huge postwar American and European achievement. Calleo, in his large body of work on Transatlantica, has come back again and again to the magnitude of this achievement. In *Rethinking Europe's Future*, he wrote that:

> Europeans emerged from World War II with lessons and visions of their own. They were determined to escape from their vicious interwar cycle of economic stagnation, misery, social conflict, and repressive politics. They therefore sought a radical upgrading of their national economies and societies. Their ambition was not merely to 'recover' to return to the 1930s- but to transform their economies and political systems to entirely new levels of performance, security, and concord. They key to success, they the believed, lay in promoting rapid growth- American-style- while constructing a safety net of welfare for the whole population.[17]

And in *Follies of Power,* he cast Europe's entire postwar experience, culminating in the European Union, in stark moral terms:

> Today's EU is the organic outgrowth of post-war Europe's own remarkable moral redemption- the unexpected good that followed the deep plunge into evil and suffering that began with Europe's Great War of 1914. The sense of community that grew up among Europe's ravaged states after World War II was the regional embodiment of what had been developing within the states themselves. The welfare state was a domestic product of Europe's renewal. It reflected what Europeans had learned from the horrors of their own recent history… This spiritual renewal was the real post-war European miracle.[18]

PROGRESSIVE CONSERVATISM: SOME TENSIONS. Barack Obama was reelected, but the continuing difficulties of his presidency are, in large measure, a consequence of the same financial and economic crisis that has brought the European Union to the precipice. Causes of the crisis must be seen in some combination of deregulation beyond common sense, financial markets run wild, and global macroeconomic imbalances left unattended. The latter, as Calleo has long argued, are related to chronic deficit financing of Americas global strategic hegemony.

The current problem for Europe, however, is the collision of bold monetary innovation and conservative orthodoxy regarding countercyclical spending. The periphery states that are in most acute crisis cannot escape their predicament through budget austerity; the conservative orthodoxy that insists they must, and which reigns in the central states and institutions of the EU, may or may not adapt to reality in time to save the euro. At the onset of the global crisis, Kagan wrote about the essential conservatism of European societies that above all sought shelter from the disruptions of both capitalism and geopolitics. He equated the Bush administration's bold move into Iraq with the Obama administration's bold injection of fiscal demand into a failing economy. Continental Europeans, he suggested, recoiled in their conservatism from what they regarded as both geopolitical and economic recklessness.[19]

Kagan was onto something even if I would prefer to make a distinction between a conservatism that makes sense and one that doesn't. Sensible conservatism is a close cousin to the worldview expressed by Barack Obama when he told West Point cadets, in explaining the limits of escalation in Afghanistan:

> As president, I refuse to set goals that go beyond our responsibility, our

> means, or our interests. And I must weigh all of the challenges that our nation faces. I don't have the luxury of committing to just one. Indeed, I'm mindful of the words of President Eisenhower, who – in discussing our national security – said: 'each proposal must be weighed in the light of a broader consideration: the need to maintain balance in and among national programs.'[20]

Calleo, a progressive liberal in American political terms, has evident affinities with this small-c conservatism as well. But he has recognized, like de Gaulle whom he so much admires, that there come moments requiring revolutionary determination:

> Between the American vision – unipolar, hegemonic and unilateral – and the European pluralist vision – multipolar, balanced and multilateral – there is great potential for conflict. Both visions are radical. The American vision aims for a world with no balance of power – for the first time in modern history. The European vision, where the EU unites its whole continent, is attempting to reverse the results of the Second World War.[21]

This acknowledgment of the fundamentally radical nature of the European project is contained in an essay that Calleo published in *Survival,* the journal I edit, in 2004. It was a time when America's geostrategic crisis was both acute and undeniable. It was also a time, arguably, when the transatlantic seeds of Europe's current financial crisis were being sown. There is time for restraint and a time for radicalism. Europe, both to preserve the essentially conservative values of welfare capitalism, and to play its role in a plural and balanced world system such as Calleo has so eloquently advocated, will need to abandon the restraint of economic orthodoxy.

ENDNOTES

[1] I'm grateful to Amanda Norris for research assistance in preparing this paper.
[2] David Calleo, *The Atlantic Fantasy,* (Washington, DC: Johns Hopkins University Press, 1970), p. 18.
[3] John F. Kennedy, "Imperialism – The Enemy of Freedom," Congressional Resolution 153 (2 July 1957). Available at: www.jfklink.xom/speeches/jfk/congress/jfk020757_imperialism.html. By "carefully," I mean that Kennedy prefaced his speech by saying that "Soviet imperialism" and "Western imperialism" were "not to be equated"; then he proceeded to equate them.
[4] Timothy Garton Ash, *In Europe's Name: Germany and the Divided Continent*, (London: Jonathan Cape, 1993), pp. 257-258.
[5] George W. Bush, "Inaugural Address," 2001 Presidential Inaugural, Washington, D.C. (20 January 2001). Available at: http://georgewbush-whitehouse.archives.gov/infocus/bushrecord/documents/Selected_Speeches_George_W_Bush.pdf
[6] Dr. Condoleezza Rice, Assistant to the President for National Security Affairs, Remarks at the International Institute for Strategic Studies, London (26 June 2003). Available at http://www.iiss.org/recent-key-addresses/condoleezza-rice-address/.
[7] David Calleo, "The Broken West," *Survival: Global Politics and Strategy* 46, 3(2004).
[8] Robert Kagan, "Power and Weakness," *Policy Review,* June/July (2002).

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[10] Mitt Romney, "New Hampshire Primary Victory Speech," Concord, NH (10 January 2012).
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[12] Mitt Romney, New Hampshire Primary Debate, Concord, NH (7 January 2012).
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[16] Dana Allin, "Health Care and the American State," IISS Expert Commentary (2 July 2012). Available at: http://www.iiss.org/whats-new/iiss-experts-commentary/copyof-a-crisis-of-leadershiphealth-care-and-the-american-state/
[17] David Calleo, *Rethinking Europe's Future* (Washington DC: The Century Foundation, 2003), p. 90.
[18] David Calleo, *Follies of Power* (New York, NY: Cambridge University Press, 2009), p. 154.
[19] Robert Kagan, "Disturber of the Peace: 'Yes, We Can' Meets Conservative Europe," in *The Washington Post* (2 April 2009).
[20] Barak Obama, "West Point Speech," West Point, NY (1 December 2009). Available at: http://www.whitehouse.gov/the-press-office/remarks-president-address-nation-way-forward-afghanistan-and-pakistan
[21] David Calleo, "The Broken West," *Survival: Global Politics and Strategy* 46, 3(2004).

John L. Harper

Calleo the American

INTRODUCTION. David Calleo has always been known, with reason, as a Europeanist with a European outlook. But one of his constant concerns has been the United States. A number of his books (*America and the World Political Economy, The Imperious Economy, The Bankrupting of America, Follies of Power,* not to mention *The American Political System*) deal with his own country. His works are sprinkled with references to American figures: Madison, Hamilton, Lincoln, Wilson, Theodore and Franklin Roosevelt, Kennedy, and Nixon, to name a few. One reason for this is that the fates of the two sides of the Atlantic have been closely interconnected since 1917, and especially since 1941. It is impossible to tell the story of one without recounting the story of the other. Related to this is Calleo's conviction that a healthy Europe requires a healthy America, and vice versa. Misguided, self-destructive policies pursued by one will sooner or later affect the other. Virtuous policies will reinforce mutual well-being and strengthen the West as a whole.

The basic argument here is that Calleo, although unorthodox in the post-1945 setting (for example, he has never adhered to the conventional US view favoring an "Atlantic Community"), is an American as well as a European thinker, and not only by birth and education. His basic ideas have, if not always their roots, their strong resonances in American political culture. Making such connections is a tricky undertaking. The American statesmen and thinkers in question were protean, contradictory characters whose views evolved over time. But certain American antecedents to Calleo's thought stand out clearly. Fleshing out these links, placing Calleo's ideas in an American context, is not simply an exercise in intellectual genealogy, but a way of calling attention to them, and of lending them greater persuasiveness in the United States.

BASIC IDEAS: THE "NATIONAL-ANTI-IMPERIAL" POSITION.

At the risk of over-simplification, Calleo's view of politics can be summarized in three inter-related points. First, he is a nationalist and believer in the superiority of the nation-state formula, a view derived from the ancient Greeks, Rousseau, and Coleridge, among others. He frequently returns to the theme that the healthy state is a "self-conscious community of consenting and cooperating citizens." It is held together by "a shared public identity and interest."[1] Elsewhere he stresses the need for the state to

be based on "a psychological community" or "broad collective identity," a consensus concerning "balanced and longstanding institutions, with which a people identify and are accustomed to obey." In another rendering, he speaks of the need for "a *collective superego* to govern its [the state's] action—a vision that engages citizens in a broad social pact to live together in pursuit of happiness, and in as much decency, comfort, mutual respect, and fellowship as the human condition permits."[2]

In effect, this is Rousseau's "general will" as opposed to the will of all—the common interest, as opposed to the sum of individual private interests.[3] He criticizes both libertarian, anti-statist conceptions of public authority which lead to a discrediting of the state, and the notion that the common good is simply the outcome of the battle of clashing interest groups, rather than a shared set of ideas. The state has an essential economic role: it stabilizes and regulates capitalism "to provide a tolerable degree of economic security and opportunity for all citizens."[4] "Economic self-determination is no less precious than political self-determination."[5] In the modern era, the consensus surrounding the common interest has been the product of, and is sustained by, a *cultural nation* with its common language, symbols, and myths. The nation is essential to the state, and extends the feasible limits of government by consent beyond the confines of the city-states envisioned by the ancient Greeks or Rousseau. The nation-state "remains the highest form of rational [political] organization man has yet developed..."[6]

Second, and following logically, when it comes to inter-state co-operation Calleo prefers confederalism to federalism. Nationalists, he writes, "may want a united and cooperative European system, but within it, they still expect nation states to be the organizers of popular consent and repositories of political legitimacy."[7] Confederations incorporate a "collaborative balance of power" where no state or combination of members can dominate the others.[8] Confederations, it is true, are weaker vis-à-vis the rest of the world than federations but consequently more benign in their international behavior. Europe has not mastered the problem of how to concentrate and project its continental power, but "that mastery can be a dangerous accomplishment, perhaps too well achieved in the American federation and perfected to self-destruction in the Soviet."[9]

Confederations, finally, may be better suited than large federations to solving internal problems. "The American federal system," he says, "has never been a model of efficiency. The country is too big and too diverse to be efficient in European terms." In any case, post-1945 history demonstrates the resiliency of the nation-state and the illusions associated with federalist theories of integration.

