

HELMUT SCHMIDT PRIZE

THE VULNERABILITY OF GLOBALIZATION

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I.

I am greatly honored to receive this prize. The already great honor is augmented by three considerations: the person of the Laudator, the subject of the prize, and finally the person after whom the prize is named.

First, a few words about the Laudator. I first met Knut Borchardt, the preeminent German economic historian, at a lecture he gave at the German Historical Institute, not in Washington but in London, some twenty-five years ago. He gave, as you can imagine, an astonishingly rich and provocative lecture, was enormously accessible afterward to a young graduate student, and has ever since then been a source of inspiration, friendship, and support.

Second, I welcome the intention of the German Historical Institute in establishing a prize for economic history. It seems to me very hard to tell most historical stories, but perhaps even more so those of the recent past, without thinking about economics. The story of the twentieth century is one of tremendous material progress of a wholly unprecedented kind in large parts of the world, but also of deeply disruptive moments, when that progress was interrupted and reversed. But surprisingly, many historians in trying to interpret the century have turned away from economics. At first, conventional history was largely the story of foreign policy and high politics in domestic events; from the 1960s it became largely social history; and from the 1990s largely cultural history. No one would want to say that these depictions of the past do not have their place, but it seems to me that they are unintelligible, in many instances, without some discussion of material developments. In that sense, economic history has a key role to play in *histoire totale*. There has also been a parallel harmful process in which economists, both academics and policy-makers, have neglected history. In the study of economics, there is now an increased interest in the way institutions, which develop over time and

have a strong path dependence, shape economic outcomes. But such an argument requires history.

Third, no modern German biography could exemplify the importance of economic intelligence more impressively than that of Helmut Schmidt. As a policy-maker, he is and was acutely aware of the importance of studying historical events. He wrote a dissertation on the currency reforms of 1946 in Japan and 1948 in western Germany, which launched those economies on the road to economic dynamism and political and social recovery after the catastrophes of the mid-twentieth century. In the 1970s, in the midst of an economic crisis which many feared would replay aspects of the disaster of the interwar world, he pioneered an intense phase of economic cooperation between the large industrial countries to manage the crisis and prevent the escalation of economic problems into war. He was one of the initiators of the G-5 (later G-7) meetings of finance ministers, and then, as chancellor, together with Valéry Giscard d'Estaing, also a former finance minister who had become head of state, of the G-6 (later G-7 and G-8) summit meetings. When the first of these meetings was held, at Rambouillet in the midst of an oil crisis in 1975, there were many voices who urged the West to apply military means to stop the political instrumentalization of the oil price and oil shortages by Arab oil producers. Schmidt, with Henry Kissinger, saw more clearly than anyone else the senselessness of this course, and argued that linking petroleum producers more effectively into the world economy would defuse the political tensions. He has been a consistent advocate of multilateral and peaceful solution to the world's problems, in short of a world that we would now call the world of globalization. But he did not have a blind faith in the inexorability of global interconnectedness. This distinguishes him from many current, and more superficial, thinkers about global economics.

II.

However bad security relations are between what can now really be called the opposed sides of the Atlantic, or whatever spats there are across the Pacific on the value of the renminbi and the yen, there is a frequent hope that the strength and complexity of the economic interrelationship (a product of globalization) is so great as to offer a counterweight to the political tensions. Indeed, the reason that both sides in modern conflicts often feel that they can afford to get rhetorically carried away is a function of the sense of interdependence and the idea that a really bad outcome is not possible. The British Prime Minister Harold Macmillan for instance liked to tell President Kennedy that a "united Free World was more likely to be achieved through joint monetary and eco-

conomic policies" than through political or military alliances.¹ Advanced democracies do not go to war with each other, as they have too much to lose.² Mercury, the god of commerce, has managed to send Mars, the god of war, into exile. We feel very secure about this argument and its implications, perhaps too secure.

