point of this chapter, Muslim. Although most Europeans still deny that Muslim anti-Semitism is growing, the reality is that "the communities most resentful of Israel in Europe are Muslim. The perpetrators of anti-Semitic incidents in France are not right-wing extremists protecting the 'French race' from Jewish contamination: The 400 or so anti-Semitic incidents documented in the country during 2001 have mostly been attributed to Muslim youth of North African origin."[39] It should also be pointed out that in Europe anti-Semitism is strongly reinforced by widespread anti-Americanism.

Whether explicitly or not, at least in part due to the influence of their own growing Muslim populations, most European governments have generally adopted foreign policies friendly to the Palestinians, and the EU has been the largest donor to the Palestinian Authority. Whether that will continue after the violent anti-Danish and anti-French demonstrations in Gaza in February 2006 remains to be seen.

It increasingly appears that Europe, like the United States, is reassessing its approach to immigration, moving from openness and tolerance to growing controls. It also appears that, unlike the United States, and beginning with the most tolerant countries (Netherlands, Denmark), there is growing anxiety in Europe regarding the immigrant Muslim population's interest or ability to integrate.

39. Omer Taspinar, "Europe's Muslim Street," *Foreign Policy*, March 2003.

A Sea Change in the Atlantic Economy?

How the West Pulled Ahead of the Rest and Why It May Cease to Do So

Stephen A. Schuker

AN OLD MAXIM OF INTERNATIONAL RELATIONS HOLDS THAT COalitions fall apart when the threat from an outside adversary recedes. "We have no eternal allies, and we have no perpetual enemies," Lord Palmerston instructed the House of Commons in his mid–nineteenth century explication of balance-of-power diplomacy. "Our interests are eternal and perpetual, and those interests it is our duty to follow."[1] Does Palmerston's dictum still apply at the dawn of the twenty-first century? Optimists hope that it does not. A common cultural heritage, a web of institutional relationships, strong economic ties, and a historical memory of solidarity in the face of danger bind the Atlantic Community nations together. With all its ups and downs, the special relationship between the United States and Western Europe in NATO can boast a solid half-century run. Hence, as late as the middle 1990s, academic experts celebrated an "enduring alliance."[2]

A decade later, the pendulum has swung the other way. A serious breach in the alliance has opened. Continental opinion has turned as

Sources: Angus Maddison [Development Centre Studies, OECD], *Monitoring the World Economy, 1820–1992; The World Economy: A Millennial Perspective*; and *The World Economy: Historical Statistics*. For purposes of comparison, all values are expressed in 1990 international Geary-Khamis dollars.

1. *Hansard*, House of Commons, 3rd. series, vol. 97, column 122, March 1, 1848; also David Brown, *Palmerston and the Politics of Foreign Policy*, 82–83.

2. Lawrence S. Kaplan, *NATO and the United States: The Enduring Alliance*.

harshly against the United States as it did at the time of the Vietnam War or during the later controversy over installation of the Pershing II missiles.[3] In 2002 France and Germany refused to countenance meaningful sanctions against Iraq in the United Nations; in 2003 they vociferously opposed.American military action against the Iraqi regime. And when hostilities ended they declined to participate meaningfully in rebuilding that country. Of the larger West European countries, only Great Britain unreservedly supported the United States. The Spanish and Italian governments, which at first sent modest contingents, found themselves compelled by public opinion to reverse course. By 2005 the German authorities were releasing some purported terrorists for lack of evidence and granting early parole to others. The Italian authorities, meanwhile, had issued arrest warrants for CIA operatives. Europeans complained that the United States had moved the goalposts in the original war against terror. The American authorities considered the West Europeans preternaturally craven, even in such matters of presumed common interest as stopping Iran from building nuclear weapons. In early 2006, when Iran removed the seals from its uranium enrichment facilities and booted out inspectors from the International Atomic Energy Agency, West European foreign ministers reacted ineffectually and referred the matter to the United Nations.[4]

Were these mere epiphenomena, or auguries of a problematic future? Political scientists build predictive models on the basis of evidence at hand. Extrapolation from present events constitutes their stock and trade. Hence, many ascribe fundamental importance to the disputes of the past few years. Elizabeth Pond speaks of the "decay and threatened dissolution of the West." Turning Churchill's famous aphorism on its head, she warns that the hope of the world lies not only in the strength and will of the United States, but "in its good judgment as well." In her interpretation, a "pox Americana" has needlessly offended Europeans of goodwill.[5]

3. Thomas Schwartz, *Lyndon Johnson and Europe: In the Shadow of Vietnam*; Christopher Goscha and Maurice Vaïsse, *La Guerre du Vietnam et l'Europe, 1963–1973*; Mark A. Lawrence, *Assuming the Burden: Europe and the American Commitment to War in Vietnam*; Jeffrey Herf, *War by Other Means: Soviet Power, West German Resistance, and the Battle of the Euromissiles.*

4. For details, see the IAEA Web site, http://iaea.org.

5. Elizabeth Pond, *Friendly Fire: The Near-Death of the Transatlantic Alliance.*

Robert Kagan has dined out in influential circles propounding an alternate conception of inevitable estrangement. As he elucidates the respective approaches on the two sides of the Atlantic, American elites—and specifically the leading actors in the George W. Bush administration—conceive of the world as a brutish Hobbesian environment. In the final analysis, the Americans hold, they must resort to force in order to maintain stability, defend national interests, advance human rights when feasible, and curb rogue states bent on acquiring weapons of mass destruction. The American taxpayer must dig deep into his pockets in order to maintain a force structure that can achieve those goals. In practice, this translates into spending as much on the armed forces as the next fourteen nations combined. By contrast, the West Europeans, or at any rate the governments of "old Europe," endeavor to make progress toward a Kantian-style perpetual peace by fostering a network of institutions for multilateral problem solving. Having luxuriated under the American military umbrella for more than half a century, West Europeans are captivated by the notion of security on the cheap. They want so far as possible to refer extra-European conflicts to the United Nations Security Council, to elaborate an independent foreign policy and defense mechanism within the European Union, and to win acceptance for an international criminal court claiming universal jurisdiction.[6]

It occasions no surprise that different ways of looking at the world should emerge, even among those sharing broadly congruent values, after the dissolution of the Soviet Union. Just a decade ago, fashionable pundits professed to believe that the disappearance of the Soviet danger would usher in a brave new world without great-power conflict.[7] Analysts of the realist school have always considered that notion a self-indulgent fantasy. Absent ideological or existential menace, realists expect medium-level powers to balance against a hegemon and

6. Robert Kagan, *Of Paradise and Power: America and Europe in the New World Order*, characteristically titled in translation, *L'Europe face au nouvel ordre américain.* I focus here on Pond and Kagan because their works function as synecdoches for larger schools of academic thought. Punditry on the subject of American-European relations has turned into a growth industry with low barriers to entry. Among recent works that have sparked extensive commentary in the mass media, two stand out. Timothy Garton Ash, *Free World: America, Europe, and the Surprising Future of the West*, holds out measured hope for reconciliation; Bernard Henri Lévy, *American Vertigo: Traveling America in the Footsteps of Tocqueville*, raises the question, "Has America gone mad?"