Calleo is ambivalent toward American federalism as adumbrated by Madison in *The*

Federalist Number 10. As an antidote to factionalism and the tyranny of the majority, Madison did not look to the cultivation of a Rousseau-ian consensus. Drawing an implicit analogy to the way in which religious toleration had been achieved, he looked to the multiplicity and diversity of factions, as well as the broader vision and higher quality of political representation, inherent in geographically extended republics.[11] But, Calleo warns, there are definite limits to the extent of political consensus. While no one would deny the success of the American experiment, federations tend to fail after reaching a certain size and/or metamorphise into strong centralized states or empires. Witness the United States after 1865. Moreover, the allegedly universal Madisonian formula "has proved a remarkably suitable ideological base for American imperialism." During and after World War Two, the Americans tried to promote federalism as a kind of universal panacea. But like the US system itself with its strong presidency, a "federation" like NATO functions only because there is a leading power in charge of it. He acknowledges that US attempts to promote a federal Europe were driven, variously, by naiveté, the will to power, but also genuine good will.[12]

Third, when it comes to the inevitably conflictual world of national states (on this point he sides with Coleridge rather than Herder, Mazzini, or Wilson), there is a preference for a *pluralist* system incorporating a balance of power over imperial systems in which dominant states suppress liberty and sovereignty as well as strife. Calleo denies that a leading power is necessary to provide stability and public goods. Pluralism must be economic as well as political. Adopted by the United States only in the twentieth century, free trade has gone hand in hand with federalism as a tool of imperialism. The authors of *America and the World Political Economy* turn Cordell Hull's argument (namely, that the elimination of economic blocs will foster peace by ending the division of the world into satisfied "haves" and embittered "have-nots") on its head. Free trade may make the world richer in the aggregate but it does not lead to harmony. On the contrary, it is disruptive and creates winners and losers among, and within, states. They suggest "abandoning the vision of a single and closely integrated world economic system centered upon the developed countries" in favor of "a more loosely related series of national and regional systems."[13]

Calleo's hostility toward free trade and unbridled globalization is closely connected to his attachment to the nation-state formula. National organisms, including the American, are fragile and have only limited tolerance for "destabilizing intrusions from the outside." Self-preserving intolerance of destabilizing outside interference "seems the fundamental law of the organized political commonwealth." The international economic system must make sufficient allowance for individual national interests or trigger hostile reactions

and break down.[14] His theory of conflict among states seems to owe more to Hobson and Lenin than to Kant and Wilson. States should ideally dispose of their surpluses by raising purchasing power and providing for social justice at home rather than seeking to resolve internal contradictions through military adventurism and/or engaging in cut-throat competition for external markets.

The more plural world of the 1980s and 90s, he argues, represented "in many respects, the triumph of postwar American foreign policy. It was not our aim to build a new Roman empire but to revive the broken great powers of Europe and Asia and to coax them into a liberal and cooperative world order."[15] Calleo returns frequently to the theme that hegemonic systems are unsustainable as well as over-bearing because they encourage free riding, provoke hostile reactions, and eventually exhaust the leading power. In the midst of the late 1980s-early 1990s budgetary crisis, "an intelligent policy of geopolitical devolution" became a way to help to restore the US fiscal balance. Paraphrasing Canning, and summarizing a recurrent theme in his work, he observed: "The Old World is needed to restore balance to the New."[16]

More recently (but before the onset of the European sovereign debt crisis), he has proposed the EU confederal scheme as a possible model for inter-state relations elsewhere—a way of going beyond the Hobbesian state of nature requiring either a hegemon or a balance of power to maintain peace. The EU provides an "institutionalized superego to discipline national power, thereby making it possible to transform inter-state relations from a zero-sum game to one of mutual gain." Membership requires "perpetual negotiation and compromise." It encourages a mindset favoring appeasement and mutual accommodation rather than self-defeating attempts to secure oneself at one's neighbors' expense.[17]

CALLEO AND AMERICAN POLITICAL CULTURE: THE 18TH AND 19TH CENTURIES. Placing Calleo's "national-anti-imperial" perspective in an American context requires a brief look at the original debate over the United States's institutional set-up and international position. The differences between Thomas Jefferson and Alexander Hamilton and their respective followers after the promulgation of the constitution should not be exaggerated. Hamilton, although he called during the Philadelphia convention for a chief magistrate elected for life, was not (as his enemies charged) a closet monarchist. Jefferson, despite his calls for vigilance against executive over-reach, expanded presidential power when purchasing the Louisiana territory and enforcing his 1808-09 trade embargo. Both supported American neutrality in the Anglo-French war

that began in 1793 (although Hamilton wanted a system favoring Britain, Jefferson favoring France). Both backed a policy of strength through peace for the infant state. By the same token, the two stood for different visions of the country's future. Hamilton's view of human nature and international politics resembled Machiavelli's and Hobbes's. He saw no choice but to forge a strong union endowed with some of the features which had allowed Britain's rise to preeminence: a funded debt, professional military and naval forces, an executive able to act freely in the realm of foreign and military policy.

Jefferson, on the other hand, rejected the notion that independence had been won merely to follow in the mother country's footsteps. The touchstone of his political outlook was maximum liberty for the individual citizen. And the principles laid down in the Declaration of Independence were universal. The American cause was the cause of all mankind. While Hamilton, Washington, and conservatives in general deplored the killing of the king and the excesses of the French revolution, Jefferson (at least until Napoleon's consolidation of power) saw the French as following in America's footsteps. He wrote in 1795: "This ball of liberty, I believe most piously, is now so well in motion that it will roll around the globe."[18]

War, the poisoned fruit of executive caprice and ambition, and the hand-maiden of debt, taxes, and oppressive state power, could be prevented by placing the perogative to make it in the hands of the people and their representatives. Let the country rely for its defense on a small navy, the state militias, and "peaceable means of coercion" (e.g., the notorious embargo). Hamilton called for the stimulation of domestic manufacturing for national security purposes and to develop the domestic market for an agricultural sector over-dependent on exports and subject to myriad European restrictions. For his part, Jefferson said "let our workshops remain in Europe." This implied a policy of easy credit for the farmer and free trade vis-à-vis the outside world. His ideal republic was based on the self-reliant yeoman farmer, and he recoiled before the prospect of crowded, filthy cities and "satanic mills."

Where does Calleo fit into this debate? The temptation is strong to place him with the Hamiltonians. Hamilton's message to his contemporaries was prudence and solvency. And the first treasury secretary, according to Cecilia Kenyon's famous essay, was "the Rousseau of the right." In this view, Hamilton tried to advance a conception of the general interest distinct from the sum of individual private interests and believed in the creative role of the state. He was opposed by the Lockean-libertarian Jeffersonians whom Kenyon calls "men of little faith" in the state. The argument reprises Herbert Croly's that Hamilton did not subscribe to Jefferson's "optimistic fatalism" about America's destiny,

in the absence of an active state.[19] Hamilton's 1791 Report on Manufactures, although not implemented during his lifetime, helped to inspire the economic nationalist ideas of Friedrich List. Calleo praises List's recipe for a balanced national economy as an alternative to free trade. The latter, according to Calleo, was " a chimerical and short-sighted policy which sacrificed long-range national interests and productive power."[20]

But the List connection aside, Calleo finds little to praise in the man who called the United States "the embryo of a great empire."[21] In a recent book, he traces America's "unipolar gene" to Hamilton, and to the New Yorker's towering disciple, Abraham Lincoln. According to Calleo, "faith in America's global destiny was a critical part" of Lincoln's dedication to preserving the union. Not all Lincoln scholars would agree, but there is no question that the union's victory laid the foundation for America's rise to world power. In the same book he deplores the "symbiosis between world hegemony and presidential primacy" and the weight of a huge military establishment on the constitution, classic Jeffersonian themes.[22] Indeed, Calleo explicitly identifies himself with the author of the Declaration of Independence—to which he at one point traces America's healthy, anti-imperialist gene. From Jefferson and his supporters "sprang a primordial American sympathy for the independence of other peoples." Moreover, "Jefferson gave great significance to the nature of a 'people'--to their social and political culture, and was less sanguine about the automatically beneficent effects of constitutional machinery."[23]

There is no evidence that Jefferson was directly influenced by Rousseau, but they seem to have shared a faith in human beings' moral sensibility and reasonableness and a preference for direct democracy (while in Jefferson's case acknowledging the necessity of representation). Although he did not join the "antifederalist" opposition to the constitution (including fellow Virginians Patrick Henry and George Mason), Jefferson played no part in the "miracle at Philadelphia." An obvious reason is that he was minister to France at the time, but he was also ambivalent toward the creation of a strong central government. He served as secretary of state in Washington's first cabinet but quit partly out of frustration with Hamilton's "British" policies and self-aggrandizing habits. As vice-president in the late 1790s, in reaction to the Alien and Sedition Acts, he secretly penned the "Kentucky Resolutions" calling for the defiance of federal law by the states. After initially opposing it, he came to favor territorial expansion across the Mississippi. After all, a republic of landowners, or "empire of liberty" as he called it, required more land, and the Louisiana Purchase was a once-in-a-lifetime offer. But he appears to have foreseen several like-minded confederations rather than a single continent-spanning colossus. In his heart of hearts his "country" was Virginia and he presumably would have supported

the right of secession. Calleo, although he does not directly address the issue, might agree. The position is problematic, among other reasons, because slavery was profitable, and would not necessarily have disappeared of its own accord in an independent South. By the same token, Calleo's treatment of Jefferson's friend, the author of *The Federalist No. 10*, is too summary. Madison's main reason for wanting a true central government (here he saw eye-to-eye with Hamilton) was the necessity of generating a more nationally-minded and, in effect, more aristocratic cohort of leaders, endowed with the wisdom (and power) to check undesirable state policies (e.g., "stay laws" postponing the collection of private debts; the issuance of paper currency). He was more of a centralizer, and an elitist than Jefferson, but his national government was supposed to be the kind of "superego" and check on bad local habits that the EU (in theory) is today. (In the event, his proposal for a national veto of state laws was rejected by the Philadelphia convention.) He also saw the need for a single commercial policy if one were to bargain effectively with (and secure *economic* as well as political independence from) the British, who discriminated against U.S. exports and and shipping. In effect, he favored a set of American navigation laws. As a member of the House of Representatives, he doggedly opposed a foreign policy of appeasing Britain and Hamilton's state-building program including a funded debt and a Bank of the United States. One may rightly question the wisdom of his pro-French preferences in the mid-1790s.[24] But like Jefferson, he despised power politics and believed the United States could blaze a different path. He was a carrier of both the federalist and the anti-imperialist gene.