Is globalization the only show in town? The major alternative to the "globalization" world view sees connectedness as producing unfair advantages, and international relations as based on exploitation. One convenient way of labeling this alternative is "imperialism," a word generally used with a critical intent. Labeling U.S. policy as "imperialism" became part of the standard rhetorical weaponry of an anti-American left in Europe and elsewhere, as well as of critical voices in the United States. The school of diplomatic history under William Appleman Williams strongly engaged in this approach.³ In the 1990s, the language of empire as a way of critiquing power, especially American power, was revived, most influentially by the Italian philosopher of violent revolution from the 1970s, Toni Negri, who now became a guru for the anti-globalization left. After September 11, and especially after the Iraq war, this world view produced a tremendous spate of books. In particular, the Roman analogy, which had already been floated after the Second World War, became very popular: Critics saw the imperialization of the United States as an analogous process to the ending of the Roman Republic and its replacement by the Augustan empire.⁴

Curiously, however, this mostly critical literature began to be supplemented by normative suggestions that the United States should want to behave like an empire of the European past. At the conclusion of a stimulating survey of the story of the British empire, Niall Ferguson tried to draw "lessons for global power." The United States, he concluded, first of all "can do a great deal to impose its preferred values on less technologically advanced societies."⁵ The suggestion was that it would be drawn in through a series of interventions analogous to those of nineteenth-century Britain, and would create a functioning imperial system without really willing or knowing it. (One famous phrase, coined by the great British historian J. R. Seeley, claims that the Victorian empire was put together in a fit of absence of mind). Michael Ignatieff, reflecting on the legacies of Bosnia and Rwanda, added an appeal for a dynamic human rights internationalism, which he termed "Empire Lite."⁶

Most figures actually associated with the U.S. administration did not like the idea of taking up Caesar's mantle or Victoria's tiara. But Vice-President and Lynne Cheney in 2003 sent out a Christmas card with a quotation from Benjamin Franklin: "And if a sparrow cannot fall to the ground without His notice, is it probable that an empire can rise without His aid?"⁷

The new discussion of imperialism as a model is quite perplexing. In particular, some committed institutional liberal internationalists such as John Ikenberry have pointed out that "Empire Lite" actually looks like old-fashioned liberal internationalism.⁸ What is new? The story of some of the human rights catastrophes of the 1990s, as well as of international terrorism, raises the obvious issue that there are many people who will go to considerable risks to undermine a liberal and tolerant international and national order. How, in the absence of a world government, can they be kept in line? Only by the application of force by the hegemon.

Many of you will feel that it is possible to see both the world views presented here at the same time: that in the spirit of "Empire Lite," rules without enforcement are bound to be ignored, and enforcement without fixed rules is likely to be widely rejected as tyrannical. Therefore both rules and an enforcer (a state) are needed for stability and order. There is a well-established literature, based on the work of Charles Kindleberger and Robert Gilpin, which suggests that the nineteenth-century liberal order only worked because of the benign hegemon, and that after 1945, the United States learned this lesson.⁹

This is not, however, how most of the world sees the process of making politics in an integrated world. Generally, the rules approach demands participation in the formulation of the binding rules by a broad group of countries, views, and interests. Without such participation, the rules begin to lack legitimacy (unless it is generally agreed that the rules stem from a divinely created natural law order). The more a generalized relativism guides our approach to rule-making, the more we insist on process as the way of creating legitimacy. But these processes are actually deeply divisive in practice, and the most intractable tussles of recent years have arisen out of arguments about the rule-making process in such institutions as the United Nations (UN), the World Trade Organization (WTO), the International Monetary Fund (IMF), or the European Union (EU). There is in each of these cases a sort of expectations trap.¹⁰ International rule-making looks more crucial, so we have greater hopes about what international negotiation can produce. But the result is a compromise that is disappointing, resulting in a substantial questioning of the legitimacy of the process.

Consequently, when our hopes of rules are disappointed, we react by seeing power in its full realpolitik nakedness. Realpolitik overrides rules, or, as a rather old British pun had it, Britannia waives the rules in order to rule the waves.

The "imperialism" and the "globalization" models are overall interpretations of such power for their adherents that the other perspective simply disappears. The alternative is rejected as naive or ideological, as in Robert Kagan's juxtaposition of the Mars and Venus views of Americans

and Europeans.¹¹ As approaches, they are like the optical illusions made famous by Maurits Cornelius Escher, where squares either pop out of a page or recede, but where the observer cannot be brought to see both phenomena at the same time. There is one perspective, or the other.

Since 2001, there has been a definite retreat of the “globalization” paradigm. This is evident in a survey of Lexis-Nexis citations of the word “globalization” in major world newspapers, which shows a distinct falling-off after 2001. On the other hand, there are more references to “empire” and “imperialism.”

III.

The clash of these interpretive models shapes responses to the major international economic issues of the day. Any economic order depends on systems of rules to set a framework for contracts: This is as true on the international level as it is in national affairs. Globalization depends on rules. Its critics see rules as an expression of power relations.