7. Francis Fukuyama, *The End of History and the Last Man.*

smaller countries to draw what advantages they can as free riders in the system.[8]

The Bush administration's determination to act preemptively, and when necessary unilaterally, against terrorist perils constitutes no radical departure in American foreign policy. Washington has acted preemptively and unilaterally on earlier occasions when a perceived threat to the national interest arose.[9] Likewise, the administration's rhetorical emphasis on the propagation of core democratic beliefs—principles of liberty and justice that are "right and true for all people everywhere"—is not new. It falls within a framework of thought going back to Puritan New England. James Kurth has labeled such crusading democracy the "Protestant deformation"—a proselytizing form of individualism shorn of its religious base. In the Third World, Kurth suggests, that peculiarly American ideology exerts a destabilizing effect because it undermines hierarchy and community.[10] In any event, this latest iteration of neo-Wilsonian idealism makes most Europeans in their present temper squirm. The National Security strategy paper published in 2002 turned the notion of balance of power on its head. Through its willingness to use force, that document proclaimed with almost Wilhelminian hubris, "the United States demonstrates its resolve to maintain a balance of power that favors freedom."[11]

Perhaps, as a number of critics argue, the robust tone of American foreign policy during the Bush era paid insufficient homage to the importance of "soft power." That wily Habsburg reactionary, Prince Felix zu Schwarzenberg, remarked after his victory over the 1848 revolutionaries that "one can do an awful lot with bayonets, but one can't sit on them."[12] Arguably, Washington policy makers could have done more to acknowledge the sour mood across the Atlantic, even when specific European criticisms seemed peevish and sanctimonious.

8. For a characteristic expression of that approach, see John J. Mearsheimer, *The Tragedy of Great Power Politics*.

9. Melvyn P. Leffler, "9/11 and the Future of American Foreign Policy," 1045–63, and "9/11 and American Foreign Policy."

10. James Kurth, "The Protestant Deformation and American Foreign Policy."

11. "The National Security Strategy of the United States," *New York Times*, September 20, 2002.

12. Quoted by Paul W. Schroeder, "Konturen einer 'Neuen Weltordnung'?" 124 Bergedorfer Gesprächsbeitrag, June 14, 2002, http://www.stiftung.koerber.de/bg/recherche/de.beitrag.php?id=19868.

Nevertheless, no dispensation of soothing syrup can cure the ills of the Atlantic alliance without a rededication to shared values. The World War II generation has left the political stage. Younger Europeans possess no personal recollections of how an earlier cohort of American democratic idealists helped to reconstruct their societies and economies. They have no instinctive feelings of transatlantic solidarity. On a number of mutually reinforcing grounds, therefore, American and West European security interests may well diverge further, at the very least outside Europe. And that divergence carries risks at least as grave for Europe as for America. Marc Trachtenberg puts the case with monitory clarity: If France and Germany expect the United States to guarantee their security while continuing the hostile policies that they pursued in the Iraq imbroglio, they are, in the formulation of longtime *New York Times* columnist James Reston, "asking and expecting things that have never been and will never be."[13]

II

Economic and financial conflicts among Western countries do not lend themselves to such melodramatic treatment. Economic divergencies wax and wane within the Western alliance. They have neither caused the present misunderstanding, nor are they likely to contribute to divorce. In this case, past is prologue. Observers of secular fluctuations in the international economy over the course of the business cycle do well to keep in mind the dramatist Nestroy's salient observation: "The chief characteristic of progress is that it appears to be greater than it really is."[14]

In the long run, transformation of the world economy proves at least as powerful an engine of change as vicissitudes in the fortune of alliances. Yet economic change takes place on a slower and not wholly coordinated timetable. The relationship between economic predominance and political influence is complicated. Generalization proves

13. James Reston, "What People Do They Think We Are?" *New York Times*, January 21, 1963; quoted by Marc Trachtenberg, "The Iraq Crisis and the Future of the Western Alliance: An American View," paper prepared for conference at the European University Institute, Florence, October 2003.

14. "Überhaupt hat der Fortschritt das an sich, daß er viel größer ausschaut, als er wirklich ist." Johann Nestroy, *Der Schützling* (1847), in *Sämtliche Werke*, edited by Fritz Brukner, Otto Rommel, and Adolf Hoffmann, vol. 7, 216.

hazardous, and often misleading. Douglas Hurd, the forceful British foreign secretary of the early 1990s, liked to say that through skilled diplomacy his nation could "punch above its weight" in international affairs.[15] Hurd conflated analysis with nostalgia, perhaps, yet surely governments with clear goals and a well-oiled bureaucracy operate more effectively in the foreign policy arena than regimes without those advantages. On the other hand, over the course of several generations comparative economic performance inevitably determines the pecking order in the international hierarchy.

Some members of the professoriat contend that the system of nation-states which has structured international relations since the 1648 Treaty of Westphalia is drawing to a close. Practitioners reply, to adapt Mark Twain's aphorism, that reports of its death are exaggerated. In any event, past experience suggests that, without the presence of other factors, competition for resources does not necessarily lead to open hostilities under the Westphalian system. Conversely, a cooperative economic regime provides no more than a fragile barrier against the passions of ideology or religion. The bloody history of the twentieth century illustrates those precepts well. In 1910 the British political publicist Sir Norman Angell asserted that advanced industrial nations could no longer afford to engage in war against each other. The cost of modern armaments had become so great, he argued, that the civilized European powers would have to find a way to accommodate economic and imperial rivalries through peaceful means.[16] Many internationally minded people agreed with Angell. The wish became father to the thought. Angell proved nonetheless an imperfect prophet. Not only did war break out among the major powers in 1914, but the cost of armaments and trade disruption constituted no bar to the opening of hostilities.[17]

Still, men under the sway of theocratic doctrine do not easily change their minds. Like French aristocrats under the Restoration king Charles X,

15. Quoted by Jonathan Mirsky, "As Others Speak Out against China, Britain Keeps Quiet," *International Herald Tribune*, June 30, 1999; concept further elaborated in B. J. C. McKercher, *Transition of Power, Britain's Loss of Global Pre-eminence to the United States, 1930–1945*.

16. Norman Angell, *The Great Illusion: A Study of the Relation of Military Power in Nations to Their Economic and Social Advantage*.