Calleo's work rarely refers to another pair of statesmen, John Adams and his son John Quincy Adams. Adams senior occupied a position somewhere between the two factions. He was a "radical Whig", allied with Jefferson in favor of immediate independence, in 1775-76. Unlike Jefferson and Madison, however, he loyally supported the Washington-Hamilton program as vice-president, 1789-97. As president in the late 1790s, he clashed with Hamilton over foreign and military policy. Hamilton, second-in-command of the army (at Washington's, not Adams's behest) wished to keep open the option of war on Britain's side against Spain and France to take the strategic port of New Orleans. Adams feared Hamilton's alleged Napoleonic ambitions. Despite French chicanery during the "XYZ" affair, and depredations on American shipping leading to a "quasi-war", he saw all-out conflict as unnecessary and harmful. His decision to negotiate a peace settlement with Paris in 1800 split the Federalist party into pro-Adams and pro-Hamilton factions. It never recovered unity or national power. Although he lost to Jefferson in the 1800 elections, on foreign policy (and Alexander Hamilton personally), Adams found

himself aligned once again with his Virginia friend.

There are two features of Adams's outlook that suggest a connection with Calleo's vision of US policy. The first is Adams's preference for a cautious, pacific foreign policy, eschewing power and glory for their own sakes. The second is his view of human nature and proper constitutional arrangements. Adams believed that human beings were creatures of passion as well as reason and driven to seek distinction vis-à-vis their fellows. All societies were naturally divided into aristocratic and democratic elements, each wanting to dominate the other. Like Burke, he was appalled by the murdurous utopianism of the Jacobins and the facile radicalism of Thomas Paine. To maintain equilibrium, to avoid the tyranny of one part of society or the other, the constitution-maker must divide the power to legislate and create an autonomous executive holding the balance of power between the two, and representing the common good. He admired the British constitution, although not Britain's domineering external policies. Like Washington, Adams believed the president must be a powerful but non-partisan figure above the fray.[25]

Adams's son John Quincy represents a kind of reconciliation of the warring camps and an appealing synthesis of their ideas. He saw a strong union as the antidote to internecene conflict, but not as a way to project power externally and engage in constant war.[26]

He was a Federalist but was read out of the party when he supported Jefferson's embargo, and he became secretary of state under one of the Federalists' old antagonists, the Virginian dynast James Monroe. Like his sometimes friend Henry Clay, he favored a balanced economy in which the state would play a central role in fostering internal improvements (roads, harbors, and canals). He supported expansion to the northwest Pacific coast but kept a sense of the nation's cultural and geographical limits. He doubted that American values and institutions could take root in the newly-independent republics of South America, with their hide-bound clericalism and Spanish rather than Anglo-Saxon political traditions. Like his father, he was an erudite and cosmopolitan figure who had spent years abroad on diplomatic missions (in England, Prussia, Russia) before becoming president. But like John Adams, he took seriously the Puritan notion of America as a City on a Hill: morally exceptional, separate from the rest of the world, and sure to lose its soul by pursuing an imperial policy in the name of anti-imperialism. As he famously put it in his July 4, 1821 address,

> Wherever the standard of freedom and Independence has been or shall be unfurled, there will her [America's] heart, her benedictions and her prayers be. But she goes not abroad, in search of monsters to destroy. She is the well-wisher to the freedom and independence of all. She is the champion

> and vindicator only of her own. She will commend the general cause by the countenance of her voice, and the benignant sympathy of her example. She well knows that by once enlisting under other banners than her own, were they even the banners of foreign independence, she would involve herself beyond the power of extrication, in all the wars of interest and intrigue, of individual avarice, envy, and ambition, which assume the colors and usurp the standard of freedom. The fundamental maxims of her policy would insensibly change from liberty to force. The frontlet on her brows would no longer beam with the ineffable splendor of freedom and independence; but in its stead would soon be substituted an imperial diadem, flashing in false and tarnished lustre the murky radiance of dominion and power. She might become the dictatress of the world; she would be no longer the ruler of her own spirit . . . Her glory is not dominion, but liberty.[27]

His 1823 "Monroe doctrine" warned the European powers not to interfere with the newly independent states of the Western hemisphere (promising US non-interference in Europe in return) but did not call for democracy's export southward.[28] As a member of the House (1830-1848), he opposed Texas annexation and the Mexican War (predicting they would lead to civil war), and was a constant thorn in the side of "slave power," the slave-holding bloc. His hatred of slavery arose, in part, from the belief that the country's real influence lay in the perfection of its institutions and capacity to be an exemplar to humanity. Adams was a kind of *living* superego. With his disciple Seward, he would surely have supported the preservation of the union in 1861. But of major nineteenth century figures, he embodied the "national-anti-imperial" position, and a sense of limits about US power, in a way that is practically unique.

THE 20TH CENTURY: TRACING THE ANTI-IMPERIAL GENE.

Writing during the Boer War, and just after the Spanish-American War, John Quincy Adams's grandson Brooks Adams observed that Britain's future efforts could "hardly be expected to equal those of the past, and society must be prepared to face the loosening of the bond which from beyond the limit of human memory, has been the containing power of the world." "On looking back through the history of the century," he continued, "no one can fail to appreciate the part played by England . . . It was she who checked the aggressions of Russia and Turkey and the East; it was she who bridled the ambitions of Germany . . . Americans in particular have relied on her to police the globe and keep distant markets open." But the era of free-riding was over. Henceforth, "America must

fight her own battles. . . . From the inexorable decree of destiny she cannot escape. . . . All signs now point to the approaching supremacy of the United States, but supremacy has always entailed its sacrifices as well as its triumphs, and fortune has seldom smiled on those who besides being energetic and industrious, have not been armed, organized and bold."[29]

Adams was part of the influential turn-of-the century coterie that included Theodore Roosevelt, Alfred Thayer Mahan, John Hay, Albert Beveridge, and Henry Cabot Lodge. Influenced by Social Darwinism and the teachings of Hamilton, they pushed for a bold, outward-looking policy, backed by a strong navy. The United States, in their view, must exercise an active hegemony in the Caribbean basin (the Roosevelt Corrollary to the Monroe Doctrine), expand into the Pacific (Hawaii; the Philippines), and form a partnership with Britain (while elbowing it aside in the Western Hemisphere), the over-stretched "containing power." Writing in 1973, Calleo referred to these carriers of the imperial gene as the "forebears of that imperialist intellectual, military and political complex which is so familiar a part of the contemporary American scene."[30]

But while most of the public and political class were caught up in anti-Spanish hysteria after the sinking of the USS *Maine*, and supported the annexation of Hawaii and the Philippines, a multi-partisan "Anti-Imperialist League" condemned the violation of the principles contained in the Declaration of Independence and Washington's Farewell Address. The League's position was exactly the one Calleo takes *in America and the World Political Economy*: "No nation or private interest has the automatic right to penetrate and disrupt the social and political organism of its neighbors."[31] The League's members included Grover Cleveland (who had rejected annexation of Hawaii as president), Carl Schurz, Jane Addams, William and Henry James, John Dewey, Samuel Gompers, Mark Twain, Ambrose Bierce, Oswald Garrison Villard, Andrew Carnegie, Charles Francis Adams, Jr. (truer than brothers Brooks and Henry to J. Q. Adams's teachings), and Professor William Graham Sumner of Yale. Carnegie, citing the vast, undeveloped internal market, denied that imperialism was economically necessary or beneficial. Sumner denounced the demagoguery of politicians, the self-serving jingoism of the "yellow press," and the cant of commentators according to which a people unable to administer Connecticut honestly and efficiently would bring good government to Mindinao.[32]

One of the most interesting and thoughtful anti-imperialists was the German-American journalist (and former Union army general, US senator, and interior secretary), Schurz. Writing in the 1890s, he recalled the "youthful optimism" of the 1840s and 1850s "inspiring the minds of many Americans with the idea that this republic, being charged

with the mission of bearing the banner of freedom over the whole civilized world, could transform any country, inhabited by any kind of population, into something like itself simply by extending over it the magic charm of its political institutions."[33] A refugee from the failed liberal revolution in Germany in 1848, he understood that such glib notions would prove misplaced. He opposed the annexation of Hawaii because it would throw away the natural protection afforded by the Pacific and invite an enemy attack. In the tradition of Jefferson (and like Carnegie), his vision was of a largely self-sufficient economy, where Wall Street wielded limited power, and a continentalist strategy relying on coastal defenses (including cruisers), geographic depth, and the ability to mobilize vast resources if necessary to protect the United States. Schurz implicitly questioned the assumption, dating back to the Federalists and embraced by Theodore Roosevelt and his circle, that the United States had a vital interest in preventing the hegemony of a single power over Europe. His answer probably would have been: it depends on whose. In a sense, Schurz's position amounted to a rebranding of the United States as a giant tortoise—mobile, well-protected, long-lived, but not predatory--as opposed the bald eagle brandishing arrows as well as an olive branch.