The major current debates concern the world trading system, the order of corporate governance, and the world monetary order. All of these domains have recently become highly contentious.

First, the commercial system. In the “globalization” view of the world, trade wars are destructive and dangerous. Globalizers are relieved when states draw back from the brink of confrontation, as recently in the case of the U.S. steel tariffs dispute. They believe the rationale for international economic institutions such as the GATT or the WTO lies in the enforcing of rules and procedures that might prevent the escalation of self-destructive responses to domestic political pressures. The likelihood of a WTO ruling against the steel tariffs thus helped the United States to have a better policy, and led it to give up on the unilateral imposition of the tariff.

The “imperialism” model thinks that trade relations shape an unequal system of exchange and dominance, and that political power molds trade law and patterns of commerce. Aggressive trade policy is or can be used as an instrument of policy and can create new opportunities for the assertion of power and the development of economic muscle. The current trade order thus reflects the ability of the United States to impose its vision on the world, and other countries are compelled or cajoled into compliance by threats (for instance to use Super 301 of the 1988 Trade and Competitiveness Act) or promises (of better access to U.S. markets).

Second, corporate governance until very recently was thought to be strictly the domain of national governments and regulators. Over the past ten years, however, there has been a systematic attempt to engage international institutions in governance issues. This is partly because the legal

framework of a modern economy is so complex that it would be needlessly complicated for national governments to work out all the rules required from scratch. In practice, when many states adopted market economies in the aftermath of the collapse of communism, they almost invariably either took over the legal systems of the European Union or of the United States.¹²

There are also obvious overlaps with issues relating to trade law and with financial stability issues. In the wake of the 1997–1998 Asian financial crisis, international institutions and the U.S. government focused much of their analysis on misgovernance or “crony capitalism” as responsible for the crises in Asian economies. According to this analysis, crony capitalism had led to a misinvestment in unproductive enterprises and to moral hazard problems. International lenders and investors had chosen to lend by preference to borrowers who were well connected politically, and whose debts thus carried an implicit government guarantee. Any reform program thus required dismantling corrupt structures and instituting accounting and oversight mechanisms to guarantee greater corporate transparency.

The most contentious issue in the Doha round of trade negotiations concerned rules for investment, which were often seen by developing countries as a way of producing one-sided benefits for industrial capital-exporting countries and interests. The tough position adopted by Japan and the EU on this issue (the so-called Singapore issue) was largely responsible for the breakdown of the Cancun ministerial meeting of the WTO.

In analyzing governance, it is hard to separate concern with overall rules from debates about self-interest, whether with the discussion of trade-related investment issues or with the dismantling of crony capitalism. Critics pointed out that in practice, improved transparency in domestic financial systems meant permitting market entry to large U.S. and EU institutions. American banks took dominant positions in Mexico and Korea, and Spanish banks in South America. After big corporate scandals emerged in the U.S. and other big industrial countries, much of the 1997–1998 preaching to Asia looked outrageously hypocritical. Again, it could easily be portrayed as a mask for concrete interests and for the projection of power.

Third, the international monetary order. In the “globalization” interpretation, the operation of the international economy requires a stable system of monetary rules. The system may take a diversity of forms. The restoration of the world monetary order after the breakdown of the interwar era and the Second World War took place on the basis of fixed exchange rates and restrictions on capital mobility. Modern globalization has developed on the basis of flexible exchange rates between major

industrial economies and capital mobility. But both these orders are internally consistent and robust.

The “imperialist” vision takes these rules and sees political advantage lurking behind them. Both the Bretton Woods system (the first postwar order of fixed exchange rates) and the modern international economy gave the United States an unfair position, or what General de Gaulle memorably termed an “exorbitant privilege.” “No domain,” the general explained to Alain Peyrefitte, “escapes from American imperialism. It takes all forms. The most insidious is that of the dollar.”¹³ The dollar was the key currency of both systems, with the result that Americans could finance their civilian consumption and their military imperialism with “OPM”: Other People’s Money. In Bretton Woods, the United States financed capital outflows and military expenditures through a build-up of claims on the U.S. dollar. De Gaulle and his successors complained, but they failed to shake the reserve role of the dollar. Thus the United States in the 1980s and 1990s and especially since 2000 has been able to finance very large current account deficits as other countries build up surplus positions.