17. David Stevenson, *Armaments and the Coming of War: Europe, 1904–1914*. Stevenson points out, moreover, that before 1914 none of the great powers spent anywhere near as large a fraction of gross national product on armaments as became normative by the late 1930s.

Angell and his fellow utopians neither learned anything nor forgot anything as a result of the Great War. They placed their trust during the postwar era in efforts by the League of Nations to restore economic and financial harmony. The League, they hoped, could relieve the competition for raw materials, markets, and population outlets to which they attributed much international conflict.[18] International bank cooperation would complete the virtuous circle.[19]

Hardly any of those collaborative endeavors survived the Great Depression intact. None could prevent a sharp reversal of the globalization that had knit the international economy together before World War I.[20] All the same, the breakdown of economic cooperation had at most a marginal indirect effect on the second gathering storm. Few would contend in retrospect that Germany went to war in 1939 owing primarily to a need for *Lebensraum* or markets. Nor do most historians credit the theory that Japan could have solved its economic problems in the 1930s in no other way than by creating a so-called Co-Prosperity Sphere resting on brutal exploitation. Only a scattering of revisionists would maintain nowadays that economic rivalry determined the course of the Cold War between 1945 and 1990.

These observations do not require adherence to any theoretical model. Both ideology and a struggle for resources help explain interstate conflict at various times in the past. For example, religious conviction largely motivated the medieval European crusaders against Islam. Religion inspired the Protestant and Catholic participants in the wars of the German Reformation. In contrast, countries along the Atlantic littoral came to blows in the sixteenth century over the silver and gold resources of Mexico and Peru. Britain and France squabbled ceaselessly in the eighteenth century over the riches of the West Indies

18. Norman Angell, *The Fruits of Victory: A Sequel to "The Great Illusion,"* and *Raw Materials, Population Pressure, and War*. For a more general account on the League of Nations, see F. S. Northedge, *The League of Nations: Its Life and Times, 1920–1946*; on its economic and financial functions see League of Nations, ed., *World Organization, 1920–1940*; also, Anthony M. Endres and Grant A. Fleming, *International Organizations and the Analysis of Economic Policy, 1919–1950*.

19. Steven V. O. Clarke, *Central Bank Cooperation, 1924–1931*; Gianni Toniolo and Piet Clement, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973*.

20. Kevin H. O'Rourke and Jeffrey G. Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy*; Harold James, *The End of Globalization? Lessons from the Great Depression*.

and the profits of worldwide empire. In the twentieth century, by contrast, no comparable example comes to mind. Major conflicts, it seems clear, turned on national rivalries, racial antipathies, ideological divergencies, or on some admixture of the three. In the current era, if past is prologue, religion and culture may again form the basis for a clash of civilizations.[21] To sum up, in modern times economic strength frequently provides the margin of victory, but it does not explain why one side or the other lets loose the dogs of war. The cautious observer will neither underestimate, nor overestimate, the web of economic and financial institutions that has increasingly bound the developed world together since 1945.

III

Increasing globalization before 1914 and again since 1950 has required all developed capitalist states to face common problems. Before World War II, however, they faced them more often within a competitive than a collaborative framework. Since 1945, the institutional scaffolding for collaboration has become progressively more elaborate. The transient disputes that erupt from time to time—for example, the failure of the Doha Round of trade liberalization, or the retaliatory sanctions that the United States and the European Union episodically impose upon each other—may well appear in retrospect as mere squeaks from the wheel of globalization. Parochial domestic interests always remain powerful in a world of nation-states. Yet the Western powers and those striving to join the West seem well on their way—through such institutions as the IMF, the World Bank, the GATT, the OECD, NAFTA, the G-8 meetings, and the still evolving European Union—to creating a liberal international economic order based on agreed codes of behavior.[22] Without falling victim to a Whig view of history, we must account more for the relative success of the current free-market model than for its failures.

21. Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order*; Salim Rashid, ed., *The Clash of Civilizations? Asian Responses.*

22. See Harold James, *International Monetary Cooperation since Bretton Woods*; John Gillingham, *European Integration, 1950–2003: Superstate or New Market Economy?*

To explain the startling success of the free-market model that originated in England and gradually spread to Continental Europe and English offshoots, one must go back to the Middle Ages. In the year 1000 Western Europe could boast living standards no higher than those of the outside world. Indeed, since the fall of Rome, China, Japan, and the Arab civilizations of the southern Mediterranean littoral had surpassed the West in technology and some aspects of material culture. As Figures 1 and 2 indicate, combined gross domestic product grew three hundred-fold and per capita income thirteen-fold over the next millennium, but the locus of growth reversed. By 1820 the West (conventionally defined as the thirteen Western and Northern European countries and the four leading British offshoots) had attained per capita income twice that of the rest of the world. From the late eighteenth century to the last quarter of the twentieth, the curve measuring progress turned upward again. The West further differentiated itself from the rest of mankind in technological sophistication, health and life expectancy, social welfare, and other indices of economic performance.[23] By 2000 the per capita income gap between the West and the rest had increased to seven times.

This advance in human well-being arguably rates as the greatest achievement in the history of mankind. The United States and the richest European countries (as well as Japan and Singapore) currently enjoy average incomes twenty to thirty times greater than those of sub-Saharan Africa. It is nonetheless deemed good breeding to play down that accomplishment. According to a recent president of the American Historical Association, "our children and our students know, in these days of multiculturalism and of postcolonial studies, that Europe—that funny little peninsula jutting off the edge of Asia—is not the center of history."[24] Very possibly this distinguished scholar and the herd of independent minds who echo her analysis correctly perceive the contemporary sensibility. All the same, by objective standards the West has stood for the past several centuries as the unchallenged engine of global advance in every field, material and intellectual.