Calleo does not take sides, at least not explicitly, in the retrospective debate over intervention in World War One. But it is possible to infer a position similar to that of anti-interventionists like William Jennings Bryan, namely, that US entry might have been avoided if Washington had pursued either an even-handed neutrality or a Jefferson-like isolation, and later of George Kennan.[34] Kennan believed the war had been a tragedy, among other reasons, because it fundamentally altered the power relationship between the United States and Europe, triggered the Russian revolution, and interrupted the trend toward a relatively benign German hegemony over the continent. Kennan wrote in 1954 that "the effort to prevent the gradual and natural development of Germany's importance to Europe--a development indicated by all the factors of the new age: geographic, demographic, political and economic—simply could not be worth the candle." With all its faults, Wilhelmine Germany was a country "run by conservative but relatively moderate people, no Nazis and no communists, a vigorous Germany, united and unoccupied, full of energy and confidence."[35]

Calleo's ideas place him somewhere in the vareigated anti-Wilson camp. He looks dimly on Wilson's League with its somewhat contradictory assumptions of the natural harmony among liberal democratic states and the necessity of American world leadership. The economic element of Wilson's program was the removal of barriers to trade, reinforcing the position of the world's strongest economy. Calleo explicitly identifies himself with

another early-twentieth century Yale figure, Professor Irving Babbitt who (although a critic of Rousseau) was "suspicious of both the national pretention to exceptional virtue and the national zeal for political and social engineering."[36] There is also sympathy in Calleo's outlook for the defense of senatorial perogatives in the realm war-making, a central plank in the anti-Versailles argument. At the same time, like some Republican nationalist opponents of the Versailles-League of Nations package, he might have supported the still-born alternative of an Anglo-US guarantee against German aggression against France.[37]

The Schurzian-continentalist position--branded "isolationism" by its opponents--had many (probably a majority of Americans) adherents in the 1930s, including high Roosevelt administration officials. In his famous August 1936 "I hate war" speech at Chautauqua NY, FDR himself declared that if the choice were profits for a few or peace (many believed that this had been exactly the choice in 1914-17), "We choose peace."[38] One of the most articulate spokesmen for the "national-anti-imperial" position was the German-American New Dealer and State Department official, Adolf Berle. Berle was a hemispherist in the J. Q. Adams tradition, and a bugbear of Dean Acheson and the pro-interventionist lobby in 1939-41. He was also one of the first American promoters of Count Coudenhove-Kalergi's idea of "pan-Europa"--a European confederation--as a way of counterbalancing Russia and avoiding US entanglement in Europe.[39] In 1940-41, anti-interventionists congregated in the multi-partisan America First Committee. Although it became more of a grass-roots, Middle-West-based organization compared to the Anti-Imperialist League, America First was founded by Yale students (R. Douglas Stuart, Jr., Gerald Ford, Potter Stewart, Kingman Brewster, and Sargent Shriver, among others) and reprised William Graham Sumner themes including the danger to democracy of war and an expansive US role.

CONCLUSION. After 1945, George Kennan and many others took up Coudenhove-Kalergi's idea of European unity as a way of restoring the continent's geopolitical self-reliance and internal harmony. In his opposition to the division of Europe ("the Yalta system"), and presence of US and Soviet forces, Kennan called himself a "Gaullist before de Gaulle." Driving his "isolationism" was the conviction that an imperial role would be bad for America as well as Europe. The United States should put its own social, fiscal, and environmental house in order. To do so, he came to favor the devolution of the US federation into a looser confederation of some twelve constituent republics.[40] Another national-anti-imperial spokesman was Senator Robert Taft. Calleo notes that

the Yale graduate was "anything but a primitive provincial." His worry about US moral pretentiousness and economic over-extension was based on a knowledge of history. Like Jefferson, he feared that an imperial foreign policy would lead to an imperial presidency. He reluctantly supported NATO, but like Eisenhower opposed a long-term US protectorate over Europe. US troops should come home.[41] Although Calleo rarely mentions him, Walter Lippmann, who influenced Kennan's 1948-49 position, and who called for a balance between commitments and resources, is another congenial figure.[42]

Needless to say, history has not been kind to the national-anti-imperial position since December 7, 1941. Isolationism was swept away by Pearl Harbor and replaced with a surprise attack syndrome calling for perpetual vigilance against future aggression, after 1949, by a nuclear-armed Soviet Union. Most American conservatives supported the world-wide containment of communism. As Calleo notes, the "various strands of opposition to an American imperial role were never able to forge a common view."[43] Kennan, the professional diplomat, and Taft, the professional politician, passed like ships in the night. Official policy became a kind of synthesis of Theodore Roosevelt's geopolitical view and Woodrow Wilson's multilateralist vision, perhaps best embodied in Dean Acheson. Given the great disparity of power resulting from World War Two and European demands for protection against the USSR (and more implicitly, Germany) US hegemony came to be seen as necessary, and the fulfillment of America's destiny as foreseen by Brooks Adams and his friends.

It is tempting, but probably wrong, to conclude that the national-anti-imperial position is due for a revival in the near-future. In any case, the point of this discussion has been a more modest one: to show that David Calleo's ideas are venerable American ideas. Whatever their postwar influence, they continue to form part of what he calls at one point a "quiet current of national sanity . . . a force aroused in reaction to unmeasured ambitions and bloated pretentions."[44] As recent US history demonstrates, this inherited wisdom continues to have its uses. A reason for optimism about the future of the United States is that the anti-imperial gene is alive and well.

ENDNOTES

[1] *Rethinking Europe's Future,* 60.
[2] *The Bankrupting of America,* 181.
[3] *Follies of Power,* 130.
[4] *Rethinking Europe's Future,* 81.
[5] *America and the World Political Economy,* 6.
[6] Ibid., 252-53.
[7] *Rethinking Europe's Future,* p 81.

[8] *Follies of Power,* 137.
[9] *The Bankrupting of America,* 190.
[10] Ibid., 183.
[11] The Federalist Number 10; Lance Banning, *The Sacred Fire of Liberty: James Madison and the Founding of the Federal Republic* (Ithaca: Cornell University Press, 1995), chaps., 2-7.
[12] *America and the World Political Economy*, 68, 74-78.
[13] Ibid., 252.
[14] Ibid., 255.
[15] *The Bankrupting of America*, 177.
[16] *Beyond American Hegemony*, 217-20.
[17] *Follies of Power*, 137, 153, 158.
[18] Jefferson quoted in J. L. Harper, *American Machiavelli: Alexander Hamilton and the Origins of U. S. Foreign Policy,* 63.
[19] Cecelia Kenyon, "Alexander Hamilton: Rousseau of the Right," *Political Science Quarterly*, June 1958; H. Croly, *The Promise of American Life.*
[20] *America and the World Political Economy*, 26, 27. The quotation is Calleo's characterization of List's view.
[21] Quote Hamilton. In *The American Political System* (26-27) Calleo gives a brief straightforward, factual account of Hamilton's role in the 1790s.
[22] *Follies of Power*, 6.
[23] *America and the World Political Economy*, 77. See also his discussion of Jefferson's ideas in *The American Political System*, 25.
[24] For example his tooth and nail opposition to the Jay Treaty (which avoided a costly war with Britain) in 1795.
[25] Harper, *American Machiavelli,* 192; A. Koch and W. Peden, eds., *The Selected Writings of John and John Quincy Adams* (New York: Knopf, 1946), Introduction.
[26] On this see his letter to T. B. Adams, Feb. 14, 1801, in Ibid., 258-60.
[27] http://en.wikiquote.org/wiki/John_Quincy_Adams#Independence_Day_address_.281821.29
[28] A possible exception to this was Cuba.
[29] Brooks Adams, *America's Economic Supremacy* (1900) (New York: Harper Bros., 1947), 147, 167-70.
[30] *America and the World Political Economy*, 47.
[31] Ibid., 258.
[32] For Calleo's brief discussion of Sumner the economic libertarian, but also anti-imperialist, see *The American Political System*, 31.
[33] Carl Schurz, "Manifest Destiny," in *Harper's New Monthly Magazine*, vol. LXXXVII, no. 521, July 1893, 737.
[34] For a lucid discussion, see Robert W. Tucker, *Woodrow Wilson and the Great War* (Charlottesville: University Press of Virginia: 2007).
[35] Kennan quoted in Harper, *American Visions of Europe*, 226-27.
[36] *America and the World Political Economy*, 77-78. See also his mention of Babbitt in *The American Political Tradition,* 37-38.
[37] In *Rethinking Europe's Future* (23), he speaks of US "welching" on the guarantee of France's security.
[38] Cite FDR Aug. 14, 1936 speech.
[39] On Berle versus Acheson, see Harper, *American Visions of Europe*, chap. 2.
[40] George F. Kennan, *Around the Cragged Hill* (New York: Norton, 1993), 149-50.
[41] For Calleo on Taft, see *Beyond American Hegemony*, 37-39.
[42] See Ronald Steel, *Walter Lippmann and the American Century*. Calleo mentions Lippmann briefly, together with Babbitt, in *The American Political System*, 37-38.
[43] *Beyond American Hegemony*, 39.
[44] *American and the World Political Economy*, 78.

Pierre Hassner

Calleo the European

There are many American political scientists with European intellectual or biographical credentials. Best known are those, like Stanley Hoffmann or Zbigniew Brzezinski, who emigrated to the United States but have kept their attachment to their country of origin. But none deserve the title of "the European" as much as, and in so many ways as, David Calleo. This applies to his manner of thinking, and in the sense in which, on Kennedy's death, de Gaulle honoured the American president with the briefest but highest praise: *"C'était un Européen"*. Calleo deserves similar praise, not only because of his faith in Europe's role in the world and as an example for the United States, but because of his deep immersion in and study of the politics and cultures of several major European countries. Italian by name, he has ruled over Elba and kept an eye on Bologna for a longer time than Napoleone Buonaparte ever did. His first books were dedicated to British thinkers, who had a decisive influence on his attachment to the state as a complex but harmonious reality, and as the indispensable guide and framework of politics. Reading his book on Coleridge, I was struck by his use of the formulation: "romantic constitutionalism" and I think one can derive from it a definition of David's doctrine of international affairs as a "semi-romantic semi-constitutionalism".

The views of both Bosanquet and Coleridge were, however, very deeply influenced by German, particularly Hegelian philosophy, and Coleridge (quoted by Calleo) wrote that he preferred "gothic federalism" to "French republicanism". Calleo wrote very good books on the state of Great Britain and that of Germany (including his famous formula: "Germany was born encircled"). But it is clear from his other early and seminal book, *Europe's Future: the Grand Alternatives*, to his more recent and most detailed work, *Rethinking Europe's Future,* that his favourite country, political system, and fount of foreign and even economic policy, is France as represented by de Gaulle and Jacques Rueff. They serve as a constant example or inspiration for the two substantive and complementary themes which are present in all his works, with a truly unique continuity over more than forty years: the critique of American hegemony and the faith in a Europe allied with the United States but, above all, independent and able not only to defend itself but to stabilize the United States by counterbalancing it, and to influence the world by offering the model of a cooperative and "semi-constitutional" order among moderate states.

This almost obsessive continuity is based not only on Calleo's deeply European culture and on his daily exasperation with the messianic and imperialist tendencies of his compatriots. It is based above all on his conception of, and attachment to, the state as an living and organic community.

In the great debate between mercantilism and liberalism, he rightly points out that modern states are mercantilist domestically, in the sense that they carry social and economic responsibilities for the welfare of their peoples, and that this conflicts with global free-trade. But he postulates that the first priority is the domestic organization of the state, and this leads him to advocate a certain degree of protectionism, at least at the level of big regional blocs.