The odd parallelism of the 1960s and the current floating-rates era leads those suspicious of the United States to spend considerable amounts of time and intellectual energy trying to devise new monetary orders and institutions that might enable them to pull off something similar to the American trick. In particular, the long story of European monetary integration is permeated by what economic psychologists might term “dollar envy.” Many European currencies, especially the influential case of the Deutsche Mark, were devised so as to make the political use of the currency difficult in order to avoid some of the problems of the European past. The Deutsche Mark carried with it a restrictive vision of what a currency should be, and this was transferred to the Euro. By contrast, the dollar seemed to be a “can do” currency that could be harnessed by its political masters. The Werner Plan was drawn up as the Bretton Woods system started on its final crisis, the European Monetary System originated in part as a response to the perception that Jimmy Carter was abusing the world monetary system, and proponents of European monetary union in the 1990s sometimes (but not always) sounded an anti-American note.

IV.

There is a growing tendency, especially where corporate governance and monetary issues are concerned, to reinterpret the world in power political terms, to see through the lens of imperialism rather than that of globalization. This tendency, especially in Europe, however, marks a deep sense

of frustration about the geopolitics and geoeconomics of the new post-Cold War era. In the 1960s, the highpoint of the Gaullist critique, Europe could mount not only an intellectual critique, but also a real challenge to the position of the United States and of the dollar. At the present time it cannot, and the real challenges and threats to the stability of the system come from elsewhere. We need to face them candidly.

One of the comfort blankets that modern people cling to is the idea that there was only ever one big simultaneous world depression, produced by such an odd confluence of causes as to be quite unique: the legacy of the First World War and of the financial settlement of reparations and war debt; the chaotic banking system of the largest economy of the world, the United States; and inexperience in handling monetary policy in a world that was still pining for metallic money. Since these circumstances were so unique, it is argued, they cannot occur again. Historians should say that this reasoning may be quite wrong.

A great deal of the historically informed literature on globalization makes the point that there were several previous eras of increased worldwide integration that came to a halt and were reversed, with painful consequences. The most familiar precedent for modern globalization is that of the late nineteenth and early twentieth century, an era that ended definitively with the interwar Great Depression. But there were also earlier epochs of integration: the Roman empire, the economic rebound of the late fifteenth and early sixteenth centuries (the economic backdrop to the Renaissance), or the eighteenth century, in which improved technology and increased ease of communications opened the way to global empires for Britain and France.

All of these previous globalization episodes ended, almost always with wars. Bad policies can obviously wreck individual economies in a whole range of different ways; but systemic collapse is a product of militarized conflict. Globalization as an economic phenomenon depends on the movement across state boundaries of goods, labor, and capital. Security concerns produce heightened worries about all these kinds of mobility. Trade may create a dependence on imports that leads to strategic vulnerability, and one of the oldest arguments for agricultural protection was the need for autarkic self-sufficiency in case of attack. Labor flows may camouflage the movement of spies or saboteurs. Thus, for instance, Britain during the First World War was gripped by panic about the numbers of Germans employed in London restaurants. Finally, capital controls have often been justified on grounds of national security. One way of destabilizing politics was to try to promote financial panic, and restrictions on capital mobility might be a way of generating increased immunity to speculative attack.

There are obvious analogies in some of these past experiences to some of the threats to the economic order and to economic integration posed by the war on terror. Trade, financial flows, and labor movements are all vulnerable in the post-September 11 world. After September 11, every part of the package that had previously produced such unprecedented economic growth in many countries—the increased flow of people, goods, and capital—now seems to contain obvious threats to security. Students and visitors from poor and especially from Islamic countries might be “sleeper” terrorists; or they might become radicalized through their experience of western liberalism, permissiveness, or the arbitrariness of the market economy. It soon became apparent that customs agencies scarcely controlled the shipment of goods any longer, and that explosives, or even atomic, biological, or chemical weapons might easily be smuggled. Complex banking transactions and the free flow of capital might be used to launder money and to supply funding for terrorist operations.

It is natural and legitimate to suggest that all these areas should be subject to more intense controls in the face of security threats. But there is a danger of giving an absolute priority to the war against terrorism. Every sort of control also offers a possibility for abuse by people who want controls for other reasons: because skilled immigrant workers provide “unfair” competition; because too many goods are imported from cheap labor countries; or because capital movements are believed to be destabilizing, producing severe and contagious financial crises. A new debate about the security challenge offered the chance to present older demands for the protection of particular interests in a much more dramatic and compelling way. Protectionists of all sorts suddenly had a good story to tell about the harm done by international trade.