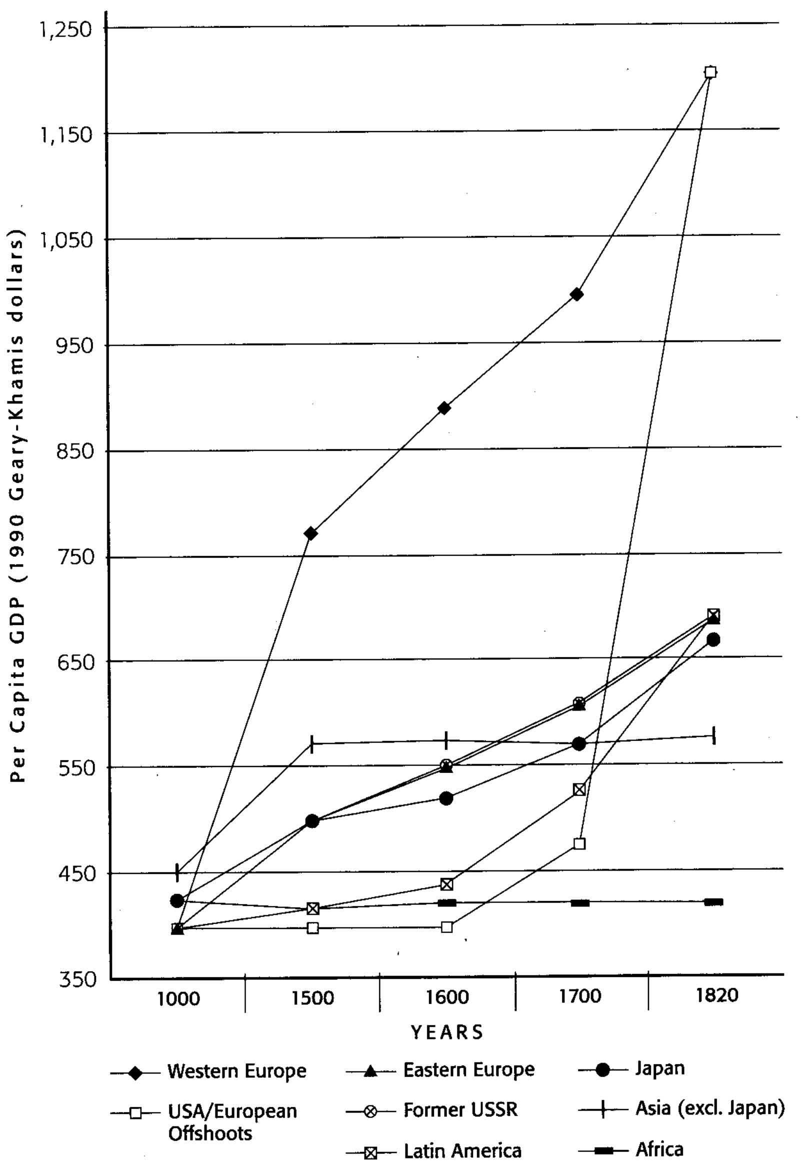
Conventional accounts ascribe this unparalleled growth of the West to the adoption of convertible husbandry and other innovative agricultural

23. For specific figures and an explanatory scheme, see Angus Maddison, *Monitoring the World Economy, 1820–1992*; *The World Economy: A Millennial Perspective*; and *The World Economy: Historical Statistics*; also available at www.oecd.org.

24. Caroline Walker-Bynum, "The Last Eurocentric Generation."

Figure 1.

The West and the Rest: Regional Growth Trends, 1000 – 1820

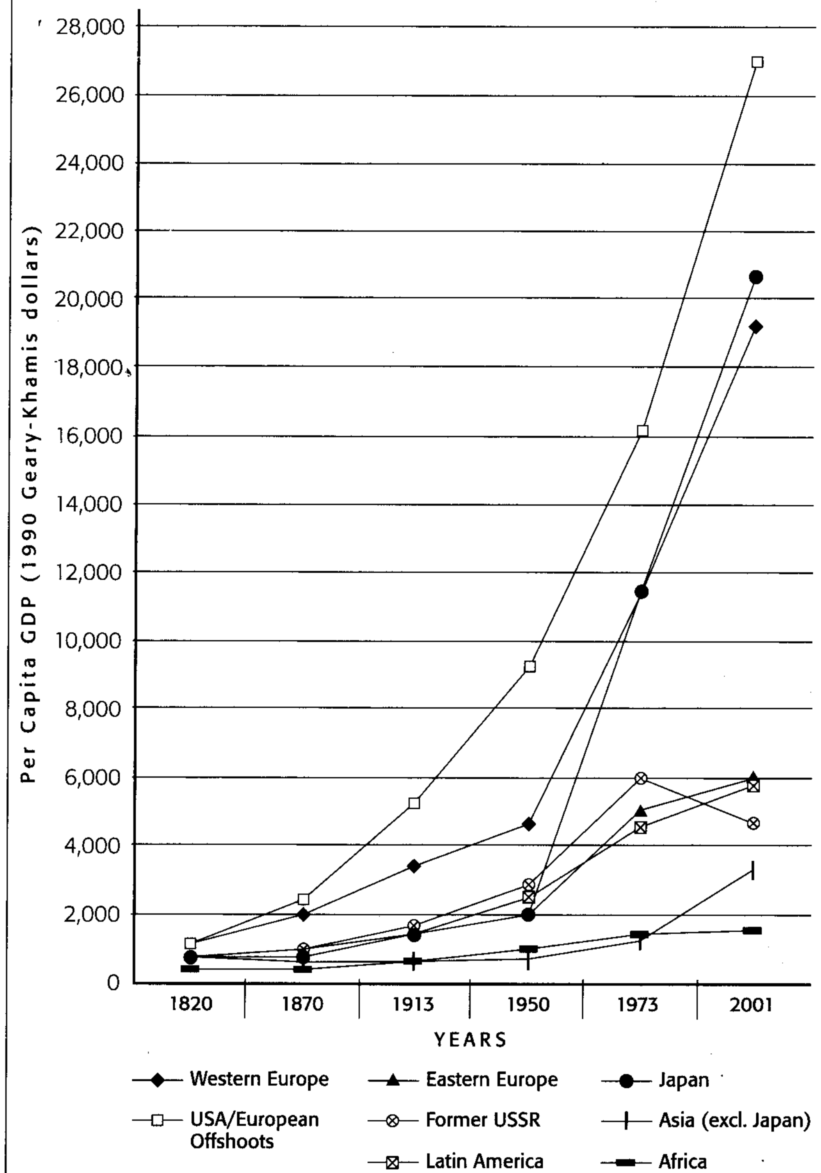


* Sources: Angus Maddison, *Monitoring the World Economy, 1820–1992; The World Economy: A Millennial Perspective;* and *The World Economy: Historical Statistics.*

Figure 1. The West and the Rest: Regional Growth Trends, c. 1000–1820

Figure 2.

The West and the Rest: The Market Economy Differential, 1820 – 2001



* Sources: Angus Maddison, *Monitoring the World Economy, 1820–1992; The World Economy: A Millennial Perspective;* and *The World Economy: Historical Statistics.*

Figure 2. The West and the Rest: The Market Economy Differential, 1820–2001

techniques, the industrial and transportation revolutions, the willingness to invent or adopt new technology, and the settlement of fertile and relatively empty parts of the globe. Last, but not least, the liberalization of capital and labor markets allowed each nation to specialize according to the dictates of comparative advantage.[25] All those factors formed part of a feedback process influencing the others. Fundamentally, however, the spectacular "take-off" of the West, to employ Walt Rostow's phrase, figured as an artifact of Western culture and Western political institutions.[26]

"Culture" embraces far more than high culture, although roughly 80 percent of the world's chief intellectual and artistic accomplishments between 1400 and 1950 came from four countries or areas alone—England, France, Germany, and Italy.[27] Rather, Western Europe and the English-speaking offshoots elsewhere were unique in developing free markets, security of property, a predictable system of law, and parliamentary limitations on the exercise of arbitrary power.