He may perhaps underestimate the force of transnational trends and of external constraints imposed upon individuals and states. He sometimes gives the impression of thinking that if Americans were more modest and Europeans more self-confident, other states and groups would be ready to follow them on the road to moderation, balance, and regulation. In this respect, while one can only agree with his criticisms, it is more difficult to follow him when it comes to the positive policy implications. Or rather, one is tempted to think that his views are sometimes refuted and sometimes confirmed by the course of events.

During the Cold War, in my opinion, his appeals for a strong reduction in the number of American troops stationed in Europe had little chance of being followed. "Europe from the Atlantic to the Urals" as advocated by de Gaulle with the approbation of David Calleo had little chance of coming about. The Soviet Union negotiated the end of the Cold War and the reunification of Germany essentially with the United States (partly to avoid an arms race in space, which it could not afford given the state of its economy and of Gorbachev's domestic program). Until the great turn of 1989-91, the fantasies were the "European Europe" and "the Europeanization of NATO", not the American policy which Calleo attacked in *The Atlantic Fantasy*.

On the other hand, he was perfectly right to denounce America's Asian ventures, from Vietnam to Iraq and Afghanistan, and to see in them the effect of a "unipolar fantasy" which manifested itself in full swing after the fall of the Soviet Union. He saw very clearly, much in advance of most commentators, that this event opened the way to diversity, or multipolarity, rather than to the triumph of what Hubert Védrine called, wrongly in my view, the American "hyperpower".

In the same way, Calleo's warnings in his 1992 book *The Bankrupting of America: How the Federal Deficit ruins the Nation*, provoked by the Reagan era's excesses, seem prophetic

to-day. This is true even if they may have been somewhat exagerated at the time, given that Bill Clinton had managed to balance the budget before George W. Bush returned it to a disastrous condition. Finally, the disappearance of the Soviet military threat--in spite of the worrying aspects of Russia's policy towards its neighbors from the Baltic to the Caucasus--makes the idea that Europe should be able to dispense with American protection and rely more on its own forces much more defensible--all the more so since the Americans, preoccupied with Asia and their domestic problems, seem to have lost part of their interest in the Old World.

In short, the last 20 years reveal Calleo's positions to be much less paradoxical, and more convincing, than in the preceding two decades. They continue, however, to be vulnerable on two points: Europe, and the transformation of the geopolitical landscape through globalization, meaning the rise of the so-called emerging countries (particularly in Asia) and of forces and networks which states find it more and more difficult to control. Europe, this Europe which Calleo loves and from which he expects so much, obstinately refuses to follow one of the two paths opened by its antagonistic French visionaries, Charles de Gaulle and Jean Monnet: that of greatness through the convergence of national ambitions, and that of the union of peoples through the overcoming of their rivalries thanks to supranational institutions. In his early book *Europe's Future: The Grand Alternatives*, Calleo had compared three visions of Europe: the above-mentioned two and the Atlanticist alternative. He had concluded in favour of the Gaullist vision. In *Rethinking Europe's Future* (2001) his most detailed book on the subject, published at a time when the European Union had matured and progressed in the direction of enlargement, he pointed out that its reality was that of a hybrid combination of the first two conceptions, and he applauded this result. Rather than a true federation which would have risked damaging the autonomy and identity of nations, or of a simple alliance of nations "with free hands" (to use de Gaulle's expression), one was faced with a kind of confederation whose members adhered to a "semi-constitutional" order reconciling the necessities of independence and cooperation.

Confederations are, however, essentially fragile. Often troubled by clashes of interests or perspectives, they tend to turn either into federations or into simple alliances. The current crisis of the euro seems to show that Europe, far from reaching or approaching an optimal equilibrium, has gone either too far or not far enough, that a common currency without a certain "budgetary" and "fiscal federalism", and without a real common political authority, runs the serious risk of blowing up under the pressure of differences in economic performance, and in social and political attitudes. It does seem that Europe

must either move backward or move forward.

One cannot rule out the latter hypothesis, which would imply a last- minute forging ahead inspired by Samuel Johnson's dictum that "The thought of being hanged in a fortnight concentrates the mind wonderfully". But it does not seem the more likely outcome (not to mention the possibility that one's mind is wonderfully concentrated but one is hanged nevertheless). At any rate, David Calleo, without concealing his disappointment in the Europeans' lack of will, maintains his faith in Franco-German understanding. Not only does he see in it the hard core of a "variable geometry" Europe, institutionally bound to its Eastern neighbors including Russia, in the conclusion of *Rethinking Europe's Future*, he declares, "Just as America came to the help of Europe in the 20th century, a rejuvenated Europe may come to save *Pax Americana* in the 21st".

A Chinese or sinophile Calleo might see in this idea the extension to the West as such of the same fantasy which the American Calleo had so vehemently accused his country of, the same refusal to admit the emancipation of the South and the change in the "correlation of forces" at the global level. The conclusion of *Follies of Power* persists, although with a touch of doubt, in the argument that the unity and the inner balance of the West are the key to international order, by offering a peaceful model to the entire world.

"If the West is unable to build and sustain a collaborative equilibrium within itself, the prospects for concord in the rest of the world are grim. But if America's political imagination regains its balance, and Europe rises to the occasion, there may be hope that the West can accommodate the new Asia and perhaps even avoid a dismal degradation of the Earth's environment. The twenty-first century may then come to reflect Europe's new model for peace rather than its old model for war".

One can only agree with this hope, but one has to moderate it still further by pointing out that the new or renascent powers will probably want to put their imprint on the international order, and that, for the time being at least, they are no more inclined than is the United States to renounce or share their sovereignty, or to adopt Europe as a model. As for Calleo's specific analyses and recommendations, they are certainly in tune with the current atmosphere. The criticism of uncontrolled globalization and the call for protectionism are in the spirit of the times. That does not mean that the solution necessarily lies, as he believes, in the constitution of big regional blocs. Of course, important French economists who are definitely not opposed to liberalism, have recommended a certain level of European protectionism. I am not competent to pass judgement on the economic issues at such, but I can remind us that while imperial liberalism has favoured and profited from globalization, it did not create it. Beyond the economic sphere, tech-

nological revolutions produce a kind of ubiquity and simultaneity, which in turn favour a permanent weakening of borders (including those of regional blocs) while creating new inequalities, imbalances, differentiations, and barriers inside the borders themselves. And this allows me to conclude where I began, namely with the theoretical contribution of David Calleo, and the philosophical and historical perspective on which it is based. He starts with the tension between the nation and liberalism, underlining the importance of the state with its internal function based on its providential role, and its external function based on its competitive role. In a way, he independently points to an opposition which had been underlined by the Franco-German philosopher Eric Weil in his *Philosophie Politique* (1956) and which is implicit in Hegel: modern society is universal in principle, on the model of technological rationality, but the individual satisfies his need for a sacred dimension only within a particular community. This is normally represented primarily by the national state, but the state can be fought, undermined, and even supplanted by sub or trans-national communities, in particular of an ethnic or religious nature, which are often antagonistic to each other.

Calleo's solution, as we have seen, lies in a compromise based on the model of a European confederation: independent states engaged in a structural cooperation, and renouncing war. Hence, too, the originality of his position within international relations theory. He means to overcome the classical opposition between realists and idealists or liberal internationalists, and between the models of the balance of power and collective security, in favour of what he calls a "semi" or, sometimes, a "quasi" constitutional order.

One may wonder, however, if in our time the clash not of civilizations but of passions and identities, the development of multidimensional and decentralized violence, of corruption, illicit money and unrestrained capitalism, the encounter between masses of people chased from their homes by persecution, poverty, war or climate change and sedentary populations fearing for their jobs and identities, will not produce, through the perpetual transgression of rules and borders, a permanent crisis of both nation-states and the international economy. And isn't the "semi-constitutional order" likely to be the first victim of this crisis? Perhaps these doubts arise from my personal inclination towards pessimism, but also from the part of Europe I come from. If I may say a word about myself and my relationship with David, we are both Europeans, we have been arguing, as he once remarked, for 40 years, and our points of view are closer now than they were during the Cold War. We want the same thing: an independent Europe, peaceful and part of the West. The difference is partly that I have always been pessimistic about things I dearly wished for, like an independent European defense. But, even more it is that David is a

West European whereas my experience is that of a Jewish East Central European who grew up under two totalitarian persecutions, luckily escaped from them, but has always known what the Great Polish poet Czeslaw Milosz called the difficulty of explaining to Western friends who have always lived in the same nation and under the same regime, the essential feeling of fragility of any Central European who has more than once either had to flee his country or, even more disconcerting, seen the regime and even the name of his home country or town change several times. Today, I cannot help feeling that the wind blows in the direction of irrational forces, arising from unlimited money, fanaticism, or uncontrolled technology, rather than in that of the harmonious construction so well described by Coleridge and Calleo.

But maybe this is just the mark not only of my own biography but of a "time of troubles" which may be a perhaps lengthy transition between the so-called bipolar order and a new order whose shape we don't yet know, but which will eventually pacify conflicts and organize a truly peaceful coexistence. In that case, David Calleo would survive not only as the eloquent and lucid critic of present follies, but the prophet of a slightly miraculous new order which would secure both pluralism and peace through moderation, inspired by the example of Europe.

Thomas Row

Rooted in Romanticism: David Calleo's Coleridgean Sensibility

In our age, as in his own, Coleridge may offer some assistance to those who are seeking an escape from the reigning clichés of contemporary politics.[1]

The starting point for this essay is the question: what gives David Calleo's work such a distinctive voice? How can we distinguish his approach from that, say, of a Stanley Hoffman in political science, of a Tony Judt in history, or of practically any standard-issue economist? The answer to that question I shall argue lies in the fact that David Calleo's fundamental approach to thinking about the world is rooted in Romanticism and embodies what might be called a Coleridgean sensibility.[2]

Before turning to the vexing question of Romanticism, however, it makes sense to say something about what we mean by Calleo's "work". In building this argument, I have taken into consideration three aspects of his career: first, his many published books and articles, and three of them--*Coleridge and the Idea of the Modern State, The German Problem Reconsidered* and *Rethinking Europe's Future*--will be examined in more detail. Second is a document called the European Studies Syllabus. This document, little known outside of Johns Hopkins and remembered by the average student mainly as a to-do guide for preparing the comprehensive examinations, embodies the ideas that lie behind the SAIS European Studies program. In its great interconnected tripartite structure (history and ideas, domestic political economy, Europe and the world system) the syllabus represents a truly Coleridgean conception of European Studies and one that has distin-

guished the SAIS European Studies program from all others for almost half a century. Third, I have taken into consideration--in a very unsystematic way--David Calleo's work as a teacher and as the supervisor of numerous doctoral dissertations. Given the eclectic and heterogeneous character of the dissertations coming out of European Studies, it is difficult to see a "Calleo School." Nevertheless there are numerous "elective affinities" amongst his students that relate back, I would argue, to what he wrote about Coleridge and education: "It should not be forgotten what Coleridge meant by education--not merely expertness, but the ability to see all things in relation to each other, to avoid partial views and one-sided values."[3] (In parenthesis I might add that it is perhaps as a teacher that we best see David Calleo's roots in Romantic philosophy: the emphasis is on *Bildung*; his students are seen as developing, changing, *individuals* rather than as static, rationally-choosing *homo economici*.)