There are many signs that we are at the beginning of a new era, in which the “globalization thesis” is being rolled back once more. In the new world, differences become important. Business leaders focus on the way they have “traditionally” done business. Individuals see risks rather than opportunities coming from the outside. Citizens detect corruption. Countries are willing to fight trade and currency wars, and to resist external interventions in corporate affairs. Political leaders focus on re-designing the trading and monetary system in order to alter the balance of political and economic power. In this world, conflict tends to escalate, and destroys the basis of prosperity and international order. Its inhabitants think about Mars, not Mercury.

This brings me back to Helmut Schmidt. There is no more convinced upholder of the idea of rules in international economic (and political) life than Schmidt. He was simultaneously a great upholder of the transatlantic relationship and a persistent worrier. In 1987, Schmidt wrote that

"America has still not understood that purely national economic strategies are an anachronism in the world of today." He also commented that "Washington tends toward unilateralism, whoever is ruling. . . . American policy toward the rest of the world is shaped by idealism, romanticism and the belief in its own strength and greatness. . . . As long as western Europe cannot produce a common strategy, it will always be confronted by American unilateral initiatives."¹⁴ The impetus to unilateralism, whether it follows from (Wilsonian) romanticism or a desire simply to be big and powerful, will not only be destructive of others, it will also be self-destructive and undermine the American ideal, which is to shape order by rules.

When Helmut Schmidt insisted in the 1970s that Western liberalism and democracy were very vulnerable, many—especially in a more comfortable retrospect—thought him unduly alarmist. But he was surely right. Globalization is very vulnerable, and the world can easily slip away from global interconnectedness into a much more volatile, dangerous, and destructive state.

Notes

¹ Cited in Alastair Horne, *Macmillan. Volume II, 1957–1986* (London: Macmillan, 1989), 284.

² There is an extensive literature on the "democratic peace," taking up an idea originally propounded by Kant. See Michael Doyle, "Kant, Liberal Legacies and Foreign Affairs," *Philosophy and Public Affairs* 12 (1983): 205–35, 323–53; and "Liberalism and World Politics," *American Political Science Review* (1986), 1151–69. See also Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World* (Princeton: Princeton University Press, 1993).

³ Notably in William Appleman Williams, *Empire as a Way of Life: An Essay on the Causes and Character of America's Present Predicament, Along With a Few Thoughts About an Alternative* (New York: Oxford University Press, 1980).

⁴ The very generalized use of the terms "Empire" and "Imperialism" as a way of understanding the modern world was presented in what became a cult book by Michael Hardt and Toni Negri, *Empire* (Cambridge, Mass.: Harvard University Press, 2000). The recent books include: Chalmers Johnson, *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic* (New York: Metropolitan Books, 2004); Benjamin R. Barber, *Fear's Empire: War, Terrorism, and Democracy* (New York: Norton, 2003); Michael Mann, *Incoherent Empire* (New York: Verso, 2003); and Emmanuel Todd, *After the Empire: The Breakdown of the American Order* (New York: Columbia University Press, 2003).

⁵ Niall Ferguson, *Empire* (New York: Basic Books, 2003), 367.

⁶ Michael Ignatieff, *Empire Lite: Nation-Building in Bosnia, Kosovo, and Afghanistan* (London: Vintage, 2003).

⁷ *Washington Post*, December 28, 2003.

⁸ See his collective review of a recent collection of this literature in G. John Ikenberry, "Illusions of Empire: Defining the New American Order," *Foreign Affairs* (March/April 2004).

⁹ See Charles Kindleberger, *The World in Depression, 1929–1939* (London: Allen Lane, 1973); Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

¹⁰ See, for instance, Harold James, "From Grandmotherliness to Governance: The Development of IMF Conditionality," *Finance and Development* (December 1998).

¹¹ Robert Kagan, *Of Paradise and Power: America and Europe in the New World Order* (New York: Knopf, 2003).

¹² See Joseph Weiler, "The Constitution of the Common Market Place: The Free Movement of Goods," in *The Evolution of EU Law*, edited by P. P. Craig and G. de Búrca (New York: Oxford University Press, 1999).

¹³ Alain Peyrefitte, *C'était de Gaulle* (Paris: Gallimard, 2002), 663.

¹⁴ Helmut Schmidt, *Menschen und Mächte* (Berlin: Siedler, 1987), 330, 334.