Western Europe in the seventeenth century experienced a scientific revolution that not merely discredited traditional authority, but also gave leaders in every field—from soil chemistry to political theory—the sense that they could master nature and improve on the wisdom of the ancients. Europeans stood prepared to borrow the technological innovations of other cultures and, whether they embraced the "Protestant ethic" or its Catholic variant, were not held back, as were Muslim lands, by a religion essentially hostile to scientific speculation.[28] The turn toward less arbitrary government, particularly in England, fostered legal

25. For the origins of this idea, which remains as apposite today as in the early nineteenth century, see David Ricardo, *Principles of Political Economy and Taxation*.

26. I draw in the following discussion on a large literature: David S. Landes, *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present* and *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*; W. W. Rostow, *The Stages of Economic Growth and Rich Countries and Poor Countries: Reflections on the Past, Lessons for the Future*; and Lawrence E. Harrison and Samuel Huntington, eds., *Culture Matters: How Values Shape Human Progress*. Richard Pipes, *Property and Freedom*, lays particular emphasis on the institution of private property. Where respect for private property failed to develop, as in czarist Russia, the economic growth rate invariably lagged.

27. Charles A. Murray, *Human Accomplishment: The Pursuit of Excellence in the Arts and Sciences, 800 B.C. to 1950*.

28. Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, translated by Talcott Parsons; R. H. Tawney, *Religion and the Rise of Capitalism*; cf. the comparison with Muslim society in Bernard Lewis, *What Went Wrong? Western Impact and Middle East Response*.

predictability, and Englishmen learned to deal with each other on the basis of agreement and contract rather than force and hierarchy. Industrialization lay at the heart of a broader process of modernization and urbanization, in which citizens learned to tolerate economic dislocation, that is to say, what Joseph Schumpeter would categorize euphemistically as the process of "creative destruction." Western cultures proved extraordinarily resourceful in permitting Adam Smith's "invisible hand" to clear markets. Meanwhile, the "visible hand" of modern management facilitated continual, efficient redesign of the scale and scope of the individual firm.[29]

The inherent dynamism of modern capitalism has sustained an ongoing industrial revolution. Upward progress has mostly come gradually, through a pattern of stimulus and response in specific industrial sectors. Yet every generation or so a technological breakthrough leads to fundamental restructuring of the economy. Perhaps the upward arc might better be described as punctuated equilibrium than as revolution. Over time, new industries at the beginning of their product cycles proved transformative. Thus the textile, railroad, and engineering sectors supplied the impetus for growth in the early nineteenth century. Organic chemicals, electrical goods, and the internal combustion engine followed in the late nineteenth century. Consumer durables took the lead in the interwar years. And in our own day, information technology has effected a metamorphosis in the way firms do business.

Up through the mid–twentieth century, only West European societies and their English-speaking offshoots mustered the stability to tolerate the strains inherent in such dynamism without unremitting social and cultural upheaval.[30] Argentina stood as the single apparent exception: it outpaced Germany and fell just behind France in per capita income as late as 1929. Thereafter, however, Argentina fell prey to populist misrule and sank to East European levels.[31] Argentina's failure seemed

29. Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* and *Scale and Scope: The Dynamics of Industrial Capitalism*.

30. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*.

31. For the statistics, see Maddison, *The World Economy: Historical Statistics*, Tables 1c, 3b-c, 4c. For analysis of Argentina's self-inflicted wounds, see Luis Alberto Romero, *A History of Argentina in the Twentieth Century*; for the regional context, Pedro Aspe Armella, Rudiger Dornbusch, and Maurice Obstfeld, eds., *Financial Policies and World Capital Markets: The Problem of Latin American Countries*; and Eul-Soo Pang, *The International Political Economy of Transformation in Argentina, Brazil, and Chile since 1960*.

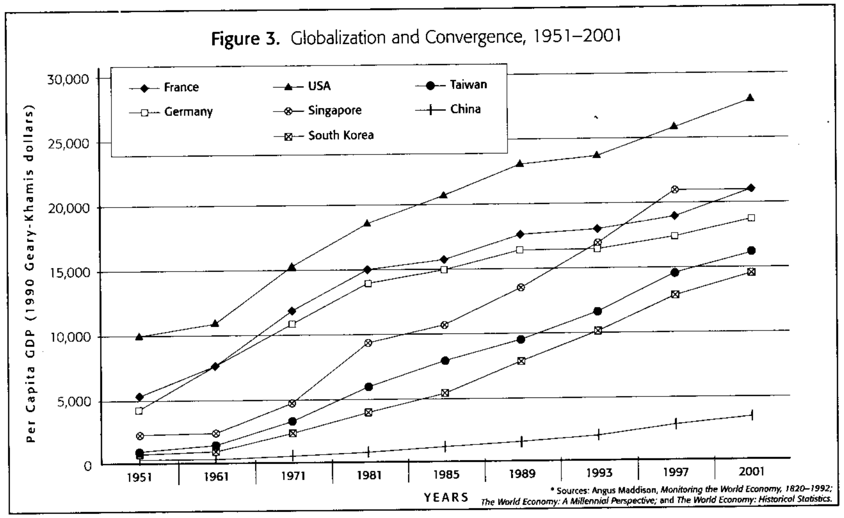


Figure 3. Globalization and Convergence, 1951–2001

to underscore the difficulties of cultural transmission from the Western core to other parts of the world. Then a startling change occurred. After 1950 Japan and other East Asian societies began to master the techniques of modernization, embracing the technology though not fully the ambient culture of the West. Figure 3 shows that substantial convergence has already taken place, with Singapore—the freest East Asian economy—surpassing France and Germany in the per capita income ratings. And China, although starting from a depressed level, has consistently registered a growth rate approaching 10 percent in recent years. The traditional Western countries—the United States as well as those in the European Union—face an unprecedented challenge.