To argue, then, that this broad body of work is informed by Romanticism, three broad problems have to be addressed. First, what is Romanticism? Second, there is the "Great Divide" or separation that appears to exist between the Rationalist and the Romantic outlooks. And finally, there is the question of the place of Romanticism in the cultural history of the past two hundred years and the marginalization of Romanticism in the social sciences since the Second World War.

WHAT IS ROMANTICISM?

This vexing question is almost impossible to answer and has generated debate at least since A. O. Lovejoy's famous article "On the Discrimination of Romanticisms" in 1924.[4] To paraphrase Calleo, "It would be too Coleridgean to become involved here in a protracted discussion of Romanticism and thus annihilate whatever coherent train of thought [this essay] might possess."[5] Recently, Michael Ferber has suggested the application of Ludwig Wittgenstein's notion of "family resemblance" to the problem of defining Romanticism.[6] Families have certain traits, but these family traits overlap and are not present in all members. So, too, with Romanticism--there are certain distinctive traits that are shared by some of the Romantics, but not all, and others that are possessed in differing degrees by different persons.

In this sense of "family resemblances" we can begin to identify those aspects or traits of Romanticism that are most prevalent in David Calleo's approach. It can come as no surprise that it is the figure of Samuel Taylor Coleridge whose works and world view have most attracted Calleo. It is difficult to underestimate Coleridge's achievement.[7] His vast output touches on an enormous variety of subjects. His life span (1772-1834) allowed

him to exert a great influence on the men of several generations. It was he who largely introduced German philosophy and philosophical idealism into England. It is, however, Coleridge's political philosophy that most attracted David Calleo. As he wrote in his Coleridge book:

> I hope to suggest and illustrate in this study of Coleridge that the Romantic world-view was extraordinarily suited to perceiving and solving the problems of the modern constitutional State. Preoccupation with the reconciliation of individuality with order, the particular with the general, and the self with the group made the Romantic especially sensitive to the problem of political consensus.

He adds that,

> Emphasis upon time and development was well adapted to an age that witnessed constant change and needed to be continually adaptable while maintaining a sense of continuity with enduring loyalties and values.[8]

There are a number of "distinctive family traits" that help define the Coleridgean form of Romanticism and are also, I believe, characteristic of David Calleo's world view.

- The search for comprehensiveness and the intolerance of partial views.[9]
- The acceptance of the "restless mutability of Nature"--and that vitality, dynamism, and change are the norm.
- A belief in the importance of the active role of the mind and of the creative imagination.[10]

If we bring these together, a project emerges:

> If the imagination always had to be exercised, because there could be no final ideals, and if there was no supernatural force that guaranteed the inevitable success of the process, then it would seem to follow that the most significant task of political philosophy is to discover the conditions most conducive to the successful operation, in every age and society of the creative political imagination.[11]

A current running through most of David Calleo's work has been precisely to discover those conditions as they have evolved in Europe and in America in our times. Let us now turn to how specific aspects of the Romantic tradition have been considered in some of his works.

COLERIDGE AND THE IDEA OF THE MODERN STATE. David Calleo's book on Coleridge is the principal and most complete of his writings on the Romantic tradition. *Coleridge and the Idea of the Modern State* was published in 1966 under the

auspices of the Yale Department of Political Science as number 18 in a series entitled Yale Studies in Political Science. It is a remarkable because it aimed to present and defend a Romantic tradition in political philosophy at a time when the main currents of political science were moving in a different direction. The book accomplishes two broad tasks. The first is to explicate and explain Coleridge's political philosophy. The second is to establish the continuing relevance of Coleridge's thought for understanding the contemporary world. Indeed, this latter point is presented as the author's *credo*:

> I do believe, on the other hand, that there is much in Coleridge that can profitably be studied in our time and country. For this reason I shall attempt more than an exposition of his ideas, and will suggest, in conclusion, the present relevance of his whole way of looking at the State. … In our age as in his own, Coleridge may offer some assistance to those who are seeking escape from the reigning clichés of contemporary politics.[12]

It is in the main sweep of the book (chapters 1- 7) that the author sets out Coleridge's world view, the context in which his ideas developed, and his political philosophy. Given the diversity and complexity of Coleridge's thought, Calleo's ability to synthesize and clarify is outstanding. The most focused and developed of Coleridge's political writings is *On the Constitution of the Church and State According to the Idea of Each*, published toward the end of his life in 1830.[13] Calleo uses this work to re-propose some of Coleridge's most stimulating ideas deriving from the latter's views of the English Constitution: the idea of a balance of forces, the *lex equilibri* which consist of three great tendencies--*Permanence and Progression, Church and State*, and *Active Power and Potential Power*. Coleridge's grand constitutional synthesis, Calleo argues, is more than just a historical period piece and "his political philosophy transcends the limits of his own historical vision …. Neither Coleridge nor any other proper Romantic could believe that any ideal, any vision of the good society, was complete forever."[14] The good society, in other words, "requires a perpetual exercise of creative political thought, of what might be called the political imagination."[15]

In the final two chapters of the book ("The International Dimension" and "The National State Today"), Calleo moves the discussion to the realm of international relations and we can see in a nutshell themes that he was already developing and which would be further developed in his subsequent work (e. g., *Europe's Future: The Grand Alternatives*)--the character of the nation-state, the possibilities for a supranational state, and the question of Europe's future. In the crescendo-conclusion, Calleo brings the full force of Coleridge to bear on the question of European integration and the then "new" European

institutions. In his view, "federalism and Coleridge's kind of national State are not necessarily incompatible."[16] "In short," he concludes, "unless the politics of the new Europe are to be based upon force or magic, the old problems of consensus will persist. Today is surely a time for creative thought, but not for theories that assume the world was created in 1945."[17] From the vantage point of 2012, these are words that resonate when we look at the present condition of the European Union.

THE GERMAN PROBLEM RECONSIDERED. Twelve years after his Coleridge book, David Calleo gave a second focused treatment of the Romantic intellectual tradition in his *The German Problem Reconsidered: Germany and World Order, 1870 to the Present* (1978). This book is a series of essays that critically examine many of the old assumptions about the German problem and was influential in subsequent revisionism of the *Sonderweg* thesis--the argument that German history followed a peculiar path of development. According to this view, the sources of the German problem were to be found internally--in Germany's politics, economy and culture. In the wake of the Second World War and the horrors of Nazism, this interpretation found wide acceptance. In the realm of culture, the German tradition of philosophical idealism was seen as an unhealthy cultural strain that had contributed to the catastrophe. So just as, I would argue, the Romantic tradition in political thought fell out of favor after the Second World War in general, so too did the German Idealist tradition in particular.

In Chapter six of *The German Problem*, Calleo turns to social and cultural explanations and in a scant ten pages in a section devoted to "The German Idealist Tradition and its Political Consequences" not only delivers a blistering critique of the critics of that tradition, but goes on to offer a rousing defense. The starting point of the argument is the view of scholars such as Karl Dietrich Bracher and Ralf Dahrendorf that the roots of the German problem are to be found in the German Idealist tradition. "In effect," writes Calleo, both Bracher and Dahrendorf postulate a 'Liberal' or 'Anglo-Saxon theory of the state, and contrast it favorably with the Idealist, Hegelian, or 'German' conception." Calleo then goes on to critique the critics, whose view:

> may be questioned on three rather decisive grounds: First, philosophically, the whole distinction between positive and negative freedom is simple-minded, as is the critique of Idealism in general. Second, historically, it is not self-evident that one tradition should be called German and the other British. Finally, the derivative models of Liberal versus Idealist societies have little to do with the workings of either German or British societies.[18]

Having taken apart the arguments of Bracher and Dahrendorf, Calleo turns in his conclusion to a passionate critique of neo-Liberalism and a defense of Idealism. In so doing, he returns us to the universe of Coleridge. The passage needs to be quoted at length:

> The questions of what is a Good Life, and how to live it, cannot simply be pushed aside by 'value-free' social science, peddling some magic political mechanism that guarantees freedom without philosophical effort or moral discipline. A divisive selfishness that makes democracy fragile is the natural condition of a society that has no larger common vision. Temporary abundance may temporarily put off the day of reckoning, but the crisis will come sooner or later. It is better to take up the challenge than to pretend it does not exist. For no set of social mechanisms can long flourish in the absence of creative political imagination. The neo-Liberal tradition tries to replace that imagination with its political version of the free market. It is a vain presumption, and one of the advantages of the Idealist tradition is that it knows better. Rather than endlessly repeating ill-informed attacks on the Idealist school, German or English, modern analysts would do better to study it seriously. It is far richer, on the whole than logical positivism.[19]

RETHINKING EUROPE'S FUTURE. The third of David Calleo's texts I shall examine in terms of its connection to the Romantic tradition is *Rethinking Europe's Future*. This book, published in 2001, is Calleo's major response to the great changes that had taken place in the Europe and the world since the end of the Cold War. It is a deliberate re-evocation of his earlier study, *Europe's Future: The Grand Alternatives* (1965). There are two ways in which I think it reflects a Romantic sensibility. The first is in its conception and structure which truly reflects a Coleridgean approach. Creative imagination is on full display as history, philosophy, and political economy are brought to bear on an analysis of Europe that--as Calleo wrote of Coleridge-- searches "for a way of relating all events in a systematic pattern that is not static but progressive, and that manifests the balancing and interpenetration of the universal and the particular, order and individuality."[20]

The argument of the book is structured in three large parts, each of which links up to the others. The first part, "Europe's Living History", is not a narrative history but an analytical examination of the nation-state, of capitalism, and of the dynamic evolution

of their relationship. The second section, "Legacies of the Cold War", views Europe as a series of three overlapping structures or systems: the bi-polar strategic, the European Union, and the Global economy. In the third section, "The New Europe", brings these arguments together, and while much is inevitably dated in a book from 2001, the basic framing of the issues remains remarkably sound. Reflecting the optimism of that time, it is Herder rather than Coleridge who is invoked in the last lines of the book:

> A contemporary Herder should rejoice in the new and richer palate of cultures and energies that such a world implies. But Herder's happy ending seems more likely if the West itself, managing its own maturity with grace and imagination, presents a rational model for the rest of the world. A strong, human, and cohesive Europe--linked to Russia as well as America, and helping to give balance to both east and West--seems a vision of the future in harmony with the better parts of our nature and the most promising trends in our history.[21]

Herder looms large, too, in the earlier Chapter four, "From States to Nation States" where Calleo presents a synthetic idealist account of the emergence of the modern nation state. In this part of the book's argument, Herder is significant as a precursor of a liberal nationalist theory of international relations. The trouble, of course, with Herder's "garden of nations" as indeed with much of the Romantic tradition lies with the dark side of nationalism. Fanaticism, chauvinism, tyranny, and aggression could easily be unleashed. The wars of the former Yugoslavia had just ended when this book was written.