Whatever the case in the early modern period, the superior economic performance of West European and offshoot societies in the nineteenth and twentieth centuries came only in small part from the expropriation of extra-European wealth.[32] The facts do not sustain the claims of Hobson, Hilferding, Lenin, and their socialist compatriots that European wealth derived importantly from markets and investment opportunities in the Third World. Nor did imperialism conjure up an extra-European

32. Silver and gold inflows from Mexico and Peru, and profits derived from the West Indian sugar trade, require a different interpretation of capital formation in premodern Europe.

proletariat to exploit. Almost everywhere, imperialism proved a losing proposition for advanced industrial powers, justifiable to taxpayers only on security grounds. The British directed 70 percent of their foreign investment to the United States and other developed countries, 20 percent to India, and no more than 10 percent to other backward areas.[33] The allegation of underdevelopment theorists that British investors used their competitive advantage for direct investment overseas, thus distorting colonial economies, also turns out to lack foundation. Before 1914, the British (just like the French and Germans) devoted 70 percent of their overseas investment to railroads, roads, ports, and other infrastructure; they placed less than 10 percent in mining and agriculture. The transfer of European managerial skills and technology had more durable consequences than the export of capital.[34] What's more, gunboat diplomacy did not usually intimidate Third World borrowers into paying their debts. One generation after another of colonial borrowers managed to default and, after a brief hiatus, to regain access to capital markets in the *métropole*.[35]

Despite the profitless nature of imperialism over all, the international economy was highly politicized during the nineteenth century, just as it remains today. Some 40 percent of British exports were invisibles before 1914. As the British fell behind the Americans and Germans in technological prowess and managerial expertise, they compensated by centering trade finance, insurance, and shipping in the City of London. Scholars now acknowledge that the gold standard alone failed to provide the flawless mechanism for the automatic adjustment of international accounts that it was supposed to furnish before World War I. The visible hand of the London City actually coordinated the international economy. Under other circumstances, some other standard might conceivably have replaced gold as the primary medium of exchange. In fact, the French government advocated a European monetary union

33. J. A. Hobson, *Imperialism: A Study*; Rudolf Hilferding, *Das Finanzkapital*; V. I. Lenin, *Imperialism: The Highest Stage of Capitalism*; suitable correctives in D. K. Fieldhouse, *Economics and Empire, 1830–1914*; Ronald Robinson and John Gallagher with Alice Denny, *Africa and the Victorians: The Climax of Imperialism*; Royal Institute of International Affairs, *The Problem of International Investment.*

34. Mark Thomas, "L'Angleterre au coeur des financements internationaux," in P. Artus et al., *Le Financement de l'économie mondiale*, 53–66, recapitulates and buttresses the original investigations of this subject by George Paish.

35. Charles Lipson, *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries.*

based on a bimetallic standard in the 1860s. Although the British and Prussians vetoed the scheme, the British to defend the financial interests of the London City, the Prussians on narrowly political grounds, the general idea seemed less outlandish once deflation became an endemic problem in the mid-1870s.[36] Deflation in turn undermined the doctrine of free trade, and the adoption of protective tariffs by Britain's chief competitors underscored the frenetic economic nationalism of the pre-1914 era.[37]

All the same, globalization under Western aegis continued to gather momentum until a type of thirty years' civil war broke out within the West in 1914. The process of globalization, whether measured by trade, capital, or labor flows, came to an abrupt stop.[38] Economists are wont to blame a misguided attempt to restore the gold-exchange standard for the failure of Europe to recover from World War I and for the slide into the Great Depression. They claim that the return to gold at a point when precious metal production failed to keep pace with the volume of trade imparted a deflationary bias to the international economy. Adherence to gold also transmitted shocks from one country to another.[39] However, the proponents of central bank cooperation could have devised a technical fix for the purported gold shortage through the instrumentality of special drawing rights.[40] At bottom, monetary arrangements represent an implicit bargaining framework for organizing international economic relations. They may work more or less smoothly through the course of the business cycle. But when they break down altogether, they do so for political reasons. The international economy collapsed in the 1930s

36. Luca Einaudi, *Money and Politics: European Monetary Unification and the International Gold Standard (1865–1873)*; Marc Flandreau, *The Glitter of Gold: France, Bimetallism, and the Emergence of the International Gold Standard, 1848–1973*; Marc Flandreau and Frédéric Zumer, *The Making of Global Finance, 1880–1913*.

37. Peter T. Marsh, *Bargaining on Europe: Britain and the First Common Market, 1860–1892*; Andrew Marrison, *British Business and Protection, 1903–1932*; Eugene Golob, *The Méline Tariff: French Agriculture and Nationalist Economic Policy*; Ivo Lambi, *Free Trade and Protectionism in Germany, 1868–1879*; Kenneth D. Barkin, *The Controversy over German Industrialization, 1890–1902*; Alfred E. Eckes, Jr., *Opening America's Market: U.S. Foreign Trade Policy since 1776*.

38. Harold James, *The End of Globalization*.

39. Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression*; Peter Temin, *Lessons from the Great Depression*.

40. Both Randolph Burgess, an economist attached to the 1929 Young Committee, and Per Jacobsson, chief economist at the Bank for International Settlements, crafted plausible schemes.

because the leading nations of the Western world could not settle their domestic distributive controversies and foreign political conflicts.[41]

Many phenomena came together to reinforce the downward spiral. The rise of labor union power made it impossible for nations with a misaligned currency to reduce nominal wages. The government of Weimar Germany stood ready to risk systemic collapse in order to rid itself of reparations.[42] Perhaps most important, the war had left international finance without an obvious hegemon. In Charles Kindleberger's formulation, Great Britain no longer possessed the financial strength to serve as a buyer of distress goods, a counter-cyclical lender, and a discounter in a crisis. The United States felt no compulsion to act as a global stabilizer proportional to its economic means. Aside from their lingering disinclination to act outside the Western Hemisphere and their modest participation in international trade, Americans had not yet developed the financial institutions necessary to play that role.[43]

The Americans who largely conceived and imposed a better-grounded financial architecture in 1944–1946 resolved to avoid the mistakes of their interwar predecessors. Yet the Bretton Woods arrangements also reflected the discrete interests of the United States.[44] By 1945 the United States had piled up two-thirds of world gold in Fort Knox and amassed almost half the planet's undestroyed manufacturing capacity. Inevitably, the Bretton Woods system remained an American-centered system based on the use of the dollar as the sole reserve currency. The authorities in Washington liked to picture their country as a beneficent hegemon, but a hegemon nonetheless. They provided Western Europe with bountiful financial help in the decade after the war, but invariably on American terms. Privately, the Europeans—the British and French perhaps more than the Germans and Italians—resented it. Here official public memory departs from gritty reality. For example, State

41. Stephen A. Schuker, "The Gold-Exchange Standard: A Reinterpretation," 77–94.

42. Edward W. Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931*; also Stephen A. Schuker, *American "Reparations" to Germany, 1919–33: Implications for the Third-World Debt Crisis*, chaps. 3–4; cf. Phillip Heyde, *Das Ende der Reparationen: Deutschland, Frankreich, und der Youngplan, 1929–1932*.