THE GREAT DIVIDE AND THE MARGINALIZATION OF ROMANTICISM IN THE SOCIAL SCIENCES. After the Second World War, a gap opened between science (and economics) on the one hand and the arts and humanities on the other. (This gap was famously described by C. P. Snow in *The Two Cultures*.) As the economist Richard Bronk has put it: "on this view scientists try to establish truth through rational and objective analysis of evidence, while artists create visions out of their imaginations, and prefer intuition and inspiration to reason."[22] The postwar divide over methodology and outlook between science and the humanities was embraced enthusiastically by mainstream social sciences, particularly economics and political science. As a consequence, the Romantic outlook became contrasted to a rationalist one and the intellectual traditions of Romanticism were relegated to the humanities and marginalized in the social sciences.

The reasons for this marginalization are complex, but I believe that a good way of look-

ing at the problem is to place Romanticism in the context of the cultural history of the last two centuries. In very crude terms, a classic phase of Romanticism followed an age of Enlightenment and Neo-Classicism, which in turn emerged out of the Baroque. The classic phase of Romanticism then gave way to a mid-nineteenth century period of positivism, which in turn gave rise to an era of late-Romanticism, of a fin-de-siècle reaction against positivism. It is this later phase, so well presented in H. Stuart Hughes's *Consciousness and Society: The Reorientation of European Social Thought 1890-1930*, that matters here: for much of the culture of this time came to be held responsible for the disasters of the first half of the twentieth century. As we have already seen, for example, idealism was seen as a culprit of the German problem.

After the Second World War there was a renewed burst of positivism and Snow's *Two Cultures* took shape. The rise of a counter-culture and the new left in the 1960's might be seen as a brief burst of romantic revival, but it was followed by the triumph of neo-liberalism. We now live in a time where (as Robert and Edward Skidelskys have put it) economics is the theology of the age, and in which, I would argue, rational choice is our prevalent view of human nature.

With this, admittedly crude, broad picture in mind, two further points need to be made. First, Romanticism, as Tim Blanning has recently argued, is *revolutionary*, and as such it has never stopped or disappeared. Romanticism has developed in a dialectical relationship through each of the broad phases of cultural history. It is dynamic, and as Blanning argues, "The Romantic Revolution is not over yet."[23] Second, the distinction between a scientific "rationalist" outlook as opposed to a somehow less-rationalist "Romantic" outlook strikes me as totally false. Romantic thinkers such as Coleridge were eminently rationalist. Richard Bronk, who in his recent *The Romantic Economist: Imagination in Economics* attempts to bridge the great divide, traces the origins of the split to the differing world views of Bentham and Coleridge. Bentham and utilitarianism are in many respects at the root of contemporary rationalist social theory, just as Coleridge is central to the Romantic view. Bronk uses John Stuart Mill's famous essays on Bentham and Coleridge to bring the contours of the great divide into relief. Mill (using Coleridge) raises three chief criticisms against Bentham:

First, he criticized Bentham's very limited understanding of the complexity of human motivation, which translated in his social theories into 'an unusually slender stock of premises', chiefly that people pursue their own personal interests or pleasure, subject only to certain constraints or 'sanctions.'[24]

Mill's second concern was over Bentham's narrow view of institutions and laws, and

his neglect of their role 'as an instrument of national culture. Bentham, he argued, took 'next to no account of national character and the causes which form and maintain it'.[25] The third set of criticisms that Mill made of Bentham related to his method of analysis. For one thing, Bentham's method was reductionist, 'treating wholes by separating them into their parts', whereas Mill saw value in Coleridge's more organic "philosophy of society"[26] These are telling criticisms. Mainstream economics and political science today have largely descended from the Benthamite tradition. Rational choice has become a predominant outlook in political science. Economics has become a mathematical exercise. The result has been an increasing disconnection between reality and the social sciences. Partial views have come to triumph. Much, it can be argued, has been lost by such narrow views of human nature. The Romantic tradition that I believe remains an important element in David Calleo's work and in the SAIS European studies program offers an enhanced and in many respects a richer view of contemporary reality that complements mainstream approaches. It is a worthy and necessary corrective to them. The emphasis here is on an organic view of the world that takes into account institutions and national histories and which is informed by a broad understanding of human motivation. Though the Romantic tradition is now a rare approach within the social sciences it has much to offer. The current crises of the world economy in Europe and America have shown the bankruptcy of many of the old paradigms in economics and politics. What we need now is some more Creative Political Imagination.

ENDNOTES

[1] David P. Calleo, *Coleridge and the Idea of the Modern State* (New Haven: Yale University Press, 1966), p. 8.
[2] Calleo was much influenced as an undergraduate at Yale University by the program in the Humanities, History, the Arts and Letters. It is from this experience that his "methodological habit" of "an interdisciplinary approach to emphasizing the influence of competing ideas or ways of looking at the world" was formed. See Calleo, *Rethinking*, 16.
[3] Calleo, *Coleridge*, 120-1.
[4] Lovejoy as well as Jacques Barzun and Isaiah Berlin.
[5] Calleo, *Coleridge*, 47.
[6] Ferber, *Romanticism*, 9.
[7] Holmes volumes 1 and 2.
[8] Calleo *Coleridge*, 62.
[9] As Calleo writes:" Here is summarized the central characteristic of all Coleridge's thought: the search for a way of relating all events in a systematic pattern that is not static but progressive, and that manifests the balancing and interpenetration of the universal and the particular, order and individuality." *Coleridge*, 31.
[10] Coleridge's ideas about Reason, Understanding, and Imagination are highly articulated and too complex to be spelled out here.
[11] Calleo, *Coleridge*, 104.
[12] Calleo, *Coleridge*, 8.
[13] Samuel Taylor Coleridge, *On the Constitution of the Church and State According to the idea of Each.* (London: Dent) 1972.
[14] Calleo, *Coleridge*, 103.

[15] Ibid.
[16] Calleo, *Coleridge*, p. 146.
[17] Ibid., p. 147.
[18] Calleo, *The German Problem*, 151.
[19] Calleo, *The German Problem*, 156-7.
[20] Calleo, *Coleridge*, 31.
[21] Calleo, *Rethinking*, 373-4.
[22] Bronk, *The Romantic Economist*, 31.
[23] Blanning, *Romantic Revolution*, 186.
[24] Bronk, *The Romantic Economist*, 32.
[25] Bronk, *The Romantic Economist*, 32.
[26] Bronk, *The Romantic Economist*, 32.

Gian Giacomo Migone

Afterward

Silence always awakens my curiosity. There are macroscopic events that for decades have been surrounded by public as well as historiographic silence. Obvious examples are the sufferings of German civilians, caused by Allied bombings, whether motivated by vengeance or so-called psychological warfare, during the final phase of the Second World War. Or Hiroshima and Nagasaki. Had it not been for individual writers and journalists, not historians or statesmen, like Kurt Vonnegut and John Hersey, lack of public debate concerning these events would have been almost total for a long time. The defeated did not want to be accused of hiding their faults by accusing the victors, who, for their part, preferred to look elsewhere.

A single person, scholar, or public figure can also be surrounded by an aura of silence when he raises uncomfortable issues. It is certainly intriguing, and could even be important, to understand when and why this happens. I believe that, in various instances, this has been the case of David Calleo. And I believe it is one of the reasons for celebrating his career with a conference and subsequent Festschrifft.

I can foresee the objections. After all, David's authority as a scholar is universally recognized: for many years he has held a professorship in a prestigious university; he has repeatedly been published by distinguished journals and publishing houses; and he has lectured in all the right places. Yet silence has reigned, and to a large extent still reigns, on what to my mind is his most important achievement as a public voice and political analyst: to have broken a set of taboos in the American and Western public debate, while always backing his arguments with solid scholarship. In other words, being totally incompatible with conventional wisdom, that splendid oxymoron coined by those who produce most of it: the Anglo-Saxon intellighentsia.

Let me proceed in an orderly fashion. Since the seventies, David has established himself as a confirmed declinist, by this meaning the decline of the relative power of the United States vis-à-vis other actors present in the World—something as obvious as the increase in its absolute political, economic and military power in the years of the Marshall Plan, the establishment of NATO, and the Eisenhower years. The abandonment of the convertibility of the dollar, the Vietnam War and Watergate, as well as the growing dependence on the Cold War to marshall economic and human resources for an overextended foreign

policy, typical of the Nixon-Kissinger years, sounded like a death knell for American hegemony as previously conceived for those who were willing to listen. All this was punctually analyzed in David's writings, as well as in countless more or less formal discussions where I often had the privilege of being a participant. Yet, with a few exceptions, Paul Kennedy being the most important, the subject was and has remained a taboo in most establishment as well as many leftist circles, well after the fall of the Berlin wall. That event, in fact, made the trend identified by David and a few of his sparring partners irreversible because it deprived Washington of its favourite enemy, which no "axis of evil", rogue state, or even "war on terror" could replace in the long run. Meanwhile conventional wisdom, but not David, nurtured by a victory that was in fact the defeat of the indispensable enemy, fell under the spell--David called it the folly--of unipolarism, feeding an insatiable military-industrial complex (an expression, coined, not coincidentally, by Dwight D. Eisenhower in his farewell address). How that story has ended, with collateral damage to its intellectual supporters (who listens these days to Kagan, Krauthammer, and Niall Ferguson, or their European supporters on the left like Toni Negri?) we all know, as by now decline has become a household word in any serious discussion of U.S. foreign policy. Lybia and Syria *docent*.