43. Charles P. Kindleberger, *The World in Depression, 1929–1939*, xv, 288–305.

44. Alfred E. Eckes, Jr., *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971*; Fred L. Block, *The Origins of International Monetary Disorder: A Study of United States International Monetary Policy from World War II to the Present*.

Department planners had schemed since the 1930s to break down the Ottawa system of Imperial preferences and to impose the Open Door on the British Dominions. They ratcheted up the pressure in the 1946 stabilization loan to Britain and, despite tenacious resistance, over the medium term succeeded.[45] And while the Marshall Plan has entered celebratory lore as a model of generosity, the Economic Cooperation Administration employed its leverage under the plan to force the pace of European integration.[46]

Paradoxically, World War II discredited those conservative European forces naturally sympathetic to the dynamic style of American free enterprise. In every Continental country, the extreme left dominated the wartime Resistance. According to the mythology of Socialists as well as Communists, big business had sold out to "fascism" before the war and collaborated with the Nazis during the hostilities on grounds of self-interest.[47] Apprehensive of rough justice during the postwar purges, the scattered supporters of a market economy had to hide beneath the cassocks of Christian Democracy in order to remain politically viable.[48] In England, meanwhile, Prime Minister Churchill had focused on military issues after 1940 and abandoned the key domestic ministries to his Labour coalition partners.[49]

Allied victory therefore brought to power in Britain, France, Benelux, Scandinavia, and elsewhere elements that favored central planning, nationalization of key industries, permanent controls over other aspects of economic life, and the diversion of resources from capital investment

45. Benjamin M. Rowland, *Commercial Conflict and Foreign Policy: A Study in Anglo-American Relations, 1932–1938*; Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Economic Order*; L. S. Pressnell, *External Economic Policy since the War: The Post-War Financial Settlement.*

46. Michael J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947–1952.*

47. See, for example, Richard Vinen, *The Politics of French Business: 1936–1945.* Henry Turner has shown that, even in Germany, big businessmen, with some exceptions, nurtured grave reservations about Hitler from the start: *German Big Business and the Rise of Hitler.* Nevertheless, during World War II, most educated Americans gained the opposite impression from the work of the underground Communist, Fritz L. Neumann, *Behemoth: The Structure and Practice of National Socialism.*

48. Peter Novick, *The Resistance versus Vichy: The Purge of Collaborators in Liberated France*; Marc Olivier Baruch, ed., *Une Poignée de misérables: l'épuration de la société française après la Seconde Guerre Mondiale.*

49. Paul Addison, *The Road to 1945: British Politics and the Second World War.*

to the elaboration of a welfare state. Many of those sympathizers with prewar Popular Front values stood well to the left of the American New Deal. Characteristically, they relied on a cohort of young economists who took their inspiration from John Maynard Keynes.[50] Whether they originally meant to do so or not, left-wing governments promoted social stability by spreading the benefits of economic security and prosperity. Societies with diminished class conflict, an egalitarian income distribution, and access to secondary education for the masses proved resistant to the blandishments of Russian-style communism. Within a single generation, the working classes of Western Europe came to enjoy the multiple pleasures of the consumer society.[51] On the other hand, a cradle-to-grave layering of health and welfare supports, social insurance, and bountiful pensions required crippling taxation and tended to crowd out private capital investment. Carried to excess, such policies were likely over time to hobble private-sector expansion and foster structural unemployment.

These dangers did not become immediately apparent owing to the extraordinary rate of economic growth in Atlantic Community nations during the generation after the end of the war. That unprecedented era of prosperity sprang from a fortunate concatenation of circumstances. These included a backlog of readily applicable technology and the eagerness of business to innovate in the late 1940s, sound monetary policies and rapid advances in productivity during the 1950s, and unusually low energy and raw material prices that improved the terms of trade during the 1960s. In an era of neo-Keynesian self-confidence, however, advocates of the welfare state preferred to discern a "politics of productivity" in which sustained public spending and income redistribution had conjured up a virtuous circle of high aggregate demand.[52]

50. For the growing prestige of Keynesian thought among economists on both sides of the Atlantic, see Robert Skidelsky, *John Maynard Keynes*, Volume 3, *Fighting for Freedom, 1937–1946*; and Robert M. Collins, *The Business Response to Keynes, 1929–1964.* Alec Cairncross and Nita Watts, *The Economic Section, 1939–1961*, show how uncritically even the best British government economists followed the holy grail of "planning."

51. Critics tend to deprecate the embourgeoisement of the West European working class as a species of Americanization. See, for example, Victoria de Grazia, *Irresistible Empire: American Advance through Twentieth-Century Europe.*

52. See Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy"; also Maier's restatement of the thesis with critical evaluations by Charles P. Kindleberger and Stephen A. Schuker in "The Two Postwar Eras and the Conditions for Stability in Western Europe."

These disputes took place between the Left and the Right within each Western society, of course. Yet even Europeans who counted as friends of the United States began to speak, somewhat simplistically, of a basic divergence in values. "Western Europe was a vacuum, on either side of which were the two great dynamic forces of communism and American capitalism," proclaimed the French planner Jean Monnet in 1949. "This vacuum could be filled either by one of these outside forces or by the development of a Western European 'way of life.'" Monnet conceived that third way on the model of the British Labour government, which had "carried out a redistribution of wealth on a massive scale while at the same time retaining the freedom of the individual."[53]

The defeated countries, Germany and Italy, resisted the blandishments of a cradle-to-grave safety net somewhat better than the putative victors during the recovery years immediately after the war. As Mancur Olson has pointed out, the weakening of such intermediate bodies as employers' associations, labor unions, and consumer advocacy groups eased economic bottlenecks to the free flow of capital and labor.[54] In Germany, through the early 1960s, so long as Ludwig Erhard headed the Economics Ministry, the Federal Republic promoted a type of pro-growth model denominated Rhineland capitalism or the Social Market economy. In theory capital and labor were supposed to collaborate through a process of codetermination that both sides, and consumers as well, would find equitable.[55]

Figure 3 shows that defeated Germany closed the income gap with France during the 1950s. Nonetheless, in the final analysis, neither the cartelized heavy industries nor the Marxian Socialist labor unions of West Germany sincerely accepted the idea of a market economy encompassing an element of risk. Some German businessmen began to emulate the American entrepreneurial model, and AFL emissaries did what they could to influence forward-looking German unionists in a Social-Democratic direction.[56] Yet only a minority of middle-class Germans

53. Stephen A. Schuker, "The European Union from Jean Monnet to the Euro," 23.

54. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* and *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities.*