But there is another key concept previously ostracized, except from the Calleo magic circle. Until a few years ago, whenever anybody mentioned multipolarity, the obvious outcome of American decline, some Joseph Nye would leap up and set out a scenario strictly confined to multilateralism, obviously under American leadership. Such thinking has performed the miracle of keeping NATO alive long after it has lost its raison d'etre. The transition to multipolarity, the obvious but still too distant outcome of a world political system deprived of American hegemonic leadership, pointed unequivocally to new but unwelcome protagonists, as well as a Russia which would not give up its place despite the sunset of bipolarity. As far as Europe is concerned, Calleo--who likes to define his only government experience as that of a young court jester of policy planning in the Johnson administration--continued in the years after that to support European unity without Kissingerian Angst, urging America's European interlocutors to get their acts together in terms of political and military integration in order to satisfy the urge he felt for a smaller but by no means isolationist American foreign policy. And as a contribution to a slowly emerging multipolar world.

I am slowly coming to the point. The problem with David Calleo is that he is hard to place. Like the Second German Empire which he redefined, he is not aggressive but inconvenient. Inconvenient, that is, to those who do not want or cannot rethink the conven-

tional wisdom and therefore prefer to pretend he does not exist. Inconvenient, because, more often than not, history has proved him right. Hard to place? Is he an economist who writes history, or the other way round? After all, many of the old pupils and friends who surround him have ended up writing history books. What he writes and says is first and foremost politically relevant, but always placed in a historical context in a way that distinguishes him from a political scientist or pundit with a theoretical slant. David, like reality, does not obey the laws of academic taxonomy or of party commitment. Democrat or Republican? I have never understood how David votes nor have I dared to ask. My guess is that he finds it hard to most of the time, being basically an "Eisenhower Republican", another fine oxymoron today. A fiscal conservative who, as a citizen of the world, looks down on narrow nationalist and provincial points of view, therefore sounding, more often than not, like a Fulbright liberal. His name reminds me of home, Italian as I am, yet he sounds and looks like the perfect WASP that he definitely is not. David is David. Someone who does not preach, but sets an example for those who would learn to think for themselves. As I remarked when we were gathered in Bologna, quoting another important man in my life (his name was Mason Hammond): "It is not what you preach that counts, it is who you are!"

APPENDIX: EUROPEAN STUDIES PH.D. ROSTER

Allin, Dana Hansen
1990
Understanding the Soviet Threat to Western Europe: American Views 1973-85

Alonso I Terme, Rosa Maria
1998
The Role of the State in Spanish Economic Development (1833-85): Interests and Economic Development

Asmus, Ronald Dietrich (1957-2011)
1993
Bonn and East Berlin: The Politics of German Unity and Partition

Behr, Timo
2009
France, Germany and Europe's Middle East Dilemma: The Impact of National Foreign Policy Traditions on Europe's Middle East Policy

Behrens, Kai
2012
Destructive Discipline: The International Politics of the German Balance of Payments

Boche, Jörg Alexander
1993
The Political Economy of Franco German Relations

Burnett, Nicholas R.
1977
Emigration and Modern Ireland

Chivvis, Christopher S.
2004
Order and Freedom in the International Political Economy, The Development of the Political Economic Thought of Jacques Rueff, 1922-1972

Cook, Paul J. Jr
1998
Ugo La Malfa and Modern Italy's Lay Tradition

Dalgaard-Nielsen, Anja
2003
From "Civilian Power" to "Civilized Normal Power," Re-Unified Germany and International Crisis Management

Denison, Andrew Blair
1996
The European Dilemmas of the German Left: The Social Democratic Party and West European Security Cooperation

Feeney, William Raymond
1970
Internationalism, Anti-Militarism, and Pacifism in the Doctrine and Politics of the Italian Socialist Party

Goodliffe, Gabriel
2007
The Revenge of Maurras: Modernization, Culture, Crisis and the Resurgence of the Far Right from Boulangisme to the Front National

Gordon, Philip Howard
1991
Struggling to Adapt: French National Security Policy and the Gaullist Legacy, from the 1960s to the End of the Cold War

Gray, Lawrence Edward
1977
The Pluralist Tradition of Italian Communism

Harper, John Lamberton
1981
The United States and the Italian Economy, 1945-1948

Jones, Erik
1996
Economic Adjustment and the Political Formula: Strategy and Change in Belgium and the Netherlands

Kelly, Janet (1947-2003)
1976
American Banks in Britain

Loewald, Christopher W.
2001
A Political Economy of Unemployment in France

Matthijs, Matthias
2008
The Political Economy of Crisis Making: The United Kingdom from Atlee to Blair (1945-2005)

Melby, Eric D.K.
1978
Oil and the International System: The Case of France, 1918-1969

Morris, David Brian
1996
The Dilemmas of Deutschlandpolitik: The Government of Helmut Kohl and the Goal of German Reunification, 1982-1989

Myers, Walter Kendall
1972
A Rationale for Appeasement: A Study of British Efforts to Conciliate Germany in the 1930s

Nau, Henry R.
1972
Politics and Peaceful Technology in Western Europe: Case Study of Nuclear Reaction Cooperation

Newman, Simon Kent
1974
March 1939: Chamberlain's Diplomatic Revolution? The Origins of the British Guarantee to Poland

Paulus, Judith K.
1975
French Financial Diplomacy: The Interwar Years

Reid, Proctor Page
1989
Private and Public Regimes: International Cartelization of the Electrical Equipment Industry in an Era of Hegemonic Change, 1919-1939

Riemer, Reynold A.
1977
The National School of Administration: Selection and Preparation of an Elite in Post-War France

Rome, Francis
1975
The German National Socialist Regime: Its Response to the World Economic Crisis, Its Ideas and Pre-War Economic Policies

Row, Thomas John
1988
Economic Nationalism in Italy: The Ansaldo Company, 1882-1921

Rowland, Benjamin Moore
1975
Commercial Conflict and Foreign Policy: A Study in Anglo-American Relations, 1932-1938

Schreiber, Götz A.
1981
German Coal Policy, 1958-1975

Taşpinar, Ömer
2002
Kemalist Identity in Transition: A Case Study of Kurdish Nationalism and Political Islam in Turkey

Van Genugten, Saskia
2012
Italian and British Relations with Libya: Pride and Privileges (1911-2011)

White, Colin
2002
Cooperation and Asymmetric Interdependence. The Bundesbank, Currency Markets and the European Quest for Mutual Accommodation, 1959-1999

Witte, Jan Martin
2005
National Varieties of Standardization: A Comparative Study of the Political Economy of National Product Standardization Systems in Europe and the United States

Wolff, Andrew T.
Eastern 2010
Explaining NATO Expansion into Central and Easter Europe, 1989-2004: An Analysis of Geopolitical Factors, Rationales and Rhetoric

Xiang, Lanxin
1990
Recasting the Imperial Far East: The Conflict Over China – A Study of Anglo-American Relations, 1945-1950

Zack, Aaron M.
2010
Ludwig Dehio's Interpretation of the European System and Global Balance of Power; with a Reflection upon its Implications for the Emerging Global System.

Bologna, October 19-20, 2012

The Conference, day one

The Conference, day two

Simon Serfaty

Benjamin M. Rowland

Christopher S. Chivvis

Matthias M. Matthijs

Gabriel Goodliffe and Erik Jones

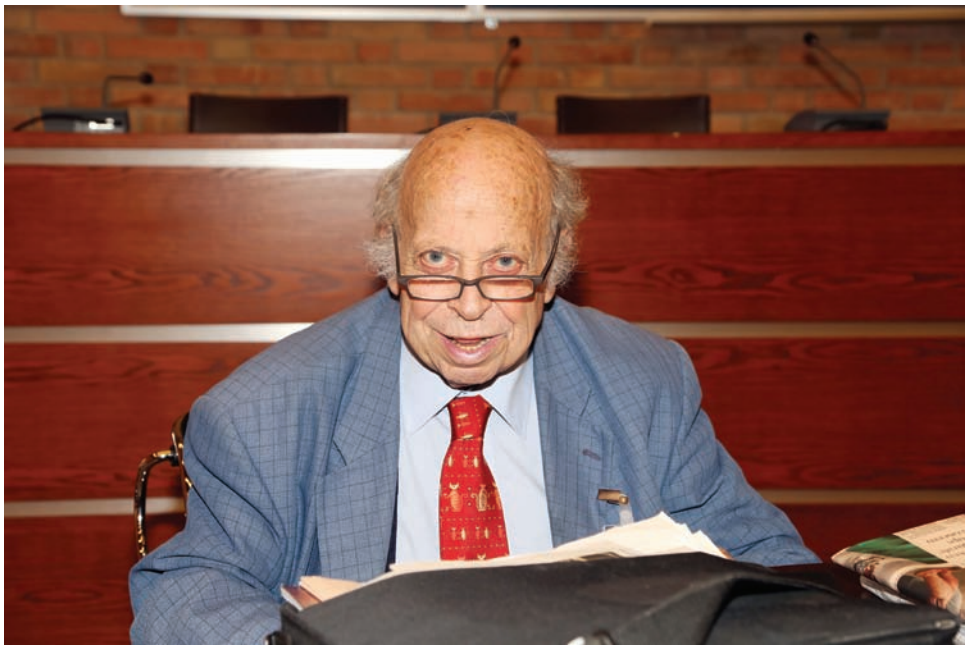
David W. Ellwood

Michael Stürmer

Omer Taşpinar

Dana Allin and Gilles Andréani

Ben Rowland, John L. Harper, and Paolo Calzini



Pierre Hassner

Avis Bohlen and Thomas Row

Gian Giacomo Migone

Robert Skidelsky

Sergio Romano

Simon Serfaty and David Ellwood

Kenneth Keller and Sergio Romano

Giorgio La Malfa

Gabriel Goodliffe

Gianfranco Pasquino and David Calleo

David Unger

David Calleo

Giorgio La Malfa and Robert Skidelsky

Adrian Lyttelton

Matthias Matthijs and Lanxin Xiang

Allin, La Malfa, Xiang, Keller

Stürmer, Keller, Romano

David Calleo and Vera Zamagni

David Calleo and Giorgio La Malfa

Erik Jones and David Calleo

Michael Stürmer

Gabriel Goodliffe and Erik Jones

Jones, Taşpinar, Stürmer

Migone, Jones, Harper

Zielonka, Skidelsky, Hassner

Adrian Lyttelton and David Calleo

John Harper and David Calleo

Thomas Row and Lanxin Xiang

David answering the toast

Tom and Lanx

Avis Bohlen and Mary Anne Romano

David Calleo