55. James C. Van Hook, *Rebuilding Germany: The Creation of the Social Market Economy, 1945–1957*; Alfred C. Mierzejewski, *Ludwig Erhard: A Biography.*

56. Volker R. Berghahn, *The Americanization of West German Industry, 1945–1973*; Francis X. Gannon, *Joseph D. Keenan, Labor's Ambassador in War and Peace*; also Ted Morgan, *A Covert Life: Jay Lovestone: Communist, Anti-Communist, and Spymaster.*

(many of them enrolled in the small Free Democratic Party) embraced Erhard's Ordo-Liberalism wholeheartedly. By the time the unreconstructed Socialist Willy Brandt became chancellor in 1969, Germany began to resemble other slow-growth, leisure-oriented European welfare states.[57] With mixed-economy enthusiasts having prevailed almost everywhere, the 1970s figured as the high noon of "Eurosclerosis"—a progressive condition in which an aggregation of controls and regulations clogs the vital arteries of the economy. A spike in energy prices after 1973 and a reversal in the terms of trade between industrial exporters and commodity producers obscured the depth of the problem at first. Eventually it became clear that a culture of leisure and private satisfactions, overregulation of business, guaranteed employment and uncompetitive wages, short working hours and commodious welfare benefits resulted in a slowdown of economic growth.[58] Still, many actors in the political process, particularly under Socialist governments, considered the trade-off preferable to the supposedly unrestrained capitalism on the other side of the Atlantic.

IV

Meanwhile, the United States began in the 1960s to use its seigniorage over the world monetary system for unilateral advantage. Here again, defense of the West in the Cold War did not mean that the pecuniary interests of the Allied nations coincided. Coordination of security policies proves perfectly compatible with aggressive rivalry in the economic sphere. Under Bretton Woods rules, foreign central banks held dollars as the principal reserve against their own currency issue. The system worked smoothly so long as the United States dominated global industrial production and other countries experienced a dollar shortage, as they generally did up to the mid-1950s. Yet the Bretton Woods regime institutionalized no systemic check on American monetary expansion once the United States began, at the beginning of the 1960s, to run a chronic balance-of-payments deficit. Foreign central banks could either monetize their excess dollars at the risk of domestic inflation or sterilize

57. A. J. Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany, 1918–1963.*

58. See, among other works, the essays in David Calleo and Claudia Morgenstern, eds., *Recasting Europe's Economies: National Strategies in the 1980s.*

them; in either case they would effectively have to write Washington a blank check. As Jacques Rueff and other advisers to President de Gaulle of France complained, the United States could meet its foreign requirements by inflating the monetary base of its trade partners.[59]

In 1961 the Kennedy administration sought to spur economic growth at home through a supply-side tax cut. Officials offered the justification that they would still aim at a "full employment balanced budget." In practice this decision, taken when labor markets (except for the structurally unemployed) were already reasonably tight, imparted an inflationary bias to the economy. The federal government would run mounting deficits for the next generation. Imbued with a sense of invincibility verging on hubris, the Kennedy team sought to maintain the *Pax Americana* through overseas military outlays, generous foreign aid, and capital investment by U.S. multinationals, even though export revenues no longer covered those expenditures in full. Viewing the difficulty as temporary at first, the administration pressured Germany and Japan to contribute a larger share of the upkeep for U.S. troops overseas. Unfortunately, the problem turned out not to be temporary. Ever since World War II, the United States had enjoyed lower capital costs and higher labor productivity than its trade partners. Those advantages had eroded, although the broad public remained unaware how far the deterioration had gone.[60]

When the succeeding Johnson administration (1963–1969) attempted to finance Great Society social programs and an unpopular war in Vietnam without raising taxes, inflationary expectations exploded. Real wage increases exceeding productivity gains became embedded in the American economy, just as they did in West European economies at about the same time. The Kennedy Round of trade liberalization,

59. I draw for this section on David P. Calleo, *The Imperious Economy*; Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958–1971*; and Hubert Zimmermann, *Money and Security: Troops, Monetary Policy, and West Germany's Relations with the United States and Britain, 1950–1971*. Jacques Rueff enlarged on his position in *The Balance of Payments* and *The Monetary Sin of the West*.

60. Unionized workers in basic industries such as autos and steel had negotiated gold-plated contracts during an era when foreign firms could offer little competition. When European productivity recovered and East Asian skill levels rose, U.S. union leaders tenaciously defended their gains. Nelson Lichtenstein explains this process well in *The Most Dangerous Man in Detroit: Walter Reuther and the Fate of American Labor*.

which officials had hoped would improve the basic balance, exposed a structural deficit instead. Moreover, Great Society legislation fostered changes in behavior among workers and businessmen that engendered stagflation. When Richard Nixon, the Republican victor in the 1968 election, tried to curb the twin budget and trade deficits, a deep recession ensued. After badly losing the midterm elections, Nixon sharply reversed course. He concluded that traditional sound-money policies had become politically infeasible.[61]

Nixon's "New Economic Policy" of 1971 ended convertibility of the dollar into gold. The president's fresh counselors realized that to jettison Bretton Woods at a stroke might disrupt trade relations and encourage the avarice of Third World raw-material producers. But they held it politically suicidal to pursue a restricted-growth policy at home for balance-of-payments reasons. They resolved to force some form of dollar devaluation and to redistribute defense burdens within the Western alliance. The era in which the United States could afford unilateral concessions to its partners closed. A White House adviser spoke of dispelling any "Marshall Plan psychology" that remained.[62]

However, Nixon's gamble did not pay off. The breathing space that he secured proved insufficient to restructure the domestic economy for more productivity and less inflation. A variant of Eurosclerosis emerged on the Western side of the Atlantic. The social service bureaucracies that Nixon had inherited from his Great Society predecessors constituted an effective lobby for ever-increasing entitlement spending. The "silent majority" outside the Beltway may not have favored lavish outlays to end poverty by government fiat, but Congress took its cue from the opinion makers who did.[63] In 1973–1974, moreover, oil producers and other raw-material suppliers jacked up prices and triggered deterioration in the terms of trade for all industrial countries. By this time, the Americans had induced their monetary partners to give up fixed exchange rates altogether, a development that free-market economists such as Milton Friedman had conveniently made intellectually respectable. During the

61. Allan J. Matusow, *Nixon's Economy: Booms, Busts, Dollars, and Votes*.

62. Peter G. Peterson, later head of Lehman-Kuhn Loeb, coined this winged phrase in his candid state paper, *The United States in a Changing World Economy*.

63. Samuel P. Huntington theorizes in *Who Are We? The Challenges to America's National Identity*, 324–26, that the United States has become an "unrepresentative democracy" in which the judiciary, public interest groups, the mass media, Hollywood, radical Protestant churches, and academics enjoy more clout than the voters at large.